

BPP Hybrid Section



Summary Funding Statement

As at 31 December 2017

Introduction

The Trustee of the BPP Hybrid Section of the BASF UK Group Pension Scheme (the Scheme) must issue a Summary Funding Statement to all Scheme members and beneficiaries on a regular basis.

This Statement:

- Summarises the funding position of the BPP Hybrid Section from the latest Actuarial Valuation as at 31 December 2017;
- Provides other information that you may find useful.

The term “funding” is used as a way of comparing the money already in the BPP Hybrid Section with the amount required to pay the benefits as calculated by the Scheme’s Actuary (one of the advisers to the Trustee).

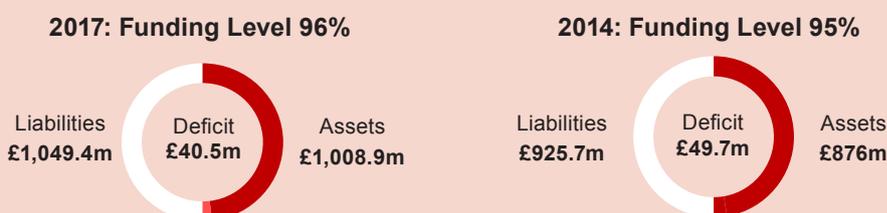
Scheme solvency

The Scheme’s funding position is not the same as the amount that would be needed to provide full benefits if the BPP Hybrid Section were to wind up. This is because if the BPP Hybrid Section were winding up, it would have to buy insurance policies to secure members’ benefits. The cost of these policies varies widely, depending on the terms quoted by insurers in this market at any particular time.

The Actuarial Valuation as at 31 December 2017 showed that if the BPP Hybrid Section were to have been wound up at that date and members’ benefits secured with an insurance company, the funding level (ratio of assets to liabilities) would have been

Summary of Actuarial Valuation

The most recent Actuarial Valuation of the BPP Hybrid Section showed that, on 31 December 2017, the ongoing funding position has improved since the 31 December 2014 Valuation:



As part of the 2017 valuation, the Trustee agreed a Recovery Plan with BASF plc (the Company) designed to eliminate the deficit by 28 February 2022. The Company continued to pay deficit contributions of £10 million (paid in equal monthly instalments) during 2018. The remainder of the deficit is expected to be met by future investment returns.

The main reasons for the slight improvement in the funding level are:

- Investment returns over the period were higher than expected;
- The contributions made by the Company of £27.7m since the 2014 valuation.

The above have offset the increase in the value of liabilities caused by a reduction in the outlook for future returns.

Since the 2017 Valuation, the funding position has reduced due to further changes in financial markets and the court case involving Lloyds Bank and its pension scheme, where a judgement was reached that Guaranteed Minimum Pensions (GMPs) must be equalised in respect of Males and Females. Further information on GMP Equalisation is overleaf and at <http://www.gmp-equalisation.willistowerswatson.com>

approximately 69%. In these circumstances the cost of securing the balance of members’ benefits becomes a debt which would need paying by BASF plc.

The law requires us to include information concerning the BPP Hybrid Sections’ financial position in the event

of winding up in this Statement. It does not imply that there is any intention on the part of either BASF plc or the Trustee to wind up the BPP Hybrid Section. It is just a piece of information we hope will help you understand the financial security of your benefits.

Information on how the BPP Hybrid Section operates

How is my pension paid for?

The BPP Hybrid Section is a hybrid pension arrangement and all monies are held in a common fund, managed by the Trustee, on behalf of the members.

BASF plc (the Company) pays contributions to the BPP Hybrid Section so that it can pay benefits to members when they retire or leave.

Active members (i.e. members still employed by BASF plc) also paid contributions to the Scheme. However, active membership of the BPP Hybrid Section of the Scheme closed with effect from 1 January 2016, so these members no longer contribute to the Scheme.

How is the amount the BPP Hybrid Section needs worked out?

The Trustee obtains regular Actuarial Valuations (at least every three years). These estimate the cost of paying members' benefits in the future (liabilities) and assess the level of assets required to pay them. If the assets held by the Scheme are less than the amount needed, the Trustee with the advice of the Scheme Actuary, then agrees with the Company any contributions to be paid.

How does the Company support the BPP Hybrid Section?

The Trustee's objective is to have enough money in the BPP Hybrid Section to pay pensions now and in the future. However, success of the BPP Hybrid Section relies on the Company continuing to support it because:

- The Company will be paying the future expenses of running the Scheme on an annual basis.
- The funding level can fluctuate, and when there is a deficit, the Company will usually need to put in more money.
- The target funding level may turn out not to be enough, so the Company will need to put in more money.

BASF plc continues to give this support to the BPP Hybrid Section.

What would happen if the BPP Hybrid Section started to wind up?

If the BPP Hybrid Section winds up, the Company is required to pay enough into the BPP Hybrid Section to enable the members' benefits to be completely secured with an insurance company. However, it may be that the Company would not be able to pay this full amount and, therefore, you might not get the full amount of pension you have built up. If the Company became insolvent, the Pension Protection Fund might be able to take over the BPP Hybrid Section and pay compensation to members.

Further information and guidance is available on the Pension Protection Fund's website at

www.pensionprotectionfund.org.uk

or you can write to the Pension Protection Fund at 12 Dingwall Road, Croydon, Surrey, CR0 2NA or email information@ppf.gsi.gov.uk

Is there anything else I need to know?

Regulations require us to confirm to you that BASF plc has not taken any money out of the BPP Hybrid Section in the previous 12 months – we are happy to confirm this.

Guaranteed Minimum Pension (GMP) Equalisation

GMP is a minimum pension payable to a member by the Scheme from being contracted-out of the State Pension before April 1997. A recent court case involving Lloyds Bank and its pension scheme, led to a judgement that GMPs must be equalised in respect of males and females.

In common with most other pension schemes, the BASF Scheme has not yet equalised GMPs due to a lack of guiding legislation and the extreme complexity of any calculations required and uncertainty over how it should be achieved. However, we are committed to equalising GMPs, once an appropriate methodology has been determined by the Trustee and Employer and the outstanding issues raised by the Lloyds case have been resolved. The amounts involved for any individual member are likely to be small but for the Scheme, the total benefits (liabilities) payable are expected to increase by millions of pounds. Further details will be shared in due course, as further information and legal guidance becomes available.

Where can I get more information?

If you are interested in looking at any of the formal documents that relate to the BPP Hybrid Section, please request a copy from the Scheme Administrator using the contact information below.

The formal BPP Hybrid Section documents include:

- Trust Deed and Rules;
- Statement of Investment Principles;
- Statement of Funding Principles;
- Annual Report & Accounts;
- Recovery Plan;
- Actuarial Valuation and Actuarial Reports; and
- Schedule of Contributions.

Contact information

We hope you have found this information useful. If you have any questions about this Statement or about your own pension, contact the Scheme Administrator (Willis Towers Watson):

- ☎ +44 (0) 113 390 7119
- @ basf@willistowerswatson.com
- ✉ Willis Towers Watson, PO Box 545, Redhill, RH1 1YX

Visit our website at <http://ukpensions.basf.co.uk> for other Scheme information.