The BASF Group business year
Economic environment

3.1%	3.3%	3.5%
Growth in global gross domestic product	Growth in global industrial production	Growth in the global chemical industry

Global economic expansion in 2017 was stronger than we expected at the beginning of 2017. Both the advanced economies and the emerging markets posted significantly higher growth compared with the previous year. The economy gained momentum in almost all European Union (E.U.) countries. In China, economic growth was slightly stronger than in the previous year on the back of government investment incentives. This benefited the neighboring Asian countries in particular. China's robust economy also had a positive impact on raw materials exporters worldwide, enabling Russia and Brazil to shake off recession, for example. Overall, global gross domestic product (GDP) grew by 3.1%, significantly faster than in 2016 (+2.4%). The average price for a barrel of Brent blend crude oil rose to $54 per barrel (2016: $44 per barrel).

For the outlook on the economic environment in 2018, see page 119 onward

Gross domestic product
(Real change compared with previous year[1])

World	**2017**	**3.1%**
	2016	2.4%
European Union	**2017**	**2.5%**
	2016	1.9%
United States	**2017**	**2.3%**
	2016	1.5%
Emerging markets of Asia	**2017**	**6.3%**
	2016	6.1%
Japan	**2017**	**1.6%**
	2016	0.9%
South America	**2017**	**0.8%**
	2016	(2.9%)

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

Trends in the global economy in 2017

After moderate growth in the previous year, the global economy improved steadily in 2017. This trend was supported by monetary and fiscal policy framework conditions. Interest rates remained at a very low level in Europe and Japan. In the United States, the Federal Reserve's policy rate hikes only led to a moderate increase in long-term interest rates. Global prices for industrial and energy raw materials rose moderately, which helped to stabilize the economic situation in the exporting countries. At the same time, the price level remained low enough so as not to dampen economic development in the importing countries. Consumer and investor sentiment continued to brighten against this backdrop.

Economic trends by region

- Stronger economic growth in the E.U.
- Economy firms in the United States
- Stable growth in Asia
- Slight recovery in South America

In the **E.U.**, GDP growth rose from 1.9% in 2016 to 2.5% in 2017. The upturn extended to almost all E.U. countries and was supported by higher consumption and growing investment. Driven by the more stable global economy, export activities also provided positive momentum. Germany's economy saw comparatively strong growth, at 2.5%. Growth rates in France (+1.9%) and Italy (+1.5%) also exceeded the previous years' averages. The independence conflict in Catalonia has had little impact on the Spanish economy (+3.1%) so far. Growth in the United Kingdom (+1.8%) remained on a level with the previous year amid uncertainty about the further course of Brexit negotiations and rising inflation. The central and eastern E.U. countries recorded dynamic growth of 4.5% thanks to the upturn at trading partners in western Europe and the higher absorption of E.U. funds. Russia's GDP rose by 1.7% after a slight decline in the previous year, primarily due to the recovery in the price of oil and the stabilization of the ruble.

In the **United States**, growth remained modest at the beginning of 2017 but stabilized over the course of the year. This was mainly attributable to strong private consumption on the back of the solid labor market situation. Higher levels of investment also contributed to the positive economic trend. The hurricanes in Texas and Florida in the fall did not dampen growth significantly. Overall, the U.S. economy expanded by 2.3% in 2017, considerably faster than in 2016 (+1.5%).

At 6.3%, growth in the **emerging markets of Asia** was slightly higher than in the previous year (+6.1%). In China, government investment incentives compensated for a slowdown. The Chinese economy grew by 6.9% overall, slightly faster than in 2016 (+6.7%). In 2017, this was primarily driven by the electronics industry, while the automotive industry saw much slower growth than in the previous year. The robust upward trend in the Chinese construction industry weakened only slightly. Against this background, GDP in the remaining emerging markets of Asia rose by 5.5% (2016: +5.3%).

Japan saw much stronger growth than in the previous year, at 1.6% (2016: +0.9%). The weaker yen and the recovery of the global economy stimulated demand for Japanese exports. Private consumption was buoyed by the strong labor market and a declining savings rate.

South America overcame the severe recession of the previous year, with GDP rising by 0.8% (2016: −2.9%). In Argentina, the economy picked up significantly as a result of economic reforms and grew by 2.8% (2016: −2.2%). The Brazilian economy also expanded, with growth of 1.0% (2016: −3.6%) on the back of higher agricultural exports and an increase in industrial production. With the exception of Venezuela, where the economy again contracted significantly, average growth in the other countries in the region was on a level with the previous year.

Trends in key customer industries

- Growth in global industrial production significantly higher than in 2016
- Mixed trends in key customer sectors

Global industrial production grew by 3.3% in 2017, significantly faster than in the previous year (+2.1%). Growth in the advanced economies accelerated particularly strongly (2017: +2.6%; 2016: +0.8%) and the emerging markets also posted a slight increase (2017: +4.0%; 2016: +3.5%).

The uptick in growth was especially pronounced in the E.U. (2017: +3.3%; 2016: +1.4%) and Japan (2017: +3.9%; 2016: +0.3%). North America saw noticeable growth based on the low prior-year level (2017: +1.6%; 2016: +0.3%). In the emerging markets of Asia, growth in industrial production was down slightly on the previous year, at 5.5% (2016: +5.8%). Industry growth remained stable in China but cooled somewhat in the other countries. At 0.2%, industrial production in South America returned to slow growth (2016: −4.6%).

The chemical industry's key customer sectors saw very mixed trends: Global **automotive production** only grew by 2.5% in 2017, considerably less than in the previous year (+4.8%). Growth declined in both China and western Europe; automotive production contracted in the United States. By contrast, the industry experienced an upturn in Japan. Compared with the low prior-year level, production increased significantly in Brazil and Russia. At 2.9%, growth in the **construction industry** was down only slightly compared with the previous year (+3.1%). The E.U. saw a strong increase in construction activity. Growth in the United States again slowed considerably. Housing construction expanded strongly, while construction of other structures declined slightly. There was a significant decline in infrastructure investment. In Asia, growth in the construction industry was slightly slower but remained at a high level. After weather-related weaknesses in the previous year, **agricultural** output again rose by around 3.1%. Starting from a low base, South America in particular saw a recovery (2017: +8.8%; 2016: −3.4%).

Growth in key customer industries
(Real change compared with previous year[1])

Industry total	**2017**	**3.3%**
	2016	2.1%
Transportation	**2017**	**2.6%**
	2016	2.7%
Energy and resources	**2017**	**1.6%**
	2016	0.2%
Construction	**2017**	**2.9%**
	2016	3.1%
Consumer goods	**2017**	**3.1%**
	2016	2.3%
Electronics	**2017**	**7.9%**
	2016	4.5%
Health and nutrition	**2017**	**4.1%**
	2016	3.6%
Agriculture	**2017**	**3.1%**
	2016	1.7%

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

Trends in the chemical industry

- Global growth in line with expectations

The global chemical industry (excluding pharmaceuticals) grew by 3.5%, roughly on a level with our expectations at the beginning of 2017 (+3.4%) as well as the 2016 level (+3.4%). Chemical production in the E.U. expanded at a much faster rate as a result of growing demand from local customer industries and higher exports (2017: +3.8%; 2016: +0.4%). By contrast, the chemical industry in Asia saw lower growth (2017: +4.1%; 2016: +5.2%). Unusually strong growth in Japan, primarily from higher exports to China, was unable to completely offset the decline of growth in China. In North America, chemical production was negatively impacted by Hurricane Harvey, which led to significant production outages in the United States in the third quarter. Chemical production in the United States nevertheless rose by 2.9%.

Chemical production (excluding pharmaceuticals)
(Real change compared with previous year[1])

World	**2017**	**3.5%**
	2016	3.4%
European Union	**2017**	**3.8%**
	2016	0.4%
United States	**2017**	**2.9%**
	2016	1.0%
Emerging markets of Asia	**2017**	**3.8%**
	2016	5.8%
Japan	**2017**	**7.2%**
	2016	1.7%
South America	**2017**	**0.5%**
	2016	(0.8%)

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

Important raw material price developments

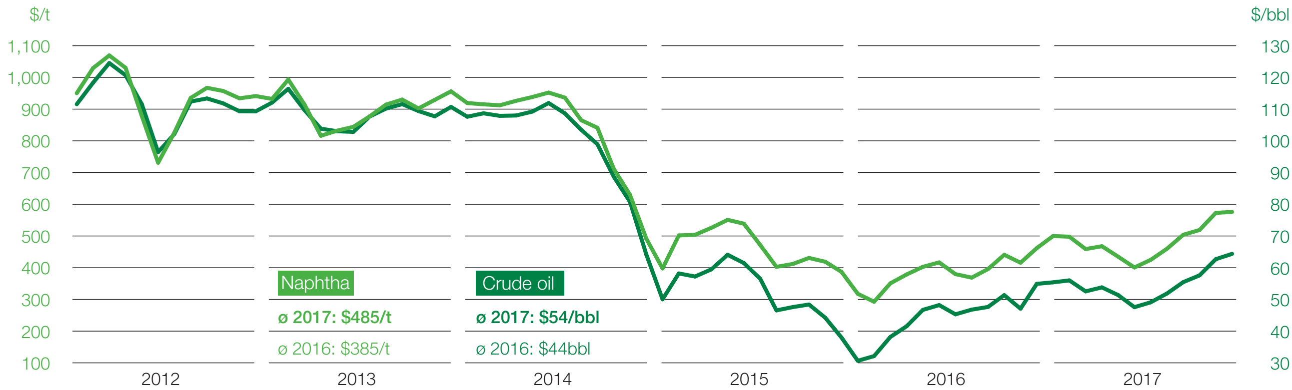
- Higher prices for crude oil and naphtha
- Year-on-year increase in gas prices, but with wide regional variance

Averaging around $54 per barrel in 2017, the price of Brent blend **crude oil** rose by about 23% compared with the previous year ($44 per barrel). The average monthly oil price fluctuated over the course of the year between $47 per barrel in June and $64 per barrel in December.

The average monthly price for the chemical raw material **naphtha** ranged over the course of 2017 between $401 per metric ton in June and $576 per metric ton in December. At $485 per metric ton, the annualized average price of naphtha in 2017 was higher than in 2016 ($385 per metric ton).

The average price of **gas** in the United States was $2.97 per mmBtu, above the level of the previous year ($2.49 per mmBtu). In Europe, the average price of gas on the spot market was significantly higher than in 2016, at $5.71 per mmBtu (2016: $4.62 per mmBtu).[2] Gas prices in China averaged around $6.24 per mmBtu nationally (2016: $6.54 per mmBtu), while the average price in the coastal regions was $7.43 per mmBtu (2016: $7.72 per mmBtu).

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



[2] In contrast to prior-year reports, we refer here to the prices quoted by the Title Transfer Facility (TTF) in the Netherlands. The TTF is the trading point with the largest trading volume for natural gas in Europe. The previously referenced average of several spot market prices in 2017 was $5.76 per mmBtu (2016: $4.58 per mmBtu).

Results of operations

The world economy and global industrial production saw much stronger growth in 2017 than in 2016, while growth in the global chemical industry (excluding pharmaceuticals) was roughly on a level with the previous year. Overall, our business performed extremely well in this market environment, with considerable sales and earnings increases. The Chemicals segment made a particularly strong contribution.

Business reviews by segment can be found from page 60 onward

Sales

- Sales growth of 12% to €64,475 million

Sales rose by €6,925 million to €64,475 million in 2017. This was mainly attributable to significantly higher sales prices in the chemicals business,[1] especially in the Chemicals segment, as well as volumes growth in all segments. The Chemetall business, which was acquired from Albemarle in December 2016, also had a positive impact. Sales were reduced by slightly negative currency effects in all segments.

Sales (million €)

2017	**64,475**
2016	57,550
2015	70,449
2014	74,326
2013	73,973

Factors influencing sales of the BASF Group

	Change in million €	Change in %
Volumes	2,647	4
Prices	4,595	8
Currencies	(732)	(1)
Acquisitions	873	2
Divestitures	(460)	(1)
Changes in scope of consolidation	2	–
Total change in sales	**6,925**	**12**

Income from operations

- 32% increase in EBIT before special items to €8,328 million
- Considerable growth in EBIT and EBIT after cost of capital

Income from operations (EBIT) before special items rose by €2,019 million to €8,328 million, thanks in particular to the contribution from the Chemicals segment. Earnings generated by the Oil & Gas segment and Other also improved considerably. In the Agricultural Solutions segment, EBIT before special items was only slightly below the prior-year figure after a strong fourth quarter of 2017. The Performance Products and Functional Materials & Solutions segments recorded a considerable decrease. This was due to lower margins resulting from the increase in raw materials prices and fixed costs from factors such as the startup of new plants.

For an explanation of the indicator EBIT before special items, see page 28

EBIT before special items (million €)

2017	**8,328**
2016	6,309
2015	6,739
2014	7,357
2013	7,077

Special items in EBIT totaled €194 million in 2017, compared with minus €34 million in the previous year.

Various restructuring measures led to special items of minus €133 million, after minus €394 million in 2016.

At €52 million, integration costs for acquired businesses exceeded the prior-year level (2016: €27 million), largely as a result of the integration of Chemetall.

Divestitures in 2017 resulted in an earnings contribution of €145 million compared with €431 million in the previous year. This was mainly due to the transfer of our leather chemicals business to the Stahl group in the Performance Products segment, which contributed €195 million.

The special items recognized in other charges and income amounted to €234 million in 2017. This figure included reversals of impairments and impairments totaling €197 million in the Oil & Gas and Functional Materials & Solutions segments. In the previous year, other charges and income amounted to minus €44 million.

For the definition of special items, see page 28

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

Sales and earnings (million €)

		2017	2016	Change in %
Sales		64,475	57,550	12.0
Income from operations before depreciation and amortization (EBITDA) and special items		12,527	10,327	21.3
EBITDA		12,724	10,526	20.9
EBITDA margin	%	19.7	18.3	–
Amortization and depreciation[1]		4,202	4,251	(1.2)
Income from operations (EBIT)		8,522	6,275	35.8
Special items		194	(34)	.
EBIT before special items		8,328	6,309	32.0
Financial result		(722)	(880)	18.0
Income before taxes and minority interests		7,800	5,395	44.6
Income before minority interests		6,352	4,255	49.3
Net income		6,078	4,056	49.9
Earnings per share	€	6.62	4.42	49.8
Adjusted earnings per share	€	6.44	4.83	33.3

Sales and earnings by quarter in 2017[2] (million €)

		1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
Sales		16,857	16,264	15,255	16,099	64,475
Income from operations before depreciation and amortization (EBITDA) and special items		3,507	3,291	2,793	2,936	12,527
EBITDA		3,502	3,233	3,007	2,982	12,724
Amortization and depreciation[1]		1,051	1,052	1,049	1,050	4,202
Income from operations (EBIT)		2,451	2,181	1,958	1,932	8,522
Special items		(6)	(70)	198	72	194
EBIT before special items		2,457	2,251	1,760	1,860	8,328
Financial result		(152)	(174)	(185)	(211)	(722)
Income before taxes and minority interests		2,299	2,007	1,773	1,721	7,800
Net income		1,709	1,496	1,336	1,537	6,078
Earnings per share	€	1.86	1.63	1.45	1.68	6.62
Adjusted earnings per share	€	1.97	1.78	1.40	1.29	6.44

Sales and earnings by quarter in 2016[2] (million €)

		1st quarter	2nd quarter	3rd quarter	4th quarter	Full year
Sales		14,208	14,483	14,013	14,846	57,550
Income from operations before depreciation and amortization (EBITDA) and special items		2,843	2,674	2,490	2,320	10,327
EBITDA		2,812	2,790	2,437	2,487	10,526
Amortization and depreciation[1]		946	1,072	973	1,260	4,251
Income from operations (EBIT)		1,866	1,718	1,464	1,227	6,275
Special items		(40)	11	(52)	47	(34)
EBIT before special items		1,906	1,707	1,516	1,180	6,309
Financial result		(188)	(177)	(283)	(232)	(880)
Income before taxes and minority interests		1,678	1,541	1,181	995	5,395
Net income		1,387	1,092	888	689	4,056
Earnings per share	€	1.51	1.19	0.97	0.75	4.42
Adjusted earnings per share	€	1.64	1.30	1.10	0.79	4.83

1 Amortization of intangible assets and depreciation of property, plant and equipment (including impairments and reversals of impairments)
2 Quarterly results not audited

Special items (million €)

	2017	2016
Restructuring measures	(133)	(394)
Integration costs	(52)	(27)
Divestitures	145	431
Other charges and income	234	(44)
Total special items in EBIT	**194**	**(34)**
Special items reported in financial result	–	–
Total special items in income before taxes and minority interests	**194**	**(34)**

At €8,522 million, **EBIT** for the BASF Group in 2017 was considerably higher than the previous year's level (2016: €6,275 million). Included in this figure is income from companies accounted for using the equity method, which rose from €307 million to €571 million.

EBIT (million €)

2017	**8,522**
2016	6,275
2015	6,248
2014	7,626
2013	7,160

We once again earned a significant premium on our cost of capital in 2017. **EBIT after cost of capital** amounted to €2,727 million, compared with €1,136 million in the previous year. The cost of capital rose by €364 million year-on-year. This was primarily attributable to the increase in noncurrent assets since the acquisition of Chemetall in December 2016, as well as the higher level of capital tied up in trade accounts receivable as a result of sales growth.

For an explanation of the indicator EBIT before special items, see page 28

The calculation of EBIT as part of our statement of income is shown in the Consolidated Financial Statements on page 168

EBIT after cost of capital (million €)

	2017	2016
EBIT of BASF Group	8,522	6,275
– EBIT of Other	(799)	(1,091)
– Cost of capital[1]	6,594	6,230
EBIT after cost of capital	**2,727**	**1,136**

[1] In 2016 and 2017, the cost of capital percentage was 10%.

EBIT after cost of capital (million €)

2017	**2,727**
2016	1,136
2015	194
2014	1,368
2013	1,768

Financial result and net income

- Considerable year-on-year increase in financial result and net income
- Earnings per share rise from €4.42 to €6.62

The **financial result** improved to minus €722 million in 2017, compared with minus €880 million in the previous year.

Net income from shareholdings decreased from minus €17 million in 2016 to minus €29 million as a result of lower income from shareholdings.

The interest result improved from minus €482 million in 2016 to minus €334 million. Interest expenses declined due to the overall decrease in liabilities to credit institutions, the scaling back of the U.S. dollar commercial paper program and the associated hedging transactions. We also generated higher interest income from interest/cross-currency swaps and granting loans.

The other financial result amounted to minus €359 million, compared with minus €381 million in the previous year.

Income before taxes and minority interests rose from €5,395 million in the previous year to €7,800 million in 2017.

Income taxes increased from €1,140 million in 2016 to €1,448 million in 2017. At 18.6%, the tax rate was below the prior-year level (21.1%), mainly as a result of one-off deferred tax income in the total amount of €416 million from tax reforms, of which €379 million in the United States.

Income before minority interests rose from €4,255 million to €6,352 million. Minority interests amounted to €274 million, compared with €199 million in 2016.

At €6,078 million, **net income** was considerably higher than the prior-year figure of €4,056 million. **Earnings per share** increased from €4.42 to €6.62.

For information on the items in the statement of income, see the Notes to the Consolidated Financial Statements from page 194 onward

For information on the tax rate, see the Notes to the Consolidated Financial Statements from page 198 onward

Additional indicators for results of operations

- EBITDA before special items and EBITDA considerably higher
- Adjusted earnings per share increase from €4.83 to €6.44

Aside from EBIT, EBIT before special items and EBIT after cost of capital – key performance indicators drawn upon to steer the BASF Group – we also provide additional performance indicators in this report that are not defined by IFRS. They should not be viewed in isolation, but treated as supplementary information.

EBITDA before special items (million €)

	2017	2016
EBIT	8,522	6,275
– Special items	194	(34)
EBIT before special items	**8,328**	**6,309**
+ Amortization, depreciation and valuation allowances on intangible assets and property, plant and equipment before special items	4,199	4,018
EBITDA before special items	**12,527**	**10,327**

EBITDA (million €)

	2017	2016
EBIT	8,522	6,275
+ Amortization, depreciation and valuation allowances on intangible assets and property, plant and equipment	4,202	4,251
EBITDA	**12,724**	**10,526**

Income from operations before depreciation, amortization and special items (EBITDA before special items) and income from operations before depreciation and amortization (EBITDA) are indicators that describe operational performance independent of age-related amortization and depreciation of assets and extraordinary valuation allowances (impairments or reversals of impairments). Both figures are therefore particularly useful in cross-company comparisons. EBITDA before special items is also highly useful in making comparisons over time.

EBITDA before special items rose by €2,200 million year-on-year to €12,527 million in 2017. At €12,724 million, **EBITDA** exceeded the prior-year figure by €2,198 million.

Return on assets (million €)

		2017	2016
Income before taxes and minority interests		7,800	5,395
+ Interest expenses		560	661
Income before taxes and minority interests and interest expenses		**8,360**	**6,056**
Total assets as of January 1		76,496	70,836
Total assets as of December 31		78,768	76,496
Average assets employed		**77,632**	**73,666**
Return on assets	%	**10.8**	**8.2**

We calculate return on assets as income before taxes and minority interests, plus interest expenses, as a percentage of average assets employed. This indicator reflects the return independently of capital structure.

The **return on assets** was 10.8%, compared with 8.2% in the previous year. The considerable increase in income before taxes and minority interests with a simultaneous decrease in interest expenses more than offset the rise in average assets employed.

Adjusted earnings per share (million €)

		2017	2016
Income before taxes and minority interests		7,800	5,395
– Special items		194	(34)
+ Amortization and valuation allowances on intangible assets		616	560
– Amortization and valuation allowances on intangible assets contained in special items		59	52
Adjusted income before taxes and minority interests		**8,163**	**5,937**
– Adjusted income taxes[1]		1,971	1,300
Adjusted income before minority interests		**6,192**	**4,637**
– Adjusted minority interests		277	197
Adjusted net income		**5,915**	**4,440**
Weighted average number of outstanding shares	in thousands	918,479	918,479
Adjusted earnings per share	€	**6.44**	**4.83**

Compared with earnings per share, this figure has been adjusted for special items as well as amortization of and valuation allowances (impairments and reversals of impairments) on intangible assets. Amortization of intangible assets primarily results from the purchase price allocation following acquisitions and is therefore of a temporary nature. The effects of these adjustments on income taxes and on minority interests are also eliminated. This makes adjusted earnings per share a suitable measure for making comparisons over time and predicting future profitability.

In 2017, **adjusted earnings per share** amounted to €6.44 compared with €4.83 in the previous year.

For information on the earnings per share according to IFRS, see the Notes to the Consolidated Financial Statements on page 194

[1] Income taxes in 2017 were also adjusted for the effects of the tax reform in the United States. Of this figure, €379 million related to deferred tax income and €27 million to current tax expenses.

Forecast/actual comparison[1]

	Sales		Income from operations (EBIT) before special items	
	2017 forecast	2017 actual	2017 forecast	2017 actual
Chemicals	considerable increase	considerable increase	at prior-year level	considerable increase
Performance Products	slight increase	slight increase	slight increase	considerable decrease
Functional Materials & Solutions	considerable increase	considerable increase	slight increase	considerable decrease
Agricultural Solutions	considerable increase	slight increase	slight increase	slight decrease
Oil & Gas	considerable increase	considerable increase	considerable increase	considerable increase
Other	considerable increase	considerable increase	considerable increase	considerable increase
BASF Group	**considerable increase**	**considerable increase**	**slight increase**[2]	**considerable increase**

1 For sales, "slight" represents a change of 1–5%, while "considerable" applies to 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%).

2 We most recently revised our forecast in October 2017 to a considerable increase in EBIT before special items.

Actual development compared with outlook for 2017

In 2017, BASF Group sales rose considerably in line with our forecast. EBIT before special items also increased considerably in 2017 and was higher than the slight growth forecast at the beginning of the year. This was primarily attributable to the sales and earnings development in the Chemicals segment, which exceeded our expectations. As a result, we also saw considerable growth in EBIT in 2017, instead of the slight increase we had anticipated. We likewise recorded a considerable increase in EBIT after cost of capital, contrary to our prediction of a considerable decrease. As well as the higher EBIT generated by the segments, this was also due to the cost of capital, which did not increase as strongly as expected due to currency effects.[3]

Sales in the **Chemicals** segment increased considerably as forecast, whereby we achieved higher prices than expected. EBIT before special items was expected to be on a level with the previous year. However, the higher margins, especially for the isocyanates business in the Monomers division, significantly exceeded our expectations. Margins were also stronger in the Petrochemicals and Intermediates divisions. As a result, EBIT before special items was considerably higher than the 2016 figure.

We slightly increased sales in the **Performance Products** segment in line with our forecast. Contrary to our expectations, there was a considerable decline – rather than a slight increase – in EBIT before special items. This was primarily attributable to softer margins, mainly as a result of higher raw materials prices, which would not be fully passed on via sales prices.

Sales in the **Functional Materials & Solutions** segment rose considerably, as predicted. EBIT before special items did not increase slightly as expected, but declined considerably despite sales growth. The decrease was due to lower margins and higher fixed costs.

We had forecast considerable growth for sales in the **Agricultural Solutions** segment. However, sales only rose slightly as the higher volumes were partially offset by price declines, particularly in South America, and negative currency effects. The lower average margin and the difficult market environment in Brazil had a stronger impact on earnings development than anticipated. Our earnings were also reduced by the shutdowns of our production facilities in Beaumont, Texas, and Manatí, Puerto Rico, because of the hurricanes. As a result, EBIT before special items did not increase slightly, but declined slightly.

In the **Oil & Gas** segment, sales and EBIT before special items rose considerably as expected.

Both sales and EBIT before special items rose considerably in **Other** and thus corresponded to our forecast.

In 2017, we invested a total of €3.7 billion in capital expenditures,[4] less than the anticipated level of around €3.9 billion. **Investments** in the Chemicals and Oil & Gas segments in particular were below the values considered in our planning.

For information on our expectations for 2018, see page 122 onward

3 We most recently revised our forecast in October 2017 to a significant increase in EBIT before special items, EBIT and EBIT after cost of capital.

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

Net assets

Assets

	December 31, 2017		December 31, 2016	
	Million €	%	Million €	%
Intangible assets	13,594	17.3	15,162	19.8
Property, plant and equipment	25,258	32.0	26,413	34.5
Investments accounted for using the equity method	4,715	6.0	4,647	6.1
Other financial assets	606	0.8	605	0.8
Deferred tax assets	2,118	2.7	2,513	3.3
Other receivables and miscellaneous assets	1,332	1.7	1,210	1.6
Noncurrent assets	**47,623**	**60.5**	**50,550**	**66.1**
Inventories	10,303	13.1	10,005	13.1
Accounts receivable, trade	11,190	14.2	10,952	14.3
Other receivables and miscellaneous assets	3,105	3.9	3,078	4.0
Marketable securities	52	0.1	536	0.7
Cash and cash equivalents	6,495	8.2	1,375	1.8
Current assets	**31,145**	**39.5**	**25,946**	**33.9**
Total assets	**78,768**	**100.0**	**76,496**	**100.0**

Assets

- **Growth in total assets primarily attributable to higher cash and cash equivalents**
- **Decline in noncurrent assets mainly due to currency effects**

Total assets amounted to €78,768 million, up €2,272 million on the prior-year figure.

Noncurrent assets decreased by €2,927 million to €47,623 million, mostly as a result of currency effects. The value of intangible assets declined by €1,568 million to €13,594 million. Additions amounted to €336 million, €97 million of which was goodwill. Currency effects reduced intangible assets by €1,071 million, amortization[1] by €616 million and disposals by €43 million.

The value of property, plant and equipment declined by €1,155 million to €25,258 million. Additions amounted to €4,028 million, €4,020 million of which was attributable to investments. Depreciation[1] reduced property, plant and equipment by €3,586 million, currency effects by €1,663 million and disposals by €118 million.

Investments accounted for using the equity method rose by €68 million to €4,715 million. This was primarily due to the acquisition of a €184 million minority interest in the Stahl group, to which we transferred our leather chemicals business. Currency effects of minus €143 million in particular had an offsetting effect.

Other financial assets were on a level with the previous year, at €606 million. Deferred tax assets declined by €395 million to €2,118 million, primarily from the tax reform in the United States and lower provisions for pensions and similar obligations. Other receivables and miscellaneous assets rose by €122 million year-on-year to €1,332 million, mainly due to higher loan receivables.

Current assets increased by €5,199 million to €31,145 million. This was largely attributable to cash and cash equivalents. At €6,495 million, these were up €5,120 million on the figure as of December 31, 2016 and were primarily increased in view of payment of the purchase prices for the planned acquisition of significant parts of the seed and non-selective herbicide businesses from Bayer and the global polyamide business from Solvay.

The €238 million increase in trade accounts receivable was attributable to higher sales compared with the previous year. Inventories rose by €298 million; other receivables and miscellaneous assets increased by €27 million. Marketable securities declined by €484 million, mostly from the €500 million contribution to BASF Pensionstreuhand e.V., Ludwigshafen am Rhein, Germany.

For more information on the composition and development of individual asset items, see the Notes to the Consolidated Financial Statements from page 201 onward

[1] Including impairments and reversals of impairments

Financial position

Equity and liabilities

	December 31, 2017		December 31, 2016	
	Million €	%	Million €	%
Paid-in capital	4,293	5.4	4,306	5.6
Retained earnings	34,826	44.2	31,515	41.2
Other comprehensive income	(5,282)	(6.7)	(4,014)	(5.2)
Minority interests	919	1.2	761	1.0
Equity	**34,756**	**44.1**	**32,568**	**42.6**
Provisions for pensions and similar obligations	6,293	8.0	8,209	10.7
Other provisions	3,478	4.4	3,667	4.8
Deferred tax liabilities	2,731	3.5	3,317	4.3
Financial indebtedness	15,535	19.7	12,545	16.4
Other liabilities	1,095	1.4	873	1.2
Noncurrent liabilities	**29,132**	**37.0**	**28,611**	**37.4**
Accounts payable, trade	4,971	6.3	4,610	6.0
Provisions	3,229	4.1	2,802	3.7
Tax liabilities	1,119	1.4	1,288	1.7
Financial indebtedness	2,497	3.2	3,767	4.9
Other liabilities	3,064	3.9	2,850	3.7
Current liabilities	**14,880**	**18.9**	**15,317**	**20.0**
Total equity and liabilities	**78,768**	**100.0**	**76,496**	**100.0**

Equity and liabilities

- **Equity ratio at 44.1%, compared with 42.6% in previous year**
- **Higher financial indebtedness in preparation for planned acquisitions**

Equity rose by €2,188 million year-on-year to €34,756 million. Retained earnings increased by €3,311 million to €34,826 million. Other comprehensive income declined by €1,268 million to minus €5,282 million. This decrease was mainly due to currency effects, primarily as a result of the weaker U.S. dollar. The remeasurement of defined benefit plans in particular had an offsetting effect. The equity ratio was 44.1% (2016: 42.6%).

Compared with the end of 2016, noncurrent liabilities grew by €521 million to €29,132 million. This was primarily attributable to noncurrent financial indebtedness, which increased by €2,990 million. New bonds in EUR, USD, NOK and GBP were issued in 2017 with an aggregate carrying amount of €4,852 million at the year-end and maturities of between two and 20 years; they serve general company purposes and to finance the planned acquisitions of significant parts of the seed and nonselective herbicide businesses from Bayer and the global polyamide business from Solvay. These also included bonds with nondilutive warrants due in 2023 with a carrying amount of €664 million. Upon exercise, the warrants will be cash-settled only; no new shares will be issued, nor will existing shares of BASF SE be serviced. As a hedge, BASF has purchased corresponding call options. Three eurobonds due in 2018 with an aggregate carrying amount of €1,773 million were reclassified to current financial indebtedness. Noncurrent liabilities to banks rose by €170 million, mainly as a result of loans taken out with the European Investment Bank and the Kreditanstalt für Wiederaufbau, a German government development bank. The partial transfer of the financing for gas transportation activities to a newly established equity-accounted company had an offsetting effect. Provisions for pensions and similar obligations decreased by €1,916 million, mainly as a result of the positive performance of plan assets. Noncurrent other provisions declined by €189 million. The €586 million decrease in deferred tax liabilities was largely due to the reduction in the U.S. corporate tax rate from 35% to 21%, which accounted for €653 million of this figure. Noncurrent other liabilities rose by €222 million.

Current liabilities declined by €437 million to €14,880 million. This was primarily attributable to the €1,270 million decrease in current financial indebtedness, mostly from the scheduled repayment of four bonds in EUR and GBP with an aggregate carrying amount of €1,359 million, as well as the the complete scaling back of our U.S. dollar commercial paper program, which accounted for €1,033 million. Current liabilities to banks declined by €646 million; this mainly related to loans in Brazil. The reclassification of the above bonds increased current financial indebtedness accordingly. Current tax liabilities declined by €169 million. Trade accounts payable rose by €361 million, current provisions by €427 million and current other liabilities by €214 million.

Overall, financial indebtedness grew by €1,720 million to €18,032 million. Net debt declined by €2,916 million to €11,485 million. This is calculated by subtracting marketable securities and cash and cash equivalents from current and noncurrent financial indebtedness. This balance-related indicator provides information on effective indebtedness.

For more information on the composition and development of individual equity and liability items, see the Notes to the Consolidated Financial Statements from page 209 onward

For more information on the development of the balance sheet, see the Ten-Year Summary on page 248

Net debt (million €)

	Dec. 31, 2017	Dec. 31, 2016
Noncurrent financial indebtedness	15,535	12,545
+ Current financial indebtedness	2,497	3,767
Financial indebtedness	**18,032**	**16,312**
– Marketable securities	52	536
– Cash and cash equivalents	6,495	1,375
Net debt	**11,485**	**14,401**

Financing policy and credit ratings

- Financing principles remain unchanged
- "A" ratings confirmed

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

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

Maturities of financial indebtedness (million €)

2018	2,497
2019	2,052
2020	1,845
2021	1,140
2022	1,781
2023 and beyond	8,717

Rated "A1/P-1/outlook stable" by Moody's, "A/A-1/outlook stable" by Standard & Poor's and "A/S-1/outlook stable" by Scope, BASF enjoys good credit ratings, especially compared with competitors in the chemical industry. These ratings were most recently confirmed by the above agencies in the fourth quarter of 2017 (Moody's: December 19; Standard & Poor's and Scope: October 18).

We have solid financing. Corporate bonds form the basis of our medium to long-term debt financing. These are issued in euros and other currencies with different maturities as part of our €20 billion debt issuance program. The goal is to create a balanced maturity profile, diversify our investor base and optimize our debt capital financing conditions.

For short-term financing, we use BASF SE's U.S. dollar commercial paper program, which has an issuing volume of up to $12.5 billion. As of December 31, 2017, no commercial paper was outstanding under this program (December 31, 2016: $1,089 million). Firmly committed, syndicated credit lines of €6 billion serve to cover the repayment of outstanding commercial paper, and can also be used for general company purposes. These credit lines were not used at any point in 2017. Our external financing is therefore largely independent of short-term fluctuations in the credit markets.

Financing instruments (million €)

1	Bonds and other liabilities to the capital market	15,653
2	U.S. dollar commercial paper	–
3	Liabilities to banks	2,379

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

For more information on the financing tools used, see Note 24 from page 218 onward and Note 27 from page 222 onward in the Notes to the Consolidated Financial Statements

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

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

Statement of Cash Flows

- Cash provided by operating activities and free cash flow significantly above previous year

Cash provided by operating activities improved by €1,068 million year-on-year to €8,785 million in 2017. This was due to higher net income. In contrast with the previous year, the change in net working capital reduced cash flow. This was largely attributable to the higher level of cash tied up in inventories and trade accounts receivable for operational reasons. Miscellaneous items in 2017 mainly related to the adjustment of earnings contributions from investments accounted for using the equity method. In the previous year, this item primarily included the transfer of disposal gains to cash used in investing activities.

Cash used in investing activities amounted to €3,958 million in 2017 compared with €6,490 million in 2016. Payments made for property, plant and equipment and intangible assets amounted to €3,996 million, below both the prior-year figure (€4,145 million) and the level of amortization and depreciation of intangible assets, property, plant and equipment, and financial assets (€4,213 million).

Acquisitions and divestitures in 2017 resulted in net payments received of €27 million. In comparison, net payments of €2,164 million were made in 2016, primarily as a result of the acquisition of Chemetall.

The cash inflow from financial assets and other items in 2017 amounted to €11 million. In the previous year, the acquisition of marketable securities in particular led to net payments made of €181 million.

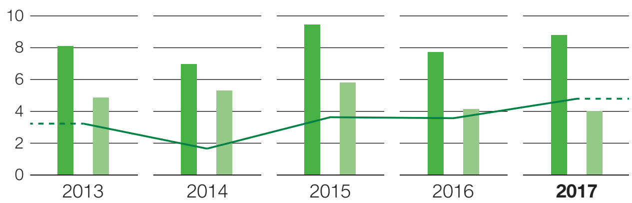
For more information on investments and acquisitions, see page 40 onward

Cash provided by financing activities amounted to €394 million in 2017, compared with cash used in financing activities of €2,160 million in the previous year. Changes in financial liabilities resulted in a cash inflow of €3,248 million. This was mainly due to the issue of bonds with a volume of around €5 billion. The main offsetting factors were the scheduled repayment of four bonds and the scaling back of BASF SE's U.S. dollar commercial paper program. In 2017, dividends of €2,755 million were paid to shareholders of BASF SE and €118 million to minority interests.

Cash and cash equivalents amounted to €6,495 million as of December 31, 2017. They rose by a cash-effective amount of €5,221 million in 2017, largely in preparation for payment of the purchase prices for the planned transactions with Bayer and Solvay.

Free cash flow represents the financial resources remaining after deducting payments made for property, plant and equipment and intangible assets from cash provided by operating activities. It rose to €4,789 million compared with €3,572 million in the previous year, primarily due to the increase in cash provided by operating activities.

Cash flow (billion €)



[1] Including investments to the extent that they already had an effect on cash

Statement of cash flows (million €)

	2017	2016
Net income	6,078	4,056
Depreciation and amortization of intangible assets, property, plant and equipment, and financial assets	4,213	4,291
Changes in net working capital	(1,167)	104
Miscellaneous items	(339)	(734)
Cash provided by operating activities	**8,785**	**7,717**
Payments made for property, plant and equipment and intangible assets	(3,996)	(4,145)
Acquisitions/divestitures	27	(2,164)
Financial assets and other items	11	(181)
Cash used in investing activities	**(3,958)**	**(6,490)**
Capital increases/repayments and other equity transactions	19	28
Changes in financial liabilities	3,248	579
Dividends	(2,873)	(2,767)
Cash provided by/used in financing activities	**394**	**(2,160)**
Net changes in cash and cash equivalents	5,221	(933)
Cash and cash equivalents at the beginning of the year and other changes	1,274	2,308
Cash and cash equivalents at the end of the year	**6,495**	**1,375**