

Group DB Section



Summary Funding Statement

As at 31 December 2017

Introduction

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

This Statement:

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

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

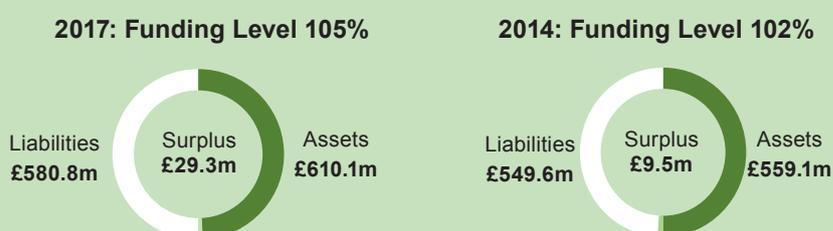
Scheme solvency

The Scheme’s funding is not the same as the amount that would be needed to provide full benefits if the Group DB Section were to wind up. This is because if the Group DB 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 Group DB 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 approximately 83%. In these circumstances the cost of securing the

Summary of Actuarial Valuation

The most recent Actuarial Valuation of the Group DB 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 that the Company did not need to provide any further deficit reduction contributions, given there was a surplus. However, if there is a funding deficit in the future, any need for further Company contributions will be considered by the Trustee and the Company.

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

- Investment returns over the period were higher than expected; and
- The funding level improvement was mainly due to changes in economic conditions over the period. The economic conditions contributed to strong investment returns over the period, higher than anticipated, which more than offset a corresponding increase in the value of the liabilities, due to reduction in the outlook for future investment returns.

The above have offset an increase in the amount expected to be needed to provide benefits due to changes in the future expectations of financial market conditions.

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>

balance of members’ benefits becomes a debt which would need paying by BASF plc.

The law requires us to include information concerning the Group DB Section’s 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 Group DB Section. It is just a piece of information we hope will help you understand the financial security of your benefits.

Information on how the Group DB Section operates

How is my pension paid for?

The Group DB Section is a defined benefit 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 Group DB Section so that it can pay benefits to members when they retire or leave.

Active members (i.e. members employed by BASF plc who were accruing benefits) also paid contributions to the Scheme. However, active membership of the Group DB Section of the Scheme closed with effect from 1 April 2012, so these members no longer contribute to the Scheme.

How is the amount the Group DB 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 Group DB Section?

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

- The Company will be paying the future expenses of running the Group DB Section on an annual basis.
- The funding level can fluctuate, and if 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 Group DB Section.

What would happen if the Group DB Section started to wind up?

If the Group DB Section winds up, the Company is required to pay enough into the Group DB 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 Group DB 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 Group DB 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 Group DB Section, please request a copy from the Scheme Administrator using the contact information below.

The formal Group DB Section documents include:

- Trust Deed and Rules;
- Statement of Investment Principles;
- Statement of Funding Principles;
- Annual Report & Accounts;
- 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.