BASF plc

Directors' report and Financial Statements

Registered Number 667980

for the Year Ended 31 December 2017

Contents

Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

Principal activity

The principal activity of the company is split into manufacturing and distribution. Manufacturing activities comprise of Hexamethylenediamine production at Seal Sands operated by Ineos Nitriles (UK) Ltd, the manufacture and sale of polyurethane systems, the manufacture of products for the pest control sector, the manufacture of paper and water chemicals, pigments, care chemicals, oilfield and mining products, and the manufacture of products for the construction industry. Distribution comprises the import and distribution of chemicals mainly to the agriculture markets, automotive and construction industry. The company acts as an agent for BASF Societas Europaea and BTC Europe GmbH which supply a wide range of raw materials to most industries in the United Kingdom.

Fair review of the business

Performance

The company made an operating profit of £13,820,000 (2016: £22,331,000). The prior year operating profit was split between continuing operations £14,873,000 and discontinued operations £7,458,000. Discontinued operations related to the manufacturing plant in Deeside manufacturing industrial coil coatings. This site was transferred into Deeside Coatings Limited on 30 November 2016 and subsequently sold to Akzo Nobel on 15 December 2016. Profit on disposal of this operation was £20,799,000 and is included in the prior year. Operating profit from continuing operations has reduced slightly compared to the prior year to £13,820,000 (2016: £14,873,000) due to operating losses at the Hexamethylenediamine site at Seal Sands as a result of lower prices in the first half of 2017.

The Hexamethylenediamine site at Seal Sands reported an operating loss in the period of £9,483,000 (2016: loss £2,159,000). The loss at this site is as a result of the low oil price which affected prices and unplanned shut-downs during the current year. Operating profit at the site at Bradford, producing mainly paper and water chemicals was £6,192,000 (2016: £4,307,000). The profit in the year was due mainly to the results of the Operational Value Improvement Program (OVIP) project that started in March 2013 and from the investment in the new bio-acrylamide plant at the site, that was commissioned during the prior year. The project achieved reduced planned headcount and investment in new technologies to ensure process stabilisation and to improve equipment reliability resulting in a more streamlined and flexible plant.

Turnover was overall increased compared to the prior year at £678,098,000 (2016: £665,587,000). Turnover fell in the area of care chemicals to £1,634,000 (2016: £11,692,000). This was due to internal demand for care chemicals falling from other group companies, and the current tolling agreement ceasing during the prior year. Agriculture turnover increased to £125,279,000 (2016: £123,303,000) due to slightly higher market demand. Total construction chemicals turnover increased to £63,751,000 (2016 : £59,582,000). This was due to very strong demand for performance grouts. Turnover from industrial coatings reduced to £52,212,000 (2016: £77,057,000). This was due to part of the industrial coil coatings business that had been disposed of during the prior year reducing the comparative turnover by £28,911,000 (refer to discontinued operations in the Profit and Loss Account).

Strategic Report for the Year Ended 31 December 2017 (continued)

Performance (continued)

Investment at the Bradford site for 2017 included £21,059,000 for the new Powder line 7 plant which was commissioned at the end of the first quarter 2018. This production line will further utilise the bio-acrylamide plant that was commission during the prior year. This major investment has helped to create an even safer way to produce one of Bradford and Grimsby's raw materials used to manufacture products for the water, oilfield and mining industries. This continued investment will help the site maintain its safety and environmental record.

Operating profit from polyurethanes products increased to £5,805,000 (2016: £3,230,000) due to strong demand and effects of currency. Due to lower volumes rodenticides made a loss of £77,000 (2016: £800,000). Operating profit in construction products increased to £11,126,000 (2016: £8,486,000), from an increase in third party sales and increased business and turnover, coupled with a strong demand for performance grouts.

The company has three segments:

• acting as an agent for chemicals, plastics and related products for BASF SE; the sale of speciality products sourced on behalf of BASF SE relating to care chemicals; royalties;

• sales and distribution of agriculture products, industrial coatings, polyurethanes systems and pesticide products;

• manufacture of hexamethylenediamine, construction chemicals, industrial and coil coatings, polyurethanes systems, rodenticides, paper and water chemicals, pigments, care chemicals, and oilfield and mining products;

The first segment, turnover generated from acting as an agent, came from commission received from BASF Societas Europaea and BTC Europe GmbH. Commission revenue received was £18,753,000 (2016: £17,832,000). The increase over the prior period is mainly due to an increase demand for products in the UK. The remaining turnover in this segment is made up of sales of speciality products sourced on behalf of BASF Societas Europaea relating to care chemicals business of £1,634,000 (2015: £11,692,000), and royalty revenue of £2,448,000 (2016: £2,441,000).

The second segment, the import and distribution business operates in a mature market. BASF plc already occupies a leading position in terms of market share. To retain this position, new product initiatives are brought to the market on a regular basis. Total turnover for this segment for the period was £219,382,000 (2016: £217,893,000).

The third segment turnover of manufactured product was £435,881,000 (2016: £415,729,000).

Sales to the UK reduced to £296,136,000 (2016: £306,333,000). This was due to the reduction in turnover of £28,911,000 from discontinued operations of the coil coatings site sold to Akzo Nobel in 2016. Continuing operations saw an increase in turnover to the UK £296,136,000 (2016: continuing operations £277,422,000. Sales increased to Europe to £247,065,000 (2016: £232,306,000), as a result of the weaker pound. Sales to the rest of the world also increased to £134,897,000 (2016: £126,948,000).

Strategic Report for the Year Ended 31 December 2017 (continued)

Key performance indicators

The company's key financial and other performance indicators during the year were as follows:

	Unit	2017	2016
Average Days Sales Outstanding (agency business)	days	46.90	47.70
Average Days Sales Outstanding (Merchandise business)	days	89.50	88.90
Selling costs % of net turnover	%	7.15	6.88
Gross Margin	%	13.00	16.03

BASF measures Agency Sales as a key target. Agency Sales comprise business made on behalf of BASF Societas Europaea and includes sales of Chemicals, Performance Products and Plastics.

Underlying gross agency sales increased to £522,647,000 (2016: £455,782,000). The company earns a commission on these agency sales which is included as commission revenue in the profit and loss account. Commission on the agency sales recognised in the income statement is £18,753,000 (2015: £17,832,000).

Selling and agency costs, as a percentage of net sales were 7.15% (2016: 6.88%). The two main areas for selling costs are the agricultural products and construction chemicals segments. The agricultural products segment had selling and agency costs as a percentage of net turnover of 10.57% (2016: 9.72%). The increase is due to higher headcount in 2017 compared to the previous year . In the construction chemicals segment the selling and agency costs as a percentage of net turnover were 12.91% (2016: 13.0%).

The average Days Sales Outstanding (DSO) for agency business decreased from 47.7 days in 2016 to 46.9 days in 2017, due to a continued focus on working capital management. The part of the DSO relating to merchandise business saw an increase from 88.9 days in 2016 to 89.5 days in 2017. This was due in part to debtors relating to our agricultural product segment where payment performance improved on the prior year, but offset by a customer in construction that had an agreed increase in payment terms.

The gross margin on turnover was 13.0% (2016: 16.0%). The gross margin for the continuing operations is 15.1%. The reduced margin is due to the Hexamethylenediamine production at Seal Sands site. The margin for 2017 was negative 5.19% (2016: positive 2.91%).

Responsible care

BASF has ambitious environmental, health and safety goals. The company wants to increase its energy efficiency - defined as the amount of sales products in relation to the primary energy and to reduce greenhouse gas emissions per ton of sales product.

Throughout the BASF Group, across all regions, divisions, and sites, Global Safety days took place in 2017. The aim was to make successful safety work visible, tangible and to discuss possibilities for networking and improvement. Safety is our core value of BASF and is never compromised on.

Strategic Report for the Year Ended 31 December 2017 (continued)

Environmental matters

The company has established ambitious global objectives to be achieved by the year 2020. BASF use efficient processes while simultaneously protecting the environment, since we consume less resources as well as reducing emissions and waste.

New technologies for energy production and energy distribution are continuously being tested and evaluated to achieve an increase in the energy efficiency of our sites.

Our biodiversity sites are an exemplar for the business and are industry leading.

Social and community issues

BASF has ambitious environmental, health and safety goals. The company wants to increase its energy efficiency - defined as the amount of sales products in relation to the primary energy and to reduce greenhouse gas emissions per ton of sales product.

Throughout the BASF Group, across all regions, divisions, and sites, Global Safety days took place in 2017. The aim was to make successful safety work visible, tangible and to discuss possibilities for networking and improvement. Safety is our core value of BASF and is never compromised on.

Education

The Kids' Lab at BASF's Bradford Site has been sharing fun and science since 2010 and is used largely for pupils aged 8 to 12. During the year, the company invested, moved and upgraded the facility to allow larger groups. The Kids' Lab encourages, motivates and supports tomorrow's scientists by sharing and promoting how science positively impacts everyday life. In a typical year, there can be nearly 1000 attendees to the facility. BASF wants the next generation to be excited about chemistry and realise its importance for our future and to add to our work in this area is also supporting the Salford Saturday science Club and the Great Science Share which this year should be over 20 different events.

BASF also invests in young talent and has extended its apprenticeship scheme from 2012 to 2017, increasing the number of apprentices year on year and where possible finding permanent positions following the training. All our apprentices receive a mixture of on the job training, work-based assignment and formal study. In return the company receive a welcome input of youthful enthusiasm, energy and insight.

Strategic Report for the Year Ended 31 December 2017 (continued)

Outlook for 2018

For 2018, we expect the global economy and chemical production to grow at roughly the same pace as in 2017.

At the Hexamethylenediamine production site operated by Ineos Nitriles (UK) Ltd, the average price of a barrel of crude oil is likely to continue to affect operating profit of this segment.

For the industrial business and construction business, we see continued growth in 2018, driven by new technologies and inward investment in the sectors.

The company continues to take advantage of the gains in efficiencies from the reduction in the number of legal entities and optimisation of internal structures.

Strategic Report for the Year Ended 31 December 2017 (continued)

Risks and uncertainties

The board of directors have identified the following risks and uncertainties as those which could have a significant impact on the performance of the company going forward:

• The process of the UK leaving the EU, could impact the company in terms of changes in exchange rate and economic uncertainty. The company will therefore also face uncertainty over tariff free access to the single market, continued access to skilled labour, the supply of competitive and secure energy, and regulatory consistency.

• Inherent risks in BASF products of obsolescence due to competitors developing technically superior products and the loss of market share.

• Risk of a major incident involving a chemical leak and contamination.

• Market environment remains volatile and challenging.

• Reduction in the oil price affecting prices especially in the Industrial Business and profitability of the Hexamethylenediamine site.

• Production site margins are vulnerable to fluctuating energy costs.

• Fluctuations in the actuarial assumptions from increases in life expectancy.

• Risk of significant changes in currency exchange rates. The company maintains constant management review of foreign exchange exposure and the Groups policy is to hedge these risks using forward exchange contracts which are entered into by BASF Societas Europaea.

Approved by the Board on 22 June 2018 and signed on its behalf by:

R. Carter
....
R J Carter
Director

Directors' Report for the Year Ended 31 December 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Directors of the company
The directors who held office during the year were as follows:

R J Carter

T B Jensen

S Hatton (resigned 30 April 2017)

G A Thompson (resigned 1 July 2017)

G W Mackey

T Urwin

K Harper (appointed 1 May 2017)

Proposed dividend

Dividends paid during the year comprise an interim dividend of £nil (2016: £21,025,127)

The directors do not recommend the payment of a final dividend.

Non adjusting events after the financial period
On May 2, 2018, BASF and Solenis have signed an agreement to join forces by combining BASF's paper wet-end and water chemicals business with Solenis. The combined entity with pro-forma sales of around €2.4 billion and around 5,000 employees in 2017 aims to deliver additional value for paper and water treatment customers. The goal is to create a customer-focused global solutions provider for the industry. For the paper industry, the product portfolio of the combined enterprise will cover the entire range of functional and process wet-end chemicals, solutions for the water cycle for paper mills, as well as comprehensive service capabilities. For the water treatment industry, the customers of the joint organization will benefit from Solenis' high-quality service capabilities and BASF's broad water treatment chemicals platform. Pending approval by the relevant authorities, closing is anticipated for the end of 2018 at the earliest.

BASF will hold a 49% share of the combined entity that will operate under the Solenis name and be headquartered in Wilmington, Delaware, USA. BASF will nominate three out of seven shareholder representatives of the joint entity that will continue to be led by current President and Chief Executive Officer John E. Panichella of Solenis. 51% of the shares will be held by funds managed by Clayton, Dubilier & Rice.

An estimate of the financial effect to the company cannot currently be made.

Disclosure of information to the auditor
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Reappointment of auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' Report for the Year Ended 31 December 2017

Approved by the Board on 22 June 2018 and signed on its behalf by:

R. Carter
....
R J Carter
Director

Earl Road
Cheadle Hulme
Cheadle
Cheshire
SK8 6QG
England

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP

1 St Peter's Square
Manchester
M2 3AE
United Kingdom

Independent Auditor's Report to the Members of BASF plc

Opinion

We have audited the financial statements of BASF plc ("the company") for the year ended 31 December 2017, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Notes to the Financial Statements, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic Report and Directors' Report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the Members of BASF plc (continued)

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Martin
....

Christopher Martin (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
Date: 28 June 2018

Profit and Loss Account for the Year Ended 31 December 2017

	Note	2017 Continuing operations / Total £ 000	2016 Continuing operations £ 000	2016 Discontinued operations £ 000	2016 Total £ 000
Turnover	3	678,098	636,676	28,911	665,587
Cost of sales		(590,022)	(540,849)	(18,031)	(558,880)
Gross profit		88,076	95,827	10,880	106,707
Distribution costs		(69,031)	(71,434)	(2,642)	(74,076)
Administrative expenses		(22,629)	(25,268)	(738)	(26,006)
Other operating income/(expense)	4	17,404	15,748	(42)	15,706
Operating profit	6	13,820	14,873	7,458	22,331
Profit on disposal of operations		-	-	20,799	20,799
Income from shares in group undertakings	10	29,908	27,178	-	27,178
Other interest receivable and similar income	7	6	20	-	20
Interest payable and similar charges	8	(2,815)	(4,414)	-	(4,414)
Other finance income	9	262	3,456	-	3,456
Amounts written off investments	17	(26,388)	(17,130)	-	(17,130)
		973	9,110	20,799	29,909
Profit before tax		14,793	23,983	28,257	52,240
Taxation	14	(3,432)	(3,830)	(1,589)	(5,419)
Profit for the financial year		11,361	20,153	26,668	46,821

The notes on pages 16 to 46 form an integral part of these financial statements.

Statement of Comprehensive Income for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Profit for the year		11,361	46,821
Remeasurement loss on defined benefit pension schemes before tax		(6,045)	(90,609)
Income tax effect on remeasurement loss on defined benefit pension schemes		1,028	15,402
Total comprehensive income/(expense) for the year		6,344	(28,386)

The notes on pages 16 to 46 form an integral part of these financial statements.

Balance Sheet as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Fixed assets			
Intangible assets	15	23,054	25,072
Tangible assets	16	159,292	144,820
Investments	17	27,400	53,788
		209,746	223,680
Current assets			
Stocks	18	83,480	76,187
Debtors falling due within one year	19	106,168	113,924
Debtors falling due after more than one year		2,729	2,729
Cash at bank and in hand	21	181	20
		192,558	192,860
Creditors: Amounts falling due within one year	22	(152,887)	(196,003)
Net current assets/(liabilities)		39,671	(3,143)
Total assets less current liabilities		249,417	220,537
Creditors: Amounts falling due after more than one year	22	(175,889)	(150,083)
Provisions for liabilities	23	(9,492)	(8,367)
Net assets excluding pension asset and post-retirement healthcare scheme		64,036	62,087
Net pension assets	24	9,215	4,838
Post-retirement healthcare scheme	24	(509)	(527)
Net assets		72,742	66,398
Capital and reserves			
Called up share capital	25	30,750	30,750
Profit and loss account		41,992	35,648
Total equity		72,742	66,398

Approved and authorised by the Board on 22 June 2018 and signed on its behalf by:

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T Urwin

Director

The notes on pages 16 to 46 form an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	30,750	85,059	115,809
Profit for the year	-	46,821	46,821
Other comprehensive income	-	(75,207)	(75,207)
Total comprehensive income	-	(28,386)	(28,386)
Dividends	-	(21,025)	(21,025)
At 31 December 2016	30,750	35,648	66,398

	Share capital £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2017	30,750	35,648	66,398
Profit for the year	-	11,361	11,361
Other comprehensive income	-	(5,017)	(5,017)
Total comprehensive income	-	6,344	6,344
At 31 December 2017	30,750	41,992	72,742

Notes to the Financial Statements for the Year Ended 31 December 2017

1 General information

The company is a public company limited by share capital, incorporated in England. The company's registered office is Earl Road, Cheadle Hulme, Cheadle, Cheshire, SK8 6QG.

These financial statements were authorised for issue by the Board on 22 June 2018.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance
These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

Basis of preparation
These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Summary of disclosure exemptions
The company's ultimate parent undertaking, BASF Societas Europaea (BASF SE) includes the company in its consolidated financial statements. The consolidated financial statements of BASF SE are prepared in accordance with International Financial Reporting Standards as adopted by the EU. In these financial statements, the company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period; and
- Cash Flow Statement and related notes
- Key Management Personnel compensation

The financial statements of BASF SE may be obtained from BASF Societas Europaea, D67056 – Ludwigshafen, Germany.

Going concern
The financial statements have been prepared on a going concern basis, which assumes the company will continue in operational existence for the foreseeable future. The ability of the company to continue as a going concern is reliant on the ongoing financial support provided by the BASF Group. The directors, having made appropriate enquiries and having regard to the continuing support from the Group for at least the next 12 months from the date of approval of these financial statements, consider it appropriate to prepare the financial statements on a going concern basis.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Exemption from preparing group accounts
The financial statements contain information about BASF plc as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, BASF Societas Europaea, a company incorporated in Germany.

Revenue recognition
Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

The company recognises revenue when:

• the amount of revenue can be reliably measured;
• it is probable that future economic benefits will flow to the entity;
• and specific criteria have been met for each of the company's activities.

Foreign currency transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date.

Tax
Tax on profit or loss for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates that have been enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company.

Deferred tax is measured at the rate that is expected to apply to the reversal of the related difference, using tax rates that have been enacted or substantively enacted at the balance sheet date.
Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Tangible assets
Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation
Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Asset class	**Depreciation rate**
Buildings	2% - 10% per annum
Leasehold land and Buildings	life of lease
Plant and machinery	10% - 33.3% per annum
Motor vehicles	33.3% per annum
Fixtures, fittings, tools and equipment	10% - 20% per annum
Computer equipment	20% - 50% per annum
Dispensary equipment	50% per annum

Business combinations
Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

At the acquisition date, the company recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed on the face of the balance sheet as negative goodwill.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Company elected not to restate business combinations that took place prior to 1 January 2014. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Intangible assets
Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Separately acquired trademarks and licences are shown at historical cost.

Trademarks, licences (including software) and customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Trademarks, licences and customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation
Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, by equal instalments over their useful life as follows:

Asset class	Amortisation rate
Goodwill	20 years
Intangible assets other than goodwill	3 - 15 years

Investments
These are separate financial statements of the company. Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade debtors
Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Stocks
Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the weighted average method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade creditors
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Borrowings
Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Provisions
Provisions are recognised when the company has an obligation at the reporting date as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Leases
Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Defined contribution pension obligation
A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Defined benefit pension obligation
Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

3 Segmental analysis

The analysis of the company's turnover for the year is as follows:

	2017 £ 000	2016 £ 000
Sale of goods	656,897	645,314
Royalties received	2,448	2,441
Commissions received	18,753	17,832
	678,098	665,587

The analysis of the company's turnover for the year by class of business is as follows:

	2017 £ 000	2016 £ 000
Manufacturing	435,881	415,729
Distribution of chemicals, plastics and related products	219,382	217,893
Sales acting as agent, sale of speciality care chemicals and royalties	22,835	31,965
	678,098	665,587

The analysis of the company's turnover for the year by market is as follows:

	2017 £ 000	2016 £ 000
UK	296,136	306,333
Europe	247,065	232,306
Rest of world	134,897	126,948
	678,098	665,587

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

4 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2017 £ 000	2016 £ 000
Miscellaneous other operating income	485	141
Non trade business recharges	13,684	12,626
Income from non-typical operations	3,235	2,939
	17,404	15,706

Income from non-typical operations include income from leasing, and recharges of technical and engineering services to other group companies.

5 Other gains and losses

The analysis of the company's other gains and losses for the year is as follows:

	2017 £ 000	2016 £ 000
Gain on disposal of property, plant and equipment	-	4
Gain/(loss) from write-downs and reversals of inventories	225	(850)
Gain/(loss) from disposals of investments	(26,388)	-
	(26,163)	(846)

6 Operating loss

Arrived at after charging/(crediting)

	2017 £ 000	2016 £ 000
Depreciation expense	17,216	17,074
Amortisation expense	2,018	3,120
Impairment loss	-	4,000
Research and development cost	1,029	1,189
Operating lease expense - property	572	628
Operating lease expense - plant and machinery	884	362
Operating lease expense - other	2,608	2,100
Profit on disposal of property, plant and equipment	-	(4)

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

7 Other interest receivable and similar income

	2017 £ 000	2016 £ 000
Other finance income	-	1
Receivable from group undertakings	6	19
	6	20

8 Interest payable and similar charges

	2017 £ 000	2016 £ 000
Foreign exchange	130	1,347
Interest payable to group undertakings	2,685	3,067
	2,815	4,414

9 Other finance (income)/costs

	2017 £ 000	2016 £ 000
Expected return on pension scheme assets	(43,551)	(54,475)
Interest on pension scheme liabilities	43,289	51,019
	(262)	(3,456)

10 Income from shares in group undertakings

	2017 £ 000	2016 £ 000
Dividends from Sorex Holdings Limited	(27,667)	-
Dividends from BASF Construction Chemicals Ltd	(2,241)	(10,048)
Dividends from BASF Coatings Limited	-	(17,130)
	(29,908)	(27,178)

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

11 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2017 £ 000	2016 £ 000
Wages and salaries	58,241	57,890
Social security costs	6,077	6,307
Pension costs, defined contribution scheme	8,072	8,194
Other post-employment benefit costs	229	66
	72,619	72,457

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2017 No.	2016 No.
Production	799	865
Sales, marketing, distribution, research and administration	329	318
	1,128	1,183

12 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017 £ 000	2016 £ 000
Remuneration	799	764
Contributions paid to money purchase schemes	90	102
	889	866

The long term incentive scheme is the BASF Group BOPS scheme, details of which can be found in the accounts of BASF Societas Europaea.

In respect of the highest paid director:

	2017 £ 000	2016 £ 000
Remuneration	308	242

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

12 Directors' remuneration (continued)

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2017 No.	2016 No.
Received or were entitled to receive shares under long term incentive schemes	3	2
Accruing benefits under money purchase pension scheme	4	6

13 Auditor's remuneration

	2017 £ 000	2016 £ 000
Audit of the financial statements	164	156

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Taxation

Tax charged/(credited) in the profit and loss account

	2017 £ 000	2016 £ 000
Current taxation		
UK corporation tax (credit)/expense	(409)	2,095
UK corporation tax expense adjustment to prior periods	810	128
	401	2,223
Foreign tax expense	-	170
Total current income tax expense	401	2,393
Deferred taxation		
Arising from origination and reversal of timing differences	3,175	4,129
Arising from changes in tax rates and laws	-	(606)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(144)	(497)
Total deferred taxation	3,031	3,026
Tax expense in the profit and loss account	3,432	5,419

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Taxation (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 £ 000	2016 £ 000
Profit before tax	14,793	52,240
Corporation tax at standard rate	2,848	10,448
Effect of revenues exempt from taxation	(5,805)	(13,196)
Effect of expense not deductible in determining taxable profit (tax loss)	6,142	9,794
Deferred tax credit relating to changes in tax rates or laws	-	(606)
Deferred tax credit from unrecognised temporary difference from a prior period	(144)	(497)
Increase in UK and foreign current tax from adjustment for prior periods	810	128
Other tax effects for reconciliation between accounting profit and tax income	(419)	(652)
Total tax charge	3,432	5,419

The UK corporation tax rate was reduced from 21% to 20% on 1 April 2015. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016 and substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Deferred tax is provided at a rate of 17% (2016: 17%).

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

14 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

2017	Asset £ 000	Liability £ 000
Accelerated capital allowances	-	2,969
Provisions	687	-
Retirement Benefit obligations	-	1,480
Tax losses carried forward	2,729	-
	3,416	4,449

2016	Asset £ 000	Liability £ 000
Accelerated capital allowances	-	1,422
Provisions	396	-
Retirement Benefit obligations	-	733
Tax losses carried forward	2,729	-
	3,125	2,155

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

15 Intangible assets

	Goodwill £ 000	Trademarks, patents and licenses £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation				
At 1 January 2017	87,241	4,147	12	91,400
Disposals	-	(90)	(12)	(102)
At 31 December 2017	87,241	4,057	-	91,298
Amortisation				
At 1 January 2017	64,845	1,474	9	66,328
Amortisation charge	1,611	404	3	2,018
Amortisation eliminated on disposals	-	(90)	(12)	(102)
At 31 December 2017	66,456	1,788	-	68,244
Carrying amount				
At 31 December 2017	20,785	2,269	-	23,054
At 31 December 2016	22,396	2,673	3	25,072

The aggregate amount of research and development expenditure recognised as an expense during the period is £1,028,908 (2016 - £1,189,605).

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

16 Tangible assets

	Land and buildings £ 000	Motor Vehicles, fittings and equipment £ 000	Assets under construction £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation					
At 1 January 2017	61,034	7,044	28,123	189,975	286,176
Additions	1,604	191	25,008	4,900	31,703
Disposals	(97)	(339)	-	(3,091)	(3,527)
Transfers	3,440	164	(16,728)	13,124	-
At 31 December 2017	65,981	7,060	36,403	204,908	314,352
Depreciation					
At 1 January 2017	22,724	5,056	-	113,576	141,356
Charge for the year	2,241	630	-	14,345	17,216
Eliminated on disposal	(97)	(339)	-	(3,076)	(3,512)
At 31 December 2017	24,868	5,347	-	124,845	155,060
Carrying amount					
At 31 December 2017	41,113	1,713	36,403	80,063	159,292

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

16 Tangible assets (continued)

	Land and buildings £ 000	Motor Vehicles, fittings and equipment £ 000	Assets under construction £ 000	Other property, plant and equipment £ 000	Total £ 000
At 31 December 2016	38,310	1,988	28,123	76,399	144,820

Included within the net book value of land and buildings above is £41,111,961 (2016 - £38,311,042) in respect of freehold land and buildings.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

17 Investments in subsidiaries, joint ventures and associates

	2017 £ 000	2016 £ 000
Investments in subsidiaries	27,400	53,788

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2017	53,788
Impairment	(26,388)
At 31 December 2017	27,400
Provision	
At 1 January 2017 and 31 December 2017	-
Carrying amount	
At 31 December 2017	27,400
At 31 December 2016	53,788

Impairment of £26,388,000 in the current period relates to the reduction in the value of Sorex Holdings Limited following a dividend in the amount of £27,667,000 shown under income from other fixed asset investments. The remaining investment in Sorex Holdings Limited represents the net assets of the company.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

17 Investments in subsidiaries, joint ventures and associates (continued)

Details of undertakings

Details of the investments (including principal place of business of unincorporated entities) in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held 2017	2016
Subsidiary undertakings				
Sorex Holdings Limited	St Michaels Industrial Estate, Widnes, Cheshire, WA8 8TJ England	Ordinary	100%	100%
BASF Construction Chemicals Ltd	PO Box 4, Earl Road, Cheadle Hulme, Cheadle, Cheshire, SK8 6QG England	Ordinary	100%	100%

The principal activity of Sorex Holdings Limited is that of a holding company.

The principal activity of BASF Construction Chemicals Ltd is the distribution of construction chemicals.

18 Stocks

	2017 £ 000	2016 £ 000
Raw materials and consumables	25,827	26,635
Merchandise	12,083	10,344
Production supplies	3,674	2,995
Finished goods and goods for resale	41,802	36,058
Other inventories	94	155
	83,480	76,187

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £590,021,000 (2016 : £558,879,000). The write-down of stocks to net realisable value amounted to a gain of £225,000 (2016: loss £850,000), and have reduced gross stocks to the carrying amount above.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

19 Debtors falling due within one year

	Note	2017 £ 000	2016 £ 000
Trade debtors		44,781	48,777
Amounts owed by group undertakings	29	46,893	52,711
Other debtors		5,539	4,750
Prepayments		600	1,030
Accrued income		1,625	588
Deferred tax assets	14	687	396
Corporation tax		6,043	5,672
		106,168	113,924

20 Debtors falling due after more than one year

	Note	2017 £ 000	2016 £ 000
Deferred tax assets	14	2,729	2,729

21 Cash and cash equivalents

	2017 £ 000	2016 £ 000
Cash at bank	181	20

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

22 Creditors

	Note	2017 £ 000	2016 £ 000
Due within one year			
Loans and borrowings	26	18,365	40,216
Trade creditors		21,156	23,523
Amounts owed to group undertakings	29	80,517	104,471
Social security and other taxes		2,134	2,436
Other payables		334	37
Accrued expenses		30,222	24,878
Other current financial liabilities		76	335
Deferred income		83	107
		152,887	196,003
Due after one year			
Loans and borrowings	26	175,000	150,000
Trade creditors due after more than one year		889	83
		175,889	150,083

23 Deferred tax and other provisions

	Employee benefits £ 000	Deferred tax £ 000	Other provisions £ 000	Total £ 000
At 1 January 2017	810	2,155	5,402	8,367
Additional provisions	-	2,294	261	2,555
Provisions used	(73)	-	(1,026)	(1,099)
Unused provision reversed	(268)	-	(63)	(331)
At 31 December 2017	469	4,449	4,574	9,492

Other provisions consist of provisions for contaminated sites, environmental measures, restructuring provisions, dilapidation provisions, and on-going employee claims against the company.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £8,072,000 (2016 - £8,194,000).

Defined benefit pension schemes

Group Section BASF PLC UK Group Pension Scheme

The Group section of the BASF UK Group Pension scheme is a funded defined benefit scheme which is closed to new members and closed to future accrual. On 31 March 2012, the Scheme closed to future accrual. From this date active members of the Scheme are termed 'Continuing members', retaining a link to final pensionable salary. The Trustee and the company have agreed that no contributions are required for the Group section, as the Group Section was in surplus at the most recent actuarial valuation, dated 31 December 2014.

The date of the most recent comprehensive actuarial valuation was 29 December 2014. The valuation was carried out for funding purposes. The company has employed an independent actuary to approximately update the actuarial valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the company to measure the DBO, as well as adjusting for benefit accrual and benefits paid from the Scheme between 31 December 2014 and 31 December 2017.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the Balance Sheet are as follows:

	2017 £ 000	2016 £ 000
Fair value of scheme assets	600,463	600,635
Present value of defined benefit obligation	(565,412)	(560,890)
Defined benefit pension scheme surplus	35,051	39,745

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes (continued)

	2017 £ 000
Present value at start of year	560,890
Interest cost	15,295
Remeasurement: actuarial gains/(losses)	18,686
Benefits paid	(29,459)
Present value at end of year	565,412

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2017 £ 000
Fair value at start of year	600,635
Interest income	16,408
Return on plan assets, excluding amounts included in interest income	12,879
Benefits paid	(29,459)
Fair value at end of year	600,463

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ 000	2016 £ 000
Debt instruments	509,193	517,147
Other	56,443	4,204
Equity instruments	34,827	79,284
	600,463	600,635

Return on scheme assets

	2017 £ 000	2016 £ 000
Return on scheme assets	29,287	100,933

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes (continued)

Principal actuarial assumptions

The principal actuarial assumptions at the statement of financial position date are as follows:

	2017 %	2016 %
Discount rate	2.80	4.00
Future salary increases	3.90	3.60
Future pension increases for deferred benefits	2.40	2.10
Future pension increases discretionary	1.50	1.50
pension increases LPI 5%	3.10	2.90
pension increases LPI 2.5%	2.00	1.90

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age - male	22.50	22.40
Current UK pensioners at retirement age - female	24.60	24.50
Future UK pensioners at retirement age - male	24.10	24.00
Future UK pensioners at retirement age - female	26.40	26.30

BPP Section of the BASF UK Group Pension Scheme

The BPP section of the BASF UK group Pension scheme is a funded defined benefit scheme which is closed to new members and closed to future accrual. The BPP section closed to future accrual of benefits with effect from 31 December 2015. The Trustee and the company have greed that contributions in line with the contributions schedule will be paid into the BPP section to eliminate the funding shortfall as at 31 December 2014.

The date of the most recent comprehensive actuarial valuation was 31 December 2014. The valuation was carried out for funding purposes. The company has employed an independent actuary to approximately update the actuarial valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the company to measure the DBO, as well as adjusting for benefit accrual and benefits paid from the Scheme between 31 December 2014 and 31 December 2017.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the Balance Sheet are as follows:

	2017 £ 000	2016 £ 000
Fair value of scheme assets	1,025,713	984,701
Present value of defined benefit obligation	(1,050,317)	(1,018,290)
Defined benefit pension scheme deficit	(24,604)	(33,589)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2017 £ 000
Present value at start of year	1,018,290
Interest cost	27,945
Remeasurement: actuarial gains/(losses)	44,886
Benefits paid	(40,804)
Present value at end of year	1,050,317

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2017 £ 000
Fair value at start of year	984,701
Interest income	27,143
Return on plan assets, excluding amounts included in interest income/(expense)	44,673
Employer contributions	10,000
Benefits paid	(40,804)
Fair value at end of year	1,025,713

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ 000	2016 £ 000
Equity instruments	149,754	315,104
Debt instruments	659,533	658,765
Other	216,426	10,832
	1,025,713	984,701

Return on scheme assets

	2017 £ 000	2016 £ 000
Return on scheme assets	71,816	147,499

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Principal actuarial assumptions

The principal actuarial assumptions at the Balance Sheet date are as follows:

	2017 %	2016 %
Discount rate	2.60	2.80
Future salary increases	3.10	3.10
Future pension increases RPI linked	3.40	3.40
Future pension increases CPI linked	2.40	2.40
pension increases for deferred benefits pre 2007 benefits	3.10	3.10
pension increases for deferred benefits post 2007 benefits	2.00	2.00

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes (continued)

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age - male	22.10	22.00
Current UK pensioners at retirement age - female	24.30	24.20
Future UK pensioners at retirement age - male	23.70	23.60
Future UK pensioners at retirement age - female	26.00	25.90

Ex-Gratia Scheme

Ex-Gratia Scheme is an unfunded pension arrangement that provides retirement income to members administered by Legal & General.

The date of the most recent comprehensive actuarial valuation was 30 September 2015.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2017 £ 000	2016 £ 000
Present value of defined benefit obligation	(1,232)	(1,318)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2017 £ 000
Present value at start of year	1,318
Interest cost	35
Remeasurement: actuarial gains/(losses)	16
Contributions by scheme participants	(137)
Present value at end of year	1,232

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes (continued)

Principal actuarial assumptions

The principal actuarial assumptions at the statement of financial position date are as follows:

	2017 %	2016 %
Discount rate	2.60	2.80
Inflation	3.40	3.40
Future pension increases RPI-linked	3.10	3.10

Post retirement medical benefit

The plan is a post retirement medical benefit plan in the UK.

The date of the most recent comprehensive actuarial valuation was 31 December 2016. Not applicable for the post retirement medical benefit

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the Balance Sheet are as follows:

	2017 £ 000	2016 £ 000
	(509)	(526)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2017 £ 000
Present value at start of year	526
Interest cost	14
Actuarial gains and losses	9
Benefits paid	(40)
Present value at end of year	509

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

24 Pension and other schemes (continued)

Principal actuarial assumptions

The principal actuarial assumptions at the Balance Sheet date are as follows:

	2017 %	2016 %
Discount rate	2.60	2.80
Initial medical trend	5.50	6.00
Ultimate medical trend	5.50	5.50

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age - male	22.00	22.00
Current UK pensioners at retirement age - female	24.00	24.00

25 Share capital

Allotted, called up and fully paid shares

	2017 No. 000	2017 £ 000	2016 No. 000	2016 £ 000
Ordinary shares of £1 each	30,750	30,750	30,750	30,750

26 Loans and borrowings

	2017 £ 000	2016 £ 000
Non-current loans and borrowings		
Loans from other group undertakings	175,000	150,000

	2017 £ 000	2016 £ 000
Current loans and borrowings		
Loans from other group undertaking	18,365	40,216

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

26 Loans and borrowings (continued)

Current loans and borrowings owed to group undertakings comprise of a short term variable rate loan. The interest rate on the short term loan denominated in GBP was charged at 1.04% (2016: 1.0%). The year end loan short term loan was due for repayment on 25 January 2018 and is being renewed with a one-month term on a monthly basis depending on financing requirements.

Included in Non-current loans and borrowings are two long term loans. The first for £150,000,000 was entered into on 25 May 2016, and has a maturity date of 24 May 2021. The interest rate on the loan is charged at 1.48%. The second for £25,000,000 was entered into on 24 November 2017, and has a maturity date of 24 November 2022. This loan replaced existing short term borrowings. The interest rate on the loan was charged at 1.78%.

27 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2017 £ 000	2016 £ 000
Not later than one year	2,536	2,824
Later than one year and not later than five years	2,364	2,367
Later than five years	851	1,379
	5,751	6,570

The amount of non-cancellable operating lease payments recognised as an expense during the year was £3,587,000 (2016 - £3,090,000).

28 Contingent liabilities

Professional assessments are undertaken to identify the environmental financial provisions required for the Bradford site every three years. As a result of the last assessment carried out in 2015, contingent liabilities totalling £1,116,000 were identified. The directors have been advised that it is possible, but not probable, the liability will arise and accordingly no provision for any liability has been made in these financial statements. The next assessment will be carried out during 2018.

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

29 Related party transactions

All material transactions with related parties during the current and prior year have been with the company's immediate parent, fellow subsidiaries and other group undertakings. As such, the company has taken advantage of the exemption allowed under FRS 102.33.1A not to disclose such transaction. Related party balances outstanding at the balance sheet date are disclosed in total under the relevant notes above.

30 Parent and ultimate parent undertaking

The company's immediate parent is BASF UK Holdings Limited, incorporated in England. Registered Address PO Box 4, Earl Road, Cheadle Hulme, Cheadle, Cheshire, SK8 6QG.

The ultimate parent is BASF Societas Europaea, incorporated in Germany.

The most senior parent entity producing publicly available financial statements is BASF Societas Europaea. These financial statements are available upon request from that Company's registered address BASF Societas Europaea, D67056 – Ludwigshafen, Germany.

The ultimate controlling party is BASF Societas Europaea.

31 Post balance Sheet Events

On May 2, 2018, BASF and Solenis have signed an agreement to join forces by combining BASF's paper wet-end and water chemicals business with Solenis. The combined entity with pro-forma sales of around €2.4 billion and around 5,000 employees in 2017 aims to deliver additional value for paper and water treatment customers. The goal is to create a customer-focused global solutions provider for the industry. For the paper industry, the product portfolio of the combined enterprise will cover the entire range of functional and process wet-end chemicals, solutions for the water cycle for paper mills, as well as comprehensive service capabilities. For the water treatment industry, the customers of the joint organization will benefit from Solenis' high-quality service capabilities and BASF's broad water treatment chemicals platform. Pending approval by the relevant authorities, closing is anticipated for the end of 2018 at the earliest.

BASF will hold a 49% share of the combined entity that will operate under the Solenis name and be headquartered in Wilmington, Delaware, USA. BASF will nominate three out of seven shareholder representatives of the joint entity that will continue to be led by current President and Chief Executive Officer John E. Panichella of Solenis. 51% of the shares will be held by funds managed by Clayton, Dubilier & Rice.

An estimate of the financial effect to the company cannot currently be made at the current time.