Forecast
Opportunities and risks report

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.

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.
Management's Report

BASF Report 2014

Forecast — Opportunities and risks report

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 impaire 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 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
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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 cyclicality 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.

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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)

<table>
<thead>
<tr>
<th>Region</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>4.2%</td>
</tr>
<tr>
<td>European Union</td>
<td>1.5%</td>
</tr>
<tr>
<td>United States</td>
<td>3.5%</td>
</tr>
<tr>
<td>Emerging markets of Asia</td>
<td>6.9%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0%</td>
</tr>
<tr>
<td>South America</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

### Trends in chemical production 2015–2017 (excluding pharmaceuticals)
(Average annual real change)

<table>
<thead>
<tr>
<th>Region</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>4.3%</td>
</tr>
<tr>
<td>European Union</td>
<td>1.5%</td>
</tr>
<tr>
<td>United States</td>
<td>3.2%</td>
</tr>
<tr>
<td>Emerging markets of Asia</td>
<td>7.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.9%</td>
</tr>
<tr>
<td>South America</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
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 businesses, 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 polyalcohol 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.
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 Eliba 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:

<table>
<thead>
<tr>
<th>Site</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camaçari, Brazil</td>
<td>Construction: production complex for acrylic acid and superabsorbents</td>
</tr>
<tr>
<td>Caojing, China</td>
<td>Construction: chemical catalysts</td>
</tr>
<tr>
<td>Geismer, Louisiana</td>
<td>Construction: formic acid plant</td>
</tr>
<tr>
<td>Kuantan, Malaysia</td>
<td>Construction: aroma chemicals complex</td>
</tr>
<tr>
<td>Ludwigshafen, Germany</td>
<td>Construction: TDI plant</td>
</tr>
<tr>
<td>Ludwigshafen and Schwarzeide, Germany</td>
<td>Expansion: lubricants</td>
</tr>
<tr>
<td>Nanjing, China</td>
<td>Construction: specialty amines plant</td>
</tr>
<tr>
<td>Shanghai, China</td>
<td>Construction: coating resins</td>
</tr>
<tr>
<td>Theodore, Alabama</td>
<td>Construction: chelating agents</td>
</tr>
</tbody>
</table>

### Forecast by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>2014 Sales</th>
<th>Forecast 2015</th>
<th>2014 Income (EBIT) before special items</th>
<th>Forecast 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>16,968</td>
<td>slight decrease</td>
<td>2,367</td>
<td>slight decrease</td>
</tr>
<tr>
<td>Performance Products</td>
<td>15,433</td>
<td>considerable increase</td>
<td>1,455</td>
<td>considerable increase</td>
</tr>
<tr>
<td>Functional Materials &amp; Solutions</td>
<td>17,725</td>
<td>considerable increase</td>
<td>1,197</td>
<td>considerable increase</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>5,446</td>
<td>considerable increase</td>
<td>1,109</td>
<td>considerable increase</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>15,145</td>
<td>slight decrease</td>
<td>1,795</td>
<td>considerable decrease</td>
</tr>
<tr>
<td>Other</td>
<td>3,609</td>
<td>considerable decrease</td>
<td>(566)</td>
<td>slight decrease</td>
</tr>
<tr>
<td>BASF Group</td>
<td>74,326</td>
<td>slight increase</td>
<td>7,357</td>
<td>at prior-year level</td>
</tr>
</tbody>
</table>

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 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**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>33%</td>
</tr>
<tr>
<td>Performance Products</td>
<td>15%</td>
</tr>
<tr>
<td>Functional Materials &amp; Solutions</td>
<td>13%</td>
</tr>
<tr>
<td>Agricultural Solutions</td>
<td>6%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>21%</td>
</tr>
<tr>
<td>Other (infrastructure, R&amp;D)</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Capital expenditures by region, 2015–2019**

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>45%</td>
</tr>
<tr>
<td>North America</td>
<td>27%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>18%</td>
</tr>
<tr>
<td>South America, Africa, Middle East</td>
<td>8%</td>
</tr>
<tr>
<td>Alternative sites currently being investigated</td>
<td>2%</td>
</tr>
</tbody>
</table>

**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.

**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.

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