

BASF Report 2014

Economic, environmental and social performance



150 years

 **BASF**
We create chemistry

Chemicals

The Chemicals segment comprises our business with basic chemicals and intermediates. Its portfolio ranges from solvents, plasticizers and high-volume monomers to glues and electronic chemicals as well as raw materials for detergents, plastics, textile fibers, paints and coatings, plant protection and medicines. In addition to supplying customers in the chemical industry and numerous other sectors, we also ensure that other BASF segments are supplied with chemicals for producing downstream products.

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Key data Chemicals (in million €)

	2014	2013	Change in %
Sales	16,968	16,994	(0.2)
Thereof Petrochemicals	7,832	7,785	0.6
Monomers	6,337	6,385	(0.8)
Intermediates	2,799	2,824	(0.9)
EBITDA	3,212	2,956	8.7
Income from operations before special items	2,367	2,182	8.5
Income from operations (EBIT)	2,396	2,086	14.9

Performance Products

Our Performance Products lend stability, color or better application properties to many everyday products. Our product portfolio includes vitamins and other food additives in addition to ingredients for pharmaceuticals, personal care and cosmetics, as well as hygiene and household products. Other products from this segment improve processes in the paper industry, in oil, gas and ore production, and in water treatment. They furthermore enhance the efficiency of fuels and lubricants, the effectiveness of adhesives and coatings, and the stability of plastics.

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Key data Performance Products (in million €)

	2014	2013	Change in %
Sales	15,433	15,534	(0.7)
Thereof Dispersions & Pigments	3,869	3,851	0.5
Care Chemicals	4,835	4,871	(0.7)
Nutrition & Health	2,029	2,088	(2.8)
Paper Chemicals	1,371	1,442	(4.9)
Performance Chemicals	3,329	3,282	1.4
EBITDA	2,232	1,987	12.3
Income from operations before special items	1,455	1,365	6.6
Income from operations (EBIT)	1,417	1,100	28.8

Functional Materials & Solutions

In the Functional Materials & Solutions segment, we bundle system solutions, services and innovative products for specific sectors and customers, especially the automotive, electrical, chemical and construction industries, as well as for household applications and sports and leisure. Our portfolio comprises catalysts, battery materials, engineering plastics, polyurethane systems, automotive and industrial coatings and concrete admixtures as well as construction systems like tile adhesives and decorative paints.

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Key data Functional Materials & Solutions (in million €)

	2014	2013	Change in %
Sales	17,725	17,252	2.7
Thereof Catalysts	6,135	5,708	7.5
Construction Chemicals	2,060	2,120	(2.8)
Coatings	2,984	2,927	1.9
Performance Materials	6,546	6,497	0.8
EBITDA	1,678	1,498	12.0
Income from operations before special items	1,197	1,070	11.9
Income from operations (EBIT)	1,150	1,027	12.0

Agricultural Solutions

The Agricultural Solutions segment provides innovative solutions in the areas of chemical and biological crop protection, seed treatment and water management as well as solutions for nutrient supply and plant stress. Our research in plant biotechnology concentrates on plants for greater efficiency in agriculture, better nutrition, and use as renewable raw materials.

Research and development expenses, sales, earnings and all other data of BASF Plant Science are not included in the Agricultural Solutions segment; they are reported in Other.

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Key data Agricultural Solutions (in million €)

	2014	2013	Change in %
Sales	5,446	5,227	4.2
EBITDA	1,297	1,375	(5.7)
Income from operations before special items	1,109	1,222	(9.2)
Income from operations (EBIT)	1,108	1,208	(8.3)

Oil & Gas

We focus our exploration and production on oil and gas-rich regions in Europe, North Africa, Russia, South America and the Middle East. Together with our Russian partner Gazprom, we are active in the transport, storage and trading of natural gas in Europe.

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Key data Oil & Gas (in million €)

	2014	2013	Change in %
Sales	15,145	14,776	2.5
Thereof Exploration & Production	2,938	2,929	0.3
Natural Gas Trading	12,207	11,847	3.0
EBITDA	2,626	3,149	(16.6)
Income from operations before special items	1,795	1,856	(3.3)
Income from operations (EBIT)	1,688	2,403	(29.8)
Net income	1,464	1,730	(15.4)

BASF Group 2014 at a glance

At BASF, we create chemistry – and have been doing so for 150 years. As the world's leading chemical company, we combine economic success with environmental protection and social responsibility. Through research and innovation, we support our customers in nearly every industry in meeting the current and future needs of society. We have summed up this contribution in our corporate purpose: **We create chemistry for a sustainable future.**

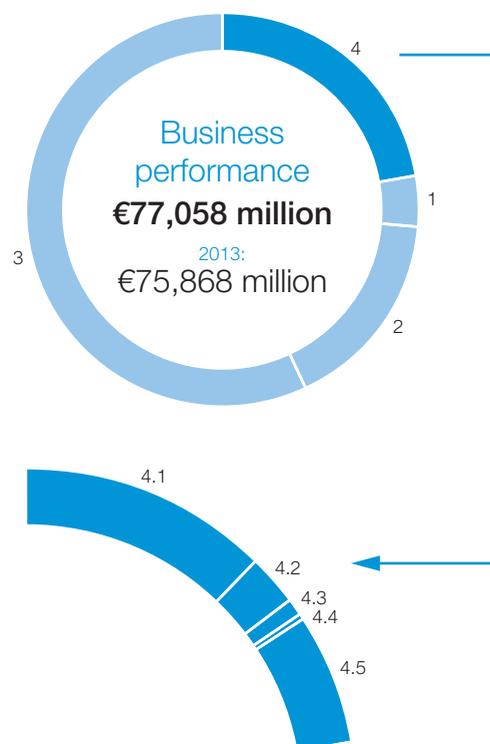
Economic data

		2014	2013 ¹	Change in %
Sales	million €	74,326	73,973	0.5
Income from operations before depreciation and amortization (EBITDA)	million €	11,043	10,432	5.9
Income from operations (EBIT) before special items	million €	7,357	7,077	4.0
Income from operations (EBIT)	million €	7,626	7,160	6.5
Income from operations (EBIT) after cost of capital	million €	1,368	1,768	(22.6)
Income before taxes and minority interests	million €	7,203	6,600	9.1
Net income	million €	5,155	4,792	7.6
Earnings per share	€	5.61	5.22	7.5
Adjusted earnings per share ²	€	5.44	5.31	2.4
Dividend per share	€	2.80	2.70	3.7
Cash provided by operating activities	million €	6,958	8,100	(14.1)
Additions to property, plant and equipment and intangible assets ³	million €	7,285	7,726	(5.7)
Depreciation and amortization ³	million €	3,417	3,272	4.4
Return on assets	%	11.7	11.5	–
Return on equity after tax	%	19.7	19.2	–

Value added 2014

Creation of value added⁴ (in million €)

	2014	2013 ¹
Business performance	77,058	75,868
1 Amortization and depreciation	(3,417)	(3,272)
2 Services purchased, energy costs and other expenses	(13,259)	(12,540)
3 Cost of raw materials and merchandise	(42,978)	(43,141)
4 Value added	17,404	16,915



Use of value added

	2014	2013 ¹
4.1 Employees	53.0%	54.9%
4.2 Government	11.4%	10.8%
4.3 Creditors	4.1%	4.1%
4.4 Minority interests	1.9%	1.9%
4.5 Shareholders (dividend and retention)	29.6%	28.3%

¹ The figures for the 2013 business year have been restated following BASF's and Gazprom's agreement on December 18, 2014, not to proceed with an asset swap planned for the end of 2014. This required the dissolution of the disposal group created at the end of 2012 to which the affected assets and liabilities had been reclassified in the financial statements. A detailed overview of the resulting adjustments to 2013 and 2014 can be found at basf.com/publications.

² For more information, see page 54.

³ Including acquisitions

⁴ Value added results from the company's performance minus goods and services purchased, depreciation and amortization. Business performance includes sales revenues, other operating income, interest income and net income from shareholdings. Value added shows the BASF Group's contribution to both private and public income as well as its distribution among all stakeholders.

Innovation

		2014	2013	Change in %
Research expenses	million €	1,884	1,849	1.9
Number of employees in research and development at year-end		10,697	10,631	0.6

Employees and society

		2014	2013	Change in %
Employees at year-end		113,292	112,206	1.0
Apprentices at year-end		3,186	3,060	4.1
Personnel expenses	million €	9,224	9,285	(0.7)
Donations and sponsorship	million €	45.4	49.2	(7.7)

Supply chain management and Responsible Care

		2014	2013	Change in %
Number of on-site sustainability audits of raw material suppliers		120	155	(22.6)
Number of environmental and safety audits		121	132	(8.3)
Number of short-notice audits		73	22	231.8
Number of occupational medicine and health protection audits		48	44	9.1

Safety and health

		2014	2013	Change in %
Transportation accidents	per 10,000 shipments	0.20	0.22	(9.1)
Product spillages during transportation	per 10,000 shipments	0.23	0.23	0
Lost-time injuries	per million working hours	1.5	1.4	2.8
Health Performance Index ⁵		0.91	0.89	2.2

Environment

		2014	2013	Change in %
Primary energy usage ⁶	million MWh	59.0	59.2	(0.3)
Energy efficiency in production processes	metric tons of sales product/MWh	0.588	0.592	(0.7)
Total water withdrawal	million cubic meters	1,877	1,781	5.4
Withdrawal of drinking water	million cubic meters	22.7	22.6	0.4
Emissions of organic substances to water ⁷	thousand metric tons	18.7	19.7	(5.1)
Emissions of nitrogen to water ⁷	thousand metric tons	3.2	2.9	10.3
Emissions of heavy metals to water ⁷	metric tons	21.5	21.9	(1.8)
Emissions of greenhouse gases	million metric tons of CO ₂ equivalents	22.4	23.0	(2.6)
Emissions to air (air pollutants) ⁷	thousand metric tons	31.5	32.4	(2.8)
Waste	million metric tons	2.1	2.5	(16.0)
Operating costs for environmental protection facilities	million €	897	893	0.4
Investments in environmental protection	million €	349	325	7.4

⁵ For more information, see page 99.

⁶ Primary energy used in BASF's plants as well as in the plants of our energy suppliers to cover energy demand for production processes

⁷ Excluding emissions from oil and gas production

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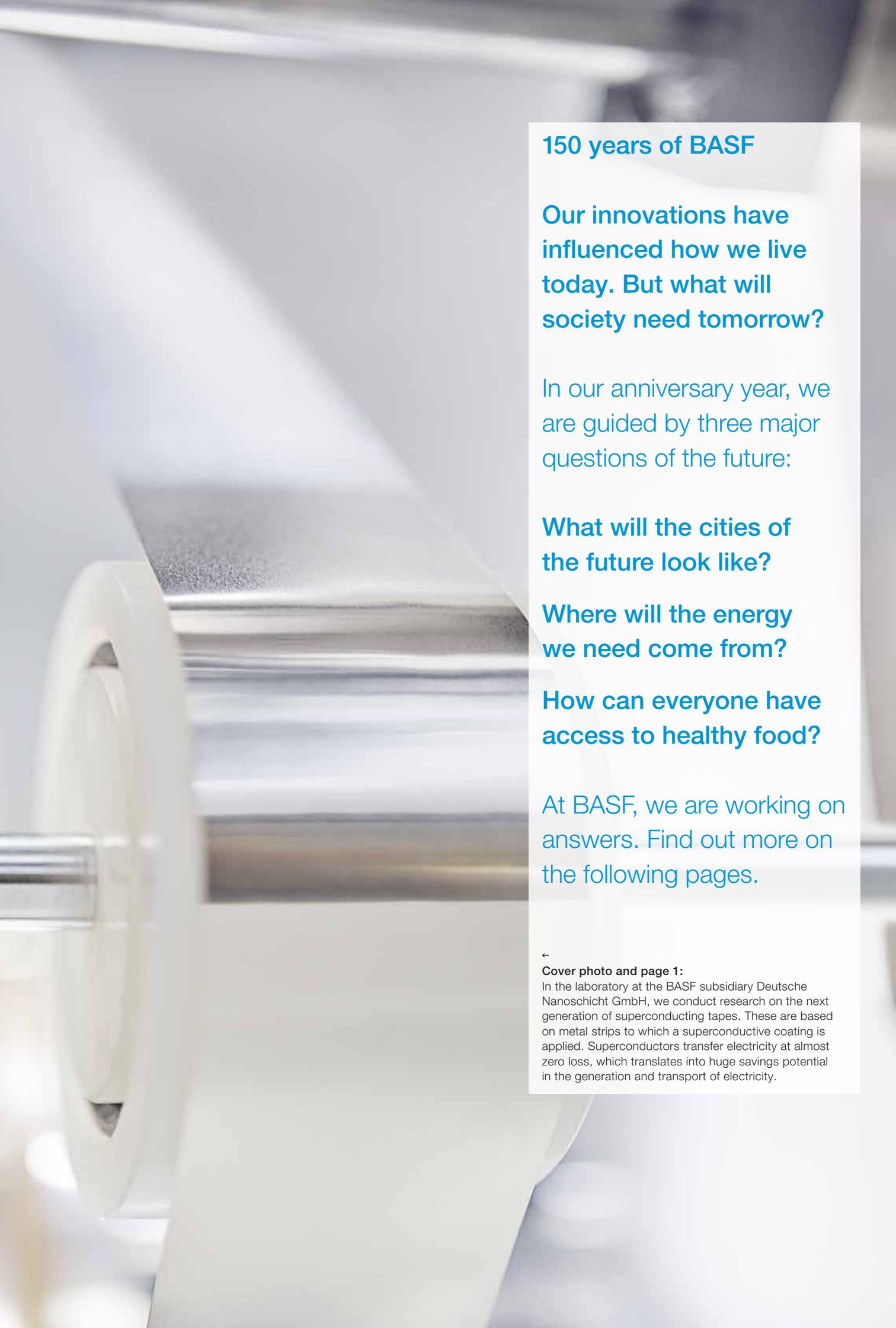
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Welcome to BASF

Our integrated corporate report combines financial and sustainability reporting to inform shareholders, employees and the interested public about the 2014 business year.



150 years of BASF

Our innovations have influenced how we live today. But what will society need tomorrow?

In our anniversary year, we are guided by three major questions of the future:

What will the cities of the future look like?

Where will the energy we need come from?

How can everyone have access to healthy food?

At BASF, we are working on answers. Find out more on the following pages.

←

Cover photo and page 1:

In the laboratory at the BASF subsidiary Deutsche Nanoschicht GmbH, we conduct research on the next generation of superconducting tapes. These are based on metal strips to which a superconductive coating is applied. Superconductors transfer electricity at almost zero loss, which translates into huge savings potential in the generation and transport of electricity.





What will the cities of the future look like?

Cities draw people seeking work, prosperity and culture. The year 2008 marked the first time that more people worldwide were living in metropolitan areas than in the country. Estimates suggest that, in 2050, over 70% of the world's population will call cities home.

But how will our cities look and sound in the future, what will it be like to live there? How can more and more people find living space and quality of life? How can we create intelligent transportation systems? And will there be enough resources, such as water, for everyone?

We at BASF have been working on answers to these questions for 150 years: by identifying the needs of our customers and partners, exploring the as-yet undiscovered, and making innovations available to as many people as possible.

Examples include the special concrete admixtures used to construct the world's tallest buildings or an earthquake-proof tunnel under the sea. Or thermal and acoustic insulation materials that make riding the subway more comfortable. Or membranes that allow saltwater to be transformed into drinking water.

←

Shaping the London skyline:

"The Shard" was inaugurated in 2012. The futuristic building's glass façade is about the size of 8 football fields. On the inside, visitors can ride 44 elevators.

Making room where space is scarce

Big cities the world over are facing enormous challenges. With urban populations constantly growing, living and work space need to be found for more and more people. And yet space is limited. That's why the trend is to build upwards – as demonstrated by skyscrapers like London's The Shard. Completed in 2012, the building's 310 meters are only topped in Europe by the Mercury City Tower in Moscow. Taller still is the Burj Khalifa: with its more than 160 stories, it stretches 800 meters into the skies over Dubai, making it the tallest building in the world.

BASF's products assist in construction. The Shard, for example, employed a specially developed blend of BASF's MasterGlenium® Sky concrete admixture: Construction projects of this sort require particularly fluid concrete that can be easily pumped up great heights. MasterGlenium® Sky also helps concrete dry quickly, so that building can proceed without too long of a pause. MasterGlenium® super-plasticizers not only improve the construction properties of concrete, they also lessen its environmental impact. For example, slag or fly ash can replace some of the cement, avoiding the carbon emissions released by the energy-intensive cement production process.

With more than 8 million inhabitants, New York is the most populous city in the United States. Living space is extremely scarce, not to mention expensive. That's why creative solutions are in demand – especially in the densely populated center. 432 Park Avenue is not only a swank address. It is also the name of a spectacular building being erected in the heart of Manhattan: a new skyscraper that will stand on an area measuring only 28 by 28 meters. The residential building will rise 426 meters into the air. Helping accomplish this feat is BASF's Green Sense® concrete technology, which was also used in the construction of the One World Trade Center in New York. Green Sense® concrete technology is a BASF performance package that manufacturers can use to improve their concrete in terms of durability, processing characteristics, longevity and environmental impact.



“Things have to move quickly in cities like London. The entire foundation slab for The Shard was poured on a single weekend, because causing traffic snarl-ups with the construction vehicles was out of the question.”

Brian Williams,
Sales Manager, BASF's Construction Chemicals division

→

The world's tallest building:
With more than 160 stories, the Burj Khalifa rises 828 meters into the air above the desert city of Dubai. Its tip is still visible 100 kilometers away.

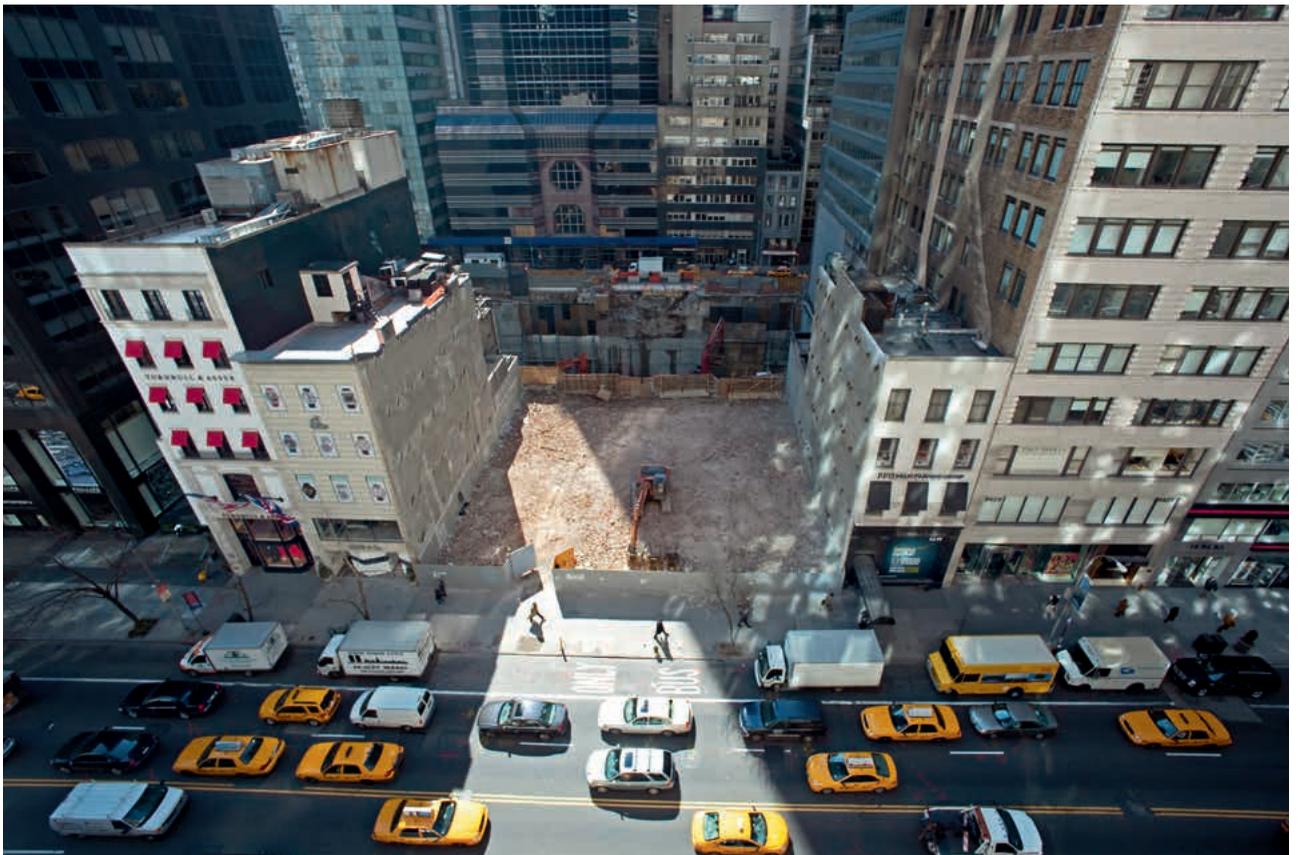


In the heart of Manhattan: Opened in November 2014, the One World Trade Center is a record-breaker. It is simultaneously the tallest building in the Western Hemisphere and one of the most environmentally friendly of its size. Its features include a recycling system for rainwater.
→



28 by 28 meters: This is how small the area is on which 432 Park Avenue is being built. Once completed, it will be among the tallest residential buildings in the world.

☞ Follow the skyscraper's construction online at 432parkavenue.com
↓



City lifelines

Urban life is criss-crossed by many different forms of transportation. Streets, rails, tunnels – these are the veins and arteries of a city. Commuters especially rely on fast, dependable connections. In Istanbul, for example, the Marmaray Tunnel running under the Bosphorus Strait makes it possible for a train to go from Europe to Asia in only 4 minutes. The underwater tunnel is therefore not only an environmentally friendly alternative to the busy Bosphorus Bridge highway, it also saves time, along with reducing traffic noise and exhaust emissions in this megacity. BASF's expertise and solutions were called for here, as well: For example, a special injection foam to prevent water ingress and a concrete formulation to earthquake-proof the tunnel both contributed to its construction.

Commuters on their way to work in the Canadian city of Montreal have also enjoyed a nicer ride since the beginning of 2014, when new subway cars featuring special thermal and acoustic insulation were introduced. The Bombardier-made cars have ceilings equipped with BASF's Basotect® melamine resin foam. By 2018, 468 of these new cars are expected to be in circulation, making noisy and uncomfortable subway rides a thing of the past.



Comfortable commutes: The Montreal Metro is the most highly frequented subway in Canada. On workdays, it is used by more than a million people. All of them benefit from materials that make the ride more comfortable.



↑

Urban jungle: Day after day, thousands of people are on the go in big cities. They use various forms of transportation to get to their destinations. How can cities design their transportation systems in the future?

“Constructing the Marmaray Tunnel was a huge challenge: Its deepest section lies 56 meters below the water’s surface. Also, the tunnel must withstand up to a magnitude 9 earthquake on the Richter scale.”

Suat Seven,
Regional Manager, BASF's
Construction Chemicals division

Thirsty cities

Cities demand great quantities of resources, like water. And yet much of the existing water supply infrastructure in congested urban areas is already being stretched to its limit. Places where many people share close quarters are places that require countless liters of water every day for drinking, cooking, washing, hygiene and industry. How can we quench the thirst of cities?

Over 70% of the Earth's surface is covered in water – most of it saltwater. Desalinating seawater makes this valuable resource available for consumption. One such plant is located in the Spanish El Prat de Llobregat.

It supplies drinking water to around a quarter of the population in the greater Barcelona area. And in Nungua, about 12 kilometers from the Ghanaian capital of Accra, desalination will soon be able to provide drinking water to roughly half a million people.

Potable water is a scarce commodity on Cyprus, too. Water scarcity can at times mean drastic restrictions for the island's inhabitants: It has happened that, during periods of drought, the water supply was reduced to 36 hours per week. Here, too, people now count on seawater desalination.

Famagusta, Cyprus, uses the ultrafiltration technology of Inge GmbH, a subsidiary of BASF. Membranes made from Ultrason® high-performance plastic prepare the seawater for desalination by intercepting undesirable particles like sand, clay, algae, and even pathogens.



Seawater desalination is an opportunity for coastal cities around the world to secure their long-term supply of water. According to the forecasts of sector specialists Global Water Intelligence, three times more people will meet their water needs through desalination technologies in 2030 than do so today.



Keeping out the junk:

The filter membranes used in seawater desalination plants feature tiny pores only 20 nanometers in diameter, intercepting both particles and pathogens.



“We produce around 7,000 cubic meters of potable water for Famagusta daily. If water means life, then we’re giving this city life.”

Aydin Celikbas, Desalination Plant Manager in Famagusta, Cyprus

For more information, see the film

“The New Source” at

basf.com/the_new_source





Where will the energy we need come from?

Our lives are inconceivable without energy – we need it in industry as much as at home. Energy keeps our houses cool in summer and warm in winter, lets us cover great distances in an electric car and allows us to go online with our laptops and tablets at any time.

Demand for energy is growing by the day. By 2050, humanity will need two to three times more energy than it does now, but fossil resources are finite. How can we use it more efficiently? How can we store and transport energy with minimal losses in the process? And how can we expand electricity generation from renewables in a cost-effective manner?

We at BASF have been working on answers to these questions for 150 years: by recognizing future trends early on, keeping our research on the cutting edge and finding flexible solutions for society and the environment.

Examples include technologies that enable houses to secure their own energy supply and the nearly loss-free transmission of electricity. Or a material that ensures optimal voltage in laptops, or battery materials for electric cars. Or technologies that increase the effectiveness of wind and solar power plants.

←

The online generation:

Everyday life without laptops, tablets and smartphones is almost unthinkable nowadays. We are increasingly dependent on energy that is readily and reliably available wherever we go.

The power of sun and wind

They represent renewable energy and generate electricity from natural resources: solar and wind power plants. BASF's expertise goes into many of these facilities in order to improve their efficiency and longevity. Our Seluris® technology, for example, is engineered along the entire solar cell value chain. From cutting and etching to texturing, doping and cleaning, Seluris® processing chemicals contribute toward increasing solar cells' performance – such as by cleaning the surface of solar wafers so as to minimize the occurrence of flaws.

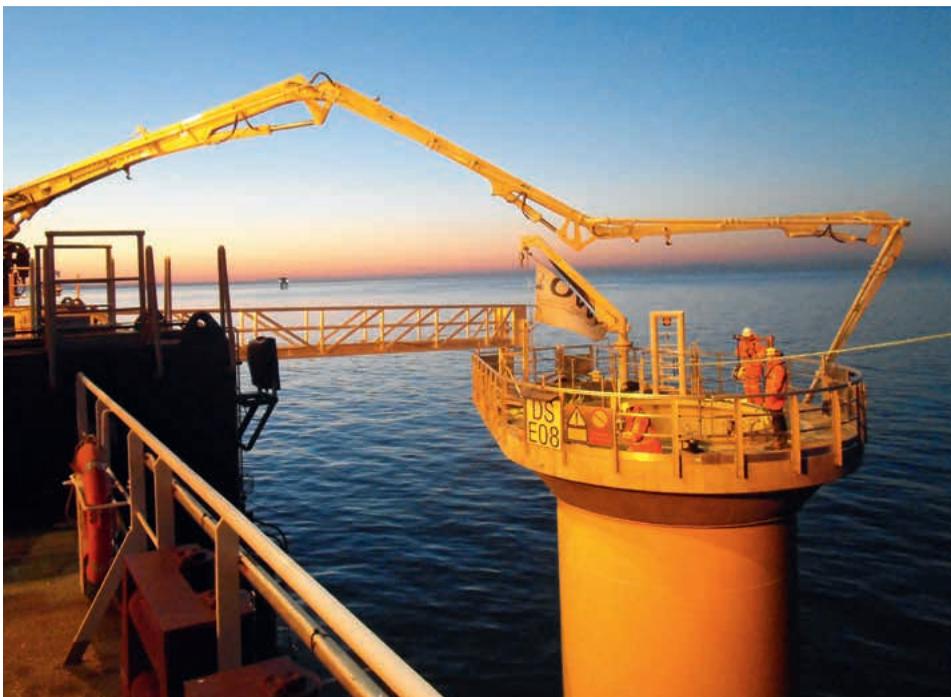


“With our salts and the knowledge of how to use them at high temperatures, we help solar thermal power plants generate electricity even more efficiently.”

Dr. Kerstin Dünwald,
Head of Business Management for Inorganic
Chemicals in BASF's Monomers division

We are also developing new solutions for solar thermal power plants: In September 2014, for example, we started up a pilot plant together with Novatec Solar in southern Spain that uses molten salt instead of thermal oils as a heat transfer medium. The benefit: Inorganic salts allow operating temperatures to be raised to more than 500 degrees Celsius, which increases electricity yield. BASF is the world's leading supplier of synthetically produced sodium nitrate for solar thermal power plants.

Wind turbines need to run safely and efficiently over a period of at least 20 years. During that time, they are exposed to enormous weather-related stress factors, such as rain, hail, snow and ultraviolet rays. The strain on a rotor blade is extreme: The tips reach top speeds of 300 kilometers per hour, rotating at a height of around 90 meters in the air. Under these conditions, things like raindrops can turn into tiny bullets. Such speeds also mean enormous pressure on the tips of the blades, which can bend by over a meter.



←
Hardy on the high seas:
The offshore windpark West of Duddon Sands has stood in the middle of the Irish Sea since October 2014. It produces enough electricity to supply around 280,000 households every year.

So it's no wonder that wind turbine components need to be made of special material. BASF developed its RELEST® coating system based on specific polyurethane chemistry. It protects the rotor blade from the weather and is characterized by high erosion resistance and excellent flexibility.

The insides of many modern rotor blades consist of glass and carbon-fiber mats soaked with and bonded by our Baxxodur® epoxy systems. As a core material, the polyethylene terephthalate (PET) foam Kerdyn® stabilizes rotor blades in conditions of structural and dynamic stress. MasterFlow® mortar solidly bonds tower and foundation – and quickly, too: The mortar hardens rapidly even in inclement weather and at very low temperatures, which helps wind parks to be built faster and therefore more cost-effectively, both onshore and off.



Buildings as power plants

Houses need energy: for light and electrical appliances, for heating and air conditioning. Developments like the “passive house” have already significantly improved energy management in modern buildings. And yet we can even go a step further: Buildings can actually become power plants.

Together with Swansea University in Wales, along with other partners in industry, BASF is involved in a special project: SPECIFIC (Sustainable Product Engineering Center for Innovative Functional Industrial Coatings). SPECIFIC tackles the question of how buildings can, for example, transform incident sunlight into heat or electricity. The team of over 120 scientists, technicians and engineers is developing special roof and façade coatings to address this very issue. BASF supports their work on topics like energy storage, and provides its expertise in photovoltaics along with coatings that give off light and heat.

↑
Façades as energy providers: Kevin Bygate and his colleague examine a steel surface that has been treated with a heat-generating coating. These surfaces can be used on structures with metal façades, such as commercial buildings.



“Smart surface coatings for steel and glass have the potential to generate enough heat and electricity to independently power a building throughout the entire year.”

Kevin Bygate, Chief Executive Officer of SPECIFIC

The electricity transmission of the future

When electricity is transmitted over conventional copper conductors, a portion of the electrical energy is always lost in the form of heat. High-temperature superconductors, on the other hand, can transport considerably higher amounts of electricity. Even at temperatures above the boiling point of liquid nitrogen (-196 degrees Celsius), they transmit electricity with almost zero loss, enabling major savings potential in the generation and transport of electricity. Superconductor cables can improve electricity infrastructure in dense urban centers and large industrial sites. Possible applications are in current limiters and transformers for public power grids, and electricity cables for supply networks within cities.

Even generators and electric motors can be made more compact and energy efficient. Superconductor technology enables, for example, better use of renewable energies with wind and water power generators.

The BASF subsidiary Deutsche Nanoschicht GmbH has developed an innovative technique for producing superconductors in a more efficient and environmentally friendly manner. A joint laboratory with the Karlsruhe Institute of Technology is scheduled to open in 2015 with the goal of further optimizing superconducting tapes.

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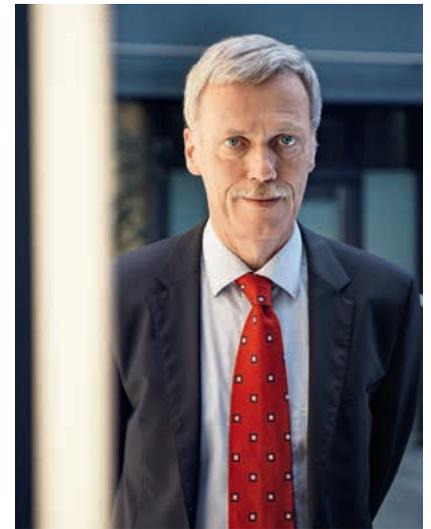
Electric drive comes standard:

The BMW i3 is the first mass-produced electric car of the BMW Group. Its 170-horsepower electric engine has a range of around 190 kilometers.



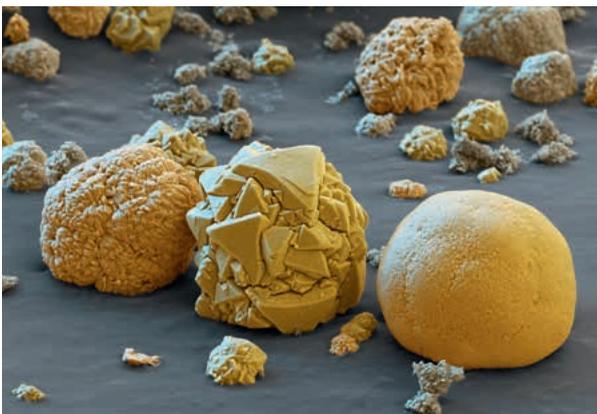
Real bundles of energy

Electricity is also taking on an increasingly significant role in the field of mobility. Estimates suggest that around 1.2 billion cars will be on the road in 2020 – a good 300 million more than now – most of which in congested urban areas. And yet big cities today are already suffering from smog and noise pollution. That's why cityscapes of the future will feature more and more electric cars – with high-performance batteries at their core. BASF develops and produces cathode materials and electrolyte formulations for lithium-ion batteries, helping vehicles get as far as possible on a single charge.



“New materials for high-tech lithium-ion batteries are the key to the electromobility of tomorrow.”

Dr. Michael Krausa,
Managing Director,
Kompetenznetzwerk
Lithium-Ionen-Batterien



↑ Little balls that pack power:

The cathode material for lithium-ion batteries consists of little balls only micrometers in size. These particles can be shaped so that, depending on customer application, they enable optimal performance in terms of electric cars' acceleration and range (magnification 6,400:1).



“Our new visualization methods help researchers to optimize next-generation batteries.”

Professor Vanessa Wood, Swiss Federal Institute of Technology Zurich, Department of Information Technology and Electrical Engineering, Switzerland



We work together with strong partners to make this happen. In the collaborative Alpha-Laion project, we are developing new high-energy batteries for electric vehicles with companies like Bosch and Daimler. We also operate a joint laboratory with the Karlsruhe Institute of Technology that works on new battery materials. In addition, we are furthering research on lithium-ion batteries and cathode materials at research labs in Amagasaki, Japan, and Beachwood, Ohio, as well as in Ludwigshafen, Germany. BASF is also involved in the international Electrochemistry and Batteries Research Network and in the Lithium-Ion Battery Competence Network in Berlin.

Furthermore, we research additional materials to advance electromobility: For example, we supported BMW in developing several components of the BMW i3, the BMW Group’s first fully electric mass-produced vehicle. BASF’s plastics are built into automotive parts such as the body, seats and roof construction.

For the last three years, we and Volkswagen have presented the Science Award Electrochemistry to researchers around the world in order to support their work on electromobility. The 2014 prize winner, Professor Vanessa Wood, developed a new imaging analysis method that helps improve the performance of lithium-ion batteries.

Current technology for laptops

Smartphones, tablets and laptops: Thanks to their many functions, mobile devices are part of everyday life. Each individual component of these complex electronics must perform at a particularly high level. Some parts, such as the CPU or hard disk, need current with a different voltage than that supplied by the battery; if the voltage were to deviate from the required value, these components would sustain damage. BASF’s high-purity carbonyl iron powder makes a decisive

contribution toward solving this problem: Incorporated into the cores of high frequency coils, it ensures that the current flowing into delicate electronics always maintains exactly the right voltage.

BASF discovered how to produce carbonyl iron powder in 1925. Back then, it was used in applications like magnetic tape for the first tape recorders.

Powder in coils: Their perfect spherical shape makes BASF’s carbonyl iron particles especially suited for use in electronic components like high-frequency coils.







How can everyone have access to healthy food?

In 2050, more than nine billion people will live on Earth. One person in eight is already going hungry today. Yet nutritious food is essential to a healthy life. The faster the world's population grows, the more important it becomes to consider how we will feed everyone:

How will everyone be able to eat healthfully? How can we combat malnutrition? What will the agriculture of the future look like?

We at BASF have been working on answers to these questions for 150 years: by recognizing a need early on, conducting inquisitive research, and sharing our expertise with others.

This includes innovative products and solutions for agriculture with which we support farmers in growing high-quality food. Together, we work to keep cultivated land arable for future generations. We use information technology to help farmers engage in efficient, careful, high-yield agriculture. Furthermore, we produce vitamins and fatty acids that contribute to a balanced diet.

←

Global routine: The market in Chichicastenango, Guatemala, is the largest in Central America. No matter where in the world we shop, an adequate food supply is one of the essentials of life.

In the field

In order to secure harvests around the world, our crop protection products guard against fungal infections, insect pests, and weeds, and raise the quality of agricultural products. One of the most destructive soybean diseases is Asian soybean rust – a fungal infection. To combat it, farmers can turn to BASF's proven strobilurin fungicides and Xemium®, our product launched in 2011.

Rice is the main food source for a large percentage of the world's population, and thus one of the most important crops of all. Yet "red rice," a type of wild grass, can cause considerable harvest losses in rice cultivation. BASF's Clearfield® production system provides a solution: It combines an herbicide with Clearfield technology's nontransgenic, herbicide-tolerant seeds, which can secure rice yields and increase them up to threefold.

Our research in plant biotechnology concentrates on plants for more efficient agriculture that are hardly affected by heat or drought, for example. One such product is the Genuity® DroughtGard® variety of corn we developed together with our partner Monsanto. In times of drought, it is more stress-resistant than conventional corn varieties.

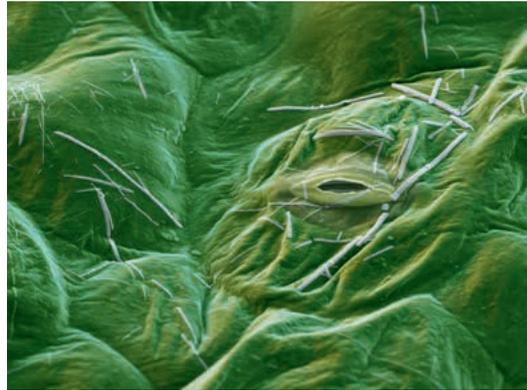
As a project partner in the "Better Rice Initiative Asia," we support the distribution of information in Indonesia and Thailand on the proper use of crop protection products. We are also involved in the development of courses to train farmers and agricultural consultants, as well as in the creation of educational materials and conducting seminars. For the staple rice, especially,

farmers receive consultation on the selection of seeds, the right application of crop protection products and the analysis of growth. We support soybean farmers in a similar cooperation in India.

In North America, innovation specialists visit our customers in the field, where they work together on tailor-made solutions for success.

One of these farmers is Matt Miles from the U.S. state of Arkansas. Together, we developed a plan – from planting seeds to applying fertilizers and crop protection products, all the way to harvest. Matt produced a record yield in Arkansas in 2013: He harvested more than 7 tons of soybeans per hectare. Farmers usually achieve 3 to 4 tons on average.





←

A fungus fighter of many talents: The fungicide Xemium® – seen here as small white sticks – protects plants against fungal infection from day one. Applied to seeds, Xemium® disperses throughout the plant as it grows, all the way out to the tips of the leaves (magnification 2,500:1).

“You’ve got to give the plant what it needs before it needs it, to really ensure that you’re going to get that kind of yield.”

Matt Miles, soybean farmer in the U.S. state of Arkansas

📺 See all of Matt’s story on [youtube.com](https://www.youtube.com) under the search term “planting a legacy”



↑

Partnering for a successful harvest: In Indonesia, we advise farmers on all sorts of topics related to crop cultivation. Around 50 million people work in agriculture in Southeast Asia’s most populous country. In addition to cereals, farmers there also grow coffee and soybeans.



“A successful harvest these days is determined not only by soil and weather, but also by smart IT.”

Dr. Matthias Nachtmann,
Global Manager of business development in
BASF's Crop Protection division

Agriculture 2.0

Modern farms rely more and more on high-tech solutions. It is not uncommon today to see farmers using a tablet or smartphone to assist their work in the field. John Deere and BASF agreed on a collaboration in 2013 to develop an integrated IT-based solution for farmers worldwide. The plan combines BASF's agronomic expertise with John Deere's experience in agricultural data management. This enables farmers to more easily interpret data in order to make more sound, efficient decisions on crops and processes. Farm machines equipped with sensors provide detailed data that is used to evaluate the optimal treatment of each piece of land.

Aside from the cooperation with John Deere, BASF also has other IT-based solutions on offer. Farmers in Brazil, for example, can take photos of diseased plants and compare them with a database in order to learn about possible treatments and recommendations.



→

Digital farming:

Modern apps assist farmers with tasks like diagnosing plant diseases or deciding how much fertilizer to use.



Promoting a balanced diet

Vitamin A deficiency is a serious problem in over 70 of the world's countries. Each year, one million children die from the effects of this deficiency. It can cause blindness and make children more susceptible to deadly infections like measles and pneumonia. Vitamin A is necessary for nearly every function in the human body, including vision, the nervous system, skin, bones, and the immune system. Because the body cannot produce the vitamin on its own, we need to eat foods that contain it. This presents a problem for many people in emerging and developing countries: They cannot afford the expensive foods, like meat and vegetables, where the vitamin is naturally found. In our Food Fortification Initiative, we assist governments, developmental aid agencies like UNICEF, and producers

in supplementing necessary staples like oil, corn, rice and flour with additional vitamins and minerals. At the Rio+20 United Nations summit in 2012, BASF committed to reaching 60 million more people per year with enriched staple foods in order to protect them from the consequences of vitamin and mineral deficiencies.

A balanced diet is also not necessarily a given for people in industrialized countries, where strokes, high blood pressure and other cardiovascular diseases are on the rise as a result of unhealthy food. Long-chain omega-3 fatty acids, such as those found in fish, can offer protection from these illnesses. BASF produces highly concentrated omega-3 fatty acids and makes them available for many consumers to take in various forms, from powder to oil.



↑ **Fewer deficiencies for greater health:** Food fortification means enriching staple foods with supplementary vitamins and minerals. In one kilogram of enriched flour, for example, there are 3 to 5 milligrams of Vitamin A.

“UNICEF and BASF have been working for years to combat Vitamin A deficiency, helping reduce child mortality worldwide.”

Roland Kupka, Senior Advisor for micronutrients at UNICEF



↑ **For food that can do more:** In the laboratory, we research omega-3 fatty acids that can be added to foods like yogurt.

About This Report

Integrated reporting

This integrated report documents BASF's economic, environmental and social performance in 2014. We use examples to illustrate how sustainability contributes to BASF's long-term success and how we as a company create value for our employees, shareholders, business partners, neighbors and the public.

Further information

The following symbols indicate important information for the reader:

 You can find more information within the report.

 You can find more information on our website.

 This section shows how the ten principles of the U.N. Global Compact and the Blueprint for Corporate Sustainability Leadership are implemented.

 If the symbol is underlined, the entire chapter is relevant.

Report material available online

HTML version with interactive tools in a new design: **basf.com/report**

As a downloadable PDF: **basf.com/basf_report_2014.pdf**

Content and structure

- As an integrated report, BASF Report also serves as progress report in terms of U.N. Global Compact
- Sustainability reporting follows first-time application of Global Reporting Initiative's G4 "comprehensive" international guidelines

The BASF Report combines the important financial and non-financial information necessary to thoroughly evaluate our performance. We select the report's topics based on the principles of materiality, sustainability context, completeness and stakeholder inclusion. In addition to our integrated report, we publish further information online. Links to this supplementary information are provided in each chapter.

Our reporting on sustainability issues has been aligned with the Global Reporting Initiative (GRI) framework since 2003. In the BASF Report 2014, our sustainability reporting follows the GRI's G4 "comprehensive" international guidelines for the first time. From 2012 to 2014, we served as a pilot enterprise in the development of the framework for the integrated reporting of the International Integrated Reporting Councils (IIRC). After the pilot phase in 2014, we joined the IR Business Network in order to discuss our experience with other stakeholders and at the same time receive inspiration for the enhancement of our reporting. This report addresses elements of the IIRC framework by, for example, illustrating connections between nonfinancial and financial performance in the chapters for the segments.

The information in the BASF Report 2014 also serves as a progress report on BASF's implementation of the ten principles of the United Nations Global Compact and takes into consideration the Blueprint for Corporate Sustainability Leadership of the Global Compact LEAD platform. Furthermore, the report's content meets the specifications of the German Sustainability Code.

The GRI and Global Compact Index can be found in the online report, providing information on GRI indicators, topics relevant to the Global Compact principles, and the auditor's report of KPMG AG Wirtschaftsprüfungsgesellschaft. 

 The Online Report 2014 can be found at basf.com/report

For more on sustainability, see basf.com/sustainability

For more on the Global Compact, the implementation of the Global Compact principles, the Blueprint for Corporate Sustainability Leadership and Global Compact LEAD, see globalcompact.org and basf.com/globalcompact_e

GRI and Global Compact Index can be found at basf.com/gri_gc_e

Requirements and topics

- Financial reporting according to International Financial Reporting Standards, German Commercial Code and German Accounting Standards
- Sustainability reporting focused on material topics

The information on the financial position and performance of the BASF Group is based on the requirements of International Financial Reporting Standards (IFRS), and, where applicable, the German Commercial Code as well as the German Accounting Standards (GAS). Internal control mechanisms ensure the reliability of the information presented in this report. BASF's management confirmed the effectiveness of the internal control measures and compliance with the regulations for financial reporting.

Identifying the topics that are significant for us forms the basis of our reporting focus and scope.

 For more on the Global Reporting Initiative, see globalreporting.org

For more on our selection of sustainability topics, see page 29 onward and basf.com/materiality



Data

■ Relevant information included up to editorial deadline of February 24, 2015

All information and bases for calculation in this report are based on national and international standards for financial and sustainability reporting. All of the data and information for the reporting period were sourced from the units responsible using representative methods. The reporting period was the 2014 business year. To make this report as current as possible, we have included relevant information available up to the editorial deadline of February 24, 2015. The report is published each year in English and German.

BASF Group's scope of consolidation for its financial reporting comprises BASF SE, with its headquarters in Ludwigshafen, Germany, and all of its fully consolidated material subsidiaries and proportionally included joint operations. Shares in joint ventures and associated companies are accounted for, if material, using the equity method in the BASF Group Consolidated Financial Statements.

An asset swap with Gazprom planned for the end of 2014 did not take place. The transaction's cancellation made it necessary to cease reporting these activities as a disposal group and account for the depreciation, amortization and equity-accounted income that had been suspended since 2012. Figures for the 2013 business year and the first three quarters of 2014 have been adjusted accordingly.

The chapter "Working at BASF" refers to employees active in a company within the BASF Group scope of consolidation as of December 31, 2014. Our data collection methods for environmental protection and occupational safety are based on the recommendations of the European Chemical Industry Council (CEFIC). In the "Environment" chapter, with its subsections on Energy and Climate Protection, Water, and Air and Soil, we report on the emissions and waste of the worldwide production sites of BASF SE, its subsidiaries, and joint operations based on our stake. Work-related accidents at all sites of BASF SE and its subsidiaries as well as joint operations and joint ventures in which we have sufficient authority in terms of safety management, are compiled worldwide regardless of our stake and reported in full. Further data on social responsibility and transportation safety refers to BASF SE and its subsidiaries unless otherwise indicated.

📖 For more on consolidated companies, see the Notes to the Consolidated Financial Statements from page 173 onward

For more on emissions, see page 27 and from page 103 onward

The Consolidated Financial Statements begin on page 151

📄 An overview of restated figures for 2013 and 2014 can be found at basf.com/publications

External audit and evaluation

Our reporting is audited by a third party. KPMG AG Wirtschaftsprüfungsgesellschaft has audited the BASF Group Consolidated Financial Statements and the Management's Report and has approved them free of qualification. The audit of the Consolidated Financial Statements including the Notes is based on the likewise audited financial statements of the BASF Group companies.

Statements and figures pertaining to sustainability in the Management's Report and Consolidated Financial Statements are also audited. The audit was conducted using the International Standard of Assurance Engagements 3000 and the International Standard of Assurance Engagements 3410, the relevant auditing standards for sustainability reporting. The additional content on BASF's website indicated in this report is not part of the information audited by KPMG.

📖 The Auditor's Report can be found on page 154

📄 The Assurance Report on sustainability information in the BASF Report 2014 can be found at basf.com/sustainability_information

Forward-looking statements

This report contains forward-looking statements. These statements are based on current estimates and projections of BASF management and currently available information. Future statements are not guarantees of the future developments and results outlined therein. These are dependent on a number of factors; they involve various risks and uncertainties; and they are based on assumptions that may not prove to be accurate. Such factors include those discussed in the Opportunities and Risks Report from pages 111 to 118. We do not assume any obligation to update the forward-looking statements contained in this report.

1

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Dear Shareholder,

For you and for BASF, 2014 was an unstable, or even ambivalent, year. We started off cautiously optimistic, not least because demand in Europe was picking up slightly. But then from summer onward it was clear: Europe was hardly going to grow at all. In the first half of the year, we were burdened by a strong euro, which then began a downward slide in August. We struggled with increasing costs for some raw materials in the first six months – a consequence of the high price of oil – before this development, too, reversed. A year ago, no one could have foreseen that the price of oil would plummet from \$110 per barrel to a price as low as \$50 per barrel of Brent crude. And the political uncertainty in some parts of the world also continued to grow.

Our share price reflected these ups and downs. Although you, our shareholders, were able to enjoy a new high in June, our share performance was unsatisfying by the end of the year – also as compared with the DAX 30 and the global chemical industry. It's only a small consolation that BASF still remains among the top performers when viewed over a ten-year period.

Especially against this background, it's important to keep in mind that we nevertheless achieved our goal for 2014. We wanted to once again increase our earnings. And despite the disappointing developments in Europe, we did just that: We grew. We further strengthened our chemicals business and in turn improved our margins. We have our costs firmly under control.

“We have grown – despite disappointing developments in Europe.”

“We once again propose raising the dividend, from €2.70 to €2.80 per share.”

We once again propose raising the dividend, from €2.70 to €2.80 per share. All of this has only been possible through the extraordinary accomplishment of our employees. On behalf of the team of the Board of Executive Directors, I offer them my heartfelt thanks.

“We create chemistry” strategy

In a volatile year like 2014, it makes sense to ask whether BASF's fundamental direction – our “We create chemistry” strategy – is still the right path. The answer is a clear yes: The chemical industry will continue to grow worldwide, although somewhat more slowly than was predicted a few years ago. And we want to participate in this growth – through the largest investment program in decades. We are investing in emerging markets. We are investing to take advantage of shale gas in the United States, and we are investing in the competitiveness of our European sites. A whole range of new plants will start up operations in 2015 – plants that will keep producing for the next 10, 20 or 30 years.

We made advances in the regional diversification of our oil and gas business. We acquired additional reserves and development fields in Norway, and have already made good progress there. The swap of our gas trading business for oil and gas reserves from Gazprom in Russia did not happen, however. We will continue our successful joint ventures in western Europe and Russia, even though the current political situation is difficult.

We also continued restructuring our portfolio. This included, for example, exiting the textile chemicals and styrene plastics businesses, yet also establishing a joint venture with Toda Kogyo, a leading Japanese company in battery chemicals. We are intensively researching and developing this area.

“Innovation is and remains the driving force for chemistry.”

Innovation is and remains the driving force for chemistry. That is why we once again spent more on research and development and globalized our activities. In Mumbai, we are setting up a research center that will focus primarily on crop protection. The Innovation Campus in Shanghai – already the largest research site in Asia – will be expanded. At a new laboratory in Amagasaki, Japan, our employees are developing electrolytes and electrode materials for more high-performance batteries. You will discover even more examples of BASF's innovations in this report, including substantially improved superabsorbents for diapers.

The new diapers will also contribute to sustainability, which continues to serve as the benchmark for our actions – whether economic, environmental, or social. This includes the thorough analysis we conducted of our products in more than 60,000 applications. The findings help us steer our portfolio. We can specifically develop even more sustainable products together with our customers or find alternatives for products that no longer fulfill our standards.

Innovation and sustainability are also at the core of our anniversary activities. We will celebrate BASF's 150th birthday. And yet above all, we will use 2015 to find answers to pressing questions through inventiveness and innovations – together with our customers and partners. The great thing is, everyone can join in – including you – at creator-space.basf.com.

“We will use our anniversary year to find answers to pressing questions through inventiveness and innovations – together with our customers and partners.”

Outlook for 2015

The outlook for the 2015 business year is subject to significant uncertainty. We do expect the global economy to grow by 2.8%, somewhat faster than in 2014; and chemical production should also increase by a good 4%. However, a reliable forecast is impeded by volatile raw material prices and exchange rates.

We currently anticipate an average oil price of \$60 to \$70 per barrel (Brent) and an exchange rate of \$1.20 per euro. For the Oil & Gas segment, this would result in income from operations before special items considerably below the previous year's level. We want to once again improve earnings in our chemicals business, however. In the end, the price of oil will be among the factors that determine whether we increase our earnings overall. With the oil price range mentioned above, income from operations before special items at the same level of the previous year is achievable.

Investment will be substantially lower in 2015: We were able to successfully conclude several major projects in 2014, and more plants will start up in 2015. In the Oil & Gas segment, investment levels will be lower than in the year before. We plan total capital expenditures of €4 billion, compared with €5.1 billion in 2014. We will once again increase research and development spending, primarily to support further globalization.

One thing I can assure you: We will continue to concentrate on what we do best – researching, developing and offering our customers attractive solutions. This is something we have done successfully for 150 years. And the entire BASF team is committed to making sure that this holds true in the future, as well.

Yours,



Kurt Bock

The Board of Executive Directors of BASF SE



Wayne T. Smith

Dr. Kurt Bock
Chairman of the Board of Executive Directors

Dr. Hans-Ulrich Engel
Chief Financial Officer

Dr. Andreas Kreimeyer
Research Executive Director

Dr. Martin Bruder Müller
Vice Chairman of the Board of Executive Directors



Dr. Harald Schwager

Sanjeev Gandhi

Margret Suckale

Michael Heinz

BASF on the capital market

<p>€69.88</p> <p>BASF share closing price down by 9.8% year-on-year</p>	<p>€2.80</p> <p>proposed dividend per share</p>	<p>DJSI World, CDLI</p> <p>BASF once again included in sustainability indexes</p>
--	--	--

The stock markets in 2014 were particularly marked by the effects of geopolitical conflict and economic uncertainty. Investors were unsettled by the ongoing debt crisis in the eurozone and by speculation as to the end of the U.S. Federal Reserve's expansive fiscal policy. In this volatile environment, the BASF share fell by 9.8%, trading at €69.88 at the end of 2014. We stand by our ambitious dividend policy and will propose a dividend of €2.80 per share at the Annual Shareholders' Meeting – an increase of 3.7% compared with the previous year. BASF enjoys solid financing and good credit ratings.

BASF share performance

- Overall mixed year on stock markets
- BASF share falls 9.8% in 2014
- Long-term performance continues to clearly surpass industry indexes

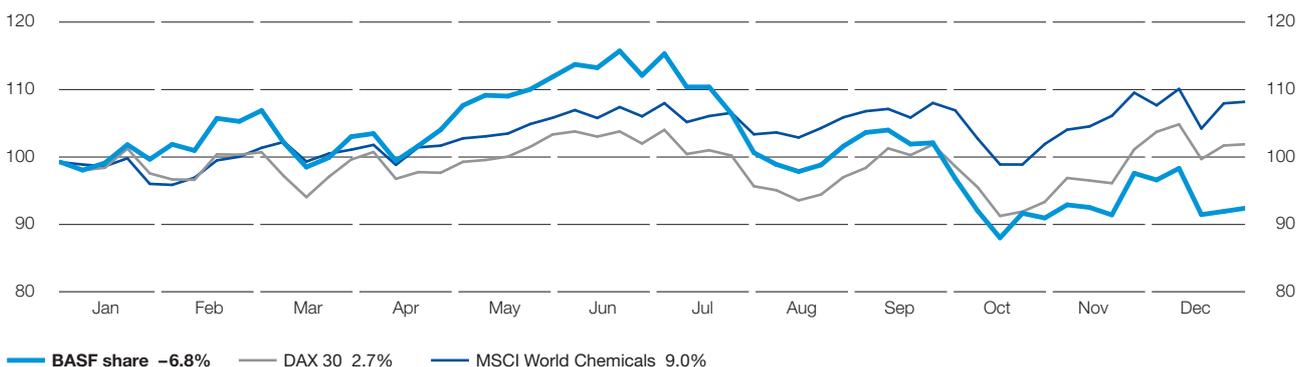
Stock markets were characterized by a high degree of volatility in 2014, exacerbated by geopolitical conflicts, ongoing uncertainty as to when the U.S. Federal Reserve would raise interest rates, and weak economic figures from the eurozone. As a result, the German stock index DAX 30 and the BASF share both reached their lows for the year on October 15, 2014. The increase in the Ifo Business Climate Index in

November, which had deteriorated six times in a row before that, as well as the European Central Bank's decision in December to keep interest rates low led to a considerable stock market recovery at the end of the year. The BASF share remained behind this development: Share performance was especially weighed down by the falling price of oil in addition to market participants' increasing uncertainty with regard to business in Russia.

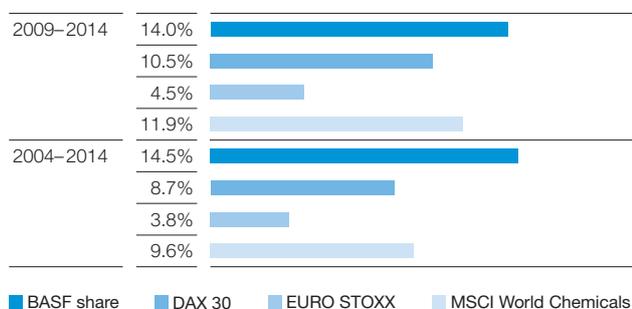
BASF shares traded at €69.88 at the end of 2014, 9.8% below the previous year's closing price. Assuming that dividends were reinvested, BASF shares lost 6.8% in value in 2014. This did not match the performance of the German and European stock markets, whose benchmark indexes DAX 30 and DJ EURO STOXX 50 gained 2.7% and 3.9% over the same period, respectively. As for the global industry indexes, DJ Chemicals declined by 0.1% in 2014 while MSCI World Chemicals rose by 9%.

Viewed over a five and ten-year period, the long-term performance of BASF shares still clearly surpasses these indexes. The assets of an investor who invested an amount of €1,000 in BASF shares at the end of 2004 and reinvested the dividends in additional BASF shares would have increased to €3,864 by the end of 2014. This equates to an average annual return of 14.5%, placing BASF shares above the returns for the DAX 30 (8.7%), EURO STOXX 50 (3.8%) and MSCI World Chemicals (9.6%) indexes.

Change in value of an investment in BASF shares in 2014
(With dividends reinvested; indexed)



Long-term performance of BASF shares compared with indexes
 (Average annual increase with dividends reinvested)



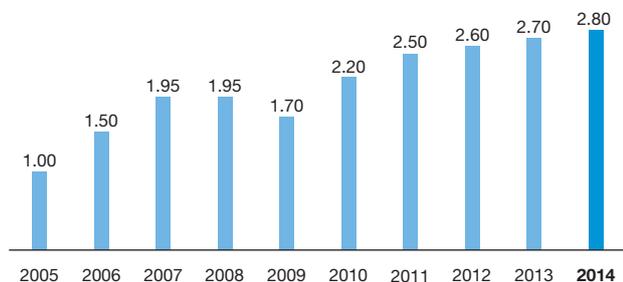
Weighting of BASF shares in important indexes as of December 31, 2014

DAX 30	7.9%
DJ Chemicals	5.9%
MSCI World Index	0.2%

Proposed dividend of €2.80 per share

At the Annual Shareholders' Meeting, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €2.80 per share. We stand by our ambitious dividend policy and plan to pay out just under €2.6 billion to our shareholders. Based on the year-end share price for 2014, BASF shares offer a high dividend yield of around 4%. BASF is part of the DivDAX share index, which contains the 15 companies with the highest dividend yield in the DAX 30. We aim to increase our dividend each year, or at least maintain it at the previous year's level.

Dividend per share¹ (€ per share)



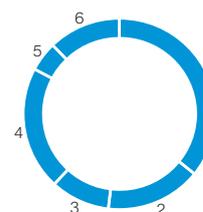
¹ Adjusted for two-for-one stock split conducted in 2008

Broad base of international shareholders

With over 400,000 shareholders, BASF is one of the largest publicly owned companies with a high free float. An analysis of the shareholder structure carried out at the end of 2014 showed that, at around 16% of share capital, the United States and Canada made up the largest regional group of institutional investors. Institutional investors from Germany accounted for 11%. Shareholders from the United Kingdom and Ireland hold just under 10% of BASF shares, while institutional investors from the rest of Europe hold a further 21% of capital. Approximately 25% of the company's share capital is held by private investors, most of whom reside in Germany. BASF is therefore one of the DAX 30 companies with the largest percentage of private shareholders in Germany.

Shareholder structure (by region)

1	Germany	36%
2	United States and Canada	16%
3	United Kingdom and Ireland	10%
4	Rest of Europe	21%
5	Rest of world	5%
6	Not identified	12%



Employees becoming shareholders

In many countries, we offer share purchase programs, which turn our employees into BASF shareholders. In 2014, around 23,200 employees (2013: 24,000) purchased employee shares worth about €62 million (2013: €56 million).

For more on employee share purchase programs, see page 45

BASF in key sustainability indexes

- **DJSI World: Special recognition for ecoefficiency, environmental reporting, labor practice and human rights**
- **CDLI: Inclusion once again attests to BASF's transparent reporting on climate protection**

The BASF share has been included in the Dow Jones Sustainability World Index (DJSI World) for the fourteenth year in succession. The analysts especially recognized our commitment to ecoefficiency, environmental reporting, labor practice and human rights. As one of the most well-known sustainability indexes, the DJSI World represents the top 10% of the 2,500 largest companies in the Dow Jones Global Index based on economic, environmental and social criteria.

According to the nonprofit organization CDP (Carbon Disclosure Project), BASF is among the leading companies in the world in reporting on climate protection. The CDP represents more than 750 institutional investors who manage over \$90 trillion in assets. Investors use CDP indexes as assessment tools. The "Disclosure Score" measures the transparency and completeness of a company's climate protection reporting. In 2014, BASF once again achieved the maximum disclosure score of 100 points, taking first place in the Energy & Materials sector of the Carbon Disclosure Leadership Index (CDLI). We have already qualified for the index ten times.

In 2014, BASF was unable to qualify for the Carbon Performance Leadership Index (CPLI), which judges companies' climate protection activities. Inclusion in the CPLI requires a considerable reduction in greenhouse gas emissions compared with the previous year (-4%). Measures already taken in previous years are not eligible for consideration. BASF has already implemented numerous measures in the past to reduce greenhouse gases, which have managed to decrease absolute emissions by just under 49% since 1990 (BASF business excluding the Oil & Gas segment). Further improvements have lower potential, preventing us from reaching the CPLI's high reduction requirement.

 For more on the key sustainability indexes, see basf.com/sustainabilityindexes

 For more on energy and climate protection, see page 103 onward

Good credit ratings and solid financing

With "A+/A-1/outlook stable" from rating agency Standard & Poor's and "A1/P-1/outlook stable" from Moody's, we have good credit ratings, especially in comparison with competitors in the chemical industry.

At the end of 2014, the financial indebtedness of the BASF Group was €15.4 billion with liquid funds of €1.7 billion. The average maturity of our financial indebtedness was 5.7 years. The company's medium to long-term debt financing is predominantly based on corporate bonds with a balanced maturity profile. For short-term debt financing, BASF has a commercial paper program with an issuing volume of up to \$12.5 billion. As backup for the commercial paper program, there are committed, broadly syndicated credit lines of €6 billion available, which are not currently being used.

 For more on financial indebtedness and maturities, see the Notes from page 206 onward

Analysts' recommendations

Around 30 financial analysts regularly publish studies on BASF. At the end of 2014, 41% recommended buying our shares (end of 2013: 45%) and 38% recommended holding our shares (end of 2013: 45%), while 21% had a sell rating (end of 2013: 10%). On December 31, 2014, the average target share price according to analyst consensus estimates was €77.45.

 Continuously updated consensus estimates on BASF are available at basf.com/share

Close dialog with the capital market

- Roadshows for institutional investors and talks with rating agencies
- Themed investor days
- Information events for private investors
- Numerous awards for BASF Investor Relations

Our corporate strategy aims to create long-term value. We support this strategy through regular and open communication with all capital market participants. To keep institutional investors and rating agencies informed, we host numerous one-on-one meetings and roadshows worldwide. We also hold informational events to provide private investors with insight into BASF.

In May 2014, we talked to analysts and investors in London about the implementation of the “We create chemistry” strategy in the Chemicals segment, explaining the segment’s significance for the BASF Verbund and outlining our most important value chains. We also elaborated on our investment strategy. By investing extensively in all regions, we are setting the foundation for further profitable growth in the Chemicals segment. We additionally presented future projects in North America, through which BASF intends to benefit from inexpensive, shale gas-based raw materials.

 For more on our “We create chemistry” strategy, see page 22 onward

In 2014, we once again conducted special roadshows for investors who base their investment decisions on sustainability criteria, where we particularly explained our measures related to climate protection and energy efficiency. In addition, we conducted several special creditor relations roadshows, where creditors and credit analysts could learn more about our business and our financing strategy.

Investors can find comprehensive information about BASF and BASF shares on our newly designed website. We have also been providing interested users with current information on the BASF share over social media platforms like Twitter and Facebook for a few years now.

Analysts and investors have confirmed the quality of our communication work: In the annual survey of European financial analysts and investors conducted by Britain’s IR Magazine, we received the Grand Prix for Investor Relations and took first prize across several categories, including “Best Financial Reporting” and “Best Sustainability Practice” as well as in the “Materials” sector. In the Global Top 50 Awards, also conferred by IR Magazine and covering all regions and industries, BASF took second place in the category “Best Investor Relations Worldwide.” Moreover, our digital communication activities were honored with first place in the British IR Society’s Best Practice Awards.

 For more on Investor Relations, visit basf.com/share

Register for the newsletter with current topics and dates at basf.com/share/newsletter

Contact the Investor Relations team by phone at +49 621 60-48230 or email ir@basf.com

Key BASF share data¹

		2010	2011	2012	2013	2014
Year-end price	€	59.70	53.89	71.15	77.49	69.88
Year high	€	61.73	69.40	73.09	78.97	87.36
Year low	€	39.43	43.66	51.89	64.79	65.61
Year average	€	46.97	57.02	62.17	71.96	77.93
Daily trade in shares ²						
	million €	197.5	265.7	205.6	200.8	224.5
	million shares	4.2	4.7	3.3	2.8	2.9
Number of shares December 31	million shares	918.5	918.5	918.5	918.5	918.5
Market capitalization December 31	billion €	54.8	49.5	65.4	71.2	64.2
Earnings per share	€	4.96	6.74	5.25	5.22	5.61
Adjusted earnings per share	€	5.73	6.26	5.64	5.31	5.44
Dividend per share	€	2.20	2.50	2.60	2.70	2.80
Dividend yield ³	%	3.69	4.64	3.65	3.48	4.01
Payout ratio	%	44	37	50	52	50
Price-earnings ratio (P/E ratio) ³		12.0	8.0	13.6	14.8	12.5

¹ The figures for the 2011 business year and earlier were not restated according to the new accounting and reporting standards IFRS 10 and 11.

² Average, Xetra trading

³ Based on year-end share price

Further information on BASF share

Securities code numbers	
Germany	BASF11
Great Britain	0083142
Switzerland	323600
United States (CUSIP Number)	055262505
ISIN International Securities Identification Number	DE000BASF111
International ticker symbol	
Deutsche Börse	BAS
London Stock Exchange	BFA
Swiss Exchange	AN

2

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The BASF Group

<p>Global leader</p> <p>BASF is the world's leading chemical company</p>	<p>In 80+ countries</p> <p>employees contribute to our success</p>	<p>Broad portfolio</p> <p>5 segments 14 divisions 85 strategic business units</p>
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At BASF, we create chemistry – and have been doing so for 150 years. As the world's leading chemical company, we combine economic success with environmental protection and social responsibility. In the BASF Group, around 113,000 employees work on contributing to the success of our customers in nearly all sectors and almost every country in the world. Our broad portfolio is arranged into five segments: Chemicals, Performance Products, Functional Materials & Solutions, Agricultural Solutions and Oil & Gas.

Organization of the BASF Group

- 14 divisions grouped into five segments
- Regional divisions, corporate units and competence centers support our business

Until the end of 2014, five segments contained 14 divisions that managed and bore operational responsibility for our 65 global and regional business units. The divisions develop strategies for our 85 strategic business units and are organized according to sectors or products.

As of January 1, 2015, we reorganized our paper chemicals business in order to sharpen our competitive edge. This involved dissolving the Paper Chemicals division and continuing the paper chemicals business in the Performance Chemicals and Dispersions & Pigments divisions. By doing so, we can utilize synergies along the existing value chains and at the same time remain a reliable, high-performing partner for the paper industry.

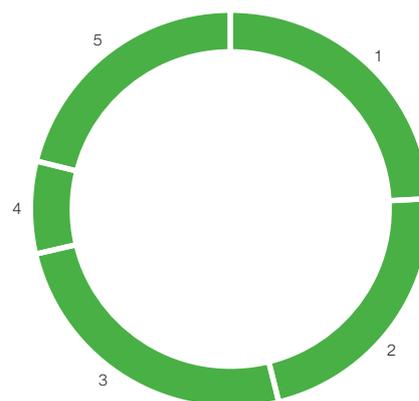
The regional divisions contribute to the local development of our business and help exploit market potential. They are also responsible for optimizing infrastructure for our business. For financial reporting purposes, our divisions are organized into the following four regions: Europe; North America; Asia Pacific; and South America, Africa, Middle East.

Three central divisions, six corporate units and ten competence centers provide services for the BASF Group in areas such as finance, investor relations, communications, human resources, research, engineering, and site management, as well as environment, health and safety.

BASF structure until December 31, 2014

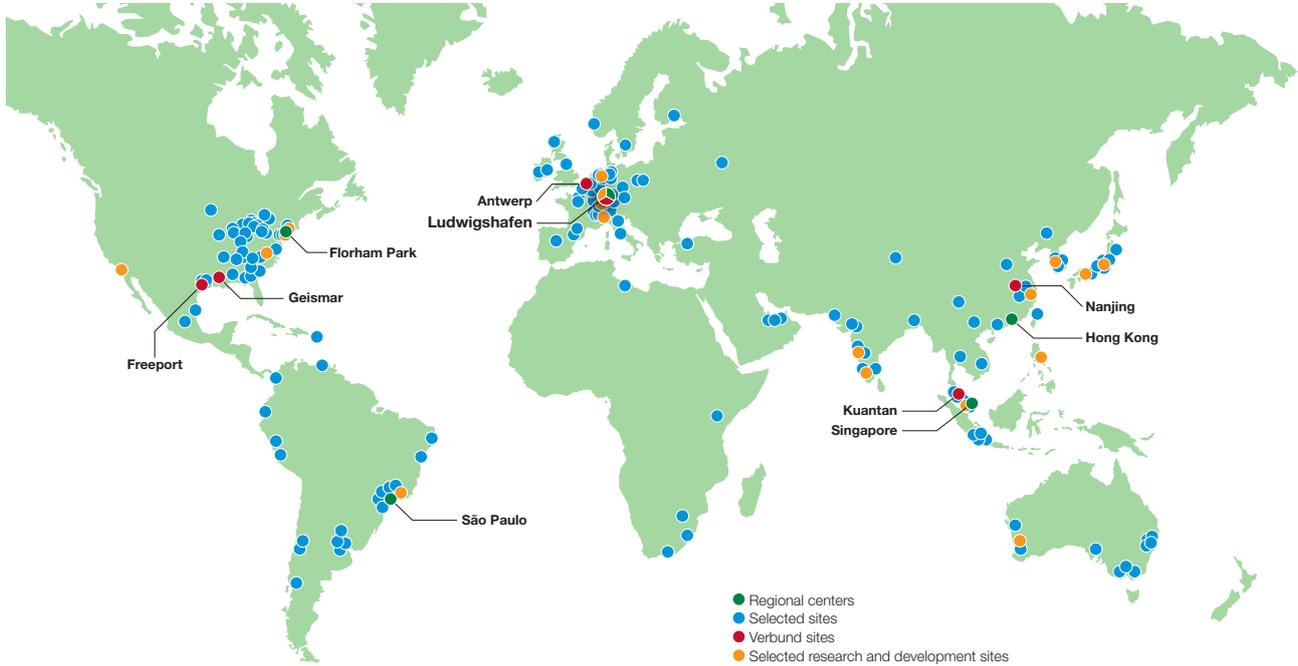
Percentage of total sales in 2014 (in %)¹

1	Chemicals	<ul style="list-style-type: none"> – Petrochemicals – Monomers – Intermediates 	23%
2	Performance Products	<ul style="list-style-type: none"> – Dispersions & Pigments – Care Chemicals – Nutrition & Health – Paper Chemicals – Performance Chemicals 	21%
3	Functional Materials & Solutions	<ul style="list-style-type: none"> – Catalysts – Construction Chemicals – Coatings – Performance Materials 	24%
4	Agricultural Solutions	<ul style="list-style-type: none"> – Crop Protection 	7%
5	Oil & Gas	<ul style="list-style-type: none"> – Oil & Gas (Exploration & Production; Natural Gas Trading) 	20%



¹ The 5% of sales not shown belonged to Other.

BASF sites



Markets and sites

- BASF companies in more than eighty countries
- Six Verbund sites and 353 additional production sites worldwide

BASF has companies in more than eighty countries and supplies products to a large number of business partners in nearly every part of the world. In 2014, we achieved 44% of our sales (excluding Oil & Gas) with customers in Europe. In addition, 26% of sales were generated in North America; 21% in Asia Pacific; and 9% in South America, Africa, Middle East. Based on the entire BASF Group, 55% of our sales were to customers in Europe, 20% in North America, 17% in Asia Pacific and 8% in South America, Africa, Middle East.

We operate six Verbund sites as well as 353 additional production sites worldwide. Our Verbund site in Ludwigshafen is the world's largest integrated chemical complex. This was where the Verbund concept was originally developed and steadily honed before being put into practice at additional sites.

Verbund

- Intelligent plant networking in the Production Verbund
- Technology and Know-how Verbund

The Verbund system is one of BASF's great strengths. Here, we add value as one company by using our resources efficiently. The Production Verbund, for example, intelligently links production units and energy demand so that heat released by production processes can be used as energy in other plants. Furthermore, by-products of one plant can serve as feedstock elsewhere. In this system, chemical processes run with lower energy consumption and higher product yield. This not only saves us raw materials and energy, it also avoids emissions, lowers logistics costs and makes use of synergies.

Another important part of the Verbund concept is the Technology and Know-How Verbund. Expert knowledge is pooled into our global research platforms. 🌐

🖨 For more on the Verbund concept, see basf.com/verbund_e

Competitive environment

BASF occupies one of the top three market positions in about 70% of the business areas in which it is active. Our most important global competitors include Akzo Nobel, Bayer, Clariant, Dow Chemical, DSM, DuPont, Evonik, Formosa Plastics, Lanxess, Reliance, Sabic, Sinopec, Solvay and many hundreds of local and regional competitors. We expect competitors from emerging markets to become increasingly significant in the years ahead.

Corporate legal structure

As the publicly traded parent company of BASF Group, BASF SE takes a central role: Directly or indirectly, it holds the shares in the companies belonging to the BASF Group, and is also the largest operating company. The majority of Group companies cover a broad spectrum of our business. In some, we concentrate on specific business areas: The Wintershall Group, for example, focuses on oil and gas activities. In the BASF Group Consolidated Financial Statements, 274 companies including BASF SE are fully consolidated. We consolidate seven joint operations on a proportional basis, and 34 companies are accounted for using the equity method.

 For more information, see the Notes to the Consolidated Financial Statements from page 173 onward

Compensation Report and disclosures in accordance with Section 315(4) of the German Commercial Code

 The Compensation Report can be found from page 138 onward, and the disclosures required by takeover law in accordance with Section 315(4) German Commercial Code from page 132 onward. They form part of the Management's Report audited by the external auditor.

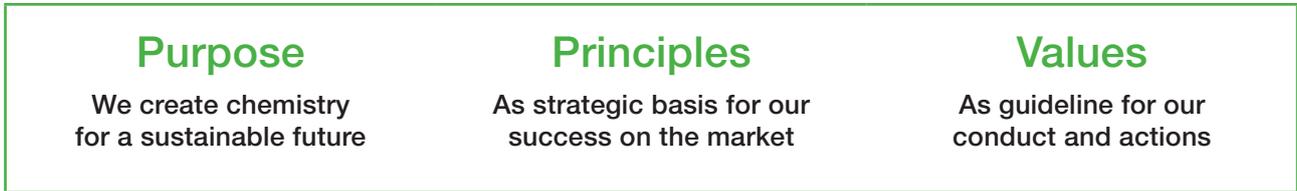
Restatement of prior-year figures

The figures reported for the 2013 business year and the first three quarters of 2014 have been restated following BASF's and Gazprom's decision on December 18, 2014, not to proceed with an asset swap planned for the end of 2014. This made it necessary to dissolve the disposal group to which the affected assets and liabilities had been reclassified in the financial statements at the end of 2012.

 For more information, see the Notes to the Consolidated Financial Statements from page 160 onward and basf.com/publications

Our strategy

Corporate strategy



With the “We create chemistry” strategy, BASF has set itself ambitious goals in order to strengthen its position as the world’s leading chemical company. We want to contribute to a sustainable future and have embedded this into our corporate purpose: “We create chemistry for a sustainable future.”

In 2050, more than nine billion people will live on Earth. While the world’s population and its demands will keep growing, the planet’s resources are finite. On the one hand, population growth is associated with huge global challenges; and yet we also see many opportunities, especially for the chemical industry.

Our corporate purpose

- We create chemistry for a sustainable future

Through research and innovation, we support our customers in nearly every industry in meeting the current and future needs of society. Our products and solutions contribute to conserving resources, ensuring good nutrition and improving quality of life.

Innovations based on chemistry will play a key role in three areas in particular:

- Resources, environment and climate
- Food and nutrition
- Quality of life

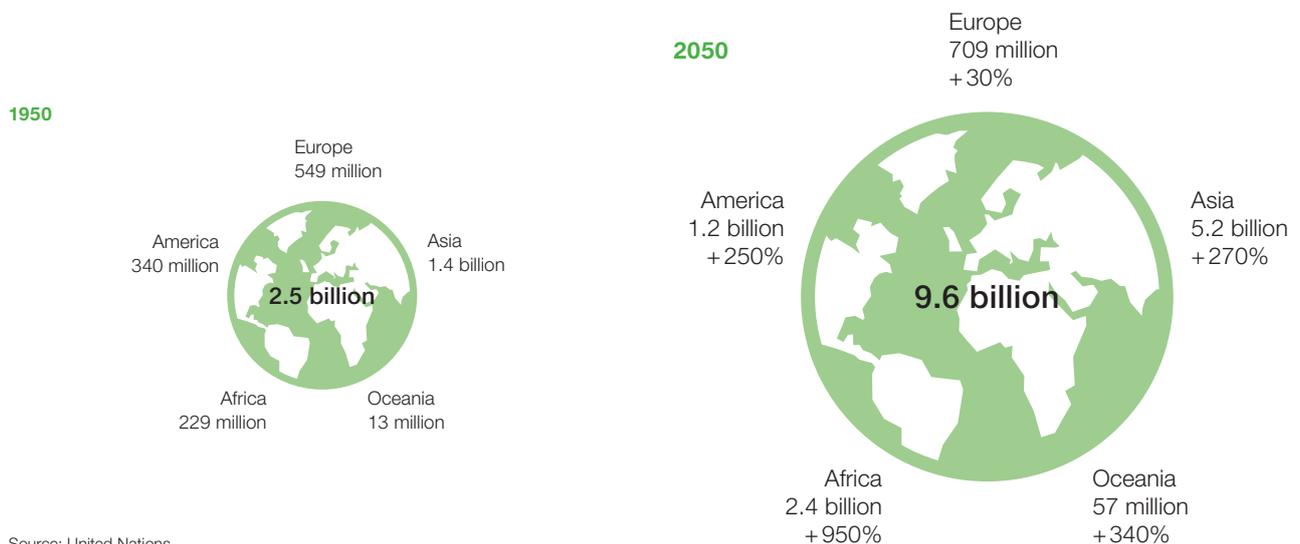
Our leading position as an integrated global chemical company creates opportunities for us to make important contributions in all three of these areas. In pursuing them, we act in accordance with four strategic principles.

Our strategic principles

- We add value as one company
- We innovate to make our customers more successful
- We drive sustainable solutions
- We form the best team

We add value as one company. Our Verbund concept is unique in the industry. Encompassing the Production Verbund, Technology Verbund and Know-How Verbund as well as all relevant customer industries worldwide, this sophisticated and profitable system will continue to be expanded. This is how we combine our strengths and add value as one company.

World population growth



Source: United Nations

We innovate to make our customers more successful. We want to align our business even more with our customers' needs and contribute to their success with innovative and sustainable solutions. Through close partnerships with customers and research institutes, we link expertise in chemistry, biology, physics, materials science and engineering to jointly develop customized products, functional materials, and system solutions as well as processes and technologies.

We drive sustainable solutions. In the future, sustainability will more than ever serve as a starting point for new business opportunities. That is why sustainability and innovation are becoming significant drivers for our profitable growth.

We form the best team. Committed and qualified employees around the world are the key to making our contribution to a sustainable future. Because we want to form the best team, we offer excellent working conditions and inclusive leadership based on mutual trust, respect and dedication to top performance.

 For more on innovation, see page 33 onward

For more on business opportunities with sustainability, see page 29 onward

For more on the Best Team Strategy, see page 41 onward

Our values

- Creative
- Open
- Responsible
- Entrepreneurial

Our conduct is critical for the successful implementation of our strategy: This is what our values represent. They guide how we interact with society, our partners and with each other.

Creative: In order to find innovative and sustainable solutions, we have the courage to pursue bold ideas. We link our areas of expertise from many different fields and build partnerships to develop creative, value-adding solutions. We constantly improve our products, services and solutions.

Open: We value diversity – in people, opinions and experience. That is why we foster dialog based on honesty, respect and mutual trust. We develop our talents and capabilities.

Responsible: We act responsibly as an integral part of society. In doing so, we strictly adhere to our compliance standards. And in everything we do, we never compromise on safety.

Entrepreneurial: All employees contribute to BASF's success – as individuals and as a team. We turn market needs into customer solutions. We succeed in this because we take ownership and embrace accountability for our work.

Strategic focus areas

- Industry orientation
- Innovation
- Employees
- Sustainability
- Technological and operational excellence

We have defined strategic focus areas within our company, and are concentrating on industry orientation, innovation, employees, sustainability, technology and operational excellence in order to achieve our goals. To maximize our potential, we combine our strengths and act as one company to even better use the full range of competencies that make us unique in our industry. We will tap new growth markets by bringing our research and development expertise, operational excellence, market knowledge and customer relationships even more closely together. This is how we promote the long-term success of both BASF and our customers with our products and solutions. Our employees are fundamental to achieving the goals of our “We create chemistry” strategy.

The BASF brand

- Trust in the BASF brand
- New claim in BASF logo: “We create chemistry”

We rely on a strong brand in order to expand our position as the world's leading chemical company. Our brand is derived from our strategy and our corporate purpose – “We create chemistry for a sustainable future” – as well as our strategic principles and values.

“Connected” describes the essence of the BASF brand. Connectivity is one of BASF's great strengths. Our Verbund concept – in production, technologies and knowledge as well as employees, customers and partners – enables innovative solutions for a sustainable future. As of January 1, 2015, we changed our claim in the BASF logo from “The Chemical Company” to “We create chemistry” in order to more firmly embed our solution-oriented strategy in the public consciousness. Our brand creates value by helping communicate its usefulness for our stakeholders as well as our values.

Anywhere our stakeholders encounter our brand, we aim to convince them that BASF stands for connectivity, intelligent solutions, value-adding partnerships, an attractive working environment and sustainability. This contributes to our customers' confidence in their buying decisions and to our company value.

We are constantly developing our brand image by measuring awareness of and trust in our brand, and therefore in our company. A global market research study conducted in 2014 showed that, in terms of awareness and trust, BASF is above the industry average in numerous countries. The study collected data on respondents' aided awareness of BASF and our most important competitors. Our goal is to continue increasing this value in all markets relevant to BASF.

Global standards

- We act according to values and standards of conduct that fulfill or exceed laws and regulations
- We review our performance with regular audits and a three-pronged monitoring system

Our standards fulfill or exceed existing laws and regulations and take internationally recognized principles into account. We respect and promote all of the following:

- The 10 principles of the U.N. Global Compact
- The Universal Declaration of Human Rights and both United Nations covenants on human rights
- The ILO's core labor standards and Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)
- The OECD Guidelines for Multinational Enterprises
- The Responsible Care Global Charter
- The German Corporate Governance Code

We stipulate rules for our employees with standards that apply throughout the Group. We set ourselves ambitious goals with voluntary commitments and review our environmental, health and safety performance using our Responsible Care Management System. Regular audits and a three-pronged monitoring system ensure our compliance with labor and social standards. This system comprises the following instruments:

- External compliance hotlines
- Annual inquiry into our Group companies to inspect prevailing working conditions
- Close dialog with our stakeholders, such as employee representatives and international organizations

Our business partners are expected to comply with prevailing laws and regulations and to align their actions with internationally recognized principles. We have established monitoring systems to ensure this.

🔖 For more on labor and social standards, see page 46

For more on the Responsible Care Management System, see page 97

For more on corporate governance, see page 125 onward

For more on compliance, see page 134 onward

Innovations for a sustainable future

Innovations in chemistry are necessary to meet the needs of the growing world population on a long-term basis. The development of innovative products and solutions is, therefore, of vital significance for BASF. In 2020, we aim to generate around €30 billion of our sales and €7 billion of our EBITDA with the help of innovative products that will have been on the market for less than ten years. This means effective and efficient research is becoming increasingly important. In addition to our R&D activities in established business areas, we have defined technology and growth fields with which we can make a decisive contribution to innovative solutions for global challenges and contribute to sustainable development. The growth fields address new business areas for BASF.

We are continuing to strengthen our research and development activities in Asia as well as in North and South America. As of January 1, 2015, we are pooling our worldwide research expertise into three platforms, each headquartered in one of the regions particularly significant for us: Europe, Asia Pacific and North America: Process Research & Chemical Engineering (Ludwigshafen, Germany), Advanced Materials & Systems Research (Shanghai, China) and Bioscience Research (Research Triangle Park, North Carolina). By 2020, we aim to conduct half of our research and development activities outside of Europe. Our stronger global presence opens up new opportunities to participate in regional developments in innovation and gain access to local talent.

📖 For more on innovation, see page 33 onward

Business expansion in emerging markets

In the years ahead, we want to grow even more vigorously in the emerging markets and expand our position there. Today's emerging markets are expected to account for around 60% of global chemical production in 2020. We want to benefit from the considerable growth in these regions and plan to invest more than a third of our capital expenditures there between 2011 and 2020.

In 2014, emerging markets once again saw substantially faster growth rates than the industrialized countries, although the pace was slower than in the previous year. While momentum decelerated only marginally in Asia's emerging markets, the South American economy stagnated. Growth in Brazil was weak; Argentina experienced a recession. Eastern European emerging markets posted only slow overall growth, as well. Russia's economy slowed down enormously due to the crisis in Ukraine, declining oil prices, trade sanctions imposed by the European Union and the United States, and the sharp depreciation of the Russian ruble.

Despite higher sales volumes, we observed a slight currency-related decline in our business in emerging markets in 2014: Compared with 2013, sales at our companies headquartered in these countries decreased by 1% to €15,804 million. Based on customer location, sales (excluding Oil & Gas) in emerging markets were down by 1% to €19,242 million year-on-year, also as a result of currency effects. Sales to customers in emerging markets therefore amounted to around 33% of total sales (excluding Oil & Gas) in 2014. By 2020, we aim to expand this proportion to 45%.



Sales¹ in emerging markets

2020	45%		55%
2014	33%		67%
2004	25%		75%

■ Emerging markets ■ Industrialized countries²

¹ Percentage of BASF Group sales (excluding Oil & Gas) by location of customer

² Comprises EU15, Norway, Switzerland, United States, Canada, Japan, South Korea, Australia, New Zealand

Goals

In 2011, we set ourselves sales and earnings goals for 2015 and 2020 as part of the “We create chemistry” strategy. We will not reach our medium-term financial goals for 2015, primarily because gross domestic product and industrial and chemical production grew at a considerably lower average rate from 2010 to 2015 than our strategy had anticipated (former expectations in parentheses)¹:

- Growth of gross domestic product: 2.6% (3.4%)
- Growth in industrial production: 3.3% (4.5%)
- Growth in chemical production: 4.0% (4.9%)

This weaker economic development is largely due to sluggish momentum in the emerging markets and the lack of recovery in the European economy.

Furthermore, pressure increased on margins for some basic products as well as in sections of the Performance Products segment.

Growth and profitability

EBITDA in billion €



	Annual goals	2015 Goals	2020 Goals	Status at year-end 2014
Sales		approximately €80 billion	approximately €110 billion	€74.3 billion
Premium on cost of capital	At least €2.0 billion on average each year			€1.4 billion
EBITDA		approximately €14 billion ¹	approximately €22 billion	€11.0 billion
Earnings per share		around €7.50		€5.61

¹ In October 2014, we published an EBITDA estimate of €10 to €12 billion for 2015.

Employees

Senior executives with international experience



	Long-term goals	Status at year-end 2014	More on
Proportion of international senior executives	Increase in proportion of non-German senior executives (baseline 2003: 30%)	34.3%	Page 44
Senior executives with international experience	Proportion of senior executives with international experience over 80%	83.0%	Page 44
Women in leadership positions	Increase in the proportion of female leaders worldwide	19.1%	Page 44
Employee development	Establishment of systematic, global employee development as shared responsibility of employees and leaders based on relevant processes and tools	Project introduced for around 45,000 employees worldwide	Page 43

¹ Weighting by country changed as a result of updating the baseline year; the figures have been adjusted accordingly.

Safety, security and health

Transportation accidents per 10,000 shipments

 **-64.3%**

	2020 Goals	Status at year-end 2014	More on
Transport			
▶ Transportation accidents per 10,000 shipments (baseline 2003)	-70%	-64.3%	Page 98
Production			
Lost-time injuries per million working hours (baseline 2002)	-80%	-54.5%	Page 99
Health Performance Index (annual goal)	>0.9	0.91	Page 99
Products			
Risk assessment of products sold by BASF worldwide in quantities of more than one metric ton per year	>99%	61.4%	Page 101

Environment

Improvement of energy efficiency in production processes

 **+19.0%**

Introduction of sustainable water management at production sites in water stress areas

 **29.7%**

Emission of air pollutants

 **-63.2%**

	2020 Goals	Status at year-end 2014	More on
Energy and climate protection¹			
▶ Improvement of energy efficiency in production processes ² (baseline 2002)	+35%	+19.0%	Page 104
Greenhouse gas emissions per metric ton of sales product ² (baseline 2002)	-40%	-33.9%	Page 104
Water			
Emission of organic substances to water ² (baseline 2002)	-80%	-79.5%	Page 107
Emission of nitrogen to water ² (baseline 2002)	-80%	-85.4%	Page 107
Emission of heavy metals to water ² (baseline 2002)	-60%	-64.8%	Page 107
Withdrawal of drinking water for production ² (baseline 2010)	-50%	-26.3%	Page 107
▶ Introduction of sustainable water management at production sites in water stress areas ² (baseline 2010)	100%	29.7%	Page 107
Air			
▶ Emission of air pollutants ² (baseline 2002)	-70%	-63.2%	Page 109

¹ In 2013, we achieved our goal to stop the flaring of associated gas released during Wintershall's production of crude oil. In 2014, we already nearly reached our 2020 goal of reducing greenhouse gas emissions in the natural gas transportation business by 10% per transported amount and distance compared with 2010. These two goals will no longer be pursued in the future. For further information, see page 104.

² Excluding oil and gas production

Value-based management

“We add value as one company” is one of the four principles of our “We create chemistry” strategy. To create value in the long term, a company’s earnings must exceed the cost of stockholders’ equity and borrowing costs. This is why we strive to earn a premium on our cost of capital of at least €2 billion on average per year. To ensure BASF’s long-term success, we encourage and support all employees in thinking and acting entrepreneurially in line with our value-based management concept. Our goal: to create awareness as to how each and every employee can find value-oriented solutions in the company’s day-to-day operations and implement these in an effective and efficient manner.

EBIT after cost of capital

■ Performance and management indicator

Earnings before interest and taxes (EBIT) after cost of capital is a key indicator for the performance and management of the BASF Group, its operating divisions and business units. This figure combines the company’s financial situation as summarized in EBIT with the costs for the capital made available to us by shareholders and creditors. When we earn a premium on our cost of capital, we exceed the return expected by our shareholders.

EBIT after cost of capital¹ (in million €)
Five-year summary

Year	EBIT after cost of capital (in million €)
2014	1,368
2013	1,768
2012	1,164
2011	2,551
2010	3,500

¹ The figures for 2010 and 2011 were not restated in accordance with IFRS 10 and 11.

Calculation of the cost of capital percentage

The cost of capital percentage (weighted average cost of capital, WACC) is determined using the weighted cost of capital from equity and borrowing costs. The cost of equity is ascertained using the Capital Asset Pricing Model. Borrowing costs are determined based on the financing costs of the BASF Group.

EBIT after cost of capital, which we use as a steering parameter, is a pretax figure. Therefore, we use the current average tax rate to derive the pretax cost of capital percentage from the WACC. In 2014, this cost of capital percentage was 11%; it will be at the same level in 2015. Based on this, an EBIT threshold is calculated which must then be reached by all the BASF Group’s operating units put together in order to earn the cost of capital.

Calculation of EBIT after cost of capital (in million €)

	2014	2013
EBIT BASF Group	7,626	7,160
– Less EBIT for activities not assigned to the segments ¹	(133)	(664)
– Less cost of capital ²	6,391	6,056
EBIT after cost of capital	1,368	1,768

¹ The projected net expense is already provided for by an increase in the cost of capital percentage.

² In 2013 and 2014, the cost of capital percentage was 11%.

Value-based management throughout the company

■ Exercising a value-oriented mindset in day-to-day business by every employee

For us, value-based management means the daily focus placed on value by all of our employees. To this end, we have identified value drivers that show how each and every unit in the company can create value. We develop performance indicators for the individual value drivers that help us to plan and pursue changes.

An important factor in ensuring the successful implementation of value-based management is linking the goals of BASF to the individual target agreements of employees. In the operating units, the most important performance indicators are the achievement of a positive EBIT after cost of capital and a competitive level of profitability. By contrast, the functional units’ contribution to value is assessed on the basis of effectiveness and efficiency.

All this forms a comprehensive system of value drivers and key indicators for the individual levels and functions at BASF. In addition to EBIT after cost of capital, EBIT and EBIT before special items are the most significant performance indicators for measuring business success as well as for steering the BASF Group and its operating units.

We primarily comment on EBIT before special items on a segment and division level in our financial reporting because this figure is adjusted for influences not associated with typical business operations. This makes it particularly suitable for describing financial development over time. In addition to EBIT before special items, we also report on sales as a further main driver for EBIT after cost of capital. BASF’s nonfinancial targets are focused more on the long term, and are not used for short-term steering.

According to our value-based management concept, all employees can make a contribution in their business area to help ensure that we earn the targeted premium on our cost of capital. We pass this value-based management concept on to our team around the world through seminars and training events, thereby promoting entrepreneurial thinking at all levels within BASF. 

Sustainability management

Sustainability is firmly embedded into our company strategy and organization. Sustainability management follows our corporate purpose, “We create chemistry for a sustainable future,” and supports our strategic principle, “We drive sustainable solutions.”

Strategy

- Recognizing significant topics and trends early on
- Taking advantage of business opportunities
- Minimizing risks

As the world's leading chemical company, we combine economic success, environmental protection and social responsibility. We have recognized sustainability as a significant driver for growth. By integrating sustainability considerations into our decision-making processes, we optimize our business and contribute to long-term economic success. We accomplish this by, for example, embedding sustainability into our organization with clearly defined responsibilities.

Our sustainability management has three duties: We want to identify significant topics early on, take advantage of business opportunities, and minimize risks. We are assisted in this endeavor by constant, trust-based exchange with our stakeholders as well as by our systematic materiality analysis.

We take advantage of business opportunities by offering our customers innovative products and solutions that contribute to sustainable development. We ensure that sustainability is included in the development and implementation of our business units' strategies and research projects. Our “opportunity finding” method was developed for this purpose: It allows us to identify main sustainability drivers in relevant value chains and for our customers. This is how we aim to identify, and make targeted use of, the potential business opportunities created by sustainability.

We minimize risks by setting ourselves globally uniform standards for safety and security, environmental and health protection, product stewardship, and compliance, as well as for labor and social standards – many of which go beyond legal requirements.

In addition, we have integrated various dimensions of sustainability into our standard processes for evaluating investment decisions in property, plant and equipment as well as in financial assets. We prepare expert appraisals for detailed assessments of sustainability issues to assist in our decision-making.

We have created structures to promote sustainable, entrepreneurial actions all the way from strategy to implementation. The Corporate Sustainability Board is BASF's central steering committee for sustainable development. It is comprised of heads of our business, corporate and functional units as well as of the regions. A member of the Board of Executive Directors serves as chair. We have also established an external, independent Stakeholder Advisory Council. Its members bring an important external perspective to the table in discussions with BASF's Board of Executive Directors, thereby helping us expand our strengths and identify our potential for improvement.

For more on the organization of our sustainability management, see basf.com/sustainabilitymanagement

Materiality analysis

- Relevant sustainability topics identified and prioritized
- Topics grouped into eight material aspects of sustainability

The findings from our materiality analysis provide the foundation for focused and reader-oriented reporting. At the same time, they serve as the starting point for integrating material aspects of sustainability into our management and evaluation processes.

Starting in 2013, we once again used a multistep process to identify and prioritize the sustainability topics relevant for BASF. We started by collecting around 100 potentially relevant subjects. A workshop and qualitative interviews with internal and external specialists revealed that 38 of these were particularly relevant. Using a global survey, we gathered feedback on these 38 topics from around 350 external stakeholders worldwide, as well as around 90 experts and managers from various functions within the company. The participants rated the topics in terms of their current and future relevance for BASF. The results of this ranking are presented in a materiality matrix.

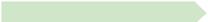
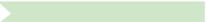
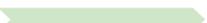
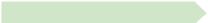
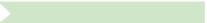
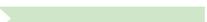
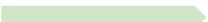
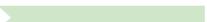
Finally, the findings were discussed in internal workshops and classified under eight overarching material aspects of sustainability. The results of this materiality study and the eight aspects derived from it were presented to, and validated by, the Board of Executive Directors.

In order to integrate sustainability further into our business activities, we launched a follow-up process in 2014 that translates the results of the materiality analysis into our steering and business processes. Categories of action were assigned to the individual aspects. A further step involved interviews with representatives from business, corporate and functional units, who assessed the business relevance of each category along the value chain. The results of this quantitative prioritization process show where along the value

chain we have the possibility to take action with respect to each individual aspect. As a result, we have achieved a better understanding of the steps along the value chain where action needs to be prioritized in terms of the material aspects, and which topic areas we can influence with our actions. Building on this, we want to derive additional measures that maximize the positive effects of our actions and further minimize the negative ones.

For more, see basf.com/materiality

Material aspects and action priority areas along the value chain

		Suppliers	Production	Customers	
Energy and climate					 For more, see pages 97 and 103 onward
Food ¹					
Water					 For more, see page 107 onward
Resources and ecosystems					 For more, see pages 93, 95 and 97 onward
Responsible production ²					 For more, see pages 29, 97, 99, 101 and 109 onward
Products and solutions					 For more, see pages 29 and 101 onward
Partnering					 For more, see pages 22, 29, 40, 47, 93 and 134 onward
Employment and employability					 For more, see page 41 onward

¹ The focus of our activities on this aspect within the supply chain are shown under "resources and ecosystems." The action priority areas for this aspect on the customer end are covered under "products and solutions."

² In 2014, we renamed "operational excellence" to "responsible production" in order to emphasize the concentration on our production processes.

Engaging stakeholders

- Constant dialog with our stakeholders along the value chain
- Sustainability integrated into day-to-day business

Our stakeholders include employees, customers, suppliers and shareholders, as well as experts in science, industry, politics, society and media. We provide transparent communication about our activities and take on critical questions. Through constant dialog with our stakeholders along the entire value chain, we want to ensure that society accepts our activities and subsequently build partnerships based on trust. At the same time, we use this dialog to verify that our materiality analysis is complete and up to date.

We have a particular responsibility toward our production sites' neighbors, and discuss current issues with them in 84 community advisory panels. These panels aim to promote open exchange between citizens and our site management with the goal of strengthening trust in our activities.

In keeping with our corporate strategy, we integrate sustainability considerations into our day-to-day business and help our employees make their contribution to a sustainable future. We offered further information sessions, online courses, workshops and discussions on sustainability in 2014.

In order to even more closely involve our stakeholders, we discussed topics like responsibility along the value chain, climate protection and human rights with our Stakeholder Advisory Council in 2014. The diverse international experts from science and society once again discussed material aspects of sustainability with BASF's Board of Executive Directors in order to enhance BASF's sustainability strategy. For example, a Stakeholder Advisory Council discussion on the topic "partnering" prompted us to review and standardize our approach to dialog with neighbors at relevant sites around the world.

BASF takes an active part in the United Nations Global Compact: BASF's Chairman of the Board of Executive Directors is a member of the United Nations Global Compact Board. In the worldwide network of Global Compact LEAD, we are involved in the creation of the Post-2015 Development Agenda and discussing possible global sustainability goals together with the other participants. BASF is also active in numerous local Global Compact networks.

Our lobbying and political communications are conducted in accordance with transparent guidelines and in keeping with our publicly stated positions. BASF does not in principle support political parties. The BASF Corporation Employees Political Action Committee, established by our employees in the United States, is an independent, federally registered employee association that collects donations for political purposes and independently decides how these are used.

 For more on stakeholder dialog, see basf.com/dialog_e

For more on our guidelines for responsible lobbying, see basf.com/guidelines_political_communication

 For more on supply chain management, see page 93 onward

Creating value for customers

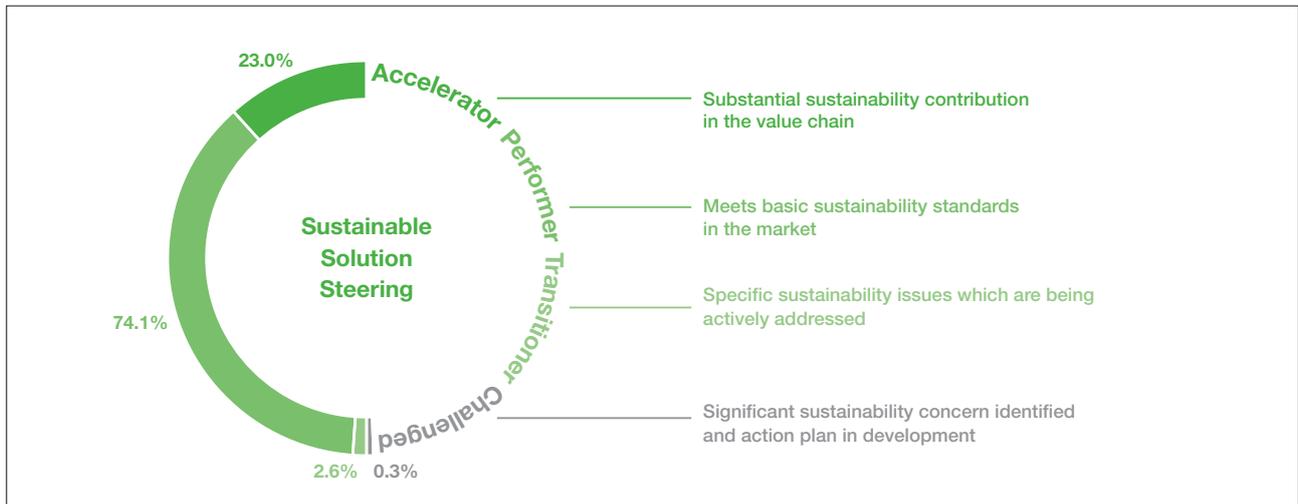
- Product portfolio examined and evaluated for sustainability
- Various additional instruments established for assessing sustainability

From 2011 to the end of 2014, BASF conducted sustainability assessments and evaluations on 98.3% of its entire portfolio of more than 60,000 specific product applications – which account for €66.3 billion in sales – using the Sustainable Solution Steering method. This externally validated procedure allows us to determine how our products contribute to sustainability. We observe their application in various markets and industries.

The product applications we analyzed were arranged into four categories: "Accelerator," "Performer," "Transitioner" and "Challenged." Of the analyzed products, 23.0% (by sales) turned out to be Accelerators. They contribute particularly to sustainability in the value chain. Performers are solutions that meet all of the market's standard sustainability requirements. Around 74.1% of BASF's analyzed product portfolio matches this description. A Transitioner is a product for which specific sustainability requirements have been identified and plans of action have been defined. These recommendations are being carried out. Approximately 2.6% of the analyzed products fall under this category. Applications that do not sufficiently fulfill significant sustainability criteria are labeled Challenged. BASF is developing plans of action for these products in order to find better solutions, which can include research projects, reformulations or even replacing one product with an alternative product. Currently, this applies for 0.3% of the analyzed products.

We aim to increase the number of Accelerator solutions in the long term in order to further improve the sustainability contribution made by BASF and its customers. This is why our product portfolio is constantly being reviewed.

Sustainable Solution Steering: How BASF's products contribute to sustainability



We use our established Eco-Efficiency Analysis tool to identify critical parameters for improving the ecological and economic balance of our products and processes along the value chain. In order to even better support our divisions in implementing sustainability strategies and goals, we also offer other ecological evaluation instruments alongside the Eco-Efficiency Analysis. These include the methods often used for impact assessment as a part of life-cycle analyses.

With our AgBalance® method, we can address specific questions in order to improve sustainability in agricultural production and products in the food sector. We use the information from these comprehensive evaluations to work on products and solutions together with our customers that make a contribution to sustainable development.

Our “mass balance method” allows us to replace fossil resources in the current Production Verbund with renewable resources.

For more on Sustainable Solution Steering, see basf.com/sustainable-solution-steering_e

For more on the mass balance method, see page 95

Minimizing risks

- Recognizing and avoiding sustainability-related risks early on
- Global standards provide framework for actions

Through our materiality analysis, dialog with partners along the value chain, and our many years of experience, we are constantly developing a better understanding of possible risks along our value chain. We optimize our risk management by recognizing sustainability-related risks early on and preventing these as far as possible.

Uniform worldwide standards provide a clear framework for our actions and are outlined in our Code of Conduct. We support the United Nations Guiding Principles on Business and Human Rights and have been part of the Global Business Initiative since 2012 – a group of globally operating companies from different industries whose goal is to advance the regard of human rights in business activities. As the only member based in Germany, we worked in 2014 with partners and experts on challenges and solutions surrounding business and human rights, which included introducing examples of how to implement the U.N. Guiding Principles. In 2014, we also participated in two events for the consultation process of the German government’s national plan of action on this topic. We are constantly working to improve our internal guidelines and processes in keeping with the U.N. Guiding Principles.

For more on our Code of Conduct, see page 134
For more on our standards in production, see page 99
For more on our standards in the supply chain, see page 93

For more on our human rights stance, see basf.com/humanrights and pages 46 and 134 onward



Innovation

Around 10,700

employees worldwide in
research and development

€1,884 million

spent on research and
development

3,000

projects in the
research pipeline

Innovations based on effective and efficient research and development are an important growth engine for BASF. Our employees work in interdisciplinary teams on innovative processes and products for a sustainable future. This is how we ensure our long-term business success with chemistry-based solutions for almost all sectors of industry.

A growing need for energy, food and clean water, limited resources and a booming world population – reconciling all these factors is the greatest challenge of our time. Innovations based on chemistry play a key role here, as they contribute decisively to new solutions.

We have set ourselves ambitious goals: In 2015, we aim to achieve sales of around €10 billion and an EBITDA of around €2.5 billion with new and improved products or applications that will have been on the market for less than five years. In 2020, we want to increase our sales to around €30 billion and EBITDA to around €7 billion with innovations that will have been on the market for no longer than ten years.

Goals for sales and EBITDA with innovations (in billion €)

Sales	2020 ¹	30	
	2015 ²	10	
EBITDA	2020 ¹	7	
	2015 ²	2.5	

¹ Pertains to innovations then on the market for less than ten years

² Pertains to innovations then on the market for less than five years

Our innovative strength is based on our global team of highly qualified employees with various specializations. In 2014, the number of employees involved in research and development rose to around 10,700 (2013: 10,650). The central research units Advanced Materials & Systems Research, Biological & Effect Systems Research, Process Research & Chemical Engineering, and BASF Plant Science are our knowledge and competence centers. Together with the development units in our operating divisions as well as BASF New Business and BASF Venture Capital, they form the core of our global Know-How Verbund.

Global network in science and industry

- Network with more than 600 excellent universities, research institutes and companies
- Network for Advanced Materials Open Research initiative established in Asia
- Foundation of California Research Alliance by BASF

Our global network with more than 600 excellent universities, research institutes and companies is an important part of our Know-How Verbund. We work with them in many different disciplines in order to achieve our ambitious growth targets. In 2014, we established the “Network for Advanced Materials Open Research” initiative together with seven leading universities and research institutes in China, Japan and South Korea. Together, we aim to develop new materials for a wide range of applications. The initial focus is on products for the automotive, construction, detergent and cleaner industries, as well as the water and wind energy sector. In addition, we have founded the “California Research Alliance by BASF” together with major universities on the U.S. West Coast. This multidisciplinary research institute focuses on new inorganic materials and their applications, bioscience, and related technologies.

Strategic focus

- Forward-looking project portfolio
- Stronger customer and market orientation
- Worldwide presence and expansion of research and development centers
- Research competencies pooled into three global platforms

Our research pipeline comprised approximately 3,000 projects in 2014. We increased our spending on research and development by €35 million to €1,884 million (2013: €1,849 million); the operating divisions were responsible for 79% of total research and development expenditures. The remaining 21% was allocated to cross-divisional corporate research, such as research on the growth and technology fields.

For a multiyear overview of research and development expenditures, see the Ten-Year Summary on page 235

Innovations based on chemistry require market-oriented research and development that is sharply focused on the needs of our customers. In order to bring promising research ideas even faster to market, we regularly assess our projects according to a multistep process. BASF New Business plays a central role in the search for new business areas. It identifies trends and future markets at an early stage, turning attractive topics into growth fields.

Another vital factor for our success is a global research and development presence. We continued to broaden our activities in 2014, especially in Asia. By expanding our Innovation Campus Asia Pacific, we are further boosting the regional research capacities for new materials and systems. We are also expanding business areas like formulations and chemical process engineering. In Mumbai, India, we opened a global research and development center that focuses on organic synthesis, process development, formulation and crop protection research, and molecular modeling. We will also work on innovations for the electronics industry at our new Electronic Materials Research and Development Center Asia Pacific in Suwon, South Korea, which was inaugurated in 2014.

We aim to keep strengthening our research and development activities in Asia as well as in North and South America. Starting January 2015, we are pooling our research expertise into three global platforms surrounding the topics of chemistry, materials and bioscience, each headquartered in a region significant for us: Europe, Asia Pacific and America. We plan to conduct half of our research and development activities outside of Europe by 2020. This increased presence outside

Europe creates new opportunities for fortifying and expanding customer relations and scientific collaborations, strengthening our R&D Verbund and making BASF an even more attractive partner and employer in the regions.

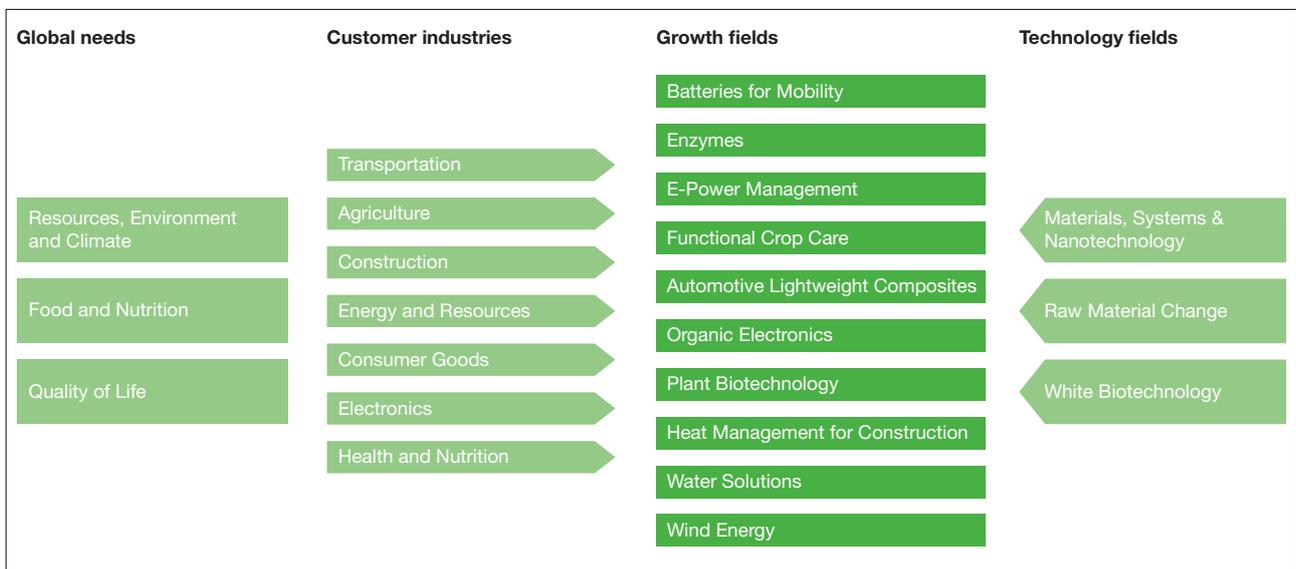
The number and quality of our patents attest to our power of innovation and long-term competitiveness. We filed around 1,200 new patents worldwide in 2014. For the sixth time in succession, we headed the rankings in the Patent Asset Index in 2014 – a method which compares patent portfolios industry-wide. This once again underscores BASF's power of innovation.

Research focus areas

- Chemistry-based innovations play important role in answering questions of the future
- Growth fields with attractive sales potential in 2020
- Technology fields provide the basis for developing our growth fields

In order to develop future business areas for BASF, we have defined growth and technology fields for which we expect high sales potential in 2020. These research focus subjects are derived from the three major areas in which chemistry-based innovations will play a key role in the future: resources, environment and climate; food and nutrition; and quality of life. We regularly review the attractiveness of these growth and technology fields for BASF and adjust our portfolio as necessary.

Research focus areas: growth and technology fields



Growth fields – examples

Innovative mobility concepts such as electromobility require batteries that are high-performance, affordable and safe. Therefore, in the **Batteries for Mobility** growth field, we are researching important system components of a battery, such as new cathode materials with a higher energy density and improved cost-benefit profile, and electrolytes for increased lifespan in lithium-ion batteries. In 2014, we expanded our research and development facilities in Beachwood, Ohio, and Amagasaki, Japan, where we will explore new cathode materials and improved electrolyte systems in the future. In order to better understand battery materials and stimulate new ideas, we work together with renowned scientists worldwide in our “Research Network Electrochemistry and Batteries.” We decided in 2014 to continue the university network, which was established in 2010, for another five years.

The growing world population's increasing demand for food requires additional solutions for healthier plants and higher yields that supplement conventional crop protection. This is why we research new products in the **Functional Crop Care** growth field that, for example, improve plant growth, better protect seeds, and help plants use scarce resources like water and nutrients more efficiently. Farmers all over the world mainly employ urea-based fertilizers in order to ensure that plants are supplied with enough nitrogen. However, some of the nitrogen contained in these fertilizers is lost as gaseous ammonia. Limus® can greatly reduce these losses. Thanks to its special formulation, this product also enables better storage of urea-based fertilizers. Limus® guarantees farmers both efficient fertilizer application and higher yields.

One of our projects in the **Automotive Lightweight Composites** growth field is the search for innovative materials and material systems that can be used to manufacture load-bearing components, such as the frame or passenger compartment, out of fiber-reinforced plastic. We are developing composite systems based on epoxy, polyurethane and polyamide resins. Carbon fibers lend themselves particularly well to reinforcement materials thanks to their high rigidity. In addition to developing the materials themselves, we are also adapting composite systems to the automotive industry's new manufacturing processes in order to make their transfer into large-scale production economically viable.

Technology fields

Various cross-sectional technologies provide the basis for developing our growth fields. We have grouped these into three technology fields: Materials, Systems & Nanotechnology, Raw Material Change and White Biotechnology.

Technology fields

Materials, Systems & Nanotechnology	Raw Material Change	White Biotechnology
Development of new systems and functional materials as well as nanotechnology	Alternatives and supplements to crude oil as raw material	Methods and processes for efficient and resource-saving production of chemical and bio-chemical products

The challenges of the future require intelligent solutions based on new systems and functional materials, which means that formulation and application expertise is increasing in significance. In the **Materials, Systems & Nanotechnology** technology field, BASF researchers work for example on new color filters that can be used in laptop and computer monitors as well as television screens. Irgaphor Red® S 3621 CF, BASF's new red pigment, ensures especially high image quality in liquid crystal displays. Thanks to its tiny particles that are less than 40 nanometers in size, light is less scattered in the color filter. The viewer therefore sees a very sharp image with clear colors and high contrast.

In the **Raw Material Change** technology field, we are searching for alternatives and supplements to crude oil as a raw material for the chemical industry. With natural gas, carbon dioxide and renewable resources, we aim to expand the raw material basis of our value chains in the long term. To do so, we use catalysts that make many chemical reactions more cost-effective, more environmentally compatible, or in some cases even possible. In the BasCat joint laboratory at the Technical University (TU) of Berlin, we and our partners seek to gain fundamental knowledge on activating less reactive molecules in order to accelerate the development of industrial catalysts in the long term. We started operations at the new BasCat laboratory building on the TU Berlin campus in 2014.

In the technology field **White Biotechnology**, we are researching methods and techniques for creating chemical and biochemical products in an efficient and resource-saving manner. Fermentation and biocatalysis increasingly represent competitive alternatives to chemical processes. Our researchers are working on new enzymes for technical applications that use molecular biological methods to improve the applications' properties. Furthermore, they optimize fermentational production processes in order to produce enzymes on a large scale at high yield.

 For more on research and development, see basf.com/innovations

Innovations in the segments – examples

Innovations are an important success factor for BASF's long-term growth. In developing new products, we look at the needs of our customers as well as at market trends, and take advantage of the opportunities arising from the BASF Verbund's value chains. Through innovative production processes, we aim to expand our competitive ability. We never stop improving our existing products, applications and processes. We view sustainability as an opportunity, since we use chemistry to create value for customers and society.

Expenditure on research and development by segment

1	Chemicals	10%
2	Performance Products	19%
3	Functional Materials & Solutions	20%
4	Agricultural Solutions	27%
5	Oil & Gas	3%
6	Corporate research, Other	21%



Chemicals: We have added a new product to our comprehensive range of amines: **methyl diaminocyclohexane**, which we market under the brand name Baxxodur® ECX 210. As a hardening agent in epoxy systems, Baxxodur® ECX 210 has proven valuable in, for example, the manufacture of wind turbine rotor blades and layering systems for industrial flooring and bridges. Baxxodur® ECX 210 is more efficient and can be processed for a longer period of time than comparable products.

Succinity GmbH, our joint venture with Corbion Purac, has been producing **succinic acid out of renewable resources** since 2014. The highly efficient process, based on sugar, starch or glycerin, binds carbon dioxide, reducing the formation of carbon dioxide by 60% compared with petrochemical processes. Bio-based succinic acid is therefore an economically and ecologically viable alternative to conventional succinic acid for our customers. Succinic acid is highly versatile and can be used, for example, in the production of bioplastics, solvents, polyurethanes and plasticizers.

Our chemical solutions help the highly competitive lumber industry further improve their products' properties and reduce costs. For example, we have been able to enhance our **Kaurit® glues** so that wood can be worked into fiberboard even more efficiently and reliably, even with varying degrees of moisture content. As a result, our customers benefit from a higher level of process reliability and greater plant throughput.

Performance Products: We launched **Styrofan ECO® 7623**, our newest water-based polymer dispersion, on the market in 2014. It imparts excellent flow properties and adhesion to repair mortars and floor screeds, and increases strength and abrasion resistance, as well. Styrofan ECO® 7623 meets the respective industries' most stringent formaldehyde and ammonia emission standards for building materials, making it especially environmentally friendly.

With our innovative portfolio of **SAVIVA®** superabsorbents, producers of baby diapers, adult incontinence products and feminine hygiene articles can reduce raw material consumption and increase the comfort of their products. Droplet polymerization allows us to produce a round particle shape that results in an especially soft feel. Liquid is rapidly absorbed and distributed, keeping the skin pleasantly dry. The development of this pioneering technology makes superabsorbents even more efficient, enabling the creation of products like thinner and more comfortable diapers.

Trace elements in animal feed are essential in livestock farming. For example, they strengthen immune function, promoting the animals' welfare. Our new, globally launched **glycinate product line** comprises organic compounds with copper, iron, manganese and zinc. Their high degree of bioavailability means that trace elements can be absorbed especially readily from feed. Furthermore, their excellent water solubility allows BASF glycinate products to be easily added to drinking water. The animals are thus optimally provided with important trace elements, and the environment benefits from fewer excreted trace elements.

Paper and cardboard food packaging is coated with barrier materials to protect food from outside influences and keep, for example, water and grease from leaking out. BASF's **Epotal®** product line comprises water-based barrier dispersions to efficiently coat various types of packaging. In South America, one of our biggest customers has been using **Epotal® DS 2013** in their paper production as a liquid barrier for frozen food cartons since the middle of 2014. Epotal® DS 2013 is partly composed of renewable materials, can be easily recycled and is especially easy for customers to use.

Industrial and municipal wastewater treatment plants can be operated more efficiently and effectively with **Zetag® ULTRA**, our new range of flocculants. Zetag® ULTRA's highly effective binding capability enables advanced dewatering performance compared with conventional flocculants. The higher proportion of cake solids in the dewatered sludge benefits the environment, as less energy is required for transportation, disposal and incineration. This has a positive impact on the treatment facility's carbon footprint.

Functional Materials & Solutions: High ozone levels present a major challenge to many cities around the world. This is why we developed PremAir®, a patented catalytic coating for automotive radiators. As air flows over the radiator, PremAir® converts the ground-level ozone – the main component of smog – into oxygen. Our innovation, **PremAir® NXT**, is especially designed for use with today's smaller automotive radiators. It can achieve even higher ozone conversion performance than the standard PremAir® coating over the lifetime of the vehicle. This helps automobile manufacturers meet the challenging California LEV III and U.S. Tier 3 emissions requirements and improves air quality for us all.

With **MasterSphere**, we provide the construction industry with an utterly novel solution for making concrete more resistant to frost and dew. Around 50 external factors must be monitored in the application of conventional technologies for extending concrete's lifespan under such conditions – such as how fine the concrete's raw materials are, how long it takes to transport the fresh concrete, or the concrete's compression during pumping. MasterSphere, however, is impacted by none of these factors. This not only makes application easier for our customers, it also substantially increases the concrete's durability. Buildings are given an improved lifespan, especially in cooler climates.

Our new **RELEST® Wind LEP ETU** paint protects rotor blades even better – especially on the edges – from the enormous stress of rain, hail, snow, sand and ultraviolet rays. Before, an intensive process was required involving a special film. With RELEST® Wind LEP ETU, the paint can be applied directly following pretreatment. The substantial advantages here are especially apparent when touching up dings and scratches: Whereas in the past, a rotor blade's film had to be entirely removed for repair work, damaged spots can now be treated individually and thus more efficiently.

The BMW i3, the first entirely electric production vehicle from the BMW Group, makes use of several of our **innovative high-performance plastics** at once. Their improved material properties make the car body sturdier, the roof construction stiffer and the seats more comfortable. The resilience of our Elastolit® polyurethane system was demonstrated in the Chinese province of Guangdong in July 2014: While more than 70,000 metal and concrete power pylons were severely damaged by Typhoon Rammasun, the pylons made with **Elastolit®**, which were installed as part of a pilot project, stood intact.

Agricultural Solutions: We work together with farmers to keep farmland arable for future generations and to accommodate society's rising expectations. To do so, we constantly invest in our development pipeline in order to expand our portfolio both in and beyond conventional crop protection – such as in biological solutions. In 2014, we invested €511 million in research and development in the Crop Protection division, representing around 9% of sales for the segment.

Our **innovation pipeline** continued to increase in value in 2014. The pipeline comprises products launched in the period between 2010 and 2020. We foresee a peak sales potential of €2,300 million for these products, which represents an increase of €200 million compared with the previous year. The higher value is boosted by innovations in all application areas. Particular examples include a new, especially high-performance insecticide as well as the area of herbicide tolerance with the herbicide Engenia®, the next-generation dicamba formulation.

The Functional Crop Care portfolio has continued to show very promising development. For example, we will launch **Serifel™**, a biological fungicide from our Functional Crop Care research and development platform, on the market in 2015. Serifel™ fights fungal infections with a broad range of effects all the way up until harvest and is characterized by a variety of action mechanisms.

BASF Plant Science: We work with numerous biotechnology and seed companies, research institutes and universities worldwide to develop crops with higher yields and improved resistance to unfavorable environmental factors, such as drought. The drought-tolerant corn **Genuity® DroughtGard®**, the first product from our cooperation with Monsanto, allows for an average crop yield increase of more than 300 kilograms per hectare compared with competitors' drought-tolerant corn varieties.

Oil & Gas: Our research and development activities focus on improving the discovery rate of oil and gas reservoirs, developing technologies for reservoirs with challenging development and production conditions, and increasing the recovery factor of reservoirs.

Our **minimum facility platform** in the L6-B field in the Dutch North Sea represents an important step in the more efficient production of small and medium-scale reservoirs. This mini-platform is 25% lighter than previous platforms and can be installed in merely nine months, substantially reducing purchasing and manufacturing costs. With this new generation of platforms, even the numerous smaller natural gas fields in the North Sea can be produced over a longer period of time in an economical manner.



Investments, acquisitions and divestitures

€5,552 million

in investments
made in 2014

€1,733 million

used for acquisitions
in 2014

Optimization

of our portfolio through
acquisitions and divestitures

In addition to innovations, investments and acquisitions will contribute decisively toward achieving our ambitious long-term growth goals. We are intensifying our investment in emerging markets and in North America. We use targeted acquisitions to supplement our organic growth.

For the period from 2011 to 2020, we have planned capital expenditures between €30 billion and €35 billion. We want to invest more than a third of this amount in emerging markets and expand our local presence in order to benefit from the robust growth in these regions. Furthermore, we continue to develop our portfolio through innovation-driven acquisitions that promise above-average profitable growth. Investments and acquisitions alike are both prepared by interdisciplinary teams and are assessed using diverse criteria. In this way, we ensure that economic, environmental and social concerns are included in strategic decision-making. By investing in our plants, we also continuously improve the energy efficiency of our production processes.

Investments and acquisitions 2014 (in million €)

	Investments	Acquisitions	Total
Intangible assets	184	732	916
Thereof goodwill	0	623	623
Property, plant and equipment	5,368	1,001	6,369
Total	5,552	1,733	7,285

Investments

- Total investments slightly above previous year's level
- Intensified investments in emerging markets

We invested €5,368 million in property, plant and equipment in 2014. Total investments therefore exceeded the previous year's level by €451 million. We presume that average yearly investment between 2015 and 2020 will be lower compared with 2014, after having initiated several major projects in previous years that are now being implemented. Our investments in 2014 focused on the Chemicals, Oil & Gas and Performance Products segments.

In Ludwigshafen, we are building an integrated TDI facility with a capacity of 300,000 metric tons per year and expanding the plants for the associated precursors. Production is expected to start in the second half of 2015. TDI is an important basic chemical product that is used primarily for soft polyurethane foams.

The construction of the new MDI plant in Chongqing, China, and acrylic acid and superabsorbent production complex in Camaçari, Brazil, as well as the expansion of our Verbund site in Nanjing, China, are progressing. With these major investments, we are expanding our presence in the growth regions Asia and South America.

In the Oil & Gas segment, we invested primarily in field development projects in Norway, Argentina and Russia in 2014.

For more on investments within the segments, see page 62 onward

Additions to property, plant and equipment by segment in 2014

1	Chemicals	32%
2	Performance Products	13%
3	Functional Materials & Solutions	10%
4	Agricultural Solutions	6%
5	Oil & Gas	37%
6	Other (infrastructure, R&D)	2%

**Additions to property, plant and equipment by region in 2014**

1	Europe	63%
2	North America	14%
3	Asia Pacific	13%
4	South America, Africa, Middle East	10%

**Acquisitions**

- **Further expansion of our oil and gas production and reserves in the North Sea**
- **Transaction with Statoil ASA concluded**

We gained €1,001 million worth of property, plant and equipment through acquisitions in 2014. Additions to intangible assets including goodwill amounted to €732 million.

We continued the expansion of our oil and gas production and our reserves in Norway in 2014. On December 1, 2014, we concluded the purchase agreed upon with Statoil, based in Stavanger, Norway, of shares in the Gjøa (5%) and Vega (24.5%) production fields, the Aasta Hansteen development project (24%), the Asterix discovery (19%) and the Polarled Pipeline Project (13.2%), as well as in four exploration licenses near Aasta Hansteen. Our share in these assets encompasses reserves and resources of around 170 million barrels of oil equivalent (BOE). The acquisition of shares in the Gjøa and Vega production fields increased our daily production in Norway from around 40,000 BOE to roughly 60,000 BOE. Furthermore, Wintershall is scheduled to take over operatorship of the Vega field at the end of the first quarter of 2015. The transaction was concluded with retroactive financial effect as of January 1, 2014. We have additionally agreed with Statoil to work together on the future development of the exploration potential of the Vøring Basin.

Furthermore, on October 31, 2014, we completed the acquisition of a 2.5% share in the Brage production field in the Norwegian North Sea from Tullow Oil Norge AS, based in Oslo, Norway. The transaction was concluded with retroactive financial effect as of January 1, 2014. With this acquisition, we increased our investment in Brage to a total of 35.2%.

We agreed with our partner Gazprom not to proceed with the asset swap planned for the end of 2014. The arrangement had been for Wintershall to give Gazprom its share in the natural gas trading and storage business as well as a share of Wintershall Noordzee B.V. Wintershall was to receive shares in two additional blocks of the Urengoy field in western Siberia in return. Together with Gazprom, we still intend to continue the close partnership we have established over many years of dependable cooperation.

For more information on acquisitions, see the Notes to the Consolidated Financial Statements from page 175 onward

Divestitures

On March 25, 2014, we concluded the sale of selected oil and gas investments to the Hungarian MOL Group as agreed upon at the end of 2013; MOL received 14 licenses in the North Sea. The transaction was financially retroactive to January 1, 2013.

The sale of our PolyAd Services business to Edgewater Capital Partners, L.P., was concluded on June 2, 2014. With this divestiture, we are gearing our plastic additives business even more toward the core business areas of light stabilizers, antioxidants and customer-specific blends.

Effective November 17, 2014, we sold our 50% share in Styrolution Holding GmbH to the INEOS Group. An option for INEOS to purchase BASF's share had already been included in the partnership agreement of 2011.

On December 31, 2014, we sold to our partner Shell our 50% share in the joint operation Ellba Eastern Private Ltd., Singapore, which produces styrene monomer and propylene oxide. Because propylene oxide and its value chains remain important, Shell has contractually agreed to provide BASF with the amounts it requires.

For more information on divestitures, see the Notes to the Consolidated Financial Statements from page 177 onward

Business models and customer relations

Cost-effective

and reliable supplier
of classic chemicals

Customized

with products and formulations
for specific industries

Innovative

in close partnership
with our customers

BASF's customer portfolio ranges from major global customers and medium-sized businesses to local workshops. We align our business models and sales channels with the respective customer groups and market segments. In line with our strategic principle, "We add value as one company," we tightly bundle our products and services to target the specific needs of customers from various sectors and release innovations more quickly to the market.

Customer relations

- Classical chemicals business
- Customized products
- Functionalized materials and solutions

In the **classical chemicals business**, we mostly sell the chemicals produced in our Verbund in bulk. These comprise basic products from the Chemicals segment, such as steam cracker products, sulfuric acid, plasticizers, caprolactam and TDI. For these basic chemicals, our priority is on supplying customers reliably and cost effectively. Marketing is partly carried out via e-commerce.

We create a broad range of **customized products**, particularly in the Performance Products segment – from vitamins, personal care ingredients and color pigments to paper chemicals and plastic additives. In joint projects, we start working closely together with customers already at an early stage in order to develop new products or formulations for a specific industry. A worldwide network of development laboratories allows us to quickly adapt our products to local needs.

We offer **functionalized materials and solutions** tailored to customers' requirements, particularly in the Functional Materials & Solutions and Agricultural Solutions segments. These include, for example, engineering plastics, concrete additives, coatings and crop protection products. We engage in close partnerships with customers and develop innovations together that help them optimize their processes and applications. Our understanding of the entire value chain as well as our global setup and market knowledge are key success factors here.

 For information on customer relations in the Oil & Gas segment, see page 85 onward

Industry orientation

- Around half of business units geared toward specific industries
- Industry teams pool cross-unit expertise, knowledge and contacts
- Industry orientation undergoing systematic, structured enhancement

We serve customers from many different sectors with our broad portfolio of diverse competencies, processes, technologies and products. Around half of our business units are geared toward specific industries. By combining expertise and resources, we position ourselves as a solution-oriented system provider for our customers.

Yet not all business units can be arranged purely according to industry. That is why BASF has created sector-specific groups for key customer industries – like the automotive, pharmaceutical and packaging industries – or for growth fields such as wind energy. These "industry teams" pool expertise, knowledge and contacts across different units, sharpen our understanding of the value chains in customer industries and work on sector-specific solutions that often could not be developed within one operating division alone. For the wind energy growth market, for example, BASF has combined the expertise of five divisions into one global industry team. There, we develop intelligent solutions together with our customers for making the manufacture and operation of wind turbines more efficient. In addition to matrix systems for highly durable, fiber-reinforced components, our portfolio for wind power applications also includes adhesives and coatings for rotor blades, lubricants and hydraulic liquids for gearboxes and concrete additives for foundations and towers.

The close alignment of our business with our customers' needs is an important component of our "We create chemistry" strategy. We will therefore continue the systematic and structured enhancement of our industry orientation in the future.

Working at BASF

<p>113,292 employees around the world</p>	<p>3,186 apprentices¹ in around 60 occupations</p>	<p>€101 million invested in further training</p>
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Our employees are fundamental to achieving the goals of our “We create chemistry” strategy. We want to attract talented people, retain them in the company, and support them in their development. To do so, we cultivate a working environment that inspires and connects people. It is founded on inclusive leadership based on mutual trust, respect and dedication to top performance.

Strategy

- **Best Team Strategy focuses on excellent people, workplace and leaders**

Our Best Team Strategy is derived from our corporate strategy and simultaneously contributes to the achievement of its goals. We want to form the best team. To achieve this, we focus on three strategic directions: excellent people, excellent place to work and excellent leaders. Emphasis here is placed on our attractiveness in worldwide labor markets, career development and life-long learning in all regions, and supporting and developing our leaders, all while aiming to respect internationally recognized labor and social standards worldwide. Our actions are dictated by internal corporate guidelines.

Number of employees

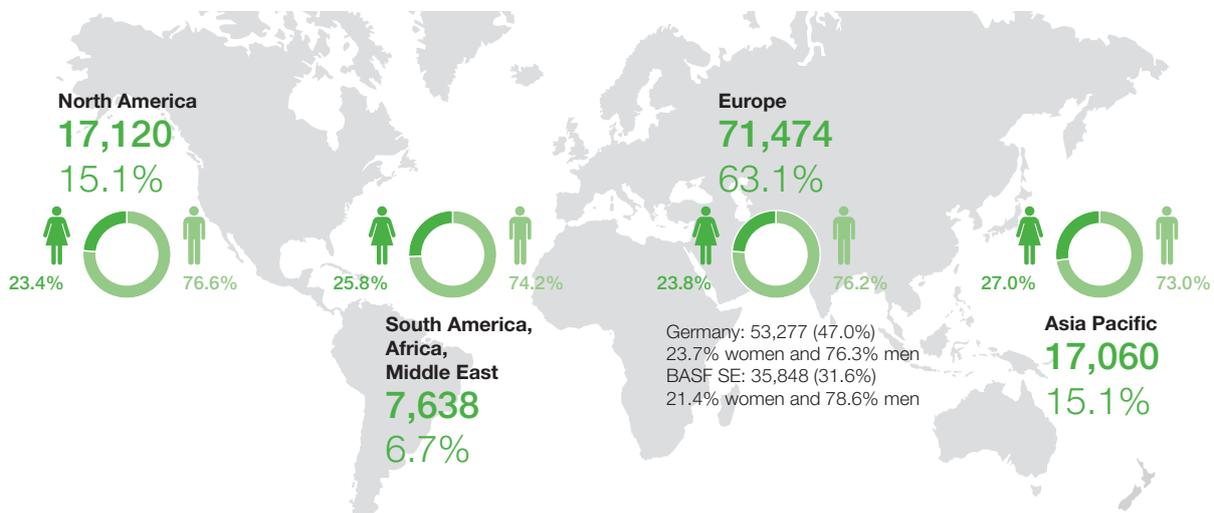
At the end of 2014, BASF had 113,292 employees (2013: 112,206); of these, 3,186 were apprentices (2013: 3,060). We hired 7,679 new employees Group-wide in 2014.

BASF Group new hires in 2014

	December 31, 2014	Thereof women %
Europe	3,193	29.0%
North America	1,452	27.3%
Asia Pacific	2,048	22.7%
South America, Africa, Middle East	986	31.3%
Total	7,679	27.3%

BASF Group employees by region

(Total: 113,292, thereof 24.4% women, as of December 31, 2014)



¹ At BASF, the apprenticeship program trains students for technical, scientific and business vocations as well as for trade and craft professions.

Competition for talent

- New career website
- Expansion of recruiting and training measures in Asia Pacific

In the worldwide competition for the best employees and leaders, we want to recruit qualified talent in order to achieve our ambitious growth targets. To even further enhance BASF's status as an attractive employer, we specified the values that we as an employer want to stand for: Connecting, Engaging, Learning and Caring. At the end of 2014, we redesigned our career website and tailored it to the needs of our target groups. This involved, for example, improved worldwide job search functions as well as interactive elements like live chats, where applicants can connect with BASF employees for insight into our working environment.

We also want to strengthen our employees' identification with the company. In North America, for example, we started the Recognizing You program in 2014, which spotlights exceptional employee performance and activities.

One of our recruiting focus areas is in the Asia Pacific region. We scout out researchers from around the world to meet the increasing staff requirements for our Innovation Campus Asia Pacific research site in Shanghai, China. Furthermore, we are establishing the Roots – Laboratory training program in China. This one-year dual program with both theoretical and practical elements prepares employees for work at an Innovation Campus laboratory.

For its activities in helping graduates and entry-level employees get started on their careers, BASF was once again selected by engineering students as one of the 50 most attractive employers in the world in a 2014 study conducted by Universum. Furthermore, BASF Corporation in the United States received the Talent Board's Candidate Experience Award for the second time in a row for our excellent performance in the management of external candidates.

Worldwide, the percentage of employees who left the company voluntarily during their first three years of employment was 1.3% on average. This turnover rate was 0.5% in Europe, 1.8% in North America, 3.9% in Asia Pacific and 1.4% in South America, Africa, Middle East.

Vocational training

- 3,186 apprentices in around 60 occupations worldwide
- €101 million used for vocational training

As of December 31, 2014, BASF was training 3,186 people in around 60 occupations in 16 countries worldwide. We spent a total of €101 million on vocational training in 2014, as well as around €15 million on the BASF Training Verbund as part of our social commitment in the Rhine-Neckar Metropolitan Region.

In 2014, 908 apprentices started their vocational training at BASF SE and German Group companies. An additional 263 young people participated in the BASF Training Verbund's career-start programs *Start in den Beruf* and *Anlauf zur Ausbildung* in cooperation with partner companies. The goal of these programs is to prepare participants for a subsequent apprenticeship within one year. Their approach comprises theoretical as well as practical program elements. Examples include guidance in choosing a profession and gaining work experience in the BASF Training Verbund's partner companies. In this way, the programs contribute to ensuring a long-term supply of qualified employees for BASF and the Rhine-Neckar Metropolitan Region.

As in the previous year, 20 Spanish apprentices began their vocational training in Tarragona, Spain, in 2014, based on the German vocational training model. The theoretical and practical phases take place in Tarragona and in Ludwigshafen. We see this as a way to expand our recruiting base and plan, upon successful completion of their training, to employ the apprentices in areas like production at the Ludwigshafen site.

For more information, see basf.com/apprenticeship

BASF Group employees by contract type (total: 113,292)

	December 31, 2014	Thereof women %
Permanent staff	107,667	23.8
Apprentices	3,186	29.8
Temporary staff	2,439	42.6

Learning and development

- Life-long learning concept
- Specific further training for employees in production and technical areas
- Learning Campus offers multifaceted possibilities and promotes learning in worldwide networks

Our employees' individual development is important to us. We follow a life-long learning approach that emphasizes the significance of learning from experience, supplemented by the concepts of learning from others and learning through courses and media. By combining learning in the workplace with programs for development, we address the varying requirements of a rapidly changing market.

In regular development meetings, our employees and leaders outline prospects for individual professional development together and determine measures for further training and development. This approach was carried out for around 45,000 employees by the end of 2014. Our goal is to introduce these development meetings for all BASF employees by 2017. They supplement the annual employee dialogs that are conducted in all BASF Group companies worldwide, which include an employee performance assessment component.

We spent around €101 million on further training in 2014 (2013: €106 million). Our measures for further training are based on the learning needs of our employees. Local and international seminars and workshops enable the acquisition and exchange of knowledge and promote networking. Each employee spent an average of 2.6 days on further training in 2014. More than 107,000 seminar days took place at BASF SE, including at the Learning Center, in 2014.

Internal specialists provide our employees with career counseling. In addition, we provide targeted guidance for employees engaged in part-time Bachelor's or Master's studies and advise them on various career development opportunities. We support the large number of employees in production and technical areas worldwide with career-specific further training and vocational guidance. We have strengthened our in-plant qualification measures with shift trainers who promote the continual professional development of employees in production and technology through individual learning assignments. Furthermore, we have established programs on safety culture, knowledge management and team development.

Our global Learning Campus is the central platform for the life-long learning programs we offer. It allows employees to find relevant learning opportunities on both a local and global level. The offers entail learning in the workplace as well as self-directed learning through electronic media. Networking and learning from others is also promoted. We opened a training center in Singapore in 2014 as part of the Learning Campus.

The concept additionally includes the Welcome to BASF program for new employees around the world, as well as the seminar Campus: Dialog with the Divisions, in which around 1,400 employees take part each year. We are also enhancing our mentoring approach to promote long-term partnerships and mutual learning.

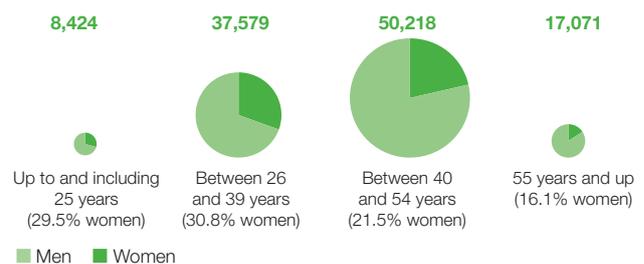
Managing demographic changes

In order to address the ramifications of demographic change, we create a suitable framework to help maintain the employability of our personnel at all stages of life and ensure the availability of qualified employees. We support our employees and leaders with workshops, health and exercise programs, age-appropriate workplace optimization and demographic analyses. For example, the topic "leadership in times of demographic change" has been a part of our basic skill enhancement for new leaders since 2013. We are additionally working on measures to safeguard and pass on knowledge.

For more on health protection, see page 99

BASF Group employee age structure

(Total: 113,292, thereof 24.4% women, as of December 31, 2014)



Inclusion of diversity

- **BASF Corporation honored in United States**
- **Portion of (senior) executive positions with disciplinary responsibilities held by women at 19.1% worldwide**

In order to address the various needs of our customers and markets, we rely on the best team in all areas and functions around the globe. The inclusion of diversity is an important component of our strategic talent management. It helps us to continuously improve our team's performance and power of innovation, and increases creativity, motivation and identification with the company. This is why we are developing measures to further promote the appreciation and inclusion of diversity. Leaders play an important role here. We support them in embracing diversity and integrating it into day-to-day business. For example, specific goals and measures are developed together with leaders, such as those for recognizing and developing different kinds of talent. Employees around the world are active as ambassadors of diversity within the company, contributing significantly to an open and appreciative company culture. For its particular commitment to social diversity, BASF Corporation in the United States received the 2014 award for Top 50 Company for Diversity from the organization DiversityInc for the second time in a row.

In the BASF Group, the worldwide percentage of (senior) executive positions with disciplinary leadership responsibilities held by women was 19.1% at the end of 2014 (2013: 18.5%). In a joint initiative with all 30 DAX-listed companies, BASF signed a voluntary commitment in 2011: In Germany, we aim to raise the percentage of women in these positions from 9.8% (baseline 2010) to 15% by the end of 2020. At the end of 2014, this figure was 14.5% in Germany.

Continuing internationalization prompted us to raise our goal in 2012 for the proportion of senior executives¹ with international experience to over 80%. In 2014, 83% of our senior executives had international experience and 34.3% were not German citizens.

For more information, see basf.com/diversity

Work-life balance

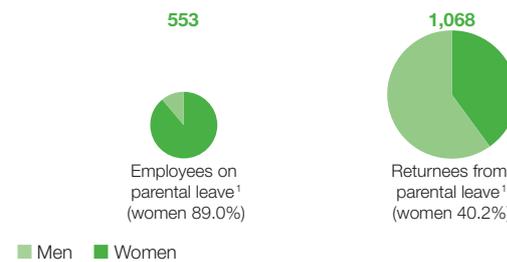
- **Worldwide offers help combine career, family and personal life**

To promote a good working environment, we provide – and continue to develop – a wide range of programs worldwide that help employees better combine their careers with family and personal life. This increases our employees' identification with the company and bolsters our position as an attractive employer in the competition for qualified personnel. We offer, for example, diverse working models: such as flexible working

hours, part-time employment and mobile working. In 2014, a total of 11.3% of BASF SE employees held part-time positions, 68.5% of which were women. Numerous BASF SE employees also made use of parental leave, including more and more men.

Combining career, family and personal life

(Total BASF SE employees: 35,848, thereof 21.4% women, as of December 31, 2014)



¹ Parental leave, including "partner months"

Our regional initiatives address the needs of our employees at a local level. At our Work-Life Management center in Ludwigshafen ("LuMit"), we offer numerous opportunities for exercise and health, employee assistance, and career, family and personal life. Our childcare facilities at the Kassel, Ludwigshafen and Münster sites can accommodate a total of 475 children. We also provide employee assistance opportunities in North America. Furthermore, employees at the Florham Park, New Jersey, site can exercise in modern fitness centers and visit the physical therapy facilities.

What we expect from our leaders

- **As role models, leaders should demonstrate values and standards of conduct to particularly high degree**

Our leaders serve as role models in implementing our strategy in their day-to-day business. Our leadership culture is based on BASF's strategic principles and values as well as on the standards of behavior set out by our globally uniform Code of Conduct. In their capacity as role models, leaders are expected to demonstrate these standards to a particularly high degree. The global competency model introduced in 2013 applies for all employees. It forms the foundation of our employee and leadership development.

All new leaders at BASF take part in the New Leader Program, a modular development program focusing on the enhancement of fundamental leadership skills, self-reflection and networking. We support experienced leaders with individual offers for honing their competencies. They furthermore serve as internal trainers or observers in our development measures to promote the development of others. We offer multifaceted global, regional and local programs to increase connectivity and exchange.

¹ The term "senior executives" refers to leadership levels 1 to 4, whereas level 1 denotes the Board of Executive Directors. In addition, individual employees can attain senior executive status by virtue of special expertise.

Leadership responsibility in the BASF Group¹

	December 31, 2014	Thereof women %
Professionals ²	35,419	29.0
(Senior) executives ³	9,060	19.1

¹ According to the global classification system introduced in 2014

² Specialists without disciplinary leadership responsibilities

³ Employees with disciplinary leadership responsibilities

Global Employee Survey

The Global Employee Survey and its follow-up process have been established for the entire BASF Group ever since the first global survey in 2008. We conducted the second Global Employee Survey in 2012. The results were presented to the Board of Executive Directors and the Supervisory Board. Employees and leaders then discussed the results together, and developed and implemented measures for improvement in all regions. Example topics included supporting employees in their career development, work-life balance, and dealing with change. We conduct this survey on a regular basis. The next Global Employee Survey is planned for 2015.

Compensation and benefits

- Compensation based on employee's position and individual performance as well as company's success
- Pay generally comprises fixed and variable components plus benefits

In addition to market-oriented compensation, BASF's total offer also comprises benefits, individual opportunities for development and a good working environment. Our employees' pay is based on global compensation principles. These take into account an employee's position and individual performance as well as BASF's success as a company. We are currently working on a global framework for these compensation principles as well as an overview of the company's total offer for our employees ("you@BASF"). Analyses of the Ludwigshafen site have shown that, for contracts exempt from collective agreements, there are no systematic differences in pay between men and women, provided the positions and qualifications are comparable.

As a rule, compensation is comprised of fixed and variable components as well as benefits that often exceed legal requirements. In many countries, these include company pension benefits, supplementary health insurance, and share programs. In 2014, the BASF Group spent €9,224 million on wages and salaries, social security contributions and expenses for pensions and assistance (2013: €9,285 million), representing a 0.7% decrease in personnel expenses.

This was largely due to the reversal of provisions for the long-term incentive (LTI) program and to currency effects, and was partly counterbalanced by the rising number of employees as well as salary and wage increases.

For more information, see the Notes to the Consolidated Financial Statements on page 189

BASF Group personnel expenses (in million €)

	2014	2013	Change in %
Wages and salaries	7,380	7,455	(1.0)
Social security contributions and expenses for pensions and assistance	1,844	1,830	0.8
Thereof for pension benefits	560	579	(3.3)
Total personnel expenses	9,224	9,285	(0.7)

Employees participate in company's success

- Annual bonus for 2014 to once again reach high level
- BASF share program "plus" fosters employees' long-term participation in company

Our employees participate in the company's success through variable pay components and are rewarded for their individual performance. The same principles basically apply for all employees. The amount of the variable component is determined by the success of the company – measured by the return on assets of the BASF Group – and the employee's individual performance. Individual performance is assessed using a globally consistent performance management approach. The annual bonus for 2014 will once again reach a high level.

In numerous Group companies, employees are offered the chance to purchase shares. The BASF share program "plus" sponsors the long-term participation of our employees in the company through incentive shares: By investing a part of their compensation in BASF shares, they take part in the long-term development of BASF.

Since 1999, BASF has offered its senior executives the opportunity to participate in a share-price-based compensation program. This long-term incentive (LTI) program ties a portion of their compensation to the long-term performance of BASF shares. In 2014, 94% of the approximately 1,200 senior executives eligible worldwide participated in the LTI program, investing up to 30% of their variable compensation in BASF shares.

For more information, see the Notes to the Consolidated Financial Statements from page 219 onward

Dialog with employee representatives

Open dialog with employee representatives is an important component of our company's actions. If restructuring leads to staff downsizing, we work with employee representatives to develop socially responsible implementation measures. This is done in accordance with the respective legal regulations and the agreements reached. For cross-border matters, the BASF *Europa Betriebsrat* (European Works Council) has been responsible for employees in Europe since 2008. Our German employee representatives and leaders met in the "Wittenberg Dialogs" once again in 2014 to discuss the Code of Responsible Conduct for Business in the Social Market Economy.

 For more information, see basf.com/employeerepresentation

Global labor and social standards

- National law and ILO core labor standards as minimum requirement
- Adherence to voluntary commitments evaluated using three-pronged monitoring system

Compliance with national law and the core labor standards of the International Labor Organization (ILO) forms the basis of our actions. Moreover, we aim to harmonize our working conditions worldwide with our voluntary commitments, the relevant ILO conventions, and the OECD Guidelines for Multinational Enterprises, as well as with local requirements like industry standards. In countries where national laws, rules and customs deviate from international standards, we are challenged with finding appropriate solutions by engaging in dialog with the

relevant stakeholders. We evaluate our adherence to our voluntary commitments using a three-pronged monitoring system introduced throughout the BASF Group. It consists of the following instruments:

- External compliance hotlines
- Annual survey of our Group companies
- Close dialog with our stakeholders, such as with employee representatives and international organizations

In 2014, our external compliance hotlines received 127 calls relating to human rights, 116 of which pertained to labor and social standards. Misconduct was identified in 21 cases. Countermeasures were taken in all of these cases. The results of the annual survey conducted at our Group companies reflect the working conditions of 100% of our employees in 2014. If the findings indicate that our voluntary commitments are not being sufficiently implemented, we investigate this information and introduce remedial measures. In order to better evaluate worldwide compliance with international labor and social standards, we conduct regional risk analyses for our businesses every year, including in 2014. We are constantly enhancing and refining our risk management.

 For more on labor and social standards, see basf.com/labor_social_standards

 For more on our global standards, see page 24
For more on compliance, see page 134 onward



Survey of ILO core labor standards / human rights 2014

	Process implemented		Effectiveness of the process	
Prevention of child labor	100%	Verification of age of employee when hired	100%	Employees are over 15 years of age when hired
Prevention of forced labor	100%	Employment contract based on employee's voluntary agreement	100%	Employees have a right to unilateral termination of the employment contract
Prevention of discrimination	100%	Personnel policies based on objective criteria		In 2014, we received 22 calls. Misconduct was not identified
Employees' right to freedom of association	100% ¹	No company measures to fundamentally restrict freedom of association	94%	Employees are working at a company in which employee representation exists
Employees' right to collective bargaining	100% ¹	No company measures to fundamentally restrict freedom of collective bargaining	91%	Employees are working at a company in which working conditions are based on a collective contract and employee representation exists

¹ Some of our employees are working in countries that have national legal restrictions with respect to freedom of association and collective bargaining.

Social commitment

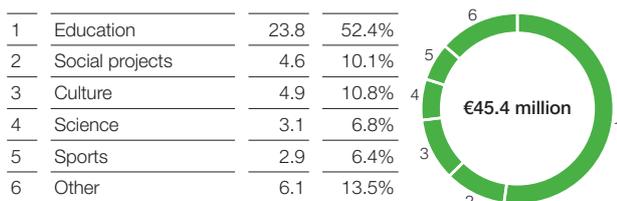
<p>€45.4 million</p> <p>spent by BASF Group on donations, sponsorship and own projects</p>	<p>86,889</p> <p>participants in Kids' Labs and Teens' Labs worldwide</p>	<p>€339,000</p> <p>collected in 2014 year-end donation campaign</p>
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We take on social responsibility: We are involved in diverse projects worldwide, especially in the communities where our sites are located. Our main focus is on access to education. In this way, we promote innovative capacity and future viability.

Strategy

In 2014, the BASF Group spent a total of €45.4 million supporting projects (2013: €49.2 million). Of this amount, we donated 32% (2013: 27%). We support initiatives that reach out to as many people as possible and have a long-lasting impact, fostering education, science, social projects, sports and cultural events in the communities around our sites. On a regional level, we work together with universities, schools and nonprofit organizations. We support BASF Stiftung, a charitable foundation, in its international projects with various U.N. and nongovernmental organizations.

BASF Group donations, sponsorship and own projects in 2014
(in million €)



Focus on education

- Kids' Labs win awards in several countries
- Two more projects added to education program *Offensive Bildung*
- *Wissensfabrik* (Knowledge Factory) presses ahead with its startup initiative

In 2014, 86,889 children and young people visited our Kids' Labs and Teens' Labs in 30 countries. Our labs were awarded special recognition in several countries, including Hungary, South Africa and the United States.

With the education initiative *Offensive Bildung*, BASF and its partners are involved in early-childhood education. We expanded the initiative with two more projects in 2014: The *Eine Kita für alle – Vielfalt inklusive* ("Childcare for Everyone – Diversity Included") pilot project accompanies ten daycare centers in the

Rhine-Neckar Metropolitan Region on their way toward inclusive daycare. In the *Mit Neugier und Pipette* ("Curiosity Plus Pipette") project, children from five childcare centers research chemical and physical phenomena together with 20 BASF apprentices.

As a founding member of the *Wissensfabrik* (Knowledge Factory), BASF is part of a nationwide network of more than 120 companies and foundations making a contribution to education and entrepreneurship in Germany. Here, BASF maintains over 200 educational partnerships with schools and kindergartens and provides mentors for young companies. This also included advancing "Weconomy" in 2014, the *Wissensfabrik's* Germany-wide entrepreneurship initiative that promotes exchange between established companies and startups.

BASF Stiftung projects

- BASF Stiftung supports UNICEF after flooding in Balkans
- Proceeds from year-end donation campaign go to education program in Kenya

BASF Stiftung provided the United Nations Children's Fund (UNICEF) with €200,000 for emergency relief after flooding in the Balkans in the spring of 2014. The donation was used for reconstruction and psychosocial support for children in Bosnia and Herzegovina, Croatia and Serbia. In addition, BASF SE donated €200,000 to BASF Stiftung toward emergency aid for relief efforts in overcoming the Ebola crisis in West Africa. BASF Stiftung thus provides equal support to UNICEF's disaster relief and to the United Nation's World Food Programme (WFP).

WFP and BASF Stiftung concluded a partnership agreement in 2014. BASF Stiftung also supports a WFP program in Nicaragua, which establishes school gardens to improve nutrition for local children.

The company and its employees gave €339,000 to BASF Stiftung in the 2014 year-end donation campaign. BASF Stiftung will use this sum to support a Save the Children education program in Kenya. The program aims to improve education quality, ensure access to education, and firmly implant the importance of education in the population.

For more information, see basf.com/international_donations



The BASF Group business year

Economic environment



The global economy grew only moderately in 2014. After a positive start to the year, the economy in the European Union grew faster than in 2013; however, it temporarily lost momentum over the course of the year. The U.S. economy was able to quickly recover after a weather-related slump at the beginning of the year, slightly outpacing the previous year's growth rate. The Japanese economy was dampened by a sales tax increase. In China, growth declined slightly but remained at a high level. At 2.5%, global gross domestic product increased at about the same rate overall as in 2013 (+2.4%¹), which was less than we had originally forecast for 2014 (+2.8%). The average crude oil price for Brent blend fell to \$99 per barrel (2013: \$109 per barrel).

 For the outlook for the economic environment in 2015, see page 119 onward

Gross domestic product

Real change compared with previous year

Region	Year	Growth (%)	Bar
World	2014	2.5%	<div style="width: 2.5%;"></div>
	2013	2.4%	<div style="width: 2.4%;"></div>
European Union	2014	1.4%	<div style="width: 1.4%;"></div>
	2013	0.1%	<div style="width: 0.1%;"></div>
United States	2014	2.4%	<div style="width: 2.4%;"></div>
	2013	2.2%	<div style="width: 2.2%;"></div>
Emerging markets of Asia	2014	6.2%	<div style="width: 6.2%;"></div>
	2013	6.4%	<div style="width: 6.4%;"></div>
Japan	2014	0.0%	<div style="width: 0%;"></div>
	2013	1.6%	<div style="width: 1.6%;"></div>
South America	2014	0.3%	<div style="width: 0.3%;"></div>
	2013	3.0%	<div style="width: 3.0%;"></div>

Trends in the global economy in 2014

The year 2014 was characterized by weak economic development. While the construction industry in western Europe benefited from a warm winter, economic activity in the United States was hampered by unusually cold weather at the beginning of the year. The economy in China also got off to a slow start in 2014 before the government's economic support measures temporarily accelerated growth somewhat. The conflict in Ukraine intensified over the course of the year. Aside from the negative effects of mutually imposed sanctions on trade with Russia, uncertainty with regard to the further development of the crisis contributed heavily to dampening expectations for the European economy and led to a reduced appetite for investment.

Economic trends by region

- Economic development in E.U. slack and uneven
- U.S. economy grows faster than in 2013
- Growth in Japan and South America considerably weaker than in previous year

Economic development in the **European Union** was slack and uneven. At an overall rate of 1.4%, gross domestic product nevertheless grew faster than in the previous year (2013: +0.1%). While the United Kingdom enjoyed robust growth, Spain and Germany were the only larger eurozone countries to show positive development. Italy remained in recession and the French economy stagnated. By comparison, the eastern E.U. countries observed solid growth rates. Particularly in Poland, Hungary and the Czech Republic, growth was substantially higher than in 2013. In Germany, business expectations turned considerably gloomy after the first quarter. Economic performance even dipped slightly in the second quarter, especially as construction spending declined while private consumption grew only weakly. Growth accelerated somewhat over the rest of the year, and Germany's gross domestic product grew as a result by an average of 1.6% for the year (2013: +0.2%).

In the **United States**, average growth for the year was somewhat higher than in 2013. In the first quarter of 2014, cold weather and cyclical inventory effects led to a significant decline in gross domestic product. Over the rest of the year, the economy grew by around 4% on average, with

¹ Figures that refer to previous years could deviate from last year's report due to statistical revisions.

momentum coming from investment activity and private consumption. Against this background, the upward trend in the labor market continued unabated; the unemployment rate dropped below 6% in the fall.

In the **emerging markets of Asia**, growth receded slightly in 2014. A major reason for this lay in the slowing economic dynamic in China (2014: +7.7%; 2013: +7.4%). The positive influence of the Chinese government's stimulus measures following the unusually weak first quarter had less of an impact than in the past. Lower housing prices and the downturn in construction activity had further negative effects. Compared with the previous year's averages, currencies in many of Asia's emerging markets – such as India, Indonesia and Thailand – lost considerable value relative to the dollar.

In **Japan**, the economy in the first quarter of 2014 was marked by massive advance purchases in private consumption. Following a sales tax increase in the second quarter, gross domestic product fell temporarily and did not stabilize again until the end of the second half. Seen on average over the year, the Japanese economy stagnated. The end of deflation brought about by an expansive monetary policy initially had a negative impact on the real economy: Real income fell, as salaries did not keep pace with the increase in consumer prices.

Gross domestic product in **South America** grew at a significantly slower rate than in the previous year. The economic situation in Brazil deteriorated dramatically compared with 2013. Consumer confidence dropped considerably over the course of the year. Investors, too, adopted a restrained approach before the presidential election in the fall of 2014. After record growth in the previous year, the agricultural sector was only able to make a small contribution to growth. The Argentinian economy shrank by around 2%. Growth was hampered by the sharp depreciation of the local currency and high inflation, in addition to uncertainty surrounding the outcome of the negotiations with international creditors and the lack of access to capital markets.

Trends in key customer industries

- Global industrial production growth significantly faster than in previous year
- Chemical industry's key customer sectors grow at rates comparable with 2013

Global industrial production grew by 3.4% in 2014, significantly faster than in the previous year (+2.9%) but somewhat below our forecast of 3.7%. Growth only picked up in the industrialized countries (2014: +2.6%; 2013: +1.0%), especially in the United States. Industrial production in western Europe was able to see slight gains after declines in the previous two years. By contrast, the emerging markets showed somewhat slower industrial growth (2014: +4.3%, 2013: +4.8%), primarily reflecting the deceleration of growth in China.

Most key customer sectors of the chemical industry grew at a similar rate as in 2013. Development in the transportation and construction industries was markedly different from region to region. While automobile production in the European Union once again grew considerably, the automotive industry's robust growth slackened in Asia and the United States. The construction industry in the European Union was able to boast slight gains for the first time since 2007. By contrast, growth was in part considerably weaker for the construction industry in the United States, Japan, China and South America.

Agriculture grew markedly slower than in 2013. In North and South America, growth was more modest compared with the previous year's rates, which were in part very high. Growth in agricultural production declined in eastern Europe.

Growth in key customer industries

Real change compared with previous year

Industry	2014	2013
Industry total	3.4%	2.9%
Transportation	2.7%	3.4%
Energy and resources	1.9%	1.8%
Construction	3.3%	3.3%
Consumer goods	3.0%	3.4%
Electronics	4.2%	4.1%
Health and nutrition	3.5%	3.1%
Agriculture	2.9%	3.4%

BASF sales by industry

Direct customers

>15%	Chemicals and plastics Energy and resources
10–15%	Consumer goods Transportation
5–10%	Agriculture Construction
<5%	Health and nutrition Electronics

Trends in the chemical industry

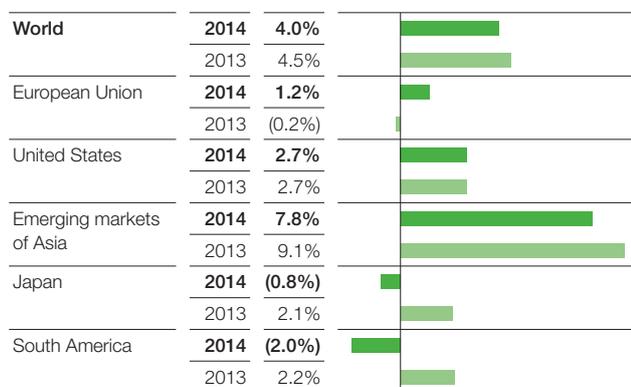
■ Growth somewhat weaker than in 2013

The chemical industry (excluding pharmaceuticals) grew at 4%, in keeping with the dampened dynamic of its key customer industries and somewhat more slowly than in the previous year (+4.5%). Our original forecast of +4.4% had been slightly higher.

After stagnating in 2013, production in the European Union increased only slightly overall. The United Kingdom, France and the eastern E.U. countries provided growth impetus. Chemical production in Germany declined, however, primarily as a result of decreases in the production of basic chemicals. Growth in the United States was as high as in the previous year; at 2.7%, it was considerably higher than in Europe. In Japan, the economic downturn led to a slight decline in chemical production. The chemical industry's growth rate in China, the largest chemical market in the world, continued at a high level. Growth was nevertheless around one percentage point slower than in the previous year due to the weak overall economy.

Chemical production (excluding pharmaceuticals)

Real change compared with previous year



Important raw material price developments

- Prices drop for crude oil and naphtha
- Gas prices rise in United States and fall in Europe; prices remain significantly lower in U.S. than Europe

At an average of around \$99 per barrel in 2014, the price of Brent blend **crude oil** was below the previous year's level (\$109 per barrel). The oil price fluctuated over the course of the year between \$112 per barrel in June and \$62 per barrel in December.

Average monthly prices for the chemical raw material **naphtha** ranged over the course of 2014 between \$953 per metric ton in June and \$492 per metric ton in December. At \$837 per metric ton, the annualized average price of naphtha in 2014 was below the level of 2013 (\$902 per metric ton).

The average price of **gas** in the United States was \$4.37 per mmBtu, once again significantly above the level of the previous year (\$3.73 per mmBtu). In Europe, the average price for gas imports remained substantially higher, at \$10.1 per mmBtu. Yet the difference between U.S. and European reference prices shrank considerably, from \$8.1 per mmBtu in 2013 to \$5.7 per mmBtu in 2014. In China, the price for gas was around \$10 per mmBtu on national average. The price of gas was between \$11 and \$14 per mmBtu in the coastal regions. Compared with the previous year, this represents an increase of between 15 and 20%.

Price trends for crude oil (Brent blend) and naphtha (\$/barrel, \$/metric ton)



Results of operations

The market environment was volatile and challenging in 2014. Growth rates for the global economy, industrial production and the chemical industry all lagged behind our expectations, largely influenced by growing geopolitical tensions and the uncertainty triggered by them. Despite these conditions, our business developed successfully overall.

Sales and income from operations before special items

- At €74,326 million, sales match level of 2013
- Income from operations before special items rises by 4% to €7,357 million

At €74,326 million, sales in 2014 matched the level of the previous year. In the chemicals business¹, sales rose as a result of higher sales volumes. Increased volumes in the gas trading business and slight sales growth in the Agricultural Solutions segment likewise supported sales development. Sales declined considerably in Other.

Income from operations before special items grew by around 4% to €7,357 million. This was primarily the result of a larger contribution from the chemicals business. Earnings declined in the Agricultural Solutions and Oil & Gas segments.

📖 For more information on income from operations, see page 53

Sales (in million €)

Year	Sales (in million €)
2014	74,326
2013	73,973
2012	72,129

Income from operations before special items (in million €)

Year	Income from operations before special items (in million €)
2014	7,357
2013	7,077
2012	6,647

Factors influencing sales

We raised sales volumes in all segments in 2014. Prices were reduced overall, largely on account of significant decreases in oil and gas prices. Negative currency effects dampened sales in almost all divisions. Portfolio effects did not have an appreciable impact on BASF Group sales.

Factors influencing sales BASF Group

	Change in million €	Change in %
Volumes	3,400	4
Prices	(2,411)	(3)
Currencies	(775)	(1)
Acquisitions and changes in the scope of consolidation	296	0
Divestitures	(157)	0
Total change in sales	353	0

Sales and income from operations before special items in the segments

Sales in the **Chemicals** segment in 2014 matched the level of the previous year. Falling prices in all divisions were offset by higher sales volumes, especially in the Petrochemicals division. Income from operations before special items surpassed 2013 levels by 8%, supported by substantially larger contributions from the Petrochemicals and Intermediates divisions. The Monomers division, however, posted a considerable, margin-related decline in earnings.

In the **Performance Products** segment, sales were down by 1%. Despite an increasingly gloomy market environment over the course of the year, we were able to increase sales volumes with stable prices and thus almost fully compensate for negative currency effects. Income from operations before special items improved by 7% year-on-year. This was mainly because of the reduction in fixed costs brought about by restructuring measures and other factors.

In the **Functional Materials & Solutions** segment, significantly higher sales volumes – especially of products for the automotive industry – led to a 3% increase in sales, which was curbed by negative currency effects. Prices were stable overall. We raised income from operations before special items by 12% through considerable increases in the Catalysts and Coatings divisions.

¹ Our chemicals business comprises the Chemicals, Performance Products and Functional Materials & Solutions segments.

Sales and earnings (in million €)

	2014	2013	Change in %
Sales	74,326	73,973	0.5
Income from operations before depreciation and amortization (EBITDA)	11,043	10,432	5.9
EBITDA margin %	14.9	14.1	–
Income from operations (EBIT) before special items	7,357	7,077	4.0
Income from operations (EBIT)	7,626	7,160	6.5
Financial result	(423)	(560)	24.5
Income before taxes and minority interests	7,203	6,600	9.1
Income before minority interests	5,492	5,113	7.4
Net income	5,155	4,792	7.6
Earnings per share €	5.61	5.22	7.5
Adjusted earnings per share €	5.44	5.31	2.4

Sales and earnings by quarter in 2014¹ (in million €)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
Sales	19,512	18,455	18,312	18,047	74,326
Income from operations before depreciation and amortization (EBITDA)	2,951	2,705	2,514	2,873	11,043
Income from operations (EBIT) before special items	2,112	2,012	1,774	1,459	7,357
Income from operations (EBIT)	2,221	1,933	1,742	1,730	7,626
Financial result	(183)	(136)	(169)	65	(423)
Income before taxes and minority interests	2,038	1,797	1,573	1,795	7,203
Net income	1,464	1,259	1,014	1,418	5,155
Earnings per share €	1.59	1.37	1.11	1.54	5.61
Adjusted earnings per share €	1.63	1.53	1.24	1.04	5.44

Sales and earnings by quarter in 2013¹ (in million €)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
Sales	19,738	18,353	17,733	18,149	73,973
Income from operations before depreciation and amortization (EBITDA)	2,854	2,490	2,496	2,592	10,432
Income from operations (EBIT) before special items	2,186	1,803	1,669	1,419	7,077
Income from operations (EBIT)	2,141	1,744	1,659	1,616	7,160
Financial result	(126)	(162)	(167)	(105)	(560)
Income before taxes and minority interests	2,015	1,582	1,492	1,511	6,600
Net income	1,434	1,144	1,086	1,128	4,792
Earnings per share €	1.56	1.25	1.18	1.23	5.22
Adjusted earnings per share €	1.65	1.39	1.27	1.00	5.31

¹ Quarterly results not audited

Sales in the **Agricultural Solutions** segment exceeded the level of 2013 by 4% despite negative currency effects. This was largely due to robust business in Europe and North America as well as greater demand for fungicides and herbicides. Yet the drop in prices for agricultural products that resulted from the previous year's successful harvests put a considerable strain on our business. Negative currency effects, margin declines due to a less favorable product mix, and higher expenditures for research and development as well as for production and distribution all led to a decrease of 9% in income from operations before special items.

Sales in the **Oil & Gas** segment grew by 2% in 2014, mainly through higher volumes in the natural gas trading business. Sharply falling oil and gas prices weakened sales growth. In the Exploration & Production business sector, the activities in Norway acquired from Statoil led to positive portfolio effects. Income from operations before special items declined by 3% as a result of slightly smaller contributions from both business sectors.

Sales in **Other** decreased by 14%. This was predominantly because of lower plant availability after a plant outage at the Ellba C.V. joint operation in Moerdijk, Netherlands. Income from operations before special items improved by 8%. The reversal of provisions for the long-term incentive (LTI) program and an improvement in foreign currency results not assigned to the segments were partly offset by lower earnings contributions from other businesses.

📖 For more on business reviews by segment, see page 60 onward

Income from operations and special items

- **Income from operations rises slightly**
- **High premium once again earned on cost of capital**

At €7,626 million, income from operations for the BASF Group in 2014 was up from the previous year's level (€7,160 million).

This includes earnings from companies accounted for using the equity method.

Special items in 2014 resulted in an earnings contribution of €269 million (2013: €83 million).

Of this, €712 million pertained to divestitures, especially the sale of our 50% share in Styrolution Holding GmbH. Also contributing to the total were the divestiture of oil and gas fields on the British continental shelf to the MOL Group, as well as the sale of our 50% share in Ellba Eastern Private Ltd. and of the PolyAd Services business. In 2013, divestitures had led to an earnings contribution of €591 million.

Compared with the previous year, special charges from various restructuring measures declined by €189 million to €68 million and expenses for the integration of acquired businesses by €80 million to €6 million.

Miscellaneous special charges increased by €204 million in 2014 to €369 million. These predominantly included asset impairments in the Oil & Gas, Chemicals and Functional Materials & Solutions segments. In 2013, other special charges of €165 million had especially pertained to impairment charges in the Chemicals and Oil & Gas segments.

We once again earned a high premium on our cost of capital in 2014. EBIT after cost of capital amounted to €1,368 million after €1,768 million in the previous year. Cost of capital rose mainly as a result of the increased amount of fixed assets and higher inventories.

📖 For more on the calculation of EBIT after cost of capital, see page 28

Special items (in million €)

	2014	2013
Integration costs	(6)	(86)
Restructuring measures	(68)	(257)
Divestitures	712	591
Other charges and income	(369)	(165)
Total special items in income from operations (EBIT)	269	83
Special items reported in financial result	197	119
Total special items in earnings before taxes	466	202

Financial result and net income

- Financial result improves by 24% and net income improves by 8%
- Earnings per share increase by €0.39 to €5.61

The financial result improved in 2014 to minus €423 million, compared with minus €560 million in the previous year.

Compared with 2013, net income from shareholdings rose by €274 million to €278 million, mostly due to special income from the disposal of our shares in VNG – Verbundnetz Gas AG.

The interest result improved by €24 million to minus €504 million. This was largely attributable to positive contributions from interest rate and currency swaps for variable interest rates on financial indebtedness.

Other financial result declined by €161 million to minus €197 million. This was mainly due to effects from the market valuation of options for the disposal of the share in Styrolution: Miscellaneous financial expenses amounted to €42 million in 2014, compared with miscellaneous financial income of €119 million in 2013.

At €7,203 million, income before taxes and minority interests was up by €603 million. Return on assets amounted to 11.7%, compared with 11.5% in the previous year.

Income taxes rose by €224 million to €1,711 million. The tax rate grew from 22.5% to 23.8%, predominantly as a result of earnings increases in countries with high tax rates, particularly Norway. These were partly offset by higher, largely tax-free income compared with the previous year that was related to the disposal of investments – mainly the 50% share in Styrolution Holding GmbH.

Income before minority interests rose by €379 million to €5,492 million. Minority interests increased from €321 million to €337 million.

Net income amounted to €5,155 million, exceeding the previous year's level of €4,792 million. Earnings per share rose from €5.22 to €5.61.

For information on the items in the statement of income, see the Notes to the Consolidated Financial Statements from page 183 onward

For information on the tax rate, see the Notes to the Consolidated Financial Statements from page 187 onward

Adjusted earnings per share

- Adjusted earnings per share improve by €0.13 to €5.44

By eliminating special items and the amortization of intangible assets, adjusted earnings per share serves as a more suitable ratio for long-term comparability and predicting the company's future profitability. In 2014, adjusted earnings per share amounted to €5.44 compared with €5.31 in the previous year.

Adjusted earnings per share (in million €)

	2014	2013
Income before taxes and minority interests	7,203	6,600
Special items	(466)	(202)
Amortization of intangible assets	647	641
Amortization of intangible assets contained in special items	(55)	(4)
Adjusted income before taxes and minority interests	7,329	7,035
Adjusted income taxes	(1,973)	(1,826)
Adjusted income before minority interests	5,356	5,209
Adjusted minority interests	(357)	(328)
Adjusted net income	4,999	4,881
Weighted average number of outstanding shares	918,479	918,479
Adjusted earnings per share €	5.44	5.31

Adjusted income before taxes and minority interests, adjusted net income and adjusted earnings per share are key ratios that are not defined under International Financial Reporting Standards (IFRS). They should therefore be viewed as supplementary information.

For more information on the earnings per share according to IFRS, see the Notes to the Consolidated Financial Statements on page 182

Forecast/actual comparison¹

	Sales		Income from operations (EBIT) before special items	
	2014 forecast	2014 actual	2014 forecast	2014 actual
Chemicals	slight increase	at prior-year level	slight decrease	slight increase
Performance Products	slight increase	slight decrease	considerable increase	slight increase
Functional Materials & Solutions	slight increase	slight increase	considerable increase	considerable increase
Agricultural Solutions	considerable increase	slight increase	slight increase	slight decrease
Oil & Gas	considerable decrease	slight increase	slight increase	slight decrease
Other	considerable decrease	considerable decrease	slight decrease	slight increase
BASF Group	slight decrease	at prior-year level	slight increase	slight increase

¹ For sales, "slight" represents a change of 1–5%, while "considerable" applies for changes of 6% and higher. "At prior-year level" indicates no change (+/-0%).
For earnings, "slight" means a change of 1–10%, while "considerable" is used for changes of 11% and higher. "At prior-year level" indicates no change (+/-0%).

Actual development compared with outlook for 2014

For 2014, we had predicted a slight decline in sales due to the planned divestiture of our gas trading and storage business as well as a considerable boost in EBIT and EBIT after cost of capital as a result of the special income expected from the divestiture. The swap did not take place. Sales therefore matched the previous year's level; the considerable increase in EBIT after cost of capital could not be achieved. We were able to slightly raise income from operations, due in part to special income from the divestiture of the share in Styrolution Holding GmbH, reported in Other. Income from operations before special items rose slightly, as anticipated.

With sales at 2013 levels, we just missed the slight sales increase foreseen for the Chemicals segment. Sales volumes rose, as we had intended; yet declining prices and negative currency effects counterbalanced this volumes growth. Thanks to considerably higher contributions from the Petrochemicals and Intermediates divisions, the segment's income from operations before special items grew slightly, performing better than expected. Startup costs for plants that began operations were lower than we had assumed.

We were unable to achieve the slight rise in sales anticipated in the Performance Products segment; despite stronger volumes, negative currency effects resulted in a slight decline. Increasing by 7%, income from operations before special items barely missed the considerable growth we had targeted. Especially in the Care Chemicals division's hygiene business, earnings remained below expectations. This was further weighed down by ongoing, competition-related pressure on Vitamin E prices as well as the weaker development of our paper chemicals business.

Our expectations for the Functional Materials & Solutions segment matched actual development in 2014.

Sales in the Agricultural Solutions segment grew slightly, which was somewhat less than we had predicted. Prices for agricultural products dropped more sharply over the course of the year than expected. Negative currency effects had more of an impact than presumed, especially in the first half of the year. In this challenging market environment, income from operations before special items declined slightly, against our expectations.

For the Oil & Gas segment, we had anticipated a considerable sales decrease due to the asset swap with Gazprom. Because the swap was not carried out, sales slightly exceeded the previous year's level. Especially because of unexpectedly sharp declines in oil and gas prices, we did not meet our aim of slightly increasing income from operations before special items; earnings declined slightly.

We achieved our sales forecast for Other. Income from operations before special items improved slightly in Other, against our expectations, as provisions were reversed for the LTI program.

In 2014, we invested a total of €5.1 billion in property, plant and equipment¹, thereby surpassing the anticipated amount of around €4.4 billion. The investment increase was partly because of additions to property, plant and equipment due to the dissolution of the gas trading business disposal group as well as currency effects.

 For information on our expectations for 2015, see page 122 onward

¹ Excluding additions to property, plant and equipment resulting from acquisitions, capitalized exploration, restoration obligations and IT investments

Net assets

Assets

	December 31, 2014		December 31, 2013	
	million €	%	million €	%
Intangible assets	12,967	18.2	12,324	19.2
Property, plant and equipment	23,496	32.9	19,229	29.9
Investments accounted for using the equity method	3,245	4.5	4,174	6.5
Other financial assets	540	0.8	643	1.0
Deferred taxes	2,193	3.1	1,006	1.6
Other receivables and miscellaneous assets	1,498	2.1	877	1.4
Noncurrent assets	43,939	61.6	38,253	59.6
Inventories	11,266	15.8	10,160	15.8
Accounts receivable, trade	10,385	14.6	10,233	15.9
Other receivables and miscellaneous assets	4,032	5.6	3,714	5.8
Marketable securities	19	.	17	.
Cash and cash equivalents	1,718	2.4	1,827	2.9
Current assets	27,420	38.4	25,951	40.4
Total assets	71,359	100.0	64,204	100.0

Assets

- Total assets exceed previous year's level by €7,155 million
- Noncurrent assets rise mainly as a result of investments and acquisitions

Total assets amounted to €71,359 million, exceeding the level of 2013 by €7,155 million. Both noncurrent and current assets contributed to this development.

Noncurrent assets grew by €5,686 million to €43,939 million. The €643 million increase in intangible assets was particularly attributable to an acquisition-related rise in goodwill. Investments and currency effects also contributed to the increase, while amortization partly counterbalanced it.

The value of property, plant and equipment grew by €4,267 million to €23,496 million, especially as a result of investments and acquisitions. At €6,369, additions considerably exceeded depreciation of €2,770 million and were primarily related to investments (€5,368 million). Significant investments concerned the construction of a TDI plant in Ludwigshafen, Germany, an MDI plant in Chongqing, China, and an acrylic acid and superabsorbent production complex in Camaçari, Brazil. They also included field development projects in Norway, Argentina and Russia. Currency effects additionally increased the value of property, plant and equipment. Disposals were largely attributable to the sale of selected oil and gas investments in the North Sea to the Hungarian MOL Group and of the 50% share in Ellba Eastern Private Ltd.

The €929 million decline in investments accounted for using the equity method to €3,245 million resulted predominantly from the disposal of the 50% share in Styrolution Holding GmbH.

The value of other financial assets declined by €103 million to €540 million, mainly because of the disposal of our 15.79% share in VNG – Verbundnetz Gas AG and of the 15% share in South Stream Transport B.V.

Deferred tax assets rose by €1,187 million primarily on account of higher actuarial losses for defined pension plans.

Other noncurrent receivables and miscellaneous non-current assets grew year-on-year by €621 million to €1,498 million. This was mostly due to WIGA Transport Beteiligungs-GmbH & Co.'s higher loan receivables from NEL Gastransport GmbH and GASCADE Gastransport GmbH.

Current assets rose by €1,469 million to €27,420 million, mostly as a result of higher inventories. This increase was due in part to greater gas storage inventory in the Oil & Gas segment as a result of warm weather in Europe, preparations for new plant startups, scheduled plant turnarounds and foreign currency effects.

At €1,718 million, cash and cash equivalents were €109 million below the level of December 31, 2013.

For more on the composition and development of individual asset items in the balance sheet, see the Notes to the Consolidated Financial Statements from page 189 onward

Financial position

Equity and liabilities

	December 31, 2014		December 31, 2013	
	million €	%	million €	%
Paid-in capital	4,319	6.1	4,341	6.8
Retained earnings	28,777	40.3	26,102	40.6
Other comprehensive income	(5,482)	(7.7)	(3,400)	(5.3)
Minority interests	581	0.8	630	1.0
Equity	28,195	39.5	27,673	43.1
Provisions for pensions and similar obligations	7,313	10.2	3,727	5.8
Other provisions	3,502	4.9	3,226	5.0
Deferred taxes	3,420	4.8	2,894	4.5
Financial indebtedness	11,839	16.6	11,151	17.4
Other liabilities	1,197	1.7	1,194	1.9
Noncurrent liabilities	27,271	38.2	22,192	34.6
Accounts payable, trade	4,861	6.8	5,153	8.0
Provisions	2,844	4.0	2,670	4.2
Tax liabilities	1,079	1.5	968	1.5
Financial indebtedness	3,545	5.0	3,256	5.0
Other liabilities	3,564	5.0	2,292	3.6
Current liabilities	15,893	22.3	14,339	22.3
Total equity and liabilities	71,359	100.0	64,204	100.0

Equity and liabilities

- **Solid equity ratio of 39.5%**
- **Liabilities rise mainly because of higher provisions for pensions and similar obligations**
- **Net debt increases slightly**

Equity grew by €522 million to €28,195 million compared with the previous year. Retained earnings rose by €2,675 million to €28,777 million. Other comprehensive income decreased by €2,082 million to minus €5,482 million, largely influenced by the remeasurement of defined benefit plans, at minus €2,396 million. The equity ratio amounted to 39.5% (2013: 43.1%).

Compared with the end of 2013, noncurrent liabilities rose by €5,079 million to €27,271 million. This was largely attributable to the €3,586 million increase in provisions for pensions and similar obligations, which was brought about by lower discount rates.

Long-term financial indebtedness grew by €688 million to €11,839 million. Of this, €610 million comprised higher liabilities to credit institutions and €78 million were bonds. In 2014, we issued bonds with a nominal value of €1.8 billion and £250 million with maturities between three and ten years as part of our debt issuance program. Two bonds due in 2015, one for €2 billion and one for CHF 200 million, were reclassified to short-term financial indebtedness.

Deferred tax liabilities rose by €526 million, mostly due to the acquisition of shares in Norwegian oil and gas fields.

Current liabilities grew by €1,554 million to €15,893 million. This was mainly because of the €1,272 million increase in other liabilities, which was primarily attributable to the rise in negative fair values of derivatives in connection with hedging transactions resulting from oil price and U.S. dollar developments relative to the euro. In addition, short-term financial indebtedness increased by €289 million, short-term provisions by €174 million, and tax liabilities by €111 million. Trade accounts payable fell by €292 million.

Long-term financial indebtedness increased overall by €977 million to €15,384 million. Net debt grew by €1,086 million to €13,666 million.

For more on the composition and development of individual liability items in the balance sheet, see the Notes to the Consolidated Financial Statements from page 198 onward

For more on the development of the balance sheet, see the Ten-Year Summary on page 236

Net debt (in million €)

	Dec. 31, 2014	Dec. 31, 2013
Cash and cash equivalents	1,718	1,827
Financial indebtedness	15,384	14,407
Net debt	13,666	12,580

Financing policy and credit ratings

- Financing principles remain unchanged
- "A" ratings confirmed

Our financing policy is aimed at ensuring our solvency at all times, limiting the risks associated with financing and optimizing our cost of capital. We preferably meet our external financing needs on international capital markets.

We strive to maintain at least a solid A rating, which allows us unrestricted access to money and capital markets. Our financing measures are aligned with our operative business planning as well as the company's strategic direction and also ensure the financial flexibility to take advantage of strategic options.

Maturities of financial indebtedness (in million €)

2015	3,545	
2016	981	
2017	1,526	
2018	1,790	
2019	2,170	
2020 and beyond	5,372	

With "A+/A-1/outlook stable" from rating agency Standard & Poor's and "A1/P-1/outlook stable" from Moody's, we have good credit ratings, especially compared with competitors in the chemical industry. Standard & Poor's last confirmed our long-term rating on December 11, 2014; Moody's last confirmed our long-term rating on October 31, 2014, and pronounced the outlook stable. Both agencies maintained BASF's short-term ratings.

Corporate bonds form the basis of our medium to long-term debt financing. These are issued in euros and other currencies with different maturities as part of our €20 billion debt issuance program. Our goal is to create a balanced maturity profile, attain a diverse range of investors, and optimize our debt capital financing conditions.

For short-term financing, we use BASF SE's commercial paper program, which has an issuing volume of up to \$12.5 billion. On December 31, 2014, \$150 million worth of commercial paper was outstanding under this program. Firmly committed, syndicated credit lines of €6 billion serve to cover the repayment of outstanding commercial paper, and can also be used for general company purposes.

These credit lines were not used at any point in 2014. Our external financing is therefore largely independent of short-term fluctuations in the credit markets.

Financing instruments (in million €)

1	Bank loans	2,836
2	Eurobonds	9,622
3	USD commercial paper	124
4	Other	2,802



Off-balance-sheet financing tools, such as leasing, are of minor importance to us. BASF Group's most important financial contracts contain no side agreements with regard to specific financial ratios (financial covenants) or compliance with a specific rating (rating trigger).

For more on the financing tools used, see the Notes to the Consolidated Financial Statements from page 210 onward

If possible, we bundle the financing, financial investments and foreign currency hedging of BASF SE's subsidiaries within the BASF Group in order to minimize risks and exploit internal optimization potential. Foreign currency risks are primarily hedged centrally by means of derivative financial instruments in the market.

Our interest risk management generally pursues the goal of reducing interest expenses for the Group and minimizing interest risks. Interest rate hedging transactions are therefore conducted with banks in order to turn selected liabilities to the capital markets from fixed interest to variable rate or vice versa.

Statement of cash flows

- Cash provided by operating activities remains at high level
- Cash used in investing activities improves

At €6,958 million, **cash provided by operating activities** in 2014 was €1,142 million below the level of the previous year. This was largely attributable to an increase in the amount of capital tied down in net working capital as a result of greater inventories and other operating receivables. Miscellaneous items primarily include the reclassification of the gain on the disposal of our 50% share in Styrolution GmbH to cash used in investing activities.

Cash used in investing activities amounted to minus €4,496 million in 2014 compared with minus €5,994 million in the previous year. This was mostly the result of the positive balance of payments received from divestitures (€1,336 million) and payments made for acquisitions (€963 million) in 2014. In the previous year, payments made for acquisitions (€1,156 million) had considerably exceeded payments received from divestitures (€63 million). Payments for property, plant and equipment and intangible assets were at €5,296 million, surpassing both the level of depreciation and amortization (€3,455 million) and the level of 2013 (€4,873 million). The disposal of financial assets and other receivables from financing activities as well as other items led to €427 million in payments received compared with the previous year's €28 million in payments made.

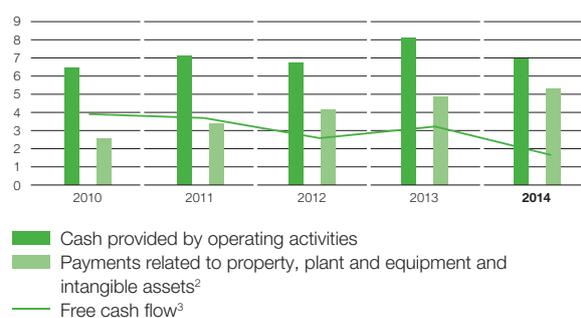
For more on investments and acquisitions, see page 38 onward

Cash used in financing activities amounted to minus €2,478 million in 2014, increasing cash outflow by €604 million compared with the previous year. In both years, more financial and similar obligations were assumed than were paid back, but in 2014, a greater amount was paid back than in 2013. Dividends of €2,480 million were paid to shareholders of BASF SE and €286 million to minority shareholders in Group companies in 2014.

In total, cash and cash equivalents fell by €109 million compared with the previous year, amounting to €1,718 million as of December 31, 2014.

The year-on-year decline in **free cash flow** of €1,565 million to €1,662 million was the result of lower cash provided by operating activities and of higher payments related to property, plant and equipment and intangible assets.

Cash flow¹ (in billion €)



¹ The figures for the 2010 and 2011 business years were not restated according to the new accounting and reporting standards IFRS 10 and 11.

² Including investments to the extent that they already had an effect on cash

³ Cash provided by operating activities less payments related to property, plant and equipment and intangible assets

Statement of cash flows (in million €)

	2014	2013
Net income	5,155	4,792
Depreciation and amortization of intangible assets, property, plant and equipment, and financial assets	3,455	3,314
Changes in net working capital	(699)	714
Miscellaneous items	(953)	(720)
Cash provided by operating activities	6,958	8,100
Payments for property, plant and equipment and intangible assets	(5,296)	(4,873)
Acquisitions/divestitures	373	(1,093)
Financial investments and other items	427	(28)
Cash used in investing activities	(4,496)	(5,994)
Capital increases/repayments, share repurchases	–	–
Changes in financial liabilities	288	828
Dividends	(2,766)	(2,702)
Cash used in financing activities	(2,478)	(1,874)
Net changes in cash and cash equivalents	(16)	232
Cash and cash equivalents at the beginning of the year and other changes	1,734	1,595
Cash and cash equivalents at the end of the year	1,718	1,827

Business review by segment

Segment overview (in million €)

	Sales		Income from operations before depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
	2014	2013	2014	2013	2014	2013
Chemicals	16,968	16,994	3,212	2,956	2,367	2,182
Performance Products	15,433	15,534	2,232	1,987	1,455	1,365
Functional Materials & Solutions	17,725	17,252	1,678	1,498	1,197	1,070
Agricultural Solutions	5,446	5,227	1,297	1,375	1,109	1,222
Oil & Gas	15,145	14,776	2,626	3,149	1,795	1,856
Other ¹	3,609	4,190	(2)	(533)	(566)	(618)
	74,326	73,973	11,043	10,432	7,357	7,077

Segment overview (in million €)

	Income from operations (EBIT)		Assets		Investments ²	
	2014	2013	2014	2013	2014	2013
Chemicals	2,396	2,086	12,498	10,908	2,085	1,958
Performance Products	1,417	1,100	14,502	13,614	849	1,497
Functional Materials & Solutions	1,150	1,027	12,987	11,899	650	611
Agricultural Solutions	1,108	1,208	7,857	6,777	391	324
Oil & Gas	1,688	2,403	13,686	11,855	3,162	3,167
Other ¹	(133)	(664)	9,829	9,151	148	169
	7,626	7,160	71,359	64,204	7,285	7,726

¹ Information on the composition of Other can be found in the Notes to the Consolidated Financial Statements from page 179 onward.

² Additions to property, plant and equipment (thereof from acquisitions: €1,001 million in 2014 and €1,511 million in 2013) and intangible assets (thereof from acquisitions: €732 million in 2014 and €1,158 million in 2013)

Contributions to total sales by segment

Chemicals	23%	
Performance Products	21%	
Functional Materials & Solutions	24%	
Agricultural Solutions	7%	
Oil & Gas	20%	
Other	5%	

Contributions to EBITDA by segment

Chemicals	29%	
Performance Products	20%	
Functional Materials & Solutions	15%	
Agricultural Solutions	12%	
Oil & Gas	24%	
Other	0%	

Sales¹ (in million €)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2014	2013	2014	2013	2014	2013	2014	2013
Chemicals	4,398	4,396	4,298	4,183	4,201	4,224	4,071	4,191
Performance Products	3,872	3,880	3,924	4,032	3,919	3,939	3,718	3,683
Functional Materials & Solutions	4,236	4,181	4,518	4,503	4,527	4,439	4,444	4,129
Agricultural Solutions	1,653	1,556	1,666	1,727	1,018	1,054	1,109	890
Oil & Gas	4,276	4,660	3,194	2,836	3,670	3,130	4,005	4,150
Other ²	1,077	1,065	855	1,072	977	947	700	1,106
	19,512	19,738	18,455	18,353	18,312	17,733	18,047	18,149

Income from operations (EBIT) before special items¹ (in million €)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2014	2013	2014	2013	2014	2013	2014	2013
Chemicals	601	650	570	495	616	527	580	510
Performance Products	427	379	435	394	376	376	217	216
Functional Materials & Solutions	311	239	356	293	310	300	220	238
Agricultural Solutions	510	498	433	485	43	172	123	67
Oil & Gas	466	602	546	353	436	399	347	502
Other ²	(203)	(182)	(328)	(217)	(7)	(105)	(28)	(114)
	2,112	2,186	2,012	1,803	1,774	1,669	1,459	1,419

Income from operations (EBIT)¹ (in million €)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2014	2013	2014	2013	2014	2013	2014	2013
Chemicals	600	650	536	494	615	442	645	500
Performance Products	414	367	454	344	366	322	183	67
Functional Materials & Solutions	311	240	351	283	311	292	177	212
Agricultural Solutions	510	492	433	485	43	168	122	63
Oil & Gas	597	602	499	352	434	564	158	885
Other ²	(211)	(210)	(340)	(214)	(27)	(129)	445	(111)
	2,221	2,141	1,933	1,744	1,742	1,659	1,730	1,616

¹ Quarterly results not audited² Information on the composition of Other can be found in the Notes to the Consolidated Financial Statements from page 179 onward.EBIT before special items by segment
(in million €)

Chemicals	2,367	
Performance Products	1,455	
Functional Materials & Solutions	1,197	
Agricultural Solutions	1,109	
Oil & Gas	1,795	
Other	(566)	

EBIT before special items BASF Group by quarter¹
(in million €)

1st quarter 2014	2,112	
2013	2,186	
2nd quarter 2014	2,012	
2013	1,803	
3rd quarter 2014	1,774	
2013	1,669	
4th quarter 2014	1,459	
2013	1,419	

¹ Quarterly results not audited

Chemicals

The Chemicals segment consists of the Petrochemicals, Monomers and Intermediates divisions. In our integrated production facilities – our Verbund – we produce a broad range of basic chemicals and intermediates in Europe, Asia and North America for our internal and external customers.

Divisions

Petrochemicals

Broad range of basic products and specialties for sectors such as the chemical and plastics industries

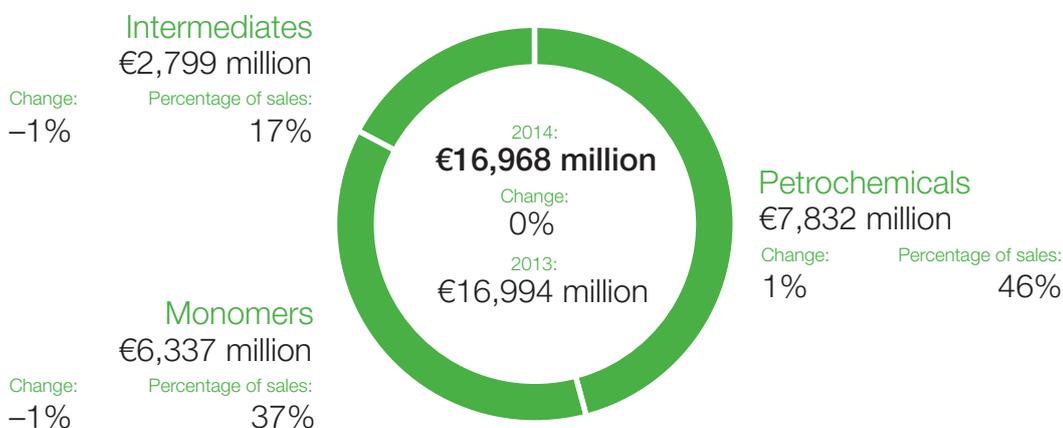
Monomers

Isocyanates and polyamides as well as inorganic basic products and specialties for various branches, such as the plastics, automotive, construction and electronics industries

Intermediates

Most comprehensive intermediates portfolio in the world, including precursors for coatings, plastics, textile fibers and crop protection products

Sales



Factors influencing sales

Volumes	3%	
Prices	(3%)	
Portfolio	0%	
Currencies	0%	
Sales	0%	

Income from operations before special items (in million €)

2014	2,367	
2013	2,182	
		Change: plus €185 million

How we create value – an example

Sodium nitrate

Conducting and storing heat for solar thermal power plants

Value for BASF

Expected annual sales growth for this application through 2025

7%

Value for our customers

Greater power plant efficiency through storage of thermal energy

up to 10%

Generating electricity with renewables involves sharp fluctuations depending on weather and time of day. Energy storage systems are therefore required to ensure a steady, reliable supply of electricity. Molten salt based on sodium nitrate can be employed as a medium to both transfer and store heat. This makes it especially suited to the growing use of solar thermal energy to generate electricity. We aim to increase sales of sodium nitrate for this application by an average of 7% each year through 2025.

In solar thermal power plants, molten salt based on sodium nitrate serves to store the heat provided by the sun's rays and release it again to be converted into electricity later. This can increase a plant's capacity utilization – and thus its efficiency – by up to 10%.

Strategy

- **Integrated production facilities form backbone of Verbund concept**
- **Technology and cost leadership are most important competitive advantages**

With our production facilities, we form the core of the Verbund structure and supply the BASF segments with basic chemicals for the production of downstream products. We add value with innovations in processes and production, and invest in future markets to ensure the growth of the entire BASF Verbund. As a reliable supplier, we market our products to customers in downstream industries, primarily in the chemical, electronics, construction, textile, lumber, automotive, pharmaceutical and crop protection industries. We continually improve our value chains and are expanding our market position – particularly outside Europe – with new methods and technologies, as well as through capital expenditures and collaborations in future markets.

We invest in research and development in order to develop new technologies and to make our existing technologies even more efficient. Cost leadership and a clear orientation along individual value chains are among our most important competitive advantages. We concentrate on the critical success factors of the classical chemicals business: making use of economies of scale, the advantages of our Verbund, high capacity utilization, continuous optimization of access to raw materials, lean processes, and reliable, cost-effective logistics. Furthermore, we are constantly improving our global production structures and aligning these with regional market requirements.

Products, customers and applications

Division	Products	Customer industries and applications
Petrochemicals	Basic products: ethylene, propylene, butadiene, benzene, alcohols, solvents, plasticizers, alkylene oxides, glycols and acrylic monomers Specialties: Special plasticizers such as Hexamol® DINCH®, special acrylates	Use within BASF Verbund Chemical and plastics industries; detergent, automotive, packaging and textile industries; production of paints, coatings and cosmetics as well as oilfield, construction and paper chemicals
Monomers	Basic products: isocyanates (MDI, TDI), ammonia, caprolactam, adipic acid, chlorine, urea, glues and impregnating resins, caustic soda, polyamides 6 and 6,6, standard alcoholates, sulfuric and nitric acid Specialties: electronic chemicals, metal systems	Use within BASF Verbund Industries such as plastics, electronics, lumber, furniture, textiles, packaging, construction, automotive, and others
Intermediates	Basic products: butanediol and derivatives, alkylamines and alkanolamines, neopentyl glycol, formic and propionic acid Specialties: specialty amines such as <i>tert</i> -Butylamine, gas scrubbing chemicals, vinyl monomers, acid chlorides, chloroformates, chiral intermediates	Use within BASF Verbund Plastics, coatings and pharmaceutical industries, production of detergents and cleaners as well as crop protection products and textile fibers

Production capacities of significant products¹

Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Acrylic acid	■	■	■		1,350,000
Alkylamines	■	■	■		250,000
Formic acid	■		■		255,000
Ammonia	■				1,525,000
Benzene	■	■	■		910,000
Butadiene	■	■	■		680,000
Butanediol equivalents	■	■	■		540,000
Chlorine	■				385,000
Ethanolamines and derivatives	■		■		430,000
Ethylene	■	■	■		3,480,000
Ethylene oxide	■	■	■		1,395,000
Urea	■				545,000
Isocyanates	■	■	■		1,900,000
Caustic soda	■				360,000
Neopentyl glycol	■	■	■		165,000
Oxo-C4 alcohols (calculated as butyraldehyde)	■	■	■		1,495,000
Polyamide 6 and 6,6	■	■			720,000
Polyamide precursors	■	■			1,070,000
PolyTHF®	■	■	■		290,000
Propionic acid	■		■		150,000
Propylene	■	■	■		2,610,000
Propylene oxide	■		■		925,000
Sulfuric acid	■				920,000
Plasticizers	■	■	■		760,000

¹ All capacities are included at 100%, including plants belonging to joint operations and joint ventures.

Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Antwerp, Belgium	Construction: butadiene extraction		155,000	2014
Camaçari, Brazil	Construction: acrylic acid complex		160,000	2015
Caojing, China	Expansion: MDI plant ¹	240,000	480,000	2017
Chongqing, China	Construction: MDI plant		400,000	2015
Geismar, Louisiana	Construction: formic acid plant		50,000	2015
Ludwigshafen, Germany	Construction: TDI plant		300,000	2015
	Replacement: nitric acid plants	n/a		2015
	Expansion: Hexamol® DINCH® plant	100,000	200,000	2014
	Expansion: specialty amines plant	n/a		2015
Maoming, China	Construction: isononanol plant ²		n/a	2015
Nanjing, China	Construction: additional acrylic acid complex ²	160,000	320,000	2014
	Construction: neopentyl glycol plant ²		40,000	2015
	Construction: specialty amines plant		n/a	2015
Shanghai, China	Construction: Ultramid® plant		100,000	2015

¹ Operated through joint venture with Huntsman, Shanghai Hua Yi, Shanghai Chlor-Alkali Chemical Co. Ltd. and Sinopec

² Operated through joint venture with Sinopec

Segment data (in million €)

	2014	2013	Change in %
Sales to third parties	16,968	16,994	0
Thereof Petrochemicals	7,832	7,785	1
Monomers	6,337	6,385	(1)
Intermediates	2,799	2,824	(1)
Intersegmental transfers	6,135	6,388	(4)
Sales including intersegmental transfers	23,103	23,382	(1)
Income from operations before depreciation and amortization (EBITDA)	3,212	2,956	9
EBITDA margin %	18.9	17.4	–
Income from operations (EBIT) before special items	2,367	2,182	8
Income from operations (EBIT)	2,396	2,086	15
Income from operations (EBIT) after cost of capital	1,095	917	19
Assets	12,498	10,908	15
Research expenses	185	178	4
Additions to property, plant and equipment and intangible assets	2,085	1,958	6

Chemicals

At €16,968 million, sales to third parties in the Chemicals segment in 2014 matched the level of the previous year. Higher sales volumes offset lower prices (volumes 3%, prices –3%, currencies 0%). Income from operations before special items grew by €185 million to €2,367 million. This was due to considerable earnings increases in the Petrochemicals and Intermediates divisions, which more than compensated for the Monomers division's margin-related decline. Income from operations rose by €310 million to €2,396 million. Special income arose from the divestiture of our shares in the Ellba Eastern Private Ltd. joint operation in Singapore. Special charges included the impairment of a plant.

Sales are likely to decrease slightly in 2015. Substantially lower oil and raw material prices will lead to price declines in some business areas. Anticipated volumes growth in all divisions – partly from the startup of new plants – will not be able to fully compensate for this. We foresee higher volumes in the Monomers division, especially of isocyanates and polyamide-6 extrusion polymers. In the Intermediates division, we particularly expect sales volumes to rise in the amines and polyalcohols businesses. Overall, income from operations before special items is likely to decline slightly due to expenses for starting operations at several plants.

Petrochemicals

- Higher volumes lead to sales increase of €47 million to €7,832 million compared with 2013 levels
- Earnings up considerably thanks to significant improvement in margins for steam cracker products

In the Petrochemicals division, sales to third parties in 2014 rose by €47 million to €7,832 million. We were able to raise volumes primarily through the startup and expansion of production plants, in addition to our robust business with steam cracker products. Sales growth was curbed by falling prices (volumes 4%, prices –3%, currencies 0%).

Sales in Europe were below the previous year's level, largely due to a plant outage at the Ellba C.V. joint operation's site in Moerdijk, Netherlands, at the beginning of June 2014. Prices also declined overall. Volumes grew considerably in North America. This development was mostly driven by higher demand for steam cracker products, the startup of the tenth furnace of the steam cracker in Port Arthur, Texas, and the higher capacity utilization of the condensation splitter. Sales in Asia saw a considerable, mainly volumes-related decline.

We significantly increased our margins for steam cracker products. In other business, we observed sustained high pressure on prices and margins in all regions, especially for acrylates and in the plasticizer and solvent business. This was partly attributable to additional capacities leading to better product availability, primarily in Asia. As a result of significantly improved margins for steam cracker products, income from operations before special items considerably exceeded the level of 2013.

In Nanjing, China, we started up an acrylic acid complex with an annual capacity of 160,000 metric tons; another acrylic acid complex will start up in Camaçari, Brazil, in early 2015. With the tenth steam cracker furnace in Port Arthur, Texas, we have been able to enhance our raw material flexibility there and better take advantage of the low gas prices in the United States. A butadiene extraction plant went online in Antwerp, Belgium, in 2014.

Petrochemicals – Sales by region (Location of customer)

1	Europe	48%
2	North America	41%
3	Asia Pacific	9%
4	South America, Africa, Middle East	2%



Monomers

- Sales decline by €48 million to €6,337 million due to lower prices
- Earnings down considerably as a result of competitive pressure and weaker margins in Asia

Sales to third parties in the Monomers division fell by €48 million to €6,337 million compared with 2013 (volumes 2%, prices –3%, currencies 0%). Reduced sales prices in Asia led to sales declines for polyamides and isocyanates. In both value chains, higher volumes were partly able to compensate for the negative price developments.

We raised sales volumes of MDI, especially in Europe and Asia. In the polyamides business, we observed sharp volumes growth for polyamide-6 extrusion polymers, particularly in Asia.

Additional MDI, TDI and caprolactam capacities led to intensified competitive pressure and lower margins in Asia. Income from operations before special items therefore declined considerably. Fixed costs remained at the prior-year level despite higher spending on research and costs for both the new TDI complex in Ludwigshafen and the MDI plant in Chongqing, China.

Monomers – Sales by region (Location of customer)

1	Europe	41%
2	North America	22%
3	Asia Pacific	30%
4	South America, Africa, Middle East	7%



Intermediates

- At €2,799 million, sales €25 million below prior-year level
- Earnings rise considerably through higher sales volumes and reduced fixed costs

In the Intermediates division, sales to third parties in 2014 declined by €25 million to €2,799 million. Lower prices and negative currency effects, especially during the first half of the year, were almost fully offset by higher sales volumes (volumes 3%, prices –3%, currencies –1%).

Amines and polyalcohols were main drivers for this volumes growth, particularly in Asia and North America. In our business with butanediol and its derivatives, we achieved higher sales volumes in Europe and North America, whereas volumes declined in Asia.

More intense competition compared with 2013, especially in Asia, led to price and margin pressure on butanediol and formic acid. We were able to compensate for this with a favorable product mix including a higher proportion of specialties. As a result of the increased sales volumes and lower fixed costs, income from operations before special items considerably surpassed the level of the previous year. Special items mainly pertained to the impairment of a production plant in Ludwigshafen. In addition, we closed one small production plant at each of two Louisiana sites in Geismar and Zachary in 2014.

At the Verbund site in Geismar, Louisiana, we are expanding our S-methylisopropylamine capacity in order to accommodate the Crop Protection division's growing demand for this chiral amine. We are also enlarging our butanediol plant there. In Ludwigshafen, Germany, and Nanjing, China, we are expanding our production capacities for specialty amines. We plan to construct an ethylhexanoic acid plant in Kuantan, Malaysia, with our joint venture partner PETRONAS. These projects are enabling us to intensify the backward and forward integration within our Verbund.

Intermediates – Sales by region (Location of customer)

1	Europe	44%
2	North America	18%
3	Asia Pacific	35%
4	South America, Africa, Middle East	3%



Performance Products

The Performance Products segment consisted of the Dispersions & Pigments, Care Chemicals, Nutrition & Health, Paper Chemicals¹ and Performance Chemicals divisions until the end of 2014. Our solutions enhance the performance of industrial and consumer products worldwide. With our customized products, our customers can make their production processes more efficient and give their products improved application properties.

Divisions

Dispersions & Pigments

Raw materials for the formulation of varnishes, coatings, printing and packaging inks, adhesives and construction materials

Care Chemicals

Ingredients for hygiene, personal care, home care and industrial and institutional cleaning businesses as well as for applications in the chemical industry

Nutrition & Health

Products for the food and feed industries, the flavor and fragrance industry and the pharmaceutical industry

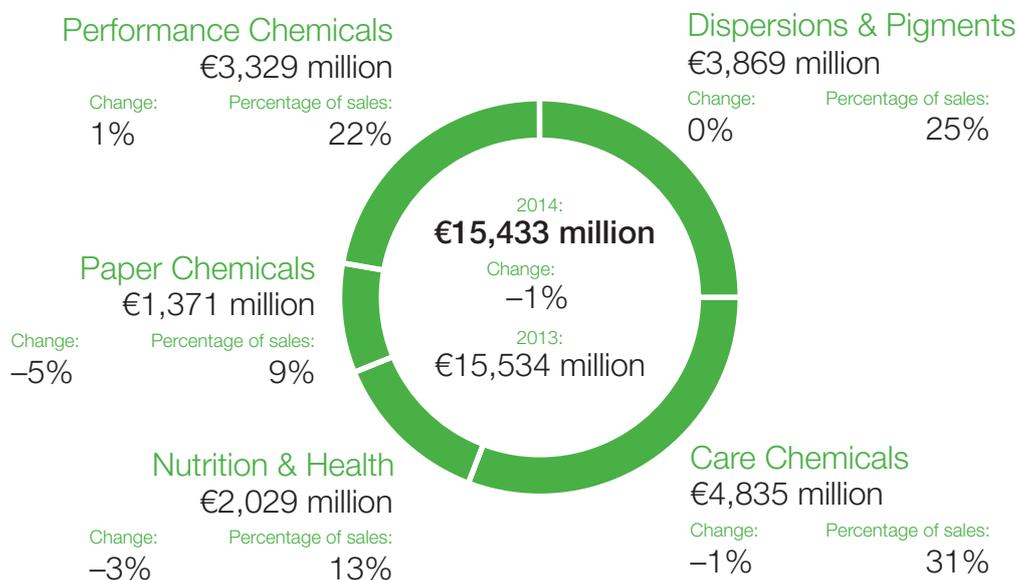
Paper Chemicals

Products for the paper industry and paper packaging

Performance Chemicals

Customized products for many sectors, from mining and the fuel industry to plastics processing

Sales



Factors influencing sales

Volumes	1%	
Prices	0%	
Portfolio	0%	
Currencies	(2%)	
Sales	(1%)	

Income from operations before special items

(in million €)

2014	1,455	
2013	1,365	
		Change: plus €90 million

¹ The Paper Chemicals division was dissolved as of January 1, 2015. The business will continue as part of the Performance Chemicals and Dispersions & Pigments divisions, and be integrated into existing value chains.

How we create value – an example

Rheomax® ETD technology

Additives for improved overburden management in the mining industry

Value for BASF

Expected annual sales
growth through 2020

>10%

Because water plays a significant role in most mining processes, it is crucial that it be treated responsibly in this industry – which is where our Rheomax® technology comes in. Rheomax® ETD is used in mining to separate solids from water when treating overburden. We aim to increase our sales of Rheomax® ETD by more than 10% every year through 2020.

Value for our customers and the environment

Process water recovered

>80%

Thanks to Rheomax® ETD, we can recover more than 80% of process water, compared with the industry standard of 75%. The mining industry can therefore reduce the land footprint needed to store overburden and – because of the faster rate of soil drainage – can begin sooner with renaturation.

Strategy

- **Tailor-made products improve our customers' applications and processes**
- **Global presence ensures reliable supply to customers in all regions**
- **Paper chemicals business reorganized**

We take on the challenges arising from important future issues, especially population growth: scarce resources, environmental and climatic stressors, greater demand for food and the desire for better quality of life. In doing so, we focus on research and development and maintain close relationships to leading companies in our key customer industries. We position ourselves globally in order to reliably supply customers in all regions. We invest in the development of innovations that enable our products and processes – as well as our customers' applications and processes – to make a contribution to sustainability: for example, by allowing resources to be used more efficiently.

Industry-specific specialties make up a major part of our product range. These products create additional value for our customers, which allows them to stand out from the competition. We develop new solutions together with our customers and strive for long-term partnerships which create profitable growth opportunities for both sides.

We employ a different business model for standard products, such as vitamins or dispersions for paper coatings. Here, efficient production setups, backward integration in our Production Verbund's value chains, capacity management, and technology and cost leadership are all essential.

We support our customers by being a reliable supplier with consistent product quality, a good price/performance ratio and lean processes.

We reorganized our paper chemicals business as of January 1, 2015, in order to strengthen our competitiveness. This involved dissolving the Paper Chemicals division and continuing the business in the Performance Chemicals and Dispersions & Pigments divisions. In doing so, we can utilize synergies along our existing value chains and at the same time remain a reliable, high-performance partner for the paper industry. 🌐

Products, customers and applications

Division	Products	Customer industries and applications
Dispersions & Pigments	Polymer dispersions, pigments, resins, high-performance additives, formulation additives	Printing and packaging industry, adhesives industry, plastics processing industry, products for construction chemicals, raw materials for paints and coatings, specialties for the electronics and other industries
Care Chemicals	<p>Ingredients for skin and hair cleansing and care products, such as emollients, cosmetic active ingredients, polymers and UV filters</p> <p>Ingredients for detergents and cleaners in household, institution or industry, such as surfactants, chelating agents, polymers and products for optical effects</p> <p>Solvents for crop protection product formulations and products for metal surface treatments</p> <p>Superabsorbents for the hygiene sector</p>	Cosmetics and hygiene industries, detergents and cleaners industry, agricultural industry and technical applications
Nutrition & Health	<p>Additives for the food and feed industries, such as vitamins, carotenoids, sterols, enzymes, emulsifiers and omega-3 fatty acids</p> <p>Flavors and fragrances, such as geraniol, citronellol, L-menthol and linalool</p> <p>Active ingredients and excipients for the pharmaceutical industry such as caffeine, ibuprofen and pseudoephedrine, binders and coatings for tablets and synthesis of pharmaceutical active ingredients and intermediates for our customers</p>	Food and feed industries, flavor and fragrance industry and pharmaceutical industry
Paper Chemicals	Dispersions for paper coating, functional chemicals, process chemicals, kaolin minerals	Paper industry, paper packaging
Performance Chemicals	<p>Antioxidants, light stabilizers, pigments and flame retardants for plastic applications</p> <p>Fuel and refinery additives, polyisobutene, brake fluids and engine coolants, lubricant additives and basestocks, components for metalworking fluids and compounded lubricants</p> <p>Process chemicals for the extraction of oil, gas, metals and minerals, chemicals for enhanced oil recovery, water treatment chemicals, membrane technologies</p> <p>Auxiliaries for the production and treatment of leather and textiles</p>	Plastics processing industry, fuel and lubricant industry, oil and gas industry, mining industry, municipal and industrial water treatment, leather and textile industry

Production capacities of significant products¹

Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Anionic surfactants	■	■	■	■	600,000
Citral	■				40,000
Chelating agents	■	■		■	120,000
Methane sulfonic acid	■				30,000
Nonionic surfactants	■	■	■		630,000
Organic pigments	■	■	■	■	n/a
Polyisobutene	■		■		215,000
Superabsorbents	■	■	■		530,000

¹ All capacities are included at 100%, including plants belonging to joint operations and joint ventures.

Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Antwerp, Belgium	Reconstruction: new superabsorbent technology platform	n/a	n/a	2016
Camaçari, Brazil	Construction: superabsorbents		60,000	2015
Caojing, China	Construction: resins		n/a	2014
Cork, Ireland	Expansion: LIX® products	n/a	n/a	2015
Dahej, India	Construction: dispersions		n/a	2014
	Construction: surfactants		n/a	2014
Freeport, Texas	Construction: dispersions		n/a	2014
Kuantan, Malaysia	Construction: aroma chemicals complex ¹		n/a	2016
Ludwigshafen, Germany	Expansion: polyvinylamine	n/a	n/a	2014
	Expansion: vinyl formamide	n/a	n/a	2017
	Expansion: lubricants	n/a	n/a	2016
Nanjing, China	Construction: superabsorbents ²		60,000	2014
	Construction: additives		n/a	2014
Theodore, Alabama	Construction: chelating agents		n/a	2015

¹ Operated through joint venture with PETRONAS Chemicals Group Berhad

² Operated through joint venture with Sinopec

Segment data (in million €)

	2014	2013	Change in %
Sales to third parties	15,433	15,534	(1)
Thereof Dispersions & Pigments ¹	3,869	3,851	0
Care Chemicals	4,835	4,871	(1)
Nutrition & Health	2,029	2,088	(3)
Paper Chemicals	1,371	1,442	(5)
Performance Chemicals ¹	3,329	3,282	1
Intersegmental transfers	489	489	–
Sales including intersegmental transfers	15,922	16,023	(1)
Income from operations before depreciation and amortization (EBITDA)	2,232	1,987	12
EBITDA margin %	14.5	12.8	–
Income from operations (EBIT) before special items	1,455	1,365	7
Income from operations (EBIT)	1,417	1,100	29
Income from operations (EBIT) after cost of capital	(143)	(447)	68
Assets	14,502	13,614	7
Research expenses	369	377	(2)
Additions to property, plant and equipment and intangible assets	849	1,497	(43)

¹ Previously conducted in the Performance Chemicals division, our business with pigments in the plastic additives business area was allocated to the Dispersions & Pigments division at the beginning of 2014. The 2013 figures for both divisions have been adjusted accordingly to ensure better comparability.

Performance Products

At €15,433 million, sales to third parties in the Performance Products segment in 2014 were €101 million below the prior-year level. We were able to raise sales volumes despite an increasingly gloomy market environment over the course of the year. With prices stable, sales were negatively impacted by currency effects (volumes 1%, prices 0%, currencies –2%). Restructuring measures helped reduce our fixed costs compared with 2013. As a result, we were able to raise income from operations before special items by €90 million to €1,455 million. Nearly every division contributed to this slight increase. Income from operations grew considerably, up by €317 million to €1,417 million compared with the previous year. This was largely on account of lower special charges, which were primarily related to restructuring measures, as well as special income from the sale of our PolyAd Services business in 2014.

We want to considerably increase sales in 2015, mainly through organic growth. In the Dispersions & Pigments and Care Chemicals divisions, this endeavor will be supported by factors like new production capacities. We anticipate a considerable volumes increase in the Nutrition & Health division, including for products for animal feed and for flavors and fragrances. Sales prices are likely to remain under pressure, however. In the Performance Chemicals division, we plan on increasing sales volumes. We are particularly striving to gain additional market share in the fuel and lubricant additives business area. We will also continue expanding our water treatment, oilfield and mining solutions business in attractive

growth markets, such as enhanced oil recovery and membrane filtration. The textile chemicals business will be sold to Archroma during the first half of 2015. Income from operations before special items is expected to considerably exceed the level of 2014, supported in all divisions by strict cost discipline and measures to increase competitiveness.

Dispersions & Pigments

- At €3,869 million, sales match level of 2013
- Slight earnings improvement, mainly through higher volumes and reduced fixed costs

At €3,869 million, sales to third parties in the Dispersions & Pigments division matched the level of the previous year despite negative currency effects. We were able to slightly increase our sales volumes, although the market cooled off in the second half of the year (volumes 3%, prices –1%, currencies –2%).

Sales in the dispersions business were at the prior-year level. Sales volumes rose particularly in Asia and South America, and also through the startup of new plants in the fourth quarter of 2014. In the pigments business, volumes remained stable despite adjustments to the product portfolio. We were able to increase our sales of resins in an intensely competitive environment. Growth impetus was provided by Europe and Asia. We achieved a slight increase in sales volumes in the additives business. The higher volumes helped offset intense pressure on prices and negative currency effects.

We were able to slightly improve income from operations before special items compared with 2013. This was largely owing to higher volumes and reduced fixed costs, especially as a result of restructuring measures in the pigments business. Special charges were substantially below the level of the previous year, and were mostly related to restructuring measures.

In 2014, we expanded our capacities in, for example, the dispersions business area by constructing new plants in Dahej, India, and Freeport, Texas, which will contribute to our future growth in these regions.

Dispersions & Pigments – Sales by region (Location of customer)

1	Europe	42%
2	North America	26%
3	Asia Pacific	25%
4	South America, Africa, Middle East	7%



Care Chemicals

- Currency effects lead to €36 million decline in sales to €4,835 million compared with previous year
- Earnings increase slightly through improved margins and higher capacity utilization

Sales to third parties declined by €36 million to €4,835 million in 2014 in the Care Chemicals division. Currency effects, primarily from the Argentinian peso, Brazilian real and Turkish lira, had a negative impact on sales. Volumes matched the level of the previous year. Higher raw material costs resulted in our raising prices, especially for lauric oil-based standard products (volumes 0%, prices 1%, currencies –2%).

Sales volumes dropped considerably in the hygiene business area. In the previous year, we had benefited from temporarily low capacities on the market. In other business – particularly ingredients for personal care products – we increased sales volumes overall, especially in Europe and Asia, despite a market environment that remained difficult.

Despite negative currency effects and the sales volumes decline in the hygiene business, we were able to raise income from operations before special items slightly, thanks in part to improved margins. Our capacity utilization, which once again topped the prior-year level, also had a positive effect. Restructuring measures allowed us to keep fixed costs steady.

In 2014, we began production at a surfactants plant at the site in Dahej, India. Furthermore, we invested in new capacities for superabsorbents in Camaçari, Brazil, as well as in our joint venture BASF-YPC Co. Ltd. in Nanjing, China.

Care Chemicals – Sales by region (Location of customer)

1	Europe	51%
2	North America	23%
3	Asia Pacific	15%
4	South America, Africa, Middle East	11%



Nutrition & Health

- Sales decrease by €59 million to €2,029 million due to lower volumes and negative currency effects
- Earnings improve slightly partly as a result of portfolio measures

Compared with the 2013 level, sales in the Nutrition & Health division were down by €59 million in a challenging market environment, amounting to €2,029 million (volumes –2%, prices 0%, portfolio 1%, currencies –2%).

With demand largely stable, sales volumes matched prior-year levels in the human and animal nutrition business as well as in the flavor and fragrance business. Volumes fell in the pharmaceutical business area. This was largely due to competitors entering the market for highly concentrated omega-3 fatty acids. The successful development of the rest of the pharmaceuticals business partly counteracted this decline in sales volumes. We were able to offset competition-related declines in vitamin E prices by raising prices in the other business areas.

Despite lower sales volumes and negative currency effects, we slightly increased income from operations before special items. Portfolio measures as part of a divisional reorganization were major factors supporting this development. This enabled us to improve our margins and keep our fixed costs at prior-year levels despite negative currency effects and investment preparations. Special charges arose predominantly in connection with measures to increase our competitiveness.

We began the construction of an integrated production complex for flavors and fragrances in Kuantan, Malaysia, in April 2014 – a joint project with our partner PETRONAS. With this investment, we are building up both our production network and our competitive strength in the region.

Nutrition & Health – Sales by region
(Location of customer)

1	Europe	46%
2	North America	21%
3	Asia Pacific	24%
4	South America, Africa, Middle East	9%



Paper Chemicals

- Sales down by €71 million to €1,371 million
- Earnings comparable with level of 2013, supported by restructuring measures

Sales to third parties in the Paper Chemicals division fell by €71 million to €1,371 million compared with 2013 (volumes –3%, prices –1%, currencies –1%). Sales volumes decreased slightly following portfolio optimization and restructuring measures. This meant that our business developed in step with our relevant market, which shrank slightly in 2014. The lower volumes were largely due to declining paper production in our largest market segment, graphical paper, as well as to our Asian customers' increasing backward integration along the value chain. Lower raw material costs and an aggressive competitive environment led to declining prices. Negative currency effects additionally dampened sales.

In this difficult environment, we concentrated on repositioning our portfolio toward paper packaging and continued the expansion of product lines with competitive advantages for our customers. This allowed us to achieve significant gains in sales volumes of VFA-based cationic polymers and cost-effective binders, which enable paper manufacturers to produce more efficiently and at lower cost.

Income from operations before special items matched the level of the previous year. This was especially the result of measures taken in our restructuring project, which counteracted somewhat weaker sales volumes and the cost of starting up new plants in Asia and North America. Special charges arose predominantly from restructuring measures. Special income arose from the sales of our business with alkyl ketene dimer emulsions.

Paper Chemicals – Sales by region
(Location of customer)

1	Europe	47%
2	North America	23%
3	Asia Pacific	24%
4	South America, Africa, Middle East	6%



Performance Chemicals

- Sales grow by €47 million to €3,329 million due to increased sales volumes
- Earnings rise considerably, especially through sales volumes growth and reduced fixed costs

In the Performance Chemicals division, sales to third parties rose year-on-year by €47 million to €3,329 million. This was predominantly a result of higher sales volumes (volumes 4%, prices –1%, portfolio –1%, currencies –1%), which we were able to increase in all business areas. Plastic additives contributed particularly to positive development in Europe. In Asia, sales volumes rose especially for fuel and lubricant additives; in North America, we primarily raised volumes in the business area for water treatment, oilfield and mining solutions. Sales volumes in South America remained overall at prior-year levels.

Income from operations before special items considerably surpassed the level of 2013. This was partly attributable to significantly higher volumes as well as fixed cost reduction measures, especially in our plastic additives business. Considerably improved earnings in fuel and lubricant additives furthermore contributed to the earnings increase.

Special income arose from the sale of our PolyAd Services business. Special charges came in part from measures to restructure our businesses with plastic additives.

Performance Chemicals – Sales by region
(Location of customer)

1	Europe	39%
2	North America	25%
3	Asia Pacific	25%
4	South America, Africa, Middle East	11%



Functional Materials & Solutions

The Functional Materials & Solutions segment comprises the Catalysts, Construction Chemicals, Coatings and Performance Materials divisions. They develop system solutions, services and innovative products for specific sectors and customers, particularly for the automotive, electronics, chemical and construction industries as well as for household applications and sports and leisure.

Divisions

Catalysts

Automotive and process catalysts, battery materials, precious metal trading

Construction Chemicals

Solutions for building structure and envelopes, interior construction and infrastructure

Coatings

Coatings solutions for automotive and industrial applications, decorative paints

Performance Materials

Polyurethanes, thermoplastics, foams and epoxy resins

Sales

Performance Materials

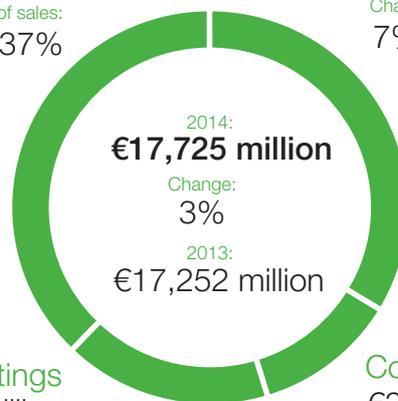
€6,546 million

Change: 1% Percentage of sales: 37%

Catalysts

€6,135 million

Change: 7% Percentage of sales: 34%



Coatings

€2,984 million

Change: 2% Percentage of sales: 17%

Construction Chemicals

€2,060 million

Change: -3% Percentage of sales: 12%

Factors influencing sales

Volumes	5%	
Prices	0%	
Portfolio	0%	
Currencies	(2%)	
Sales	3%	

Income from operations before special items

(in million €)

2014	1,197	
2013	1,070	

Change:
plus €127 million

How we create value – an example

Suspension top mounts made of Cellasto® and Ultramid®

Innovative plastic material combination offers more driving comfort with lighter weight

Value for BASF

Expected sales growth per year
through 2018

>10%

Value for our customers

Weight savings

up to 25%

Our innovative plastic suspension top mounts combine the special properties of Cellasto® for preventing noise and vibration with the lightweight stability of Ultramid®. We expect sales for this application to grow by more than 10% each year on average and foresee that, by 2018, around two million vehicles will be on the road with more comfort and less weight.

The automotive industry is faced with increasingly stricter emissions guidelines and demand for higher fuel efficiency. In these new top mounts, Ultramid® replaces metal, making the component up to 25% lighter. Thanks to its combination with Cellasto®, automotive manufacturers can reduce the weight of their vehicles without sacrificing safety or comfort.

Strategy

- **Development of innovative products and technologies in close collaboration with our customers**
- **Focus on specialties and system solutions that allow customers to stand out from the competition**

We use BASF's expertise as the world's leading chemical company to develop innovative products and technologies in close cooperation with our customers. Our aim is to find the best solution in terms of cost and functionality, helping our customers contribute to sustainable development. Our specialties and system solutions enable customers to stand out from the competition. 🌐

One focus of our strategy is the ongoing optimization of our product portfolio and structures according to different regional market requirements as well as trends in our customer industries. We are positioning ourselves to grow faster than the market and become even less dependent on the cyclicity of individual industries.

We aim to secure our leading market position in Europe, to profitably expand our position in the North American market and to selectively extend our activities in the growth regions of Asia, South America, Eastern Europe and the Middle East.

Products, customers and applications

Division	Products	Customer industries and applications
Catalysts	Automotive and process catalysts	Automotive and chemical industries, refineries, battery manufacturers
	Battery materials	Solutions for the protection of air quality as well as the production of fuels, chemicals, plastics and battery materials
	Precious and base metal services	Cement and concrete producers, construction companies, craftspeople, builders' merchants
Construction Chemicals	Concrete admixtures, cement additives, underground construction solutions, flooring systems, sealants, solutions for the protection and repair of concrete, high-performance mortars and grouts, tile-laying systems, exterior insulation and finishing systems, expansion joints, wood protection	Solutions for new building construction, maintenance, and repair and renovation of commercial and residential building construction as well as infrastructure
Coatings	Coatings solutions for automotive and industrial applications	Automotive industry, body shops, steel industry, painting businesses and private consumers, wind power industry
	Decorative paints	
Performance Materials	Engineering plastics, biodegradable plastics, standard foams, foam specialties, polyurethane, epoxy systems for fiber-reinforced composites	Automotive manufacture, electrical engineering, packaging, games, sports and leisure, household, mechanical engineering, construction, medical technology, sanitation and water industry, solar thermal energy and photovoltaics, wind energy

Capital expenditures

Location	Project	Startup
Bangpoo, Thailand	Technical competence center for automotive coatings	2015
Caojing, China	Construction: chemical catalysts	2016
Chennai, India	Construction: mobile emissions catalysts	2016
Dahej, India	Construction: polyols, polyurethane systems, TPU and Cellasto®	2014
Geismar, Louisiana	Construction: polyurethane systems	2015
Lemförde, Germany	Construction: TPU	2014
Ludwigshafen, Germany	Construction: special zeolites	2014
Münster, Germany	Expansion: coating resins	2015
Nairobi, Kenya	Construction: concrete admixtures	2014
Shanghai, China	Expansion: Cellasto®	2014
	Expansion: compounding plant for engineering plastics	2014
	Construction: base coats ¹	2014
	Construction: TPU	2014
	Expansion: mobile emissions catalysts	2015
	Construction: coating resins	2015
Sinzheim, Germany	Capacity expansion: wood protection	2014
Środa Śląska, Poland	Construction: mobile emissions catalysts	2014
Trostberg, Germany	Capacity expansion: dry mortars	2015
Yeosu, South Korea	Construction: Ultrason®	2014
Yesan, South Korea	Construction: compounding plant for Ultramid® and Ultradur®	2015

¹ Operated through joint venture with Shanghai Huayi Fine Chemical Co. Ltd.

Segment data (in million €)

	2014	2013	Change in %
Sales to third parties	17,725	17,252	3
Thereof Catalysts	6,135	5,708	7
Construction Chemicals	2,060	2,120	(3)
Coatings	2,984	2,927	2
Performance Materials	6,546	6,497	1
Intersegmental transfers	832	835	0
Sales including intersegmental transfers	18,557	18,087	3
Income from operations before depreciation and amortization (EBITDA)	1,678	1,498	12
EBITDA margin %	9.5	8.7	–
Income from operations (EBIT) before special items	1,197	1,070	12
Income from operations (EBIT)	1,150	1,027	12
Income from operations (EBIT) after cost of capital	(240)	(328)	27
Assets	12,987	11,899	9
Research expenses	379	367	3
Additions to property, plant and equipment and intangible assets	650	611	6

Functional Materials & Solutions

In the Functional Materials & Solutions segment, we increased our sales to third parties by €473 million to €17,725 million compared with the previous year (volumes 5%, prices 0%, currencies –2%). This was predominantly on account of considerably higher sales volumes, especially of products for the automotive industry. Negative currency effects weakened sales growth in all divisions. Prices remained stable overall. At €1,197 million, income from operations before special items were €127 million above the 2013 level as a result of the increase in the Catalysts and Coatings divisions. Income from operations grew by €123 million to €1,150 million despite higher special charges in the Construction Chemicals division.

For 2015, we expect higher demand from our key customer industries, automotive and construction. We anticipate a significant increase in sales volumes of our innovative specialties and system solutions. We want to raise our sales considerably. In the Catalysts and Performance Materials divisions, sales growth will be supported by the startup of new plants. We are also striving for a considerable increase in income from operations before special items. All divisions are expected to contribute to this development.

Catalysts

- Sales up by €427 million to €6,135 million through increase in sales volumes
- Considerable increase in earnings due in part to higher volumes in mobile emissions catalysts

We raised sales to third parties by €427 million to €6,135 million in the Catalysts division in 2014 (volumes 9%, prices –1%, currencies –1%). This was primarily due to sales growth for mobile emissions catalysts as well as to the larger, volumes-driven contribution from precious metal trading, which rose by €220 million to €2,575 million.

Because of greater demand for vehicle engines and the introduction of new emissions regulations, sales volumes increased for our mobile emissions catalysts, especially in Europe and Asia. Significant factors here included the stricter Euro 6 emissions regulation that took effect for lightweight passenger cars in Europe as well as the introduction of Euro IV emissions norms for trucks in China. In the United States, Europe and Japan, sales volumes of catalysts for offroad vehicles rose in response to the step-by-step implementation of the Tier 4 emissions regulation. We observed declining volumes in South America as a result of weaker market growth.

Sales rose slightly for chemical catalysts, mainly through price increases. We were also able to raise our sales slightly for refinery catalysts, largely through increased volumes.

Income from operations before special items considerably exceeded the level of the previous year. This was predominantly attributable to the higher sales volumes of mobile emissions catalysts and stronger margins for chemical and refinery catalysts.

Catalysts – Sales by region
(Location of customer)

1	Europe	40%
2	North America	33%
3	Asia Pacific	18%
4	South America, Africa, Middle East	9%



Construction Chemicals

- Currency and portfolio-related sales decline of €60 million to €2,060 million
- Slight dip in earnings, especially due to currency effects

In the Construction Chemicals division, sales to third parties fell by €60 million year-on-year to €2,060 million. This was mostly because of negative currency effects as well as divestitures. Higher volumes and prices slowed the sales decline (volumes 2%, prices 1%, portfolio –3%, currencies –3%).

Sales in Europe fell considerably as a result of portfolio and currency effects. The portfolio effects came essentially from divestitures undertaken as part of our efficiency measures in Germany. Sharply negative currency effects were observed in Turkey and Russia. Weighed down by currencies, sales in Asia were just below the prior year's level. With prices slightly higher, we were able to considerably increase sales volumes, primarily in India. Stronger demand and stable prices led to a slight rise in sales in North America compared with 2013, despite negative currency influences. In the region South America, Africa, Middle East, we were able to considerably exceed the sales of the previous year due to positive portfolio effects as well as higher volumes and prices.

Income from operations before special items was slightly down compared with 2013, due especially to currency effects. Special charges rose because of the impairment of intangible assets.

Construction Chemicals – Sales by region
(Location of customer)

1	Europe	38%
2	North America	27%
3	Asia Pacific	20%
4	South America, Africa, Middle East	15%



Coatings

- Sales improve by €57 million to €2,984 million through higher volumes and prices
- Considerable earnings increase, mostly as a result of higher sales volumes for OEM coatings

In the Coatings division, sales to third parties in 2014 rose by €57 million to €2,984 million. We were able to more than offset negative currency and portfolio effects with higher volumes and prices (volumes 4%, prices 3%, portfolio –1%, currencies –4%). Sales volumes grew in Asia, North America and Europe, whereas they declined slightly in South America. We particularly raised our prices for decorative paints and automotive refinish coatings.

Our business with OEM coatings developed very successfully thanks to growing demand in Asia, North America and Europe. For automotive refinish coatings, we were able to partly compensate for weaker demand in South America and negative currency effects by raising sales prices. A considerable sales increase in the industrial coatings business area was particularly buoyed by higher volumes, which arose mainly from greater demand for coil coatings as well as for rotor blade coatings for wind turbines. In the decorative paints business, sales declined slightly despite increased demand and higher sales prices. This was largely on account of negative currency effects in Brazil and the divestiture of the business in Argentina.

Income from operations before special items grew considerably, mainly owing to higher sales volumes for OEM coatings.

Coatings – Sales by region
(Location of customer)

1	Europe	40%
2	North America	16%
3	Asia Pacific	22%
4	South America, Africa, Middle East	22%



Performance Materials

- Sales up by €49 million to €6,546 million through increase in sales volumes
- Slight decline in earnings due to higher production costs

In the Performance Materials division, we increased sales to third parties by €49 million to €6,546 million in 2014 (volumes 2%, prices 0%, currencies -1%). Whereas volumes declined slightly in Europe, we saw considerable gains in sales volumes in Asia and especially North America. Price levels were largely stable. Negative currency effects dampened sales growth in all regions, particularly in South America.

We raised our sales to the automotive industry considerably. Demand in Asia and North America rose significantly, especially for engineering plastics, our specialty elastomer Cellasto® and polyurethane systems. Mainly as a result of sharply increased contributions from Cellasto®, Europe also observed slight sales growth.

The slight recovery of the European construction industry had a positive effect on our sales of polyurethane systems and styrenic foams in the region. We benefited from higher demand in North America, too, which was primarily due to a better market environment in residential construction. We were able to continue increasing sales of Neopor® in Asia.

Sales to the consumer goods industry declined slightly, however, mostly because of a considerable drop in sales volumes in polyurethane systems in Europe. We were able to partly compensate for this with overall higher volumes in North America and in our specialties, particularly Ultrason® and the thermoplastic polyurethanes.

Compared with the previous year, income from operations before special items was down slightly due to rising manufacturing costs through the startup of new plants. Sales growth in our high-margin businesses with engineering plastics and thermoplastic polyurethanes was not able to fully compensate for the increased fixed costs.

In 2014, we began operations at a new Ultrason® production plant at the Yeosu, South Korea, site. We furthermore invested in the sites at Lemförde, Germany, and Shanghai, China, as well as Dahej, India, especially in the areas of thermoplastic polyurethanes and Cellasto®. With these measures, we are further expanding our specialties business.

Performance Materials – Sales by region (Location of customer)

1	Europe	47%
2	North America	21%
3	Asia Pacific	26%
4	South America, Africa, Middle East	6%



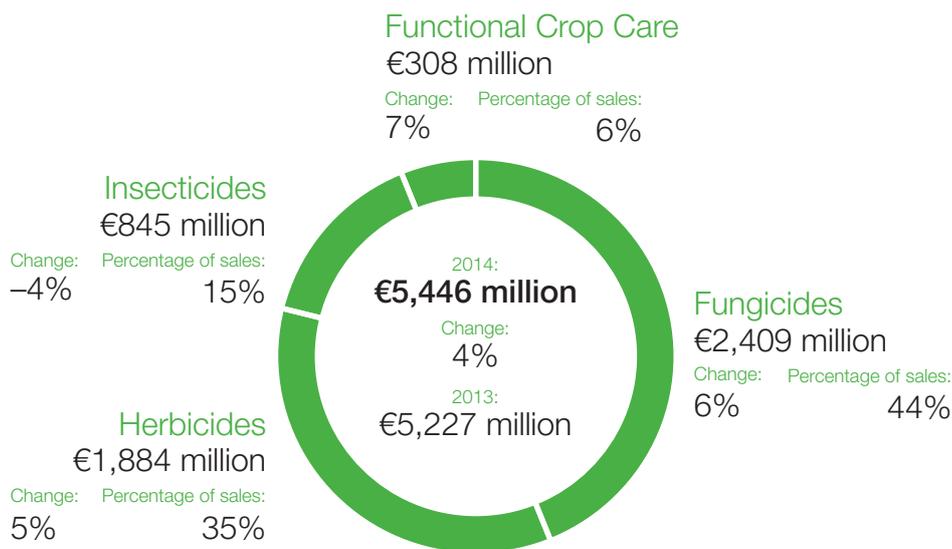
Agricultural Solutions

The Agricultural Solutions segment consists of the Crop Protection division. We develop and produce innovative solutions for the improvement of crop health and yields, and market them worldwide. The Plant Science competence center conducts research in the field of plant biotechnology. The activities of Plant Science are reported in “Other.”

Indications and sectors

<p>Fungicides Protecting crops from harmful fungi</p>	<p>Herbicides Reducing competition from weeds for nutrients and water</p>	<p>Insecticides Combating insect pests both in and outside of agriculture</p>	<p>Functional Crop Care Biological crop protection, seed treatment, polymers and colorants</p>
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Sales



Factors influencing sales

Volumes	5%	
Prices	2%	
Portfolio	0%	
Currencies	(3%)	
Sales	4%	

Income from operations before special items (in million €)

2014	1,109	
2013	1,222	
		Change: minus €113 million

How we create value – an example

Blockbuster fungicide Xemium®

Critical component and driver of BASF's fungicide portfolio

Value for BASF

Peak sales potential

>€600 million

Since its introduction in 2011, Xemium® has been a key component of our fungicide portfolio and has strengthened our leading position in innovative fungicide solutions. Xemium®'s excellent sales growth between 2011 and 2014 confirms that products featuring Xemium® have been adopted very readily by our customers and that they are being used in numerous crops across all regions. We aim for a peak sales potential of more than €600 million with Xemium®.

Value for our customers

Better performance than conventional fungicides

3-fold

Xemium® outperforms conventional fungicide products in three ways: It remains effective longer, can be used more flexibly and disperses extraordinarily well within the plant. For the farmer, this translates into higher crop yields and improved quality thanks to high product reliability and a broad range of effects.

Strategy

- Contribution to feeding a growing world population
- Long-term innovation strategy ensures future growth
- Development of solutions that go beyond conventional crop protection measures

Our strategy has been developed based on long-term market trends. A key challenge of the future will be to ensure enough food for a growing world population. This means that farmers around the world need to increase their yields – and yet the natural resources for doing so, such as water and arable land, are limited. We see it as our duty to provide farmers with professional support in producing more – and more nutritious – food as efficiently as possible.

We are committed to the responsible treatment of our products and the environment. We offer our customers a broad portfolio of integrated solutions and constantly invest in our development pipeline to create chemical and biological innovations in crop protection.

Our research and development activities range from solutions for guarding plants against fungi, insects and weeds, to seeds and soil management, to plant health. The Functional Crop Care business unit, for example, not only offers seed

enhancement products and innovations for better soil management, but also provides biological and chemical technologies that make plants more resistant to stress factors such as heat, cold and nutrient deficiency.

We are intensifying our investment in growth markets and continuing to expand our good position in our core markets. In 2015, we will introduce the new dicamba formulation Engenia® in North America. Used in dicamba- and glyphosate-tolerant cropping systems, this is a highly efficient agent for controlling glyphosate-resistant weeds in important field crops, such as corn and soy.

We will further expand our partnerships with seed companies, benefiting as well from the technological competence of BASF Plant Science. In addition, we work together with other BASF divisions to develop the best solutions for our customers. Integrated IT applications for increasing agricultural yield and productivity are one example. We develop these together with farmers, and will begin introducing them to key agricultural markets around the world in 2015. They will support farmers in their decision-making and in managing their business operations, and will better connect the global agriculture community.

Products, customers and applications

Indications and sectors	Application	Product examples
Fungicides	Protecting crops from harmful fungal attacks; improving plant health	Boscalid, metiram, dimethomorph, Initium®, metrafenone, F 500®, Xemium®, AgCelence® (umbrella brand)
Herbicides	Reducing competition from weeds for nutrients and water	Kixor®, dicamba, pendimethalin, imazamox, topramezone, Clearfield® herbicide tolerance system
Insecticides	Combating insect pests both in and outside of agriculture, such as in the fields of public health, professional pest control and landscape maintenance	Fipronil, alpha-cypermethrin, chlorfenapyr, teflubenzuron, Nealta®, Termidor® to guard against termite infestation, Interceptor® mosquito nets to protect against malaria
Functional Crop Care	Products for plant health and increased yield potential that go beyond traditional crop protection, such as biological control products, seed treatments, polymers and colorants	Standak® Top, Biostacked®, Flo Rite®, Vault® HP plus Integral®, Subtilex® NG, Limus®

Investments

In 2014, we invested €328 million in property, plant and equipment. A major portion of this total consisted of investments to expand production capacities for our fungicides F 500® and Xemium® as well as for the dicamba und Kixor® herbicides. Furthermore, we continue to invest in the expansion of our research and development capacities, such as in our global Agricultural Research Center in Pune, India. In order to serve ongoing high demand for our innovative products in the future, we will invest around €1.2 billion in developing and expanding our production capacities for synthesizing and formulating active ingredients between 2015 and 2019.

**BASF Plant Science
Plant biotechnology at BASF**

BASF Plant Science is one of the world's leading suppliers of plant biotechnology for agriculture. Our headquarters at the Research Triangle Park site near Raleigh, North Carolina, ensure our proximity to our main markets in North and South America. With our global network of research sites in the United States, Canada, Belgium and Germany, we help farmers meet the growing demand for increased agricultural productivity as well as better nutrition. BASF invests more than €150 million per year to accomplish these goals. Research expenses, sales, earnings and all other data of BASF Plant Science are not included in the Agricultural Solutions segment; these are reported in Other.

With a pioneering platform for gene identification, BASF Plant Science has specialized in the development of plant characteristics such as higher yield, herbicide tolerance and disease resistance. Our goal is to optimize crops so that farmers can achieve greater and more secure yields. In this way, we make an important contribution to securing a better food supply for a growing world population. We also contribute to sustainable agriculture, as the cultivation of these plants significantly reduces the amount of land, water and energy required to produce each metric ton of harvested crops. One example is the drought-resistant corn launched on the market in 2013 which can protect farmers in the United States from harvest losses in times of drought.

 For more on innovations in BASF Plant Science, see page 37

Segment data¹ (in million €)

	2014	2013	Change in %
Sales to third parties	5,446	5,227	4
Intersegmental transfers	37	36	3
Sales including intersegmental transfers	5,483	5,263	4
Income from operations before depreciation and amortization (EBITDA)	1,297	1,375	(6)
EBITDA margin %	23.8	26.3	–
Income from operations (EBIT) before special items	1,109	1,222	(9)
Income from operations (EBIT)	1,108	1,208	(8)
Income from operations (EBIT) after cost of capital	287	447	(36)
Assets	7,857	6,777	16
Research expenses	511	469	9
Additions to property, plant equipment and intangible assets	391	324	21

¹ Research expenses, sales, earnings and all other data of BASF Plant Science are not included in the Agricultural Solutions segment; these are reported in Other.

Agricultural Solutions

In the Agricultural Solutions segment, we increased sales to third parties in 2014 by €219 million to €5,446 million through higher volumes and sales prices. Continuously falling prices for agricultural commodities put a considerable strain on our business over the course of the year. The agricultural sector grew more slowly overall than it had in 2013. In this challenging environment, income from operations before special items declined by €113 million to €1,109 million. Income from operations decreased by €100 million to €1,108 million.

For 2015, we expect prices for agricultural commodities to remain at the level of the second half of 2014. With exchange rates developing more favorably overall, we anticipate high market volatility. In this environment, we set ourselves the ambitious goal of increasing sales volumes and considerably improving sales and income from operations before special items.

Crop Protection

- Volumes and price-driven sales increase of €219 million to €5,446 million
- Income from operations before special items falls by €113 million to €1,109 million

We improved sales to third parties by €219 million to €5,446 million compared with the previous year. This was mostly attributable to vigorous business in Europe and North America as well as increased demand for fungicides and herbicides. In the first half of the year, negative currency developments particularly affected our business in the emerging markets (volumes 5%, prices 2%, currencies –3%).

Compared with 2013, sales in **Europe** grew by €100 million to €2,046 million. This was mainly because of a strong start to the year, especially in western and central Europe. Demand for fungicides was high after the mild, humid winter. We were able to increase sales prices overall.

In **North America**, sales grew by €77 million year-on-year to €1,574 million, primarily driven by greater demand and by price increases in innovative herbicides. Sales were negatively impacted by currency exchange effects.

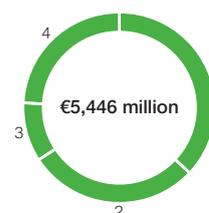
Sales in **Asia** amounted to €526 million, exceeding the level of 2013 by €13 million. This was largely on account of high demand for our fungicides in China and our successful direct business in Australia. Negative currency effects reduced sales growth in the region.

In **South America**, we improved sales by €29 million to €1,300 million, despite the first half of the year's sharply negative currency effects and the pressure exerted on insecticides by generic products. Our innovative fungicide Xemium® and our herbicide Kixor® performed especially well.

At €1,109 million, income from operations before special items was €113 million below the level of the previous year. This decline was due to negative currency effects, especially in the first half of the year; declining margins resulting from an unfavorable product mix; and higher expenditures for research and development and for production and distribution as part of exploiting future growth opportunities.

Crop Protection – Sales by region (Location of customer)

1	Europe	37%
2	North America	29%
3	Asia Pacific	10%
4	South America, Africa, Middle East	24%



Oil & Gas

BASF's oil and gas activities are bundled in the Wintershall Group. Wintershall and its subsidiaries operate in the business sectors Exploration & Production and Natural Gas Trading.

Sectors

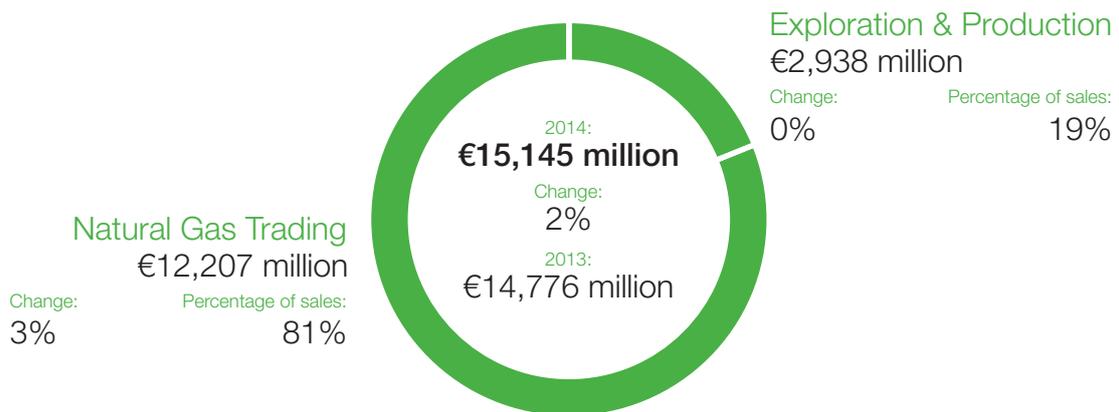
Exploration & Production

We focus our exploration and production activities on oil and gas-rich regions in Europe, North Africa, Russia and South America as well as in the Middle East.

Natural Gas Trading

Together with our Russian partner Gazprom, we are active in the transport, storage and trading of natural gas in Europe.

Sales



Factors influencing sales

Volumes	14%	
Prices/currencies	(13%)	
Portfolio	1%	
Sales	2%	

Income from operations before special items (in million €)

2014	1,795	
2013	1,856	
		Change: minus €61 million

How we create value – an example

Steam flooding in Emlichheim

Improved oil production by injecting steam into the oil field

Value for BASF

Production from a deposit
increased by

50%

Value for society

Longer oil production at a
constant level helps secure
energy supplies

3-fold

Steam flooding is an Enhanced Oil Recovery (EOR) method that improves yields in oil production. This method involves injecting hot steam under pressure into an oil reservoir to heat the oil, which becomes less viscous and therefore more easily extractable. Usually, around 30% to 35% of the crude oil in a reservoir is recovered. Steam flooding allows us to raise this rate for some parts of the reservoir up to 50% and more.

Germany is dependent on energy imports to a high degree. Using EOR technologies, domestic oil reserves can be produced both longer and more efficiently. We have already used steam flooding to increase production time at the Emlichheim location to 70 years, three times longer than originally planned.

Strategy

- Pursuit of our growth strategy through exploration, acquisitions, strategic partnerships and technological expertise
- Important contribution to security of Europe's natural gas supply

In the future, crude oil and natural gas will continue to contribute significantly toward covering the sharply rising energy demand of a growing world population. That is why we invest in the exploration and production of oil and gas, primarily in our core regions Europe, North Africa, Russia and South America, thereby continuing along our growth course. We also aim to establish the Middle East as another of our core regions.

Our growth strategy is based on three pillars: innovative technologies, selected collaborations and partnerships, and the responsible development and production of hydrocarbons. In addition to the successful execution of our projects, we focus on continuously optimizing our portfolio of oil and gas activities. Measured by production volumes, gas activities comprised around 70% of our portfolio in 2014. Our oil and gas activities contributed approximately equal shares to income from operations before special items.

Our diversified portfolio, low production and reserves replenishment costs, and our focus on attractive technological and exploration projects have made us able to make significant contributions to the earnings of the BASF Group, even when oil prices are low.

Handling hydrocarbons in a responsible manner demands special measures for the protection of people and the environment. We therefore carefully assess the potential effects of every project before we begin. Together with experts, contractors and relevant stakeholders, we develop methods and implement measures to be able to use resources even more efficiently and minimize the impact on the environment. In doing so, we act in accordance with international agreements, local legislation and our own, self-imposed high standards.

We intensified our collaboration with Statoil in 2014 by acquiring additional assets and concluding agreements on joint investment and exploration activities. This increased our Norwegian oil and gas production by 50%, to 60,000 barrels of oil equivalent (BOE) each day. We will furthermore take over operation of the Vega field.

We agreed with our partner Gazprom not to proceed with the asset swap planned for the end of 2014. The arrangement had been for Wintershall to give Gazprom its share of the natural gas trading and storage business as well as a share of Wintershall Noordzee B.V. In return, Wintershall was to receive shares in two additional blocks of the Urengoy field in western Siberia. Together with Gazprom, we still intend to continue the close partnership we have established over many years of dependable cooperation.

The long-term increase in demand for natural gas in western Europe, coupled with the decline in regional production, means that ever-increasing volumes of natural gas will have to be imported. Aside from the production of natural gas and development of gas fields, our pipeline network, natural gas storage facilities and trading activities all make an important contribution to supply security in western Europe. 🌐

Exploration & Production

■ Active portfolio management, including expansion of our position in Norway

Europe: The Mittelplate field off the North Sea coast is the cornerstone of our crude oil production in Germany. We own a 50% stake in this field, the largest known oil deposit in the country. At the Bockstedt oil field, we continued our field test for increasing recovery rates with the biopolymer Schizophyllan.

Our portfolio's Norwegian activities gained even more in significance through the shares we acquired from Statoil ASA in the producing fields Vega and Gjøa. The transaction increased our production from 40,000 BOE to 60,000 BOE per day. Wintershall Norge AS will take over operations in the Vega field in 2015, provided approval is granted by authorities and partners. Furthermore, we acquired shares in the Aasta Hansteen development project, the Asterix discovery and the Polarled pipeline project, and concluded an agreement with Statoil on even more intensive collaboration in exploration.

We were able to further bolster our portfolio of licenses, mainly through the receipt of eight new exploration licenses including five with our own operatorship. Four of these licenses are for the North Sea: three in the Norwegian Sea and one in the Barents Sea.

We continued our work in developing the Edvard Grieg and Knarr oil prospects in 2014.

The sale of selected investments in development projects on the British continental shelf to the Hungarian MOL Group was concluded in the first quarter of 2014 with retroactive financial effect to January 1, 2013.

Russia: The Yuzhno Russkoye natural gas field in western Siberia has been operating at plateau production since 2009. We have a 35% economic interest in this field. Together with our partner Gazprom, we are currently drafting a development plan for the Turon horizons, another formation in this natural gas field. We hold a stake of 50% in the development of Block IA of the Achimov formation in the Urengoy field in western Siberia. The gradual development of this field was continued; 40 wells were producing at the end of 2014. We are involved in the oilfield exploration and production of the Volgograd area together with Lukoil.

North Africa/Middle East: In Libya, we are the operator of eight oil fields in the onshore concessions 96 and 97. Production there had been suspended in July 2013 as a result of strikes at export terminals; we were able to temporarily resume production in concession 96 to a limited extent in September 2014. In December, the unstable situation once again forced us to shut down production. Production in concession 97 remains unfeasible due predominantly to the ongoing blockade of transport infrastructure. However, we have been able to continue operations without interruption at the Al Jurf offshore oil field in Libya, in which we have a stake.

In May, we started our first exploration drilling as the operator in the development of the Shuweihat sour gas and condensate field in Abu Dhabi. We have shares in this project together with the Abu Dhabi national oil company, ADNOC, and the Austrian oil and gas company OMV.

South America: We hold shares in a total of 15 onshore and offshore fields in Argentina. In the Neuquén Basin, we continued our technology projects to explore the potential for shale gas and oil. We signed a joint venture agreement with the Argentinian company Gas y Petróleo del Neuquén in January 2014 for the exploration and potential further development of the Aguada Federal block. In this 97 square kilometer block, a deposit is being developed in the shale of the Vaca Muerta formation. Wintershall, with its 50% share, is the block's operator. In Chile, we hold 10% of the San Sebastian block.

📖 For more on current reserves, see pages 90 and 225

Natural Gas Trading

■ Gas trading and storage business will be continued together with Gazprom

In this business sector, the natural gas trading and storage activities conducted together with Gazprom are predominantly combined into the W & G Beteiligungs-GmbH & Co. KG (W & G) Group. The natural gas transport businesses are gathered into the WIGA Transport Beteiligungs-GmbH & Co. KG (WIGA) Group. W & G and WIGA mainly fulfill holding and financing functions. The natural gas trading, transport and storage sectors act as independent subsidiaries under the umbrella of their respective holding. This organizational structure accommodates the unbundling requirements set down by the German Energy Act.

Capital expenditures

Location	Project	Total capacity*	Completion
Argentina	Development of Vega-Pleyade field	25 million BOE**	2016***
North Sea, Norway	Development of Knarr field	20 million BOE**	2015***
	Development of Maria field	13 million BOE**	2018***
	Development of Edvard Grieg field	35 million BOE**	2015***/2017
	Development of Aasta Hansteen field	50 million BOE**	2017***
Siberia, Russia	Achimgaz, development of Achimov horizon in Urengoy gas and condensate field	70 million BOE**	2008***/2018

* Plateau production

** BOE = barrel(s) of oil equivalent

*** Year of startup

Natural gas trading: The W&G subsidiary WINGAS GmbH markets natural gas from various producers to Germany and other European countries. Its main customers are municipal utilities and regional gas suppliers as well as larger industrial firms and power plants. WINGAS is also active on spot trading markets.

In line with our strategy of growth at the source, we sold our shares in the Leipzig natural gas provider VNG – Verbundnetz Gas AG to EWE AG.

Gas transport: The WIGA Group operates a 3,300 kilometer long-distance network that includes the pipeline links to the Nord Stream Pipeline, the Baltic Sea Pipeline Link (OPAL) and the North European Gas Pipeline (NEL). The significant portions of the project to link the NEL to GASCADE's existing long-distance network were completed and started up in 2014.

We hold a 15.5% share in the Nord Stream Pipeline through Nord Stream AG, which is accounted for as an investment using the equity method in the BASF Group financial statements. Other shareholders are Gazprom (51%) and E.ON (15.5%), as well as N.V. Nederlandse Gasunie and GDF Suez (9% each). With a total capacity of 55 billion cubic meters of natural gas per year, this pipeline, which stretches from Russia to the German coast over the Baltic Sea, helps shore up supply security in Europe.

The South Stream Offshore Pipeline through the Black Sea was to be developed, constructed and operated by South Stream Transport B.V. The companies Gazprom (50%), Eni (20%), Wintershall (15%) and EdF (15%) agreed to terminate the South Stream Offshore Project. Gazprom therefore acquired all minority shares on December 29, 2014.

Gas storage: astora GmbH & Co. KG markets the storage capacity of western Europe's largest natural gas storage facility in Rehden, Germany, as well the share in the storage facilities in Haidach, Austria, and Jemgum, Germany.

Segment data¹ (in million €)

	2014	2013 ²	Change in %
Sales to third parties	15,145	14,776	2
Thereof Exploration & Production	2,938	2,929	0
Natural Gas Trading	12,207	11,847	3
Intersegmental transfers	907	1,160	(22)
Sales including intersegmental transfers	16,052	15,936	1
Income from operations before depreciation and amortization (EBITDA)	2,626	3,149	(17)
Thereof Exploration & Production	2,162	2,133	1
Natural Gas Trading ³	464	1,016	(54)
EBITDA margin %	17.3	21.3	–
Income from operations (EBIT) before special items	1,795	1,856	(3)
Thereof Exploration & Production	1,412	1,450	(3)
Natural Gas Trading	383	406	(6)
Income from operations (EBIT)	1,688	2,403	(30)
Thereof Exploration & Production	1,305	1,569	(17)
Natural Gas Trading ³	383	834	(54)
Income from operations (EBIT) after cost of capital ³	369	1,179	(69)
Assets	13,686	11,855	15
Thereof Exploration & Production	9,476	7,731	23
Natural Gas Trading	4,210	4,124	2
Research expenses	50	67	(25)
Exploration expenses	132	194	(32)
Additions to property, plant and equipment and intangible assets	3,162	3,167	0
Net income ⁴	1,464	1,730	(15)

¹ Supplementary information on the Oil & Gas segment can be found from page 225 onward.

² Figures for 2013 have been adjusted to reflect the dissolution of the natural gas trading business disposal group.

³ In 2013, special income of €429 million had arisen from the reclassification of GASCADE Gastransport GmbH due to loss of control.

⁴ Information on the net income of the Oil & Gas segment can be found in the reconciliation reporting Oil & Gas in the Notes to the Consolidated Financial Statements on page 180.

Oil & Gas

In the Oil & Gas segment, sales to third parties grew by €369 million compared with 2013 to €15,145 million (volumes 14%, prices/currencies –13%, portfolio 1%). This was predominantly the result of higher volumes in the natural gas trading business. Income from operations before special items fell by €61 million to €1,795 million as a consequence of slightly smaller contributions from both business sectors. Special charges of €239 million mainly arose from valuation allowances on exploration and production projects, and were only partly offset by special income from the sale of shares in oil and gas fields in the British North Sea to the MOL Group. Income from operations therefore decreased by €715 million to €1,688 million. Net income declined by €266 million to €1,464 million.

Our planning for 2015 is based on an average oil price between \$60 and \$70 per barrel and a U.S. dollar exchange rate of \$1.20 per euro. On average, gas prices are likely to remain at 2014 levels. Because of the lower price of oil, we anticipate a slight decrease in sales and considerably reduced income from operations before special items in 2015. In the Exploration & Production business sector, the negative effects of the drop in oil prices will probably be partly offset by the expansion of our activities in Norway and the boost in Achimgaz production in Russia. We also expect to partially resume our onshore production in Libya. Our portfolio optimization measures will continue. For the Natural Gas Trading business sector, we anticipate considerable earnings improvement thanks to a higher contribution from the transportation business as well as rising sales volumes.

Exploration & Production

- At €2,938 million, sales at prior-year level despite lower prices
- Crude oil and natural gas production rises by 3%
- Declining production in Germany due to authorization logjam for fracking plans
- Earnings decline by €38 million to €1,412 million, weighed down mainly by prices and currencies

Sales to third parties in the Exploration & Production business sector amounted to €2,938 million, matching the level of the previous year. Higher volumes, especially in Russia, and largely portfolio-driven growth in Norway were able to compensate for lower prices.

The yearly average for the price of Brent crude oil decreased by 9% to \$99 per barrel. The price of oil also fell by 9% in euro terms, amounting to €74 per barrel.

At 136 million barrels of oil equivalent (BOE), our crude oil and natural gas production exceeded the level of 2013 by 3%. Production increased substantially both in Norway and in our joint operation Achimgaz. Counterbalancing effects came mainly from reduced production in our Libyan onshore fields as well as the further decrease in production in Germany resulting from the ongoing authorization logjam for fracking plans for conventional deposits.

Income from operations before special items was at €1,412 million, representing a mostly price and currency-related decline of €38 million despite the significantly higher contribution from our Norwegian activities.

In the search for new crude oil and natural gas deposits, we finished drilling a total of 21 exploration and appraisal wells in 2014, of which 16 were successful.

Our proven crude oil and natural gas reserves increased by 17% compared with the end of 2013 to 1,708 million BOE. We replenished 284% of the volumes produced in 2014. The reserve-to-production ratio is around 13 years (2013: 11 years). This is based on Wintershall's share of production in 2014 and refers to the reserves at year-end.

For more on our crude oil and natural gas reserves, see page 225 onward

Natural Gas Trading

- Higher volumes lead to €360 million increase in sales, totaling €12,207 million
- Earnings at €383 million, down €23 million year-on-year

Sales to third parties in the Natural Gas Trading business sector grew by €360 million to €12,207 million as a result of higher volumes. Intensified trade on European spot markets led to a 40 billion kilowatt hour increase in sales volumes to 561 billion kilowatt hours. WINGAS provided 3% of its volumes to BASF Group companies outside of the Oil & Gas segment.

At €383 million, income from operations before special items was €23 million below the level of the previous year. A smaller contribution from the storage business was partly offset by higher earnings in the transportation business and ongoing optimization measures on the procurement end of the trading business.

Oil & Gas – Sales by region
(Location of customer)

1	Europe	97%
2	North America	0%
3	Asia Pacific	0%
4	South America, Africa, Middle East	3%



Regional results

Regions (in million €)

	Sales by location of company			Sales by location of customer			Income from operations before special items		
	2014	2013	Change in %	2014	2013	Change in %	2014	2013	Change in %
Europe	42,854	43,335	(1)	40,911	41,221	(1)	4,759	4,309	10
Thereof Germany	32,241	31,571	2	15,126	14,446	5	1,994	1,829	9
North America	15,467	14,573	6	15,213	14,272	7	1,566	1,539	2
Asia Pacific	11,643	11,679	0	12,341	12,450	(1)	614	842	(27)
South America, Africa, Middle East	4,362	4,386	(1)	5,861	6,030	(3)	418	387	8
	74,326	73,973	0	74,326	73,973	0	7,357	7,077	4

Europe

- Sales decline by 1% to €42,854 million
- Site for mobile emissions catalysts opened in Poland

In 2014, sales at companies headquartered in the region Europe decreased by 1% to €42,854 million. Sales in the chemicals business¹ fell by 2% to €23,461 million; a higher contribution from the Oil & Gas segment was able to almost fully compensate for this.

The Chemicals segment posted a volumes and price-related sales decline in 2014. With volumes stable, sales in the Performance Products segment were slightly below the previous year's level. In the Functional Materials & Solutions segment, sales rose compared with 2013 as a result of higher demand. We also posted sales growth in the Agricultural Solutions segment, boosted by positive development in volumes and prices. Sales were considerably up in the Oil & Gas segment due to higher volumes in gas trading.

Income from operations before special items amounted to €4,759 million, an increase of 10% compared with 2013. This was mainly the result of the 18% improvement in earnings in the chemicals business to €3,006 million.

We are taking a series of steps to sharpen the competitive edge of the Performance Products segment. We are adapting our business to altered market conditions by streamlining processes, investing in new technologies, taking portfolio measures and making organizational revisions.

In Środa Śląska, Poland, we opened our largest European production plant for mobile emissions catalysts in 2014. This will enable us to even better accommodate the rising demand resulting from Euro 6/VI, the stricter exhaust gas regulations for trucks and passenger cars in Europe.

North America

- Sales rise by 6% to €15,467 million
- Intensified investment in the region

At €15,467 million, sales for companies headquartered in North America were up by 6% compared with 2013. In local currency terms, this was an increase of 7%. Sales in the Chemicals segment rose considerably, thanks in particular to higher volumes for steam cracker products. The Functional Materials & Solutions and Agricultural Solutions segments also contributed to sales growth. Sales in the Performance Products segment matched the level of the previous year.

Income from operations before special items rose by 2% to €1,566 million. The main reason for this was a considerably larger, margin-driven contribution from the Petrochemicals division. We were able to increase earnings in the Agricultural Solutions segment, as well. Main factors dampening this development were the considerable earnings declines in the Performance Products segment and in Other.

In this region, we continue to focus on innovation, attractive market segments and cross-business initiatives in order to ensure profitable growth. At the same time, we are enhancing our operational excellence through ongoing improvements. We want to intensify our investment in North America in light of the attractive growth prospects and lower raw material prices. Together with Yara, we are planning the construction of an ammonia production plant in Freeport, Texas. We are furthermore exploring an investment in a world-scale methane-to-propylene complex on the U.S. Gulf Coast. This would be BASF's largest single investment to date.

¹ Our chemicals business comprises the Chemicals, Performance Products and Functional Materials & Solutions segments.

Sales by region

(Location of company)

1	Germany	43%
2	Europe (excl. Germany)	14%
3	North America	21%
4	Asia Pacific	16%
5	South America, Africa, Middle East	6%



Income from operations before special items by region

1	Germany	27%
2	Europe (excl. Germany)	38%
3	North America	21%
4	Asia Pacific	8%
5	South America, Africa, Middle East	6%



Asia Pacific

- At €11,643 million, sales match level of previous year
- Strengthening research and development presence and local production

Sales at companies headquartered in the Asia Pacific region reached €11,643 million, a level comparable with that of the previous year. In local currency terms, sales rose by 1%. We observed substantially higher volumes, especially in the Catalysts, Crop Protection, Performance Chemicals, Coatings and Dispersions & Pigments divisions. This sales volumes increase was able to compensate for negative currency effects and falling prices.

Income from operations before special items fell by 27% to €614 million, mostly weighed down by lower prices in the Monomers division.

We continued to pursue our regional “grow smartly” strategy last year. In Asia Pacific, we aim to increase the proportion of sales from local production from its current level of 55% to around 75% by 2020. Steps toward this goal included opening a new production site in Dahej, India; starting up the Crop Protection division’s first Asia Pacific plant in Rudong, China; and inaugurating new plants in China for superabsorbents, acrylic acid, butyl acrylate and automotive coatings. We also began constructing plants to produce butanediol and PolyTHF® in Korla, China; aroma chemicals in Kuantan, Malaysia; and isononanol in Maoming, China.

The new Electronic Materials R&D Center in Suwon, South Korea, has further strengthened our presence in the global Research Verbund. The continued expansion of the Innovation Campus Asia Pacific in Shanghai, China, and a new innovation campus in Mumbai, India, will also contribute to this. With the opening of the regional Learning Campus in Singapore, we provide our employees in the region with additional programs for personal and professional development.

To improve profitability in Asia Pacific, we enacted a program to increase efficiency and expand our ability to tap market potential.

South America, Africa, Middle East

- Sales dip by 1% to €4,362 million
- New production capacities for acrylic acid and superabsorbents in South America

At €4,362 million, sales for companies headquartered in South America, Africa, Middle East were 1% below the level of 2013. Sales grew by 8% in local currency terms.

Economic development in South America was weaker than we had expected. Our sales declined slightly. Higher prices only partly compensated for negative currency effects. While sales decreased in the chemicals business, they rose in the crop protection business, especially through the launch of innovative products. Sales also grew in the Oil & Gas segment.

Companies in Africa posted a slight, volumes-driven boost in sales. Sales also increased slightly in the Middle East. Through higher volumes and prices, we were able to more than compensate for negative currency effects there.

Income from operations before special items rose by 8% to €418 million, largely on account of improved earnings in the Performance Products and Functional Materials & Solutions segments as well as in Other.

In South America, we continued to implement our growth strategy, enhancing our focus on customer and market needs. By opening two new laboratories for the Nutrition & Health division, we are strengthening our research and development in the region. We are also supporting our long-term growth with the construction of a production complex for acrylic acid and superabsorbents in Camaçari, Brazil, which will begin operations at the beginning of 2015. In order to respond to the weak economic development expected in the region for the medium term, we started a program to increase efficiency. We are analyzing processes and structures in order to make even better use of our resources and further raise productivity.

Responsibility along the value chain

Supply chain management



Our objective is to secure competitive advantages for BASF through professional procurement structures. Our suppliers are an important element of our value chain. Together with them, we aim to create value and minimize risks.

Strategy

With our sustainability-oriented supply chain management, we contribute to risk management by boosting our suppliers' awareness of our expectations and standards, and by supporting them in carrying out our specifications. We count on reliable supply relationships and want to make our suppliers' contribution to sustainable development transparent. Furthermore, we support BASF's business units in developing solutions to stand out from the competition in addressing market-specific requirements. Our suppliers are evaluated based on risk due to the size and scale of our supplier portfolio.

Worldwide procurement

From our suppliers, we obtain raw materials and technical goods as well as all kinds of services, from technical to logistics and building facility services. BASF acquired raw materials, goods and services for our own production totaling around €40 billion in value from more than 75,000 suppliers around the world in 2014. Around 90% of this was locally sourced. In terms of our suppliers, there were no substantial changes in our value chain in 2014.

What we expect from our suppliers

- Global Supplier Code of Conduct
- Country-specific risk analysis forms basis of new supplier selection

Both new and existing suppliers are selected and evaluated not only on the basis of economic criteria, but also with respect to environmental, social and corporate governance standards. Our Supplier Code of Conduct is founded on internationally recognized guidelines, such as the principles of the United Nations' Global Compact, the International Labor Organization (ILO) conventions and the topic areas of the Responsible Care Initiative. Available in 26 languages, the Code of Conduct covers environmental protection as well as compliance with human rights, labor and social standards, and antidiscrimination and anticorruption policies.

A country-based risk analysis forms the basis of our selection process for new suppliers. Due to the country-related risks identified in South America and Asia, we queried around 700 new suppliers there in 2014 on their commitment to the values of our Supplier Code of Conduct. Moreover, we provided training to a total of 495 suppliers with an elevated sustainability risk, especially in Asia and South America.

In addition, we instructed 519 procurement employees on sustainability-oriented supplier management. These are ways in which potential supply chain risks can be identified and minimized together with our suppliers.

Evaluating our suppliers

- **Together for Sustainability initiative aims to harmonize and standardize supplier assessment and audits**
- **120 raw material supplier sites audited**
- **Cooperations begun in China and Brazil for supplier training**

BASF is a founding member of the Together for Sustainability (TfS) initiative of leading chemical companies for the global standardization of supplier evaluations and auditing. This initiative aims to develop and implement a global program for the responsible supply of goods and services and improve suppliers' environmental and social standards. The evaluation process is simplified for both suppliers and TfS member companies through a globally uniform questionnaire. The initiative's members conducted a total of 2,605 sustainability assessments and 93 audits in 2014. The number of initiative members rose from six to twelve. As part of the TfS initiative, we conducted a Supplier Day in Shanghai, China, in 2014. The activities in Brazil and India were also expanded.

Based on TfS evaluations, we pursue a risk-oriented approach with clearly defined, BASF-specific follow-up processes rolled out in 2014 worldwide using an IT tool. We have developed risk matrices that help us identify suppliers with a high sustainability risk given their respective country risks. Our purchasers indicate the suppliers for whom they see a potentially elevated sustainability risk. Furthermore, we check various information sources to see if any suppliers have been observed in connection with negative sustainability incidents. Based on these analyses, we audited a total of 120 raw material supplier sites on sustainability standards and initiated 538 sustainability assessments through an external service provider in 2014. Our goal is supplier enhancement. If we identify potential for improvement, we support this supplier in developing measures to fulfill our standards. We conduct another review according to a defined timeframe based on the sustainability risk measured. If the weak points discovered were particularly severe and we cannot find any improvement, we reserve the right to terminate the business relationship. This occurred in seven cases in 2014. We use this approach to evaluate suppliers with an elevated sustainability risk at least every five years. The approach itself is reviewed every two years to identify possibilities for improvement.

In addition, we initiated cooperations in China and Brazil in 2014 to instruct suppliers on sustainability standards. We have developed a training program together with the East China University of Science and Technology in Shanghai, and plan to educate around 2,000 suppliers over the next five years. We are pursuing the same approach in Brazil together with the Espaço ECO® Foundation. Through these cooperations, 65 suppliers already received training in 2014.

Audit results

Our audits have revealed some reservations with respect to working hours, payment of the minimum wage, and payment of overtime, especially in China. Here, we have called for improvements on the part of our suppliers. Our 2014 audits did not identify any cases of child labor. For the suppliers we reviewed, persons under 18 were excluded from overtime, night shifts and dangerous work. We did not find any incidences of forced labor in 2014. We were also able to rule out human rights violations.

 For more on supply chain management, see basf.com/supplychain



Raw materials



Responsible resource management is an integral part of our strategy. It is applied within the company through our Verbund concept, our innovative products and the use of renewable raw materials. In the search for alternative raw materials, we employ solutions that contribute to sustainability. We as a company are dependent on ecosystem services and also have an impact on them. Examples include the availability of clean water and renewable resources, or even the effects of ecosystem services on the preservation of air, water and soil quality.

Strategy

The Verbund system is an important component of our resource efficiency strategy: The by-products of one plant often serve as feedstock elsewhere, thus helping us to use raw materials more efficiently. In 2014, BASF purchased a total of around 30,000 different raw materials from more than 6,000 suppliers. Some of our most important raw materials are naphtha, natural gas, methanol, ammonia and benzene. We examine the use of renewable resources in our Verbund system and are involved in the responsible cultivation and utilization of renewables in numerous projects along the value chain.

Renewable resources

- **“Mass balance” method established**
- **Facility begins operations for commercial production of bio-based succinic acid**

In 2014, around 4.5% of the raw materials we purchased worldwide were from renewable resources. We are advancing our research and development activities for products and production processes based on renewable raw materials. We also further established our “mass balance” method on the market in 2014. This method uses renewable raw materials from certified sustainable production in place of fossil resources from the very beginning of the value chain in the existing Production Verbund. Savings of fossil resources are calculated for each product. The formulation and quality of the end products remain unchanged. The method is currently applied for BASF products, such as superabsorbents, engineering plastics and dispersions, that are accordingly independently certified. We have been selling mass-balanced BASF polyamide since 2014.

Succinity GmbH, our joint venture with Corbion Purac, started up a facility for the commercial production of bio-based succinic acid in 2014. The plant, located in Montmeló, Spain, has an annual capacity of 10,000 metric tons. This process employs a bacterium that creates succinic acid naturally from various renewable raw materials. The succinic acid generated through these means has a better carbon footprint than that produced from fossil resources, which allows us to provide our customers with an economically and environmentally viable alternative to petrochemical raw materials. Succinic acid is a versatile chemical intermediate, used for example in the production of bioplastics, solvents, polyurethanes and plasticizers.

Since 2013, we have also provided our customers with 1,4-butanediol on a commercial scale using sugars as a renewable feedstock based on a licensing agreement with the company Genomatica Inc. Butanediol and its derivatives are used, for example, to manufacture plastics for the automotive and textile industries. In 2014, the polymer and fiber manufacturer INVISTA announced the commercial availability of bio-based LYCRA® brand spandex fibers; based on BASF's butanediol, these are made from renewable raw materials.

BASF is invested in the technology company Renmatix Inc., which owns a method for obtaining industrial sugar from biomass. This technology can expand the base of renewable resources for future processes. The partners announced a collaboration for the further development of the method at the end of 2013.

Together with Cargill and the German governmental agency for international cooperation, we also continued our project for the economical, environmentally friendly and socially responsible production of coconut oil in the Philippines. Our goal is to develop and implement sustainability standards for the certification and production of this oil. As a member of the Roundtable on Sustainable Palm Oil, BASF is involved in projects which include the conservation of biodiversity in the cultivation of palm oil. By 2015, we aim to use palm and palm kernel oil only from agriculture certified according to sustainability criteria.

Mineral raw materials

We investigate the origins of the minerals we use to see if they come from conflict mines, and reserve the right to conduct an external audit; we also reserve the right to, if necessary, terminate our business relationship with that supplier. Through a standardized questionnaire, new suppliers must disclose to us in advance if their products contain conflict minerals. Our suppliers have confirmed to us that they do not source their minerals from the Democratic Republic of Congo or its neighboring countries.

Preserving ecosystems

- **Our production sites reviewed for proximity to internationally protected areas**
- **MAQS® Beehive Strip launched in key European markets**

Biodiversity forms the foundation of ecosystem services. Internationally protected areas play a critical role in maintaining biodiversity around the world. This is why, in 2014, we once again investigated our production sites to discover which are located near internationally protected areas: 2% of our production sites (excluding Oil & Gas) are adjacent to a Ramsar Site and 1% to a Category I, II or III protected area of the International Union for the Conservation of Nature (IUCN). None of our production sites are adjacent to a UNESCO protected area. We did not discover any impact of our activities on biodiversity in these areas in 2014.

Moreover, we develop products that contribute to the preservation of biodiversity. For example, together with our Canadian partner NOD Apiary Products, we launched the MAQS® Beehive Strip in numerous key markets in Europe in 2014. These strips offer honeybees protection from the varroa mite, which is considered the greatest threat to bee health.



Responsible Care Management System



We act responsibly as an integral part of society and have set out the framework for our voluntary commitments in our Responsible Care Management System. We never compromise on the safety and security of our employees, contractors and neighbors as well as our facilities, transportation and products.

Strategy

- Updated process safety strategy
- Review of management system for process safety intensified in all regions
- Further standardization of safety review documentation

BASF's Responsible Care Management System comprises the global rules, standards and procedures for environmental and health protection, safety and security for the various stations along our value chain. Our regulations cover the transportation of raw materials, activities at our sites and warehouses, and distribution of our products as well as our customers' application of the products. At our sites, we address energy and climate protection as one of the topics covered by our energy management. Specifications for implementing these measures are laid out in binding directives that are introduced in consultation with employee representatives. These describe the relevant responsibilities, requirements and assessment methods. We regularly conduct audits to monitor our performance and progress, and apply the findings for our continual improvement.

We set ourselves ambitious goals for environmental and health protection, safety and security. Our guidelines and requirements are constantly updated. In 2014, for example, we updated our safety strategies for the continual improvement of process safety and intensified management system reviews in all regions. We also standardized the reporting of safety reviews through the use of a software program.

We assess risks in all areas ranging from research and production to logistics, and how these could affect the environment, the surrounding community or the safety and security of our employees. In our databases, we document accidents, near misses and safety-related incidents at our sites as well as along our transportation routes. We foster awareness of workplace safety and safe behavior in every individual with our worldwide safety initiatives.

For more on Responsible Care, see basf.com/responsible-care_e

Audits

- Short-notice audits conducted at 28 sites

Regular audits help ensure that standards are met for environmental and health protection, safety and security. We carry out audits at BASF sites and at companies in which BASF is a majority shareholder. We have defined our regulations for Responsible Care audits in a global Group directive. During our audits, we create an environmental, safety and security profile that shows if our performance is sufficient to properly address the existing hazard potential. If this is not the case, we agree on measures and conduct follow-up audits on their implementation soon afterward. One result of the audits showed the necessity of swiftly implementing new guidelines and processes, for example.

Our internal audit system complies with the standards for external auditing procedures ISO 19011 and OHSAS 18001. Worldwide, 191 BASF production sites are certified in accordance with ISO 14001 (2013: 200). We conducted short-notice audits on various topics worldwide in 2014, which included facility inspections and document reviews. In 2014, 121 environmental, safety and security audits were carried out at 88 sites, along with 73 short-notice audits. We audited 48 sites with respect to occupational medicine and health protection.

For more on occupational safety and health protection, see page 99 onward



Costs and provisions for environmental protection in the BASF Group (in million €)

	2014	2013
Operating costs for environmental protection	897	893
Investments in new and improved environmental protection plants and facilities ¹	349	325
Provisions for environmental protection measures and remediation ²	621	601

¹ Investments comprise end-of-pipe measures as well as integrated environmental protection measures.

² Values shown refer to December 31 of the respective year.

Safety, security and health

Transportation and storage



Our regulations and measures for transportation and warehouse safety cover the delivery of raw materials, the storage and distribution of chemical products among BASF sites and customers, and the transportation of waste from our sites to the disposal facilities.

Strategy

- Revised Group directive for transportation safety
- Updated process descriptions for classification of hazardous materials

We applied the experiences of past years to update our Group directive for transportation safety in 2014. This included specifying responsibilities within our worldwide network and ensuring consistent standards. We also revised process descriptions for classification and product clearance in accordance with dangerous goods regulations. In doing so, we ensure that chemical products are classified according to globally uniform standards in line with transportation law, and are cleared for their various modes of transport.

In 2014, we nearly achieved our goal of reducing the number of transportation accidents worldwide by 70%, or to 0.17 per 10,000 shipments, between 2003 and 2020 (0.20 accidents, which represents a reduction of 64.3%). At 35, the absolute number of transportation accidents was at a very low level. The number of product spillages during shipment in 2014 amounted to 0.23 per 10,000 shipments (2013: 0.23).

In 2014, third-party negligence in the delivery of raw materials to a BASF site in India led to a serious transportation accident.

Accident prevention and assistance

- Audits conducted for safety in container shipping
- Risk assessment guideline implemented

We stipulate worldwide requirements for our logistics service providers and assess them in terms of safety and quality. In 2014, we evaluated around 600 companies in all regions. Our experts use our own evaluation and monitoring tools as well as internationally approved schemes.

We audited large-scale warehouses at our two European Verbund sites in 2014 to increase safety in container shipping, focusing on container loading and the accompanying documents.

We evaluate the risks in transporting raw materials with high hazard potential: To further push uniform transportation safety standards in the chemical industry, we worked with the European Chemical Industry Council, CEFIC, to develop a guideline for conducting risk assessments in 2013. We implemented this guideline worldwide in 2014. Based on it, risk assessments were conducted for naphtha in China, acrylic acid in Thailand and butyl acrylate in Brazil. More than 1,000 employees at our three European sites in Antwerp, Belgium, and Schwarzheide and Ludwigshafen, Germany, took part in our practical dangerous goods training using walk-in tank wagons and tank containers.

Furthermore, we raised our supply chain safety standards even higher in 2014. We specified measures for the dangerous goods inspections performed in our logistics processes. The new process description based on this is initially valid throughout Europe, and will be subsequently carried over to the other regions.

Activities in external networks

We are actively involved in external networks that quickly provide information and assistance in emergencies. These include the International Chemical Environmental (ICE) initiative and the German Transport Accident Information and Emergency Response System (TUIS), in which BASF plays a coordinating role. In 2014, we provided assistance to other companies in around 200 cases worldwide. We apply the experience we have gathered to set up similar systems in other countries: In 2014, we provided support in the form of tutorials and seminars, for example.

For more, see basf.com/distribution_safety and basf.com/emergency_response

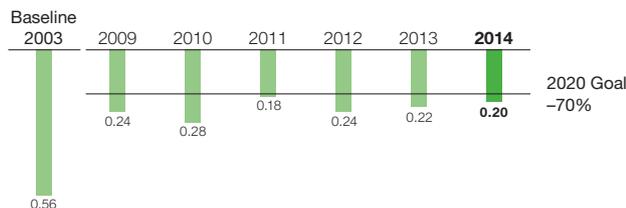


2020 Goal

Fewer transportation accidents per 10,000 shipments
Baseline 2003

-70%

Transportation accidents per 10,000 shipments
(Reduction compared with baseline 2003: -64.3%)



Production



We never compromise on safety. For occupational safety and health protection, we rely on comprehensive preventive measures in addition to the involvement of all employees and contractors. Our global safety and security concepts serve to protect our employees, contractors and neighbors as well as to prevent property damage and protect information and company assets. In this way, we help prevent production outages and damage to the environment.

Global goals

We have set ourselves ambitious goals for occupational safety and health protection. By 2020, we want to reduce the number of work-related accidents per million working hours by 80% to 0.65 work-related accidents compared with baseline 2002. We measure our performance in health protection using the Health Performance Index (HPI). The HPI comprises five components: confirmed occupational diseases, medical emergency drills, first aid training, preventive medicine and health promotion¹.

For more on the management approach, see page 97

2020 Goal Reduce work-related accidents per one million working hours Baseline 2002 <h1 style="font-size: 2em; margin: 0;">-80%</h1>	Annual goal Health protection Health Performance Index Maximum score 1.0 <h1 style="font-size: 2em; margin: 0;">>0.9</h1>
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Occupational safety

- Employees receive training worldwide on improving skills in safe behavior

In order to achieve our ambitious goal for occupational safety, we particularly rely on the commitment of our employees and on clearly defined safety rules. In 2014, approximately 75,000 employees and contractors at around 300 sites actively participated in our worldwide safety initiatives.

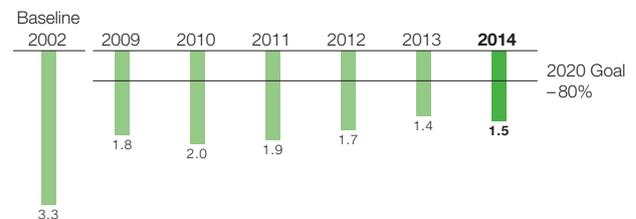
We especially promote safe conduct through our systematic risk assessments, seminars and worldwide safety standards, and we regularly audit their implementation. Beyond legally prescribed safety instructions, we provided more than 49,000 employees around the world with intensive training on the topic of occupational safety in 2014. This included further training for around 14,000 employees at our "Safety Champions Training Center" at the Ludwigshafen site in order to boost safety-conscious behavior and prevent work-related accidents.

In 2014, 1.5 work-related accidents per million working hours occurred at BASF sites worldwide (2013: 1.4), of which 5% were related to chemicals. Compared with baseline 2002, the lost-time injury rate declined by 54.5%. We want to achieve further reductions by constantly strengthening our safety culture. There were 1.8 work-related accidents per million working hours for contractors in 2014 (2013: 2.1). We recorded no fatal work-related accidents in 2014.

For more on occupational safety, see basf.com/occupational_safety

Lost-time injuries per million working hours

(Reduction from baseline 2002: -54.5%)



Health protection

- 2014 focuses on back health
- Regular health promotion programs offered to employees

Our global health management serves to promote and maintain the health and productivity of our employees. This was supported by numerous emergency drills and health promotion measures in 2014. Worldwide standards for occupational medicine and health protection within BASF are specified in a directive that is implemented by a global network of experts. We regularly conduct occupational medical audits to monitor our performance.

With a Health Performance Index of 0.91, we were able to fulfill the ambitious goal of exceeding 0.9 each year (2013: 0.89). Our 2014 global employee health campaign centered on maintaining a healthy back. In 2015, the focus will be on good nutrition. We raise employee awareness of these topics through offers tailored toward specific target groups.

The BASF health checks introduced in 2013 form the foundation of our global health promotion program and are offered to employees at regular intervals.

For more on occupational medicine, health promotion campaigns and the HPI, see basf.com/health_protection

¹ Each component contributes a maximum of 0.2 to the total score. The highest possible score is 1.0. Our goal is to reach a value of more than 0.9 every year.

Process safety

- Safety concepts updated and improved
- Global requirements introduced for explosion protection

When designing a new facility, we focus on prevention and apply a five-step review system from conception to startup. It involves early consideration of the most important aspects of safety and protection of health and the environment, and monitors these in every stage of planning. We use a risk matrix to assess the estimated probability and potential impact of risks, and stipulate appropriate protective measures.

In order to constantly improve the safety of our production facilities worldwide, we are continuing to update the safety concepts in all of our plants. We review their implementation in ten-year intervals in plants with a medium to high hazard potential. In 2014, we used software to standardize the documentation of safety reviews. Moreover, we further intensified the supervision of the process safety management system in all regions. In order to further improve explosion protection in our production plants, we introduced a global requirement in 2014. We enhanced our training measures for process safety in 2014 and instructed more than 11,000 employees worldwide.

Since 2008, we have used the number of process safety incidents as a key indicator, using the definition set by the European Chemical Industry Council (CEFIC). This KPI comprises fire, explosions and the release of substances. In 2014, this KPI was at 2.1 incidents per million working hours. We perform a detailed investigation into every incident, analyze the root causes and use the findings to further optimize our process safety.

We continue to take part in a working group of the International Council of Chemical Associations (ICCA) for the development of a globally standardized KPI system for process safety.

 For more on process safety, see basf.com/process_safety

Hazard prevention and corporate security

- Requirements defined for emergency response and fire prevention
- SPIDER Emergency Response and Information Center Verbund implemented in Europe

In order to ensure uniformly high standards around the world for safety and security, health and environmental protection, we stipulated requirements for emergency response planning and fire prevention in the BASF Group in 2014. We are prepared for potential incidents in our production plants with specific emergency response plans that involve, depending on the situation, partners and suppliers as well as cities, communities and neighboring companies.

We regularly check our emergency systems and drill procedures with employees, contractors and local authorities. In 2014, we implemented our SPIDER Emergency Response and Information Center Verbund in Europe, which enables experts from the site fire department, emergency medical team, site security and environmental protection around Europe to work together even more quickly and reliably across different sites. Our central emergency response supports local emergency response units around the world and around the clock.

We audit and review how measures are implemented for the comprehensive protection of our employees and the company – for example, from loss of knowledge – as well as for the worldwide protection of our sites against third-party interference. All of our security personnel have been instructed on aspects of human rights related to site security, such as the right to liberty and security of person. We also require all contractors involved in this area to comply with human rights and we conduct regular inspections. Investment projects are analyzed for potential risks in planned production facilities and for the safety, security and health of our employees. Business travelers, transferees, and local employees in countries with elevated security risks are informed about appropriate protection measures and individually counseled where necessary.

In 2014, we built up our worldwide network of information protection officers to more than 600. They carry out our globally mandatory requirements and conduct seminars on safety-conscious behavior. In addition, more than 2,800 employees took part in information protection training measures in 2014.

 For more on corporate security, visit basf.com/corporate-security

For more on emergency response, see basf.com/emergency_response



Products



We review the safety of our products from research to production and finally to our customers' use of the products. We work continually to ensure that our products pose no risk to people or the environment when they are used responsibly and in the manner intended.

Strategy

- **Global directives with uniformly high standards for product stewardship**

We ensure uniformly high standards for product stewardship worldwide and our voluntary initiatives go beyond legal requirements. We monitor the implementation of our guidelines with regular audits.

We provide extensive information on our chemical sales products to our customers and the public with safety data sheets in more than 30 languages. This is achieved with the help of a global database in which we maintain and evaluate continuously updated environmental, health and safety data for our substances and products. Our global emergency hotline network provides information around the clock.

We offer our customers training in the safe use of our products and keep them informed early on of any changes in regulations. For example, a new E.U. directive requires customers to mark their products with additional warnings for allergy sufferers starting in 2015. We assist them by providing comprehensive information so that our customers can fulfill these additional obligations. With an eye on consumer protection criteria, we also work continuously with our customers on the optimization of our products. Furthermore, we use our Eco-Efficiency Analysis to advise our customers on the evaluation of product risks and support them in improving the carbon footprint of their products.

With our global goals for risk assessment, we are supporting the implementation of initiatives such as the Global Product Strategy (GPS) of the International Council of Chemical Associations (ICCA). GPS is establishing worldwide standards and best practices to improve the safe management of chemical substances. In addition, we are also involved in workshops and training seminars in developing countries and emerging markets. In 2014, for example, we conducted training sessions for chemical industry representatives on GPS in China, Ghana, India, Russia and Thailand. In order to facilitate public access to information, we are participating in the setup of an ICCA online portal that provides more than 4,100 GPS safety summaries.

For more on GPS, see basf.com/gps_e

Global goals

By 2020, we will conduct risk assessments for all substances and mixtures BASF sells worldwide in quantities of more than one metric ton per year. We already reached 61.4% of this goal in 2014 (2013: 56%). The risk associated with using a substance is determined by the combination of its hazardous properties and its potential exposure to people and the environment.

2020 Goals

Risk assessment of products
that we sell in quantities of more
than one metric ton per year

>99%

REACH and other legal requirements

- **Third registration phase of REACH begun**

After completing the second registration phase in 2013, we are now working continually on registering substances produced in volumes between one and one hundred metric tons per year for the third registration deadline of the E.U. chemicals regulation, REACH. We expect to be done by 2018. At the same time, we also constantly update the existing registration dossiers and support the relevant E.U. member state authorities in evaluating an increasing number of substances. When it comes to REACH, we maintain close contact with our customers and suppliers.

Another contribution BASF makes to international chemical safety is through our support of the United Nations' initiative to implement a Globally Harmonized System of Classification and Labeling of Chemicals.

For more on auditing of suppliers, see page 93 onward

Ecological and toxicological testing

■ Use of alternative and complementary methods for animal studies

Before launching products on the market, we subject them to a variety of ecological and toxicological testing. We apply state-of-the-art knowledge in the research and development of our products. We only conduct animal studies when they are required by law. In some cases, animal studies are stipulated by REACH and other national legislation outside the European Union in order to obtain more information on the properties and effects of chemical products.

We adhere to the specifications laid down by the German Animal Welfare Act as well as the requirements of the Association for Assessment and Accreditation of Laboratory Animal Care – the highest standard for laboratory animals in the world. We are continually developing and optimizing alternative and complementary methods, and put these into practice whenever possible and accepted by the authorities. BASF spent €2.8 million for this purpose in 2014. We use alternative and complementary methods in more than a third of our tests. Currently, 27 alternative methods are being used in our labs and another 16 are in the development stage. One focus area of our research in 2014 and subsequent years is the development of alternative methods for testing the potential of substances that negatively affect organisms' growth and development.

Furthermore, our "Experimental Toxicology and Ecotoxicology" department became a member of the European Union Network of Laboratories for the Validation of Alternative Methods (EU-NETVAL) in 2014.

 For more on alternative methods, see basf.com/alternative_methods

Management of new technologies

■ Continual safety research on nano- and biotechnology

New technologies such as nanotechnology or biotechnology offer solutions for key societal challenges – for example, in the areas of climate protection or health and nutrition.

We developed a "Nanotechnology Code of Conduct" that stipulates the safe handling of nanomaterials. We are constantly expanding our knowledge of nanomaterial safety. Over the past years, we have conducted more than 180 toxicological and ecotoxicological studies and participated in around 30 different projects related to the safety of nanomaterials. We published the results in 66 scientific articles. One important finding is that toxicity is determined not by the size of the particles but by the intrinsic properties of the substance.

Since 2014, we have been developing a strategy for the targeted study and classification of nanomaterials within the framework of the European Centre for Ecotoxicology and Toxicology of Chemicals (ECETOC). Based on the results of our investigations into nanomaterial safety, we have proposed a tiered approach for testing and evaluating nanomaterials for REACH. We are working with the European Chemicals Agency (ECHA), the OECD and national authorities on its further development.

In the use of biotechnology, we follow the code of conduct of EuropaBio, the European association for biotechnology industries. We constantly improve our product safety activities in the field of biotechnology in order to effectively minimize potential risks and ensure that all standards and national laws are met. Our internal risk management is based on the protection of people, animals and the environment. We implemented a scorecard system to monitor the risks of working with biotechnology. It ensures compliance with standards and transparent processes at BASF.

 For more on nanotechnology and the Nanotechnology Code of Conduct, see basf.com/nanotechnology

For more on biotechnology, see basf.com/biotechnology



Environment

Energy and climate protection



As a company in an energy-intensive industry, we are committed to energy efficiency and global climate protection. An important contribution to this is made by our efforts to continue reducing emissions along the value chain, and by our climate protection products. We utilize energy-efficient production processes and efficient technologies to generate steam and electricity. We have implemented a comprehensive energy management program.

Strategy

- We are committed to energy efficiency and global climate protection along the value chain
- We aim to certify our energy management system worldwide

We want to reduce greenhouse gas emissions in our production and along the entire value chain. We have thoroughly analyzed the greenhouse gas emissions from our production in the past few years and implemented comprehensive reduction measures. This is how, for example, we have been able to reduce nitrous oxide emissions by 95% since 1997.

To supply our production sites with energy, we rely on highly efficient combined heat and power plants with gas and steam turbines and the use of heat released by production processes. Comparisons with European emissions trading benchmarks show that our greenhouse gas-intensive chemical plants also operate at above-average efficiency. Around 50% of BASF Group emissions in 2014 resulted from steam and electricity generation in our power plants as well as in our energy suppliers' power plants.

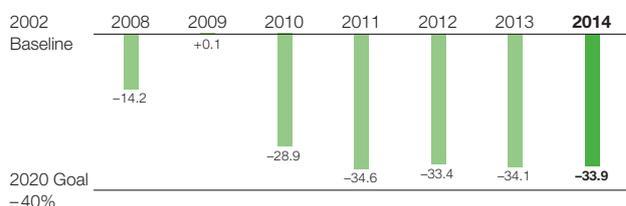
Our success also depends on the long-term security and competitiveness of our energy supplies. Furthermore, we are committed to energy management that helps us analyze and continue to improve the energy efficiency of our plants. In 2014, we were able to finalize the DIN EN ISO 50001 certification of our energy management systems at BASF SE as well as the great majority of German production sites. Moreover, our site in Tarragona, Spain, and our four sites in South Korea also received this certification.

We offer our customers solutions that help prevent greenhouse gas emissions and improve energy efficiency. About a third of our total annual research spending goes toward the development of these products and the optimization of our processes.

Our climate protection activities are based on comprehensive emissions controlling. We report on greenhouse gas emissions in accordance with the Greenhouse Gas Protocol Standard, as well as the sector-specific standard for the chemical industry. According to CDP, an international organization that analyzes companies' climate protection data, BASF is among the top companies in the world in terms of transparency and completeness in climate protection reporting. In reporting to CDP, our experts perform an annual analysis of the opportunities and risks that climate change poses for BASF.

For more on climate protection, see basf.com/climate_protection
 For more on the Responsible Care Management System, see page 97

Reduction of greenhouse gas emissions per metric ton of sales product in BASF operations excluding Oil & Gas^{1,2} (in %)



¹ The figures for the 2011 business year and earlier were not adjusted to the new accounting and reporting standards IFRS 10 and 11. For more information on our data collection methods, see page 4.
² The figures for the 2012 business year and earlier were not adjusted to the newly applied factors for global warming potential. For more information on our data collection methods, see page 104.

BASF Group's greenhouse gas emissions according to the Greenhouse Gas Protocol¹ (1,000 metric tons of CO₂ equivalents)

BASF operations including Oil & Gas	GWP factor (2002) ²	GWP factor (2013, 2014) ²	2002	2013	2014
Scope 1					
CO ₂ (carbon dioxide)	1	1	14,634	16,976	16,774
N ₂ O (nitrous oxide)	310	298	6,407	759	669
CH ₄ (methane)	21	25	244	87	70
HFC (hydrofluorocarbons) ²	140–11,700	12–14,800	61	81	99
SF ₆ (sulfur hexafluoride)	23,900	22,800	0	1	0
Scope 2					
CO ₂	1	1	5,243	3,987	3,911
Total			26,589	21,890	21,523
Sale of energy to third parties (Scope 1)³					
CO ₂	1	1	347	927	838
Total			26,936	22,817	22,361
Offsets (certificates sold)⁴			0	142	0
Total including offsets			26,936	22,959	22,361

¹ BASF reports separately on direct and indirect emissions from the purchase of energy. Scope 1 emissions encompass both direct emissions from production and generation of steam and electricity, as well as direct emissions from the generation of steam and electricity for sale. Scope 2 emissions comprise indirect emissions from the purchase of energy for BASF use.

² GWP factor: global warming potential of the individual gases expressed as a factor of CO₂ emissions. The GWP factor is based on the Intergovernmental Panel on Climate Change (IPCC) 1995 (2002 emissions) and IPCC 2007, errata table 2012 (2013 and 2014 emissions). HFC (hydrofluorocarbons) are calculated using the GWP factors of the individual components.

³ Also includes sale to BASF Group companies; as a result, emissions reported under Scope 2 can be reported again in some cases.

⁴ Voluntary Carbon Units (VCU) certificates from measures to reduce emissions, which were sold to third parties

Global goals

- Reduction of 33.9% in specific greenhouse gas emissions in 2014 compared with baseline 2002
- Energy efficiency increases by 19.0% in 2014 compared with baseline 2002

By 2020, we aim to reduce our greenhouse gas emissions per metric ton of sales product by 40% compared with baseline 2002. We achieved a reduction of 33.9% in 2014 (2013: reduction of 34.1%). Since 1990, we have been able to lower our overall greenhouse gas emissions from BASF operations (excluding Oil & Gas) by 48.8% and even reduce specific emissions by 74.1%.

By 2020, we want to improve the energy efficiency of our production processes by 35% compared with 2002. We were able to achieve an increase of 19.0% in 2014 (2013: 19.8%). This slight reduction compared with the previous year was attributable in part to the lower capacity utilization of our combined heat and power plants.

2020 Goal

Reduce greenhouse gas emissions per metric ton of sales product
Baseline 2002
BASF operations excluding Oil & Gas

-40%

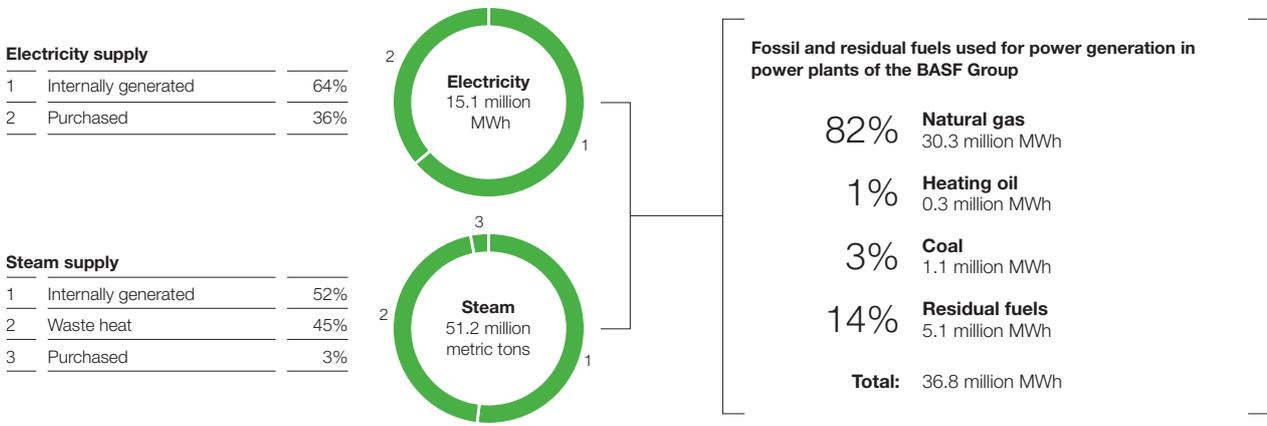
2020 Goal

Increase energy efficiency
Baseline 2002
BASF operations excluding Oil & Gas

+35%

In 2014, we already nearly achieved our 2020 goal of reducing carbon emissions per amount and distance of transported natural gas by 10% compared with 2010 in the natural gas transportation business. GASCADE is no longer fully consolidated in the Group financial statements; since January 1, 2014, it has been considered an associated company and accounted for using the equity method. For this reason, we are no longer reporting on our goal to reduce greenhouse gas emissions in the natural gas transport business.

Energy supply of the BASF Group 2014



Energy supply and efficiency

- **Verbund system as important component of our energy efficiency strategy**
- **Research projects initiated on use of renewable energy sources**

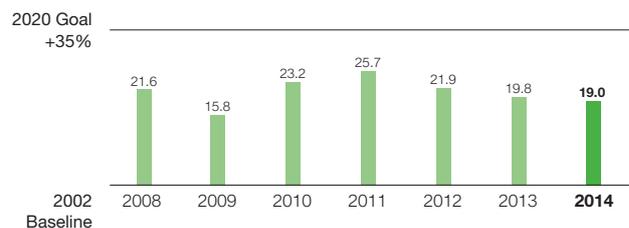
Gas and steam turbines in our combined heat and power plants enable us to fulfill around 70% of the electricity demand of the BASF Group. Compared with separate methods of generating steam and electricity, we saved 11.8 million MWh of fossil fuels and prevented 2.4 million metric tons of carbon emissions in 2014. The Verbund system is an important component of our energy efficiency strategy: Waste heat from one plant's production process is used as energy in other plants. In this way, we saved around 17.9 million MWh in 2014, which corresponds to a savings of 3.6 million metric tons' worth of carbon emissions. With combined power and steam generation as well as our continuously enhanced Energy Verbund, we were thus able to prevent 6 million metric tons of carbon emissions in 2014.

We were able to further optimize the resource and energy consumption of our production in numerous projects around the world in 2014. Various process improvements led to steam and electricity savings. We further intensified heat integration so that usable heat from production processes is not released into the environment, but instead provides energy to the plants. For example, we increased energy efficiency for our butadiene and ethylene oxide facilities in Ludwigshafen by optimizing the plant control systems.

We also rely on locally available energy sources for the supply of energy at our sites. Especially in the growing Asian market, we and our energy suppliers must make use of coal as an energy source to a certain extent, since the more climate-friendly natural gas is not available in sufficient quantities at competitive prices.

We are exploring the use of renewable energies. These can only become a permanent part of our energy mix if they are competitive in terms of supply security and cost. With numerous research projects, we contribute to increasing the efficiency of technologies for the use of renewable energy sources. For example, Deutsche Nanoschicht GmbH – a 100% subsidiary of BASF – has developed an innovative method for producing high-temperature superconductors in a more efficient and environmentally friendly manner. In cooperation with the Karlsruhe Institute of Technology, high-temperature superconductors are to be optimized for various applications in energy technology.

Increase in energy efficiency of production processes in BASF operations excluding Oil & Gas¹ (in %)



¹ The figures for the 2011 business year and earlier were not adjusted to the new accounting and reporting standards IFRS 10 and 11. For more information on our data collection methods, see page 4.

Key indicators for energy and climate protection in BASF operations excluding Oil & Gas

	Baseline 2002 ¹	2013	2014
Greenhouse gas emissions ² (million metric tons of CO ₂ equivalents)	24.713	20.708	20.550
Specific greenhouse gas emissions (metric tons of CO ₂ equivalents per metric ton of sales product)	0.897	0.591	0.593
Primary energy demand ³ (million MWh)	55.759	59.164	58.962
Energy efficiency (metric tons of sales product per MWh)	0.494	0.592	0.588

¹ The values for baseline 2002 were not adjusted to reflect the newly applied global warming potential factors.

² Scope 1 and Scope 2 according to the Greenhouse Gas Protocol Standard, excluding emissions from the generation of steam and electricity for sale to third parties

³ Primary energy used in BASF's plants as well as in the plants of our energy suppliers to cover energy demand for production processes

Corporate carbon footprint and climate protection products

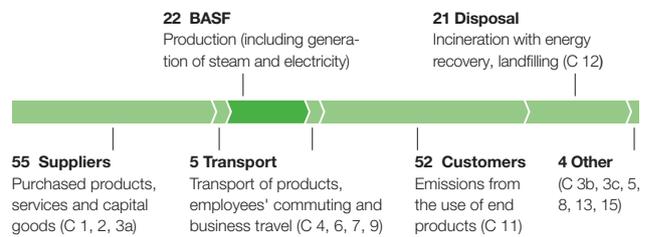
- Reporting on greenhouse gas emissions along the entire value chain
- Customers' use of climate protection products sold in 2014 avoids 520 million metric tons of carbon equivalents

BASF has been publishing a comprehensive corporate carbon footprint since as early as 2008. This reports on all emissions along the value chain and shows the volume of emissions prevented through the use of our climate protection products. We plan our climate protection activities along the value chain based on our corporate carbon footprint. In 2014, for example, we implemented a technical improvement in our steel drums together with one of our packaging material suppliers. This reduced the amount of raw materials needed for production and decreased the emission of greenhouse gases.

Through various measures to reduce our raw material requirements, the emission of greenhouse gases associated with producing these raw materials was decreased by a total of around 100,000 metric tons in 2014.

We reevaluated our product portfolio in terms of sustainability considerations in 2014. This included identifying solutions whose application makes a positive contribution in terms of climate protection and energy. Dubbed "Accelerator" products, these are what we focus on when referring to climate protection products. One example is synthetic sodium nitrate, used as a heat transfer medium in solar thermal power plants. This product is used instead of thermal oils. It increases the operating temperature, and with that, electricity yield.

Greenhouse gas emissions along the BASF value chain in 2014¹
(in million metric tons of CO₂ equivalents)



¹ According to Greenhouse Gas Protocol, Scope 1, 2 and 3 (categories within Scope 3 shown in parentheses)

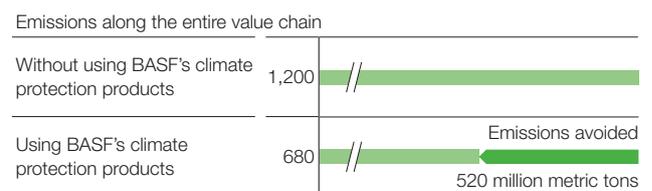
An analysis of 24 climate protection product groups revealed that customers' use of products sold in 2014 avoids 520 million metric tons of CO₂ equivalents. The calculation of avoided greenhouse gas emissions was based on the new chemical industry standard of the ICCA and the World Business Council for Sustainable Development (WBCSD). Every product makes an individual contribution in the value chain. Value chains are assessed in terms of BASF's economic share of the respective climate protection product. On average, 11% of the emissions avoided were attributable to BASF in 2014.

For more on our emissions reporting, see basf.com/corporate_carbon_footprint

For more on the sustainability analysis of our product portfolio, see page 31 onward



Prevention of greenhouse gas emissions through the use of BASF products (in million metric tons of CO₂ equivalents)



Water



Water is a fundamental component in our production. We use water as a coolant, solvent and cleaning agent, as well as to make our products. We are committed to responsible water use in our production sites' water catchment areas as well as along the entire value chain. To this end, we have set ourselves global goals.

Strategy

- **BASF products contribute to sustainable water management**

We aim to use water as sparingly as possible and further reduce emissions to water. To do so, we have set out a Group directive with globally applicable standards. We are exploring measures for implementing sustainable water management, especially at production sites in water stress areas. One of our aims here is to identify savings potential in order to use as little water as possible, particularly in water stress areas.

We offer our customers solutions that help purify water, use it more efficiently and reduce pollution. Our water solution products such as inge® ultrafiltration technology and the Sokalan® product line make a major contribution to sustainability. In Accra, Ghana, these products were used in the construction of a desalination plant that can generate up to 60,000 cubic meters of drinking water per day – enough to supply half a million people. A future desalination plant in Jamnagar, India, will feature inge®'s T-Rack® 3.0 ultrafiltration modules. This will supply one of the largest refinery complexes in the country with up to 170,000 cubic meters of purified process water per day.

In order to ensure transparency in our reporting on water, we once again took part in CDP reporting in 2014. We consider all aspects of the topic of water, including societal

implications. For example, we signed the WBCSD's Pledge for Access to Safe Water, Sanitation and Hygiene at the Workplace at the end of 2013.

For more on the CDP water survey, visit basf.com/cdp_e

Global goals

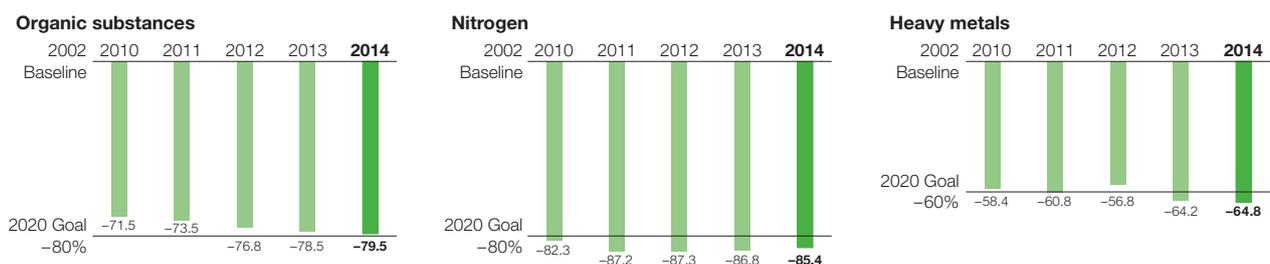
- **Reduction of emissions to water**
- **High standards, especially for water stress areas**

We have set ourselves the goal of reducing emissions to water of organic substances and nitrogen by 80% by 2020 compared with baseline 2002; we want to reduce emissions of heavy metals by 60%.

By 2020, we aim to reduce the withdrawal of drinking water from supply sources for production by half compared with baseline 2010. In 2014, we were able to reduce this amount by 26.3% (2013: 25.3%).

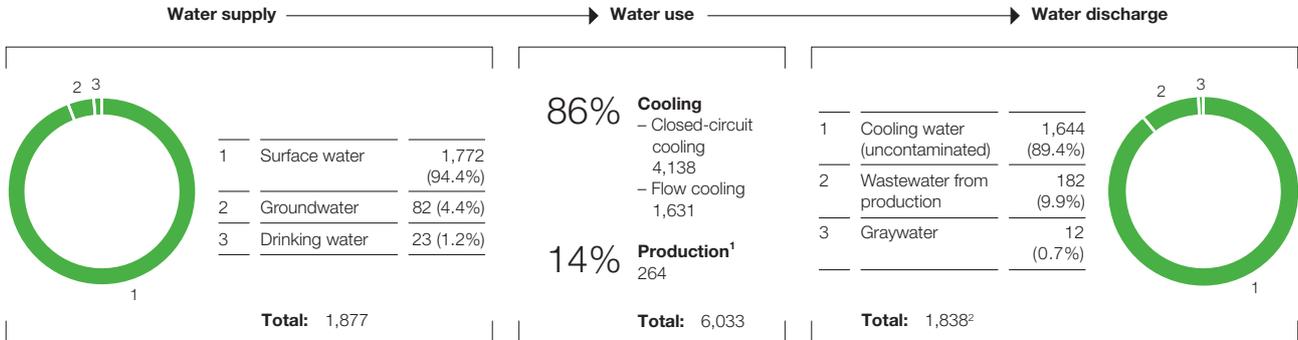
In 2014, we achieved 29.7% of our goal to establish sustainable water management at all sites in water stress areas by 2020. We pursue this by applying the European Water Stewardship (EWS) standard. After introducing the standard at our European sites in 2013, we began its implementation in North America and China in 2014. We have also introduced the EWS standard at the Ludwigshafen site, even though it is not located in a water stress area. An external audit awarded us gold-level certification in 2014 for our water management and extensive application of the EWS standard in Ludwigshafen and at the production site in Tarragona, Spain. In total, around 22% of our production sites were located in water stress areas in 2014. Around 6.5% of total water used by BASF was abstracted from these areas, of which 85.2% was seawater.

Reduction of emissions to water in BASF operations excluding Oil & Gas¹ (in %)



¹ The figures for the 2011 business year and earlier were not adjusted to the new accounting and reporting standards IFRS 10 and 11. For more information on our data collection methods, see page 4.

Water in the BASF Group in 2014 (million cubic meters per year)



¹ Total from production processes, graywater, rinsing and purification in production

² The difference between the volume of water supplied and discharged is mainly attributable to evaporation losses during closed-circuit cooling.

<p>2020 Goal</p> <p>Reduce the use of drinking water in production processes Baseline 2010 BASF operations excluding Oil & Gas</p> <p style="font-size: 2em; font-weight: bold; text-align: center;">-50%</p>	<p>2020 Goal</p> <p>Sustainable water management in water stress areas Baseline 2010 BASF operations excluding Oil & Gas</p> <p style="font-size: 2em; font-weight: bold; text-align: center;">100%</p>
<p>Fewer emissions</p> <p>We want to reduce emissions to water of organic substances and nitrogen by 80% and of heavy metals by 60% compared with baseline 2002. BASF operations excluding Oil & Gas</p>	

Further reduction of emissions

■ **Goal achieved to reduce emissions to water**

Around 194 million cubic meters of wastewater were discharged from BASF production sites in 2014 (2013: 192 million cubic meters). At 3,200 metric tons (2013: 2,900 metric tons), emissions of nitrogen to water were reduced by 85.4% compared with 2002. Around 18,700 metric tons of organic substances were emitted in wastewater (2013: 19,700 metric tons), representing a reduction of 79.5% since 2002. Our wastewater contained 21.5 metric tons of heavy metals (2013: 21.9 metric tons), representing a worldwide reduction of 64.8% compared with 2002. Phosphorus emissions amounted to 341 metric tons (2013: 339 metric tons). This means we have achieved our goal of reducing emissions to water.

Our wastewater is treated through different methods depending on the type and degree of contamination – including biological processes, oxidation, membrane technologies, precipitation or adsorption.

To avoid unanticipated emissions, we will review our water protection concepts at all production sites by the end of 2015. At our sites in Ludwigshafen, Germany, and Geismar, Louisiana, we expanded online wastewater monitoring in order to detect unanticipated emissions at an even earlier stage. These new monitoring systems allow us to track and analyze relevant pollutants even more quickly and reliably, and to take measures if necessary. We were also able to further optimize the performance of the wastewater treatment facilities at our Kuantan site in Malaysia.

Water use

■ **Using water responsibly**

We recirculate water as much as it is feasible in order to withdraw less from supply sources. Our larger sites have recirculating plants that allow water to be reused several times and that reduce the temperature of used cooling water before it is discharged back into a body of water. To protect the Rhine River, we have committed to the step-by-step reduction of heat input from the Ludwigshafen site when set temperature limits are exceeded, for example as a result of long heat waves or low river levels.

The supply, treatment, transportation and recirculation of water is associated with a high energy demand. We employ various means in our efforts to keep this as low as possible.

For more, see basf.com/water



Air and soil



We want to further reduce emissions to air from our production, protect the soil and prevent waste. We have set ourselves standards for doing so in a global directive. If no recovery options are available, we dispose of waste in a correct and environmentally responsible manner.

Strategy

- Raw Material Verbund helps prevent and reduce waste
- Professional disposal of hazardous waste

Regular monitoring of our emissions to air is a part of environmental management at BASF. Aside from greenhouse gases, we also measure emissions of other pollutants into the atmosphere. Our reporting does not take into account air pollutant emissions from oil and gas operations due to their substantial fluctuation during exploration phases.

Our Raw Material Verbund helps us prevent and reduce waste. We regularly carry out audits to inspect external waste management companies, ensuring that our hazardous waste is properly disposed of.

2020 Goal

Reduce emissions of air pollutants
 Baseline 2002

-70%

Emissions to air

Further reduction of emissions

By 2020, we aim to decrease absolute emissions of air pollutants from our chemical plants worldwide by 70% in comparison with baseline 2002. In 2014, this reduction was at 63.2%, to 31,505 metric tons (2013: 32,385 metric tons). Emissions of ozone-depleting substances as defined by the Montreal Protocol totaled 36 metric tons in 2014 (2013: 28 metric tons). Emissions of heavy metals totaled 4 metric tons (2013: 4 metric tons).

We were able to considerably reduce our emissions of nonmethane volatile organic compounds (NMVOC) in 2014. This was largely thanks to the increased use of a solvent recovery plant at our site in Australia, through which around 550 metric tons of emissions can be avoided every year.

In addition, we have, for example, replaced 30 older-model locomotives with a new fleet of diesel locomotives at our sites in Ludwigshafen and Schwarzheide in Germany, and in Antwerp, Belgium, since 2014. The modern locomotives increase productivity and reduce emissions to air, further avoiding 300 metric tons of carbon dioxide each year.

Emissions to air¹ (in metric tons)
 Air pollutants from BASF operations excluding Oil & Gas

	2002 ²	2011	2012	2013	2014
CO (carbon monoxide)	46,208	4,419	4,264	4,547	4,635
NO _x (total NO ₂ [nitrogen dioxide] + NO [nitrogen monoxide], calculated as NO ₂)	15,045	13,003	11,507	11,551	11,697
NMVOCs (nonmethane volatile organic compounds)	15,005	6,127	6,148	5,760	4,881
SO _x (total various sulfur oxides)	6,633	4,483	3,423	4,489	4,506
Dust	1,734	3,069	2,858	3,542	3,465
NH ₃ /other (NH ₃ [ammonia] and other inorganic substances)	994	3,263	2,382	2,496	2,321
Total	85,619	34,364	30,581	32,385	31,505

¹ The figures for the 2011 business year and earlier were not adjusted to the new accounting and reporting standards IFRS 10 and 11. For more information on our data collection methods, see page 4.

² Baseline

Management of waste and contaminated sites

- Reduction of total waste volume
- New database being set up for contaminated sites

We regularly explore possibilities for preventing waste. If waste is unavoidable, we perform an analysis for recycling or energy recovery. Total waste volume decreased by 16% in 2014. This was largely attributable to more detailed assessment of waste streams as well as to the reduction in mineral waste from construction activities.

We develop remediation solutions in order to balance costs, nature conservation, climate protection concerns, legal requirements and transportation volumes. After stipulating global standards for contaminated site management in 2013, we began working on a database in 2014 containing the most significant sites. Current remediation measures around the world continued to run on schedule in 2014 and planning was concluded on future landfill remediation projects.



Waste management, BASF Group (in million metric tons)

	2014	2013
Total waste generation¹	2.07	2.47
Thereof from oil and gas exploration	0.05	0.14
Waste recovered	0.71	0.73
Recycled	0.30	0.31
Thermally recovered	0.41	0.42
Waste disposed of	1.36	1.75
In underground landfills	0.12	0.12
In above-ground landfills	0.52	0.80
Through incineration	0.72	0.82
Classification of waste for disposal²		
Nonhazardous waste	0.42	0.44
Hazardous waste	0.94	1.31
Transported hazardous waste	0.23	0.33

¹ Comprises all production waste and hazardous waste from construction activities

² The classification of waste into hazardous and nonhazardous waste is performed according to local regulations.

Forecast

Opportunities and risks report

<h3>Opportunities</h3> <p>Potential successes that exceed our defined goals</p>	<h3>Risks</h3> <p>Events that can negatively impact the achievement of our goals</p>	<h3>Risk management</h3> <p>Identifying opportunities and risks as early as possible and planning effective courses of action</p>
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The goal of BASF's risk management is to identify and evaluate opportunities and risks as early as possible and to take appropriate measures in order to seize opportunities and limit business losses. The aim here is to avoid risks that pose a threat to BASF's continued existence and to make improved managerial decisions to create lasting value. We understand risk to be any event that can negatively impact the achievement of our short-term operational or long-term strategic goals. We define opportunities as possible successes that exceed our defined goals.

In order to effectively measure and manage identified opportunities and risks, we quantify these in terms of probability and economic impact in the event they occur. We use statistical methods to aggregate opportunities and risks into risk factors. This way, we achieve an overall view of opportunities and risks at a portfolio level, allowing us to take effective measures for risk management.

Overall assessment

- Significant risks arise from overall economic developments and volatility in exchange rates and margins as well as geopolitical conflicts
- No threat to continued existence of BASF

We expect the global economy to continue to grow in the next two years. We see significant risks in a considerable slowdown of the Chinese economy that would result from a potential real estate market crisis. Such a development would negatively impact international trade, lower consumer and investor confidence and majorly dampen global economic growth. Any escalation of geopolitical conflicts, especially that in Ukraine, also poses risks to the global economy. Important opportunities and risks for our earnings are also associated with uncertainty regarding growth in Europe, the development of key customer industries, and volatility in foreign currency exchange rates and margins.

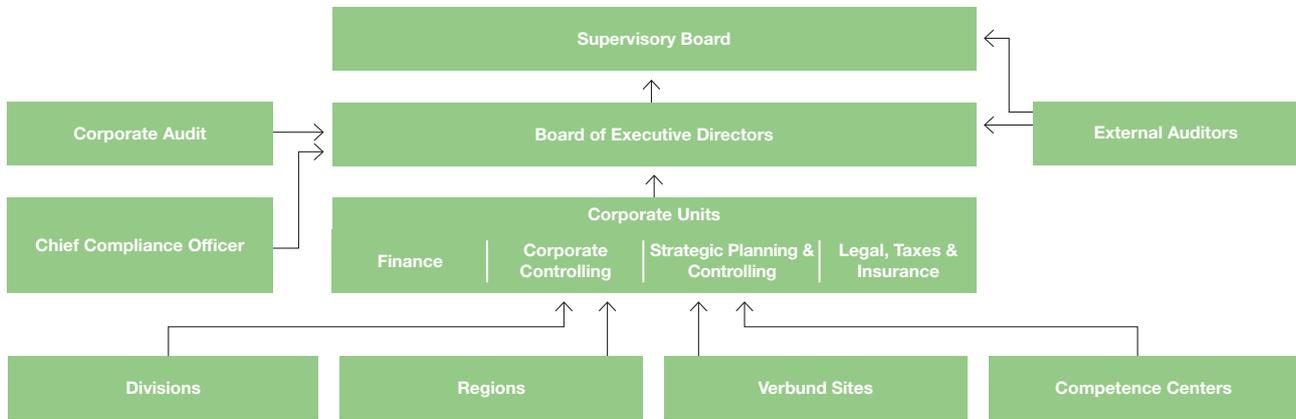
Potential short-term effects on EBIT of key opportunity and risk factors subsequent to measures taken¹

Possible variations related to:	Outlook - 2015 +	
Business environment and sector		
Market growth	■■■■■	■■■■■
Margins	■■■■■	■■■■■
Competition	□■■■■	■□□□□
Regulation/policy	□■■■■	■□□□□
Company-specific opportunities and risks		
Purchasing/supply chain	□□■■■	■□□□□
Investments/production	□■■■■	■□□□□
Personnel	□□□■■	□□□□□
Acquisitions/cooperations	□□□■■	■□□□□
Information technology	□□□■■	□□□□□
Law	□□■■■	□□□□□
Finance		
Exchange rate volatility	■■■■■	■■■■■
Other financial opportunities and risks	□■■■■	■□□□□
□□□■	< 50 million €	
□□■■■	≥ 50 million € < 100 million €	
□■■■■	≥ 100 million € < 500 million €	
■■■■■	≥ 500 million €	

¹ Using a 95% confidence interval per risk factor based on planned values; summation is not permissible

According to our assessment, there continue to be no significant individual risks that pose a threat to the continued existence of the BASF Group. The same applies to the sum of individual risks, even in the case of another global economic crisis.

Organization of BASF Group's risk management



Risk management process

- **Integrated process for identification, assessment and reporting**
- **Decentralized management of specific opportunities and risks**
- **Aggregation at a Group level**

The BASF Group's risk management process is based on the international risk management standard COSO II Enterprise Risk Management – Integrated Framework (2004), and has the following key features:

Organization and responsibility

- Risk management is the responsibility of the Board of Executive Directors, which also determines the processes for approving investments, acquisitions and divestitures.
- The Board of Executive Directors is supported by the corporate units Finance, Corporate Controlling, Strategic Planning & Controlling and Legal, Taxes & Insurance, as well as the Chief Compliance Officer. They coordinate the risk management process at a Group level and provide the structure and appropriate methodology. Opportunity and risk management is thus integrated in the strategy, planning and budgeting processes.
- A network of risk managers in the business and central units advances the implementation of appropriate risk management practices in daily operations.
- The management of specific opportunities and risks is largely delegated to the business units and is steered at a local level. Risks relating to exchange rates and raw material prices are an exception. In this case, there is an initial consolidation at a Group-wide level before derivative hedging instruments, for example, are used.
- The internal auditing unit (Corporate Audit) is responsible for regularly auditing the risk management system established

by the Board of Executive Directors in accordance with Section 91(2) of the German Stock Corporation Act. Furthermore, as part of its monitoring of the Board of Executive Directors, the Supervisory Board considers the effectiveness of the risk management system. Our external auditor evaluates the establishment and suitability of an early detection system for risks.

Instruments

- The Risk Management Process Manual, applicable throughout the Group, forms the framework for risk management and is implemented by the business units according to their particular business conditions.
- A catalog of opportunity and risk categories helps to identify all relevant opportunities and risks as comprehensively as possible.
- We use standardized evaluation and reporting tools for the identification and assessment of risks. The aggregation of opportunities, risks and sensitivities at the business and Group level using a Monte Carlo simulation helps us to identify effects and trends across the company.
- Company management is informed about operational opportunities and risks (observation period of up to one year) in the monthly management report produced by the Corporate Controlling unit. In addition, the corporate units Corporate Controlling and Finance provide information twice a year about the aggregated opportunity/risk exposure of the BASF Group. Furthermore, if a new individual risk is identified which has a more than €10 million impact on earnings or which bears reputational risks, it must be immediately reported.
- As part of our strategy development, the Strategic Planning unit conducts strategic opportunity/risk analyses with a ten-year assessment period. These analyses are annually reviewed as part of strategic controlling and are adapted if necessary.

Significant features of the internal control and risk management system with regard to the Group financial reporting process

- Conducted in accordance with standardized Group guidelines
- Segregation of duties, four-eyes principle and clearly regulated access rights
- Annual evaluation of the control environment and relevant processes at significant companies and divisions

The Consolidated Financial Statements are prepared by a unit in the corporate division Finance. BASF Group's accounting process is based on a uniform accounting guideline that sets out accounting policies and the significant processes and deadlines on a Group-wide basis. There are binding directives for the internal reconciliations and other accounting operations. Standard software is used to carry out the accounting processes for the preparation of the individual financial statements as well as for the Consolidated Financial Statements. There are clear rules for the access rights of each participant in these processes.

Employees involved in the accounting and reporting process meet the qualitative requirements and participate in training on a regular basis. There is a clear assignment of responsibilities between the specialist units, companies and regional service units involved. We strictly adhere to the segregation of duties and the four-eyes principle. Complex actuarial reports and evaluations are produced by specialized service providers or specially qualified employees.

Our internal control system for financial reporting continuously monitors these principles. To this end, methods are provided for the structured and Group-wide uniform evaluation of the internal control system in financial reporting.

The significant risks for the BASF Group regarding a reliable control environment and proper financial reporting are reviewed and updated on an annual basis. Risks are compiled into a standardized questionnaire and presented in a central risk catalog.

A centralized selection process identifies companies and units that are exposed to particular risks, that have a material impact on the Consolidated Financial Statements of the BASF Group, or that provide service processes. The selection process is conducted annually. In the relevant companies and units, one person is given the responsibility of monitoring the execution of the annual evaluation process.

This process consists of the following steps:

– Evaluation of the control environment

The adherence to internal and external guidelines that are relevant for the maintenance of a reliable control environment is checked by means of a standardized questionnaire. This is supported by sample taking.

– Identification and documentation of control activities

In order to mitigate the risks to the financial reporting process listed in our central risk catalog, corresponding control activities are conducted and documented.

– Assessment of the control activities

After documentation, a test is performed to verify whether the described controls are capable of adequately mitigating the risks. In the subsequent test phase, samples are taken to test whether, in practice, the controls were executed as described and whether they were effective.

– Monitoring of control weaknesses

The managers responsible receive reports on any control weaknesses identified and their resolution, and an interdisciplinary committee investigates their relevance for the BASF Group. The Board of Executive Directors and the Audit Committee are informed once control weaknesses have been identified that have a considerable impact on the financial reporting.

– Internal confirmation of the internal control system

The managing director and chief financial officer responsible for each consolidated Group company confirm to the Board of Executive Directors of BASF SE at the end of the annual cycle the effectiveness of the internal control system with regard to accounting as well as the accuracy and reliability of financial reporting.

Short-term opportunities and risks

Development of demand

- Development of our sales markets among greatest opportunity and risk factors
- Negative impact from economic slowdown in China and escalation of geopolitical conflicts possible

The development of our sales markets is one of the strongest drivers of opportunities and risks. More details on our assumptions regarding short-term growth rates for the global economy, regions and key customer industries, such as the chemicals, automotive and construction sectors, can be found from pages 119 to 121. In accordance with this baseline scenario, we are planning to achieve volume growth in our chemicals business in all segments.

In addition to the baseline scenario, we also consider risk scenarios. We see a significant macroeconomic risk in a sharper deceleration of China's economic growth, which could result from an abatement in the Chinese real estate market. This would impact the construction industry and its suppliers, like the concrete, steel and chemical industries, in addition to real estate services and the finance sector. Such dampening effects would impair not only China's domestic economy, but also chemical industry imports and customer industries. Furthermore, increasing economic uncertainty would lead to lower consumer and investor confidence. We also see risks to the global economy in the further escalation of geopolitical conflicts, especially in Ukraine.

In these risk scenarios, a demand-related decrease in the price of oil would be expected, in comparison with our baseline scenario. The euro would slightly depreciate relative to the dollar, since economic recovery in the eurozone is fragile and largely dependent on the development of export demand. This makes it especially sensitive to changes in the global economic environment.

Weather-related influences can result in positive or negative effects on our crop protection business.

Margin volatility

- Oversupply with resulting lower margins possible in some value chains
- Lower raw material costs result in opportunities and risks

We mostly anticipate stable margins in 2015. For some products and value chains, it is possible that margin pressure could be increased by new capacities, for example. This would have a negative effect on our earnings.

The year's average oil price for Brent crude was around \$99 per barrel in 2014, lower than in the previous year. For 2015, we anticipate an average oil price of between \$60 and \$70 per barrel. We therefore expect a low price level for the raw materials and petrochemical basic products that are important to our business. This could positively affect our margins; however, it would also pose risks for our oil and gas business, whose earnings dip by approximately €20 million for every \$1 decrease in the average annual barrel price of Brent crude.

Regulation and political risks

- Risks posed by factors such as regulation of chemicals use
- Intensification of geopolitical tensions
- Opportunities for our catalysts business from tightening automobile emissions regulations
- Energy policy gives rise to both risks and opportunities

Due to the European chemicals regulation REACH, which came into force in 2007, BASF and our European customers face the risk of being placed at a disadvantage to our non-European competitors due to the cost-intensive test and registration procedures.

Other risks for us include further regulation, for example, of the use of chemicals; the intensification of geopolitical tensions; the destabilization of political systems; and the imposition of trade barriers, such as sanctions in Ukraine crisis or OPEC quotas for oil production. Moreover, we are closely observing the political situation in Argentina, where foreign exchange restrictions are making for an increasingly difficult business environment.

At the beginning of August 2014, the new law for promoting renewable energy sources ("EEG surcharge") came into force in Germany. As a result, existing power plants for self-generated energy will not be subject to the EEG surcharge. For new power plants, 40% of the EEG surcharge must be paid. This means that there is currently no additional financial burden for the electricity BASF generates in its own power plants. By 2017, however, this different treatment for existing and new power plants will be checked for compliance with E.U. law. It is possible that the self-generated energy from existing power plants would then be partly included in the EEG surcharge system. That would mean that BASF would have to pay a proportion of the EEG surcharge, which would significantly impair our competitiveness at German production sites.

We view the worldwide support for the expansion of renewable energy and measures to increase energy efficiency as an opportunity for increased demand for our products. For example, we offer diverse solutions for wind turbines in addition to insulation foams for buildings. Our catalysts business benefits from the tightening of automobile emissions regulations.

Delivery bottlenecks

We try to prevent unscheduled plant shutdowns by adhering to high technical standards and continuously improving our plants. We reduce the effects of unscheduled shutdowns through diversification within our global production Verbund.

We minimize procurement risks through our broad portfolio, global purchasing activities and the purchase of additional quantities of raw materials on spot markets. If possible, we avoid procuring raw materials from a single supplier. When this cannot be avoided, we try to foster competition or we knowingly enter into this relationship and assess the consequences of potential non-delivery. We continuously monitor the credit risk of important business partners, both customers as well as suppliers.

Information technology risks

- **Global procedures and systems for IT security**
- **Regular training for employees**

BASF relies on a number of IT systems. Their nonavailability, violation of confidentiality or the manipulation of data in critical IT systems and applications can all have a direct impact on production and logistics processes. If data are lost or manipulated, this can, for example, negatively affect process safety and the accuracy of our financial reporting. Unauthorized access to sensitive data, such as personnel records, competition-related information or research results, can result in legal liability consequences or jeopardize our competitive position, in addition to the loss of reputation associated with this.

To minimize such risks, BASF has global procedures and systems in place to ensure IT security. These include stable and redundantly designed IT systems, backup processes, virus and access protection, encryption systems, and integrated, Group-wide standardized IT infrastructure and applications. The systems used for information security are continuously tested and updated. In addition, our employees receive regular training on information and data protection. IT-related risk management is conducted using uniform regulations for organization and application, as well as an internal control system based on these regulations.

Litigation and claims

- **Internal control system to limit risks**
- **Employee training as part of Group-wide Compliance Program**

In order to assess the risks from current legal disputes and proceedings and any potential need to recognize provisions, we prepare our own analysis and assessment of the circumstances and claims considered. In addition, in individual cases, we consider the results of comparable proceedings and independent legal opinions. Furthermore, we make assumptions regarding the probability of occurrence and the range of potential claims. The actual costs can deviate from these estimates.

We use an internal control system to limit risks from potential infringements of rights or laws. For example, we try to avoid patent and licensing disputes whenever possible through extensive clearance research. As part of our Group-wide Compliance Program, our employees receive regular training.

 For more on our Group-wide Compliance Program, see page 134 onward

Financial opportunities and risks

The management of liquidity, currency and interest rate risks is conducted in the Treasury unit. The management of commodity price risks takes place in the Procurement competence center or in the appropriately authorized Group companies. Detailed guidelines and procedures exist for dealing with financial risks. Among other things, they provide for the segregation of trading and back office functions.

Exchange rate volatility

- **Opportunities and risks especially from U.S. dollar exchange rate fluctuations**

Our competitiveness on global markets is influenced by fluctuations in exchange rates. For BASF's purchasing, opportunities and risks arise in particular when the U.S. dollar exchange rate fluctuates. A full-year rise in the value of the U.S. dollar/euro exchange rate by \$0.01 would result in an increase of around €50 million in BASF's earnings, assuming other conditions remain the same. On the production side, we mitigate foreign currency risks by having production sites in the respective currency zones.

Financial currency risks result from the translation of receivables, liabilities and other monetary items in accordance with IAS 21 at the closing rate into the functional currency of the respective Group company. In addition, we incorporate planned purchase and sales transactions in foreign currencies in our financial foreign currency risk management. These risks are hedged using derivative instruments, if necessary.

Interest rate risks

■ Market interest rates and credit risk premiums to be paid have major impact on financing costs

Interest rate risks result from potential changes in prevailing market interest rates. These can cause a change in the fair value of fixed-rate instruments and fluctuations in the interest payments for variable-rate instruments, which would positively or negatively affect earnings. To hedge these risks, interest rate swaps and combined interest rate and currency derivatives are used in individual cases.

In addition to market interest rates, BASF's financing costs are determined by the credit risk premiums to be paid. These are mainly influenced by our credit rating and the market conditions at the time of issue. In the short to medium term, BASF is largely protected from the possible effects on its interest result thanks to the balanced maturity profile of its financial debt.

Risks from metal and raw material trading

In the catalysts business, BASF employs commodity derivatives for precious metals and trades precious metals on behalf of third parties and on its own account. In addition, we use our knowledge of the markets for crude oil and oil products to generate earnings from the trade of raw materials. To address specific risks associated with these trades, which are not part of our operating business, we set and continuously monitor limits with regard to the type and size of the deals concluded.

Liquidity risks

Risks from fluctuating cash flows are recognized in a timely manner as part of our liquidity planning. We have access to extensive liquidity at any time thanks to our good ratings, our unrestricted access to the commercial paper market and committed bank credit lines. In the short to medium term, BASF is largely protected against potential refinancing risks by a balanced maturity profile for financial indebtedness as well as through diversification in various financial markets.

📖 For more on financial risks, see the Notes to the Consolidated Financial Statements from page 210 onward

For more on the maturity profile of our financial indebtedness, see the Notes to the Consolidated Financial Statements on page 206

Risk of asset losses

We limit country-specific risks with measures based on internally determined country ratings, which are continuously updated to reflect changing environment conditions. We selectively use export credit insurance and investment guarantees to limit specific country-related risks. We lower credit

risks for our financial investments by engaging in transactions only with banks with good credit ratings and by adhering to fixed limits. The credit ratings are continuously monitored and the limits are adjusted accordingly. We reduce the risk of default on receivables by continuously monitoring the credit-worthiness and payment behavior of our customers and by setting appropriate credit limits. Due to the global activities and diversified customer structure of the BASF Group, there are no major concentrations of credit default risk. Risks are also limited through the use of credit insurance and bank guarantees.

Risk of impairment

The risk of an asset impairment occurs if the assumed interest rate in an impairment test increases or the predicted cash flows decline. In the current business environment, we consider the risk of impairment of individual assets such as customer relationships, technologies and brands, as well as goodwill, to be nonmaterial.

Long-term incentive program for senior executives

Our senior executives have the opportunity to participate in a share-price-based compensation program. The need for provisions for this program varies according to the development of the BASF share price and the MSCI World Chemicals Index; this leads to a corresponding increase or decrease in personnel costs.

Risks from pension obligations

We predominantly finance company pension obligations externally through separate plan assets. This particularly includes BASF Pensionskasse VVaG and BASF Pensions-treuhand e.V. in Germany, in addition to the large pension plans of our Group companies in North America, the United Kingdom and Switzerland. To address the risk of underfunding due to market-related fluctuations in plan assets, we have investment strategies that align return and risk optimization to the structure of the pension obligations. Stress scenarios are also simulated regularly by means of portfolio analyses. Furthermore, new employees are almost always offered defined contribution plans. An adjustment to the interest rates used in discounting pension obligations leads immediately to changes in equity.

Long-term opportunities and risks

Long-term demand development

- Annual average growth of around 4% expected in global chemical production
- BASF aims for above-average growth

In our “We create chemistry” strategy, we continue to operate under the assumption that chemical production (excluding pharmaceuticals) will grow worldwide by an average of around 4% annually until 2020, faster than global gross domestic product. Although the worldwide chemical industry has grown more vigorously than the global economy over the last few years, growth rates in both gross domestic product and in chemical production have nevertheless been slower than the “We create chemistry” strategy had predicted. We continue to strive for sales growth 2 percentage points above the market through our broad, market-oriented portfolio, which we will keep strengthening in the years ahead through investments in new production capacity, R&D activities and acquisitions.

If the continuing sovereign debt crises and other political crises result in a slackening of global economic growth, these goals could prove to be too ambitious. As a result of our high degree of diversification across various customer industries and regions, we would still expect our growth to be above the market average, even under these conditions.

 For more on the “We create chemistry” strategy, see page 22 onward

Development of the competitive and customer landscape

- Opportunities from active portfolio management and focus on innovative business areas

We expect competitors from emerging markets to become increasingly important in the coming years. Furthermore, we anticipate that many raw material suppliers will broaden their value chains. We are addressing this risk through active portfolio management. We exit markets where risks outweigh opportunities, and in which we do not see satisfactory opportunities to stand out from our competitors in the long term. For example, we sold our 50% share in the Styrolution Group, which produces styrenic plastics.

In order to remain competitive, we continuously improve our operational excellence. Our strategic excellence program, STEP, is also contributing to this. Starting at the end of 2015, we now expect the more than 100 individual projects to contribute around €1.3 billion to our earnings each year, compared with baseline 2011.

In order to achieve long-term profitable growth, our research and business focus is on highly innovative business areas, which we sometimes enter into through strategic cooperative partnerships.

Innovation

- Chances of success in research and development increased by Know-How Verbund

We are observing a trend toward more sustainability in our customer industries. We want to take advantage of the resulting opportunities with innovations – particularly in the growth fields we have identified. These include Batteries for Mobility, Functional Crop Care to improve agricultural efficiency, solutions for water treatment and technologies for the use of renewable energy sources, such as wind, solar thermal and photovoltaic power.

New products launched on the market between 2011 and 2020 are expected to contribute €30 billion to sales in 2020. To achieve this goal, we want to continue investing around 3% of our sales (excluding Oil & Gas) in research and development. An important success factor is the continuous development of our research organization in order to further enhance our connectivity around the globe. Starting January 2015, we are pooling our research expertise into three global platforms, each headquartered in a region significant for us: Europe, Asia Pacific and North America. Stronger regional presence opens up new opportunities to participate in local innovation processes and gain access to local talent. We also address the risk of the technical or economic failure of research and development projects by maintaining a balanced and diversified project portfolio, as well as through professional, milestone-based project management (R&D controlling).

We optimize the effectiveness and efficiency of our research activities through our global Know-How Verbund as well as through collaboration with partners and customers. Furthermore, in a program and project management process, we continuously review the chances of success and the underlying assumptions of research projects; this review includes all phases from idea generation to product launch. The trust of customers and consumers is essential for the successful introduction of new technologies. That is why we enter into dialog with stakeholders at an early stage of development.

 For more on innovation, see page 33 onward

Portfolio development through investments

- 2011–2020: More than one-third of our investing volume to go into emerging markets

We expect the increase in chemical production in emerging markets in the coming years to be significantly above the global average. This will create opportunities that we want to exploit by expanding our presence in these economies; therefore, more than one-third of our investment volume between 2011 and 2020 will be spent in emerging markets. We also

want to intensify investment in North America in light of the attractive growth prospects and low raw material prices: For example, we are planning the construction of an ammonia production plant with Yara in Freeport, Texas. In addition, we are exploring an investment in a world-scale methane-to-propylene complex on the U.S. Gulf Coast.

Our decisions on the type, size and locations of our investment projects are based on assumptions related to the long-term development of markets, margins and costs, as well as raw material availability and country, currency and technology risks. Opportunities and risks arise when real developments deviate from our assumptions, particularly with respect to demand development and competition intensity.

In the implementation phase, we use our experience in project management and controlling to minimize short-term technical risks as well as risks from cost overruns or missed deadlines.

 For more on our investment plans, see page 123 onward

Acquisitions

- **Detailed assessment of opportunities and risks as part of due diligence**

In the future, we will continue to refine our portfolio through acquisitions that promise above-average profitable growth, are innovation-driven and offer added value for our customers while reducing the cyclicity of our earnings.

The evaluation of opportunities and risks already plays a significant role during the assessment of potential acquisition targets. Detailed analysis and quantification are conducted as part of due diligence. Examples of risks include increased staff turnover, delayed realization of synergies, and the assumption of obligations that were not precisely quantifiable in advance. If our expectations in this regard are not fulfilled, risks could arise, such as the need to impair intangible assets; however, there could also be opportunities, for example, from additional synergies.

 For more on our acquisitions, see page 38 onward

Recruitment and long-term retention of qualified employees

- **Intensified competition for highly-qualified specialists and leaders**
- **Risk of loss of expertise from retirements**

Global competition for highly qualified specialists and leaders has grown in recent years; in the medium to long term, this will likely be further intensified by demographic change. As a result, there is an increased risk that job vacancies cannot be filled with suitable applicants, or only after a delay.

Business could be negatively affected in the medium and long term by the loss of expertise in North America and Europe due to disproportionately high retirement numbers, as well as by the challenge arising from additional recruitment demand in Asia as a result of our targeted growth. We address these risks with our Best Team Strategy and the global initiatives derived from it, covering topics such as demographic and knowledge management, Diversity + Inclusion, employee and leadership development, intensified employer branding, and supplementary regional initiatives. With these measures, we increase BASF's attractiveness as an employer and retain our employees in the long term. 

 For more on the individual initiatives and our goals, see page 41 onward

Sustainability

- **Identifying opportunities and risks through materiality analysis**
- **Global monitoring for compliance with standards**

BASF is committed to integrating environmental protection and socially responsible conduct into its business activities. Infringements of our voluntary commitments and legal violations also represent a reputational risk and could lead to operational or strategic risks. Before acquiring a company, we take into account its focus on sustainability and we consider this in the acquisition process. Based on our materiality analysis, we initiate change processes in the company in order to be prepared for any potential risks and to exploit opportunities. We have established global monitoring systems which also include our supply chain – these enable us to ensure adherence to laws and our voluntary commitments in the areas of environment, safety, security and health as well as to labor and social standards. In order to assure society's acceptance of our business activities, we engage in ongoing dialog with relevant stakeholders. The Nano Dialog Forum of BASF is an example. Ultimately, however, residual risks remain in all entrepreneurial activities which even comprehensive risk management cannot exclude. 

 For more on sustainability, see page 29 onward

For more on monitoring instruments, see page 24

Economic environment in 2015

The global economy will likely grow by 2.8% in 2015, somewhat faster than in 2014 (+2.5%), with momentum coming predominantly from the United States. We presume that growth in western Europe will not accelerate further, and that China will continue its slight slowdown. In light of this, we anticipate global chemical production growth of 4.2%, marginally faster than in 2014 (+4.0%). The global economy will continue to face substantial risks. For 2015, we assume an average price for Brent crude oil between \$60 and \$70 per barrel and an exchange rate of \$1.20 per euro.

Trends in the global economy in 2015

- Stronger growth expected for United States
- Significant upswing unlikely in E.U., Japanese and South American economies

We do not expect the economy in the **European Union** to grow faster in 2015 than in 2014. Growth will be supported by lower oil prices, the depreciation of the euro relative to the dollar, and the expansive monetary policy of the European Central Bank. The French and Italian economies will barely grow, however; in Germany, growth will probably match the slow pace of 2014. We assume that Spain will be able to continue its slow economic recovery. The United Kingdom is likely to keep growing vigorously, although not as much as in the previous year. We anticipate continued solid growth for the eastern E.U. countries. Our forecast assumes that the conflict in Ukraine will not escalate further and that no major new economic sanctions will be imposed on trade with Russia.

We anticipate stronger growth in the **United States** economy than in 2014. Leading indicators point to a continuation of the positive development of the last three quarters of 2014. The ongoing recovery of the job market and continuing low interest rates will support private consumption. Our forecast is based on the assumption that the U.S. Federal Reserve will be very careful about raising interest rates and that the new distribution of power in Congress will not lead to renewed blocking of fiscal measures.

Outlook for gross domestic product 2015

(Real change compared with previous year)

World	2.8%	
European Union	1.4%	
United States	3.1%	
Emerging markets of Asia	6.1%	
Japan	1.1%	
South America	0.7%	

Trends in gross domestic product 2015–2017

(Average annual real change)

World	3.0%	
European Union	1.7%	
United States	2.9%	
Emerging markets of Asia	6.3%	
Japan	1.1%	
South America	2.0%	

In the **emerging markets of Asia**, we anticipate growth rates comparable with the high levels of 2014. We expect slower growth in China. The Chinese government will likely not implement strong stimulus measures to counterbalance the dampening effects of a slackening real estate market. By contrast, we expect higher growth in India, Indonesia and Thailand.

We assume that the **Japanese** economy will not grow significantly faster in 2015. Although the government does intend to delay the sales tax increase planned for October 2015, the structural reforms needed to boost growth are making slow progress and will only bear fruit in the long term.

For **South America**, we do not foresee widespread improvement. The Brazilian economy will no longer be weighed down by the political uncertainty surrounding the outcome of the presidential elections; nevertheless, considering the high rate of inflation, dampening fiscal effects and the lack of investment in infrastructure, strong growth impetus is unlikely. In Argentina, a settlement of the dispute with international creditors would improve access to capital markets in the medium term, however, Argentina is likely to face another year of recession.

Outlook for key customer industries

■ Marginally higher growth in global industrial production expected for 2015

Global industrial production is likely to grow at 3.6% in 2015, marginally faster than the +3.4% rate in 2014. At 2.4%, the growth rate in the industrialized countries will be roughly comparable with that of the previous year. We expect a slight upturn in the emerging markets (2015: +4.7%; 2014: +4.3%).

In the **transportation sector**, we anticipate faster growth than in 2014. Development will vary markedly by region. In western Europe, we expect growth rates in the automobile industry to slow down again after the catch-up effects of 2014. We also foresee a smaller increase in automobile production in the United States. A significant slowdown is expected in Japan; however, we foresee considerably higher growth rates in India and Thailand. The market in China should continue its solid growth. After the previous year's sharp drops, we also assume that the automobile industry will decline only slightly in Russia and grow slightly in Brazil.

The **energy and resources sector** is likely to continue its slight growth in 2015. In Europe, we expect energy consumption to stagnate after the previous year's warm winter resulted in a considerable decline. Raw material production in the United States should continue to grow in the wake of the boom in shale gas. There is also likely to be a further significant increase in the demand for energy and raw materials in the emerging markets of Asia.

In the **construction industry**, we foresee growth at approximately the level of 2014. The western European market is expected to continue on its slow path to recovery. For the first time in a while, we also anticipate a marginal increase in Spain's construction sector, as well. The industry will keep shrinking in France and Italy. We anticipate somewhat slower growth in the more robust markets in Germany and the United Kingdom. We expect the U.S. construction sector to grow slightly faster, driven largely by residential and commercial building projects. In China, however, the construction of new – especially residential – buildings will probably continue to slow down.

We assume that the **consumer goods industry** will once again grow faster in 2015 than in the year before, primarily supported by the advanced economies. We now anticipate slight growth in western Europe after the increasingly smaller declines over the past three years. We foresee a slight upturn for the United States. In the emerging markets of Asia, growth rates will once again reach the high levels of 2014. Following the sharp declines of the previous year, we predict widespread stagnation in the consumer goods industry in Brazil.

The **electronics industry** will probably grow somewhat faster than in 2014. We anticipate some slight deceleration in Europe but stronger growth in the United States. For the emerging markets of Asia, which contribute more than a third of the global value added and more than half of global production, the economic slowdown in China will probably lead to a slight growth decline at a high level. In Japan, we assume that the industry will grow again after the previous year's decline.

We predict robust growth approximating prior-year levels for production in the **health and nutrition** sector. In western Europe, we expect growth to remain consistent at a low level but stay slightly ahead of overall economic growth. While the industry in the United States should grow somewhat faster than in the previous year, we anticipate a slight decline at a high level in the emerging markets of Asia.

For **agriculture**, we foresee similar growth rates as in the previous year. Even if growth is likely to be curbed by ongoing low prices for agricultural commodities, this still means that agricultural production in 2015 will continue to grow at its average long-term pace. Furthermore, the lower price of oil will dampen demand for bioethanol.

Outlook for the chemical industry

■ Growth expected to be slightly above 2014 level

In line with the somewhat higher growth anticipated for the industry in general, we expect chemical production (excluding pharmaceuticals) to grow by 4.2% in 2015 (2014: +4.0%). This will be largely attributable to the advanced economies (2015: +2.2%; 2014: +1.6%). At 5.8%, growth will probably decrease slightly in the emerging markets (2014: +6.1%).

The chemical industry in the **European Union** is not expected to grow appreciably faster in 2015 than in 2014. Despite falling raw material prices, the European market continues to be subject to intense international competition. We assume that production in Germany will cease to shrink and start growing slightly. In France, Spain and the United Kingdom, however, we expect smaller gains in growth compared with the previous year.

We expect somewhat stronger chemical production growth in the **United States** in 2015, supported by low costs for energy and raw materials as well as by a solid domestic economy. Most of the chemical industry's customer sectors will probably show robust, and for the most part somewhat higher, growth in 2015 than 2014.

In the **emerging markets of Asia**, we assume strong growth rates for the chemical industry, albeit somewhat weaker compared with 2014. Although we expect to see a sharper increase in demand from the automobile industry, demand is likely to be lower from the construction industry as a result of the downturn of the construction sector in China.

For **Japan**, we forecast that chemical production will stabilize following a slight decline in 2014. Against the backdrop of falling automotive production and weaker growth in the construction industry, we anticipate only slight growth.

After the previous year's decline, we expect the chemical industry to grow again slightly in **South America**. We anticipate recovery in Brazil, driven by higher production in the transportation and construction sectors. The market will probably continue to shrink slightly in Argentina. We do, however, expect vigorous production growth at 2014 levels in Chile, Ecuador and Colombia, and considerable gains in Peru.

Outlook for chemical production 2015 (excluding pharmaceuticals) (Real change compared with previous year)

World	4.2%	
European Union	1.5%	
United States	3.5%	
Emerging markets of Asia	6.9%	
Japan	1.0%	
South America	1.3%	

Trends in chemical production 2015–2017 (excluding pharmaceuticals) (Average annual real change)

World	4.3%	
European Union	1.5%	
United States	3.2%	
Emerging markets of Asia	7.0%	
Japan	0.9%	
South America	2.7%	

Outlook 2015

The development of the second half of 2014 has continued into the beginning of 2015: Oil and raw material prices are volatile, as are currencies; the emerging markets are growing more slowly; and the global economy is being dampened by geopolitical conflict. For 2015, we nevertheless anticipate somewhat stronger growth in the global economy, industrial production and the chemical industry than in 2014, partly as a consequence of the lower price of oil. This expectation assumes an average price for Brent crude oil ranging from \$60 to \$70 per barrel and an exchange rate of \$1.20 per euro. The global economy will continue to face substantial risks. In this volatile and challenging environment, we aim to perform well and increase sales slightly in 2015. Income from operations before special items will likely match the level of 2014.

 For more information on our expectations for the economic environment in 2015, see page 119 onward

Sales and earnings forecast for the BASF Group

- Slight sales increase expected, due in part to sales growth in Functional Materials & Solutions and Performance Products segments
- Income from operations before special items likely to match level of 2014

BASF Group sales are expected to increase slightly in 2015, largely supported by the sales growth anticipated in the Functional Materials & Solutions and Performance Products segments. We want to raise our sales volumes overall, excluding the effects of acquisitions and divestitures. Income from operations before special items in 2015 will likely match the previous year's level. We anticipate larger contributions from our chemicals and crop protection businesses¹, whereas earnings in the Oil & Gas segment are expected to decrease considerably due to the lower price of oil.

We expect a slight decline in income from operations. In 2014, high levels of special income had arisen primarily from the disposal of our 50% share in Styrolution Holding GmbH. As a result, there is likely to be a considerable decline in EBIT after cost of capital.

The significant risks and opportunities that could affect the attainment of our forecast are described on pages 111 to 118.

Sales and earnings forecast for the segments

Sales in the **Chemicals** segment are expected to decrease slightly in 2015. Substantially lower oil and raw material prices will lead to price reductions in some business areas. Anticipated volumes growth in all three divisions – due in part to the startup of new plants – will not be able to fully compensate for this development. We foresee higher volumes in the Monomers division, especially of isocyanates and polyamide-6 extrusion polymers. In the Intermediates division, we especially expect sales volumes to rise in the amines and polyalcohols businesses. Overall, income from operations before special items is likely to decline slightly because of expenses for starting up several plants.

We want to considerably increase our sales in the **Performance Products** segment in 2015, mainly through organic growth. In the Dispersions & Pigments and Care Chemicals divisions, this endeavor will be supported by factors like new production capacities. We anticipate a considerable increase in volumes in the Nutrition & Health division. Sales prices are likely to remain under pressure, however. In the Performance Chemicals division, we plan on increasing sales volumes. The textile chemicals business will be sold to Archroma in the first half of 2015. Income from operations before special items is expected to considerably exceed the level of 2014, supported in all divisions by strict cost discipline and measures to increase competitiveness.

In the **Functional Materials & Solutions** segment in 2015, we anticipate higher demand from our key customer sectors, the automotive and construction industries. We predict a significant increase in volumes of our innovative specialties and system solutions. We want to considerably boost our sales. The startup of new plants in the Catalysts and Performance Materials divisions will support this growth. We are also striving for a considerable increase in income from operations before special items. All divisions will likely contribute to this development.

¹ Our chemicals business comprises the Chemicals, Performance Products and Functional Materials & Solutions segments.

Forecast by segment¹ (in million €)

	Sales		Income from operations (EBIT) before special items	
	2014	Forecast 2015	2014	Forecast 2015
Chemicals	16,968	slight decrease	2,367	slight decrease
Performance Products	15,433	considerable increase	1,455	considerable increase
Functional Materials & Solutions	17,725	considerable increase	1,197	considerable increase
Agricultural Solutions	5,446	considerable increase	1,109	considerable increase
Oil & Gas	15,145	slight decrease	1,795	considerable decrease
Other	3,609	considerable decrease	(566)	slight decrease
BASF Group	74,326	slight increase	7,357	at prior-year level

¹ For sales, "slight" represents a change of 1–5%, while "considerable" applies for changes of 6% and higher. "At prior-year level" indicates no change (+/-0%). For earnings, "slight" means a change of 1–10%, while "considerable" is used for changes of 11% and higher. "At prior-year level" indicates no change (+/-0%).

In the **Agricultural Solutions** segment, we expect prices for agricultural products to remain at the level of the second half of 2014. With exchange rates developing more favorably overall, we anticipate high market volatility. In this environment, we set ourselves the ambitious goal of increasing sales volumes and considerably improving sales and income from operations before special items.

We foresee a slight decrease in sales as well as considerably reduced income from operations before special items in the **Oil & Gas** segment as a result of the lower price of oil. In the Exploration & Production business sector, the negative effects of the decreased price of oil will probably be partly offset by the expansion of our activities in Norway and the growth in Achimgaz production in Russia. We also expect to partially resume our onshore production in Libya. Our portfolio optimization measures will continue. For the Natural Gas Trading business sector, we anticipate considerable earnings improvement thanks to a higher contribution from the transportation business as well as to rising sales volumes.

Sales in **Other** will decrease considerably, largely on account of lower raw material prices and lower plant availability due to a plant outage at the Ellba C.V. joint operation in Moerdijk, Netherlands. For income from operations before special items, we assume a slight decline, partly because of the lack of earnings from our share in Styrolution Holding GmbH, which was sold in 2014.

Investment planning■ **Investments of around €4.0 billion planned for 2015**

For the period from 2011 to 2020, we have planned capital expenditures between €30 billion and €35 billion. More than a third of this sum will be invested in emerging markets, further strengthening our presence in these growth markets. Compared with 2014, we plan on lower annual investments for the period from 2015 to 2020. The bulk of our spending in 2014 was on major projects that will start up in 2015, such as an MDI plant in Chongqing, China; a TDI plant in Ludwigshafen, Germany; and an acrylic acid and superabsorbent complex in Camaçari, Brazil.

In particular, we are already planning or carrying out the following projects:

Capital expenditures: Selected major projects

Site	Project
Camaçari, Brazil	Construction: production complex for acrylic acid and superabsorbents
Caojing, China	Construction: chemical catalysts
Geismar, Louisiana	Construction: formic acid plant
Kuantan, Malaysia	Construction: aroma chemicals complex
Ludwigshafen, Germany	Construction: TDI plant Replacement: nitric acid plants Expansion: lubricants
Ludwigshafen and Schwarzheide, Germany	Expansion of capacities for F 500® and Xemium® fungicides
Nanjing, China	Construction: specialty amines plant
Shanghai, China	Construction: coating resins
Theodore, Alabama	Construction: chelating agents

In the Oil & Gas segment, our investments of around €4.1 billion by 2019 will focus mainly on the development of proven gas and oil deposits in Argentina, Norway and Russia, as well as on the exploration of new oil and gas reserves.

For 2015, we plan investments totaling around €4.0 billion¹, particularly for the major projects listed above.

Capital expenditures by segment, 2015–2019

1	Chemicals	33%
2	Performance Products	15%
3	Functional Materials & Solutions	13%
4	Agricultural Solutions	6%
5	Oil & Gas	21%
6	Other (infrastructure, R&D)	12%



Capital expenditures by region, 2015–2019

1	Europe	45%
2	North America	27%
3	Asia Pacific	18%
4	South America, Africa, Middle East	8%
5	Alternative sites currently being investigated	2%



Dividend

We stand by our ambitious dividend policy and offer our shareholders an attractive dividend yield. We continue to aim to increase our dividend each year, or at least maintain it at the previous year's level.

Information on the proposed dividend can be found from page 12 onward

Financing

Our financing policy is aimed at ensuring our solvency at all times, limiting the risks associated with financing and optimizing our cost of capital. We strive to maintain at least a solid "A" rating, which allows the BASF Group unrestricted access to money and capital markets.

From the scheduled repayment of bonds, we expect cash outflows in the equivalent amount of around €2.2 billion. To refinance mature bonds and to optimize our maturity profile, we continue to have medium to long-term corporate bonds and our commercial paper program at our disposal.

Information on our financing policies can be found on page 58

Events after the reporting period

There have been no significant changes in the company's situation or market environment since the beginning of the 2015 business year.

¹ Excluding additions to property, plant and equipment resulting from acquisitions, capitalized exploration, restoration obligations and IT investments

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Corporate governance report

Board of Executive Directors

manages company and represents BASF SE in business with third parties

Supervisory Board

appoints, monitors and advises Board of Executive Directors

Shareholders

exercise rights of co-administration and supervision at Annual Shareholders' Meeting

Corporate governance refers to the entire system for managing and supervising a company. This includes the organization, values, corporate principles and guidelines as well as internal and external control and monitoring mechanisms. Effective and transparent corporate governance guarantees that BASF is managed and monitored in a responsible manner focused on value creation. This fosters the confidence of our domestic and international investors, the financial markets, our customers and other business partners, employees, and the public in BASF.

The fundamental elements of BASF SE's corporate governance system are: its two-tier system, with a transparent and effective separation of company management and supervision between BASF's Board of Executive Directors and the Supervisory Board; the equal representation of shareholders and employees on the Supervisory Board; and the shareholders' rights of co-administration and supervision at the Annual Shareholders' Meeting.

Direction and management by the Board of Executive Directors

- Board of Executive Directors strictly separated from Supervisory Board
- Determines corporate goals and strategic orientation
- Reports to Supervisory Board

The Board of Executive Directors is responsible for the management of the company, and represents BASF SE in business undertakings with third parties. BASF's Board of Executive Directors is strictly separated from the Supervisory Board: A member of the Board of Executive Directors cannot simultaneously be a member of the Supervisory Board. The Board of Executive Directors agrees on the corporate goals and strategic orientation of the BASF Group as well as their individual business areas, and determines the company's internal organization. It also manages and monitors BASF Group business through the planning and setting of the corporate budget, the allocation of resources and management capacities, the monitoring and decision-making regarding significant individual measures, and the control of the operational management.

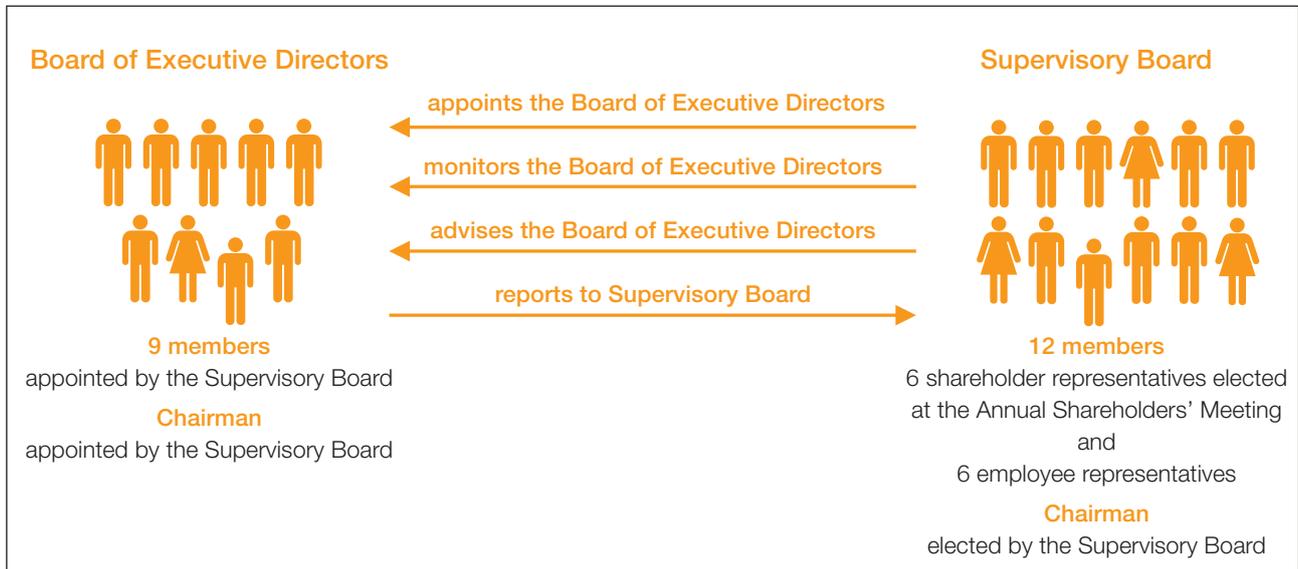
The Board's actions and decisions are aligned with the company's best interests. It is committed to the goal of sustainably increasing the company's value. Among the Board's responsibilities is the preparation of the consolidated and individual financial statements of BASF SE. Furthermore, it must ensure that the company's activities comply with legal requirements and internal corporate directives. This includes the establishment of appropriate controls and risk management systems.

Decisions that are reserved for the Board as a whole by law, through the Board of Executive Directors' Rules of Procedure or through resolutions adopted by the Board, are made at regularly held Board meetings called by the Chairman of the Board of Executive Directors. Board decisions are generally based on detailed information and analyses of the business areas and specialist units, and, if deemed necessary, by external consultants. Board decisions can generally be made via a simple majority. In the case of a tied vote, the casting vote is given by the Chairman of the Board. However, the Chairman of the Board does not have the right to veto the decisions of the Board of Executive Directors. Members of the Board of Executive Directors are authorized to make decisions individually in their assigned areas of responsibility.

The Board can set up Board Committees to consult and decide on individual issues; these must include at least three members of the Board of Executive Directors. For the preparation of important decisions, such as those on acquisitions, divestitures, investments and personnel, the Board has various commissions at the level below the Board that carefully assess the planned measure and evaluate the associated opportunities and risks, and based on this information, report and make recommendations to the Board – independently of the affected business area.

The Board of Executive Directors informs the Supervisory Board regularly, without delay and comprehensively, of all issues important to the company with regard to planning, business development, risk situation, risk management and compliance. Furthermore, the Board of Executive Directors coordinates the company's strategic orientation with the Supervisory Board.

Two-tier management system of BASF SE



The Statutes of BASF SE define certain transactions that require the Board of Executive Directors to obtain the Supervisory Board's approval prior to their conclusion. Such cases include the acquisition and disposal of enterprises and parts of enterprises, the issue of bonds or comparable financial instruments; however, this is only necessary if the acquisition or disposal price or the amount of the issue in an individual case exceeds 3% of the equity reported in the last approved Consolidated Financial Statements of the BASF Group.

For more on risk management, see the Outlook from page 111 onward
The members of the Board of Executive Directors, including their areas of responsibility and memberships on the supervisory bodies of other companies, are listed on page 136. Compensation of the Board of Executive Directors is described in detail in the Compensation Report from pages 138 to 144

Supervision of company management by the Supervisory Board

- **Supervisory Board appoints, monitors und advises Board of Executive Directors**
- **Three Supervisory Board committees**

The Supervisory Board appoints the members of the Board of Executive Directors and supervises and advises the Board on management issues. As members of the Supervisory Board cannot simultaneously be members of the Board of Executive Directors, a high level of autonomy is already structurally ensured with regard to the supervision of the Board of Executive Directors.

Together with the SE Council Regulation, the Statutes of BASF SE and the Agreement Concerning the Involvement of Employees in BASF SE (Employee Participation Agreement) constitute the relevant legal basis for the size and composition of the Supervisory Board. The German Codetermination Act does not apply to BASF as a European stock corporation (Societas Europaea, SE).

The Supervisory Board of BASF SE comprises twelve members. Six members are elected by the shareholders at the Annual Shareholders' Meeting. The remaining six members are elected by the BASF Europa Betriebsrat (European Works Council), the European employee representation body of the BASF Group.

Resolutions of the Supervisory Board are passed by a simple majority vote of the participating members. In the event of a tie, the vote of the Chairman of the Supervisory Board, who must always be a shareholder representative, shall be the casting vote. This resolution process is also applicable for the appointment and dismissal of members of the Board of Executive Directors by the Supervisory Board.

BASF SE's Supervisory Board has established a total of three Supervisory Board Committees: the Personnel Committee, the Audit Committee and the Nomination Committee.

For more on the Statutes of BASF SE and the Employee Participation Agreement, see basf.com/investor/cg_e

The members of the Supervisory Board of BASF SE, including their membership on the supervisory bodies of other companies, are listed on page 137

Compensation of the Supervisory Board is described in detail in the Compensation Report on pages 144 and 145

Personnel Committee

Chair:

Dr. Jürgen Hambrecht (since May 2, 2014)
Dr. h. c. Eggert Voscherau (until May 2, 2014)

Members:

Michael Diekmann, Robert Oswald, Michael Vassiliadis

Duties:

- Prepares the appointment of members to the Board of Executive Directors by the Supervisory Board as well as the employment contracts to be entered into with members of the Board of Executive Directors
- When making recommendations for appointments to the Board of Executive Directors, considers professional qualifications, international experience and leadership skills as well as long-term succession planning, diversity, and especially the appropriate consideration of women
- Prepares the resolutions made by the Supervisory Board with regard to the system and determination of the amount of compensation paid to members of the Board of Executive Directors

Audit Committee

Chair:

Dame Alison Carnwath DBE (since May 2, 2014),
Max Dietrich Kley (until May 2, 2014)

Members:

Ralf-Gerd Bastian, Franz Fehrenbach, Michael Vassiliadis

Duties:

- Prepares the negotiations and resolutions of the Supervisory Board for the approval of the Financial Statements and Consolidated Financial Statements, and discusses the quarterly and first-half financial reports with the Board of Executive Directors prior to their publication
- Deals with monitoring the financial reporting process, the annual audit, the effectiveness of the internal control system, the risk management system, and the internal auditing system as well as compliance issues
- Is responsible for business relations with the company's external auditor: prepares the Supervisory Board's proposal to the Annual Shareholders' Meeting regarding the selection of an auditor, monitors the auditor's independence, defines the focus areas of the audit together with the auditor, negotiates auditing fees and establishes the conditions for the auditor's nonaudit services
- Is authorized to request any information that it deems necessary from the auditor or Board of Executive Directors; can also view all of BASF's business documents and examine these and all other assets belonging to BASF. The Audit Committee can also engage experts such as auditors or lawyers to carry out these inspections

Nomination Committee

Chair:

Dr. Jürgen Hambrecht (since May 2, 2014),
Dr. h. c. Eggert Voscherau (until May 2, 2014)

Members:

Dame Alison Carnwath DBE (since May 2, 2014),
Prof. Dr. François Diederich, Michael Diekmann,
Franz Fehrenbach, Max Dietrich Kley (until May 2, 2014),
Anke Schäferkordt

Duties:

- Identifies suitable candidates for the Supervisory Board based on objectives for the composition decided on by the Supervisory Board
- Prepares the recommendations made by the Supervisory Board for the election of Supervisory Board members for the Annual Shareholders' Meeting

Objectives for the composition of the Supervisory Board

■ Composition criteria: professional and personal qualifications, diversity, and independence

One important concern of good corporate governance is to ensure that seats on the responsible corporate bodies, the Board of Executive Directors and the Supervisory Board, are appropriately filled. The criteria comprise professional and personal qualifications, the diversity of the members and the independence of the Supervisory Board. Seats on the Board of Executive Directors and Supervisory Board should be filled with members who ensure a well-balanced consideration of all the knowledge, skills and personal qualifications necessary to manage and supervise BASF as a large, globally operating, capital market-oriented company in the chemical industry.

On October 21, 2010, the Supervisory Board agreed upon objectives for the composition of the Supervisory Board in accordance with Section 5.4.1 of the German Corporate Governance Code; in its meeting of December 20, 2012, an objective was added for the number of independent Supervisory Board members. According to these objectives, the Supervisory Board is to be composed in such a way that the members as a group possess knowledge, ability and expert experience in:

- The management of an internationally operating company
- Cross-industry value creation along different value chains
- The application of accounting principles and internal control procedures
- The field of technical and scientific innovations in the chemical sector and associated industries as well as in the sectors using chemical products

In terms of diversity, the Supervisory Board shall consider a variety of professional and international experience as well as the participation of women. At least two women shall belong to the Supervisory Board. With regard to independence, the Supervisory Board aims to ensure that all Supervisory Board members are independent as defined by the terms of the Code. Individuals who may have a conflict of interest shall not be nominated for election to the Supervisory Board. The same applies to candidates who will have reached the age of 70 by the day of the election.

There have been three women on the Supervisory Board since May 2014. Two out of six shareholder representatives elected at the Annual Shareholders' Meeting are women. In assessing independence, the Supervisory Board assumes that neither election as an employee representative, nor membership on the Board of Executive Directors more than two years in the past, by itself precludes the classification as independent.

On this basis, the Supervisory Board has determined that all of its current members can be considered independent. We firmly believe the current composition fulfills the objectives agreed on by the Supervisory Board.

Shareholders' rights

- Shareholders' rights of co-administration and supervision at the Annual Shareholders' Meeting
- One share, one vote

Shareholders exercise their rights of co-administration and supervision at the Annual Shareholders' Meeting. The Annual Shareholders' Meeting elects half of the members of the Supervisory Board and, in particular, decides on the formal discharge of the Board of Executive Directors and the Supervisory Board, the distribution of profits, capital measures, the authorization of share buybacks, changes to the Statutes and the selection of the auditor.

Each BASF SE share represents one vote. All of BASF SE's shares are registered shares. Shareholders are obliged to have themselves entered with their shares into the company share register and to provide the information necessary for registration in the share register according to the German Stock Corporation Act. There are no registration restrictions and there is no limit to the number of shares that can be registered to one shareholder. Only the persons listed in the share register are entitled to vote as shareholders. Listed shareholders may exercise their voting rights at the Annual Shareholders' Meeting either personally, through a representative of their choice or through a company-appointed proxy authorized by the shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has thus fully implemented the principle of "one share, one vote."

All shareholders entered in the share register are entitled to participate in the Annual Shareholders' Meetings, to have their say concerning any item on the agenda and to request information about company issues insofar as this is necessary to make an informed judgment about the item on the agenda under discussion. Registered shareholders are also entitled to file motions pertaining to proposals for resolutions made by the Board of Executive Directors and Supervisory Board at the Annual Shareholders' Meeting and to contest resolutions of the Meeting and have them evaluated for their lawfulness in court. Shareholders who hold at least €500,000 of the company's share capital, a quota corresponding to 390,625 shares, are furthermore entitled to request that additional items be added to the agenda of the Annual Shareholders' Meeting.

Implementation of the German Corporate Governance Code

- BASF SE follows all recommendations of German Corporate Governance Code

BASF supports the German Corporate Governance Code, which is an important tool in the continuing, capital market-oriented development of corporate governance and control, and advocates responsible corporate governance that focuses on sustainably increasing the value of the company.

BASF SE follows all recommendations of the German Corporate Governance Code in its most recently revised version of June 2014. In the same manner, BASF follows nearly all of the non-obligatory suggestions of the German Corporate Governance Code. We have not implemented the suggestion to enable shareholders to follow the proceedings of the entire Annual Shareholders' Meeting online. The Annual Shareholders' Meeting is publicly accessible via online broadcast until the end of the speech by the Chairman of the Board of Executive Directors. The subsequent discussion of items on the agenda is not accessible online in order to preserve the character of the Annual Shareholders' Meeting as a meeting attended by our shareholders on-site.

 The joint Declaration of Conformity 2014 by the Board of Executive Directors and Supervisory Board of BASF SE is rendered on page 150

 For more on the Declaration of Conformity 2014, the implementation of the Code's suggestions and the German Corporate Governance Code, see basf.com/governance_e

Disclosure pursuant to Section 315(4) of the German Commercial Code and the explanatory report of the Board of Executive Directors pursuant to Section 176(1) Sentence 1 of the German Stock Corporation Act

As of December 31, 2014, the subscribed capital of BASF SE was €1,175,652,728.32, divided into 918,478,694 registered shares with no par value. Each share entitles the holder to one vote at the Annual Shareholders' Meeting. Restrictions on the right to vote or transfer shares do not exist. The same rights and duties apply to all shares. According to the Statutes, shareholders are not entitled to receive share certificates. There are neither different classes of shares nor shares with preferential voting rights (golden shares).

The appointment and dismissal of members of the Board of Executive Directors is legally governed by the regulations in Article 39 of the SE Council Regulation, Section 16 of the SE Implementation Act and Sections 84, 85 of the German Stock Corporation Act, as well as Article 7 of the BASF SE Statutes. Accordingly, the Supervisory Board determines the number of members of the Board of Executive Directors (at least two), appoints the members of the Board of Executive Directors, and can nominate a chairperson, as well as one or more vice-chairpersons. The members of the Board of Executive Directors are appointed for a maximum of five years, and reappointments are permissible. The Supervisory Board can dismiss a member of the Board of Executive Directors if there is serious cause to do so. Serious cause includes, in particular, a gross breach of the duties pertaining to the Board of Executive Directors and a vote of no confidence at the Annual Shareholders' Meeting. The Supervisory Board decides on appointments and dismissals according to its own best judgment.

According to Article 59(1) SE Council Regulation, amendments to the Statutes of BASF SE require a resolution of the Annual Shareholders' Meeting adopted with at least a two-thirds majority of the votes cast, provided that the legal provisions applicable to German stock corporations under the German Stock Corporation Act do not stipulate or allow for larger majority requirements. In the case of amendments to the Statutes, Section 179(2) of the German Stock Corporation Act requires a majority of at least three-quarters of the subscribed capital represented. Pursuant to Article 12(6) of the Statutes of BASF SE, the Supervisory Board is authorized to resolve upon amendments to the Statutes that merely concern their wording. This applies in particular to the adjustment of the share capital and the number of shares after the redemption of repurchased BASF shares and after a new issue of shares from the authorized capital.

Until May 1, 2019, the Board of Executive Directors of BASF SE is empowered by a resolution passed at the Annual Shareholders' Meeting of May 2, 2014, to increase the subscribed capital – with the approval of the Supervisory Board – by up to €500 million through the issue of new shares against cash or contribution in kind (authorized capital).

A right to subscribe to the new shares shall be granted to shareholders. This can also be done by a credit institution acquiring the new shares with the obligation to offer these to shareholders (indirect subscription right). The Board of Executive Directors is authorized to exclude the statutory subscription right of shareholders to a maximum amount of a total of 20% of share capital in certain exceptional cases that are defined in Section 5(8) of the BASF SE Statutes. This applies in particular if, for capital increases in return for cash contributions, the issue price of the new shares is not substantially lower than the stock market price of BASF shares and the total number of shares issued under this authorization is not more than 10% of the stock of shares on the date of issue or, in eligible individual cases, to acquire companies or shares in companies in exchange for surrendering BASF shares.

At the Annual Shareholders' Meeting on April 27, 2012, the Board of Executive Directors was authorized to purchase up to 10% of the shares existing at the time of the resolution (10% of the company's share capital) until April 26, 2017. At the discretion of the Board of Executive Directors, the purchase can take place on the stock exchange or by way of a public purchase offer directed to all shareholders. The Board of Executive Directors is authorized to sell the repurchased company shares (a) through a stock exchange, (b) through a public offer directed to all shareholders and – with the approval of the Supervisory Board – to third parties, (c) for a cash payment that is not significantly lower than the stock exchange price at the time of sale and (d) for contributions in kind, particularly in connection with the acquisition of companies, parts of companies or shares in companies or in connection with mergers. In the cases specified under (c) and (d), the shareholders' subscription right is excluded. The Board of Executive Directors is furthermore authorized to redeem the shares bought back and to reduce the share capital by the proportion of the share capital accounted for by the redeemed shares.

Bonds issued by BASF SE grant the bearer the right to request early repayment of the bonds at nominal value if one person – or several persons acting in concert – hold or acquire a BASF SE share volume after the time of issuance which corresponds to more than 50% of the voting rights (change of control), and one of the rating agencies named in the bond's terms and conditions withdraws its rating of BASF SE or the bond, or reduces it to a noninvestment grade rating within 120 days after the change-of-control event.

In the event of a change of control, members of the Board of Executive Directors shall, under certain additional conditions, receive compensation (details of which are listed in the Compensation Report on page 144). A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF SE and its subsidiaries who are classified as senior executives will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the occurrence of a change of control, provided the employee has not given cause for the termination. The employee whose service contract has been terminated in such a case will receive a maximum severance payment of 1.5 times the annual salary (fixed component) depending on the number of months that have passed since the change-of-control event.

The remaining specifications stipulated in Section 315(4) of the German Commercial Code refer to situations that are not applicable to BASF SE.

 For more on bonds issued by BASF SE, see basf.com/investor/bonds_e

Directors' and officers' liability insurance

BASF SE has taken out liability insurance that covers the activities of members of the Board of Executive Directors and the Supervisory Board (D&O insurance). This policy provides for the level of deductibles for the Board of Executive Directors as prescribed by Section 93(2)(3) of the German Stock Corporation Act and for the level of deductibles for the Supervisory Board as recommended in Section 3.8(3) of the German Corporate Governance Code.

Share ownership by members of the Board of Executive Directors and the Supervisory Board

No member of the Board of Executive Directors or the Supervisory Board owns shares in BASF SE and related options or other derivatives that account for 1% or more of the share capital. Furthermore, the total volume of BASF SE shares and related financial instruments held by members of the Board of Executive Directors and the Supervisory Board accounts for less than 1% of the shares issued by the company.

Share dealings of the Board of Executive Directors and Supervisory Board (Directors' Dealings under Section 15a of the German Securities Trading Act)

In accordance with Section 15a of the German Securities Trading Act (*Wertpapierhandelsgesetz*), all members of the Board of Executive Directors and the Supervisory Board as well as certain members of their families are required to disclose the purchase or sale of BASF shares and other related rights to the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) and to the company if transactions within the calendar year exceed the threshold of €5,000.

In 2014, a total of six purchases by members of the Board of Executive Directors and the Supervisory Board and members of their families subject to disclosure were reported as Directors' Dealings, involving between 50 and 7,320 BASF shares. The price per share was between €68.25 and €85.15. The volume of the individual trades was between €4,048 and €499,956. The disclosed share transactions are published on the website of BASF SE.

 For more on securities transactions reported in 2014, see basf.com/governance/sharedealings_e

Information on the auditor

The Annual Shareholders' Meeting of May 2, 2014, elected KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor of the BASF Group Consolidated Financial Statements and Management's Report for the 2014 business year. KPMG is also auditor of the Financial Statements of BASF SE, and KPMG member firms audit the majority of companies included in the Consolidated Financial Statements. KPMG has been auditor of BASF SE since the 2006 Financial Statements. Hans-Dieter Krauß has been the responsible auditor since auditing the 2010 Financial Statements.

Compliance

<p>Code of Conduct</p> <p>forms core of our Compliance Program</p>	<p>More than 59,000</p> <p>employees participated in compliance training</p>	<p>104 audits</p> <p>conducted internally on compliance</p>
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With our Group-wide Compliance Program, we aim to ensure adherence to legal regulations and the company's internal guidelines. We have integrated compliance into our "We create chemistry" strategy. Our employee Code of Conduct firmly embeds these mandatory standards into everyday business. Members of the Board of Executive Directors are also expressly obligated to follow these principles.

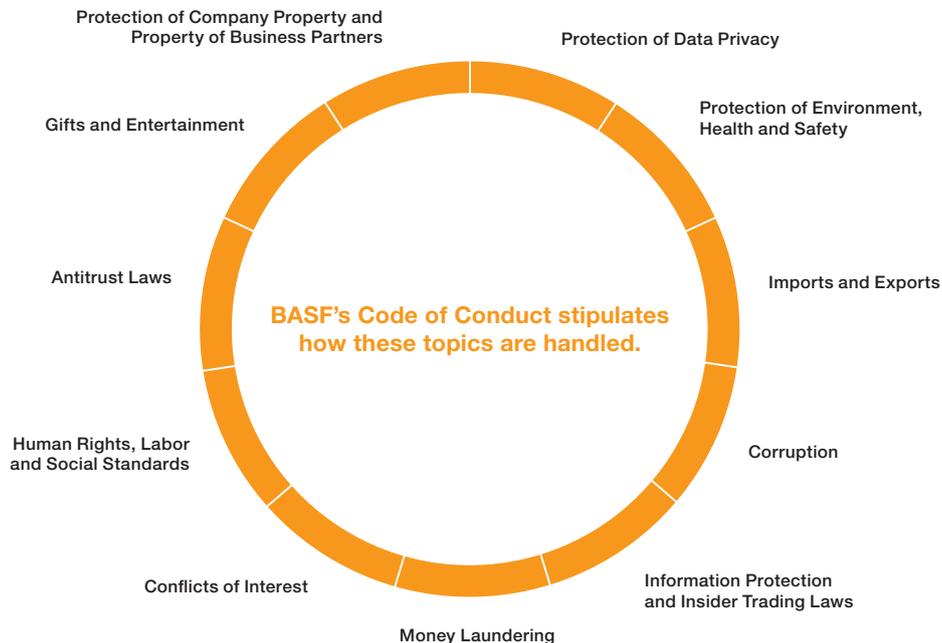
Based on international standards, BASF's Compliance Program combines important laws and company-internal policies – which themselves often exceed legal requirements – to create a framework that regulates how all BASF employees interact with business partners, officials, colleagues and society. At the core of our Compliance Program is the global, standardized Code of Conduct that we distributed to all employees. It describes our guidelines for proper conduct and comprises not only topics like corruption and antitrust laws, but also issues such as human rights, labor and social standards, conflicts of interest and trade control, as well as protection of data privacy.

Abiding by compliance standards is part of responsible leadership. This has been expressly embedded in our values, where we state: "We strictly adhere to our compliance standards." We are convinced that compliance with these standards will not only avoid the disadvantages associated with violations, such as penalties and fines. We also view compliance as the right path toward securing our company's long-term success.

Our efforts are principally aimed at preventing violations from the outset. To this end, all employees are required within a prescribed timeframe to take part in basic compliance training, refresher courses and special tutorials dealing with, for example, antitrust law or trade control regulations. Training takes place in different formats, including face-to-face training, e-learning or workshops. In addition, we introduced a new e-learning program on compliance in 2014. In total, more than 59,000 employees worldwide took part in around 65,000 hours of compliance training in 2014.

BASF's Code of Conduct

Our actions are based on behavior compliant with the Code of Conduct, which comprises important laws as well as company-internal policies that often exceed legal requirements.



Monitoring adherence to compliance principles

- Central role of Chief Compliance Officer and compliance officers
- 50 external hotlines worldwide
- Compliance Management System audited internally

BASF's Chief Compliance Officer (CCO) manages the implementation of our Compliance Management System, supported by 89 compliance officers worldwide. The CCO regularly reports to the Board of Executive Directors on progress in the program's implementation as well as on any significant findings. Furthermore, the CCO reports to the Supervisory Board's Audit Committee in at least one of its meetings each year on the status of the Compliance Program as well as any major developments. In the event of significant incidents, the Audit Committee is immediately informed by the Board of Executive Directors.

We particularly encourage our employees to actively and promptly seek guidance if in doubt. For this, they can consult not only their managers but also dedicated specialist departments and company compliance officers. We have also set up 50 external hotlines worldwide which our employees can turn to anonymously. We make sure that all concerns are processed and answered within a short amount of time.

In 2014, 276 calls and emails were received by our external hotlines (2013: 304). Concerns involved topics ranging from questions on personnel management and handling of company property to information on the behavior of business partners. We launched investigations into all cases of suspected misconduct that we became aware of. Confirmed violations were penalized, up to and including dismissal. This involved making sure that the necessary action was taken in accordance with standardized company criteria. A notification was sent to the appropriate authority in one case of suspected corruption.

BASF's Corporate Audit department monitors adherence to compliance principles, covering all areas in which compliance violations could occur. They check that employees adhere to regulations and make sure that the established processes, procedures and monitoring tools are appropriate and sufficient to minimize potential risk or preclude violations in the first place. In 2014, 104 Group-wide audits of this kind were performed (2013: 111), predominantly in the areas of antitrust law, imports and exports, and gifts and entertainment.

Our compliance management system itself is also regularly audited, most recently in August 2014. If compliance audits demonstrate a need to optimize procedures or hone control measures, we implement them immediately. Furthermore, we intensified the audits of our business partners in the area of sales. The audits' content and scope are prescribed by a global directive.

Even outside of our company, we support the respect of human rights and the fight against corruption: We are a founding member of the United Nations Global Compact, and are committed to our responsibility in accordance with the U.N. Guiding Principles on Business and Human Rights. As a member of Transparency International Deutschland and the Partnering Against Corruption Initiative (PACI) of the World Economic Forum, we assist in the implementation of these organizations' objectives. As a member of the U.N. Global Compact LEAD, we report in accordance with the Blueprint for Corporate Sustainability Leadership. This action plan comprises measures to support the U.N. Millennium Development Goals, addressing topics such as transparency and stakeholder engagement.

 For more on the BASF Code of Conduct, see basf.com/code_of_conduct

For more on human rights, labor and social standards, see page 46 and basf.com/human_rights

 For more on our supply chain management, see page 93



Management and Supervisory Boards

Board of Executive Directors

There were nine members on the Board of Executive Directors of BASF SE as of Dec. 31, 2014

Dr. Kurt Bock

Chairman of the Board of Executive Directors
Degree: Business Administration; 56 years old; 24 years at BASF

Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications & Government Relations; Global Executive Human Resources; Investor Relations; Compliance

First appointed: 2003, **Term expires:** 2016

Dr. Martin Bruder Müller

Vice Chairman of the Board of Executive Directors
Degree: Chemistry; 53 years old; 27 years at BASF

Responsibilities: Performance Materials; Greater China & Functions Asia Pacific; South & East Asia, ASEAN and Australia/New Zealand; Corporate Technology & Operational Excellence

First appointed: 2006, **Term expires:** 2016

Comparable German and non-German controlling bodies:

Styrolution Holding GmbH (Vice Chairman of the Advisory Board until November 17, 2014)

Dr. Hans-Ulrich Engel

Degree: Law; 55 years old; 27 years at BASF

Responsibilities: Finance; Catalysts; Corporate Controlling; Corporate Audit; Information Services & Supply Chain Operations; Market & Business Development North America; Regional Functions North America

First appointed: 2008, **Term expires:** 2016

Sanjeev Gandhi (since December 1, 2014)

Degrees: Chemical Engineering, Master of Business Administration (MBA); 48 years old; 21 years at BASF

First appointed: 2014, **Term expires:** 2018

Michael Heinz

Degree: Business Administration (MBA); 50 years old; 31 years at BASF

Responsibilities: Dispersions & Pigments; Care Chemicals; Nutrition & Health; Paper Chemicals; Performance Chemicals; Advanced Materials & Systems Research; Perspectives

First appointed: 2011, **Term expires:** 2019

Internal memberships as defined in Section 100(2) of the German Stock Corporation Act:

BASF Coatings GmbH (member of the Supervisory Board)

Dr. Andreas Kreimeyer

Degree: Biology; 59 years old; 29 years at BASF

Responsibilities: Crop Protection; Coatings; Biological & Effect Systems Research; BASF Plant Science; BASF New Business; Region South America

First appointed: 2003, **Term expires:** 2015

Internal memberships as defined in Section 100(2) of the German Stock Corporation Act:

BASF Coatings GmbH (Chairman of the Supervisory Board)

Dr. Harald Schwager

Degree: Chemistry; 54 years old; 27 years at BASF

Responsibilities: Oil & Gas; Construction Chemicals; Procurement; Region Europe

First appointed: 2008, **Term expires:** 2016

Internal memberships as defined in Section 100(2) of the German Stock Corporation Act:

Wintershall Holding GmbH (Chairman of the Supervisory Board)

Wintershall AG (Chairman of the Supervisory Board)

Comparable German and non-German controlling bodies:

Nord Stream AG (member of the Shareholders' Committee)
South Stream Transport B.V. (member of the Board of Directors until December 29, 2014)

Wayne T. Smith

Degrees: Chemical Engineering, Business Administration (MBA); 54 years old; 11 years at BASF

Responsibilities: Petrochemicals; Monomers; Intermediates; Process Research & Chemical Engineering

First appointed: 2012, **Term expires:** 2020

Margret Suckale

Degrees: Law, Business Administration (MBA); 58 years old; 6 years at BASF

Responsibilities: Engineering & Maintenance; Environment, Health & Safety; European Site & Verbund Management; Human Resources

First appointed: 2011, **Term expires:** 2017

Comparable German and non-German controlling bodies:

BASF Antwerpen N.V. (Chairwoman of the Administrative Council)

Supervisory Board

In accordance with the Statutes, the Supervisory Board of BASF SE comprises twelve members

The term of office of the Supervisory Board commenced following the Annual Shareholders' Meeting on May 2, 2014, in which the shareholder representatives on the Supervisory Board were elected. It terminates upon conclusion of the Annual Shareholders' Meeting which resolves on the discharge of members of the Supervisory Board for the fourth complete financial year after the term of office commenced; this is the Annual Shareholders' Meeting in 2019. The Supervisory Board comprises the following members:

Dr. Jürgen Hambrecht, Neustadt an der Weinstraße, Germany (since May 2, 2014)

Chairman of the Supervisory Board of BASF SE
Former Chairman of the Board of Executive Directors of BASF SE
Supervisory Board memberships (excluding internal memberships):
Fuchs Petrolub SE (Chairman)
Trumpf GmbH & Co. KG (Chairman)
Daimler AG (member)

Michael Diekmann, Munich, Germany

Vice Chairman of the Supervisory Board of BASF SE
Chairman of the Board of Management of Allianz SE
Supervisory Board memberships (excluding internal memberships):
Linde AG (Vice Chairman)
Siemens AG (member)
Internal memberships as defined in Section 100(2) of the German Stock Corporation Act:
Allianz Deutschland AG (member of the Supervisory Board)
Allianz Asset Management AG (Chairman of the Supervisory Board)
Comparable German and non-German controlling bodies:
Allianz France S.A. (Vice Chairman of the Administrative Council)
Allianz S.p.A. (member of the Administrative Council)

Robert Oswald, Altrip, Germany

Vice Chairman of the Administrative Council of BASF SE
Chairman of the Works Council of the Ludwigshafen site of BASF SE and Chairman of BASF's Joint Works Council

Ralf-Gerd Bastian, Neuhofen, Germany

Member of the Works Council of the Ludwigshafen site of BASF SE

Dame Alison Carnwath DBE, Sidmouth, England (since May 2, 2014)

Senior Advisor Evercore Partners
Comparable German and non-German controlling bodies:
Zurich Insurance Group AG (member of the Administrative Council)
Zürich Versicherungs-Gesellschaft AG (member of the Administrative Council)
ISIS Equity Partners LLP (independent Chairwoman of the Administrative Council)
Land Securities Group plc (Chairwoman of the Administrative Council)
PACCAR Inc. (member of the Administrative Council)

Wolfgang Daniel, Heidelberg, Germany

Vice Chairman of the Works Council of the Ludwigshafen site of BASF SE

Prof. Dr. François Diederich, Zurich, Switzerland

Professor at the Swiss Federal Institute of Technology, Zurich, Switzerland

Franz Fehrenbach, Stuttgart, Germany

Chairman of the Supervisory Board of Robert Bosch GmbH
Supervisory Board memberships (excluding internal memberships):
Robert Bosch GmbH (Chairman)
Stihl AG (Vice Chairman)
Linde AG (member)
Comparable German and non-German controlling bodies:
Robert Bosch Corporation (member of the Board of Directors)
Stihl Holding AG & Co. KG (member of the Advisory Board)

Francesco Grioli, Ronnenberg, Germany (since May 2, 2014)

Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union

Anke Schäferkordt, Cologne, Germany

Member of the Executive Board of Bertelsmann SE & Co. KGaA
Co-CEO of RTL Group S.A.
Chief Executive Officer of RTL Television GmbH
Supervisory Board memberships (excluding internal memberships):
Software AG (member)

Denise Schellemans, Brecht, Belgium

Full-time trade union delegate

Michael Vassiliadis, Hannover, Germany

Chairman of the Mining, Chemical and Energy Industries Union
Supervisory Board memberships (excluding internal memberships):
K+S Aktiengesellschaft (Vice Chairman)
Steag GmbH (Vice Chairman)
Evonik Industries AG (Vice Chairman)

The following members left the Supervisory Board on May 2, 2014

Dr. h. c. Eggert Voscherau, Wachenheim, Germany

Chairman of the Supervisory Board of BASF SE
Former Vice Chairman of the Board of Executive Directors of BASF SE
Comparable German and non-German controlling bodies:
Centre for European Economic Research (ZEW) (Vice Chairman of the Supervisory Board)

Max Dietrich Kley, Heidelberg, Germany

Lawyer
Supervisory Board memberships (excluding internal memberships):
HeidelbergCement AG (member)

Ralf Sikorski, Wiesbaden, Germany

Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union
Supervisory Board memberships (excluding internal memberships):
Villeroy & Boch AG (member)
Villeroy & Boch Fliesen GmbH (member)
Steag Power Saar GmbH (Vice Chairman)
Steag New Energies GmbH (Vice Chairman)
KSBG Kommunale Verwaltungsgesellschaft mbH (Vice Chairman)
RWE Generation SE (member)

Compensation report

This report outlines the main principles of the compensation for the Board of Executive Directors and discloses the amount and structure of the compensation of each Board member. Furthermore, it provides information on end-of-service undertakings with respect to Board members, as well as information on the compensation of Supervisory Board members.

Compensation of the Board of Executive Directors

This report meets the disclosure requirements of the German Commercial Code, supplemented by the additional requirements based on the German Act on Disclosure of Management Board Remuneration (*Vorstandsvergütungs-Offenlegungsgesetz*) as well as the German Act on the Appropriateness of Management Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung*), and is aligned with the recommendations of the German Corporate Governance Code in its version of June 24, 2014.

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.

The amount and structure of compensation is determined by the company's size, complexity and financial position, as well as the performance of the Board of Executive Directors. Internal and external appropriateness of the Board's compensation is reviewed by external auditors on a regular basis. Globally operating companies based in Europe serve as an external reference. For internal comparison, compensation is considered in total as well as over time, especially for senior executives.

 For more on the Supervisory Board and its committees, see page 137 and from page 148 onward

Principles

The compensation of the Board of Executive Directors 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 BASF Group's return on assets.

The compensation of the Board of Executive Directors comprises:

1. Fixed salary
2. Annual variable compensation
3. Share-price-based, long-term incentive (LTI) program
4. Nonmonetary compensation and other additional compensation
5. Company pension benefits

The compensation components are shown in detail below:

1. The **fixed salary** is a set amount of yearly compensation paid out in even installments. It is regularly reviewed by the Supervisory Board and adjusted, if necessary.

2. The **actual annual variable compensation (variable bonus)** is based on the performance of the entire Board of Executive Directors and the return on assets. The return on assets is also used to determine the variable compensation of all other employee groups.

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 that primarily contains medium and long-term goals.

The Supervisory Board assesses the goal achievement of the current year and the previous two years. A performance factor with a value between 0 and 1.5 is determined on the basis of the goal achievement ascertained by the Supervisory Board. The variable bonus for the prior fiscal year is payable after the Annual Shareholders' Meeting.

Board members, like other employee groups, may contribute a portion of their annual variable bonus into a deferred compensation program. For members of the Board of Executive Directors, as well as for all other senior executives of the German BASF Group, the maximum amount that can be contributed to this program is €30,000. Board members have taken advantage of this offer to varying degrees.

3. A **share-price-based, long-term incentive (LTI) program** exists for members of the Board of Executive Directors. It is also offered to all other senior executives of BASF Group. Members of the Board of Executive Directors are subject to a stricter set of rules than are contained in the general program conditions: They are required to participate in the program with at least 10% of their variable bonus. This mandatory investment consisting of BASF shares is subject to a holding period of four years. For any additional voluntary investment of up to 20% of the variable bonus, the general holding period of two years applies. Members of the Board of Executive Directors may only exercise their options at least four years after they have been granted (vesting period). This compensation component is limited, too, by the structure of the LTI program as well as by the upper limit on the options' exercise value. Because the exercise period spans multiple years, it can occur that gains allocated from several LTI program years all accumulate into one year; there can also be years in which no gains are allocated.

 For more on share ownership by members of the Board of Executive Directors, see page 133

For more on the LTI program, see page 45 and from page 219 onward

4. Included in **nonmonetary compensation and other additional compensation (fringe benefits)** are the following: delegation allowances, accident insurance premiums and other similar benefits, and benefits from means of transport and security measures provided by the company. The members of the Board did not receive loans or advances from the company in 2014.

The members of the Board are covered by loss liability insurance concluded by the company (D&O insurance) which includes a deductible.

 For more on the D&O insurance of the Board of Executive Directors, see page 133

5. 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 method used to determine the amount of the pension benefits generally corresponds to that used for the other senior executives of the German BASF Group. The method is designed such that both the performance of the company and the progression of the individual Board member’s career significantly affect the pension entitlement.

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% (contribution factor). The variable component of the pension unit is the result of multiplying the fixed component with a factor that is dependent on the return on assets in the reporting year and the performance factor, which is also decisive for the variable bonus. The amount resulting from the fixed and the variable component is converted into a pension unit (lifelong pension) using actuarial factors based on an actuarial interest rate (5%), the probability of death, invalidity and bereavement according to Heubeck Richttafeln, 2005G (modified), and an assumed pension increase (at least 1% per annum).

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 upon retirement. Pension benefits take effect at the end of service after completion of the member’s 60th year of age, or on account of disability or death. Pension payments are reviewed on a regular basis and adjusted by at least 1% each year.

The pension units also include survivor benefits. Upon the death of an active or former member of the Board, 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 the 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.

Amount of total compensation

The tables on pages 140-143 show the granted and allocated compensation as well as service cost of each member of the Board of Executive Directors in accordance with Section 4.2.5(3) of the German Corporate Governance Code (GCGC) in its version of June 24, 2014.

Compensation granted in accordance with the German Corporate Governance Code (GCGC)

The table “Compensation granted in accordance with GCGC” shows: fixed salary, fringe benefits, annual variable target compensation, LTI program measured at fair value at the grant date, and service cost. The individual compensation components are supplemented by individually attainable minimum and maximum compensation.

Furthermore, a reconciliation statement for total compensation to be reported is provided below the table “Compensation granted in accordance with GCGC” due to the disclosures required by Section 314(1)(6a) of the German Commercial Code (HGB) in connection with the German Accounting Standard Number 17 (GAS 17).

The fixed salary and annual variable target compensation were both raised on January 1, 2014, for the first time since January 1, 2011.

Compensation granted in accordance with the German Corporate Governance Code (GCGC) (in thousand €)

	Dr. Kurt Bock				Dr. Martin Brudermüller			
	Chairman of the Board of Executive Directors				Vice Chairman of the Board of Executive Directors			
	2013	2014	2014 (min)	2014 (max)	2013	2014	2014 (min)	2014 (max)
Fixed salary	1,200	1,300	1,300	1,300	798 ¹	864 ¹	864 ¹	864 ¹
Fringe benefits	124	173	173	173	571 ²	754 ²	754 ²	754 ²
Total	1,324	1,473	1,473	1,473	1,369	1,618	1,618	1,618
Annual variable target compensation	2,400	2,600	0	4,000	1,596	1,729	0	2,660
Multiple-year variable compensation	1,282	1,299	0	4,191	852	864	0	2,787
LTI program 2013 (2013–2021)	1,282	–	–	–	852	–	–	–
LTI program 2014 (2014–2022)	–	1,299	0	4,191	–	864	0	2,787
Total	5,006	5,372	1,473	9,664	3,817	4,211	1,618	7,065
Service cost	943	820	820	820	679	587	587	587
Total compensation in accordance with GCGC	5,949	6,192	2,293	10,484	4,496	4,798	2,205	7,652
Reconciliation reporting of total compensation pursuant to Section 314(1)(6a) HGB in connection with GAS 17								
less granted annual variable target compensation	(2,400)	(2,600)			(1,596)	(1,729)		
plus allocated actual annual variable compensation	2,794	2,680			1,858	1,782		
less service cost	(943)	(820)			(679)	(587)		
Total compensation	5,400	5,452			4,079	4,264		
Dr. Andreas Kreimeyer								
	2013	2014	2014 (min)	2014 (max)	2013	2014	2014 (min)	2014 (max)
Fixed salary	600	650	650	650	600	650	650	650
Fringe benefits	97	96	96	96	160	106	106	106
Total	697	746	746	746	760	756	756	756
Annual variable target compensation	1,200	1,300	0	2,000	1,200	1,300	0	2,000
Multiple-year variable compensation	641	649	0	2,095	641	649	0	2,095
LTI program 2013 (2013–2021)	641	–	–	–	641	–	–	–
LTI program 2014 (2014–2022)	–	649	0	2,095	–	649	0	2,095
Total	2,538	2,695	746	4,841	2,601	2,705	756	4,851
Service cost	534	478	478	478	523	457	457	457
Total compensation in accordance with GCGC	3,072	3,173	1,224	5,319	3,124	3,162	1,213	5,308
Reconciliation reporting of total compensation pursuant to Section 314(1)(6a) HGB in connection with GAS 17								
less granted annual variable target compensation	(1,200)	(1,300)			(1,200)	(1,300)		
plus allocated actual annual variable compensation	1,397	1,340			1,397	1,340		
less service cost	(534)	(478)			(523)	(457)		
Total compensation	2,735	2,735			2,798	2,745		
Dr. Harald Schwager								

¹ Payment is made in local currency based on a theoretical net salary in Germany.

² Includes payments to cover additional costs of transfers, such as assumption of prevailing local rental fees.

The table below shows the options granted to the Board of Executive Directors on July 1 of both reporting years. Sanjeev Gandhi was not yet a member of the Board at this time.

Number of options granted

	2014	2013
Dr. Kurt Bock	41,412	54,240
Dr. Martin Brudermüller	27,536	36,072
Dr. Hans-Ulrich Engel	20,704	27,120
Michael Heinz	20,704	27,120
Dr. Andreas Kreimeyer	20,704	27,120
Dr. Harald Schwager	20,704	27,120
Wayne T. Smith	20,704	21,276
Margret Suckale	20,704	10,880
Total	193,172	230,948

Compensation allocated in accordance with the German Corporate Governance Code (GCGC)

The “Compensation allocated in accordance with the GCGC” shown for 2013 and 2014 is comprised of the fixed and variable compensation components actually allocated, plus the service cost calculated for each member of the Board of Executive Directors in the reporting years even though this does not actually represent payment in the narrower sense.

Compensation allocated in accordance with the German Corporate Governance Code (GCGC) (in thousand €)

	Dr. Kurt Bock Chairman of the Board of Executive Directors		Dr. Martin Brudermüller Vice Chairman of the Board of Executive Directors		Dr. Hans-Ulrich Engel	
	2014	2013	2014	2013	2014	2013
Fixed salary	1,300	1,200	864 ²	798 ²	616 ²	555 ²
Fringe benefits	173	124	754 ³	571 ³	812 ³	814 ³
Total	1,473	1,324	1,618	1,369	1,428	1,369
Actual annual variable compensation ¹	2,680	2,794	1,782	1,858	1,340	1,397
Multiple-year variable compensation	2,825 ⁴	–	–	9,561	1,897 ⁴	1,155
LTI program 2006 (2006–2014)	2,825 ⁴	–	–	–	1,897 ⁴	–
LTI program 2007 (2007–2015)	–	–	–	2,701	–	–
LTI program 2008 (2008–2016)	–	–	–	3,530	–	1,155
LTI program 2009 (2009–2017)	–	–	–	3,330	–	–
LTI program 2010 (2010–2018)	–	–	–	–	–	–
Total	6,978	4,118	3,400	12,788	4,665	3,921
Service cost	820	943	587	679	482	545
Total compensation in accordance with GCGC	7,798	5,061	3,987	13,467	5,147	4,466

¹ The basis for the allocated actual annual variable compensation is the return on assets adjusted for special items and the performance factor. This includes contributions made to the deferred compensation program.

² Payment is made in local currency based on a theoretical net salary in Germany.

³ Includes payments to cover additional costs of transfers, such as assumption of prevailing local rental fees.

⁴ At the end of the regular term of the LTI program 2006, exercise gains which were realized in 2010 or 2011 were allocated to Dr. Kurt Bock and Dr. Hans-Ulrich Engel in 2014 in accordance with the special conditions of the U.S. LTI program.

Compensation allocated in accordance with the German Corporate Governance Code (GCGC) (in thousand €)

	Sanjeev Gandhi		Michael Heinz		Dr. Andreas Kreimeyer	
	Since December 1, 2014					
	2014	2013	2014	2013	2014	2013
Fixed salary	54	–	650	600	650	600
Fringe benefits	5	–	168	125	96	97
Total	59	–	818	725	746	697
Actual annual variable compensation ¹	112	–	1,340	1,397	1,340	1,397
Multiple-year variable compensation	–	–	–	–	437	2,828
LTI program 2006 (2006–2014)	–	–	–	–	–	–
LTI program 2007 (2007–2015)	–	–	–	–	–	–
LTI program 2008 (2008–2016)	–	–	–	–	–	–
LTI program 2009 (2009–2017)	–	–	–	–	–	2,828
LTI program 2010 (2010–2018)	–	–	–	–	437	–
Total	171	–	2,158	2,122	2,523	4,922
Service cost	37	–	445	520	478	534
Total compensation in accordance with GCGC	208	–	2,603	2,642	3,001	5,456

	Dr. Harald Schwager		Wayne T. Smith		Margret Suckale	
	2014	2013	2014	2013	2014	2013
Fixed salary	650	600	650	600	650	600
Fringe benefits	106	160	583 ²	475 ²	71	76
Total	756	760	1,233	1,075	721	676
Actual annual variable compensation ¹	1,340	1,397	1,340	1,397	1,340	1,397
Multiple-year variable compensation	–	6,268	–	–	–	–
LTI program 2006 (2006–2014)	–	–	–	–	–	–
LTI program 2007 (2007–2015)	–	1,475	–	–	–	–
LTI program 2008 (2008–2016)	–	1,463	–	–	–	–
LTI program 2009 (2009–2017)	–	3,330	–	–	–	–
LTI program 2010 (2010–2018)	–	–	–	–	–	–
Total	2,096	8,425	2,573	2,472	2,061	2,073
Pension benefits	457	523	477	546	391	442
Total compensation in accordance with GCGC	2,553	8,948	3,050	3,018	2,452	2,515

¹ The basis for the allocated actual annual variable compensation is the return on assets adjusted for special items and the performance factor. This includes contributions made to the deferred compensation program.

² Includes payments to cover additional costs of transfers, such as assumption of prevailing local rental fees.

Accounting valuation of multiple-year variable compensation (LTI programs)

While the options granted had resulted in an expense for BASF in 2013, they led to income in 2014, except in the case of Dr. Andreas Kreimeyer. This income refers to the total of all options from the LTI programs 2006 to 2014 and is calculated as the difference in the value of the options on December 31, 2014, compared with the value on December 31, 2013, considering the options exercised and granted in 2014. The value of the options is based primarily on the development of the BASF share price and its relative performance compared with the benchmark index specified for the LTI programs 2006 to 2014. Because the value of options on December 31, 2014,

was lower than that of December 31, 2013, a gain rather than an expense arose for 2014.

The expenses and gains reported below are purely accounting figures which do not equate with the allocated actual gains should options be exercised. Each member of the Board may decide individually on the timing and scope of the exercise of options of the LTI programs, while taking into account the terms and conditions of the program.

The gains for 2014 relating to all options issued were as follows: Dr. Kurt Bock €97 thousand (2013: expense of €1,870 thousand); Dr. Martin Bruder Müller €333 thousand (2013: expense of €1,773 thousand); Dr. Hans-Ulrich Engel €90 thousand (2013: expense of €1,593 thousand); Michael Heinz €146 thousand (2013: expense of €477 thousand);

Dr. Harald Schwager €388 thousand (2013: expense of €1,716 thousand); Wayne T. Smith €165 thousand (2013: expense of €312 thousand); and Margret Suckale €145 thousand (2013: expense of €390 thousand). For Dr. Andreas Kreimeyer, the expense for 2014 amounted to €446 thousand (2013: expense of €1,477 thousand).

📖 For more on the LTI program, see page 45 and from page 219 onward

Pension benefits

The values for service cost incurred in 2014 contain service cost for BASF Pensionskasse VVaG and Performance Pension. Service cost for the members of the Board of Executive Directors is shown individually in the tables "Compensation granted in accordance with GCGC" and "Compensation allocated in accordance with GCGC."

The present value of pension benefits (defined benefit obligation) is an accounting figure for the entitlements that the Board members have accumulated in their years of service at BASF. The defined benefit obligations up to and including 2014 are as follows: Dr. Kurt Bock €18,571 thousand (2013: €13,154 thousand); Dr. Martin Brudermüller €13,259 thousand (2013: €9,070 thousand); Dr. Hans-Ulrich Engel €10,165 thousand (2013: €7,165 thousand); Sanjeev Gandhi €1,193 thousand; Michael Heinz €8,295 thousand (2013: €5,313 thousand); Dr. Andreas Kreimeyer €14,582 thousand (2013: €11,275 thousand); Dr. Harald Schwager €9,680 thousand (2013: €6,707 thousand); Wayne T. Smith €1,933 thousand (2013: €935 thousand); and Margret Suckale €3,290 thousand (2013: €2,148 thousand). The increase in the defined benefit obligations compared with the previous year was largely attributable to the lower discount rate.

End-of-service benefits

In the event that a member of the Board of Executive Directors retires from employment before the age of 60, either because their appointment was not extended or was revoked for an important reason, they are entitled to pension benefits if they have 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.

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 annual variable target compensation). 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.

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 their 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 full financial year and, if appropriate, also the expected total compensation for the current financial year. If the appointment to the Board of Executive Directors is prematurely terminated as the result of a change of control, the payments may not exceed 150% of the severance compensation cap.

Former members of the Board of Executive Directors

Total compensation for previous Board members and their surviving dependents amounted to €6.5 million in 2014 (2013: €10.5 million). This figure also contains payments that previous Board members have themselves financed through the deferred compensation program and the gain or expense for 2014 relating to options that previous members of the Board still hold from the time of their active service period.

The continuation of the options that have not yet been exercised at the time of retirement, along with the continuation of the associated holding period for individual investment in BASF shares under the conditions of the program, is intended in order to particularly emphasize how sustainability is incorporated into the compensation for the Board members. Pension provisions for previous Board members and their surviving dependents amounted to €143.5 million (2013: €131.8 million).

Compensation of Supervisory Board members

The disclosure of compensation of the Supervisory Board is based on the German Commercial Code and is aligned with the recommendations of the German Corporate Governance Code. The compensation of the Supervisory Board is regulated by the Statutes of BASF SE passed by the Annual Shareholders' Meeting.

Each member of the Supervisory Board receives an annual fixed compensation of €60,000 and a performance-related variable compensation for each full €0.01 by which the earnings per share of the BASF Group, as declared in the BASF Group Consolidated Financial Statements for the year for which the remuneration is paid, exceeds the minimum earnings per share. For the 2014 business year, minimum earnings per share amounted to €1.65 (2013: €1.60). The performance-related variable remuneration is €800 for each €0.01 of earnings per share up to an earnings per share of €2.40, €600 for each further €0.01 of earnings per share up to an earnings per share of €2.90, and €400 for each €0.01 beyond this. The

minimum earnings per share and the corresponding thresholds shall increase by €0.05 for each subsequent financial year. The performance-related variable compensation is limited to a maximum amount of €120,000.

Based on the earnings per share of €5.61 published in the BASF Group Consolidated Financial Statements 2014, the performance-related compensation reached the maximum amount of €120,000 (2013: €120,000).

The chairman of the Supervisory Board receives two-and-a-half times and a vice chairman one-and-a-half times the compensation of an ordinary member. Members of the Supervisory Board who are members of a committee, except for the Nomination Committee, receive a further fixed compensation for this purpose in the amount of €12,500. For the Audit Committee, the further fixed compensation is €50,000. The chairman of a committee shall receive twice and a vice chairman one-and-a-half times the further fixed compensation.

The company reimburses members of the Supervisory Board for out-of-pocket expenses and value-added tax to be paid with regard to their activities as members of the Supervisory Board or of a committee. The company further grants the members of the Supervisory Board a fee of €500 for attending a meeting of the Supervisory Board or one of its committees to which they belong and includes the performance of the duties of the members of the Supervisory Board in the cover of a loss liability insurance concluded by it (D&O insurance), which includes a deductible.

 For more on the D&O insurance of the Supervisory Board, see page 133

Total compensation of the Supervisory Board of the company for activities in 2014, including the attendance fees, was around €3 million (2013: around €3 million). The compensation of the individual Supervisory Board members is as follows:

Compensation of the Supervisory Board of BASF SE (in thousand €)

	Fixed salary		Performance-related variable compensation		Compensation for committee memberships		Total compensation	
	2014	2013	2014	2013	2014	2013	2014	2013
Dr. Jürgen Hambrecht, Chairman since May 2, 2014 ¹	100.0	–	200.0	–	16.7	–	316.7	–
Dr. h. c. Eggert Voscherau, Chairman until May 2, 2014 ¹	62.5	150.0	125.0	300.0	10.4	25.0	197.9	475.0
Michael Diekmann, Vice Chairman ²	90.0	90.0	180.0	180.0	12.5	12.5	282.5	282.5
Robert Oswald, Vice Chairman ²	90.0	90.0	180.0	180.0	12.5	12.5	282.5	282.5
Ralf-Gerd Bastian ⁴	60.0	60.0	120.0	120.0	50.0	50.0	230.0	230.0
Dame Alison Carnwath DBE, Supervisory Board member since May 2, 2014 ³	40.0	–	80.0	–	66.7	–	186.7	–
Wolfgang Daniel	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Prof. Dr. François Diederich	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Franz Fehrenbach ⁴	60.0	60.0	120.0	120.0	50.0	50.0	230.0	230.0
Francesco Grioli, Supervisory Board member since May 2, 2014	40.0	–	80.0	–	–	–	120.0	–
Max Dietrich Kley, Supervisory Board member until May 2, 2014 ³	25.0	60.0	50.0	120.0	41.7	100.0	116.7	280.0
Anke Schäferkordt	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Denise Schellemans	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Ralf Sikorski, Supervisory Board member until May 2, 2014	25.0	60.0	50.0	120.0	–	–	75.0	180.0
Michael Vassiliadis ^{2,4}	60.0	60.0	120.0	120.0	62.5	62.5	242.5	242.5
Total	892.5	870.0	1,785.0	1,740.0	323.0	312.5	3,000.5	2,922.5

¹ Chairman of the Personnel Committee

² Member of the Personnel Committee

³ Chairwoman/Chairman of the Audit Committee

⁴ Member of the Audit Committee

Compensation for Supervisory Board membership and membership of Supervisory Board committees is payable after the Annual Shareholders' Meeting, which approves the Consolidated Financial Statements upon which the variable compensation is based. Accordingly, compensation relating to the year 2014 will be paid following the Annual Shareholders' Meeting on April 30, 2015.

In 2014, as in 2013, the company paid the Supervisory Board member Prof. Dr. François Diederich a total of CHF 38,400 (2014: approximately €31,600; 2013: approxi-

mately €31,200) plus value-added taxes and out-of-pocket expenses for consulting work in the area of chemical research based on a consulting contract approved by the Supervisory Board.

Beyond this, no other Supervisory Board members received any compensation in 2014 for services rendered personally, in particular, the rendering of advisory and agency services.

 For more on share ownership by members of the Supervisory Board, see page 133

Report of the Supervisory Board



Dear Shareholders,

Despite a sluggish business environment and growing uncertainty in the global economy, BASF continued to grow in 2014. Our goal of once again increasing earnings was achieved. This was not automatically a given. The will and the ability to consistently implement the “We create chemistry” strategy and to constantly improve efficiency and resilience determine today’s and tomorrow’s success. The further pursuit of this entrepreneurially ambitious path is the managerial responsibility of the Board of Executive Directors. In this, they have the full support of the Supervisory Board.

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

In 2014, the Supervisory Board of BASF SE exercised its duties as required by law and the Statutes with the utmost care. We 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 in the form of written and oral reports on, for example, all of the company’s and the segments’ major financial KPIs for the general 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.

Outside of Supervisory Board meetings, the Chairman of the Board of Executive Directors also regularly informed the Chairman of the Supervisory Board with regard to current developments and individual events significant for the company. 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 2014, these pertained to approval for the acquisition of further investments in oil and gas fields in Norway from Statoil Petroleum AS.

Composition of the Supervisory Board

The Supervisory Board’s term of office ended with the Annual Shareholders’ Meeting on May 2, 2014. Of the shareholder representatives serving up to that point, Chairman of the Supervisory Board Dr. h. c. Eggert Voscherau and Chairman of the Audit Committee Max Dietrich Kley were no longer eligible for reelection. The Annual Shareholders’ Meeting elected Dame Alison Carnwath DBE and the former Chairman of the Board of Executive Directors of BASF SE, Dr. Jürgen Hambrecht, both of whom were nominated for the first time, to represent the shareholders together with the reelected Supervisory Board members Michael Diekmann, Prof. Dr. François Diederich, Franz Fehrenbach and Anke Schäferkordt. The six employee representatives in the Supervisory Board of BASF SE, Ralf-Gerd Bastian, Wolfgang Daniel, Francesco Grioli, Robert Oswald, Denise Schellemans and Michael Vassiliadis, were appointed by BASF Europa Betriebsrat (Europe Works Council) in accordance with the regulations of the Employee Participation Agreement of November 15, 2007. The term of office of the newly elected Supervisory Board will end upon the conclusion of the 2019 Annual Meeting.

Supervisory Board meetings

The Supervisory Board held six meetings in the 2014 reporting year. With the exception of two meetings at which one member of the Supervisory Board was absent, all twelve Supervisory Board members attended the meetings of the Supervisory Board in 2014. The members of the Supervisory Board elected by shareholders and those elected by the employees prepared for the meetings in separate preliminary discussions.

Directly following the Annual Shareholders' Meeting on May 2, 2014, the Supervisory Board redefined its own organization in its constituent assembly with the election of Dr. Jürgen Hambrecht as Chairman, Michael Diekmann and Robert Oswald as Vice Chairmen, and the new composition of the Supervisory Board Committees. Dame Alison Carnwath DBE was appointed the new Chair of the Audit Committee.

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 growth, 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 its meetings, the Supervisory Board additionally discussed the further development of the BASF Group's business activities through acquisitions, divestitures and investment projects. The 2014 business year was marked by a number of medium-sized divestitures which enabled BASF to undergo organic development and exit businesses that no longer fit with the core areas pursuant to the "We create chemistry" strategy supported by the Supervisory Board. These include the disposal of BASF's share in the styrenic plastics supplier Styrolution to INEOS; the disposal of BASF's share in Ellba Eastern, which produces styrene and propylene oxide in Singapore, to its joint venture partner Shell; the divestiture of the expandable polystyrene (EPS) business in North and South America; and the agreement to sell the global textile chemicals business. The Board of Executive Directors reported on current developments in the projects negotiated with Gazprom at all meetings of the Supervisory Board. These included the planned swap of BASF's share in the jointly operated natural gas trading and storage business for a further share in gas fields in western Siberia as well as an investment in the South Stream gas pipeline through the Black Sea. Both projects were no longer able to be implemented in the existing political environment and were terminated by both parties.

Major, capital-intensive investment projects were once again a recurring element in the reports of the Board of Executive Directors, such as the construction of a TDI plant in Ludwigshafen, Germany; an MDI plant in Chongqing, China; and an ammonia plant with Yara on the United States Gulf Coast.

In the meeting on July 17, 2014, we received reports on the business prospects in the Performance Products segment and especially the reorganization of the paper chemicals business. Moreover, we discussed the implementation status of the "We create chemistry" strategy, introduced in 2011, with the Board of Executive Directors.

At the meeting on October 23, 2014, we thoroughly deliberated on the prospects and strategy of the Coatings division.

At the meeting on December 12, 2014, we discussed and approved the Board of Executive Directors' operative and financial planning for 2015, and as usual empowered the Board of Executive Directors to procure necessary financing in 2015. The strategic direction of the Engineering & Maintenance function was furthermore discussed.

The Supervisory Board considered personnel issues of the Board of Executive Directors during the meetings of February 20, October 23 and December 12, 2014. Based on the recommendations of the Personnel Committee, the Supervisory Board at its meeting on February 20, 2014, conducted its regularly scheduled review of the structure and amount of the compensation of the Board of Executive Directors and adjusted the fixed compensation and annual variable compensation for the first time since 2011. The topic of the October 23, 2014, meeting was the composition of the Board of Executive Directors. In view of the departure of Dr. Andreas Kreimeyer from the Board of Executive Directors on conclusion of the 2015 Annual Shareholders' Meeting, the Supervisory Board appointed the former head of the Intermediates division, Sanjeev Gandhi, as a further member of the Board of Executive Directors, effective December 1, 2014. The term of this first-time appointment runs until the 2018 Annual Shareholders' Meeting. Furthermore, the Supervisory Board extended the term of Board of Executive Directors member Wayne T. Smith, originally ending in 2015, until the conclusion of the 2020 Annual Shareholders' Meeting. Based on preparations conducted by the Personnel Committee, the Supervisory Board determined the performance evaluation of the Board of Executive Directors for the 2014 business year. Together with the return on assets of the BASF Group, this evaluation is essential in ascertaining the performance-related component of the compensation of the Board of Executive Directors.

Committees

BASF SE's Supervisory Board has a total of three 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 and 3) the Nomination 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.

The **Personnel Committee** met four times during the reporting period. With the exception of one meeting at which one member was absent, all committee members participated in the meetings. At the meeting on February 20, 2014, the committee considered adjustments to the compensation of the Board of Executive Directors and prepared a corresponding proposal for the Supervisory Board. At the meetings on July 17 and October 23, 2014, the Personnel Committee particularly discussed leadership development and the composition of the Board of Executive Directors; topics included diversity and the proper involvement of women in leadership positions. At the meeting of October 23, 2014, the Supervisory Board received the proposals to appoint Sanjeev Gandhi to the Board of Executive Directors and extend the term of Wayne T. Smith. At the meeting of December 12, 2014, the primary topic was the evaluation of the Board of Executive Directors' performance in 2014.

The **Audit Committee** is responsible for all the tasks listed in Section 107(3)(2) of the German Stock Corporation Act and in Subsection 5.3.2 of the German Corporate Governance Code in its version of June 24, 2014. The Audit Committee met five times during the reporting period. All committee members attended all meetings. The core duties were to review BASF SE's Financial Statements and Consolidated Financial Statements, as well as to discuss the quarterly and first-half financial reports with the Board of Executive Directors prior to their publication.

At the meeting on February 24, 2015, the auditor reported in detail on its audits of BASF SE's consolidated and individual financial statements for the 2014 business year and discussed the audit's results with the Audit Committee.

Other important activities included advising the Board of Executive Directors on accounting issues and the internal control system. The internal auditing system and compliance in the BASF Group were each a focus at one meeting of the Audit Committee. 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 its meeting of July 22, 2014, the Audit Committee charged KPMG – the auditor elected at the Annual Shareholders' Meeting – with the audit for the 2014 reporting year and agreed on the auditing fees. The focus areas for the annual audit were discussed and defined together with the auditor. The Audit Committee approved certain nonaudit services and authorized the Board of Executive Directors to engage KPMG

for such services. The authorization applies for one reporting year and is limited in amount. Other services provided by the auditor must be individually approved by the Audit Committee. Furthermore, the committee recommended to the Supervisory Board that KPMG once again be nominated for the election of the auditor at the Annual Shareholders' Meeting in 2015.

The Audit Committee once again conducted a self-evaluation of its activities in 2014. No new steps were found to be necessary in terms of the duties of the committee or the content, frequency and procedure of meetings.

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 that were adopted by the Supervisory Board in 2010, revised in 2012 and adjusted to conform to the new recommendations of the German Corporate Governance Code. With a view to the regular election of the Supervisory Board members conducted at the Annual Shareholders' Meeting on May 2, 2014, the Nomination Committee was intensely occupied with the requirements for its composition in 2013 and at the beginning of 2014, considering the search for, and selection of, persons who would complete the required profile of the Supervisory Board as a whole. The selection of candidates took place at the meeting on February 19, 2014, including a proposal for the election of the future Chairman of the Supervisory Board. The Supervisory Board accepted the Nomination Committee's suggestion in unmodified form for its candidate proposal. The nominated candidates were all elected by a large majority at the Annual Shareholders' Meeting.

Corporate governance and Declaration of Conformity

The Supervisory Board places great value on ensuring good corporate governance: In 2014, we were therefore once again intensely engaged with the corporate governance standards practiced in the company and with the implementation of the German Corporate Governance Code's recommendations and suggestions. At our meeting of October 24, 2014, we discussed the current recommendations and proposals made for the German Corporate Governance Code and their implementation at BASF.

At its meeting of December 12, 2014, 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, and carried out assessments of efficiency and independence. BASF complies with the recommendations of the German Corporate Governance Code in its version of June 24, 2014, without exception.

 The entire Declaration of Conformity is rendered on page 150 and can also be found at basf.com/governance_e

An important aspect of good corporate governance is the independence of Supervisory Board members and their freedom from conflicts of interest. According to estimations of the Supervisory Board, all of its members can be considered independent as defined by the German Corporate Governance Code. The criteria used for this evaluation can be found in the Corporate Governance Report on page 130. 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 Corporate Governance Report of the BASF Group provides extensive information on BASF's corporate governance. It also includes the Compensation Report, containing full details on the compensation for the Board of Executive Directors and the Supervisory Board.

Annual Financial Statements of BASF SE and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditor elected by the Annual Shareholders' Meeting for the 2014 reporting year, has audited the Financial Statements of BASF SE and the BASF Group Consolidated Financial Statements, 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 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 documents to be examined and 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 24, 2015, as well as the accounts meeting of the Supervisory Board on February 25, 2015, and reported on the main findings of the audit. 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, 2015, and discussed them in detail with the auditor. The Chairwoman of the Audit Committee gave a detailed account of the preliminary review at the Supervisory Board meeting on February 25, 2015. On the basis of this preliminary review by the Audit Committee, the Supervisory Board has examined the Financial Statements and Management's Report of BASF SE for 2014, the proposal by the Board of Executive Directors for the appropriation of profit as well as the Consolidated Financial Statements and Management's Report for

the BASF Group for 2014. We have reviewed, acknowledged and approved the auditor's reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objection to the management and submitted reports.

At the Supervisory Board's accounts meeting on February 25, 2015, we 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 BASF SE Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €2.80 per share.

Thanks

The Supervisory Board thanks all employees of the BASF Group worldwide and the management for their personal contribution to the successful 2014 business year.

On conclusion of the Annual Shareholders' Meeting on May 2, 2014, the long-time Board of Executive Directors and Supervisory Board members Max Dietrich Kley and Dr. h. c. Eggert Voscherau, together with employee representative Ralf Sikorski, left the Supervisory Board. Eggert Voscherau had held the office of Chairman of the Supervisory Board since 2009. Max Dietrich Kley had been Chairman of the Audit Committee since it was first assembled in 2003. In their many years of service, both left a decisive mark on BASF and had a major hand in the company's success. The Supervisory Board expresses its very sincere thanks to them.

Ludwigshafen, February 25, 2015

The Supervisory Board



Jürgen Hambrecht
Chairman of the Supervisory Board

Declaration of Conformity

Declaration of Conformity 2014 of the Board of Executive Directors and the Supervisory Board of BASF SE

The Board of Executive Directors and the Supervisory Board of BASF SE hereby declare pursuant to Section 161 AktG (Stock Corporation Act)

1. The recommendations of the Government Commission on the German Corporate Governance Code as amended on May 13, 2013, published by the Federal Ministry of Justice on June 10, 2013, in the official section of the electronic Federal Gazette, have been complied with since the submission of the last Declaration of Conformity on December 12, 2013.

2. The recommendations of the Government Commission on the German Corporate Governance Code as amended on June 24, 2014, published by the Federal Ministry of Justice on September 30, 2014, in the official section of the electronic Federal Gazette, are complied with and will be complied with.

Ludwigshafen, December 2014

The Supervisory Board
of BASF SE

The Board of Executive Directors
of BASF SE

4

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Statement by the Board of Executive Directors and assurance pursuant to Sections 297(2) and 315(1) of the German Commercial Code (HGB)

The Board of Executive Directors of BASF SE is responsible for preparing the Consolidated Financial Statements and Management's Report of the BASF Group.

The Consolidated Financial Statements for 2014 were prepared according to the International Financial Reporting Standards (IFRS), which are published by the International Accounting Standards Board (IASB), London, and have been endorsed by the European Union.

We have established effective internal control and steering systems in order to ensure that the BASF Group's Consolidated Financial Statements and Management's Report comply with applicable accounting rules and to ensure proper corporate reporting.

The risk management system we have set up is designed such that the Board of Executive Directors can identify material risks early on and take appropriate defensive measures as necessary. The reliability and effectiveness of the internal control and risk management system are continually audited throughout the Group by our internal audit department.

To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements of the BASF Group give a true and fair view of the net assets, financial position and results of operations of the Group, and the Management's Report of the BASF Group includes a fair review of the development and performance of the business as well as position of the BASF Group, together with a description of the principal opportunities and risks associated with the expected development of the BASF Group.

Ludwigshafen, February 24, 2015



Dr. Kurt Bock
Chairman



Dr. Hans-Ulrich Engel
Chief Financial Officer



Michael Heinz



Dr. Harald Schwager



Margret Suckale



Dr. Martin Brudermüller
Vice Chairman



Sanjeev Gandhi



Dr. Andreas Kreimeyer



Wayne T. Smith

Auditor's report

We have audited the Consolidated Financial Statements prepared by BASF SE, Ludwigshafen am Rhein, Germany, comprising the statement of income, statement of income and expense recognized in equity, balance sheet, statement of cash flows, statement of equity and the Notes to the Consolidated Financial Statements together with the Group Management's Report for the business year from January 1 to December 31, 2014. The preparation of the Consolidated Financial Statements and the Group Management's Report in accordance with IFRSs as adopted by the European Union, and the additional requirements of German commercial law pursuant to Section 315a(1) of the German Commercial Code (HGB) are the responsibility of the parent company's Board of Executive Directors. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Group Management's Report based on our audit. In addition, we have been instructed to express an opinion as to whether the Consolidated Financial Statements comply with full IFRS.

We conducted our audit of the Consolidated Financial Statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the Group Management's Report are detected with reasonable

assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the Group Management's Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Executive Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Group Management's Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRSs as adopted by the E.U., the additional requirements of German commercial law pursuant to Section 315a(1) HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management's Report is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 24, 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Schindler
Wirtschaftsprüfer

KrauB
Wirtschaftsprüfer

Statement of income

BASF Group

Statement of income (in million €)

	Explanations in Note	2014	2013 restated
Sales revenue	[4]	74,326	73,973
Cost of sales	[6]	(55,839)	(55,576)
Gross profit on sales		18,487	18,397
Selling expenses	[6]	(7,493)	(7,426)
General administrative expenses	[6]	(1,359)	(1,366)
Research expenses	[6]	(1,884)	(1,849)
Other operating income	[7]	2,231	1,679
Other operating expenses	[8]	(2,629)	(2,576)
Income from companies accounted for using the equity method	[9]	273	301
Income from operations	[4]	7,626	7,160
Income from other shareholdings		303	74
Expenses from other shareholdings		(25)	(70)
Interest income		207	160
Interest expense		(711)	(688)
Other financial income		158	238
Other financial expenses		(355)	(274)
Financial result	[10]	(423)	(560)
Income before taxes and minority interests		7,203	6,600
Income taxes	[11]	(1,711)	(1,487)
Income before minority interests		5,492	5,113
Minority interests	[12]	(337)	(321)
Net income		5,155	4,792
Earnings per share (€)	[5]	5.61	5.22
Dilution effect (€)	[5]	(0.01)	(0.01)
Diluted earnings per share (€)	[5]	5.60	5.21

Statement of income and expense recognized in equity

BASF Group

Income before minority interests and income and expense recognized in equity¹ (in million €)

	2014	2013 restated
Income before minority interests	5,492	5,113
Remeasurement of defined benefit plans ²	(3,491)	1,531
Remeasurement due to acquisition of majority shares	–	(1)
Deferred taxes for items that will not be reclassified to the statement of income	1,095	(404)
Income and expense recognized in equity that will not be reclassified to the statement of income at a later date	(2,396)	1,126
Unrealized gains/losses from fair value changes in available-for-sale securities	7	(1)
Reclassifications of realized gains/losses recognized in the income statement	(1)	–
Fair value changes in available-for-sale securities, net³	6	(1)
Unrealized gains/losses from cash flow hedges	(510)	(46)
Reclassifications of realized gains/losses recognized in the income statement	47	59
Cash flow hedges, net³	(463)	13
Foreign currency translation adjustment	668	(1,098)
Deferred taxes for items that will be reclassified to the statement of income	103	21
Income and expense recognized in equity that will be reclassified to the statement of income at a later date	314	(1,065)
Minority interests	(163)	(34)
Total income and expense recognized in equity	(2,245)	27
Income before minority interests and income and expense recognized in equity	3,247	5,140
Thereof attributable to shareholders of BASF SE	3,073	4,853
attributable to minority interests	174	287

¹ For more information on other comprehensive income, see Note 20 on page 198.

² For more information, see Note 22, "Provisions for pensions and similar obligations," from page 199 onward.

³ For more information, see Note 27, "Supplementary information on financial instruments," from page 210 onward.

Development of income and expense recognized in equity of shareholders of BASF SE (in million €)

	Other comprehensive income					Total income and expense recognized in equity
	Remeasurement of defined benefit plans	Foreign currency translation adjustment	Measurement of securities at fair value	Cash flow hedges	Remeasurement due to acquisition of majority shares	
As of January 1, 2014¹	(2,444)	(917)	15	(54)	–	(3,400)
Additions	(3,491)	–	6	(463)	–	(3,948)
Releases	–	668	–	–	–	668
Deferred taxes	1,095	(10)	(1)	114	–	1,198
As of December 31, 2014	(4,840)	(259)	20	(403)	–	(5,482)
As of January 1, 2013¹	(3,571)	165	17	(73)	1	(3,461)
Additions	–	–	–	–	–	–
Releases	1,531	(1,098)	(1)	13	(1)	444
Deferred taxes	(404)	16	(1)	6	–	(383)
As of December 31, 2013¹	(2,444)	(917)	15	(54)	–	(3,400)

¹ Restated figures

Balance sheet

BASF Group

Assets (in million €)

	Explanations in Note	Dec. 31, 2014	Dec. 31, 2013 restated	Jan. 1, 2013 restated
Intangible assets	[14]	12,967	12,324	12,284
Property, plant and equipment	[15]	23,496	19,229	17,507
Investments accounted for using the equity method	[16]	3,245	4,174	3,502
Other financial assets	[16]	540	643	613
Deferred tax assets	[11]	2,193	1,006	1,516
Other receivables and miscellaneous noncurrent assets	[18]	1,498	877	913
Noncurrent assets		43,939	38,253	36,335
Inventories	[17]	11,266	10,160	10,269
Accounts receivable, trade	[18]	10,385	10,233	10,829
Other receivables and miscellaneous current assets	[18]	4,032	3,714	3,570
Marketable securities		19	17	14
Cash and cash equivalents ¹	[1]	1,718	1,827	1,654
Current assets		27,420	25,951	26,336
Total assets		71,359	64,204	62,671

Equity and liabilities (in million €)

	Explanations in Note	Dec. 31, 2014	Dec. 31, 2013 restated	Jan. 1, 2013 restated
Subscribed capital	[19]	1,176	1,176	1,176
Capital surplus	[19]	3,143	3,165	3,188
Retained earnings	[19]	28,777	26,102	23,698
Other comprehensive income	[20]	(5,482)	(3,400)	(3,461)
Equity of shareholders of BASF SE		27,614	27,043	24,601
Minority interests	[21]	581	630	972
Equity		28,195	27,673	25,573
Provisions for pensions and similar obligations	[22]	7,313	3,727	5,442
Other provisions	[23]	3,502	3,226	3,218
Deferred tax liabilities	[11]	3,420	2,894	2,290
Financial indebtedness	[24]	11,839	11,151	8,704
Other liabilities	[24]	1,197	1,194	1,135
Noncurrent liabilities		27,271	22,192	20,789
Accounts payable, trade		4,861	5,153	5,781
Provisions	[23]	2,844	2,670	2,774
Tax liabilities	[11]	1,079	968	878
Financial indebtedness	[24]	3,545	3,256	4,094
Other liabilities	[24]	3,564	2,292	2,782
Current liabilities		15,893	14,339	16,309
Total equity and liabilities		71,359	64,204	62,671

¹ For a reconciliation of the amounts in the statement of cash flows with the balance sheet items cash and cash equivalents, see page 158.

Statement of cash flows

BASF Group

Statement of cash flows¹ (in million €)

	2014	2013 restated
Net income	5,155	4,792
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,455	3,314
Changes in inventories	(606)	(95)
Changes in receivables	97	1,056
Changes in operating liabilities and other provisions	(190)	(247)
Changes in pension provisions, defined benefit assets and other items	(697)	(717)
Gains (-)/losses (+) from disposal of noncurrent assets and securities	(256)	(3)
Cash provided by operating activities	6,958	8,100
Payments for property, plant and equipment and intangible assets	(5,296)	(4,873)
Payments for financial assets and securities	(1,131)	(796)
Payments for acquisitions	(963)	(1,156)
Payments from divestitures	1,336	63
Payments from the disposal of noncurrent assets and securities	1,558	768
Cash used in investing activities	(4,496)	(5,994)
Capital increases/repayments and other equity transactions	-	-
Additions to financial and similar liabilities	6,048	5,636
Repayment of financial and similar liabilities	(5,760)	(4,808)
Dividends paid		
To shareholders of BASF SE	(2,480)	(2,388)
minority shareholders	(286)	(314)
Cash used in financing activities	(2,478)	(1,874)
Net changes in cash and cash equivalents	(16)	232
Change in cash and cash equivalents		
From foreign exchange rates	(90)	(60)
changes in scope of consolidation	(3)	1
Cash and cash equivalents at the beginning of the year	1,827	1,654
Cash and cash equivalents at the end of the year	1,718	1,827

¹ More information on the statement of cash flows can be found in the Management's Report (financial position) from page 59 onward. Other information on cash flows can be found in Note 29 on page 218.

Statement of equity

BASF Group

Statement of equity¹ (in million €)

	Number of shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Other comprehensive income ²	Equity of share-holders of BASF SE	Minority interests	Equity
January 1, 2014, restated	918,478,694	1,176	3,165	26,102	(3,400)	27,043	630	27,673
Effects of acquisitions achieved in stages	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	(2,480)	-	(2,480)	(286) ³	(2,766)
Net income	-	-	-	5,155	-	5,155	337	5,492
Changes to income and expense recognized directly in equity	-	-	-	-	(2,082)	(2,082)	(163)	(2,245)
Changes in scope of consolidation and other changes	-	-	(22) ⁴	-	-	(22)	63	41
December 31, 2014	918,478,694	1,176	3,143	28,777	(5,482)	27,614	581	28,195
January 1, 2013, restated	918,478,694	1,176	3,188	23,698	(3,461)	24,601	972	25,573
Effects of acquisitions achieved in stages	-	-	-	-	-	-	(3)	(3)
Dividend paid	-	-	-	(2,388)	-	(2,388)	(314) ³	(2,702)
Net income	-	-	-	4,792	-	4,792	321	5,113
Changes to income and expense recognized directly in equity	-	-	-	-	61	61	(34)	27
Changes in scope of consolidation and other changes	-	-	(23) ⁴	-	-	(23)	(312)	(335)
December 31, 2013, restated	918,478,694	1,176	3,165	26,102	(3,400)	27,043	630	27,673

¹ For more information on the items relating to equity, see Notes 19 and 20 from page 198 onward.

² Details are provided in the table "Income and expense recognized in equity" on page 156.

³ Including profit and loss transfers

⁴ Granting of BASF shares under the BASF share program "plus"

1 – Summary of accounting policies

1.1 – General information

BASF SE is a publicly listed corporation headquartered in Ludwigshafen am Rhein, Germany. Its official address is Carl-Bosch-Str. 38, 67056 Ludwigshafen am Rhein, Germany.

The Consolidated Financial Statements of BASF SE as of December 31, 2014, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and Section 315a(1) of the German Commercial Code (HGB). IFRSs are, as a rule, only applied after they have been endorsed by the European Union. For the 2014 fiscal year, all of the binding IFRSs and pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) were applied.

The Consolidated Financial Statements are presented in euros. All amounts, including the figures for previous years, are given in million euros unless otherwise indicated.

The individual financial statements of the consolidated companies are prepared as of the balance sheet date of the Consolidated Financial Statements. The accounting policies that have been applied are the same as those in 2013, with the exception of any changes arising from the application of new or revised reporting standards.

In its meeting on February 23, 2015, the Board of Executive Directors prepared the Consolidated Financial Statements, submitted them to the Supervisory Board for approval, and released them for publication.

1.2 – Restatement due to dissolution of gas trading business disposal group

BASF and Gazprom agreed on December 18, 2014, not to proceed with the asset swap planned for the end of 2014. The arrangement had been for Wintershall to give Gazprom its share in the jointly operated natural gas trading and storage business as well as a 50% share in Wintershall Noordzee B.V., Rijswijk, Netherlands. In return, BASF would have received 25% plus a share in blocks IV and V of the Achimov formation of the Urengoy natural gas and condensate field in western Siberia. At the end of 2012, the assets and liabilities affected by the swap were reclassified into a gas trading business disposal group in the financial statements. As a result of the transaction's cancellation in December 2014, the reporting as a disposal group in accordance with IFRS 5 – Noncurrent Assets Held for Sale and Discontinued Operations was ceased, and the amortization and depreciation as well as equity-accounted income from the joint ventures that had been contained in the disposal group – and thus suspended since 2012 – were accounted for. The restatement of the 2012 business year reduced retained earnings by €10 million and minority interests by €38 million in the adjusted opening balance of January 1, 2013. In the 2013 business year, reintegrated depreciation and amortization reduced restated income from operations by €118 million. Depreciation and amortization led to a €93 million increase in cost of sales in 2013; selling expenses rose by €3 million, research expenses by €14 million, and other operating expenses by €8 million. Further adjustments predominantly affected income from companies accounted for using the equity method.

The necessary adjustments for the 2013 business year are summarized below.

Adjusted statement of income for 2013 due to dissolution of gas trading business disposal group (in million €)

	2013 restated	2013 previous	change
Sales revenue	73,973	73,973	–
Cost of sales	(55,576)	(55,483)	(93)
Gross profit on sales	18,397	18,490	(93)
Selling expenses	(7,426)	(7,423)	(3)
General administrative expenses	(1,366)	(1,366)	–
Research expenses	(1,849)	(1,835)	(14)
Other operating income	1,679	1,679	–
Other operating expenses	(2,576)	(2,570)	(6)
Income from companies accounted for using the equity method	301	298	3
Income from operations	7,160	7,273	(113)
Income from other shareholdings	74	74	–
Expenses from other shareholdings	(70)	(70)	–
Interest income	160	160	–
Interest expense	(688)	(688)	–
Other financial income	238	238	–
Other financial expenses	(274)	(274)	–
Financial result	(560)	(560)	–
Income before taxes and minority interests	6,600	6,713	(113)
Income taxes	(1,487)	(1,540)	53
Income before minority interests	5,113	5,173	(60)
Minority interests	(321)	(331)	10
Net income	4,792	4,842	(50)
Earnings per share	€ 5.22	5.27	(0.05)
Dilution effect	€ (0.01)	–	(0.01)
Diluted earnings per share	€ 5.21	5.27	(0.06)

Adjusted income before minority interests and statement of income and expense recognized in equity for 2013 due to dissolution of gas trading business disposal group (in million €)

	2013 restated	2013 previous	change
Income before minority interests	5,113	5,173	(60)
Remeasurements of defined benefit plans	1,531	1,531	–
Remeasurements due to acquisition of majority shares	(1)	(1)	–
Deferred taxes for items that will not be reclassified to the statement of income	(404)	(404)	–
Total income and expense recognized in equity that will not be reclassified to the statement of income at a later date	1,126	1,126	–
Foreign currency translation adjustment	(1,098)	(1,098)	–
Fair value changes in available-for-sale securities	(1)	(1)	–
Cash flow hedges	13	13	–
Hedges in net investments on foreign operations	–	–	–
Deferred taxes for items that will be reclassified to the statement of income	21	21	–
Total income and expense recognized in equity that will be reclassified to the statement of income at a later date	(1,065)	(1,065)	–
Minority interests	(34)	(34)	–
Total income and expense recognized in equity	27	27	–
Income before minority interests and statement of income and expense recognized in equity	5,140	5,200	(60)
Thereof attributable to shareholders of BASF SE	4,853	4,903	(50)
attributable to minority interests	287	297	(10)

Adjusted balance sheet for 2013 due to dissolution of gas trading business disposal group

Balance sheet – assets (in million €)

	December 31, 2013			January 1, 2013		
	restated	previous	change	restated	previous	change
Intangible assets	12,324	12,235	89	12,284	12,193	91
Property, plant and equipment	19,229	18,254	975	17,507	16,610	897
Investments accounted for using the equity method	4,174	4,137	37	3,502	3,459	43
Other financial assets	643	630	13	613	613	–
Deferred tax assets	1,006	992	14	1,516	1,473	43
Other receivables and miscellaneous assets	877	876	1	913	911	2
Noncurrent assets	38,253	37,124	1,129	36,335	35,259	1,076
Inventories	10,160	9,592	568	10,269	9,581	688
Accounts receivable, trade	10,233	9,376	857	10,829	9,506	1,323
Other receivables and miscellaneous assets	3,714	3,630	84	3,570	3,455	115
Marketable securities	17	17	–	14	14	–
Cash and cash equivalents	1,827	1,815	12	1,654	1,647	7
Assets of disposal groups	–	2,828	(2,828)	–	3,264	(3,264)
Current assets	25,951	27,258	(1,307)	26,336	27,467	(1,131)
Total assets	64,204	64,382	(178)	62,671	62,726	(55)

Balance sheet – equity and liabilities (in million €)

	December 31, 2013			January 1, 2013		
	restated	previous	change	restated	previous	change
Subscribed capital	1,176	1,176	–	1,176	1,176	–
Capital surplus	3,165	3,165	–	3,188	3,188	–
Retained earnings	26,102	26,170	(68)	23,698	23,708	(10)
Other comprehensive income	(3,400)	(3,400)	–	(3,461)	(3,461)	–
Equity of shareholders of BASF SE	27,043	27,111	(68)	24,601	24,611	(10)
Minority interests	630	678	(48)	972	1,010	(38)
Equity	27,673	27,789	(116)	25,573	25,621	(48)
Provisions for pensions and similar obligations	3,727	3,709	18	5,442	5,421	21
Other provisions	3,226	2,924	302	3,218	2,925	293
Deferred tax liabilities	2,894	2,849	45	2,290	2,234	56
Financial indebtedness	11,151	11,151	–	8,704	8,704	–
Other liabilities	1,194	1,157	37	1,135	1,111	24
Noncurrent liabilities	22,192	21,790	402	20,789	20,395	394
Accounts payable, trade	5,153	4,505	648	5,781	4,502	1,279
Provisions	2,670	2,616	54	2,774	2,628	146
Tax liabilities	968	954	14	878	870	8
Financial indebtedness	3,256	3,256	–	4,094	4,094	–
Other liabilities	2,292	2,182	110	2,782	2,623	159
Liabilities of disposal groups	–	1,290	(1,290)	–	1,993	(1,993)
Current liabilities	14,339	14,803	(464)	16,309	16,710	(401)
Total equity and liabilities	64,204	64,382	(178)	62,671	62,726	(55)

Adjusted statement of cash flows for 2013 due to dissolution of gas trading business disposal group (in million €)

	2013 restated	2013 previous	change
Net income	4,792	4,842	(50)
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,314	3,196	118
Changes in inventories	(95)	(215)	120
Changes in receivables	1,056	512	544
Changes in operating liabilities and other provisions	(247)	508	(755)
Changes in pension provisions, defined benefit assets, net assets of disposal groups and other items	(717)	(970)	253
Gains (-)/losses (+) from disposal of noncurrent assets and securities	(3)	(3)	-
Cash provided by operating activities	8,100	7,870	230
Payments for property, plant and equipment and intangible assets	(4,873)	(4,660)	(213)
Payments for financial assets and securities	(796)	(784)	(12)
Payments for acquisitions	(1,156)	(1,156)	-
Payments from divestitures	63	63	-
Payments from the disposal of noncurrent assets and securities	768	768	-
Cash used in investing activities	(5,994)	(5,769)	(225)
Capital increases/repayments and other equity transactions	-	-	-
Additions to financial and similar liabilities	5,636	5,636	-
Repayment of financial and similar liabilities	(4,808)	(4,808)	-
Dividends paid			
To shareholders of BASF SE	(2,388)	(2,388)	-
minority shareholders	(314)	(314)	-
Cash used in financing activities	(1,874)	(1,874)	-
Net changes in cash and cash equivalents	232	227	5
Change in cash and cash equivalents			
From foreign exchange rates	(60)	(60)	-
changes in scope of consolidation	1	1	-
Cash and cash equivalents at the beginning of the year	1,654	1,647	7
Cash and cash equivalents at the end of the year	1,827	1,815	12

1.3 – Changes in accounting principles

Accounting regulations with first-time application in 2014

IFRS Annual Improvements: Cycle 2011–2013

The standards IFRS 3, IFRS 13 and IAS 40 were amended as part of the Annual Improvements project. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardize terminology. These changes have no material impact on the Consolidated Financial Statements of the BASF Group.

IFRSs and IFRICs not yet to be considered

The effects on the BASF Group financial statements of the IFRSs and IFRICs not yet in force or not yet endorsed by the European Union in 2014 were reviewed and are explained below. Other new standards or interpretations and amendments of existing standards and interpretations have no material impact on the BASF Group. Early implementation of the standards before endorsement by the European Union is not planned.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, concluding the multiyear project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 contains new requirements for the classification and measurement of financial instruments, fundamental changes regarding the accounting treatment of financial asset impairments, and a reformed approach to hedge accounting.

IFRS 9 retains “amortized cost” and “fair value” as the criteria for measuring financial instruments. Whether financial assets are measured at amortized cost or fair value depends on two factors: the entity’s business model for managing the portfolio to which the financial asset belongs and the contractual cash flow characteristics of the financial asset.

According to IFRS 9, the recognition of financial asset impairments is to be based on expected losses, whereas IAS 39 had only allowed impairments for losses that had already been incurred. The general approach adopts a three-stage model to assess the provisions for risks. The model requires different degrees of impairment based on the credit default risk of the counterparties. For certain financial instruments, such as trade accounts receivable, operational simplifications for recognizing impairment losses apply.

The IFRS 9 regulations on hedge accounting aim for a closer alignment of hedge accounting with the entity's risk management strategy.

The new standard will be effective for reporting periods beginning on or after January 1, 2018. An endorsement by the European Union is still pending. The potential impact on BASF is being analyzed.

IFRS 15 – Revenues from Contracts with Customers

The IASB published the new standard on revenue recognition, IFRS 15 – Revenues from Contracts with Customers, on May 28, 2014. The revised standard particularly aims to standardize existing regulations and thus improve transparency and the comparability of financial information. The rules and definitions of IFRS 15 supersede the content of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31.

The new standard does not differentiate between different types of contracts and services, but rather introduces uniform criteria for the timing of revenue recognition. According to IFRS 15, sales revenue is recognized when control of the agreed-upon goods or services and the benefits obtainable from them are transferred to the customer. The transfer of major risks and rewards of ownership of the goods is no longer the deciding factor. Sales revenue is measured as the amount the entity expects to receive in exchange for goods and services.

The new model involves five steps for the recognition of sales revenue with the first steps being the identification of the contract with the customer and the separate performance obligations it contains. The transaction price is then determined and allocated to the performance obligations in the contract. Finally, sales are recognized for each performance obligation in the amount of the allocated portion of the transaction price as soon as the agreed-upon good or service has been provided or the customer receives control over it. Principles are set out for determining whether the good or service has been provided over time or at one point in time.

The new standard will be effective for reporting periods beginning on or after January 1, 2017. An endorsement by the European Union is still pending. The potential impact on BASF is currently being analyzed.

Amendments to IAS 1: Disclosure Initiative

On December 18, 2014, the IASB issued amendments made to IAS 1. The revisions pertain to various disclosure requirements, and clarify that information needs to be disclosed in the notes only if it is not immaterial. Materiality considerations also explicitly apply if a standard calls for a list of minimum disclosures. Explanations are moreover provided on the aggregation and disaggregation of line items in the balance sheet and income statement. Furthermore, the revised standard clarifies how an entity's share of the other comprehensive income of equity-accounted companies is to be

presented in the income statement. Finally, the structure of the notes can be designed in a manner relevant for each individual company. The changes will be effective for reporting periods beginning on or after January 1, 2016. An endorsement by the European Union is still pending. The amendments are not expected to have a material effect on BASF.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The IASB issued amendments to IAS 16 and IAS 38 on May 12, 2014. These revisions provide further guidance on determining an acceptable method of depreciation and amortization. Revenue-based methods are not permissible for property, plant and equipment and are only permissible for intangible assets in specific exceptional cases (rebuttable presumption of inappropriateness). The changes will be effective for reporting periods beginning on or after January 1, 2016. An endorsement by the European Union is still pending. The potential impact on BASF is currently being analyzed.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

The IASB issued amendments to IAS 19 on November 11, 2013. The revisions clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, practical expedients are permitted if the amount of the contributions is independent of the number of years of service. The European Union endorsed the changes on January 9, 2015. In a deviation from the IASB's effective date (reporting periods beginning on or after July 1, 2014), IFRS-based financial statements of the European Union must apply the changes for reporting periods beginning on or after February 1, 2015. The potential impact on BASF is currently being analyzed.

IFRS Annual Improvements: Cycle 2010–2012

Under its Annual Improvement Project, the IASB issued amendments to several standards on December 12, 2013. The affected standards are IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, and IAS 38. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardize terminology. The European Union endorsed the changes on January 9, 2015. In a deviation from the IASB's effective date (reporting periods beginning on or after July 1, 2014), IFRS-based financial statements of the European Union must apply the changes for reporting periods beginning on or after February 1, 2015. The amendments are not expected to have a material effect on BASF.

IFRS Annual Improvements: Cycle 2012–2014

Under its Annual Improvement Project, the IASB issued amendments to several standards on September 25, 2014. The affected standards are IAS 19, IAS 34, IFRS 5 and IFRS 7. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardize terminology. The changes will be effective for reporting periods beginning on or after January 1, 2016. An endorsement by the European Union is still pending. The amendments are not expected to have a material effect on BASF.

1.4 – Group accounting principles

Scope of consolidation: The scope of consolidation is based on the application of the standards IFRS 10 and 11.

According to IFRS 10, a group consists of a parent entity and the subsidiaries controlled by the parent. “Control” assumes the simultaneous fulfillment of the following three criteria:

- The parent company holds decision-making power over the relevant activities of the investee.
- The parent company has rights to variable returns from the investee.
- The parent company can use its decision-making power to affect the variable returns.

Based on corporate governance and potential supplementary agreements, companies are analyzed for their relevant activities and variable returns, and the link between the variable returns and the extent to which their relevant activities could be influenced.

According to IFRS 11, which regulates the accounting of joint arrangements, a distinction must be made between joint ventures and joint operations. In the case of a joint venture, the parties that have joint control of a legally independent company have rights to the net assets of that arrangement. In joint operations, the parties that have joint control have direct rights to the assets and obligations for the liabilities relating to the arrangement. This requirement is particularly fulfilled if the production output of the joint arrangement is almost entirely transferred to the partners, through which the partners guarantee the joint arrangements’ ongoing financing.

Companies whose corporate governance structures classify them as joint arrangements are analyzed to determine if they meet the criteria for joint ventures or joint operations as per IFRS 11. This requires an analysis of the joint arrangement’s structure and, if the arrangement is structured through a separate vehicle, its legal form, contractual arrangements and all other facts and circumstances are reviewed.

Consolidation: In addition to BASF SE, the Consolidated Financial Statements include all material subsidiaries on a fully consolidated and all material joint operations on a proportionally consolidated basis. Companies whose business is dormant or of low volume, and are of minor importance for the presentation of a true and fair view of the net assets, financial position and results of operations, are not consolidated, but rather are reported under other shareholdings. These companies are carried at amortized cost and are written down in the case of an impairment. The aggregate assets and equity of these companies amount to less than 1% of the corresponding value at the Group level.

Joint ventures and associated companies are accounted for in the Consolidated Financial Statements using the **equity method**. Associated companies are entities in which significant influence can be exercised over their operating and financial policies and which are not subsidiaries, joint ventures or joint operations. In general, this applies to companies in which BASF has an investment of between 20% and 50%. Equity-accounted income is reported as part of income from operations (EBIT).

Consolidation methods: Assets and liabilities of consolidated companies are uniformly recognized and measured in accordance with the principles described herein. For equity-accounted companies, material deviations in measurement resulting from the application of other accounting principles are adjusted for.

Transactions between consolidated companies as well as intercompany profits resulting from trade between consolidated companies are eliminated in full; for joint operations, they are proportionally eliminated. Material intercompany profits related to companies accounted for using the equity method are eliminated.

Capital consolidation is conducted at the acquisition date according to the purchase method. Initially, all assets, liabilities and additional intangible assets that are to be capitalized are measured at fair value. Finally, the acquisition costs for the investment are balanced with the proportionally acquired, remeasured equity. Any resulting positive differences are capitalized as goodwill. Negative differences are reviewed once more, then recognized directly in the income statement.

The incidental acquisition costs of a business combination are recognized in the income statement under other operating expenses.

Foreign currency translations: The cost of assets acquired in foreign currencies and revenue from sales in foreign currencies are determined by the exchange rate on the date of the transaction. Foreign currency receivables and liabilities are valued at the exchange rates on the balance sheet date. Changes in assets and liabilities arising from foreign currency translation are recognized in the income statement and reported under other operating expenses or income, other financial result, and available-for-sale financial assets in other comprehensive income.

Translation of foreign currency financial statements: The translation of foreign currency financial statements depends on the functional currency of the consolidated companies. For companies whose functional currency is not the euro but a local currency other than the euro, translation into the reporting currency is based on the closing rate method: Balance sheet items are translated into euros using closing rates on the balance sheet date; expenses and income are translated into euros at monthly average rates and accumulated for the year. The difference between a company's translated equity at historical rates at the time of acquisition and its equity at closing rates on the balance sheet date is reported separately in equity under other comprehensive income (translation adjustments) and is recognized in income only upon the company's disposal.

For certain companies outside the eurozone or U.S. dollar zone, the euro or U.S. dollar is the functional currency. In such cases the translation into the functional currency of financial statements prepared in the local currency is done according to the temporal method: All non-monetary assets and related depreciation and amortization as well as equity are translated at the exchange rate applying to the respective transactions. All other balance sheet items are translated using closing rates on the balance sheet date; other expenses and income are translated at monthly average rates. The resulting translation differences are recognized in the income statement under other operating income or expenses. If necessary, financial statements in the functional currency are translated into the presentation currency according to the closing rate method.

Selected exchange rates (€1 equals)

	Closing rates		Average rates	
	Dec. 31, 2014	Dec. 31, 2013	2014	2013
Brazil (BRL)	3.22	3.26	3.12	2.87
China (CNY)	7.54	8.35	8.19	8.16
Great Britain (GBP)	0.78	0.83	0.81	0.85
Japan (JPY)	145.23	144.72	140.31	129.66
Malaysia (MYR)	4.25	4.52	4.34	4.19
Mexico (MXN)	17.87	18.07	17.66	16.96
Russia (RUB)	72.34	45.32	50.95	42.34
Switzerland (CHF)	1.20	1.23	1.21	1.23
South Korea (KRW)	1,324.80	1,450.93	1,398.14	1,453.91
United States (USD)	1.21	1.38	1.33	1.33

1.5 – Accounting policies

Revenue recognition

Revenues from the sale of goods or the rendering of services are recognized upon the transfer of ownership and risk to the buyer. They are measured at the fair value of the consideration received. Sales revenues are reported without sales tax. Expected rebates and other trade discounts are accrued or deducted. Provisions are recognized according to the principle of individual measurement to cover probable risks related to the return of products, future warranty obligations and other claims.

Revenues from the sale of precious metals to industrial customers as well as revenues from natural gas trading are recognized as sales at the time of delivery and the corresponding purchase price is reported as cost of sales. In the trading of precious metals and their derivatives with broker-traders, where there is usually no physical delivery, revenues are netted against their corresponding costs. Revenues from marketing the natural gas from the Yuzhno Russkoye gas field are treated in the same manner.

Income relating to the sale or licensing of technologies or technological expertise are recognized in the income statement according to the contractually agreed-upon transfer of the rights and obligations associated with those technologies.

Assets

Acquired intangible assets (excluding goodwill) with defined useful lives are measured at cost less straight-line amortization. The useful life is determined using the period of the underlying contract or the period of time over which the intangible asset can be expected to be used.

Impairments are recognized if the recoverable amount of the asset is lower than the carrying amount. The recoverable amount is the higher of either fair value less costs to sell or the value in use. The value in use is determined on the basis of the weighted average cost of capital after taxes, depending on tax rates and country-related risks. If the reasons for an impairment no longer exist, the write-downs are reversed up to the value of the asset, had an impairment not been recognized. Depending on the type of intangible asset, amortization is reported under cost of sales, selling expenses, research expenses or other operating expenses.

Intangible assets with indefinite useful lives are trade names and trademarks that have been acquired as part of acquisitions. These are measured at cost and tested for impairment annually, or if there is an indication that their value has declined.

Internally generated intangible assets primarily comprise internally developed software. Such software and other internally generated assets are measured at cost and amortized over their estimated useful lives. Impairments are recognized if the carrying amount of an asset exceeds the recoverable amount. In addition to those costs directly attributable to the asset, costs of internally generated intangible assets also include an appropriate portion of overhead costs. Borrowing costs are capitalized to the extent that they apply to the purchase or the period of construction of qualifying assets.

The estimated useful lives and amortization methods of intangible assets are based on historical values, plans and estimates. These estimates also consider the period and distribution of future cash inflows. The amortization methods, useful lives and residual values are reviewed at each balance sheet date. The weighted average amortization periods of intangible assets amounted to:

Average depreciation in years

	2014	2013
Distribution, supply and similar rights	14	15
Product rights, licenses and trademarks	18	17
Know-how, patents and production technologies	12	14
Internally generated intangible assets	4	4
Other rights and values	8	8

Emission rights: Emission right certificates granted free of charge by the German Emissions Trading Authority (Deutsche Emissionshandelsstelle) or a similar authority in other countries are recognized at fair value at the time they are credited to the electronic register run by the relevant governmental authority. Certificates purchased on the market are capitalized at cost as intangible assets. Emission right certificates granted free-of-charge are balanced out by deferred income in the amount of the fair value. Emissions generated create an obligation to surrender the emission certificates and appropriate provisions are recognized. Emission certificates received free of charge and purchased are subsequently measured at fair value, up to a maximum of the amount of the acquisition costs. If the fair value is lower than the carrying amount on the balance sheet date, the emission rights are impaired.

Goodwill is only written down if there is an impairment. Impairment testing takes place once a year and whenever there is an indication of an impairment.

Property, plant and equipment are measured at cost less depreciation and impairment over their useful lives. The revaluation method is not applied. Low-value assets are fully written off in the year of acquisition and are reported as disposals.

The cost of self-constructed plants includes direct costs, appropriate share of material and manufacturing costs, and a share of the general administrative costs of the divisions involved in the construction of the plants. Borrowing costs are capitalized to the extent that they apply to the purchase or the period of construction of qualifying assets.

Expenditures related to the scheduled maintenance of large-scale plants are separately capitalized and depreciated using the straight-line method over the period until the next turnaround. The costs for the replacement of components are recognized as assets when an additional future benefit is expected. The carrying amount of the replaced components is derecognized. Costs for maintenance and repair as part of normal business operations are recognized as an expense.

Both movable and immovable fixed assets are for the most part depreciated using the straight-line method. The estimated useful lives and depreciation methods applied are based on historical values, plans and estimates. These estimates also consider the period and distribution of future cash inflows. The depreciation methods, useful lives and residual values are reviewed at each balance sheet date. The weighted average depreciation periods were as follows:

Average depreciation in years

	2014	2013
Buildings and structural installations	24	22
Machinery and technical equipment	11	10
Long-distance natural gas pipelines	25	25
Miscellaneous equipment and fixtures	7	7

Impairments are recognized if the recoverable amount of the asset is lower than the carrying amount. The measurement is based on fair value less costs to sell or the value in use. The value in use is determined on the basis of the weighted average cost of capital after taxes, depending on tax rates and country-related risks. An impairment is recognized for the difference between the carrying amount and the recoverable amount. If the reasons for an impairment no longer exist, the write-downs are reversed up to the value of the asset, had an impairment not been recognized.

Investment properties held to realize capital gains or rental income are immaterial. They are valued at the lower of fair value or acquisition cost less depreciation.

Leases: A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. Leasing contracts are classified as either finance or operating leases.

Assets subject to operating leases are not capitalized. Lease payments are recognized in the income statement in the period they are incurred.

A lease is classified as a finance lease if it substantially transfers all the risks and rewards related to the leased asset. Assets subject to a finance lease are capitalized at the lower of the fair value of the leased assets or the present value of the minimum lease payments. A leasing liability is recorded in the same amount. The periodic lease payments must be divided into principal and interest components. The principal component reduces the outstanding liability, while the interest component represents an interest expense. Depreciation takes place over the shorter of the useful life of the asset or the period of the lease.

Leases can be embedded within other contracts. If separation is required under IFRS, then the embedded lease is recorded separately from its host contract and each component of the contract is carried and measured in accordance with the applicable regulations.

BASF acts as a lessor for finance leases to a minor extent only.

Borrowing costs: Borrowing costs directly incurred as part of the acquisition, construction or production of a qualifying asset are capitalized as part of the acquisition or production cost of that asset. A qualifying asset is an asset for which the time period necessary to make it ready for its intended use or sale is longer than one year. Borrowing costs are capitalized up to the date the asset is ready for its intended use. The borrowing costs were calculated based on a rate of 4.0% (2013: 4.5%), adjusted on a country-specific basis. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Government grants: Government grants related to the acquisition or construction of property, plant and equipment reduce the acquisition or construction cost of the respective assets. Other government grants or government assistance are recognized immediately as other operating income or treated as deferred income and reversed over the underlying period.

Investments accounted for using the equity method: The carrying amounts of these companies are adjusted annually based on the pro rata share of income, dividends and other changes in equity. Should there be indications of a permanent reduction in the value of an investment, an impairment is recognized in the income statement.

Inventories are carried at cost. If the listed, market or fair value of the sales product which forms the basis for the net realizable value is lower, then this is applied and an impairment is recognized. The net realizable value is based on the selling price in the ordinary course of business, less the estimated costs of completing and selling the product.

In addition to direct costs, cost of conversion includes an appropriate allocation of production overhead costs based on normal utilization rates of the production plants, provided that they are related to the production process. Pensions, social services and voluntary social benefits are also included, as well as allocations for administrative costs, provided they relate to the production. Borrowing costs are not included in cost of conversion.

Inventories may be impaired if the price for the sales products declines or in cases of excessive inventory coverage.

To measure inventories in precious metal trading, the Company applies the exception for commodity broker-traders under IAS 2. This dictates that inventories held exclusively for trading purposes are to be recognized at fair value. All changes in value are recognized directly in the income statement.

Deferred taxes: Deferred taxes are recorded for temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes as well as for tax loss carryforwards and unused tax credits. This also comprises temporary differences arising from business combinations, with the exception of goodwill. Deferred tax assets and liabilities are calculated using the respective country-specific tax rates applicable for the period in which the asset or liability is realized or settled. Tax rate changes enacted or substantively enacted on or before the balance sheet date are taken into consideration.

Deferred tax assets are offset against deferred tax liabilities provided they are related to the same taxation authority and have the same maturities. Surpluses of deferred tax assets are only recognized provided that the tax benefits are likely to be realized. The valuation of deferred tax assets is based on the estimated probability of a reversal of the differences and the ability to utilize tax loss carryforwards and unused tax credits. This depends on whether future taxable profits will exist during the period in which temporary differences are reversed and in which tax loss carryforwards and unused tax credits can be claimed. Based on experience and the expected development of taxable income, it is assumed that the benefits of the recognized deferred tax assets will be realized. The valuation of deferred tax assets is based on internal projections of the future earnings of the particular Group company.

Changes in deferred taxes in the balance sheet are recorded as deferred tax expense or income if the underlying transaction is not to be recognized directly in equity or in income and expenses recognized in equity. For those effects which have been recognized in equity, changes to deferred tax assets and tax liabilities are also recognized directly in equity.

Deferred tax liabilities are recognized for differences between the proportional IFRS equity and the tax base of the investment in a consolidated subsidiary if a reversal of these differences is expected in the foreseeable future. Deferred tax liabilities are recognized for dividend distributions which are planned for the following year if these distributions lead to a reversal of temporary differences.

 For more information, see Note 11 from page 187 onward

Financial instruments

Financial assets and financial liabilities are recognized in the balance sheet when the BASF Group becomes a party to a financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset, with all risks and rewards of ownership, is transferred. Financial liabilities are derecognized when the contractual obligation expires, is discharged or cancelled. Regular way purchases and sales of financial instruments are accounted for using the settlement date; in precious metals trading, the day of trading is used.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When pricing on an active market is available, for example on a stock exchange, this price is used for the measurement. Otherwise, the measurement is based on internal measurement models using current market parameters or external measurements, for example, from banks. These internal measurements predominantly use the net present value method and option pricing models.

If there is objective evidence of a permanent impairment of a financial instrument that is not measured at fair value through profit or loss, an impairment loss is recognized. If the reason for the impairment of loans and receivables as well as held-to-maturity financial instruments no longer exists, the impairment is reversed up to the amortized cost and recognized in the income statement. Impairments on financial instruments are booked in separate accounts.

Financial assets and liabilities are divided into the following measurement categories:

– **Financial assets and liabilities at fair value recognized in the income statement** consist of derivatives and other trading instruments. At BASF, this measurement category only includes derivatives. Derivatives are reported in other assets or other liabilities. BASF does not make use of the fair value option under IAS 39. The calculation of fair values is based on market parameters or measurement models based on such parameters. In some exceptional cases, the fair value is calculated using parameters which are not observable on the market.

– **Loans and receivables** comprise financial assets with fixed or determinable payments that are not quoted on an active market and are not derivatives or classified as available-for-sale. This measurement category includes trade accounts receivable as well as other receivables and loans reported under other receivables and miscellaneous assets. Initial measurement is done at fair value, which generally matches the nominal value of the receivable or loan. Interest-free and low-interest long-term loans and receivables are recorded at present value. Subsequent measurement recognized in income is generally made at amortized cost using the effective interest method.

If there is objective evidence for an impairment of a receivable or loan, an individual valuation allowance is made. When assessing the need for a valuation allowance, regional and sector-specific conditions are considered. In addition, use is made of internal and external ratings as well as the assessments of debt collection agencies and credit insurers, when available. A portion of receivables is covered by credit insurance. Bank guarantees and letters of credit are used to a limited extent. Valuation allowances are only recognized for those receivables which are not covered by insurance or other collateral. The valuation allowances for receivables whose insurance includes a deductible are not recognized in excess of the amount of the deductible. Impairments are based on historical values relating to customer solvency and the age, period overdue, insurance policies and customer-specific risks. In addition, a valuation allowance must be

recognized when the contractual conditions which form the basis for the receivable are changed through renegotiation in such a way that the present value of the future cash flows decreases.

In addition, valuation allowances are made on receivables based on transfer risks for certain countries.

If, in a subsequent period, the amount of the valuation allowance decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized write-down is to be reversed in the income statement. Reversals of valuation allowances may not exceed amortized cost. Loans and receivables are derecognized when they are definitively found to be uncollectible.

– **Held-to-maturity financial assets** consist of non-derivative financial assets with fixed or determinable payments and a fixed term, for which there is the ability and intent to hold until maturity, and which do not fall under other valuation categories. Initial measurement is done at fair value, which matches the nominal value in most cases. Subsequent measurement is carried out at amortized cost, using the effective interest method.

For BASF, there are no material financial assets that fall under this category.

– **Available-for-sale financial assets** comprise financial assets which are not derivatives and do not fall under any of the previously stated valuation categories. This measurement category comprises shareholdings reported under the item other financial assets which are not accounted for using the equity method as well as short and long-term securities.

The measurement is conducted at fair value. Changes in fair value are recognized directly in equity under the item other comprehensive income and are only recognized in the income statement when the assets are disposed of or have been impaired. Subsequent reversals are recognized directly in equity (other comprehensive income). Only in the case of debt instruments are reversals up to the amount of the original impairment recognized in the income statement; reversals above this amount are recognized directly in equity. If the fair value of available-for-sale financial assets drops below acquisition costs, the assets are impaired if the decline in value is significant and can be considered lasting. The fair values are determined using market prices. Shareholdings whose fair value cannot be reliably determined are carried at acquisition cost, as the acquisition costs constitute the best estimate of their fair value; they are only written down in the case of an impairment. This includes investments in other shareholdings, provided these shares are not publicly traded. There are no plans to sell significant stakes in these shareholdings.

- **Financial liabilities which are not derivatives** are initially measured at fair value, which normally corresponds to the amount received. Subsequent measurement is carried out at amortized cost, using the effective interest method.
- **Cash and cash equivalents** consist primarily of cash on hand and bank balances.

There were no reclassifications from one measurement category to another in 2014 and 2013. The same applies for transfers between levels in the fair value hierarchy.

Revenue from interest-bearing assets is recognized on the outstanding receivables on the balance sheet date using interest rates calculated by means of the effective interest method. Dividends from shareholdings not accounted for using the equity method are recognized when the shareholders' right to receive payment is established.

Derivative financial instruments can be embedded within other contracts. If IFRS requires separation, then the embedded derivative is accounted for separately from its host contract and measured at fair value.

Financial guarantees of the BASF Group are contracts that require compensation payments to be made to the guarantee holder if a debtor fails to make payment when due under the terms of the financial guarantee. Financial guarantees given by BASF are measured at fair value upon initial recognition. In subsequent periods, financial guarantees are carried at the higher of amortized cost or the best estimate of the present obligation on the financial reporting date.

Cash flow hedge accounting is applied for selected deals to hedge future transactions. In doing so, the effective portion of the change in fair value of the derivative is recognized directly in equity under other comprehensive income, taking deferred taxes into account. The ineffective portion is recognized immediately in the income statement. In the case of future transactions that will lead to a nonfinancial asset or a nonfinancial debt, the cumulative fair value changes in equity are either charged against the acquisition costs on initial recognition or recognized in profit or loss in the reporting period in which the hedged item is recorded in the income statement. For hedges based on financial assets or debts, the cumulative fair value changes of the hedges are transferred from equity to the income statement in the reporting period in which the hedged item is recognized in the income statement. The maturity of the hedging instrument is determined based on the effective date of the future transaction.

Hedge accounting can be used to hedge the translation risk from investments in foreign subsidiaries (**hedge of a net investment in a foreign operation**). The effective portion of the hedge is recognized in equity. If the foreign operation is disposed of, these amounts are reclassified to the income statement. The ineffective portion of the hedge is immediately recognized in the income statement.

When **fair value hedges** are used, the asset or liability is hedged against the risk of a change in fair value. Here, changes in the market value of the derivative financial instruments are recognized in the income statement. Furthermore, the carrying amount of the underlying transaction is adjusted by the profit or loss resulting from the hedged risk, offsetting the effect in the income statement.

The derivatives employed by BASF for hedging purposes are effective hedges from an economic point of view. Changes in the fair value of the derivatives almost completely offset the changes in the value of the underlying transactions.

Debt

Provisions for pensions and similar obligations: Provisions for pensions are based on actuarial computations made according to the projected unit credit method, which applies valuation parameters that include: future developments in compensation, pensions and inflation, employee turnover and the life expectancy of beneficiaries. The resulting obligations are discounted on the balance sheet date using the market yields on high-quality corporate fixed-rate bonds with an AA rating.

Similar obligations, especially those arising from commitments by North American Group companies to pay the healthcare costs and life insurance premiums of retired staff and their dependents, are reported under provisions for similar obligations.

The calculation of pension provisions is based on actuarial reports.

 For more information on provisions for pensions and similar obligations, see Note 22 from page 199 onward

Other provisions: Other provisions are recognized when there is a present obligation as a result of a past event and when there is a probable outflow of resources whose amount can be reliably estimated. Provisions are recognized at the probable settlement value.

Provisions for German trade income tax, German corporate income tax and similar income taxes are determined and recognized in the amount necessary to meet the expected payment obligations less any prepayments that have been made. Other taxes to be assessed are considered accordingly.

Provisions are established for certain environmental protection measures and risks if there exist present legal or constructive obligations arising from a past event, and the expected cash outflow can be sufficiently reliably estimated. Provisions for restoration obligations primarily concern the filling of wells and the removal of production facilities upon the termination of production in the Oil & Gas segment. When the obligation arises, the provision is measured at the present value of the future restoration costs. An asset is capitalized for the same amount as part of the carrying amount of the plant concerned and is depreciated along with the plant. The discount on the provision is unwound annually until the time of the planned restoration.

Other provisions also include expected charges for the rehabilitation of contaminated sites, the recultivation of landfills, the removal of environmental contamination at existing production or storage facilities and other similar measures. If BASF is the only responsible party that can be identified, the provision covers the entire expected claim. At sites operated together with one or more partners, the provision generally covers only BASF's share of the expected claim. The determination of the amount of the provision is based on the available technical information on the site, the technology used, legal regulations, and official obligations.

Provisions are recognized for expected severance payments or similar personnel expenses as well as for demolition expenses and other charges related to the closing of operations that have been planned and publicly announced by management.

Provisions for long-service and anniversary bonuses are predominantly calculated based on actuarial principles. For contracts signed under the early retirement programs, approved supplemental payments are accrued in installments until the end of the exemption phase at the latest. Accounting and measurement follow the German Accounting Standards Committee e.V.'s Application Note 1 (IFRS) of December 2012.

Other provisions also cover risks resulting from legal disputes and proceedings, provided the criteria for recognizing a provision are fulfilled. In order to determine the amount of the provisions, the Company takes into consideration the facts related to each case, the size of the claim, claims awarded in similar cases and independent expert advice as well as assumptions regarding the probability of a successful claim and the range of possible claims. The actual costs can deviate from these estimates.

 For more information, see Note 26 on page 209

The probable amount required to settle long-term provisions is discounted if the effect of discounting is material. In this case, the provision is recognized at present value. Assumptions must be made in determining the discount rate used for calculating long-term provisions. Financing costs related to unwinding the discount on provisions in subsequent periods are shown in other financial result.

Other accounting policies

Acquisition of companies: In company acquisitions, the acquired assets and liabilities are recognized at fair value on the date control is effectively obtained. The fair value of acquired assets and assumed liabilities at the date of exchange, as well as the useful lives of the acquired assets, are determined on the basis of assumptions. The measurement is largely based on projected cash flows. The actual cash flows can differ significantly from the cash flows used to determine the fair values. Independent external appraisals are used for the purchase price allocation of material acquisitions. Valuations in the course of business combinations are based on existing information as of the acquisition date.

Groups of assets and liabilities held for disposal or disposal groups:

These comprise those assets and directly associated liabilities shown on the balance sheet whose sale in the context of a single transaction is highly probable. The assets and liabilities of disposal groups are recognized at the lower of the sum of their carrying amounts or fair value less costs to sell; this does not apply to assets which do not fall under the valuation principles of IFRS 5. Depreciation of noncurrent assets and the use of the equity method are suspended.

Oil and gas exploration: Exploration and development expenditures are accounted for using the successful efforts method. Under this method, costs of successful exploratory drilling as well as successful and dry development wells are capitalized.

An exploration well is a well located outside of an area with proven oil and gas reserves. A development well is a well which is drilled to the depth of a reservoir of oil or gas within an area with proven reserves.

Exploratory drilling is generally reported under construction in progress until its success can be determined. When the presence of hydrocarbons is proven such that the economic development of the field is probable, the costs remain capitalized as suspended well costs. At least once a year, all suspended wells are assessed from an economic, technical and strategic viewpoint to see if development is still intended. If this is not the case, the capitalized costs for the well in question are impaired. When reserves are proven and the development of the field begins, the exploration wells are reclassified as machinery and technical equipment.

Production costs include all costs incurred to operate, repair and maintain the wells as well as the associated plant and ancillary production equipment, including the associated depreciation.

The unit of production method is used to depreciate assets from oil and gas exploration at the field or reservoir level. Depreciation is generally calculated on the basis of the production of the period in relation to the proven, developed reserves.

Exploration expenses pertain exclusively to the Oil & Gas segment and include all costs related to areas with unproven oil or gas deposits. These include costs for the exploration of areas with possible oil or gas deposits, among others. Costs for geological and geophysical investigations are always reported under exploration expenses. In addition, this item includes valuation allowances for capitalized expenses for exploration wells which did not encounter proven reserves. Depreciation of successful exploratory drilling is reported under cost of sales.

An Exploration and Production Sharing Agreement is a type of contract in crude oil and gas concessions whereby the expenses and profits from the exploration, development and production phases are divided between the state and one or more exploration and production companies using defined keys. The revenue BASF is entitled to under such contracts is reported as sales.

The intangible asset from the marketing contract for natural gas from the Yuzhno Russkoye natural gas field is amortized based on BASF's share of the produced and distributed volumes.

Intangible assets in the Oil & Gas segment relate primarily to exploration and drilling rights. During the exploration phase, these are not subject to scheduled amortization but are tested for impairment annually. When economic success is determined, the rights are amortized in accordance with the unit of production method.

Use of estimates and assumptions in the preparation of the Consolidated Financial Statements

The carrying amount of assets, liabilities and provisions, contingent liabilities and other financial obligations in the Consolidated Financial Statements depends on the use of estimates, assumptions and use of discretionary scope. Specific estimates or assumptions used in individual accounting or valuation methods are disclosed in their respective sections. They are based on the circumstances and estimates on the balance sheet date and affect the reported amounts of income and expenses during the reporting periods. These assumptions particularly concern discounted cash flows in the context of impairment tests and purchase price allocations; the determination of useful lives of property, plant and

equipment and intangible assets; the carrying amount of investments; and the measurement of provisions for such things as employee benefits, warranties, trade discounts, environmental protection and taxes. Although uncertainty is appropriately incorporated in the determination of value, actual results can differ from these estimates.

Impairment tests on assets are carried out whenever certain triggering events indicate that an impairment may be necessary. External triggering events include, for example, changes in customer industries, technologies used and economic downturns. Internal triggering events for an impairment include lower product profitability, planned restructuring measures or physical damage to assets.

Impairment tests are based on a comparison of the carrying amount and the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. The value in use is generally determined using the discounted cash flow method. The estimation of cash flows and the assumptions used consider all information available on the respective balance sheet date on the future development of the operating business. Actual future developments may vary. Impairment testing relies upon the cash-generating unit's long-term earnings forecasts, which are based on economic trends. The weighted average cost of capital (WACC) based on the Capital Asset Pricing Model plays an important role in impairment testing. It comprises a risk-free rate, the market risk premium and the spread for the credit risk. Additional important assumptions are the forecasts for the detailed planning period and the terminal growth rates used.

 For more information, see Note 14 from page 189 onward

An impairment is recognized if the recoverable amount of the asset is lower than the carrying amount. The impairment of the asset (excluding goodwill) is made in the amount of the difference between these amounts.

The goodwill impairment test is based on cash-generating units. At BASF, the cash-generating units are predominantly the business units, or in certain cases, the divisions. If there is a need for a valuation allowance, the carrying amount of goodwill is written down, and if necessary completely written off as a first step. If there is further need for a valuation allowance, this is allocated to the remaining assets of the cash-generating unit. Goodwill impairments are reported under other operating expenses. Impairment reversals are not conducted for goodwill.

2 – Scope of consolidation

2.1 – Changes in scope of consolidation

In 2014, the scope of consolidation for the Consolidated Financial Statements encompassed 281 companies (2013: 309). Of this number, four companies were first-time consolidations (2013: nine). Since the beginning of 2014, a total of 32 companies (2013: twelve) were deconsolidated due to divestiture, merger, liquidation or immateriality.

First-time consolidations in 2014 comprised:

- Two newly established companies with headquarters in Germany and China
- Two additional companies which had previously not been consolidated, headquartered in Germany and Peru

First-time consolidations in 2013 comprised:

- A total of three companies in conjunction with the acquisition of Pronova BioPharma ASA
- One company through the acquisition of Verenum Corporation
- An additional five companies which had previously not been consolidated, headquartered in Germany, South Africa, Uruguay, Canada and China

A list of companies included in the Consolidated Financial Statements and a list of all companies in which BASF SE has a shareholding as required by Section 313(2) of the German Commercial Code is provided in the List of Shares Held.

 For more information, see Note 3 on page 179

Scope of consolidation

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	2014	2013
As of January 1	189	67	42	55	23	309	312
Thereof proportionally consolidated	6	–	–	2	–	8	8
First-time consolidations	2	2	–	1	1	4	9
Thereof proportionally consolidated	–	–	–	–	–	–	–
Deconsolidations	27	4	3	2	–	32	12
Thereof proportionally consolidated	–	–	–	1	–	1	–
As of December 31	164	65	39	54	24	281	309
Thereof proportionally consolidated	6	–	–	1	–	7	8

Overview of impact of changes to the scope of consolidation (excluding acquisitions and divestitures)

	2014		2013	
	Million €	%	Million €	%
Sales	15	0.0	32	0.0
Noncurrent assets	3	0.0	(3)	0.0
Thereof property, plant and equipment	3	0.0	1	0.0
Current assets	16	0.1	28	0.1
Thereof cash and cash equivalents	(3)	(0.2)	2	0.1
Assets	19	0.0	25	0.0
Equity	8	0.0	8	0.0
Noncurrent liabilities	0	0.0	5	0.0
Thereof financial indebtedness	0	0.0	0	0.0
Current liabilities	11	0.1	12	0.0
Thereof financial indebtedness	9	0.3	5	0.2
Total equity and liabilities	19	0.0	25	0.0
Contingent liabilities and other financial obligations	7	0.1	0	0.0

2.2 – Joint operations

Proportionally consolidated joint operations particularly comprise:

- Ellba C.V., Rotterdam, Netherlands, which is operated jointly with Shell and produces propylene oxide and styrene monomer
- BASF DOW HPPO Production B.V.B.A., Antwerp, Belgium, which is operated jointly with The Dow Chemical Company to produce propylene oxide
- ZAO Achimgaz, Novy Urengoy, Russia, which is jointly operated with Gazprom for the production of natural gas and condensate

BASF holds a 50% share in each of these companies and controls them together with an additional partner. The companies sell their products directly to the partners. The partners ensure the ongoing financing of the companies by purchasing the production. They were therefore classified as joint operations in accordance with IFRS 11.

On December 31, 2014, BASF sold its 50% stake in Ellba Eastern Private Ltd., Singapore, to Shell. The following table considers the income statement of this company to the date of sale.

Financial information on proportionally consolidated companies (BASF stake, unconsolidated) (in million €)

	2014	2013
Income statement		
Sales	1,088	1,548
Income from operations	220	220
Income before taxes and minority interests	222	219
Net income	189	195
Balance sheet		
Noncurrent assets	446	503
Thereof property, plant and equipment	431	468
Current assets	172	269
Thereof marketable securities, cash and cash equivalents	41	26
Assets	618	772
Equity	453	388
Noncurrent liabilities	54	202
Thereof financial indebtedness	–	–
Current liabilities	111	182
Thereof financial indebtedness	–	–
Total equity and liabilities	618	772
Contingent liabilities and other financial obligations	412	575
Statement of cash flows		
Cash provided by operating activities	252	272
Cash used in investing activities	(224)	(140)
Cash used in financing activities	14	(119)
Net changes in cash and cash equivalents	42	13

2.3 – Joint ventures and associated companies

Equity-accounted joint ventures particularly comprise:

- BASF-YPC Company Ltd., Nanjing, China, Verbund site operated together with Sinopec (BASF stake: 50%)
- Heesung Catalysts Corporation, Seoul, South Korea, operated jointly with Heesung (BASF stake: 50%)
- N.E. Chemcat Corporation, Tokyo, Japan, operated together with Sumitomo Metal Mining Co. Ltd. (BASF stake: 50%)

Joint ventures accounted for using the equity method (BASF stake) (in million €)

	2014	2013
Investments accounted for using the equity method as of the beginning of the year	1,218	1,280
Proportional net income	87	89
Proportional change of other comprehensive income	96	(57)
Total comprehensive income	183	32
Capital measures/dividends/changes in the scope of consolidation/other adjustments	(119)	(86)
Other adjustments of income and expense	(19)	(8)
Investments accounted for using the equity method as of the end of the year	1,263	1,218

Equity-accounted associated companies particularly comprise:

- Wintershall AG, Kassel, Germany, which operates Libyan exploration activities jointly with Gazprom Libyen Verwaltungen GmbH (BASF stake: 51%)
- Solvin Group, Hanover, Germany (BASF stake: 25%)
- Nord Stream AG, Zug, Switzerland (BASF stake: 15.5%) – BASF continues to exercise significant influence over Nord Stream AG, as BASF's approval is required for relevant board resolutions
- OAO Severneftegazprom, Krasnoselkup, Russia (BASF stake: 25%, economic share: 35%)
- Shanghai Lianheng Isocyanate Co. Ltd., Shanghai, China (BASF stake: 35%)
- GASCADE Gastransport GmbH, Kassel, Germany (BASF stake: 50.02%)
- NEL Gastransport GmbH, Kassel, Germany (BASF stake: 50.02%)

The 50% stake in the Styrolution Group, Frankfurt am Main, Germany, was sold to INEOS on November 17, 2014. The investment was therefore derecognized in 2014.

Associated companies accounted for using the equity method (BASF stake) (in million €)

	2014	2013
Investments accounted for using the equity method as of the beginning of the year	2,956	2,222
Proportional net income	196	212
Proportional change of other comprehensive income	(213)	(61)
Total comprehensive income	(17)	151
Capital measures/dividends/changes in the scope of consolidation/other adjustments	(966)	575
Other adjustments of income and expense	9	8
Investments accounted for using the equity method as of the end of the year	1,982	2,956

Financial information on companies accounted for using the equity method (BASF stake) (in million €)

	2014	2013
Income statement information		
Sales	9,133	10,283
Income from operations	455	991
Income before taxes and minority interests	383	871
Net income	283	301
Balance sheet information		
Noncurrent assets	4,083	5,534
Thereof property, plant and equipment	3,393	4,214
Current assets	1,971	2,763
Thereof marketable securities, cash and cash equivalents	299	517
Assets	6,054	8,297
Equity	2,605	3,747
Noncurrent liabilities	2,152	2,402
Thereof financial indebtedness	1,148	1,495
Current liabilities	1,297	2,148
Thereof financial indebtedness	367	495
Total equity and liabilities	6,054	8,297

The table includes the totals of the amounts from the financial statements of the companies accounted for using the equity method. Differences between the proportional net income and income accounted for using the equity method, on the

one hand, and between the proportional equity and the book value of investments accounted for using the equity method, on the other hand, arise predominantly from changes in capital recognized in equity.

2.4 – Acquisitions and divestitures

Acquisitions

In 2014, BASF acquired the following activities:

- On October 31, 2014, BASF completed the acquisition of a 2.5% share in the Brage production field in the Norwegian North Sea from Tullow Oil Norge AS, Oslo, Norway, in the Oil & Gas segment. The transaction was concluded with retroactive commercial effect as of January 1, 2014. With this acquisition, BASF increased its investment in Brage to a total of 35.2%.
- In the Oil & Gas segment, BASF concluded with Statoil the agreed purchase of shares in the Gjølå (5%) and Vega (24.5%) production fields, the Aasta Hansteen development project (24%), the Asterix discovery (19%) and the Polarled Pipeline Project (13.2%), as well as in four exploration licenses near Aasta Hansteen on December 1, 2014. The purchase price amounted to \$1.25 billion or €1.0 billion. Furthermore, BASF has agreed to pay an additional \$50 million if the Aasta Hansteen field is developed according to current project plans. The transaction was concluded with retroactive commercial effect as of January 1, 2014. For this reason, earnings from shares in the production as well as investments made have led to purchase price adjustments. Furthermore, a provision has been recognized in the amount of contingent consideration expected to be paid in the future.

The following overview shows the components of the total purchase price for the acquisition of assets from Statoil on December 1, 2014.

Total purchase price of the acquisition of assets from Statoil (in million €)

	December 1, 2014
Total purchase price	1,002
Expected amount of contingent consideration	10
Purchase price adjustments	(45)
Total purchase price	967

The following table shows an overview of the preliminary fair values of the assets and liabilities acquired from Statoil as of December 1, 2014.

Preliminary purchase price allocation of the assets and liabilities of Statoil as of December 1, 2014 (in million €)

	Fair value at time of acquisition
Property, plant and equipment	977
Other intangible assets	121
Financial assets and other noncurrent assets	65
Noncurrent assets	1,163
Inventories	4
Accounts receivable, trade	–
Cash and cash equivalents	–
Other current assets	–
Current assets	4
Assets	1,167
Provisions for pensions and similar obligations	–
Other long-term provisions	53
Deferred tax liabilities	521
Other noncurrent liabilities	–
Noncurrent liabilities	574
Financial indebtedness	–
Provisions	26
Other current liabilities	183
Current liabilities	209
Liabilities	783
Net assets	384
Goodwill	583
Total purchase price	967

The transfer of assets from Statoil increased sales in the 2014 business year by €28 million and net income by €3 million. If the acquired assets had been included as of January 1, 2014, pro forma sales and income would have amounted to €365 million and €45 million, respectively.

The purchase prices for the businesses acquired in 2014 totaled €973 million, including noncash purchase price components. The payments for acquisitions amounted to €963 million. The purchase price allocations were carried out in accordance with IFRS 3 and are based on estimates. The purchase price allocations should be regarded as preliminary and can be adjusted within one year after the acquisition.

The preliminary purchase price allocation from the previous year for the acquisition of assets from Statoil on July 31, 2013, was reviewed at the end of the 12-month evaluation period as per IFRS 3; parts were adjusted on the basis of more detailed information on the production profiles of the acquired Vega, Brage and Gjøa fields. This led to a €20 million reduction in noncurrent assets to €1,413 million, and a €22 million reduction in noncurrent liabilities to €954 million. Furthermore, the expected value of the payment obligation to Statoil in connection with the development of the Vega field rose by €42 million, resulting in a corresponding increase in the total purchase price to €895 million. These adjustments

brought about a €40 million increase in goodwill, which amounted to €683 million.

The purchase price allocations of the other acquisitions from the previous year were not adjusted.

– On February 12, 2015 BASF concluded the acquisition of the business from Taiwan Sheen Soon (“TWSS”) in Taiwan, which had been announced on December 8, 2014. The purchase price for these activities amounted to \$36 million. The purchase price allocation according to IFRS 3 is currently being prepared. TWSS is a leading manufacturer of precursors for adhesives based on thermoplastic polyurethanes. The activities have been integrated in the Performance Materials division. The acquisition of further assets on the Chinese mainland to complete the transaction is dependent on external approvals which is expected in the course of 2015.

BASF acquired the following businesses in 2013:

- On January 31, 2013, BASF took over all the shares of Pronova BioPharma ASA, Lysaker, Norway, which researches, develops and produces highly concentrated omega-3 fatty acids. With the acquisition of Pronova BioPharma ASA, BASF aims to take a leading position in the global market for omega-3 fatty acids. Pronova BioPharma ASA’s business has been merged with BASF’s previous activities within the Nutrition & Health division into a global business unit.
- Effective March 11, 2013, BASF completed its acquisition of parts of Ciech Group’s TDI business, as announced in the third quarter of 2012. The acquisition largely comprised intellectual property rights and access to customers. TDI is used primarily in furniture and automotive industry applications. The acquired business has been integrated into the Monomers division.
- BASF acquired an enzyme technology for detergents and cleaners from Henkel AG & Co. KGaA, Düsseldorf, Germany, on April 17, 2013. The transaction comprised production hosts, various detergent enzymes, and the corresponding intellectual property. The activities have been integrated into the Care Chemicals division.
- BASF concluded the acquisition of assets from Statoil, Stavanger, Norway, effective July 31, 2013. The transaction included the acquisition of shares in the Brage (32.7%), Vega (30%) and Gjøa (15%) fields and the activities were integrated into the Oil & Gas segment. In return, Statoil received a 15% share in the Edvard Grieg development project as well as financial compensation of \$1.35 billion, which translates to €1.02 billion. BASF will pay up to a maximum of an additional \$100 million contingent on the successful development of the Vega field. The transaction was concluded with retroactive financial effect as of January 1, 2013.
- Effective October 31, 2013, BASF completed the acquisition of all shares in the Verenum Corporation, based in San Diego, California. Verenum Corporation develops and markets high-quality enzymes which, as catalysts, enable and accelerate biological and chemical processes. At the time of acquisition, the acquired activities were allocated to the Performance Products segment as well as to Other.

The following overview shows the effects of the acquisitions conducted in 2014 and 2013 on the Consolidated Financial Statements. If acquisitions resulted in the transfer of assets

or the assumption of additional liabilities, these are shown as a net impact.

Effects of acquisitions

	2014		2013	
	Million €	%	Million €	%
Goodwill	623	7.7	779	11.2
Other intangible assets	109	2.3	310	5.8
Property, plant and equipment	1,001	4.3	1,386	7.2
Financial assets	–	–	–	–
Other noncurrent assets	67	1.8	236	12.5
Noncurrent assets	1,800	4.1	2,711	7.1
Current assets	4	0.0	276	1.1
Thereof cash and cash equivalents	–	–	69	3.8
Assets	1,804	2.5	2,987	4.7
Equity	2	0.0	164	0.6
Noncurrent liabilities	621	2.3	1,094	4.9
Thereof financial indebtedness	–	–	19	0.2
Current liabilities	218	1.4	504	3.5
Thereof financial indebtedness	–	–	171	5.3
Total equity and liabilities	841	1.2	1,762	2.7
Payments related to acquisitions	963		1,225	

Divestitures

In 2014, BASF divested the following activities:

- On March 25, 2014, BASF concluded the sale of selected oil and gas investments in the North Sea to the Hungarian MOL Group, as agreed upon on December 12, 2013. MOL acquired 14 licenses, including those for the non-BASF-operated Broom field (29%) and for the Catcher (20%), Cladhan (33.5%) and Scolty/Crathes (50%) developments. The transaction also included the sale of BASF's shares in the infrastructure of the Sullom Voe Terminal and in the Brent Pipeline System. The transaction was financially retroactive to January 1, 2013. The purchase price agreed upon was \$375 million; less adjustments, the total purchase price amounted to €264 million as well as income of €132 million.
- On June 2, 2014, BASF completed the sale of its PolyAd Services business to Edgewater Capital Partners, L.P. PolyAd Services provides services for a wide range of plastic applications in various industries, such as the automotive, construction, packaging and electronics industries. The activities had been allocated to the Performance Chemicals division.
- Effective as of November 17, 2014, BASF sold its 50% share in Styrolution Holding GmbH to the INEOS Group. The partnership agreement of 2011 already included a cross option giving BASF an option to sell its share in Styrolution and INEOS an option to buy BASF's share in Styrolution. On June 30, 2014, the equity-accounted carrying amount of Styrolution and these options were reclassified into assets and liabilities of disposal groups and the

equity method was discontinued. At the time of the disposal, a total income of €458 million was recognized as other operating income. The share in Styrolution and the related income was allocated to Other.

The following overview shows the individual components of BASF's profit realization from the sale of the 50% share in Styrolution:

Profit from the sale of the 50% share in Styrolution Holding GmbH (in million €)

	Nov. 17, 2014
Purchase price	1,109
Disposal of 50% share in Styrolution	(776)
Derecognition of pro rata currency translation effects	(33)
Derecognition of options for disposal of BASF's share	158
Disposal gains	458

- On December 31, 2014, BASF completed the sale of its 50% stake in the joint operation Ellba Eastern Private Ltd., Singapore, which produces propylene oxide and styrene monomers, to its partner Shell. On account of the continued importance of propylene oxide and its value chain, BASF and Shell concluded an agreement to supply BASF with the necessary volumes. As a result of the divestiture a gain of €109 million was recognized. The activities of Ellba Eastern were allocated to BASF's Petrochemicals division as well as Other.

In 2013, BASF divested the following activities:

- Effective April 2, 2013, BASF concluded the sale of its sprayed concrete technology business for tunneling and mining to Atlas Copco, announced in the fourth quarter of 2012. The transaction comprised the production site in Winterthur, Switzerland, and the sales and service activities in Hermsdorf, Germany. The business had been part of the Construction Chemicals division.
- On July 1, 2013, BASF sold its activities in the CONICA Sports Surfaces business, including the site in Schaffhausen, Switzerland, to the Serafin Group, Munich, Germany. The sale included the development, production and marketing of flooring systems for running tracks, gymnasiums, tennis courts and playgrounds as well as artificial turf solutions. The activities had been part of the Construction Chemicals division.
- On September 30, 2013 BASF concluded the sale of Industrial Water Management France S.A.S., Lyon, France, to Degrémont, a subsidiary of SUEZ ENVIRONNEMENT, as announced on May 15, 2013. The business had been part of the Performance Chemicals division.
- On December 31, 2013, BASF concluded the sale of Wall Systems GmbH & Co., Marktredwitz, Germany, to

ROCKWOOL as announced on July 18, 2013. The company's main business was in systems for internal and external building insulation as well as for the renovation and restoration of historical structures. The activities had been part of the Construction Chemicals division.

- A supplementary agreement to the articles of association for GASCADE Gastransport GmbH expired on December 31, 2013. With the resulting change in the corporate governance structure, BASF lost control over GASCADE Gastransport GmbH, and since that time, has only a significant influence over the shareholding. According to IFRS 10, this resulted in a reclassification from fully consolidated company to an associated company accounted for using the equity method in the BASF Group Consolidated Financial Statements as of the effective date. BASF continues to hold a 50.02% share in GASCADE Gastransport GmbH.

The following overview shows the effects of the divestitures conducted in 2014 and 2013 on the Consolidated Financial Statements. The line item sales reflects the year-on-year decline resulting from divestitures. The impact on equity relates mainly to gains and losses from divestitures.

Effects of divestitures

	2014		2013	
	Million €	%	Million €	%
Sales	(157)	(0.2)	(208)	(0.3)
Noncurrent assets	(343)	(0.8)	(345)	(0.9)
Thereof property, plant and equipment	(250)	(1.1)	(895)	(4.7)
Current assets	(644)	(2.3)	297	1.1
Thereof cash and cash equivalents	(1)	0.0	(3)	(0.2)
Assets	(987)	(1.4)	(48)	(0.1)
Equity	763	2.7	233	0.8
Noncurrent liabilities	(104)	(0.4)	(200)	(0.9)
Thereof financial indebtedness	–	–	–	–
Current liabilities	(309)	(1.9)	(14)	(0.1)
Thereof financial indebtedness	–	–	–	–
Total equity and liabilities	350	0.5	19	0.0
Proceeds from divestitures	1,337		67	

Agreed-upon future transactions

- On July 10, 2014, BASF announced the signing of an agreement with the Alpek Group concerning the expandable polystyrene (EPS) and polyurethane (PU) business activities of their joint venture Polioles, S.A. de C.V., Mexico. Polioles is consolidated using the equity method. The transaction includes the sale of BASF's white EPS business in North and South America. This involves its production facilities and access to customers as well as all the shares of its affiliated companies Aislapol S.A., Santiago de Chile, Chile, und BASF Poliestireno Expansivel do Brasil Ltda., Guaratinguetá, Brazil. In parallel, Alpek receives all EPS business activities from Polioles. As a

further part of the agreement BASF is acquiring Polioles' PU business. The activities to be transferred are assigned to BASF's Performance Materials division into which the acquired PU business will be integrated. Closing is expected by the end of the first quarter of 2015.

- On October 16, 2014, BASF announced the conclusion of an agreement to sell its global textile chemicals business to Archroma. Archroma is a supplier of specialty chemicals for the textile, paper and emulsions industries and belongs to SK Capital Partners. The activities to be sold are part of BASF's Performance Chemicals division. The transaction, subject to approval from the relevant antitrust authorities, is expected to close in the middle of 2015.

– On October 30, 2014, BASF announced the establishment of a company with TODA KOGYO CORP., a leading company in the development and production of cathode materials for lithium-ion batteries in Japan. BASF will hold a 66% share and TODA a 34% share in the company, in which both firms will bundle their business for cathode

materials, patents and production capacities in Japan. In BASF, the activities will be assigned to the Catalysts division. The conclusion of the agreement and the start of operations of the newly established company are expected by the end of February 2015.

3 – BASF Group List of Shares Held in accordance with Section 313(2) of the German Commercial Code

List of Shares Held

The list of consolidated companies and the complete list of all companies in which BASF SE has a share as required by Section 313(2) of the German Commercial Code and informa-

tion for exemption of subsidiaries from accounting and disclosure obligations are an integral component of the audited Consolidated Financial Statements submitted to the electronic Federal Gazette. The list of shares held is also published online.

 For more information, see basf.com/governance_e

4 – Reporting by segment and region

BASF's business was conducted by 14 operating divisions aggregated into five segments for reporting purposes to the end of 2014. The divisions are allocated to the segments based on their business models.

The Chemicals segment comprises the classical chemicals business with basic chemicals and intermediates. It forms the core of BASF's Production Verbund and is the starting point for a majority of the value chains. In addition to supplying the chemical industry and other sectors, the segment ensures that other BASF divisions are supplied with chemicals for producing downstream products. The Chemicals segment is made up of the Petrochemicals, Monomers and Intermediates divisions.

The Performance Products segment consisted of the Dispersions & Pigments, Care Chemicals, Nutrition & Health, Paper Chemicals and Performance Chemicals divisions to the end of 2014. Customized products allow customers to make their production processes more efficient or to give their products improved application properties. The Paper Chemicals division was dissolved as of January 1, 2015. The paper chemicals business will be continued in the Performance Chemicals and Dispersions & Pigments divisions.

The Functional Materials & Solutions segment bundles system solutions, services and innovative products for specific sectors and customers, especially the automotive, electrical, chemical and construction industries. It comprises the Catalysts, Construction Chemicals, Coatings, and Performance Materials divisions.

The Agricultural Solutions segment consists of the Crop Protection division, whose products secure yields and guard crops against fungal infections, insects and weeds, in addition to serving as biological and chemical seed treatments. Plant biotechnology research is not assigned to this segment; it is reported in Other.

The Oil & Gas segment is composed of the Oil & Gas division with its Exploration & Production and Natural Gas Trading business sectors.

Activities not assigned to a particular division are reported in Other. These include the sale of raw materials, engineering and other services, rental income and leases, the production of precursors not assigned to a particular segment, the steering of the BASF Group by corporate headquarters, and corporate research.

With cross-divisional corporate research, BASF is creating new businesses and ensuring its long-term competence with regard to technology and methods. This includes plant biotechnology research.

Earnings from currency conversion that are not allocated to the segments are also reported under Other, as are earnings from the hedging of raw material prices and foreign currency exchange risks. Furthermore, revenues and expenses from the long-term incentive (LTI) program are reported here.

Transfers between the segments are generally executed at adjusted market prices which take into account the higher cost efficiency and lower risk of Group-internal transactions. Assets, as well as their depreciation and amortization, are allocated to the segments based on economic control. Assets used by more than one segment are allocated based on the percentage of usage.

Income from operations (EBIT) in Other (in million €)

	2014	2013
Corporate research costs	(389)	(386)
Costs of corporate headquarters	(218)	(237)
Other businesses	590	251
Foreign currency results, hedging and other measurement effects	(2)	(190)
Miscellaneous income and expenses	(114)	(102)
Income from operations of Other	(133)	(664)

Income from operations in Other increased by €531 million year-on-year to minus €133 million.

This was primarily due to the disposal gains of €458 million, shown under other businesses, from BASF's share in Styrolution Holding GmbH, Frankfurt am Main, Germany; this income was dampened by lower contributions to income, mainly as a result of lower plant availability at the Moerdijk site of the joint operation Ellba C.V., Rotterdam, Netherlands.

Furthermore, the rise in income from operations in Other was attributable to improvement in foreign currency results, hedging and other measurement effects, largely due to income from a provision reversal for the long-term incentive program of €54 million; in 2013, this had led to expenses of €104 million. The results from the translation of foreign currencies were an additional contributing factor.

Assets of Other (in million €)

	December 31, 2014	December 31, 2013
Assets of businesses included in Other	2,241	3,351
Financial assets	540	643
Deferred tax assets	2,193	1,006
Cash and cash equivalents/marketable securities	1,737	1,844
Net interest income from overfunded pensions	91	47
Other liabilities/deferrals	3,027	2,260
Assets of Other	9,829	9,151

Reconciliation reporting Oil & Gas (in million €)

	2014	2013
Income from operations	1,688	2,403
Net income from shareholdings	246	(2)
Other income	124	71
Income before taxes and minority interests	2,058	2,472
Income taxes	(519)	(620)
Income before minority interests	1,539	1,852
Minority interests	(75)	(122)
Net income	1,464	1,730

The Oil & Gas reconciliation reporting reconciles the income from operations in the Oil & Gas segment with the contribution of the segment to the net income of the BASF Group.

In income from operations, lower oil and gas prices, and the currency-related decrease in earnings contributions from BASF's share in the Yuzhno Russkoye natural gas field were nearly offset by the activities acquired in Norway in the previous year. However, higher special charges and lower special income compared with the previous year led to a decline in income from operations. In 2014, the sale of oil and gas investments in the North Sea to the MOL Group resulted in special income of €132 million, whereas impairments on exploration licenses reduced income from operations by €230 million. In 2013, there had been higher special income of €429 million due to the reclassification of GASCADE

Gastransport GmbH, Kassel, Germany, and the disposal of a 15% share in the Edvard Grieg development project in return for assets from Statoil ASA amounting to €164 million.

Net income from shareholdings improved significantly. This was due to the sale of VNG – Verbundnetz Gas AG to EWE AG.

The Oil & Gas segment's other income relates to income and expenses not included in the segment's income from operations, as well as the interest result and other financial result. As in the previous year, other income largely consisted of currency effects from Group loans. The tax rate remained the same. In 2014, highly taxed operating income in Norway had a negative effect on the tax rate. Counterbalancing this were reversals of tax liabilities.

Segments 2014 (in million €)

	Chemicals	Performance Products	Functional Materials & Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	16,968	15,433	17,725	5,446	15,145	2,938	3,609	74,326
Intersegmental transfers	6,135	489	832	37	907	502	16	8,416
Sales including intersegmental transfers	23,103	15,922	18,557	5,483	16,052	3,440	3,625	82,742
Income from operations	2,396	1,417	1,150	1,108	1,688	1,305	(133)	7,626
Assets	12,498	14,502	12,987	7,857	13,686	9,476	9,829	71,359
Thereof goodwill	59	2,099	2,218	1,931	1,765	1,765	69	8,141
other intangible assets	284	1,653	1,220	364	1,248	1,226	57	4,826
property, plant and equipment	6,898	4,637	3,166	1,240	6,676	5,115	879	23,496
investments accounted for using the equity method	841	177	348	–	1,480	440	399	3,245
Debt	3,920	5,049	3,508	1,687	3,669	2,609	25,331	43,164
Research expenses	185	369	379	511	50	50	390	1,884
Additions to property, plant and equipment and intangible assets	2,085	849	650	391	3,162	3,092	148	7,285
Amortization of intangible assets and depreciation of property, plant and equipment	816	815	528	189	938	857	131	3,417
Thereof impairments	54	18	45	2	230	230	5	354

Segments 2013 (in million €)

	Chemicals	Performance Products	Functional Materials & Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	16,994	15,534	17,252	5,227	14,776	2,929	4,190	73,973
Intersegmental transfers	6,388	489	835	36	1,160	305	53	8,961
Sales including intersegmental transfers	23,382	16,023	18,087	5,263	15,936	3,234	4,243	82,934
Income from operations	2,086	1,100	1,027	1,208	2,403	1,569	(664)	7,160
Assets	10,908	13,614	11,899	6,777	11,855	7,731	9,151	64,204
Thereof goodwill	56	1,967	2,032	1,796	1,023	1,023	62	6,936
other intangible assets	256	1,818	1,331	364	1,554	1,530	65	5,388
property, plant and equipment	5,383	4,154	2,722	925	5,188	3,616	857	19,229
investments accounted for using the equity method	826	165	316	–	1,725	624	1,142	4,174
Debt	3,122	4,078	2,751	1,374	3,099	2,207	22,107	36,531
Research expenses	178	377	367	469	67	67	391	1,849
Additions to property, plant and equipment and intangible assets	1,958	1,497	611	324	3,167	2,945	169	7,726
Amortization of intangible assets and depreciation of property, plant and equipment	870	887	471	167	746	564	131	3,272
Thereof impairments	95	58	20	1	54	54	10	238

Regions 2014 (in million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	40,911	15,126	15,213	12,341	5,861	74,326
Share	% 55.0	20.4	20.5	16.6	7.9	100.0
Location of companies						
Sales	42,854	32,241	15,467	11,643	4,362	74,326
Sales including intersegmental transfers	50,401	38,346	17,981	12,270	4,595	85,247
Income from operations	5,010	1,894	1,548	673	395	7,626
Assets	41,487	22,987	14,605	10,251	5,016	71,359
Thereof intangible assets	7,631	2,725	4,088	795	453	12,967
property, plant and equipment	13,979	7,172	4,638	3,279	1,600	23,496
investments accounted for using the equity method	1,951	1,229	35	1,259	0	3,245
Additions to property, plant and equipment and intangible assets	4,880	1,774	917	835	653	7,285
Amortization of intangible assets and depreciation of property, plant and equipment	2,304	1,169	662	331	120	3,417
Employees as of December 31	71,474	53,277	17,120	17,060	7,638	113,292

Regions 2013 (in million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	41,221	14,446	14,272	12,450	6,030	73,973
Share	% 55.7	19.5	19.3	16.8	8.2	100.0
Location of companies						
Sales	43,335	31,571	14,573	11,679	4,386	73,973
Sales including intersegmental transfers	50,307	36,984	17,025	12,188	4,580	84,100
Income from operations	4,485	2,164	1,488	817	370	7,160
Assets	38,838	21,945	12,683	8,797	3,886	64,204
Thereof intangible assets	7,204	2,997	3,947	812	361	12,324
property, plant and equipment	11,943	6,457	3,740	2,476	1,070	19,229
investments accounted for using the equity method	2,961	2,028	24	1,189	0	4,174
Additions to property, plant and equipment and intangible assets	5,799	1,867	782	696	449	7,726
Amortization of intangible assets and depreciation of property, plant and equipment	2,201	1,103	663	300	108	3,272
Employees as of December 31	70,977	52,523	16,996	16,708	7,525	112,206

In the United States, sales to third parties in 2014 amounted to €13,877 million (2013: €13,000 million) according to company location and €13,329 million (2013: €12,438 million) according to customer location. In the United States, intangible assets,

property, plant and equipment, and investments accounted for using the equity method amounted to €7,983 million compared with €7,345 million in the previous year.

5 – Earnings per share

Earnings per share

	2014	2013
Net income million €	5,155	4,792
Weighted-average number of outstanding shares 1,000	918,479	918,479
Earnings per share €	5.61	5.22
Diluted earnings per share €	5.60	5.21

In accordance with IAS 33, a potential dilutive effect must be considered in the diluted earnings per share for those BASF shares which will be granted in the future as a part of the BASF share program “plus.” This applies regardless of the fact that the necessary shares are acquired by third parties on the market on behalf of BASF, and the fact that there are no plans for the issuance of new shares. The dilutive effect of the issue of Plus shares amounted to €0.01 in 2014 (2013: €0.01).

6 – Functional costs

Under the cost-of-sales method, functional costs incurred by the operating functions are determined on the basis of cost center accounting. The functional costs contain in particular the personnel costs, depreciation and amortization accumulated on the underlying final cost centers as well as allocated costs within the cost accounting cycle. Operating expenses that cannot be allocated to the functional costs are reported as Other operating expenses.

 For more on Other operating expenses, see Note 8 from page 184 onward

Cost of sales

Cost of sales includes all production and purchase costs of the Company's own products as well as merchandise which has been sold in the period, particularly plant, energy and personnel costs.

Selling expenses

Selling expenses include in particular marketing and advertising costs, freight costs, packaging costs, distribution management costs, commissions, and licensing costs.

General and administrative expenses

General and administrative expenses primarily include the costs of the central units, the costs of managing business units and divisions as well as costs of general management, the Board of Executive Directors and the Supervisory Board.

Research and development expenses

Research and development expenses include the costs resulting from research projects as well as the necessary license fees for research activities.

 For more on research and development expenses by segment, see Note 4 on page 181

7 – Other operating income

Million €	2014	2013
Reversal of provisions	181	125
Revenue from miscellaneous revenue-generating activities	165	200
Income from foreign currency and hedging transactions	398	116
Income from the translation of financial statements in foreign currencies	75	29
Gains on the disposal of fixed assets and divestitures	772	640
Income on the reversal of valuation allowances for business-related receivables	47	39
Other	593	530
Other operating income	2,231	1,679

Reversal of provisions included income of €79 million from the reversal of the provision for the long-term incentive (LTI) program; this was due to the lower BASF share price in 2014. In 2013, however, expenses of €104 million resulted from the LTI program. These were reported under other operating expenses.

 For more information, see Note 8 from page 184 onward

Furthermore, the reversal of provisions was predominantly related to closures and restructuring measures, employee obligations, and risks from lawsuits and damage claims, as well as various other items as part of the normal course of business. Provisions were reversed if the circumstances on the balance sheet date were such that utilization was no longer expected or expected to a lesser extent.

Revenue from miscellaneous revenue-generating activities primarily contained income from rentals, property sales, catering operations, cultural events and logistics services.

Income from foreign currency and hedging transactions concerned foreign currency translations of receivables and payables as well as changes in the fair value of currency derivatives and other hedging transactions. Compared with the previous year, higher income arose particularly from swaps for crude oil to hedge price risks from purchasing and selling contracts for natural gas.

Income from the translation of financial statements in foreign currencies included gains from the translation of companies outside of the eurozone that use the euro as their functional currency.

Gains on the disposal of fixed assets and divestitures in the amount of €458 million arose from the sale of the 50% share in Styrolution Holding GmbH, Frankfurt am Main, Germany, to INEOS.

Income of €132 million was related to the sale of selected oil and gas investments in the North Sea to the Hungarian MOL Group. Additional income in the amount of €109 million resulted from the sale of the share in the 50-50 joint operation Ellba Eastern Private Ltd., Singapore, to Shell as well as €31 million from the sale of the PolyAd Services business to Edgewater Capital Partners, L.P., Cleveland, Ohio.

The previous year primarily included €429 million in gains from the reclassification of GASCADE Gastransport GmbH, Kassel, Germany, due to loss of control following changes in corporate governance. In addition, there were disposal gains of €164 million for a 15% share in the Edvard Grieg development project in return for assets from Statoil ASA, Stavanger, Norway, in 2013.

Income on the reversal of valuation allowances for business-related receivables resulted mainly from the settlement of customer-related receivables for which a valuation allowance had been recorded.

Other income included government grants and government assistance to BASF from several countries amounting to €112 million in 2014 and €136 million in 2013. In both years, these were primarily attributable to price compensation from the Argentinian government for gas producers, which was introduced in connection with the New Gas Price Scheme (NGPS) due to the lower, partly locally regulated gas prices. Furthermore, other income in 2014 arose from insurance refunds in the amount of €53 million in connection with a plant outage at the Ellba joint operation in Moerdijk, Netherlands, as well as various settlements amounting to €43 million.

In addition, other income in 2013 had included a delayed earnings contribution from the fertilizer business.

Moreover, income in both years was related to gains from precious metal trading, additional insurance refunds, the reversal of impairments on property, plant and equipment, tax refunds and a number of other items.

8 – Other operating expenses

Million €	2014	2013
Restructuring measures	176	316
Environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization	330	369
Amortization, depreciation and impairments of intangible assets and property, plant and equipment	370	248
Costs from miscellaneous revenue-generating activities	160	185
Expenses from foreign-currency and hedging transactions as well as from the measurement of LTI options	439	263
Losses from the translation of the financial statements in foreign currencies	88	108
Losses from the disposal of fixed assets and divestitures	28	49
Oil and gas exploration expenses	132	194
Expenses from the addition of valuation allowances for business-related receivables	87	72
Expenses from the use of inventories measured at market value and the derecognition of obsolete inventory	225	280
Other	594	492
Other operating expenses	2,629	2,576

Expenses for **restructuring measures** were primarily related to severance payments amounting to €40 million in 2014 and €149 million in 2013. Further expenses for restructuring measures amounting to €9 million concerned several sites in the Care Chemicals division. In the Dispersions & Pigments division, expenses arose in the amount of €12 million in 2014 and €18 million in 2013. In 2013, there had also been expenses for restructuring measures at several sites in the Construction Chemicals division amounting to €14 million.

Expenses arose from **environmental protection and safety measures, demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization** according to IFRS. Expenses for demolition, removal and project planning totaled €286 million in 2014 and €314 million in 2013. These especially pertained to the Ludwigshafen site in both years. Further expenses of €19 million were due to additional environmental provisions related to several discontinued sites in North

America. In 2013, there were additions of €32 million to environmental provisions related to the remediation of landfills, particularly in Germany, Switzerland and North America.

Amortization, depreciation and impairments of intangible assets and property, plant and equipment resulted from impairments in the Oil & Gas segment amounting to €230 million in 2014 and €45 million in 2013. Further impairments of €42 million concerned the Functional Materials & Solutions segment. Impairments in the Chemicals segment amounted to €33 million in 2014 and €83 million in 2013.

Furthermore, there had been an impairment of €15 million on property, plant and equipment at a site in the United Kingdom in 2013.

Costs from miscellaneous revenue-generating activities concerned the respective items presented in other operating income.

 For more information, see Note 7 from page 183 onward

Expenses from foreign-currency and hedging transactions as well as from the measurement of LTI options were related to foreign currency translations of receivables and payables as well as changes in the fair value of currency derivatives and other hedging transactions. Compared with the previous year, higher expenses particularly arose from swaps for crude oil to hedge price risks from purchasing and selling contracts for natural gas. In addition, 2013 had included expenses of €104 million from the long-term incentive (LTI) program. This was due to the increased BASF share price at the end of the previous year. In 2014, an expense of €25 million was recognized for newly issued LTI options at the end of the year.

Losses from the disposal of fixed assets and divestitures in 2014 arose predominantly from impairments in the amount of €9 million in connection with the disposal of the Brattvåg site in Norway in the Nutrition & Health division. In 2013, there had mostly been losses from divestitures in the Construction Chemicals division in the amount of €14 million.

Expenses from the addition of valuation allowances for business-related receivables increased in comparison with the previous year by €14 million. This was mainly due to higher additions in Brazil compared with the previous year.

Expenses from the use of inventory measured at market value and the derecognition of obsolete inventory had been attributable in the previous year to the use of €63 million in inventory measured at fair value in the acquisition of Pronova BioPharma ASA and Becker Underwood.

Other expenses concerned strike-related expenses in connection with the construction of the acrylic acid production complex in Camaçari, Brazil in the amount of €16 million. Further expenses arose from the implementation of further projects, from REACH, and from the provision of services.

9 – Income from companies accounted for using the equity method

Million €	2014	2013
Proportional net income	283	301
Thereof joint ventures	87	89
associated companies	196	212
Other adjustments of income and expense	(10)	–
Thereof joint ventures	(19)	(8)
associated companies	9	8
Income from companies accounted for using the equity method	273	301

The largest portion of income from companies accounted for using the equity method pertained to the Oil & Gas segment, mostly from: GASCADE Gastransport GmbH, Kassel, Germany, which was reclassified as an associated company on December 31, 2013; Nord Stream AG, Zug, Switzerland; and, OAO Severneftegazprom, Krasnoselkup, Russia. Shareholdings in Styrolution Holding GmbH, Frankfurt am Main, Germany, BASF SONATRACH Propanchem S.A., Tarragona, Spain, and Heesung Catalysts Corporation, Seoul, South Korea, also contributed significantly to income.

Compared with the previous year, income from companies accounted for using the equity method decreased mainly due to the absence of contributions to income from the onshore production in Libya, which had been suspended to a large extent since July 2013. In addition, currency effects relating to OAO Severneftegazprom as well as declining margins at BASF-YPC Company Ltd., Nanjing, China, had a negative effect.

10 – Financial result

Million €	2014	2013
Dividends and similar income	52	44
Income from the disposal of shareholdings	245	20
Income from profit transfer agreements	5	8
Income from tax allocation to participating interests	1	2
Income from other shareholdings	303	74
Losses from loss transfer agreements	(9)	(18)
Write-downs on/losses from the sale of shareholdings	(16)	(52)
Expenses from other shareholdings	(25)	(70)
Interest income from cash and cash equivalents	178	140
Interest and dividend income from securities and loans	29	20
Interest income	207	160
Interest expenses	(711)	(688)
Net interest income from overfunded pensions and similar obligations	2	2
Income from the capitalization of borrowing costs	156	108
Miscellaneous financial income	–	128
Other financial income	158	238
Write-downs on/losses from the disposal of securities and loans	(2)	(4)
Net interest expenses from underfunded pensions and similar obligations	(151)	(192)
Net interest expense from other long-term personnel obligations	(22)	(8)
Interest compounding on other noncurrent liabilities	(75)	(70)
Miscellaneous financial expenses	(105)	–
Other financial expenses	(355)	(274)
Financial result	(423)	(560)

Compared with the previous year, **income from the disposal of shareholdings** increased particularly due to income in the amount of €220 million from the disposal of the 15.79% share in VNG – Verbundnetz Gas AG, Leipzig, Germany.

The interest result improved by €24 million compared with the previous year. This was primarily attributable to higher interest income from interest and currency swaps to achieve a variable rate of interest on financial indebtedness. This was in part offset by the increase in **interest expenses** arising from bank loans.

Net interest expense from underfunded pension plans and similar obligations declined compared with the previous year, mainly as a result of the lower defined benefit obligation as of December 31, 2013.

Compared with the previous year, **income from the capitalization of borrowing costs** increased as a result of investment projects, such as the construction of the TDI plant in Ludwigshafen, Germany, the production complex for acrylic acid and superabsorbents in Camaçari, Brazil, the MDI plant in Chongqing, China, as well as oil and gas production facilities.

Miscellaneous financial expenses in 2014 predominantly included hedging costs from the hedging of loans denominated in U.S. dollars, as well as expenses from the market valuation of options for the disposal of BASF's share in the Styrolution joint venture, which amounted to €42 million.

Miscellaneous financial income in 2013 included effects from the market valuation of options for the disposal of BASF's share in the Styrolution joint venture amounting to €119 million.

11 – Income taxes

Million €	2014	2013
Corporate income tax, solidarity surcharge and trade taxes (Germany)	528	339
Foreign income tax	1,244	1,139
Taxes for prior years	(127)	(65)
Current tax expense	1,645	1,413
Deferred tax expense (+)/income (-)	66	74
Income taxes	1,711	1,487
Other taxes as well as sales and consumption taxes	266	342
Tax expense	1,977	1,829

Income before taxes and minority interests totaled €7,203 million (2013: €6,600 million). Of this amount, €1,797 million was attributable to Germany (2013: €1,860 million) and €5,406 million to foreign countries (2013: €4,740 million).

In Germany, a uniform corporate income tax rate of 15.0% as well as a solidarity surcharge of 5.5% thereon is levied on all paid out and retained earnings. In addition to corporate income tax, income generated in Germany is subject to a trade tax that varies depending on the municipality in which the company is represented. In 2014, the weighted average tax rate amounted to 13.4% (2013: 13.3%). Due to an increase in the rate of assessment for Ludwigshafen, the weighted average trade tax rate increased to 14% starting in 2015.

As a result, deferred taxes for German Group companies were calculated using a 30% rate (2013: 29%).

The profits of foreign Group companies are assessed using the tax rates applicable in their respective countries.

Deferred taxes in foreign countries were calculated using the tax rates applicable in the country in which they are based. These rates averaged 32.6% in 2014 and 30.8% in 2013.

Other taxes included real estate taxes and other comparable taxes of €96 million in 2014 and €99 million in 2013 and are allocated to functional costs.

Changes in valuation allowances for deferred tax assets for tax loss carryforwards resulted in income of €3 million in 2014 and €6 million in 2013.

Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2014		2013	
	Million €	%	Million €	%
Income before taxes and minority interests	7,203	-	6,600	-
Expected tax based on German corporate income tax (15%)	1,080	15.0	990	15.0
Solidarity surcharge	11	0.2	8	0.1
German trade tax	217	3.0	182	2.7
Foreign tax-rate differential	920	12.8	718	10.9
Tax-exempt income	(354)	(4.9)	(258)	(3.9)
Non-deductible expenses	111	1.5	90	1.4
Income after taxes of companies accounted for using the equity method	(45)	(0.6)	(45)	(0.7)
Taxes for prior years	(127)	(1.8)	(65)	(1.0)
Deferred tax liabilities for the future reversal of temporary differences associated with shares in participating interests	(7)	(0.1)	(16)	(0.2)
Other	(95)	(1.3)	(117)	(1.8)
Income taxes / effective tax rate	1,711	23.8	1,487	22.5

For planned dividend distributions of Group companies and planned disposals, the resulting future income taxes and withholding taxes are recognized as deferred tax liabilities as long as they are expected to lead to a reversal of temporary differences. A planning horizon of one year was assumed for planned dividend distributions. A decrease in planned dividend distributions led to deferred tax income of €7 million in 2014 (2013: €16 million).

The increase in the average trade tax rate in Germany resulted in a deferred tax expense of €37 million. Increases to the Group tax rate due to improved earnings in highly taxed countries, especially Norway, were partly offset by largely

tax-exempt income in connection with the disposal of investments, especially the share in Styrolution and VNG – Verbundnetz Gas AG, as well as the sale of oil and gas fields in the North Sea to the MOL Group. Reversals of tax obligations from prior years also contributed to a reduction of the Group tax rate. In 2013, the disposal of shares in the Edvard Grieg development project as well as income from loss of control over GASCADE Gastransport GmbH did not result in tax expenses.

Deferred tax assets and liabilities (in million €)

	Deferred tax assets		Deferred tax liabilities	
	2014	2013	2014	2013
Intangible assets	119	128	1,747	1,806
Property, plant and equipment	199	224	3,195	2,415
Financial assets	24	13	87	70
Inventories and accounts receivable	294	263	766	614
Provisions for pensions	2,687	1,577	487	463
Other provisions and liabilities	1,574	1,164	152	129
Tax loss carryforwards	388	423	–	–
Other	155	204	146	244
Netting	(3,160)	(2,847)	(3,160)	(2,847)
Valuation allowances for deferred tax assets	(87)	(143)	–	–
Thereof for tax loss carryforwards	(40)	(48)	–	–
Total	2,193	1,006	3,420	2,894
Thereof current	597	440	346	290

Deferred taxes result from temporary differences between tax balances and the measurement of assets and liabilities according to IFRS as well as from tax loss carryforwards and unused tax credits. The remeasurement of all the assets and liabilities associated with acquisitions according to IFRS 3 has resulted in significant deviations between fair values and the values in the tax accounts. This leads primarily to deferred tax liabilities.

Deferred tax assets were offset against deferred tax liabilities of the same maturity if they were related to the same taxation authority.

Undistributed earnings of subsidiaries resulted in temporary differences of €7,472 million in 2014 (2013: €7,985 million) for which deferred tax liabilities were not recognized, as they are either not subject to taxation on payout or they are expected to be reinvested for indefinite periods of time.

The regional distribution of tax loss carryforwards is as follows:

Tax loss carryforwards (in million €)

	Tax loss carryforwards		Deferred tax assets	
	2014	2013	2014	2013
Germany	1	1	–	–
Foreign	2,302	2,379	348	375
Total	2,303	2,380	348	375

Tax loss carryforwards relate primarily to the regions Europe, Asia and North America. German tax losses may be carried forward indefinitely. In foreign countries, use of carryforwards is limited. The bulk of the tax loss carryforwards will expire in Europe by 2018, in Asia by 2019 and in North America by 2032. Valuation allowances on deferred tax assets were reversed for tax loss carryforwards of €14 million (2013: €14 million). No deferred tax assets were recognized for tax loss carryforwards of €1,441 million (2013: €1,350 million).

Tax obligations primarily include assessed income taxes and other taxes as well as estimated income taxes not yet assessed for the current year. Tax obligations amounted to €1,079 million in 2014 (2013: €968 million).

12 – Minority interests

Million €	2014	2013
Minority interests in profits	374	323
Minority interests in losses	(37)	(2)
Total	337	321

Higher minority interests in profits primarily arose from BASF TOTAL Petrochemicals LLC, Port Arthur, Texas, as a result of the startup of the tenth furnace at its steam cracker facility in Port Arthur, Texas, in March 2014, as well as a higher capacity utilization rate for the condensation splitter.

Following positive contributions to income in the previous year, there were minority interests in losses at BASF India Limited, Mumbai, India, in 2014 mostly due to the costs incurred in relation to the construction of the Dahej site in India that could not be capitalized. The write down on intangible assets due to impairment testing at BASF HOCK Mining Chemical (China) Co. Ltd., Ji'ning, Shandong, China, also led to minority interests in losses.

 For more information on minority interests in consolidated companies, see Note 21 on page 199

13 – Personnel expenses and employees

Personnel expenses

Personnel expenses decreased by 0.7%, from €9,285 million in 2013 to €9,224 million in 2014. This was largely due to income from the reversal of provisions for the long-term incentive program and currency effects. Offsetting these effects were the higher number of employees as well as wage and salary increases.

Personnel expenses (in million €)

	2014	2013
Wages and salaries	7,380	7,455
Social security contributions and expenses for pensions and assistance	1,844	1,830
Thereof for pension benefits	560	579
Personnel expenses	9,224	9,285

Number of employees

The number of employees was 113,292 on December 31, 2014 and 112,206 employees on December 31, 2013.

The average number of employees was distributed over the regions as follows:

Average number of employees

	2014	2013
Europe	71,128	71,000
Thereof Germany	52,726	52,568
North America	16,980	16,838
Asia Pacific	16,885	16,533
South America, Africa, Middle East	7,651	7,473
BASF Group	112,644	111,844
Thereof apprentices and trainees	2,884	2,639
temporary staff	2,596	2,617

Employees from joint operations are included in the average number of employees relative to BASF's share in the company. On average 376 employees worked for joint operations in 2014 (2013: 344 employees).

14 – Intangible assets

The **goodwill** of BASF is allocated to 23 cash-generating units (2013: 27) which are defined either on the basis of business units or on a higher level.

The annual impairment testing took place in the fourth quarter of the year on the basis of the cash-generating units. The recoverable amount was determined using the value in use. This was done in general using five-year plans and their respective cash flows which had been approved by company

management. For the time period after the fifth year, a terminal value is calculated using a forward projection from the last detailed planning year as a perpetual annuity. In accordance with IAS 36, the applied growth rates do not factor in capacity-increasing investments for which no cash outflows have taken place. The planning is based on experience, current performance and management's best possible estimates on the future development of individual parameters,

such as raw material prices and profit margins. Market assumptions regarding, for example, economic development and market growth are included based on external macro-economic sources as well as sources specific to the industry.

The weighted average cost of capital rate after tax required for impairment testing is determined using the Capital Asset Pricing Model. It comprises a risk-free rate, a market risk premium as well as the spread for credit risk usual in the industry, determined, for the first time in 2014, on the basis of peer groups. The calculation also takes into account the usual capital structure and the beta factor common in the industry as well as the average tax rate of each cash-generating unit. Impairment tests were conducted assuming a weighted average cost of capital rate after tax between 6.60% and 7.76% (2013: 7.47% and 7.57%). This is equivalent to weighted average costs before tax of between 8.19% and 10.3% (2013: 9.31% and 11.27%). For the cash-generating unit Exploration & Production in the Oil & Gas segment, a cost of capital rate after tax of 9.46% was applied (2013: 8.83%), or before tax of 17.72% (2013: 17.39%), taking country-specific risks into account.

In determining the value in use for the majority of cash-generating units, BASF generally anticipates that a reasonably possible deviation from the key assumptions will not lead to the carrying amount of the units exceeding their respective recoverable amounts. The goodwill of the Construction Chemicals division, which arose in connection with the acquisition of Degussa Bauchemie in the 2006 financial year, is excluded from this. In the 2014 financial year, the recoverable amount of Construction Chemicals exceeded the carrying amount by around €195 million. Earnings in the Construction Chemicals division were influenced by the growth of the construction industry. The weighted average cost of capital rate used for the impairment testing of Construction Chemicals was 7.76% (2013: 7.52%). The recoverable value of the Construction Chemicals unit would equal the book value if the cost of capital rate increased by 0.5 percentage points or income from operations of the last detailed planning year, as the basis for the terminal value, were lower by 9.10%.

The impairment tests resulted in no impairment losses on goodwill in 2014, as in the previous year.

Goodwill of cash-generating units (in million €)

Cash-generating unit	2014		2013	
	Goodwill	Growth rate ¹	Goodwill	Growth rate ¹
Crop Protection division	1,931	2.0%	1,796	2.0%
Exploration & Production in the Oil & Gas segment	1,765	(2.0%)	1,023	(2.0%)
Catalysts division (excluding battery materials)	1,360	2.0%	1,223	2.0%
Construction Chemicals division	675	1.5%	642	1.5%
Personal care ingredients in the Care Chemicals division	516	2.0%	473	2.0%
Pigments in the Dispersions & Pigments division	450	2.0%	352	2.0%
Other cash-generating units	1,444	0.0–2.0%	1,427	0.0–2.0%
Goodwill as of December 31	8,141		6,936	

¹ Growth rates of impairment tests to determine terminal values in accordance with IAS 36

Development of intangible assets 2014 (in million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technologies	Internally generated intangible assets	Other rights and values ¹	Goodwill	Total
Cost							
Balance as of January 1, 2014	4,201	1,366	1,984	77	856	6,936	15,420
Changes in scope of consolidation	–	–	15	–	–	–	15
Additions	1	29	38	12	104	–	184
Additions from acquisitions	–	109	–	–	–	623	732
Disposals	(73)	(153)	(82)	(4)	(128)	(28)	(468)
Transfers	247	1	(12)	–	(192)	–	44
Exchange differences	(362)	58	57	1	34	610	398
Balance as of December 31, 2014	4,014	1,410	2,000	86	674	8,141	16,325
Accumulated amortization							
Balance as of January 1, 2014	1,664	429	695	43	265	–	3,096
Changes in scope of consolidation	–	–	15	–	–	–	15
Additions	338	55	158	20	76	–	647
Disposals	(73)	(109)	(82)	(4)	(106)	–	(374)
Transfers	15	–	–	–	(20)	–	(5)
Exchange differences	(65)	4	23	–	17	–	(21)
Balance as of December 31, 2014	1,879	379	809	59	232	–	3,358
Net carrying amount as of December 31, 2014	2,135	1,031	1,191	27	442	8,141	12,967

¹ Including licenses to such rights and values

Besides goodwill, **intangible assets** include acquired intangible assets as well as internally generated intangible assets.

In connection with the acquisition of assets from Statoil ASA, there were additions of €704 million to intangible assets in 2014. Of this amount, €121 million pertained to exploration rights and licenses and €583 million to goodwill.

Concessions for oil and gas production under the category product rights, licenses and trademarks with a net carrying amount of €579 million in 2014 (2013: €457 million) authorize the exploration and production of oil and gas in certain areas. Some of these rights entail obligations to deliver a portion of the production output to local companies. At the end of the term of a concession, the rights are returned.

In **other rights and values**, the line item transfers includes additions and market value adjustments of emission rights recognized directly in equity as of the balance sheet date.

Disposals were largely attributable to the sale of selected oil and gas investments in the North Sea to the Hungarian MOL Group.

Impairments of €56 million were recognized in 2014. Due to the weak development of the coal mining business in China, impairments of €40 million relating to distribution, supply and similar rights were recognized in the Construction Chemicals division. The recoverable amount equals the value in use amounting to €10 million. It was determined using a weighted average cost of capital before taxes of 11.02%.

Transfers included a write-up of €5 million in 2014.

Development of intangible assets 2013 (in million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technologies	Internally generated intangible assets	Other rights and values ¹	Goodwill	Total
Cost							
Balance as of January 1, 2013	4,438	1,416	1,892	92	731	6,448	15,017
Changes in scope of consolidation	1	3	–	–	1	3	8
Additions	–	5	18	14	103	–	140
Additions from acquisitions	33	52	198	–	88	787	1,158
Disposals	(46)	(104)	(71)	(31)	(48)	(18)	(318)
Transfers	–	–	(2)	3	10	3	14
Exchange differences	(225)	(6)	(51)	(1)	(29)	(287)	(599)
Balance as of December 31, 2013	4,201	1,366	1,984	77	856	6,936	15,420
Accumulated amortization							
Balance as of January 1, 2013	1,424	399	614	55	241	–	2,733
Changes in scope of consolidation	1	1	–	–	1	–	3
Additions	308	67	166	19	81	–	641
Disposals	(41)	(38)	(71)	(31)	(45)	–	(226)
Transfers	–	–	–	–	(4)	–	(4)
Exchange differences	(28)	–	(14)	–	(9)	–	(51)
Balance as of December 31, 2013	1,664	429	695	43	265	–	3,096
Net carrying amount as of December 31, 2013	2,537	937	1,289	34	591	6,936	12,324

¹ Including licenses to such rights and values

There were additions of €412 million to intangible assets in 2013 in connection with the acquisition of Pronova BioPharma ASA. Of this amount, among other things, €164 million pertained to technologies, €141 million to goodwill and €83 million to other rights and values.

The transaction with Statoil ASA resulted in additions of €675 million to intangible assets, €643 million of which to goodwill and the remaining amount to other rights and values. The disposal of a 15% share of the Edvard Grieg development field reduced intangible assets by €70 million, of which €8 million represented a pro-rata share of goodwill.

In connection with the acquisition of Verenum, there were additions of €20 million to intangible assets in 2013, of which €4 million were to goodwill.

In **other rights and values**, the line item transfers includes additions and market value adjustments of emission rights recognized directly in equity as of the balance sheet date.

Disposals were primarily caused by the derecognition of fully amortized intangible assets.

Impairments of €25 million were recognized in 2013, primarily related to licenses in the Oil & Gas segment and customer relations in the Performance Products segment. The recoverable amount was determined using the value in use. Impairments are reported under other operating expenses.

There were no material reversals of impairments in 2013.

15 – Property, plant and equipment

Development of property, plant and equipment 2014 (in million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Construction in progress	Total
Cost					
Balance as of January 1, 2014	8,735	39,697	3,295	5,463	57,190
Changes in scope of consolidation	1	11	3	–	15
Additions	355	1,280	240	3,493	5,368
Additions from acquisitions	–	424	–	577	1,001
Disposals	(109)	(1,063)	(141)	(173)	(1,486)
Transfers	320	1,517	176	(2,003)	10
Exchange differences	333	1,544	115	324	2,316
Balance as of December 31, 2014	9,635	43,410	3,688	7,681	64,414
Accumulated depreciation					
Balance as of January 1, 2014	5,091	30,112	2,558	200	37,961
Changes in scope of consolidation	2	8	2	–	12
Additions	261	2,176	229	104	2,770
Disposals	(93)	(939)	(136)	(22)	(1,190)
Transfers	–	(38)	42	4	8
Exchange differences	130	1,144	79	4	1,357
Balance as of December 31, 2014	5,391	32,463	2,774	290	40,918
Net carrying amount as of December 31, 2014	4,244	10,947	914	7,391	23,496

Additions to property, plant and equipment from investment projects in 2014 amounted to €5,368 million. Significant investments were particularly related to the construction of a TDI plant in Ludwigshafen, Germany; a production complex for acrylic acid and superabsorbents in Camaçari, Brazil; an MDI plant in Chongqing, China; and oil and gas production facilities and wells in Europe and South America. Investments for expansion purposes were particularly made at the sites in Ludwigshafen, Germany; Antwerp, Belgium; Geismar, Louisiana; and Freeport, Texas. Property, plant and equipment rose by €1,001 million primarily from the acquisitions of the assets from Statoil ASA, Stavanger, Norway.

In 2014, the impairments of €298 million recognized under accumulated depreciation primarily concerned the Oil & Gas segment. They mainly arose from the complete write-down of property, plant and equipment due to projects for the development of a gas field in Qatar in the amount of €81 million as well as an oilfield in the United Kingdom in the amount

of €44 million. Furthermore, write-downs relating to oil and gas fields in Norway and Germany of €94 million were recognized. The oil and gas fields were written down to their recoverable value amounting to €554 million. The recoverable values for the individual oil and gas fields were calculated using a weighted average cost of capital rate before taxes, which ranged between 8.46% and 73.56%. The high capital cost rates are due to the separate income tax for the oil and gas industry in Norway. A plant in the Chemicals segment was written down to its recoverable amount of €31 million, requiring the recognition of an impairment in the amount of €27 million. The weighted average cost of capital rate before taxes used was 9.38%. The recoverable amount for impairments was determined using the value in use.

Disposals of property, plant and equipment were largely attributable to the sale of selected oil and gas investments in the North Sea to the Hungarian MOL Group.

In 2014, transfers included a write-up of €3 million.

Development of property, plant and equipment 2013 (in million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Construction in progress	Total
Cost					
Balance as of January 1, 2013	8,730	40,924	3,254	3,619	56,527
Changes in scope of consolidation	–	1	1	–	2
Additions	221	954	194	3,548	4,917
Additions from acquisitions	75	1,426	4	6	1,511
Disposals	(187)	(779)	(157)	(151)	(1,274)
Transfers	122	(2,179)	54	(1,430)	(3,433)
Exchange differences	(226)	(650)	(55)	(129)	(1,060)
Balance as of December 31, 2013	8,735	39,697	3,295	5,463	57,190
Accumulated depreciation					
Balance as of January 1, 2013	5,081	31,208	2,567	164	39,020
Changes in scope of consolidation	–	–	1	–	1
Additions	278	2,081	208	64	2,631
Disposals	(144)	(755)	(138)	(23)	(1,060)
Transfers	(26)	(1,947)	(38)	(5)	(2,016)
Exchange differences	(98)	(475)	(42)	–	(615)
Balance as of December 31, 2013	5,091	30,112	2,558	200	37,961
Net carrying amount as of December 31, 2013	3,644	9,585	737	5,263	19,229

Additions to property, plant and equipment from investment projects in 2013 amounted to €4,917 million. Significant investments were particularly related to the construction of a TDI plant in Ludwigshafen, Germany; an MDI plant in Chongqing, China; a production complex for acrylic acid and superabsorbents in Camaçari, Brazil; and oil and gas production facilities and wells in Europe. Investments for expansion purposes were particularly made at the sites in Ludwigshafen, Germany; Antwerp, Belgium; Geismar, Louisiana; and Port Arthur, Texas. Property, plant and equipment rose by €1,511 million on account of acquisitions; €1,204 million came from the acquisition of assets from Statoil ASA, Stavanger, Norway, and €288 million from the acquisition of Pronova BioPharma ASA, Lysaker, Norway.

Impairments of €213 million under accumulated depreciation in 2013 resulted mostly from a fully impaired plant in the Chemicals segment, as well as from a gas field development project in the Oil & Gas segment that was impaired based on a recoverable amount of €82 million. The recoverable amount for both impairments was determined using the value in use.

Transfers of property, plant and equipment amounting to €1,382 million, mainly machinery and technical equipment, concerned the Oil & Gas segment. This was due to the reclassification of GASCADE Gastransport GmbH, Kassel, Germany, from a fully consolidated company to a company accounted for using the equity method, as well as to the transfer of assets from a fully consolidated company to a company accounted for using the equity method.

In 2013, transfers included a write-up of €1 million.

16 – Investments accounted for using the equity method and other financial assets

Investments accounted for using the equity method (in million €)

	2014	2013
Balance as of January 1	4,174	3,502
Changes in scope of consolidation	16	–
Additions	40	103
Disposals	(781)	(6)
Transfers	(92)	709
Exchange differences	(87)	(134)
Balance as of December 31	3,270	4,174
Accumulated valuation allowances	(25)	–
Net carrying amount as of December 31	3,245	4,174

Other financial assets (in million €)

	December 31, 2014	December 31, 2013
Other shareholdings	462	611
Long-term securities	78	32
Other financial assets	540	643

The first-time consolidation of BASF MPCC Company Limited, Guangdong Province, China, and BASF Markor Chemical Manufacturing (Xinjiang) Co. Ltd., Korla, China, as well as a capital increase in BASF Huntsman Shanghai Isocyanate Investment B.V., Arnheim, Netherlands, led to additions of €40 million. Disposals of €781 million primarily resulted from the sale of BASF's share in Styrolution Holding GmbH to the INEOS Group. Transfers included the income of investments accounted for using the equity method and dividend distributions. Of the transfers in 2013, €631 million was attributable to the fair value measurement of GASCADE Gastransport GmbH, Kassel, Germany, which was accounted for using the equity method for the first time. At two investments accounted for using the equity method, the equity-accounted carrying amount was impaired by €25 million in 2014.

 For a detailed overview of the divestiture of Styrolution Holding GmbH to the INEOS Group, see Note 2.4 on page 177

For a detailed overview of income from companies accounted for using the equity method, see Note 9 on page 185

Divestitures of BASF's 15% share in South Stream Transport B.V., Amsterdam, Netherlands, to Gazprom Germania GmbH, Frankfurt am Main, Germany, on December 29, 2014, and the 15.79% share in VNG – Verbundnetz Gas AG, Leipzig, Germany, to EWE Aktiengesellschaft, Oldenburg, Germany, on October 27, 2014, led to a decrease in other shareholdings. Furthermore, valuation allowances for other shareholdings of €14 million were made in 2014 (2013: €41 million).

17 – Inventories

Million €	December 31, 2014	December 31, 2013
Raw materials and factory supplies	2,814	2,573
Work-in-process, finished goods and merchandise	8,358	7,479
Advance payments and services-in-process	94	108
Inventories	11,266	10,160

Work-in-process, finished goods and merchandise are combined into one item due to the production conditions in the chemical industry. Services-in-process primarily relate to services not invoiced as of the balance sheet date.

Inventories are valued using the weighted average cost method. Impairments are reversed if the reasons for the impairments no longer apply.

Cost of sales included inventories recognized as an expense amounting to €43,841 million in 2014, and €43,982 million in 2013.

In 2014, a write-up of inventory in the amount of €2 million was recognized, whereas in 2013, an expense arising from valuation allowances amounted to €16 million.

Of the total inventory in 2014, €1,320 million was valued at net realizable value (2013: €1,173 million). In alignment with harmonization measures relating to the subsequent measurement of inventory in the BASF Group, the amount of inventory measured at net realizable value was reassessed.

18 – Receivables and miscellaneous assets

Other receivables and other assets (in million €)

	December 31, 2014		December 31, 2013	
	noncurrent	current	noncurrent	current
Loans and interest receivables	855	173	315	765
Derivatives with positive fair values	177	656	90	329
Receivables from finance leases	39	4	29	–
Insurance compensation received	–	10	–	11
Other	88	839	154	501
Other receivables and assets which qualify as financial instruments	1,159	1,682	588	1,606
Prepaid expenses	49	238	49	204
Defined benefit assets	91	–	47	–
Tax refund claims	62	831	34	676
Employee receivables	11	29	15	53
Precious metal trading items	–	933	–	875
Other	126	319	144	300
Other receivables and assets which do not qualify as financial instruments	339	2,350	289	2,108
Other receivables and assets	1,498	4,032	877	3,714

The decrease in current **loans and interest receivables** was primarily due to the repayment of loans granted by W & G Beteiligungs-GmbH & Co. KG, Kassel, Germany, to NEL Gastransport GmbH, Kassel, Germany, and GASCADE Gastransport GmbH, Kassel, Germany, in the amount of €628 million. The issuance of new, noncurrent loans amounting to €697 million by WIGA Transport Beteiligungs-GmbH & Co. KG, Kassel, Germany, to NEL Gastransport GmbH and GASCADE Gastransport GmbH led to a corresponding increase in noncurrent loans and interest receivables.

The increase in **derivatives with positive fair values** is attributable to the increased fair value of commodity and currency derivatives.

In 2014, **prepaid expenses** included prepayments for operating expenses of €58 million (2013: €72 million) as well as prepayments for insurance premiums of €31 million (2013: €25 million).

The increase in other receivables from **tax refund claims** is largely due to the higher corporate income tax receivables of BASF SE and to foreign income tax receivables arising from a tax agreement between Germany and the Netherlands.

Precious metal trading items primarily comprise physical items and precious metal accounts as well as long positions in precious metals, which are largely hedged through sales or derivatives. The increase in precious metal trading items was primarily attributable to an increased amount of such items.

In **other receivables which qualify as financial instruments**, financial receivables such as receivables from the sale of assets are reported. The increase in 2014 was particularly due to the sale of BASF's share in Styrolution to INEOS.

The item **other receivables and assets which do not qualify as financial instruments** remained at the prior year's level.

Valuation allowances for doubtful receivables 2014 (in million €)

	Balance as of January 1, 2014	Additions recognized in income	Reversals recognized in income	Additions not recognized in income	Reversals not recognized in income	Balance as of December 31, 2014
Accounts receivable, trade	326	86	47	24	52	337
Other receivables	101	1	1	25	18	108
Total	427	87	48	49	70	445

Valuation allowances for doubtful receivables 2013 (in million €)

	Balance as of January 1, 2013	Additions recognized in income	Reversals recognized in income	Additions not recognized in income	Reversals not recognized in income	Balance as of December 31, 2013
Accounts receivable, trade	340	72	39	24	71	326
Other receivables	100	1	5	28	23	101
Total	440	73	44	52	94	427

A portion of receivables is covered by credit insurance.

The changes recognized in income contained individual valuation allowances, group-wise individual valuation allowances and valuation allowances due to transfer risks.

The changes not recognized in income were primarily related to changes in the scope of consolidation, translation adjustments and derecognition of uncollectible receivables.

Even in the current economic environment, BASF does not note any material changes in the credit quality of its receivables. In 2014, after being individually assessed for impairment, valuation allowances of €65 million were recognized for trade accounts receivable and €23 million were reversed. For other receivables, individual valuation allowances recognized in the income statement were added in the amount of €1 million and reversed in the amount of €1 million.

In 2013, after being individually assessed for impairment, valuation allowances of €50 million were recognized for trade accounts receivable and €18 million were reversed. For other receivables, individual valuation allowances recognized in the income statement were added in the amount of €1 million and reversed in the amount of €5 million. Contractual conditions of receivables were not renegotiated to any major extent in 2014 and 2013.

Overdue trade accounts receivable which have not been individually assessed for impairment were included in credit insurance policies in the amount of €136 million on December 31, 2014 (December 31, 2013: €148 million).

Aging analysis of trade accounts receivable (in million €)

	December 31, 2014		December 31, 2013	
	Gross value	Valuation allowances	Gross value	Valuation allowances
Not yet due	9,465	29	9,381	28
Past due less than 30 days	697	4	630	1
Past due between 30 and 89 days	136	3	132	8
Past due more than 90 days	424	301	416	289
Total	10,722	337	10,559	326

As of December 31, 2014, there were no material other receivables classified as financial instruments that were overdue and for which no valuation allowance was made.

19 – Capital, reserves and retained earnings

Authorized capital

At the Annual Shareholders' Meeting on May 2, 2014, shareholders authorized the Board of Executive Directors, with the approval of the Supervisory Board, to increase the subscribed capital by issuing new registered shares up to a total of €500 million against cash or contributions in kind through May 1, 2019. The Board of Executive Directors is empowered, following the approval of the Supervisory Board, to decide on the exclusion of shareholders' subscription rights for these new shares in certain predefined cases covered by the enabling resolution. Until now, this option has not been exercised and no new shares have been issued.

BASF SE has only issued fully paid-up registered shares with no par value. There are no preferences or other restrictions. BASF SE does not hold any treasury shares.

Reserves and retained earnings

Capital surplus includes effects from BASF's share program, premiums from capital increases and consideration for warrants and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for the issue of BASF SE shares at par value.

Million €	Dec. 31, 2014	Dec. 31, 2013
Legal reserves	534	488
Other retained earnings	28,243	25,614
Retained earnings	28,777	26,102

Transfers from other retained earnings increased legal reserves by €46 million in 2014 (2013: €57 million).

The acquisition of shares in companies which BASF already controls or includes as a joint arrangement in the Consolidated Financial Statements is treated as a transaction between shareholders, as long as this does not lead to a change in the consolidation method. There were no transactions of this type in 2014, as in the previous year.

Payment of dividends

In accordance with the resolution of the Annual Meeting on May 2, 2014, BASF SE paid a dividend of €2.70 per share from the retained profit of the 2013 fiscal year. With 918,478,694 shares entitled to dividends, this amounts to a total dividend payout of €2,479,892,473.80.

20 – Other comprehensive income

Other comprehensive income

The income and expenses shown in other comprehensive income are divided into two categories. Items that will be recognized in the income statement in the future (known as "recycling") and those that will not. The first category includes translation adjustments, the measurement of securities at fair value, and changes in the fair value of derivatives held to hedge future cash flows and net investments in a foreign operation. Items in other comprehensive income that will not be reclassified to the income statement in the future include effects from the remeasurement of defined benefit plans and the remeasurement of assets and liabilities due to acquisition of a majority interest.

Translation adjustments

The translation adjustments due to the use of the closing rate method are shown under currency translation adjustments as a component of other comprehensive income in equity (translation adjustments) and are recognized in the income statement only upon the disposal of a company.

Measurement of securities at fair value

For fully and proportionally consolidated companies, as well as those companies which are accounted for using the equity method, changes in value of available-for-sale securities in excess of their acquisition costs are accounted for in other comprehensive income, without impacting the income statement, until the securities are disposed of. Upon disposal, the changes accumulated in other comprehensive income are recognized in the income statement.

Cash flow hedges

Derivatives are used to hedge future cash flows. The effective portion of the change in value of these derivatives is recognized in equity. This also comprises equity effects from the hedging of future cash flows at companies accounted for using the equity method.

The significant decline in the hedging of future cash flows in 2014 was primarily a result of the increase in the negative market valuation of commodity derivatives at WINGAS GmbH.

 For more information on cash flow hedge accounting, see Note 27.4 on page 216

Hedging future cash flows at Nord Stream AG, Zug, Switzerland, a company accounted for using the equity method, resulted in a change of minus €29 million in 2014 and of €30 million in 2013.

Hedges of net investments in foreign operations

Hedge accounting can be used to hedge the translation risk from the net investment in a foreign operation. Effects recorded in equity are recognized in the income statement upon sale of the operation or return of the investment.

Remeasurement of defined benefit plans

Actuarial gains and losses from changed estimations with regard to actuarial assumptions used for calculating defined pension obligations, as well as the difference between standardized and actual returns on plan assets, are recognized directly in equity as other comprehensive income.

Remeasurement due to acquisition of majority of shares

Until 2008, effects from the revaluation of net assets were recorded in equity when they arose due to the acquisition of a majority of shares in a previously proportionally consolidated company. Additional depreciation of these revalued assets led to a reversal of the corresponding item directly in equity until 2013.

21 – Minority interests

Group company	Partner	December 31, 2014		December 31, 2013	
		Equity stake		Equity stake	
		%	Million €	%	Million €
W & G Beteiligungs-GmbH & Co. KG, WINGAS GmbH, WINGAS Holding GmbH, W & G Transport Holding GmbH, WIGA Transport Beteiligungs-GmbH & Co. KG, WINGAS UK Limited	Gazprom Group, Moscow, Russia	49.98	(43)	49.98	76
BASF India Ltd., Mumbai, India	Shares are publicly traded	26.67	36	26.67	37
BASF PETRONAS Chemicals Sdn. Bhd., Shah Alam, Malaysia	PETRONAS (Petroleum Nasional Bhd.), Kuala Lumpur, Malaysia	40.00	149	40.00	108
BASF TOTAL Petrochemicals LLC, Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.00	237	40.00	214
Shanghai BASF Polyurethane Company Ltd., Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China, and Sinopec Shanghai GaoQiao Petrochemical Corporation, Shanghai, China	30.00	71	30.00	81
Other			131		114
Total			581		630

The decrease in minority interest in the companies operated with Gazprom particularly arose from the effects of the lower market valuation of commodity derivatives at WINGAS GmbH reported under other comprehensive income.

22 – Provisions for pensions and similar obligations

In addition to state pension plans, most employees are granted company pension benefits from either defined contribution or defined benefit plans. Benefits generally depend on years of service, employee contributions or compensation, and take into consideration the legal framework of labor, tax and social security laws of the countries where the companies are located. To limit the risks of changing financial market conditions as well as demographic developments, employees have been almost exclusively offered defined contribution plans for future years of service in recent years.

The Group Pension Committee monitors the risks of all pension plans of the Group. In this connection, it issues guidelines regarding the governance and risk management of pensions plans, particularly with regard to the funding of the pension plans and the portfolio structure of the existing plan assets. The organization, responsibilities, strategy, implementation and reporting requirements are documented for the specialist units involved.

Economic and legal environment

In some countries – especially in Germany, the United Kingdom, the Netherlands, Switzerland and Belgium – there are pension obligations subject to a governmental supervisory authority or similar legal restrictions. For example, there are minimum funding requirements to cover pension obligations, which are based on actuarial assumptions that may differ from those in IAS 19. Furthermore, there are restrictions in qualitative and quantitative terms for the investment in different asset categories. This could result in fluctuating employer contributions, financing requirements and the assumption of obligations in favor of the pension funds to comply with the regulatory requirements.

The obligations and the plan assets used to fund the obligations are exposed to demographic, legal and economic risks. Economic risks are primarily due to unforeseen developments in goods and capital markets. They affect, for example, pension adjustments based on the level of inflation in Germany and in the United Kingdom, as well as the impact of the discount rate to be applied to the amount of the defined benefit obligation. In previous years, measures taken to close plans with defined benefits for future service, especially benefits based on final pay promises and the assumption of healthcare costs for former employees, however, led to a reduction in risk with regard to future benefit levels.

The strategy of the BASF Group with regard to financing pension commitments is aligned with country-specific supervisory and tax regulations.

Description of the defined benefit plans

Germany

For BASF SE and German Group companies, a basic level of benefits is provided by BASF Pensionskasse VVaG, a legally independent funded plan, which is financed by contributions of employees and the employer as well as the return on plan assets. BASF SE will ensure the necessary contributions to adequately finance the benefits promised by BASF Pensionskasse VVaG. Some of the benefits financed via BASF Pensionskasse VVaG are subject to adjustments that must be borne by its sponsoring member companies to the extent that these cannot be borne by BASF Pensionskasse VVaG due to the regulations imposed by the German supervisory authority. In 2004, the basic benefits plan at BASF was closed for new employees at German BASF companies and replaced by a defined contribution plan. At BASF SE, occupational pension promises that exceed the basic level of benefits are financed under a contractual trust arrangement by BASF Pensionstreuhand e.V.; at German Group companies, these benefits are almost exclusively financed via pension provisions. The benefits are largely based on cash balance plans. Furthermore, employees are given the option of participating in various deferred compensation schemes.

United States

Employees of U.S. companies receive benefits from defined contribution plans. The existing defined benefit plans were closed to further increases in benefits based on future years of service, and benefits earned in the past have been frozen. There is no entitlement to pension adjustments to compensate for cost-of-living increases. For future years of service, employees are granted benefits based on defined contribution plans.

The legal and regulatory frameworks governing the plans are based on the U.S. Employee Retirement Income Security Act (ERISA), which requires the plan sponsor to ensure a minimum funding level. Any employer contributions necessary to meet the minimum funding level would be based on the results of an actuarial valuation. Furthermore, there are unfunded pension plans that are not subject to ERISA.

Additional similar obligations arise from plans which assume the healthcare costs and life insurance premiums of retired employees and their dependents. Such plans are closed to new entrants since 2007. In addition, the amount of the benefits for such plans is frozen.

Switzerland

The employees of the BASF Group in Switzerland receive a company pension, which is financed through a pension fund by employer and employee contributions as well as the return on plan assets. The pension plan is accounted for as a defined benefit plan, as the obligatory minimum pension guaranteed by law according to the Swiss law “Berufliche Vorsorge (BVG)” is included in the scheme. All benefits vest immediately. According to government regulations, the employer is obligated to make contributions, so that the pension fund is able to grant minimum benefits guaranteed by law. The management of the pension fund, where employer and employees are equally represented, manages and governs the benefit plan and assets.

United Kingdom

The BASF Group maintains defined benefit plans in the United Kingdom, which were closed to further increases in benefits from future years of service. A part of the workforce still receives benefit increases depending on service period in connection with a career average plan. Adjustments to compensate for increases in the cost of living until the beginning of retirement are legally required for beneficiaries of defined benefit plans.

The financing of the pension plans is determined by the provisions of the regulatory authority for pensions and the relevant social and labor law requirements. The defined benefit plans are administered by a trust company, whose Board of Trustees, according to the trustee agreement and law, represents the interests of the beneficiaries and ensures that the benefits can be paid in the future. The required funding is determined using technical valuations according to local regulations every three years.

Following the closure of defined benefit plans, employees are granted benefits based on a defined contribution plan for future years of service.

Other countries

In the case of subsidiaries in other countries, defined benefits are covered in some cases by pension provisions, but mainly by external insurance companies or pension funds.

Actuarial assumptions

The valuation of the defined benefit obligation is largely based on the following assumptions:

Assumptions used to determine the defined benefit obligation as of December 31

	Germany		United States		Switzerland		United Kingdom	
	2014	2013	2014	2013	2014	2013	2014	2013
Discount rate	2.40	3.90	3.90	4.80	1.00	2.40	3.70	4.40
Projected pension increase	1.75	2.00	–	–	–	–	2.90	3.10

Assumptions used to determine expenses for pension benefits in each business year

	Germany		United States		Switzerland		United Kingdom	
	2014	2013	2014	2013	2014	2013	2014	2013
Discount rate	3.90	3.50	4.80	3.75	2.40	2.00	4.40	4.40
Projected pension increase	2.00	2.00	–	–	–	–	3.10	2.70

The assumptions used to ascertain the defined benefit obligation as of December 31 are used in the following year to determine the expenses for pension plans.

A Group-wide, uniform procedure is used to determine the discount rates used for the valuation of material pension obligations of the BASF Group. Accordingly, the discount rates were derived from the yields on corporate bonds in the respective currency zones with an issuing volume of more than 100 million units of the respective currency with a minimum rating of AA– up to AA+ from at least one of the three rating agencies: Fitch, Moody's, or Standard & Poor's.

The valuation of the defined benefit obligation is generally made using the most recent actuarial mortality tables as

of December 31 of the respective financial year, which in Germany and the United States are derived from the BASF Group population and last updated for the pension obligations in Germany in 2010 and for the pension obligations in the United States in 2014.

Actuarial mortality tables (significant countries) as of Dec. 31, 2014

Germany	Heubeck Richttafeln 2005G (modified)
United States	RP-2014 (modified) with MP-2014 generational projection
Switzerland	BVG 2010 generation
United Kingdom	S1PxA (standard actuarial mortality tables for self-administered plans [SAPS])

Sensitivity analysis

A change in the material actuarial assumptions would have the following effects on the defined benefit obligation:

Sensitivity of the defined benefit obligation as of December 31 (in million €)

	Increase by 0.5 percentage points		Decrease by 0.5 percentage points	
	2014	2013	2014	2013
Discount rate	(1,850)	(1,380)	2,100	1,550
Projected pension increase	1,240	860	(1,070)	(780)

An alternative valuation of the defined benefit obligation was conducted in order to determine how changes in the underlying assumptions would influence the amount of the defined benefit obligation. A linear extrapolation of these

amounts based on alternative changes in the assumptions as well as an addition of combined changes in the individual assumptions is not possible.

Explanation of the amounts in the statement of income and balance sheet

Composition of expenses for pension benefits (in million €)

	2014	2013
Expenses for defined benefit plans	286	325
Expenses for defined contribution plans	274	254
Expenses for pension benefits (recognized in income from operations)	560	579
Net interest expenses from underfunded plans for pensions and similar obligations	149	192
Net interest income from overfunded pensions	(2)	(2)
Interest cost for the asset ceiling	2	–
Expenses for pension benefits (recognized in the financial result)	149	190

The net interest on the defined benefit liability is recognized in the financial result. This results from the difference between the interest cost of the defined benefit obligation and the standardized return on plan assets as well as the interest cost for the asset ceiling.

Net interest expense from underfunded pension plans and similar obligations declined compared with the previous year, mainly as a result of the lower net balance recognition as of December 31, 2013.

Development of defined benefit obligation (in million €)

	2014	2013
Defined benefit obligation as of January 1	20,784	22,105
Current service cost	301	332
Interest cost	806	756
Benefits paid	(959)	(953)
Participants' contributions	54	57
Actuarial gains/losses		
for adjustments relating to financial assumptions	4,095	(1,262)
adjustments relating to demographic assumptions	118	54
experience-based adjustments	38	(17)
Effects from acquisitions and divestitures	–	23
Past service cost	(37)	(38)
Plan settlements	(357)	–
Other changes	3	(16)
Currency effects	628	(257)
Defined benefit obligation as of December 31	25,474	20,784

In the Netherlands, pension obligations and plan assets were transferred to an insurance company with discharging effect in connection with a plan settlement.

As of December 31, 2014, the weighted average duration of the defined benefit obligation amounted to 16.1 years (previous year: 14.7 years). The significant decrease in discount rates led to an increase in the weighted average duration of the defined benefit obligation.

Development of plan assets (in million €)

	2014	2013
Plan assets as of January 1	17,186	16,705
Standardized return on plan assets	659	566
Deviation between actual and standardized return on plan assets	678	388
Employer contributions	397	239
Participants' contributions	54	57
Benefits paid	(784)	(574)
Effects from acquisitions and divestitures	–	24
Past service cost	–	(33)
Plan settlements	(379)	–
Other changes	(23)	4
Currency effects	464	(190)
Plan assets as of December 31	18,252	17,186

The standardized return on plan assets is calculated by multiplying plan assets at the beginning of the year with the discount rate used for existing defined benefit obligation at the beginning of the year, taking into account benefit and contribution payments expected to be made during the year.

The increase in employer contributions arose from a payment in the amount of \$250 million to the plan assets of U.S. companies.

The estimated contributions for defined benefit plans for 2015 are €291 million.

Development of asset ceiling (in million €)

	2014	2013
Asset ceiling as of January 1	82	–
Interest cost for the asset ceiling	2	–
Changes recognized directly in equity in the business year	(84)	82
Asset ceiling as of December 31	–	82

Assets from overfunded plans can only be recognized to the extent that it is possible that the existing overfunded plans can be used for the reduction of future contributions or the

return to plan sponsors. To the extent that these requirements are not met, recognition is not possible due to the necessity of an asset ceiling.

Development of the net defined benefit liability (in million €)

	2014	2013
Net defined benefit liability as of January 1	(3,680)	(5,400)
Current service cost	(301)	(332)
Interest cost	(806)	(756)
Interest cost for the asset ceiling	(2)	–
Standardized return on plan assets	659	566
Deviation between actual and standardized return on plan assets	678	388
Actuarial gains/losses of the defined benefit obligation	(4,251)	1,225
Changes in asset ceiling recognized directly in equity	84	(82)
Benefits paid by unfunded plans	175	379
Employer contributions	397	239
Effects from acquisitions and divestitures	–	1
Past service cost	37	5
Plan settlements	(22)	–
Other changes	(26)	20
Currency effects	(164)	67
Net defined benefit liability as of December 31	(7,222)	(3,680)
Thereof defined benefit assets	91	47
provisions for pensions and similar obligations	(7,313)	(3,727)

Regional allocation of defined benefit plans as of December 31 (in million €)

	Pension obligations		Plan assets		Asset ceiling		Net defined benefit liability	
	2014	2013	2014	2013	2014	2013	2014	2013
Germany	16,864	13,386	11,394	10,941	–	–	(5,470)	(2,445)
United States	4,131	3,263	2,604	2,111	–	–	(1,527)	(1,152)
Switzerland	2,019	1,694	1,875	1,763	–	64	(144)	5
United Kingdom	1,769	1,525	1,840	1,543	–	–	71	18
Other	691	916	539	828	–	18	(152)	(106)
Total	25,474	20,784	18,252	17,186	–	82	(7,222)	(3,680)

Explanations regarding plan assets

The target asset allocation has been defined by using asset liability studies and is reviewed regularly. Accordingly, plan assets are taken into consideration considering the risks associated with the specific asset classes and the regulations relating to the investment of plan assets are aligned with the long-term development of the obligations. The existing portfolio structure is oriented towards the target asset allocation. In addition, current market assessments are taken into consideration. In order to mitigate risks and maximize returns, a widely spread global portfolio of individual asset classes is held.

Liability-driven investment (LDI) techniques, such as hedging the risk of changes in interest rates and inflation, are used in particular pension plans, especially in the U.K. and U.S. plans.

Structure of plan assets (in %)

	2014	2013
Equities	27	27
Debt instruments	55	56
Thereof for government debtors	11	13
for other debtors	44	43
Real estate	4	4
Alternative investments	13	12
Cash and cash equivalents	1	1
Total	100	100

Almost all of the **equities** are priced on active markets. The category **debt instruments** includes promissory notes and debentures (Pfandbriefe), which were acquired through private placements with a market value in the amount of €1,381 million in 2014 and €1,676 million in 2013. For such securities, especially those held by domestic pension plans,

there is no active market. The capital market compensates for this lack of fungibility with yield premiums depending on the maturity. There is no active markets for plan assets in **real estate** and **alternative investments** – except in exceptional cases.

The asset class debt instruments comprises promissory notes and debentures (Pfandbriefe) in addition to corporate and **government bonds**. Government bonds primarily concern bonds from those countries enjoying the highest credit ratings such as the United States, the United Kingdom and Switzerland. Corporate bonds mainly comprise investment-grade bonds, whereby particular high-yield bonds are also held to a limited extent. In connection with the ongoing monitoring of default risk based on a given risk budget and on the continuous observation of the development of the creditworthiness of issuers, an adjustment of plan asset allocation to a revised market assessment may be made, if necessary. **Alternative investments** largely comprise investments in private equity, absolute return funds and senior secured loans.

On December 31, 2014, plan assets contained securities issued by BASF Group companies with a market value of €10 million in 2014 and €8 million in 2013. The market value of the properties of legally independent pension funds rented to BASF Group companies amounted to €168 million on December 31, 2014, and €76 million on December 31, 2013. The increase was due to BASF Pensionskasse's construction and leasing of a new office building in Germany.

Since 2010 there has been an agreement between BASF SE and BASF Pensionskasse about the granting of profit participation capital with a nominal value of €80 million, which is used to strengthen the financing of the BASF Pensionskasse. No material transactions beyond this took place between the legally independent pension funds and BASF Group companies in 2014.

The funding of the plans was as follows:

Current funding situation of the pension plans as of December 31 (in million €)

	2014		2013	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Unfunded pension plans	2,800	–	2,303	–
Funded pension plans	22,674	18,252	18,481	17,186
Total	25,474	18,252	20,784	17,186

Defined contribution plans and government pensions

The contributions to defined contribution plans included in income from operations amounted to €274 million in 2014 and €254 million in 2013.

Contributions to government pension plans were €573 million in 2014 and €557 million in 2013.

23 – Other provisions

Million €	December 31, 2014		December 31, 2013	
		Thereof short-term		Thereof short-term
Restoration obligations	1,428	84	1,292	59
Environmental protection and remediation costs	621	166	601	157
Employee obligations	1,744	1,333	1,876	1,313
Sales and purchase risks	715	708	639	633
Restructuring measures	156	103	228	153
Litigation, damage claims, guarantees and similar commitments	112	48	112	56
Other	1,570	402	1,148	299
Total	6,346	2,844	5,896	2,670

Restoration obligations primarily relate to the estimated costs for the filling of wells and the removal of production equipment after the end of production. The increase in long-term provisions was mainly due to taking over provisions in the Oil & Gas segment as a result of the acquisition of the production fields of Statoil and the compounding of provisions.

Provisions for **environmental protection and remediation costs** cover expected costs for rehabilitating contaminated sites, recultivating landfills, removal of environmental contamination at existing production or storage sites and similar measures. In addition, provisions are recognized in connection with the allocation of emission certificates from the German Emissions Trading Authority or other similar bodies. The increase in provisions was almost entirely attributable to foreign currency effects.

Provisions for **employee obligations** include obligations for the granting of long-service bonuses, anniversary payments, variable compensation including associated social security contributions, and other accruals as well as provisions for early retirement programs for employees nearing retirement.

 For more information on provisions for the long-term incentive program, see Note 30 from page 219 onward

The **sales and purchase risks** provisions include warranties, product liability, customer rebates and other price reductions, sales commissions, and provisions for expected losses on committed purchases as well as provisions for onerous contracts. Currency effects led to higher values at year end.

The **restructuring measures** provisions include severance payments to employees as well as expected costs for site closures, including the costs for demolition and similar measures. The decrease was largely due to the utilization of provisions for restructuring programs in the Performance Products segment in Europe. On the balance sheet date, €125 million was attributable to provisions for severance payments.

Provisions for **litigation, damage claims, guarantees and similar commitments** include the expected costs of litigation, obligations under damage claims, and other guarantees.

Other includes long-term tax provisions as well as further present obligations and accruals. The increase largely resulted from a tax refund in 2014, which was deducted in the calculation of the provision for tax risk items in the previous year.

The following table shows the development of other provisions by category. Other changes include changes in the scope of consolidation, currency effects and the reclassification of obligations to liabilities when the amount and timing of these obligations become known.

Development of other provisions in 2014 (in million €)

	Jan. 1, 2014	Additions	Unwinding of the discount	Utilization	Reversals	Other changes	Dec. 31, 2014
Restoration obligations	1,292	81	52	(49)	(5)	57	1,428
Environmental protection and remediation costs	601	153	6	(150)	(13)	24	621
Employee obligations	1,876	1,462	9	(1,453)	(125)	(25)	1,744
Sales and purchase risks	639	512	0	(494)	(23)	81	715
Restructuring measures	228	47	0	(83)	(39)	3	156
Litigation, damage claims, guarantees and similar commitments	112	27	3	(17)	(16)	3	112
Other	1,148	628	5	(181)	(137)	107	1,570
Total	5,896	2,910	75	(2,427)	(358)	250	6,346

24 – Liabilities

Financial indebtedness (in million €)

	Currency	Nominal value (million, currency of issue)	Effective interest rate	Carrying amounts based on effective interest method	
				December 31, 2014	December 31, 2013
BASF SE					
Commercial paper	USD	150		124	1,232
4.5% Bond 2006/2016	EUR	500	4.62%	499	499
Variable Bond 2013/2016	EUR	200	variable	200	200
4.25% Bond 2009/2016	EUR	200	4.40%	199	199
Variable Bond 2014/2017	EUR	300	variable	300	–
5.875% Bond 2009/2017	GBP	400	6.04%	512	478
4.625% Bond 2009/2017	EUR	300	4.69%	300	299
1.375% Bond 2014/2017	GBP	250	1.46%	320	–
Variable Bond 2013/2018	EUR	300	variable	300	300
1.5% Bond 2012/2018	EUR	1,000	1.51%	1,000	1,000
1.375% Bond 2014/2019	EUR	750	1.44%	748	–
Variable Bond 2013/2020	EUR	300	variable	300	300
1.875% Bond 2013/2021	EUR	700	1.94%	697	697
2% Bond 2012/2022	EUR	1,250	1.93%	1,257	987
2.5% Bond 2014/2024	EUR	500	2.60%	496	–
3.675% Bond 2013/2025	NOK	1,450	3.70%	160	173
3% Bond 2013/2033	EUR	500	3.15%	490	489
2.875% Bond 2013/2033	EUR	200	3.09%	198	198
3.25% Bond 2013/2043	EUR	200	3.27%	199	199
3.89% U.S. Private Placement Series A 2013/2025	USD	250	3.92%	205	181
4.09% U.S. Private Placement Series B 2013/2028	USD	700	4.11%	575	506
4.43% U.S. Private Placement Series C 2013/2034	USD	300	4.45%	246	217
BASF Finance Europe N.V.					
5% Bond 2007/2014	EUR	1,250	5.04%	–	1,250
3.625% Bond 2008/2015	CHF	200	3.77%	166	163
5.125% Bond 2009/2015	EUR	2,000	5.07%	2,001	2,001
4.5% Bond 2009/2016	EUR	150	4.56%	–	150
Ciba Specialty Chemicals Finance Luxembourg S.A.					
4.875% Bond 2003/2018	EUR	477	4.88%	438	428
Other bonds				618	449
Bonds and other liabilities to the capital market				12,548	12,595
Liabilities to credit institutions				2,836	1,812
Financial indebtedness				15,384	14,407

Breakdown of financial indebtedness by currency (in million €)

	December 31, 2014	December 31, 2013
Euro	11,366	10,243
U.S. dollar	1,696	2,588
British pound	833	478
Chinese renminbi	429	272
Brazilian real	326	306
Swiss franc	166	163
Norwegian krone	160	173
Indian rupee	100	11
Turkish lira	88	41
Argentinian peso	57	25
Ukrainian hryvnia	46	5
Canadian dollar	39	0
Other currencies	78	102
Total	15,384	14,407

Maturities of financial indebtedness (in million €)

	December 31, 2014	December 31, 2013
Following year 1	3,545	3,256
Following year 2	981	3,182
Following year 3	1,526	1,051
Following year 4	1,790	779
Following year 5	2,170	1,746
Following year 6 and maturities beyond this year	5,372	4,393
Total	15,384	14,407

Other Bonds

Other bonds consist primarily of industrial revenue and pollution control bonds of the BASF Corporation group that were used to finance investments in the United States. Both the weighted-average interest rate of these bonds as well as their weighted-average effective interest rate amounted to 1.6% in 2014 and in 2013. The average residual term amounted to 222 months as of December 31, 2014 (December 31, 2013: 235 months).

Liabilities to credit institutions

In order to finance natural gas trading and storage business, a €1,650 million loan was incurred with a 5-year term at an interest rate of 1.08%. A corresponding loan in the amount of €1,000 million due in 2016 was repaid early. As a result of higher volumes of loans in emerging countries, the weighted-average interest rate on loans increased to 4.0% in 2014 compared with 2.8% in 2013.

Unused credit lines

BASF SE had committed and unused credit lines with variable interest rates amounting to €6,000 million as of December 31, 2014 and as of December 31, 2013.

Other liabilities (in million €)

	December 31, 2014		December 31, 2013	
	Current	Noncurrent	Current	Noncurrent
Derivative instruments with negative fair values	1,172	64	145	214
Liabilities from finance leases	19	71	13	72
Loans and interest liabilities	303	632	284	465
Miscellaneous liabilities	969	47	876	34
Other liabilities which qualify as financial instruments	2,463	814	1,318	785
Advances received on orders	374	–	285	–
Liabilities related to social security	148	23	126	35
Employee liabilities	240	171	253	167
Liabilities from precious metal trading positions	18	–	5	–
Deferred income	154	179	127	185
Miscellaneous liabilities	167	10	178	22
Other liabilities which do not qualify as financial instruments	1,101	383	974	409
Other liabilities	3,564	1,197	2,292	1,194

Other liabilities

The increase in current derivative instruments with negative fair values particularly resulted from commodity futures due to the development of oil prices as well as foreign currency forward contracts resulting from the appreciation of the U.S. dollar relative to the euro. The derecognition of options for the disposal of BASF's share in Styrolution Holding GmbH had a countering effect on the noncurrent derivative instruments with negative fair values.

For more information on financial risks and derivative financial instruments, see Note 27 from page 210 onward
For more information on liabilities arising from leasing contracts, see Note 28 on page 217

Secured liabilities (in million €)

	Dec. 31, 2014	Dec. 31, 2013
Liabilities to credit institutions	24	3
Other liabilities	92	34
Secured liabilities	116	37

Liabilities to credit institutions were secured primarily with registered land charges. Secured other liabilities arose primarily in connection with negative fair value of derivatives, which were secured, among other things, by a bank guarantee in the amount of €60 million. As in the previous year, there were no secured contingent liabilities.

25 – Contingent liabilities and other financial obligations

The contingent liabilities listed below are stated at nominal value:

Contingent liabilities (in million €)

	December 31, 2014	December 31, 2013
Bills of exchange	3	8
Guarantees	52	61
Warranties	58	49
Collateral granted on behalf of third-party liabilities	1	3
Total	114	121

Other financial obligations (in million €)

	December 31, 2014	December 31, 2013
Construction in progress	6,955	6,149
Thereof purchase commitments	1,761	2,076
for the purchase of intangible assets	21	14
Obligation arising from long-term leases (excluding finance leases)	1,587	1,469
Payment and loan commitments and other financial obligations	79	82
Total	10,403	9,790

Assets used under long-term leases

Assets used under long-term leases primarily concern buildings and IT infrastructure.

For more information on liabilities arising from leasing contracts, see Note 28 on page 217

Obligations arising from long-term leases (excluding finance leases) (in million €)

2015	397
2016	293
2017	221
2018	159
2019	106
2020 and maturities beyond this year	411
Total	1,587

Purchase obligations from long-term natural gas and raw material purchase contracts

BASF has entered into long-term purchase contracts for natural gas in the Natural Gas Trading business sector which are subject to ongoing price adjustments. These purchase obligations mainly relate to long-term supply contracts with natural gas purchasers with terms between one and 17 years.

BASF purchases raw materials via long-term contracts and spot markets. The fixed purchase obligations of long-term purchase contracts with a remaining term of at least one year as of December 31, 2014, are as follows:

Purchase obligations from natural gas and raw material purchase contracts (in million €)

	BASF Group
2015	17,272
2016	12,188
2017	9,632
2018	8,633
2019	8,240
2020 and maturities beyond this year	75,886
Total	131,851

The reduction of purchase obligations from natural gas and raw material purchase contracts from €164,409 million in 2013 to €131,851 million in 2014 was primarily attributable to the decline in oil prices.

26 – Risks from litigation and claims

On August 12, 2014, Metrogas S.A., Chile, filed its Statement of Claim in the arbitration proceedings initiated in May 2013 against Wintershall Energia S.A., Argentina (WIAR), Total Austral S.A. and Pan American Energy LLC. Metrogas claims damages valued at an amount of €180 million as a result of insufficient gas deliveries under a natural gas supply contract entered into by Metrogas and the defendants, as sellers, in 1997. WIAR's share of supply in the contract is 37.5%. The defendants submitted their response to the proof of claim on December 10, 2014. They are of the opinion that Metrogas does not have any claim for damages.

BASF Corporation has potential liability under the Comprehensive Response, Compensation and Liability Act of 1980, as amended, and related state laws for investigation and cleanup at certain sites. The Lower Passaic River Study Area (LPRSA) is one such site comprising the lower 17 miles of the Passaic River. BASF Corporation along with more than 60 other potentially responsible parties agreed with the U.S. Environmental Protection Agency (USEPA) to perform remedial investigations and feasibility studies of the LPRSA. In April 2014, USEPA issued its focused feasibility study, identifying various alternatives for the lower eight

miles of the Passaic River. After reviewing the comments on the study, USEPA will prepare a responsiveness summary and make a cleanup decision, which is anticipated in 2015. As the cost of the final remedy remains uncertain and the Company has found no evidence that it contributed any of the primary contaminants of concern to the Passaic River, BASF cannot reliably estimate its portion of the final costs for this matter at this time.

Furthermore, BASF SE and its affiliated companies are defendants in or parties to a variety of judicial, arbitral or regulatory proceedings on a recurring basis. To our current knowledge, none of these proceedings will have a material effect on the economic situation of BASF. This includes a civil case for damages brought in the Southern District of New York against BASF Metals Limited, based in London, England, by a U.S. jewelry business in November 2014, and two lawsuits with identical allegations brought in the same court in January and February 2015. BASF Metals Limited and three other defendants are accused of improper conduct concerning the calculation of the market prices of platinum and palladium. BASF will defend itself against this lawsuit.

27 – Supplementary information on financial instruments

27.1 – Financial risks

Market risks

Foreign currency risks: Changes in exchange rates could lead to negative changes in the value of financial instruments and adverse changes in future cash flows from planned transactions. Foreign currency risks from financial instruments result from the translation at the closing rate of financial receivables, loans, securities, cash and financial liabilities into the functional currency of the respective Group company. Foreign currency contracts in a variety of currencies are used to hedge foreign exchange risks from primary financial instruments and planned transactions.

The foreign currency risk exposure corresponds to the net amount of the nominal volume of the primary and the derivative financial instruments which are exposed to currency risks. In addition, planned purchase and sales transactions of the respective following year are included, if they fall under the currency risk management system. Opposite positions in the same currency are offset against each other.

The sensitivity analysis is conducted by simulating a 10% depreciation in all currencies against the respective functional currency. The effect on BASF's income before taxes and minority interests would have been minus €351 million as of December 31, 2014, and minus €286 million as of December 31, 2013. The effect from the items designated under hedge accounting would have increased the equity of the shareholders of BASF SE before income taxes by €48 million on December 31, 2014 (2013: increase of €93 million). This refers to transactions in U.S. dollars and British pounds. The currency exposure amounted to €2,009 million on December 31, 2014 (December 31, 2013: €1,905 million).

Exposure and sensitivity by currency (in million €)

	Exposure Dec. 31, 2014	Sensitivity Dec. 31, 2014	Exposure Dec. 31, 2013	Sensitivity Dec. 31, 2013
USD	1,767	(261)	1,231	(121)
Other	242	(42)	674	(72)
Total	2,009	(303)	1,905	(193)

Due to the use of options to hedge currency risks, the sensitivity analysis is not a linear function of the assumed changes in exchange rates.

Interest rate risks: Interest rate risks result from changes in prevailing market interest rates, which can cause a change in the fair value of fixed-rate instruments, and changes in the interest payments of variable-rate instruments. To hedge these risks, interest rate swaps and combined interest rate and currency derivatives are used. While these risks are relevant to the financing activities of BASF, they are not of material significance for BASF's operating activities.

The variable interest exposure, which also includes fixed rate bonds set to mature in the following year, amounted to minus €3,343 million as of December 31, 2014, compared with minus €2,666 million as of December 31, 2013. An increase in all relevant interest rates by one percentage point would have raised income before taxes and minority interests by €12 million as of December 31, 2014, and raised income before taxes and minority interests by €6 million as of December 31, 2013. The effect from the items designated under hedge accounting would have increased the equity of the shareholders of BASF SE before income taxes by €30 million on December 31, 2014 (2013: increase of €19 million).

Carrying amount of nonderivative interest-bearing financial instruments (in million €)

	December 31, 2014		December 31, 2013	
	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
Loans	264	760	1,012	122
Securities	33	42	24	6
Financial indebtedness	11,673	3,711	12,004	2,403

Nominal and fair value of interest rate and combined interest and cross-currency swaps (in million €)

	December 31, 2014		December 31, 2013	
	Nominal value	Fair value	Nominal value	Fair value
Interest rate swaps	1,900	(31)	1,800	(20)
Thereof payer swaps	1,900	(31)	1,800	(20)
Combined interest and cross-currency swaps	1,979	142	1,667	30
Thereof fixed rate	1,979	142	1,667	30

Options for disposal of shareholdings: BASF and INEOS had agreed upon options for BASF's withdrawal from the shareholding in Styrolution. These options were classified as derivatives according to IAS 39. A significant risk variable which was decisive for the valuation of both options is the value of the company. In June 2014, BASF and Ineos agreed on a sales transaction that was successfully concluded in November 2014; because of the transaction, these options no longer exist as of December 31, 2014.

Commodity price risks: Some of BASF's divisions are exposed to strong fluctuations in raw material prices. These result primarily from the following raw materials: naphtha, propylene, benzene, lauric oils, titanium dioxide, cyclohexane, methanol, natural gas, butadiene, LPG condensate, ammonia and precious metals. BASF takes the following measures to reduce price risks associated with the purchase of raw materials:

- BASF uses commodity derivatives to hedge the risks from the volatility of raw material prices. These are primarily options and swaps on crude oil, oil products and natural gas.
- In order to secure margins, the Oil & Gas segment uses commodity derivatives, primarily swaps on oil products. Risks to margins arise in volatile markets when purchase and sales contracts are priced differently.
- The Catalysts division enters into both short-term and long-term purchase contracts with precious metal producers. It also buys precious metals on spot markets from a variety of business partners. The price risk from precious metals purchased to be sold on to third parties, or for use in the production of catalysts, is hedged using derivative instruments. This is mainly done using forward contracts which are settled by either entering into offsetting contracts or by delivering the precious metals.
- In the Crop Protection division, the sales prices of products are sometimes coupled to the price of certain agricultural commodities. To hedge the resulting risks, derivatives on agricultural commodities are concluded.

In addition, BASF holds limited unhedged precious metal and oil product positions, which can also include derivatives, for trading on its own account. The value of these positions is exposed to market price volatility and is subject to constant monitoring.

In connection with CO₂ emissions trading, various types of CO₂ certificates are purchased and sold using forward contracts. The goal of these transactions is to benefit from market price differences. These deals are settled by physical delivery. As of December 31, 2014 as well as of December 31, 2013, there were no deals outstanding. Furthermore, BASF utilizes emission certificate derivatives on a limited scale.

By holding commodity derivatives and precious metal trading positions, BASF is exposed to price risks. The valuation of commodity derivatives and precious metal trading positions at fair value means that adverse changes in market prices could negatively affect the earnings and equity of BASF.

BASF performs value-at-risk analyses for all commodity derivatives and precious metals trading positions. Using the value-at-risk analysis, we continually quantify market risk and forecast the maximum possible loss within a given confidence interval over a defined period. The value-at-risk calculation is based on a confidence interval of 95% and a holding period of one day. A confidence interval of 95% means that there is a 95% probability that the maximum loss does not exceed the value at risk within a one-day period. The value-at-risk calculation for precious metals is based on a confidence interval of 99%. BASF uses the variance-covariance approach.

BASF uses value at risk as a supplement to other risk management tools and also sets volume-based, exposure and stop loss limits.

Exposure to commodity derivatives (in million €)

	December 31, 2014		December 31, 2013	
	Exposure	Value at risk	Exposure	Value at risk
Crude oil, oil products and natural gas	959	22	3,291	29
Precious metals	61	1	42	1
Emission certificates	14	1	–	–
Agricultural commodities	120	0	(133)	1
Total	1,154	24	3,200	31

The exposure corresponds to the net amount of all long and short positions of the respective commodity category.

 For more information regarding financial risks and BASF's risk management, see the chapter "Opportunities and risks report" in the Management's Report from page 111 onward

Default and credit risk

Default and credit risks arise when counterparties do not fulfill their contractual obligations. BASF regularly analyzes the creditworthiness of each significant debtor and grants credit limits on the basis of this analysis. Due to the global activities and diversified customer structure of the BASF Group, there is no significant concentration of default risk. The carrying amount of all receivables, loans and interest-bearing securities plus the nominal value of contingent liabilities excluding potential warranty obligations represents the maximum default risk for BASF.

 For more information on credit risks, see Note 18 from page 196 onward

Liquidity risks

BASF promptly recognizes any risks from cash flow fluctuations as part of the liquidity planning. BASF has ready access to sufficient liquid funds through its ongoing commercial paper program and confirmed lines of credit from banks.

27.2 – Maturity analysis

The interest and principal payments as well as other payments for derivative financial instruments are relevant for the presentation of the maturities of the contractual cash flows from financial liabilities. Future cash flows are not discounted here.

Derivatives are included using their net cash flows, provided they have a negative fair value and therefore represent a liability. Derivatives with positive fair values are assets and are therefore not considered.

Trade accounts payable are generally interest-free and due within one year. Therefore the carrying amount of trade accounts payable equals the sum of future cash flows.

Maturities of contractual cash flows from financial liabilities as of December 31, 2014 (in million €)

	Bonds and other liabilities to the capital market	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities	Total
2015	2,748	1,197	821	877	5,643
2016	1,178	57	33	40	1,308
2017	1,680	24	6	37	1,747
2018	1,995	3	12	12	2,022
2019	905	1,572	3	11	2,491
2020 and thereafter	6,484	8	44	624	7,160
Total	14,990	2,861	919	1,601	20,371

Maturities of contractual cash flows from financial liabilities as of December 31, 2013 (in million €)

	Bonds and other liabilities to the capital market	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities	Total
2014	2,894	815	171	921	4,801
2015	2,506	1,029	28	79	3,642
2016	1,285	20	2	49	1,356
2017	976	2	–	25	1,003
2018	1,934	2	–	22	1,958
2019 and thereafter	5,539	9	–	425	5,973
Total	15,134	1,877	201	1,521	18,733

27.3 – Classes and categories of financial instruments

For trade accounts receivable, other receivables and miscellaneous assets, loans, cash and cash equivalents, as well as trade accounts payable and other liabilities, the carrying amount approximates the fair value. Shareholdings which are not traded on an active market and whose fair value could not be reliably determined are recognized at amortized cost and are reported under other financial assets.

The carrying amount of shareholdings which are traded on an active market and therefore recognized at fair value amounted to less than €1 million as of December 31, 2014 and €1 million as of December 31, 2013. They are included in other financial assets.

For more information, see Note 16 from page 195 onward

The carrying amount of financial indebtedness amounted to €15,384 million on December 31, 2014 (December 31, 2013: €14,407 million). The fair value of financial indebtedness amounted to €16,194 million at the end of 2014 (end of 2013: €14,918 million). The fair value of financial indebtedness is determined on the basis of interbank interest rates. The difference between carrying amounts and fair values results primarily from changes in market interest rates.

Carrying amounts and fair values of financial instruments as of December 31, 2014 (in million €)

	Carrying amount	Total carrying amount within scope of application of IFRS 7	Valuation category in accordance with IAS 39 ²	Fair value	Thereof fair value level 1 ³	Thereof fair value level 2 ⁴	Thereof fair value level 3 ⁵
Shareholdings ¹	462	462	Afs	0	0	–	–
Receivables from finance leases	43	43	n.a.	43	–	–	–
Accounts receivable, trade	10,385	10,385	LaR	10,385	–	–	–
Derivatives – no hedge accounting	772	772	aFVtPL	772	23	749	–
Derivatives – with hedge accounting	61	61	n.a.	61	–	61	–
Other receivables and other assets ⁶	4,654	1,965	LaR	1,965	–	–	–
Securities	97	97	Afs	97	97	–	–
Cash and cash equivalents	1,718	1,718	LaR	1,718	1,718	–	–
Total assets	18,192	15,503		15,041	1,838	810	–
Bonds	12,424	12,424	AmC	13,234	–	–	–
Commercial paper	124	124	AmC	124	–	–	–
Liabilities to credit institutions	2,836	2,836	AmC	2,836	–	–	–
Liabilities from finance leases	90	90	n.a.	90	–	–	–
Accounts payable, trade	4,861	4,861	AmC	4,861	–	–	–
Derivatives – no hedge accounting	622	622	aFVtPL	622	13	609	–
Derivatives – with hedge accounting	614	614	n.a.	614	–	614	–
Other liabilities ⁶	3,435	1,952	AmC	1,952	–	–	–
Total liabilities	25,006	23,523		24,333	13	1,223	–

Carrying amounts and fair values of financial instruments as of December 31, 2013 (in million €)

	Carrying amount	Total carrying amount within scope of application of IFRS 7	Valuation category in accordance with IAS 39 ²	Fair value	Thereof fair value level 1 ³	Thereof fair value level 2 ⁴	Thereof fair value level 3 ⁵
Shareholdings ¹	611	611	Afs	1	1	–	–
Receivables from finance leases	29	29	n.a.	29	–	–	–
Accounts receivable, trade	10,233	10,233	LaR	10,233	–	–	–
Derivatives – no hedge accounting	347	347	aFVtPL	347	7	340	–
Derivatives – with hedge accounting	72	72	n.a.	72	–	72	–
Other receivables and other assets ⁶	4,143	1,746	LaR	1,746	–	–	–
Securities	49	49	Afs	49	49	–	–
Cash and cash equivalents	1,827	1,827	LaR	1,827	1,827	–	–
Total assets	17,311	14,914		14,304	1,884	412	–
Bonds	11,363	11,363	AmC	11,874	–	–	–
Commercial paper	1,232	1,232	AmC	1,232	–	–	–
Liabilities to credit institutions	1,812	1,812	AmC	1,812	–	–	–
Liabilities from finance leases	85	85	n.a.	85	–	–	–
Accounts payable, trade	5,153	5,153	AmC	5,153	–	–	–
Derivatives – no hedge accounting	275	275	aFVtPL	275	3	156	116
Derivatives – with hedge accounting	84	84	n.a.	84	–	84	–
Other liabilities ⁶	3,040	1,658	AmC	1,658	–	–	–
Total liabilities	23,044	21,662		22,173	3	240	116

¹ The difference between carrying amount and fair value results from shareholdings measured at acquisition cost, for which the fair value could not be reliably determined (2014: €462 million; 2013: €610 million).

² Afs: available-for-sale (category: available-for-sale financial assets); LaR: loans and receivables (category: loans and receivables); aFVtPL: at fair value through profit or loss (category: financial assets and liabilities at fair value recognized in the income statement); AmC: amortized cost (category: financial liabilities which are not derivatives); a more detailed description of the categories can be found in Note 1 from page 160 onward.

³ Determination of the fair value based on quoted, unadjusted prices on active markets.

⁴ Determination of the fair value based on parameters for which directly or indirectly quoted prices on active markets are available.

⁵ Determination of the fair value based on parameters for which there is no observable market data.

⁶ Not including separately shown derivatives as well as receivables and liabilities from finance leases

Derivatives whose fair value is calculated using parameters not observable on the market (level 3) comprised exclusively in the previous year the options agreed upon with INEOS regarding the sale of BASF's share in Styrolution Holding GmbH. The sale and purchase options were shown on the balance sheet under other noncurrent receivables or other noncurrent liabilities. As of December 31, 2013, the market value of these options amounted to minus €116 million. Until the announcement of the sales agreement with INEOS in

June 2014, the fair value of the options in the reporting year led to an expense of minus €42 million, which was recognized in the financial result. Upon conclusion of the divestiture of Styrolution in November 2014, the fair value of the options amounting to minus €158 million was derecognized against disposal gains.

Offsetting of financial assets and financial liabilities as of December 31, 2014 (in million €)

	Amounts which can be offset			Amounts which cannot be offset		Potential net amount
	Gross amount	Amount offset	Net amount	Due to global netting agreements	Relating to financial collateral	
Derivatives with positive fair values	788	(4)	784	(293)	(6)	485
Derivatives with negative fair values	1,201	(4)	1,197	(297)	(77)	823

Offsetting of financial assets and financial liabilities as of December 31, 2013 (in million €)

	Amounts which can be offset			Amounts which cannot be offset		Potential net amount
	Gross amount	Amount offset	Net amount	Due to global netting agreements	Relating to financial collateral	
Derivatives with positive fair values	413	(24)	389	(63)	(32)	294
Derivatives with negative fair values	257	(24)	233	(87)	(15)	131

The table "Offsetting financial assets and financial liabilities" shows the extent to which financial assets and financial liabilities are offset in the balance sheet, as well as potential effects from the offsetting of instruments subject to a legally enforceable global netting agreement or similar agreement. In accordance with IAS 32, financial assets and liabilities can only be offset if a company has a legal right of set-off and intends to settle on a net basis.

Deviations from the derivatives with positive and negative fair values reported in other receivables and other liabilities at the end of 2013 arose mainly from options for the disposal of shareholdings, since these are not subject to netting agreements and therefore are not included in the table above. The same applies to both reporting years for embedded derivatives as well as derivatives which are not subject to netting agreements.

Net gains and losses from financial instruments comprise the results of valuations, the amortization of discounts, the recognition and reversal of impairments, results from the translation of foreign currencies as well as interest, dividends and all other effects on the earnings resulting from financial instruments. The line item financial instruments at fair value through profit or loss contains only those gains and losses from instruments which are not designated as hedging instruments as defined by IAS 39. Net gains or net losses from available-for-sale financial assets contain income from write-downs/write-ups, interest, dividends and the reclassification of valuation effects from equity on the sale of the securities and shareholdings.

The net losses from financial liabilities measured at amortized cost primarily relates to the results from the translation of foreign currencies.

 The gains and losses from the valuation of securities and shareholdings recognized in the equity of the shareholders of BASF SE are shown in the Statement of income and expense recognized in equity on page 156.

Net gains and losses from financial instruments (in million €)

	2014	2013
Loans and receivables	389	(295)
Thereof interest result	105	92
Available-for-sale financial assets	224	(28)
Thereof interest result	1	2
Financial liabilities measured at amortized cost	(1,056)	(115)
Thereof interest result	(421)	(450)
Financial instruments at fair value through profit or loss	(19)	22

27.4 – Derivative instruments and hedge accounting**The use of derivative instruments**

BASF is exposed to foreign-currency, interest-rate and commodity-price risks during the normal course of business. These risks are hedged through a centrally determined strategy employing derivative instruments. In addition, derivative instruments are used to replace primary financial instruments, such as fixed-interest securities. Hedging is only employed for underlying positions from the operating business, cash investments, and financing as well as for planned sales and raw material purchases. The risks from the underlying transactions and the derivatives are constantly monitored. Where derivatives have a positive market value, BASF is exposed to credit risks from derivative transactions in the

event of nonperformance of the other party. To minimize the default risk on derivatives with positive market values, transactions are exclusively conducted with creditworthy banks and partners and are subject to predefined credit limits.

To ensure effective risk management, risk positions are centralized at BASF SE and certain Group companies. Contracting and execution of derivative financial instruments for hedging purposes are conducted according to internal guidelines, and are subject to strict control mechanisms.

The fair values of derivative financial instruments are calculated using valuation models which use input parameters observable on the market. Exceptions to this are some commodity derivatives, whose valuation is based directly on market prices.

Fair value of derivative instruments (in million €)

	December 31, 2014	December 31, 2013
Foreign currency forward contracts	(104)	48
Foreign currency options	80	93
Foreign currency derivatives	(24)	141
Thereof designated hedging instruments as defined by IAS 39 (hedge accounting)	(45)	38
Interest rate swaps	(31)	(20)
Thereof designated hedging instruments as defined by IAS 39 (hedge accounting)	(30)	4
Combined interest and cross-currency swaps	142	30
Thereof designated hedging instruments as defined by IAS 39 (hedge accounting)	39	(34)
Interest derivatives	111	10
Options for disposal of shareholdings	-	(116)
Commodity derivatives	(490)	25
Thereof designated hedging instruments as defined by IAS 39 (hedge accounting)	(517)	(20)
Derivative financial instruments	(403)	60

Cash flow hedge accounting

Some of the planned purchases of naphtha are hedged using swaps and options on oil and oil products. Some of these hedges were shown in the Consolidated Financial Statements of the BASF Group by means of cash flow hedge accounting, where gains and losses from hedges were initially recognized directly in equity. Gains and losses from hedges are included in cost of sales at the point in time at which the hedged item is recognized in the consolidated statement of income.

Furthermore, cash flow hedge accounting is used to a minor extent for natural gas purchases.

Cash flow hedge accounting is applied in the Natural Gas Trading business sector for crude oil swaps concluded in order to hedge price risks from purchase and sales contracts for natural gas. These contracts have variable prices and the price formula is coupled with the oil price.

The majority of the planned transactions and their effect on earnings occur in the year following the balance sheet date. A small part relates to subsequent years. In 2014, effective changes in the fair value of hedging instruments of minus €322 million (2013: minus €9 million) was recognized in the equity of the shareholders of BASF SE. In 2014, effective changes in the fair value of hedging instruments of €19 million were derecognized from the equity of shareholders of BASF SE and recorded as an expense in cost of sales. In 2013, there was an expense of €9 million in this regard. The ineffective part in the change in value of the hedge amounted to minus €4 million in 2014 and €2 million in 2013. This amount was reported in the income statement in cost of sales, in other operating income and in other operating expenses.

BASF uses cash flow hedge accounting for derivatives used to hedge foreign currency risks from gas purchase and sales contracts. In 2014, the effective change in values of the hedges was minus €110 million (2013: minus €32 million), which was recognized in the equity of the shareholders of BASF SE. There were no ineffective parts. The amounts derecognized from the equity of shareholders of BASF SE increased cost of sales by €101 million (2013: €21 million).

BASF also uses cash flow hedge accounting for some foreign currency derivatives to hedge planned sales denominated in U.S. dollars. The impact on earnings from the underlying transactions will occur in 2015. In 2014, the effective change in values of the hedges was minus €66 million (2013: minus €18 million), which was recognized in the equity of the shareholders of BASF SE. A total of €37 million (2013: €43 million) was derecognized from the equity of shareholders of BASF SE and was booked in expenses from foreign currency transactions. The hedge was entirely effective.

The interest rate risk of the Floating Rate Notes issued by BASF SE in the reporting year (€300 million note 2014/2017) as well as the Floating Rate Notes issued in the previous year were hedged using interest rate swaps. The bonds and the interest rate swaps were designated in a hedging relationship. In 2014, the effective change in the fair value of the hedging instruments was minus €22 million (2013: minus €10 million) and was recognized in the equity of the shareholders of BASF SE. There were no ineffective parts.

Furthermore, BASF SE's fixed-rate U.S. private placement of \$1.25 billion, issued in the previous year, was converted into euros using currency swaps. This hedge was designated as a cash flow hedge. The hedge was entirely effective. In 2014, the change in values recognized in the equity of the shareholders of BASF SE amounted to €38 million (2013: minus €7 million). In 2014, €110 million was derecognized from other comprehensive income and recorded as income in the financial result (2013: €14 million income in financial result).

28 – Leasing

Leased assets

Property, plant and equipment include those assets which are considered to be economically owned through a finance lease. They primarily concern the following items:

Leased assets (in million €)

	December 31, 2014		December 31, 2013	
	Acquisition cost	Net book value	Acquisition cost	Net book value
Land, land rights and buildings	43	30	42	25
Machinery and technical equipment	118	32	103	38
Miscellaneous equipment and fixtures	44	14	39	12
Total	205	76	184	75

Liabilities from finance leases (in million €)

	December 31, 2014			December 31, 2013		
	Minimum lease payments	Interest portion	Leasing liability	Minimum lease payments	Interest portion	Leasing liability
Following year 1	26	6	20	27	7	20
Following year 2	24	4	20	21	6	15
Following year 3	18	4	14	19	4	15
Following year 4	13	3	10	13	3	10
Following year 5	10	3	7	10	3	7
More than 5 years	38	15	23	45	17	28
Total	129	35	94	135	40	95

In 2014 and in 2013, no additional lease payments exceeding minimum lease payments due to contractual conditions for finance leases were recognized in the income statement.

In 2014 and 2013, leasing liabilities were not offset by any significant future minimum lease payments from subleases.

In addition, BASF is a lessee under operating lease contracts. The lease commitments totaling €1,587 million in 2014 (2013: €1,469 million) are due in the following years:

Commitments from operating lease contracts (in million €)

	Nominal value of the future minimum lease payments	
	Dec. 31, 2014	Dec. 31, 2013
Less than 1 year	397	341
1-5 years	779	785
More than 5 years	411	343
Total	1,587	1,469

Future minimum lease payments from subleasing contracts based on existing agreements amounted to €11 million in 2014 (2013: €6 million).

In 2014, minimum lease payments of €384 million were included in income from operations (2013: €367 million). In 2014, conditional lease payments of €1 million were also included in income from operations (2013: €1 million). Furthermore, €4 million in sublease payments was included in income from operations (2013: €3 million).

BASF as lessor

BASF acts as a lessor for finance leases to a minor extent only. Receivables on finance leases were €43 million in 2014 (2013: €21 million).

In 2014, minimum lease payments arising from operating leases had a nominal value of €20 million (2013: €17 million) within one year, €51 million (2013: €48 million) for more than one year and up to five years, and €29 million (2013: €22 million) for more than five years.

29 – Statement of cash flows and capital structure management

Statement of cash flows

Cash provided by operating activities included the following cash flows:

Million €	2014	2013
Income tax payments	1,231	1,125
Interest payments	490	446
Dividends received	244	238

Interest payments comprised interest received of €187 million (2013: €160 million) and interest paid of €677 million (2013: €606 million).

Cash provided by operating activities also included €47 million in benefits paid (2013: €250 million) which are covered by a contractual trust arrangement.

Cash used in investing activities included payments for acquisitions amounting to €963 million (2013: €1,156 million). These arose from the purchase of shares in producing oil and gas fields as well as exploration licenses from Statoil, Stavanger, Norway, and Tullow Oil Norge AS, Oslo, Norway. Payments from divestitures in the amount of €1,336 million (2013: €63 million) were primarily attributable to the sale of the 50% share in Styrolution Holding GmbH to the INEOS Group in the amount of around €900 million. Divestitures also included payments arising from the disposal of shares in non-BASF-operated oil and gas fields to the MOL Group, as well as from the sale of the PolyAd Services business to Edgewater Capital Partners, L.P., Cleveland, Ohio. The payments for property, plant and equipment, and intangible assets in the amount of €5,296 million included investments for 2014, to the extent that they already had an effect on cash.

Cash and cash equivalents were not subject to any utilization restrictions, as in the previous year.

 For more information on cash flow from acquisitions and divestitures, see Note 2.4 from page 175 onward

Capital structure management

The aim of capital structure management is to maintain the financial flexibility needed to further develop BASF's business portfolio and take advantage of strategic opportunities. The objectives of the Company's financing policy are to secure solvency, limit financial risks and optimize the cost of capital.

Capital structure management focuses on meeting the requirements needed to ensure unrestricted access to capital markets and a solid "A" rating. BASF's capital structure is managed using selected financial ratios, such as dynamic debt ratios, as part of the company's financial planning. The equity of the BASF Group as reported in the balance sheet amounted to €28,195 million as of December 31, 2014 (December 31, 2013: €27,673 million); the equity ratio was 39.5% on December 31, 2014 (December 31, 2013: 43.1%).

BASF prefers to access external financing on the capital markets. A commercial paper program is used for short-term financing, while corporate bonds are used for financing in the medium and long term. These are issued in euros and other currencies with different maturities. The goal is to create a balanced maturity profile and diverse range of investors, and to optimize our debt capital financing conditions.

As a part of risk management, activities in countries with transfer restrictions are continuously monitored. This includes, for example, regular analysis of the macroeconomic and legal environment, shareholders' equity and the business model of the operating unit. The chief aim is the reduction of counterparty, transfer and currency risks for the BASF Group.

Currently, BASF has the following ratings:

	Dec. 31, 2014		Dec. 31, 2013	
	Moody's	Standard & Poor's	Moody's	Standard & Poor's
Long-term financial indebtedness	A1	A+	A1	A+
Short-term financial indebtedness	P-1	A-1	P-1	A-1
Outlook	stable	stable	stable	stable

Moody's confirmed BASF's short-term and long-term rating on October 31, 2014 and Standard and Poor's on December 11, 2014 with a stable outlook.

BASF continues to strive for at least a solid "A" rating, which ensures unrestricted access to financial and capital markets.

 For more information on financing policy and the Statement of Cash Flows, see the Management's Report from page 58 onward

30 – Share-price-based compensation program and BASF incentive share program

Share-price-based compensation program

In 2014, BASF continued its share-price-based compensation program known as the long-term incentive (LTI) program for senior executives of the BASF Group. This program has been in place since 1999. Approximately 1,200 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program. This program provides for the granting of virtual options, which are settled in cash when exercised.

Participation in the LTI program is voluntary. In order to take part in the program, a participant must make a personal investment: A participant must hold BASF shares amounting to 10% to 30% of his or her individual variable compensation for a two-year period from the granting of the option (holding period). The number of shares to be held is determined by the amount of variable compensation and the weighted-average market price for BASF shares on the first business day after the Annual Shareholders' Meeting, which was €80.96 on May 5, 2014.

The participant receives four option rights per invested share. Each option consists of two parts, right A and right B, which may be exercised if defined thresholds have been met: The threshold of right A is met if the price of the BASF share has increased by more than 30% in comparison with the base price (absolute threshold). The value of right A will be 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. Right B may be exercised if the cumulative percentage performance of BASF shares exceeds (relative threshold) the percentage performance of the MSCI World Chemicals IndexSM (MSCI Chemicals). The value of right B will be the base price of the option multiplied by twice the percentage outperformance of BASF shares compared with the MSCI Chemicals Index on the exercise date. It is limited to the closing price on the date of exercise minus the computed nominal value of BASF shares. Beginning with the 2013 (LTI) program, right B is only valuable if the price of BASF shares at least corresponds with the base price. The options were granted on July 1, 2014, and may be exercised following a two-year vesting period, between July 1, 2016, and June 30, 2022. During the exercise period, there are certain times (closed periods) during which the options may not be exercised. Each option can only be exercised in full. This means that one of the performance targets must be surpassed. If the other performance target is not surpassed and the option is exercised, the other option right lapses. A participant's maximum gain from exercising an option is limited to five times the original individual investment starting with the 2013 LTI program. The maximum gain from exercising an option is limited to ten times the original individual investment for programs from previous years. Option rights are nontransferable and are forfeited if the option holders no longer work for BASF or have sold part of their individual investment before the expiry of the two-year vesting period. They remain valid in the case of retirement. For the members of the Board of Executive Directors, the long-term orientation of the program is significantly strengthened compared with

the conditions applying to the other participants. The members of the Board of Executive Directors are required to participate in the LTI program with at least 10% of their gross bonus. In view of this binding personal investment (in the form of BASF shares), an extended holding period of four years applies. Members of the Board of Executive Directors may only exercise their options at least four years after they have been granted (vesting period).

The 2007 to 2013 programs were structured in a similar way to the LTI program 2014.

The models used in the valuation of the option plans are based on the arbitrage-free valuation model according to Black-Scholes. The fair values of the options are determined using the binomial model.

Fair value of options and parameters used as of December 31, 2014

	LTI program of the year	
	2014	2013
Fair value	€ 20.76	24.15
Dividend yield	% 3.86	3.86
Risk-free interest rate	% 0.30	0.18
Volatility BASF share	% 28.63	29.53
Volatility MSCI Chemicals	% 19.50	20.11
Correlation BASF share price: MSCI Chemicals	% 79.03	78.81

As of December 31, 2014, the fair values and the valuation parameters relate to the LTI programs 2014 and 2013. The fair value calculation was based on the assumption that options will be exercised in a manner dependent on their potential gains. For the programs from preceding years, corresponding fair values were computed and valuation parameters were used.

Volatility was determined on the basis of the monthly closing prices over a historical period corresponding to the remaining term of the options.

The number of options granted amounted to 1,870,440 in 2014 (2013: 2,081,900).

As a result of a resolution by the Board of Executive Directors in 2002 to settle options in cash, options outstanding from the programs 2007 to 2014 were valued with the fair value as of the balance sheet date December 31, 2014. A proportionate provision is recorded for programs in the vesting period. The LTI provision decreased from €367 million as of December 31, 2013 to €207 million as of December 31, 2014, due to lower fair values of the options on average. The utilization of provisions amounted to €106 million in 2014 (2013: €148 million). Income arising from the reversal of the provision amounted to €54 million in 2014. The previous year had included an expense of €104 million.

The total intrinsic value of exercisable options amounted to €41 million as of December 31, 2014, and €160 million as of December 31, 2013.

BASF incentive share program

All employees are entitled to participate in the “*plus*” incentive share program, with the exception of those entitled to participate in the LTI program. The “*plus*” incentive share program was introduced in 1999 and is currently offered in Germany, other European countries and Mexico. Each participant must make an individual investment in BASF shares from his or her variable compensation. For every ten BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and ten years of holding the BASF shares. As a rule, the first and second block of ten shares entitles the participant to receive one BASF share at no extra cost in each of the next ten years.

The right to receive free BASF shares lapses if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement. The number of free shares to be granted has developed as follows:

Number of free shares to be granted

	2014	2013
As of January 1	2,908,076	2,886,647
Newly acquired entitlements	589,220	621,575
Bonus shares issued	(515,143)	(509,807)
Lapsed entitlements	(77,105)	(90,339)
As of December 31	2,905,048	2,908,076

The free shares to be provided by the Company are valued at the fair value on the grant date. Fair value is determined on the basis of the stock price of BASF shares, taking into account the present value of dividends, which are not paid during the term of the program. The weighted-average fair value on the grant date amounted to €64.73 for the 2014 program, and €54.39 for the 2013 program.

The fair value of the free shares to be granted is recognized as an expense with a corresponding increase in capital surplus over the term of the program.

Personnel expenses of €26 million were recorded in 2014 for the BASF incentive share program “*plus*” (2013: €21 million).

31 – Compensation for the Board of Executive Directors and Supervisory Board

Million €	2014	2013
Performance-related and not performance-related cash compensation for the Board of Executive Directors	21.5	21.0
Fair value of options granted to the Board of Executive Directors in the fiscal year as of grant date	6.0	5.5
Total compensation for the Board of Executive Directors	27.5	26.5
Service costs for members of the Board of Executive Directors	4.2	4.7
Compensation for the Supervisory Board	3.0	3.0
Total compensation for former members of the Board of Executive Directors and their surviving dependents	6.5	10.5
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	143.5	131.8
Guarantees assumed for members of the Board of Executive Directors and the Supervisory Board	–	–

Performance-related compensation for the Board of Executive Directors is based on the return on assets, as well as the performance of the entire Board. Return on assets corresponds to earnings before taxes plus borrowing costs as a percentage of average assets.

The members of the Board of Executive Directors were granted 193,172 options under the long-term incentive (LTI) program in 2014.

The market valuation of the options of active and former members of the Board resulted in income of €3.7 million in 2014. In 2013, the market valuation of the options resulted in expenses of €10.3 million.

 For more information on the compensation of members of the Board of Executive Directors, see the Compensation Report from page 138 onward. For more information on the members of the Supervisory Board and Board of Executive Directors, including their memberships on other boards, see page 136 onward.

32 – Related-party transactions

IAS 24 requires the disclosure of transactions with related parties.

A related party is a natural person or legal entity which can exert influence on the BASF Group or over which the BASF Group exercises control or joint control or a significant influence. In particular, this comprises nonconsolidated subsidiaries, joint ventures and associated companies.

The following tables show the volume of business with related parties that are included at amortized cost or accounted for using the equity method.

Sales to related parties (in million €)

	2014	2013
Nonconsolidated subsidiaries	504	507
Joint ventures	577	609
Associated companies	1,991	3,217

Trade accounts receivable from / trade accounts payable to related parties (in million €)

	Accounts receivable, trade		Accounts payable, trade	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Nonconsolidated subsidiaries	141	154	62	70
Joint ventures	145	117	238	293
Associated companies	88	397	50	101

Other receivables and liabilities with related parties (in million €)

	Other receivables		Other liabilities	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Nonconsolidated subsidiaries	204	187	120	115
Joint ventures	160	66	86	103
Associated companies	641	710	178	120

Sales and trade accounts receivable from and trade accounts payable to related parties mainly included business with own products, merchandise, agency and licensing business and other operating business.

Other receivables and liabilities primarily arose from financing activities, outstanding dividend payments, profit-and-loss transfer agreements as well as other finance-related and operative activities and events.

The decrease in sales with associated companies in 2014 related primarily to the decrease in sales with companies of the Styrolution Group in the amount of €798 million particularly due to the plant outage at Ellba C.V. at the site in Moerdijk, Netherlands.

As in the previous year, there were no significant valuation allowances in 2014 for trade accounts receivable from related parties.

There were obligations from guarantees at BASF in favor of nonconsolidated subsidiaries in the amount of €8 million in 2014 (2013: €14 million) and obligations from guarantees and warranties in favor of associated companies in the amount of €27 million in 2014 (2013: €28 million).

Long-term purchase obligations with joint ventures arising from natural gas purchase contracts amounted to €32,561 million on December 31, 2014 (December 31, 2013: €46,141 million). The decrease was primarily due to the decline in oil prices.

Effective December 31, 2014, the present value of the outstanding minimum rental payments for an office building including parking area payable by BASF SE to BASF Pensionskasse VVaG for the nonterminable basic rental period to 2029 amounted to €63 million.

There were no reportable related party transactions with members of the Board of Executive Directors or the Supervisory Board and their related parties in 2014.

For more information on subsidiaries, joint ventures and associated companies, see the List of Shares Held of the BASF Group 2014 on page 179

For more information on defined benefit plans that share risks between the Group companies (including nonconsolidated subsidiaries), see "Provisions for pensions and similar obligations" from page 199 onward

For more information on the Board of Executive Directors and the Supervisory Board, see Management and Supervisory Boards and Compensation Report from page 136 onward

33 – Services provided by the external auditor

BASF Group companies have used the following services from KPMG:

Million €	2014	2013
Annual audit	19.2	20.5
Thereof domestic	7.3	7.7
Audit-related services	0.4	0.5
Thereof domestic	0.1	0.2
Tax consultation services	0.2	0.1
Thereof domestic	0.1	0.1
Other services	0.6	0.3
Thereof domestic	0.2	0.3
Total	20.4	21.4

The line item annual audit related to expenses for the audit of the Consolidated Financial Statements of the BASF Group as well as the legally required financial statements of

BASF SE and its consolidated subsidiary companies and joint operations.

34 – Declaration of Conformity with the German Corporate Governance Code

Declaration pursuant to Section 161 AktG (Stock Corporation Act)

The annual Declaration of Conformity with the German Corporate Governance Code according to Section 161 of the

German Stock Corporation Act was signed by the Board of Executive Directors and the Supervisory Board of BASF SE in December 2014, and is published online.

 For more information, see basf.com/governance_e

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Supplementary Information on the Oil & Gas Segment (Unaudited)

The following tables provide supplemental information on the Exploration & Production business sector of the Oil & Gas segment. In the absence of detailed disclosure rules in this area under IFRS, the Group has elected to voluntarily disclose the following information in accordance with SFAS 69 (Disclosure of Oil and Gas Producing Activities) and the Securities and Exchange Commission. In order to present economically meaningful reporting of the cooperation with Gazprom in the Yuzhno Russkoye and Achimgaz projects, several modifications have been made to SFAS 69. BASF has an interest of 35% in the economic rewards of the Yuzhno Russkoye field through Severneftegazprom (SNG), the company which holds the production license. SNG is accounted for using the equity method. Marketing of the natural gas is carried out by a separate, fully consolidated company. For the Achimgaz project, in which BASF has an interest of 50%, full field development was started after the successful completion of the pilot phase in 2011.

In the following overviews, BASF's stake in both projects is included under "Russia." In addition, the values for SNG, which is accounted for using the equity method, are presented separately.

All fully consolidated subsidiaries are included with 100%. The German Wintershall subsidiary with production and exploration rights to the Libyan onshore concessions 96 and 97, in which BASF has an interest of 51%, is accounted for as associated company for using the equity method as per IAS 28.

The following table provides an overview of the most important differences between the information given for the Exploration & Production business sector in the Consolidated Financial Statement of the BASF Group and the supplemental information for the Oil & Gas segment.

	BASF reporting	Supplementary information on Oil & Gas
Other activities in Exploration & Production (e.g., trading business and joint venture services)	included	not included
Activities accounted for using the equity method (Severneftegazprom, Wolgodeminol and Wintershall AG)	equity-accounted income included in EBIT	included on a proportional basis
Corporate overhead costs and financing costs	included	not included

The regions include the following countries with operating activities:

Region	Exploration & Production	Exploration
Russia	Russia	
Rest of Europe	United Kingdom, the Netherlands, Norway	Denmark
North Africa / Middle East	Libya	Abu Dhabi, Qatar
South America	Argentina	Chile

Statistical information on the concession areas or the number of wells is not given due to its limited informative value.

Oil and gas reserves

Proven oil and gas reserves are the estimated volumes of crude oil, natural gas and condensate that are shown by geological and engineering data with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions. Accordingly, reserve estimates could be materially different from the quantities of oil and natural gas that are ultimately recovered. To reduce uncertainties, Wintershall uses independent, internationally recognized reserve auditors to perform recurring reserves audits of its major oil and gas fields.

The tables on the following pages show the company's developed proven and probable proven reserves as of December 31, 2013, and December 31, 2014, as well as changes attributable to production and other factors.

Oil 2014

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Proven developed and undeveloped oil reserves as of January 1, in million barrels (MMbbl)	57	43	89	117	11	317
Revisions and other changes	3	29	103	(10)	1	126
Extensions and discoveries	-	-	-	-	-	-
Purchase/sale of reserves	-	15	-	-	-	15
Production	7	9	9	4	2	31
Proven reserves as of December 31	53	78	183	103	10	427
Thereof equity-accounted companies	-	-	8	93	-	101
Proven reserves excluding equity-accounted companies	53	78	175	10	10	326
Proven developed reserves as of December 31	43	42	112	89	7	293

Gas 2014

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Proven developed and undeveloped gas reserves as of January 1, in billion standard cubic feet (BSCF)¹	208	334	4,773	68	1,009	6,392
Revisions and other changes	(38)	38	1,004	(7)	5	1,002
Extensions and discoveries	-	-	-	-	-	-
Purchase/sale of reserves	-	370	-	-	-	370
Production	24	74	365	-	127	590
Proven reserves as of December 31	146	668	5,412	61	887	7,174
Thereof equity-accounted companies	-	-	3,350	61	-	3,411
Proven reserves excluding equity-accounted companies	146	668	2,062	-	887	3,763
Proven developed reserves as of December 31	115	350	4,435	53	505	5,458

¹ Natural gas can be converted with a factor of 5.6 BSCF per MMBOE (million barrels of oil equivalent).

Oil 2013

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Proven developed and undeveloped oil reserves as of January 1, in million barrels (MMbbl)	57	18	52	124	20	271
Revisions and other changes	7	1	44	4	(7)	49
Extensions and discoveries	–	–	1	–	–	1
Purchase/sale of reserves	–	28	–	–	–	28
Production	7	4	8	11	2	32
Proven reserves as of December 31	57	43	89	117	11	317
Thereof equity-accounted companies	–	–	9	103	–	112
Proven reserves excluding equity-accounted companies	57	43	80	14	11	205
Proven developed reserves as of December 31	45	29	56	96	8	234

Gas 2013

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Proven developed and undeveloped gas reserves as of January 1, in billion standard cubic feet (BSCF)¹	205	129	3,794	86	1,102	5,316
Revisions and other changes	27	43	1,328	(13)	41	1,426
Extensions and discoveries	–	–	–	–	–	–
Purchase/sale of reserves	–	211	–	–	–	211
Production	24	49	349	5	134	561
Proven reserves as of December 31	208	334	4,773	68	1,009	6,392
Thereof equity-accounted companies	–	–	3,637	68	–	3,705
Proven reserves excluding equity-accounted companies	208	334	1,136	–	1,009	2,687
Proven developed reserves as of December 31	168	302	4,264	56	597	5,387

¹ Natural gas can be converted with a factor of 5.6 BSCF per MMBOE (million barrels of oil equivalent).

Operating income from oil and gas-producing activities

Operating income represents only those revenues and expenses directly associated with Wintershall's oil and gas production. These amounts do not include financing costs (such as interest expenses) or corporate overhead costs and therefore do not correspond with the contributions associated with the Oil & Gas segment. The deviations in sales compared with segment reporting are the result of merchandise and

service transactions not shown here, as well as the proportional inclusion in the IFRS-based Financial Statements of companies accounted for using the equity method. Estimated income taxes were computed using local applicable income tax rates. At year-end 2012, the assets and liabilities of Wintershall Noordzee B.V. were reclassified into a disposal group in the financial statements in anticipation of the asset swap planned with Gazprom. The cancellation of the transaction made it necessary to reintegrate the suspended write-downs by restating the figures for 2013.

2014 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Sales crude oil (including condensate and LPG)	419	519	194	249	114	1,495
Sales natural gas	107	468	772	–	277	1,624
Local duties (royalties, export, etc.)	90	2	167	4	79	342
Total sales (net of duties)	436	985	799	245	312	2,777
Production costs	131	277	71	58	105	642
Exploration expenses	9	119	3	44	15	190
Depreciation, amortization and impairment	109	439	38	106	56	748
Other	10	(356)	61	12	(61)	(334)
Income before taxes	177	506	626	25	197	1,531
Income taxes	59	200	122	122	70	573
Operating income after taxes	118	306	504	(97)	127	958
Equity-accounted income	–	–	38	2	–	40
Income after taxes and equity-accounted income	118	306	466	(99)	127	918

2013 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Sales crude oil (including condensate and LPG)	505	326	172	865	132	2,000
Sales natural gas	142	398	890	1	238	1,669
Local duties (royalties, export, etc.)	115	2	165	30	81	393
Total sales (net of duties)	532	722	897	836	289	3,276
Production costs	116	195	77	112	100	600
Exploration expenses	8	197	11	41	17	274
Depreciation, amortization and impairment	69	218	36	77	49	449
Other	8	(77)	33	(6)	(103)	(145)
Income before taxes	331	189	740	612	226	2,098
Income taxes	96	79	153	599	60	987
Operating income after taxes	235	110	587	13	166	1,111
Equity-accounted income	–	–	82	37	–	119
Income after taxes and equity-accounted income	235	110	505	(24)	166	992

Period costs for acquisition, exploration and development of oil and gas deposits

Period costs include all amounts incurred in connection with the acquisition, exploration or development of oil and gas deposits, regardless of whether these were capitalized or expensed.

2014 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Acquisitions	–	957	–	–	–	957
Exploration and technology	14	174	17	70	31	306
Development	93	571	184	20	207	1,075
Total net costs	107	1,702	201	90	238	2,338

2013 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Acquisitions	–	853	–	–	–	853
Exploration and technology	10	262	19	60	34	385
Development	68	534	152	37	69	860
Total net costs	78	1,649	171	97	103	2,098

Capitalized costs relating to oil and gas producing activities

Capitalized costs represent total expenditures on proven and unproven oil and gas deposits with related accumulated depreciation and amortization.

2014 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Proven properties	897	4,289	1,904	852	1,244	9,186
Unproven properties	48	1,270	7	180	135	1,640
Other equipment	761	1,099	–	25	–	1,885
Total gross assets	1,706	6,658	1,911	1,057	1,379	12,711
Accumulated depreciation	1,192	2,486	409	678	837	5,602
Total net assets	514	4,172	1,502	379	542	7,109

2013 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Proven properties	786	2,604	2,415	825	1,024	7,654
Unproven properties	72	1,167	17	176	62	1,494
Other equipment	729	958	1	25	–	1,713
Total gross assets	1,587	4,729	2,433	1,026	1,086	10,861
Accumulated depreciation	1,100	2,049	461	605	734	4,949
Total net assets	487	2,680	1,972	421	352	5,912

Capitalized exploration well-drilling costs: Suspended well costs

Exploratory drilling costs are capitalized until the drilling of the well is complete. If hydrocarbons are found, and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development, the costs continue to be capitalized as construction in progress. All such capitalized costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. If this is no longer the case, the costs are written off. If proven reserves of oil or natural gas are determined and development is sanctioned, the relevant expenses are transferred to machinery and technical equipment. Impairments are recognized in exploration expenses for unsuccessful exploration wells.

The following table indicates the changes to the capitalized exploration well-drilling costs.

Capitalized exploration well-drilling costs¹ (in million €)

	2014	2013
As of January 1	532	471
Additions pending determination of proven reserves	152	223
Capitalized exploratory well costs charged to expense	(203)	(98)
Reclassifications to wells, facilities and equipment	(48)	(64)
As of December 31	433	532

¹ Only fully consolidated companies

The following table provides an aging of capitalized well costs, the amounts capitalized and the number of suspended exploration wells.

Capitalized exploration well-drilling costs¹ (in million €)

	2014	2013
Wells for which drilling is not complete	135	120
Wells capitalized less than one year	48	144
Wells capitalized more than one year	250	268
Total	433	532
Number of suspended wells	41	39

¹ Only fully consolidated companies

Standardized measure of discounted future net cash flows relating to proven oil and gas reserves (SMOG)

The following information has been prepared in accordance with SFAS 69 and the regulations of the Securities and Exchange Commission, which require the standardized calculation of discounted future cash flows based on the respective revenues, costs and income taxes. The proven reserves are valued at the average price calculated from the prices on the first day of the month. The values thus determined are discounted at a 10% annual discount rate.

The projected values should not be understood as a realistic estimate of future cash flows. Furthermore, the total value of future net cash flows should not be interpreted as representing the current enterprise value.

In the future, expected proven reserves may differ significantly from current estimates. Development and production of the reserves may not occur in the period assumed and actual prices and costs may vary considerably.

The company's investment and operating decisions are not based on the information presented below, but on a wider range of reserve estimates, as well as on different price and cost assumptions.

Beyond the above considerations, the "standardized measure of future net cash flows" is also not directly comparable with asset balances appearing elsewhere in the Consolidated Financial Statements because any such comparison would require a reconciliation adjustment.

Standardized measures of discounted future net cash flows 2014 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Future revenues	3,726	9,521	12,193	6,960	2,461	34,861
Future production/development costs	2,366	5,055	2,766	1,762	1,225	13,174
Future income taxes	273	2,722	1,663	4,564	294	9,516
Future net cash flows	1,087	1,744	7,764	634	942	12,171
Discounted to present value at a 10% annual rate	353	406	3,409	(289)	264	4,143
Standardized measures of discounted future net cash flows	734	1,338	4,355	923	678	8,028
Thereof equity-accounted companies	-	-	652	656	-	1,308
Total excluding equity-accounted companies	734	1,338	3,703	267	678	6,720

Standardized measures of discounted future net cash flows 2013 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Future revenues	4,537	6,059	11,021	9,246	2,879	33,742
Future production/development costs	2,231	3,114	2,045	2,499	1,179	11,068
Future income taxes	518	2,002	1,522	5,184	489	9,715
Future net cash flows	1,788	943	7,454	1,563	1,211	12,959
Discounted to present value at a 10% annual rate	713	185	3,063	477	446	4,884
Standardized measures of discounted future net cash flows	1,075	758	4,391	1,086	765	8,075
Thereof equity-accounted companies	-	-	726	835	-	1,561
Total excluding equity-accounted companies	1,075	758	3,665	251	765	6,514

Summary of changes in standardized measure of discounted future net cash flows 2014 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Balance as of January 1	1,075	758	4,391	1,086	765	8,075
Sales and transfers of oil and gas produced, net of production costs	(304)	(718)	(782)	(202)	(207)	(2,213)
Net changes in price and in development and production costs	(402)	(751)	(623)	(466)	(245)	(2,487)
Extension, discoveries and improved recovery, less related costs	-	-	-	-	-	-
Revisions of previous quantity estimates	106	1,298	1,435	(376)	20	2,483
Development costs incurred during the period	97	503	183	13	207	1,003
Changes in estimated future development costs	(93)	(262)	(691)	79	(123)	(1,090)
Purchase/sale reserves	-	923	-	-	-	923
Net change in income taxes	130	(626)	(44)	363	109	(68)
Accretion of discounts	127	213	486	426	102	1,354
Other	(2)	-	-	-	50	48
Standardized measures of discounted future net cash flows (SMOG)	734	1,338	4,355	923	678	8,028
Thereof equity-accounted companies	-	-	652	656	-	1,308
Total excluding equity-accounted companies	734	1,338	3,703	267	678	6,720

Summary of changes in standardized measure of discounted future net cash flows 2013 (in million €)

	Germany	Rest of Europe	Russia	North Africa, Middle East	South America	Total
Balance as of January 1	1,303	25	4,032	998	454	6,812
Sales and transfers of oil and gas produced, net of production costs	(416)	(221)	(826)	(734)	(188)	(2,385)
Net changes in price and in development and production costs	(130)	(217)	(207)	(776)	522	(808)
Extension, discoveries and improved recovery, less related costs	-	-	9	-	-	9
Revisions of previous quantity estimates	133	81	1,029	486	77	1,806
Development costs incurred during the period	68	343	152	27	67	657
Changes in estimated future development costs	(128)	83	(170)	(196)	(67)	(478)
Purchase/sale reserves	-	689	-	-	-	689
Net change in income taxes	92	(55)	(71)	783	(157)	592
Accretion of discounts	155	26	443	498	57	1,179
Other	(2)	4	-	-	-	2
Standardized measures of discounted future net cash flows (SMOG)	1,075	758	4,391	1,086	765	8,075
Thereof equity-accounted companies	-	-	726	835	-	1,561
Total excluding equity-accounted companies	1,075	758	3,665	251	765	6,514

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Ten-year summary

Million €	2005	2006	2007	2008	2009	2010	2011	2012 ¹	2013 ²	2014
Sales and earnings										
Sales	42,745	52,610	57,951	62,304	50,693	63,873	73,497	72,129	73,973	74,326
Income from operations before depreciation and amortization (EBITDA)	8,233	9,723	10,225	9,562	7,388	11,131	11,993	10,009	10,432	11,043
Income from operations (EBIT)	5,830	6,750	7,316	6,463	3,677	7,761	8,586	6,742	7,160	7,626
Income before taxes	5,926	6,527	6,935	5,976	3,079	7,373	8,970	5,977	6,600	7,203
Income before minority interests	3,168	3,466	4,325	3,305	1,655	5,074	6,603	5,067	5,113	5,492
Net income	3,007	3,215	4,065	2,912	1,410	4,557	6,188	4,819	4,792	5,155
Capital expenditures, depreciation and amortization										
Additions to property, plant and equipment and intangible assets	2,523	10,039	4,425	3,634	5,972	5,304	3,646	5,263	7,726	7,285
Thereof property, plant and equipment	2,188	4,068	2,564	2,809	4,126	3,294	3,199	4,084	6,428	6,369
Depreciation and amortization of property, plant and equipment and intangible assets	2,403	2,973	2,909	3,099	3,711	3,370	3,407	3,267	3,272	3,417
Thereof property, plant and equipment	2,035	2,482	2,294	2,481	2,614	2,667	2,618	2,594	2,631	2,770
Number of employees										
At year-end	80,945	95,247	95,175	96,924	104,779	109,140	111,141	110,782	112,206	113,292
Annual average	80,992	88,160	94,893	95,885	103,612	104,043	110,403	109,969	111,844	112,644
Personnel expenses										
	5,574	6,210	6,648	6,364	7,107	8,228	8,576	8,963	9,285	9,224
Research and development expenses										
	1,064	1,277	1,380	1,355	1,398	1,492	1,605	1,732	1,849	1,884
Key data										
Earnings per share ^{3,4}	€ 2.87	3.19	4.16	3.13	1.54	4.96	6.74	5.25	5.22	5.61
Cash provided by operating activities ⁵	5,250 ⁶	5,940	5,807	5,023	5,693	6,460	7,105	6,602	8,100	6,958
EBITDA margin	% 19.3	18.5	17.6	15.3	14.6	17.4	16.3	13.9	14.1	14.9
Return on assets	% 17.7	17.5	16.4	13.5	7.5	14.7	16.1	11.0	11.5	11.7
Return on equity after tax	% 18.6	19.2	22.4	17.0	8.9	24.6	27.5	19.9	19.2	19.7
Appropriation of profits										
Net income of BASF SE ⁷	1,273	1,951	2,267	2,982	2,176	3,737	3,506	2,880	2,826	5,853
Dividends	1,015	1,484	1,831	1,791	1,561	2,021	2,296	2,388	2,480	2,572
Dividend per share ³	€ 1.00	1.50	1.95	1.95	1.70	2.20	2.50	2.60	2.70	2.80
Number of shares as of December 31^{3,8}										
million	1,028.8	999.4	956.4	918.5	918.5	918.5	918.5	918.5	918.5	918.5

¹ We have applied International Financial Reporting Standards 10 and 11 as well as International Accounting Standard 19 (revised) since January 1, 2013. Figures for 2012 have been restated; no restatement was made for 2011 and earlier.

² Figures for 2013 have been adjusted to reflect the dissolution of the natural gas trading business disposal group.

³ We conducted a two-for-one stock split in the second quarter of 2008. The previous year's figures for earnings per share, dividend per share and number of shares have been adjusted accordingly.

⁴ Adjusted for special items and impairment of intangible assets, earnings per share were €5.44 in 2014 and €5.31 in 2013.

⁵ Includes the change in reporting from 2009 onward of the effects of regular extensions of U.S. dollar hedging transactions

⁶ Before external financing of pension obligations

⁷ Calculated in accordance with German GAAP

⁸ After deduction of repurchased shares earmarked for cancellation

Balance Sheet (IFRS)

Million €	2005	2006	2007	2008	2009	2010	2011	2012 ¹	2013 ²	2014
Intangible assets	3,720	8,922	9,559	9,889	10,449	12,245	11,919	12,193	12,324	12,967
Property, plant and equipment	13,987	14,902	14,215	15,032	16,285	17,241	17,966	16,610	19,229	23,496
Investments accounted for using the equity method	244	651	834	1,146	1,340	1,328	1,852	3,459	4,174	3,245
Other financial assets	813	1,190	1,952	1,947	1,619	1,953	848	613	643	540
Deferred taxes	1,255	622	679	930	1,042	1,112	941	1,473	1,006	2,193
Other receivables and miscellaneous noncurrent assets	524	612	655	642	946	653	561	911	877	1,498
Noncurrent assets	20,543	26,899	27,894	29,586	31,681	34,532	34,087	35,259	38,253	43,939
Inventories	5,430	6,672	6,578	6,763	6,776	8,688	10,059	9,581	10,160	11,266
Accounts receivable, trade	7,020	8,223	8,561	7,752	7,738	10,167	10,886	9,506	10,233	10,385
Other receivables and miscellaneous current assets	1,586	2,607	2,337	3,948	3,223	3,883	3,781	3,455	3,714	4,032
Marketable securities	183	56	51	35	15	16	19	14	17	19
Cash and cash equivalents	908	834	767	2,776	1,835	1,493	2,048	1,647	1,827	1,718
Assets of disposal groups	–	–	614	–	–	614	295	3,264	–	–
Current assets	15,127	18,392	18,908	21,274	19,587	24,861	27,088	27,467	25,951	27,420
Total assets	35,670	45,291	46,802	50,860	51,268	59,393	61,175	62,726	64,204	71,359
Subscribed capital	1,317	1,279	1,224	1,176	1,176	1,176	1,176	1,176	1,176	1,176
Capital surplus	3,100	3,141	3,173	3,241	3,229	3,216	3,203	3,188	3,165	3,143
Retained earnings	11,928	13,302	14,556	13,250	12,916	15,817	19,446	23,708	26,102	28,777
Other comprehensive income	696	325	174	(96)	156	1,195	314	(3,461)	(3,400)	(5,482)
Minority interests	482	531	971	1,151	1,132	1,253	1,246	1,010	630	581
Equity	17,523	18,578	20,098	18,722	18,609	22,657	25,385	25,621	27,673	28,195
Provisions for pensions and similar obligations	1,547	1,452	1,292	1,712	2,255	2,778	3,189	5,421	3,727	7,313
Other provisions	2,791	3,080	3,015	2,757	3,289	3,352	3,335	2,925	3,226	3,502
Deferred taxes	699	1,441	2,060	2,167	2,093	2,467	2,628	2,234	2,894	3,420
Financial indebtedness	3,682	5,788	6,954	8,290	12,444	11,670	9,019	8,704	11,151	11,839
Other liabilities	1,043	972	901	917	898	901	1,142	1,111	1,194	1,197
Noncurrent liabilities	9,762	12,733	14,222	15,843	20,979	21,168	19,313	20,395	22,192	27,271
Accounts payable, trade	2,777	4,755	3,763	2,734	2,786	4,738	5,121	4,502	5,153	4,861
Provisions	2,763	2,848	2,697	3,043	3,276	3,324	3,210	2,628	2,670	2,844
Tax liabilities	887	858	881	860	1,003	1,140	1,038	870	968	1,079
Financial indebtedness	259	3,695	3,148	6,224	2,375	3,369	3,985	4,094	3,256	3,545
Other liabilities	1,699	1,824	1,976	3,434	2,240	2,802	3,036	2,623	2,292	3,564
Liabilities of disposal groups	–	–	17	–	–	195	87	1,993	–	–
Current liabilities	8,385	13,980	12,482	16,295	11,680	15,568	16,477	16,710	14,339	15,893
Total equity and liabilities	35,670	45,291	46,802	50,860	51,268	59,393	61,175	62,726	64,204	71,359

¹ We have applied International Financial Reporting Standards 10 and 11 as well as International Accounting Standard 19 (revised) since January 1, 2013. Figures for 2012 have been restated; no restatement has been made for 2011 and earlier.

² Figures for 2013 have been adjusted to reflect the dissolution of the natural gas trading business disposal group.

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Glossary

A

Associated companies

These are companies over whose operating and financial policies BASF can exercise significant influence, and which are not subsidiaries, joint ventures or joint operations. In general, this applies to companies in which BASF has an interest of 20% to 50%.

Audits

Audits are a strategic tool for monitoring and directing standards. During a site or plant audit, clearly defined criteria are used to create a profile on topics such as environment, safety or health.

B

Backup line

A backup line is a confirmed line of credit that can be drawn upon in connection with the issue of commercial paper if market liquidity is not sufficient, or for the purpose of general corporate financing. It is one of the instruments BASF uses to ensure it is able to make payments at all times.

Barrel of oil equivalent (BOE)

A barrel of oil equivalent (BOE) is an international unit of measurement for comparing the energy content of different fuels. It is equal to one barrel of crude oil, or 6,000 cubic feet (169 cubic meters) of natural gas.

Biocatalysis

Biocatalysis is the use of enzymes as biological catalysts for the targeted application, acceleration or control of chemical reactions. The high selectivity of enzyme catalysts allows for simplified processes and lower production costs.

Biotechnology

Biotechnology includes all processes and products that make use of living organisms, such as bacteria and yeasts, or their cellular constituents.

1,4-Butanediol (BDO)

1,4-Butanediol (BDO) is a BASF intermediate. BDO and its derivatives are used for producing plastics, polyurethanes, solvents, electronic chemicals and elastic fibers.

C

CO₂ equivalents

CO₂ equivalents are units for measuring the impact of greenhouse gas emissions on the greenhouse effect. A factor known as the global warming potential (GWP) shows the impact of the individual gases compared with CO₂ as the reference value.

Coil coatings

Coil coatings are specialty coatings that can be applied to steel and aluminum bands, creating a composite material that combines the traits of the metal and the coating material. The composite material is especially resistant to corrosion and can be easily formed. Coil coating sheets are mainly used in the construction industry.

Commercial paper program

The commercial paper program is a framework agreement between BASF and banks regarding the issuing of debt obligations on the financial market (commercial paper). The commercial paper is issued under a rolling program for which the terms can be determined individually. This requires a good rating.

Compliance

Compliance is an important element of corporate governance. It refers to the company's behavior in accordance with laws, guidelines and voluntary codices.

Conflict minerals/conflict mines

Conflict minerals describe minerals listed in the U.S. Conflict Minerals Trade Act. These include tantalite (coltan), cassiterite (tin ore), wolframite, gold, and their derivatives. Some conflict mines are suspected of being used to finance armed conflicts in the Democratic Republic of Congo or neighboring states.

Consumer goods sector

The consumer goods sector includes, for example, the textiles and leather industry, the electrical industry and domestic appliance manufacturing, as well as the paper industry and the personal care and cleaners sector.

E

EBIT

Earnings before interest and taxes (EBIT): At BASF, EBIT corresponds to income from operations.

EBIT after cost of capital

EBIT after cost of capital is calculated by deducting the cost of capital from the EBIT of the operating divisions. The cost of capital thereby reflects the shareholders' expectations regarding return (in the form of dividends or share price increases) and interest payable to creditors. If the EBIT after cost of capital has a positive value, we have earned a premium on our cost of capital.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA): At BASF, EBITDA corresponds to income from operations before depreciation and amortization.

EBITDA margin

The EBITDA margin is the margin that we earn on sales from our operating activities before depreciation and amortization. It is calculated as income from operations before depreciation and amortization as a percentage of sales.

Eco-Efficiency Analysis

The Eco-Efficiency Analysis is a method developed by BASF for assessing the economic and environmental aspects of products and processes. The aim is to compare products with regard to profitability and environmental compatibility.

Ecosystem services

Companies simultaneously rely on, and have an impact on, ecosystem services, such as the conservation of air, water and soil quality. Biodiversity – or the variety of life forms on our planet – serves as a basis of and indicator for the integrity of ecological systems.

Enhanced oil recovery (EOR)

Enhanced oil recovery (EOR) methods, also called tertiary recovery or tertiary production methods, are used to increase the recovery factor from oil reservoirs. Different technologies are employed depending on reservoir conditions; a distinction is generally made between thermal and chemical EOR and miscible gas flooding, which makes use of gases such as carbon dioxide.

Equity method

The equity method is used to account for shareholdings in joint ventures and associated companies. Based on the acquisition costs of the shareholding as of the acquisition date, the carrying amount is continuously adjusted to the changes in equity of the company in which the share is held.

European Water Stewardship (EWS) Standard

The European Water Stewardship (EWS) Standard enables businesses and agriculture to assess the sustainability of their water management practices. The criteria are water abstraction volumes, water quality, conservation of biodiversity and water governance. The Europe-wide standard came into force at the end of 2011 and was developed by nongovernmental organizations, governments and businesses under the direction of the independent organization European Water Partnership (EWP).

Exploration

Exploration refers to the search for mineral resources, such as crude oil or natural gas, in the Earth's crust. The exploration process involves using suitable geophysical methods to find structures that may contain oil and gas, then proving a possible discovery by means of exploratory drilling.

F**Field development**

Field development is the term for the installation of production facilities and the drilling of production wells for the commercial exploitation of oil and natural gas deposits.

Formulation

Formulation describes the combination of one or more active substances with excipients like emulsifiers, stabilizers and other inactive components in order to improve the applicability and effectiveness of various products, such as cosmetics, pharmaceuticals, agricultural chemicals, paints and coatings.

Free cash flow

Free cash flow is cash provided by operating activities less payments related to property, plant and equipment and intangible assets.

G**Global Compact**

In the United Nations Global Compact network, nongovernmental organizations, companies, international business and employee representatives, scientists and politicians work on aligning global business with the principles of sustainable development. As a founding member of Global Compact, BASF is committed to upholding the ten principles in the categories human rights, labor relations, environmental protection and corruption. We regularly report on our implementation of the principles.

Global Product Strategy (GPS)

The Global Product Strategy aims to establish global product stewardship standards and practices for companies. The program, initiated by the International Council of Chemical Associations, strives to ensure the safe handling of chemicals by reducing existing differences in risk assessment.

Global Reporting Initiative (GRI)

The Global Reporting Initiative is a multistakeholder organization. It was established in 1997 with the aim of developing a guideline for companies' and organizations' voluntary reporting on their economic, environmental and social activities. Since 2003, BASF has followed this globally recognized standard in sustainability reporting and is involved in the standard's further development.

Greenhouse Gas Protocol (GHG Protocol)

The Greenhouse Gas Protocol, used by companies in different sectors as well as nongovernmental organizations and governments, is a globally recognized standard to quantify and manage greenhouse gas emissions. The reporting standards and recommendations for implementing projects to reduce emissions are jointly developed by companies, nongovernmental organizations and governments under the guidance of the World Resources Institute and the World Business Council for Sustainable Development.

H**Health Performance Index (HPI)**

The Health Performance Index is an indicator developed by BASF to provide more detailed insight into our approach to health management. It comprises five components: confirmed occupational diseases, medical emergency drills, first aid, preventive medicine and health promotion.

I**IAS**

IAS stands for International Accounting Standards (see also IFRS).

IFRS

The International Financial Reporting Standards (until 2001: International Accounting Standards, IAS) are developed and published by the International Accounting Standards Board, headquartered in London, England. The "IAS Regulation" made the application of IFRSs mandatory for listed companies headquartered in the European Union starting in 2005.

ILO Core Labor Standards

The ILO Core Labor Standards are set out in a declaration of the International Labor Organization (ILO), comprising eight conventions that set minimum requirements for decent working conditions. BASF has a Group-wide system to monitor employees' and suppliers' adherence to these labor standards.

ISO 14001

ISO 14001 is an international standard developed by the International Organization for Standardization (ISO) that determines the general requirements for an environmental management system for voluntary certification.

ISO 19011

ISO 19011 is an international standard developed by the International Organization for Standardization (ISO) that determines requirements for audits of quality management and environmental management systems.

ISO 50001

ISO 50001 is an international standard developed by the International Organization for Standardization (ISO) that determines the general requirements for an energy management system for voluntary certification.

IUCN categories of protected areas

The International Union for Conservation of Nature (IUCN) is an international nongovernmental organization that aims to raise awareness for the protection of species and to contribute to the sustainable use and conservation of resources. IUCN classifies the world's protected areas. Categories I, II and III refer to "Strict Nature Reserve and Wilderness Area," "National Park" and "Natural Monuments or Features," respectively.

J**Joint arrangement**

A joint arrangement refers to joint ventures and joint operations, and describes a jointly controlled arrangement of two or more parties. This arrangement exists if decisions about relevant activities require the unanimous consent of all parties sharing control.

Joint operation

A joint operation is a joint arrangement in which the parties that share control have direct rights to the assets and liabilities relating to the arrangement. For joint operations, the proportional share of assets, liabilities, income and expenses are reported in the BASF Group Consolidated Financial Statements.

Joint venture

A joint venture is a joint arrangement in which the parties that have joint control of a legally independent entity have rights to the net assets of that arrangement. Joint ventures are accounted for using the equity method in the BASF Group Consolidated Financial Statements.

L**Long-term incentive program (LTI)**

The long-term incentive program is a share-price-based compensation program for senior executives of the BASF Group and members of the Board of Executive Directors. The program aims to tie a portion of the participants' compensation to the long-term, absolute and relative performance of BASF shares.

M**Materiality analysis/material aspects**

BASF uses the materiality analysis to gain information from internal and external stakeholders about the significance of sustainability topics. The results, which are grouped into eight material aspects of sustainability, help BASF identify present and future opportunities and risks for its business and develop strategies to address these at an early stage.

MDI

MDI stands for diphenylmethane diisocyanate and is one of the most important raw materials for the production of the plastic polyurethane. This plastic is used for applications ranging from the soles of high-tech running shoes and shock absorbers for vehicle engines to insulation for refrigerators and buildings.

Million British thermal units (mmBtu)

The British thermal unit (Btu) is a unit of energy observed in the Anglo-American measuring system. It is used for indicating values such as the energy content gas. One mmBtu (million British thermal units) is equal to approximately 1,003 cubic feet of gas or 28 cubic meters of gas.

Monitoring system

Monitoring systems and tools serve to measure and ensure the adherence to standards. One area that is monitored is our voluntary commitments, such as the adherence to human rights and internationally recognized labor standards.

MSCI World Chemicals Index

The MSCI World Chemicals Index is a stock index that includes the world's biggest chemical companies. It measures the performance of the companies in the index in their respective national currencies, thus considerably reducing currency effects.

N**Nanomaterials**

The International Organization for Standardization defines nanomaterials as materials with one or more external dimensions on a nanoscale or with internal structure or surface structure on a nanoscale. For regulatory purposes, there are additional definitions for nanomaterials worldwide.

Naphtha

Naphtha is petroleum that is produced during oil refining. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.

NM VOC (Nonmethane Volatile Organic Compounds)

VOCs (volatile organic compounds) are organic substances that are present in the air as gas at low temperatures. These include some hydrocarbons, alcohols, aldehydes and organic acids. NMVOCs are VOCs from which methane is excluded.

O**OHSAS 18001**

The Occupational Health and Safety Assessment Series (OHSAS) includes the standard OHSAS 18001, which contains a management system for occupational safety. This system can be integrated into an existing quality and environmental protection management system and certified accordingly.

Opportunity-finding method

We use our "opportunity-finding method" to identify main drivers for sustainability in the relevant value chains and for our customers. This helps us develop and take advantage of business opportunities arising from sustainability issues.

P**Patent Asset Index**

The Patent Asset Index measures the strength of a company's patent portfolio. It is made up of two factors: (1) portfolio size (the number of worldwide active patent families) and (2) competitive impact, which is the combination of technology relevance and market coverage (weighted by market size).

Peak sales potential

The peak sales potential of the crop protection pipeline describes the total peak sales generated and expected for individual products in the pipeline. It comprises active ingredients and system solutions that have been on the market since 2010 or will be launched on the market by 2020. The peak sales potential of individual products corresponds to the highest sales value to be expected from one year of the observation period.

Propylene oxide (PO)

Propylene oxide (PO), a very reactive compound, is generated by the oxidation of propylene and is used as basic chemical for further processing in the chemical industry.

R**Ramsar Site**

Ramsar Sites were defined in the Ramsar Convention of 1971. These are protected Wetlands of International Importance, such as lagoons, moors, lakes, rivers and marshlands.

REACH

REACH is a European Union regulatory framework for the registration, evaluation and authorization of chemicals, and will be implemented gradually until 2018. Companies are obligated to collect data on the properties and uses of produced and imported substances and to assess any risks. The European Chemicals Agency reviews the submitted dossiers and, if applicable, requests additional information.

Renewable resources

The term renewable resources refers to components from biomass that originate from different sources (plants and microorganisms, for example), and are used for industrial purposes. Renewable resources are used for manufacturing numerous products and for generating electricity and other forms of energy.

Responsible Care

Responsible Care refers to a worldwide initiative by the chemical industry to continuously improve its performance in the areas of environmental protection, health and safety.

Retention

Profits generated can be used in two ways: distribution to shareholders or retention within the company.

Return on assets

Return on assets describes the return we make on the average assets employed during the year. It is calculated as income before taxes and minority interests plus interest expenses as a percentage of average assets.

S**Special items**

Special items describe one-time charges or one-time income that significantly affect the earnings of a segment or the BASF Group. Special items include, for example, charges arising from restructuring measures or earnings from divestitures.

Spot market (cash market)

A spot market is a market where an agreed-upon deal, including delivery, acceptance and payment, occurs immediately, as opposed to forward contracts, where the delivery, acceptance and payment occurs at a point in time after the conclusion of the deal.

Steam cracker

A steam cracker is a plant in which steam is used to "crack" naphtha (petroleum) or natural gas. The resulting petrochemicals are the raw materials used to produce most of BASF's products.

Sustainable Solution Steering

We use Sustainable Solution Steering to review and guide our portfolio in terms of sustainability. The four categories – Accelerators, Performers, Transitioners and Challenged – indicate how our products and solutions already comply with sustainability requirements and how we can increase their contribution.

T**TDI**

TDI stands for toluene diisocyanate and is a starting material for the production of polyurethane. It is used primarily in the automotive industry (for example, in seat cushions and interiors) and the furniture industry (for example, for flexible foams for mattresses or cushioning, or in wood coating).

TUIS

TUIS is a German transport accident information and emergency response system jointly operated by around 130 chemical companies. The member companies can be reached by the public authorities at any time and provide assistance over the telephone, expert on-site advice or special technical equipment.

U**UNESCO protected area**

UNESCO protected areas, or World Heritage Sites, are natural sites of exceptional value. These important habitats can be home to endangered plant and animal species.

V

Value chain

A value chain describes the successive steps in a production process: from raw materials through various intermediate steps, such as transportation and production, to the finished product.

Verbund

In the BASF Verbund (pronounced "fair-boond"), production facilities, energy flow, logistics and infrastructure are intelligently networked with each other in order to increase production yields, save resources and energy, and reduce logistics costs. A significant factor in the Verbund concept is the Know-How Verbund, in which BASF employees engage in worldwide exchange and expert knowledge is pooled in technology platforms.

VFA-based cationic polymers

VFA stands for vinylformamide, a starting material for water-soluble, cationic polymers. VFA-based cationic polymers are used in the paper industry to increase efficiency in production processes.

W

Water stress areas

Water stress areas are areas in which water represents a scarce resource, and where people abstract more than 60 percent of the water available. The most important factors leading to water scarcity are: low precipitation, high temperatures, low air humidity, unfavorable soil properties and high water abstraction rates.

White biotechnology

White biotechnology is an area of biotechnology, also called industrial biotechnology, that uses microorganisms and/or enzymes to produce chemical products that are utilized in many levels of the value chain in the chemical industry. This involves, for example, the biotechnological production of chiral intermediates.

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