

SHAPING THE FUTURE



Report 2007

 **BASF**

The Chemical Company

BASF GROUP 2007

Economic situation (million €)

	2007	2006	Change in %
Sales	57,951	52,610	10.2
Income from operations before depreciation and amortization (EBITDA)	10,225	9,723	5.2
Income from operations (EBIT) before special items	7,614	7,257	4.9
Income from operations (EBIT)	7,316	6,750	8.4
Income before taxes and minority interests	6,935	6,527	6.3
Net income	4,065	3,215	26.4
Earnings per share (€)	8.32	6.37	30.6
Dividend per share (€)	3.90	3.00	30.0
Cash provided by operating activities	5,807	5,940	(2.2)
Additions to long-term assets ¹	4,425	10,039	(55.9)
Amortization and depreciation	2,909	2,973	(2.2)
Return on assets (%)	16.4	17.5	–
Return on equity after tax (%)	22.4	19.2	–
Research and development expenses	1,380	1,277	8.1

Environment and safety

		2007	2006	Change in %
Operating costs for environmental protection facilities	Million €	640	657	(2.6)
Investments in environmental protection	Million €	103	116	(11.2)
Emissions of greenhouse gases (CO ₂ equivalent) ²	Million metric tons/year	27.5	25.0	10.0
Emissions to air (air pollutants) ²	Thousand metric tons/year	50.6	49.1	3.1
Emissions to water of:				
– Organic substances	Thousand metric tons/year	31.2	32.8	(4.9)
– Nitrogen	Thousand metric tons/year	5.3	6.0	(11.7)
– Heavy metals	Metric tons/year	34	35	(2.9)
Transportation accidents	Per 10,000 shipments	0.28	0.45	(37.8)
Number of environmental and safety audits		107	90	18.9

Employees and society

		2007	2006	Change in %
Employees as of December 31		95,175	95,247	(0.1)
Trainees as of December 31		2,160	2,280	(5.3)
Personnel costs	Million €	6,648	6,210	7.1
Donations and sponsoring	Million €	75.3	67.2	12.1
Annual bonus	% of Group companies	73.7	73.5	0.3
Lost time accidents	Per million working hours	2.2	1.7	29.4
Occupational diseases	Per million working hours	0.22	0.30	(26.7)

¹ Including acquisitions

² Excluding emissions from oil and gas production



Chemicals

Our organic and inorganic basic chemicals are used to supply raw materials to our value-adding chains and are marketed to our external customers. Cost leadership is achieved thanks to integrated production facilities, our Research Verbund and modern large-scale plants. We enhance our portfolio of higher-value products through innovations and acquisitions. In addition, we market a broad range of organic and inorganic specialties, in particular catalysts and electronic chemicals.



Plastics

BASF is one of the global leading suppliers of plastics — the energy-efficient material. In standard plastics, we have a portfolio of focused product lines and efficient marketing processes. In our business with specialties, we offer a wide range of high-value products, system solutions and services. In close collaboration with our customers, we constantly extend this range and add new applications.



Performance Products

Our innovative solutions from performance chemistry contribute to the functionality and performance of many everyday products from cars, paper and construction materials to detergents and baby diapers. We want to be the key partner for our customers. We develop new products, system solutions and applications in close collaboration with our customers. Here the key to success is our powerful research and development.



Agricultural Products & Nutrition

We strengthen our competitive position with innovative products. Our crop protection products safeguard crops and thus protect harvests. Our broad range of high-value products makes us a preferred partner of customers from the cosmetics and pharmaceutical industries as well as for human and animal nutrition. Our research in plant biotechnology focuses on plants for more efficient agriculture, healthier nutrition and as renewable raw materials.



Oil & Gas

As the largest German producer of oil and gas, we benefit from our many years of expertise in exploration and production and our concentration on oil and gas-rich regions in Europe, North Africa, South America, Russia and the Caspian Sea region. Together with our partner Gazprom, we are making use of the growth opportunities arising from growing demand and the liberalization of European gas markets.

CHANGE IN SALES
BY SEGMENT
COMPARED WITH PREVIOUS YEAR

CHEMICALS

PLASTICS

2007

+22%

+6%

Key data Chemicals

Million €	2007	2006 ¹	Change in %
Sales	14,162	11,572	22.4
Income from operations before special items	2,014	1,704	18.2
Income from operations (EBIT)	1,995	1,380	44.6

Sales by division



- 1 -- Inorganics: 8%
- 2 -- Catalysts: 34%
- 3 -- Petrochemicals: 40%
- 4 -- Intermediates: 18%

Key data Plastics

Million €	2007	2006	Change in %
Sales	13,496	12,775	5.6
Income from operations before special items	1,327	1,216	9.1
Income from operations (EBIT)	1,236	1,192	3.7

Sales by division



- 1 -- Styrenics: 39%
- 2 -- Performance Polymers: 23%
- 3 -- Polyurethanes: 38%

Key data Performance Products

Million €	2007	2006 ²	Change in %
Sales	11,697	10,133	15.4
Income from operations before special items	842	848	(0.7)
Income from operations (EBIT)	704	669	5.2

Sales by division



- 1 -- Construction Chemicals: 18%
- 2 -- Coatings: 22%
- 3 -- Functional Polymers: 30%
- 4 -- Performance Chemicals: 30%

Key data Agricultural Products & Nutrition

Million €	2007	2006	Change in %
Sales	4,989	4,934	1.1
Income from operations before special items	653	435	50.1
Income from operations (EBIT)	660	381	73.2

Sales by division



- 1 -- Agricultural Products: 63%
- 2 -- Fine Chemicals: 37%

Key data Oil & Gas

Million €	2007	2006	Change in %
Sales	10,517	10,687	(1.6)
Income from operations before special items	3,014	3,245	(7.1)
Income from operations (EBIT)	3,014	3,250	(7.3)

Sales by business sector



- 1 -- Exploration and Production: 42%
- 2 -- Natural Gas Trading: 58%

¹ Contains sales from the catalysts and materials services business acquired on June 6, 2006.

² Contains the sales of the construction chemicals business acquired on July 1, 2006.

PERFORMANCE PRODUCTS

+15%

AGRICULTURAL PRODUCTS & NUTRITION

+1%

OIL & GAS

-2%

SHAPING THE FUTURE REPORT 2007

WHO WE ARE

BASF is the world's leading chemical company – **The Chemical Company**. As a **reliable partner**, we help our customers in almost all industries to be more successful. With high-value products and intelligent solutions, with **innovations** and **new technologies**, we open up new market opportunities for ourselves and our customers.

WHAT WE AIM TO ACHIEVE

We aim to constantly increase the value of our company by **growing profitably**. With our products and services, we want to participate in successfully shaping the **future** of our customers, business partners and employees.

HOW WE SHAPE THE FUTURE

We combine **economic success** with **social responsibility** and **environmental protection**. We make our contribution to finding the answers to global challenges, such as climate protection, energy efficiency, nutrition and mobility. This is our contribution to a better future for us and for coming generations. ///

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Q1.2007

- Sales up 17%
- EBIT before special items up 13%
- Earnings jump in the Chemicals segment
- Acquisitions make significant contribution to rise in earnings
- Earnings per share up 11%

Q2.2007

- Sales up 19%
- EBIT before special items up 6%
- Strongest sales and earnings growth in the Chemicals segment
- Earnings jump in Agricultural Products thanks to cost reduction measures
- Earnings per share up 14% compared with same quarter in 2006

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Inside front cover: **Key data | Segments**

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Q3.2007

- Sales up 5%
- EBIT before special items up 6%
- EBIT up 17% as a result of lower special charges
- Earnings per share more than doubled

Q4.2007

- Sales up 2%
- EBIT before special items down 6%
- Net income up 2%
- Earnings per share up 13%

REGARDING THIS REPORT

In 2007, we conducted an international stakeholder survey, and based on the results we have revised and enhanced our reporting. For the first time, this report combines the financial and sustainability report in one publication and is addressed to interested stakeholders from both fields. All information and measurement bases for this report are based on international standards for financial and sustainability reporting. This report provides our stakeholders with information not only on the economic affairs of the BASF Group, but also on ecological and social affairs.

The information contained on the financial position and financial performance of BASF Group is based on the requirements of the German Commercial Code as well as on International Financial Reporting Standards (IFRS), according to which the BASF Group Consolidated Financial Statements are prepared. BASF has announced that it will maintain the high level of transparency in its financial reporting after having delisted from the NYSE. Although BASF no longer needs to prepare the Form 20-F, key sections have been taken over which will aid in the understanding and analysis of the company. In particular, this relates to information on significant investment projects and production capacities, the strategy of the segments, and supplementary information concerning the oil and gas business.

The sustainability reporting achieved the A+ level of application from the Global Reporting Initiative (GRI).

→ A short GRI Index can be found on page 218 and comprehensive information on this subject is available at: corporate.basf.com/gri_e
Our sustainability reporting also serves as a progress report on the implementation of the ten Principles of the UN Global Compact. The sustainability report is also in line with the requirements of rating and ranking agencies and the results of our dialog with stakeholders. → More information can be found at: corporate.basf.com/dialog_e
The selection and weighting of the sustainability topics is oriented to a materiality analysis which is carried out at regular intervals with external partners. → The methodology and detailed results of this analysis can be found at: corporate.basf.com/materiality

Our data collection methods for environmental protection and occupational safety are based on the recommendations of the European Chemical Industry Council (CEFIC). In the area of emissions and energy, we report on approximately 98% of all emissions from our worldwide production sites. The emissions of joint venture companies are included pro rata based on our stake. Information on work-related accidents is compiled worldwide at our production and administrative sites. Accidents at joint venture sites are compiled and reported in total. Unless otherwise indicated, additional information on social responsibility is based on all consolidated Group companies, where all employees in the BASF Group as of December 31, 2007, are included.

The contents of this report were reviewed by the relevant subject-matter experts and approved for release by the Board of Executive Directors of BASF SE. All information is sourced from official documents or from queries to the appropriate competence center or region. The Finance division and the Corporate Communications BASF Group department had editorial control over this report. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft have audited the 2007 BASF Group Consolidated Financial Statements, including the Management's Analysis, and have approved them free of qualification.

→ The report of the independent auditors can be found on page 137.

The reporting period was fiscal 2007. To ensure that this report contains the latest information, the report includes relevant information up to the editorial deadline of March 4, 2008. The report is published each year in mid-March in English and in German.

If you have questions regarding the criteria on which this report is based please contact:
corporate.messages@basf.com

Apala Mukherjee → Cover page

Dr. Bettina Sobotka → Pages 6–7

Eugenio Luporini Neto → Pages 24–25

Liza A. Abaroa Herrera → Pages 114–115

ChunYin-Andy Ho → Pages 134–135

Rahim J. Brown → Pages 200–201

shape the future for us;
together with more than
95,000 colleagues world-
wide, they form the best
team in industry.



**“I’m a researcher –
we shape the future
by searching for
solutions that make
life better and easier!”**

DR. BETTINA SOBOTKA

Head of Nano-Bio-Surface-Research
Competence Center Specialty Chemicals

LUDWIGSHAFEN, GERMANY

With BASF for 44 months

LETTER FROM THE CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS

Dear shareholders, dear friends,

We finished this business year with record numbers. We grew faster than the market and further increased earnings. I am proud of the BASF team that has again put all its energies into continuing the success story of BASF – The Chemical Company. I would like to extend my heartfelt thanks to all employees.

We have continued to strengthen our company to face global competition. The purchase and sale of businesses have afforded us greater cyclical resilience. The large acquisitions have to a great extent been integrated and are performing better than anticipated. The organization and working processes have been made leaner and more productive. Most notably, we have aligned ourselves to better meet the needs of our customers: Helping them become more successful is our number one priority.

Europe is our home market: We have underlined our commitment to this market with the conversion of BASF Aktiengesellschaft into a European Company (a Societas Europaea, or SE). This has helped us gain efficiency and flexibility and was also the motivation behind our delisting from the New York Stock Exchange.

We grow profitably

In 2007, we increased sales by 10% to almost €58 billion and once again earned a premium on our cost of capital of nearly €2.9 billion. We want to continue on our successful path. The global BASF team will enable the BASF Group to earn at least its cost of capital in any given year, independent of the economic cycle. In addition, we aim to earn our cost of capital in each and every one of our segments.

In 2007, the BASF share was one of the top performers, growing more than 42% compared with 2006. This is coupled with an attractive dividend, which we propose to increase to €3.90 due to our strong earnings. We have also set ourselves an ambitious goal in this area: We aim to increase our dividend each year, and in difficult years at least maintain its level. We plan to continue our share buyback program.

We shape the future

Globalization is making our business more complex, faster and more fiercely competitive. If we want to be successful tomorrow, we need to lay the groundwork today. This means finding solutions for the substantial challenges: Global demographic change, increasing urbanization and above all resource conservation and climate protection.

It is in these areas where we have taken steps. Not only have we set ourselves higher efficiency goals, we also help our customers with our innovative products and system solutions to save resources and energy. We were the first company in the industry that compiled and established an integrated carbon balance. We help make climate protection possible: By using our products and processes it is possible to save three times more greenhouse gases than are needed for the production and disposal of our products. Together with our customers, we want to further exploit this efficiency potential in the future. In addition, we are working on new energy strategies such as fuel cells, organic light-emitting diodes and renewable raw materials from plant biotechnology.

Dr. Jürgen Hambrecht

“I am proud of the BASF team that has again put all its energies into continuing the success story of BASF – The Chemical Company.”



We ensure sustainable development

Our goal is clear: Climate protection is an integral part of our sustainability strategy and is decisive for the continued success of our company. Given the competitive global landscape, we believe our economic performance depends on a just and comparable political framework in all regions. Long-term success is built on a foundation of business success combined with environmental protection and corporate responsibility. We are a responsible corporate citizen – worldwide. We were a founding member of the Global Compact and the World Business Council for Sustainable Development and were one of the first signatories of the Responsible Care Global Charter.

This newly redesigned report will show you how we ensure sustainable development. For the first time, we have combined in one report comprehensive information on business performance with extensive facts on both our careful treatment of the environment and our corporate responsibility.

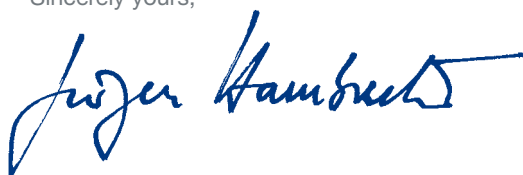
We grow with innovations

Success today is no guarantee of success tomorrow. A marked point of differentiation and our clear strengths are our innovations. We will, of course, continue to strengthen our efforts in this area. We are focusing our efforts on innovations in energy management, raw material change, nanotechnology, plant biotechnology and white (industrial) biotechnology. These will enable our customers and in turn ourselves to grow profitably. From 2015 on, we expect additional annual sales of up to €4 billion from innovations from these growth clusters. Each employee will make a contribution here. Our project “Marketplace of Innovations” is a milestone on this path. It creates a knowledge platform, fosters openness for new things and encourages employees to pursue extraordinary ideas.

We tap into new opportunities through our global network of over 1,800 research partnerships – the best in their respective fields. Take Monsanto for example, we are working with them on the development and marketing of crops, which thanks to genetic improvements, are higher yielding and more tolerant to drought than conventional strains.

We are looking with confidence to 2008, even taking into consideration the turbulent start to the year on the stock markets. For my colleagues on the Board and myself as well as for the global BASF team, this means focusing all our concentration and energies on making BASF even more profitable and cyclically resilient. We still aim to grow faster than the chemical market and improve our earnings slightly, despite the prospective weaker growth on the horizon. We place particular importance on improving our portfolio through acquisitions and divestitures, aligning ourselves even more closely to our customers’ needs, strengthening our innovation potential and developing our BASF team for the long-term. I would be pleased if you would accompany and support us on this path.

Sincerely yours,



DR. JÜRGEN HAMBRECHT
CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS

**“A marked point of differentiation and our clear strengths are our innovations.
We will, of course, continue to strengthen our efforts in this area.”**

THE BOARD OF EXECUTIVE DIRECTORS

WITH NEW EMPLOYEES WHO HAVE RECENTLY STRENGTHENED THE BASF TEAM.

AS OF MARCH 4, 2008



DR. KURT BOCK

CFO
With BASF
for 17 years

APALA MUKHERJEE

Management Trainee
With BASF
for 21 months

DR. JÜRGEN HAMBRECHT

Chairman of the Board
of Executive Directors
With BASF for 32 years

DR. MINLI ZHAO

Management
Consultant
With BASF for 9 months

RAHIM J. BROWN

Controlling R&D
With BASF
for 6 months

DR. ANDREAS KREIMEYER

Research
Executive Director
With BASF
for 22 years

HENRY GARIBAY

Assistant
Product Manager
With BASF
for 21 months

DR. MARTIN BRUDERMÜLLER

Board Member
With BASF for 20 years



DR. HANS-ULRICH ENGEL

Board Member
With BASF
for 20 years

DR. BETTINA SOBOTKA

Head of Nano-Bio-Surfaces Research
With BASF for 44 months

DR. JOHN FELDMANN

Board Member
With BASF
for 20 years

DR. H.C. EGGERT VOSCHERAU

Vice Chairman of the
Board of Executive Directors
With BASF for 39 years

CAROLINA CHICO TARAVAY-DINIZ

Head of Global
Controlling Foams
With BASF
for 19 months

DR. STEFAN MARCINOWSKI

Board Member
With BASF
for 29 years

GÜLCAN ÖZTÜRK

Trainee
With BASF
for 6 months

DR. HARALD SCHWAGER

Board Member
With BASF
for 20 years

CHUNYIN-ANDY HO

Business Analyst
Intermediates
With BASF for 6 months

NEW STRUCTURES

We are starting 2008 with new structures. We have reorganized our segments and transformed BASF Aktiengesellschaft into the European Company BASF SE. In so doing, we aim to focus even more closely on our customers and markets, increase transparency for our investors and increase efficiency and flexibility for shaping our future.

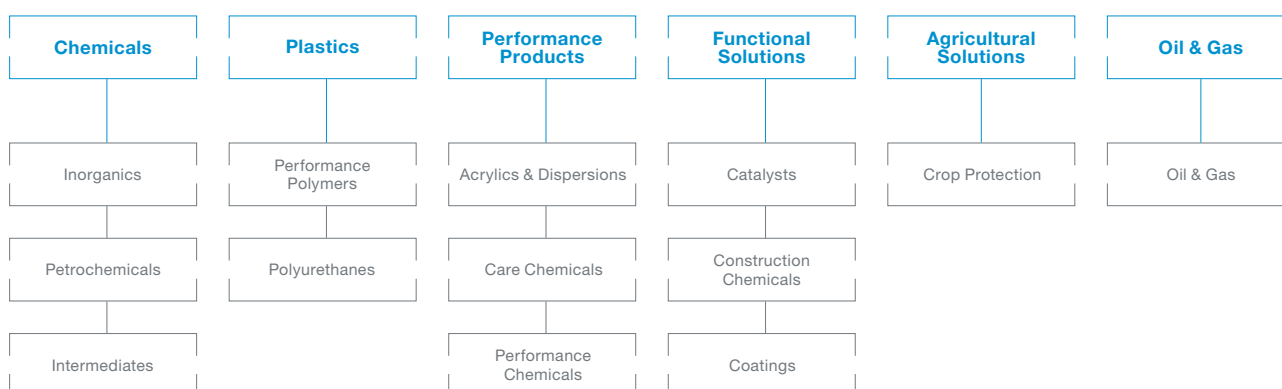
Our newly structured segments combine similar business areas. Efficiency and customer proximity are of key importance for us. As a result, we will be able to utilize our competences and knowledge more effectively while at the same time launching products and system solutions more quickly on the market. The new organization of BASF's structure enables investors to better assess and evaluate the company.

Three major changes arise from the restructuring. In the new segment Functional Solutions comprising the operating divisions Catalysts, Construction Chemicals and Coatings, we are bundling the majority of our systems solutions and products for the automotive and construction industries. In these two industries we record the highest level of sales besides the chemical industry.

We have established a new operating division, Care Chemicals, in the Performance Products segment. BASF can now even better serve the needs of its customers in the consumer goods industry with products for nutrition, cosmetics, personal care and pharmaceuticals. In Care Chemicals, we have merged the activities of the former Fine Chemicals division as well as the detergents and cleaners business from the former Performance Chemicals division.

The Specialty Plastics and Foams business units have been transferred from the Styrenics division to the Performance Polymers division. We are preparing for the divestiture of our standard styrenics business that will be recorded under 'Other' until the divestiture.

New segment structure of BASF



SIGNIFICANT CHANGES DUE TO THE NEW STRUCTURES

- BASF with six segments in the future
- New segment Functional Solutions provides customer-specific system solutions with a focus on the automotive and construction industries
- New Care Chemicals division specializes on customers from the consumer goods and pharmaceutical industries
- Specialty Plastics and Foams business units have been transferred from Styrenics to Performance Polymers

Board responsibilities

In connection with the reorganization of the segments and divisions, responsibilities will be as follows, effective March 4, 2008:

Dr. Jürgen Hambrecht (Chairman of the Board of Executive Directors): Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications BASF Group; Global HR – Executive Management & Development; Investor Relations; Chief Compliance Officer

Dr. h.c. Eggert Voscherau (Vice Chairman of the Board of Executive Directors): Human Resources; Environment, Health & Safety; Verbund Site Management Europe; Engineering & Maintenance; Corporate & Governmental Relations

Dr. Kurt Bock: Finance; Catalysts; Market & Business Development North America; Regional Functions North America; Information Services; Corporate Controlling; Corporate Audit

Dr. Martin Bruder Müller: Performance Polymers; Polyurethanes; Market & Business Development Asia Pacific; Regional Functions & Country Management Asia Pacific

Dr. Hans-Ulrich Engel: Oil & Gas; Region Europe; Global Procurement & Logistics

Dr. John Feldmann: Construction Chemicals; Acrylics & Dispersions; Care Chemicals; Performance Chemicals; Styrenics; Polymer Research

Dr. Andreas Kreimeyer: Research Executive Director; Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; BASF Future Business

Dr. Stefan Marciniowski: Crop Protection; Coatings; Specialty Chemicals Research; BASF Plant Science; Region South America

Dr. Harald Schwager will be taking over from Eggert Voscherau with the following responsibilities after the Annual Meeting 2008: Human Resources; Environment, Health & Safety; Verbund Site Management Europe; Engineering & Maintenance; Corporate & Governmental Relations

Change of legal form

The conversion of BASF Aktiengesellschaft into a European Company, a *Societas Europaea* (SE), was completed on January 14, 2008. This conversion from an AG to an SE enables us to increase the participation of our European employees. At the same time, by reducing the Supervisory Board to 12 members, we are establishing the structural conditions necessary for further improved corporate governance. This makes us a pioneer in the chemical industry.

In April 2007, the Annual Meeting of BASF voted with a large majority to accept the proposal submitted by the Board of Executive Directors and Supervisory Board to change the company's legal form. The conversion process was completed in January 2008, with the entry into the commercial register (*Handelsregister*). The Supervisory Board of BASF consists of 12 members: six shareholder representatives and six employee representatives. In addition to the Supervisory Board, a new group of European employee representatives will be established, the BASF Europa Betriebsrat (Europe Works Council), comprising of 23 members from 12 countries.

Consequences of the transformation

BASF's transformation into an SE has no consequences for its contract partners, customers or employees. Employee contracts will continue as before; works agreements and collective wage agreements have been retained. Shareholders' rights have not been altered by the new legal form, and the conversion also has no impact on stock exchange trading of BASF shares. BASF shares are listed on the stock exchanges of Frankfurt, London and Zurich and can be traded there. The headquarters and chief administrative offices of BASF SE will remain in Ludwigshafen. ///

FROM AG TO SE

- Commitment to European domestic market
- European employees represented in the Supervisory Board
- Supervisory Board reduced to 12 members
- Stronger participation of the European employees
- New BASF Europa Betriebsrat (Europe Works Council)
- No changes for contract partners, customers, employees and shareholders

STRATEGIES FOR VALUE-ADDING GROWTH

OUR STRATEGY BASF 2015

As the world's leading chemical company we play a decisive role in shaping the future. We base our actions on sustainability. Our strategic goal is to permanently grow profitably. We achieve this through operational excellence, innovations and investments in growth markets. As a reliable partner, we help our customers to be more successful with our products and intelligent solutions.

In 2007, the rapid integration of the large acquisitions made in 2006 offered BASF more competitive advantages and greater cyclical resilience. We have further improved our portfolio through acquisitions and divestitures and further interlocked our business to the value adding chain of our customers. As a result, we recorded significantly higher growth than the market and further increased our earnings. In order to improve our market position, we will continue to focus on innovative business areas and further optimize our portfolio in the future.

Further improving operational excellence

We are continually optimizing our sites, plants and processes in order to further improve operationally. We are continuing with the implementation of our restructuring and cost reduction measures. Operative excellence remains a focus of ours. The worldwide BASF Verbund and our highly integrated processes are key to being competitive in all regions.

New market opportunities through innovations

As a research-based chemical company we consider innovation as key to profitable growth. This is why we systematically expand our research and development activities. In 2007, we again increased spending in research and development by 8%. A global network enables interdisciplinary cooperation with our partners from industry as well as our customers from diverse industries. We focus on market-driven innovations, new business models and future fields

of knowledge. We have combined the important technology-driven issues of the future in five separate growth clusters:

- Energy management
- Raw material change
- Nanotechnology
- Plant biotechnology
- White (industrial) biotechnology

All employees in our global BASF team contribute to developing the market successes of tomorrow from new ideas with creativity and entrepreneurship.

Strong partnerships enable us to develop significant growth markets. In Monsanto we found an excellent partner for research, development and commercialization in plant biotechnology. In the oil and gas business, our stake in natural gas production has furthered our long-term collaboration with Gazprom.

Our four guidelines

Our four guidelines describe how we aim to achieve value-adding growth. They are mutually dependent and complement one another. Together they define all of our business decisions and activities:

- Earn a premium on our cost of capital
- Help our customers to be even more successful
- Form the best team in industry
- Ensure sustainable development

OUR PROFILE

In 2007 we achieved sales of €58 billion in our five business segments. Our strategic goal is to continue to grow profitably. Approximately 95,000 employees on five continents create the success of BASF.

OUR SELF-CONCEPT

BASF is the worldwide leading chemical company. We offer intelligent solutions with innovative products and tailor-made services. We open up opportunities for success through trustworthy and reliable partnerships.

Earn a premium on our cost of capital

We increase the value of our company by earning our cost of capital plus a premium on it. Earnings before interest and taxes (EBIT) after cost of capital is the key performance and management indicator for our operating divisions and business units. In accordance with our value-based management concept we allocate our funds in such a way as to increase the performance and income of the company. All our employees worldwide play a part to this.

Help make our customers to be even more successful

Our customers' success is also our success. We therefore intensively analyze our customers' specific requirements and develop the most suitable tailored solutions in collaboration with them. As a reliable partner to our customers, we combine experience and technological expertise with market know-how and innovative strength. We can be found where our customers are. We invest in growth markets in a timely manner and are active in all important markets worldwide.

Form the best team in industry

Our employees make use of their individual strengths and competencies for the success of the company. This diversity increases our innovative potential and helps us to find tailor-made solutions for our customers' wide range of requirements. We offer our employees development opportunities as well as pay linked to company performance. Our management culture is organized around open dialog, motivation and trusting cooperation. Our values are binding for the entire BASF team.

Ensure sustainable development

Value-adding growth can only be successful in the long-term if economic success is combined with environmental protection and social responsibility. We are committed to this principle of sustainable development in all of our activities. Throughout the world, our processes and products play an important part in mastering the social challenges facing us today and in the future. Our sustainability strategy is twofold: to reduce risk and generate business opportunities. In 2007, our innovative solutions supported our customers in running their business in a sustainable and successful manner. ///

OUR VISION

- We are "The Chemical Company"
- We are the partner of choice of our customers
- We are the best performing supplier in the chemical industry
- We earn a premium on our cost of capital
- We strive for sustainable development
- We, the employees of BASF, together ensure our success

OUR VALUES

Both strategic goals and clearly-defined principles are a prerequisite for long-term business success. Our standards are laid down in our Values and Principles. These Values and Principles form our commitment to conducting business responsibly. We apply these Values in our day-to-day business and as a result, strengthen the trust of our employees and partners in our activities.

Six Values describe our approach and how we reach our goals:

- Sustainable profitable performance
- Innovation for the success of our customers
- Safety, health and environmental protection
- Personal and professional competence
- Mutual respect and open dialog
- Integrity

These Values are binding for all BASF employees. Each Value is illustrated by principles that state how we conduct ourselves in day-to-day business. Executives, in particular, must serve as role models in ethical matters, and therefore, observance of our Values and Principles form part of the targets agreed with all senior executives in the BASF Group. → [More information can be found at: corporate.basf.com/values](http://corporate.basf.com/values)

Code of Conduct

We introduced a Code of Conduct throughout the BASF Group in 2000 based on our values. Our Code of Conduct takes into account legislation at the national level as well as the functions and cultural environment of each Group company. Where appropriate, it is supplemented by guidelines and additional information. Employees who are responsible and who act with integrity are essential for BASF. Legal violations affect a company's reputation and shake the confidence of business partners, therefore integrity is an important aspect of risk management at BASF.

→ [More information can be found at: corporate.basf.com/compliance_e](http://corporate.basf.com/compliance_e)

Compliance Program

The aim of our Compliance Program is to anchor the value "integrity" and our Codes of Conduct into the awareness and everyday activities of all employees. In 2002, BASF became one of the first German companies to appoint a Chief Compliance Officer (CCO). As of August 2007, the CCO reports directly to BASF's Chairman of the Board of Executive Directors. Together with the local compliance officer, the CCO acts as a contact for all questions related to this topic. He is also responsible for managing and developing the Compliance Program Group-wide.

In fall 2007, BASF started an interactive, refresher e-learning program regarding the contents learned in our Compliance Program. All employees must refresh their knowledge every three years. This is in addition to the basic compliance training, compulsory for all employees. We also hold regular, systematic training programs regarding specific fields of law.

In the event of questions regarding correct ethical behavior, all our employees can also seek advice from their executives, the appropriate Legal department, or from the Compliance Officer.

In addition, questions can be raised via telephone hotlines that are available 24 hours a day. Employees can also call the hotline to anonymously report incidents they consider to be dubious or legally questionable. In most countries calls to such hotlines are handled by external law offices. The reports are passed on to BASF's compliance hotline officers and then followed up internally.

Regular compliance audits by the Corporate Audit department further support the Compliance Program. In 2007, 137 of these audits were carried out throughout the BASF Group (2006: 120). These audits also examine compliance with antitrust regulations as well as with our principles for relations with business partners and representatives of government bodies.

COMPLIANCE IN BASF

Compliance refers to the adherence to laws and policies as well as to the voluntary codes of conduct in a business. It prevents malpractice within a business and furthermore ensures that business activities are in accordance with all social and ethical values. BASF's Compliance Program outlines corporate and legal regulations as well as the relevant corporate policy. In addition to basic training, our employees regularly participate in systematic training programs regarding specific fields of law – in particular, antitrust legislation, embargo and trade control regulations. Participation in our compliance training programs is compulsory for all of our employees.

Dedicated to fighting corruption

A further goal of our Compliance Program is to avoid cases of corruption. Globally, we are committed to fighting against corruption. In India, in 2002, we initiated the "Million Minds Project" in cooperation with the Indian government and local, non-governmental organizations. One million people will be provided with information on the subject of anti-corruption. As a member of Transparency International, we support the organization's fight against corruption on a global level.

→ More information about Transparency International can be found at: www.transparency.org

Global standards

High standards are important to us both within our company and the social environment. We strive to contribute to the protection and wider recognition of human rights in our spheres of influence. Consequently we act in accordance to fixed principles with our employees, suppliers and business partners. These include:

- The basic rights set forth in the United Nations' Universal Declaration of Human Rights
- The International Labor Organization's (ILO) core labor standards
- OECD Guidelines for Multinational Enterprises
- The 10 principles of the United Nations Global Compact

Our labor conditions conform to basic, internationally recognized labor and social standards.

We provide our employees with compensation based on individual and company performance that is in line with the market. In addition we pass on our economic success to our employees in the form of special provisions in our compensation system and company benefits.

We do not tolerate discrimination based on nationality, gender, religion or any other personal characteristics. BASF strives to maintain good-faith relationships with elected employee representatives. We observe internation-

ally recognized labor standards and the customs of the respective countries. We condemn all kinds of child labor as well as forced labor or compulsory labor.

→ More information can be found at: corporate.basf.com/humanrights

Monitoring tools

We want to ensure that labor and social standards are adhered to in all our locations and therefore conduct annual surveys in our Group companies. A special telephone hotline has been set up for our employees in countries where legally permissible since 2007. Here, employees can seek advice regarding labor and social standards anonymously and confidentially, and draw attention to possible shortcomings. Any grievances, at any of our locations, brought to our attention by either of the two monitoring tools, are pursued by us and necessary measures are taken.

→ More information can be found at: corporate.basf.com/monitoring_e

Dialogs with our stakeholders

Trustworthiness and transparency in dealing with our many stakeholders are one of our values. Ongoing dialogs with our stakeholders help us to recognize the expectations and demands facing us in the future. In our dialogs with scientists, non-governmental organizations and politicians we discuss openly and objectively about possible risks and opportunities for example regarding nanotechnology. We also hold constructive talks regarding, for example, plant biotechnology, climate protection and energy policies with governments and the society. In 2008 we carried out a carbon balance. The results show that BASF products play a significant role in climate protection. ///

→ More information can be found on page 94.

→ More information about our dialog with our stakeholders can be found at: corporate.basf.com/dialog_e

BASF'S GLOBAL STANDARDS

In order to implement global standards, we are committed to fixed and accepted principles worldwide. An example are the principles of Global Compact. Under the auspices of the Global Compact initiative established by former U.N. Secretary-General Kofi Annan, NGOs, international business and labor organizations as well as representatives from the world of science and politics are working closely together. The goal: to forge a global economy based on the principles of sustainable development. As a founding member, BASF is committed to the implementation of the 10 principles of Global Compact in the areas of human rights, labor and environmental protection as well as the fight against corruption.

→ More information can be found at: corporate.basf.com/global_compact_e as well as www.globalcompact.org

OUR GOALS

Economic Goals

		Status at year-end 2007	More on
Premium on cost of capital	2007 goals		
Earn an EBIT of at least 9% based on the assets of the operating divisions	At least €3.4 billion	We earned a premium of €2,895 million on our cost of capital of €3,412 million.	> page 49
Dividend			
Dividend per share to be increased annually or at least to remain at the previous year's level	At least €3.00	Increase of 30% to €3.90	> page 20

Environment, Safety and Product Stewardship

		Goal	Status at year-end 2007	More on
Energy and climate protection	2020 goals			
Emissions of greenhouse gases per metric ton of sales product (baseline 2002)	-25%		-16.6%	> page 97
Improvement of specific energy efficiency of production processes (baseline 2002)	+25%		New goal	> page 98
Stop the flaring of associated gas that is released during crude oil production by Wintershall (2012 goal)			New goal	> page 98
Reduction in emissions from chemical operations (baseline 2002)				
Emissions of air pollutants*	-70%		-40.8%	> page 98
Emissions to water of				> page 99
Organic substances*	-80%		-65.9%	> page 99
Nitrogen*	-80%		-76.3%	> page 99
Heavy metals*	-60%		-44.3%	> page 99
Distribution safety (baseline 2003)				
Reduction in transportation accidents	-70%		-50.0%	> page 102
Product stewardship				
Review of all products that are sold worldwide by BASF in quantities of more than 1 metric ton per year, based on a risk assessment	> 99%		The introduction of our "Reach Tracking System" database in 2007 is an important precondition of meeting our goal.	> page 104

* assuming comparable product portfolio


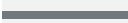
DIVIDEND INCREASE (COMPARED WITH 2006)

+30%

REDUCTION IN GREENHOUSE GASES (GREENHOUSE GAS EMISSION PER METRIC TON OF SALES PRODUCT / BASELINE 2002)

-16.6%

Employees and Society

		Goal	Status at year-end 2007	More on
Occupational safety (baseline 2002)	2020 goals			
Reduction in lost time injuries per million working hours	-80%		-33%	> page 90
Health protection (baseline 2004)				
Reduction in cases of occupational diseases	-80%		-45%	> page 91
Senior executives	Long-term goals			
International proportion of senior executives	Increase the proportion of non-German senior executives (baseline 2003: 30 %)		29.3%	> page 86
Women in senior executive positions	Increase the proportion of female senior executives (baseline 2003: 5.2 %)		5.6%	> page 86
Senior executives with international experience	Increase the proportion of senior executives with international experience to over 70 %		73%	> page 86
Leadership feedback	2008 goal			
Mandatory leadership feedback for senior executives worldwide	80 % of senior executives have taken part in the standardized leadership feedback process		47.8%	> page 86
Employee survey	2009 goal			
Global employee survey	Implement a global employee survey for the BASF Group		Preparation of global employee survey started	> page 87

TRANSPORTATION ACCIDENTS

(PER 10,000 SHIPMENTS / BASELINE 2003)

-50%

SENIOR EXECUTIVES WITH INTERNATIONAL EXPERIENCE

73%

BASF ON THE CAPITAL MARKET

The proposed dividend of €3.90 per share corresponds to an attractive dividend yield of 3.8%. BASF shares again performed better than the market and shareholders who reinvested their dividends saw a 42% increase in the value of their holding in 2007.

Strong performance of BASF shares

BASF's share price increased by 37.3% and reached its year high of €101.61 in December 2007.

Shareholders who reinvested dividends increased the value of their holding by 42% in 2007. This means that the shares significantly outperformed the German and European stock markets, for which the key indices DAX 30 and DJ EURO STOXX 50 rose by 22.3% and 9.7% respectively in the same period. In 2007, BASF's shares also outperformed the global industry indices DJ Chemicals and MSCI World Chemicals, which increased by 32.9% and 26.7%, respectively.

The assets of a long-term investor who invested the equivalent of €1,000 in BASF shares at the end of 1997 and reinvested the dividends in additional BASF shares would have increased to €4,252 by the end of 2007. This average annual return of 15.6% puts BASF shares substantially above the corresponding return for the EURO STOXX 50 (7.8%) and DAX 30 (6.6%).

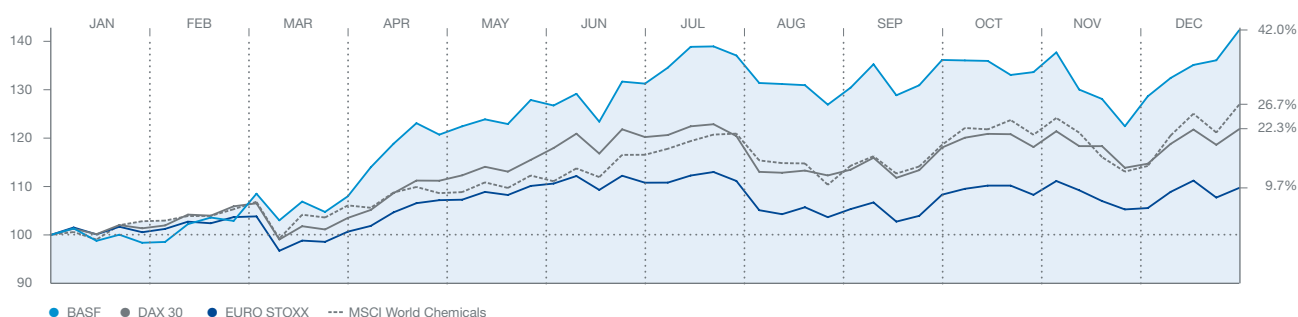
Further dividend increase to €3.90

At the Annual Meeting, the Board of Executive Directors and the Supervisory Board will propose to increase the dividend from €3.00 to €3.90 per share. This means that we will be paying out the record amount of nearly €1.9 billion to our shareholders (based on the number of qualifying shares on December 31, 2007). Based on the year-end share price for 2007 of €101.41, BASF shares offer an attractive dividend yield of 3.8%. BASF belongs to the DivDAX share index, which contains the 15 companies with the highest dividend yield in the DAX 30. We aim to increase our dividend each year, or at least maintain it at the previous year's level.

Share buybacks for €1.9 billion in 2007

In 2007, BASF bought back 21.5 million shares for €1.9 billion at an average price of €88.35 per share. This is the largest amount ever spent by BASF on buying back shares in a single year. The total number of outstanding shares on December 31, 2007, following the deduction of 12.3 million shares that were bought back and are earmarked for cancellation, was 478.2 million. Based on a year-end share price of €101.41, the market capitalization was €48.5 billion. In order to increase earnings per share and further optimize our balance sheet structure, we will continue our

Change in value of an investment in BASF shares 2007
(with dividends reinvested, indexed)



BASF SHARES 2007

- 42% appreciation in BASF shares significantly above industry average
- Dividend increases to €3.90 per share
- €1.9 billion share buyback in 2007
- Two-for-one stock split
- BASF shares in key sustainability indices

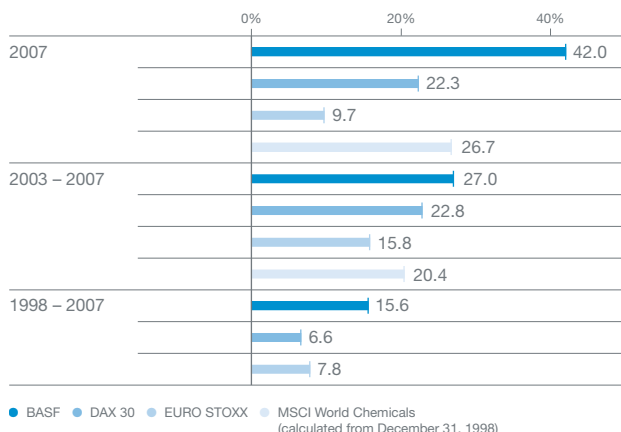
THE INVESTOR RELATIONS TEAM

- **Internet:** corporate.basf.com/share
- **E-mail:** investorrelations@basf.com
- **Phone:** +49 621 60-48230
- **Online registration at:** corporate.basf.com/share/newsletter

ongoing €3 billion share buyback program for 2007 and 2008 as scheduled.

Investment in BASF shares: average annual performance

Real change compared with previous year



Two-for-one stock split

To make BASF shares available to an even broader spectrum of investors, the Board of Executive Directors and the Supervisory Board decided to propose to the Annual Meeting to conduct a two-for-one stock split. Following a re-division of the share capital, shareholders would receive one additional share for each BASF share held without additional payment. Shares held in form of American Depositary Receipts in the United States would also be adjusted accordingly.

Broad base of international shareholders

With around 460,000 shareholders, BASF is one of the largest publicly owned companies with a high free float.

An analysis of the shareholder structure carried out in October and November 2007 shows that, at 26% of share capital, the United States and Canada make up the largest regional group of institutional investors, followed by inves-

tors from Germany with 17%. Shareholders from Britain and Ireland hold 10% of BASF shares, while a further 15% are held by institutional investors from the rest of Europe. Around 28% of the company's share capital is held by private investors, most of whom are resident in Germany.

Employees becoming shareholders

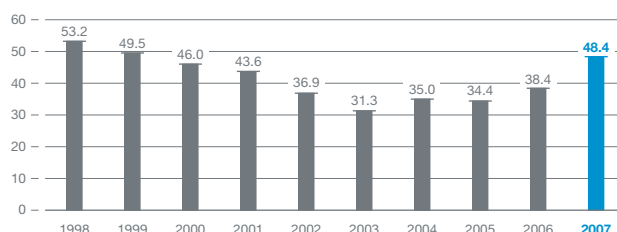
In many countries, we offer share purchase programs to encourage our employees to become BASF shareholders and participate in the company's success. More than 18,000 employees ordered shares in 2007, worth a total of approximately €37 million.

→ More information can be found on page 89.

Increased attendance at the Annual Meeting

The 55th Annual Meeting was held in Mannheim on April 26, 2007. In the years before, less than 40% of the share capital was represented at each meeting. This figure increased to 48% in 2007, constituting a 10 percent points increase compared with the previous year.

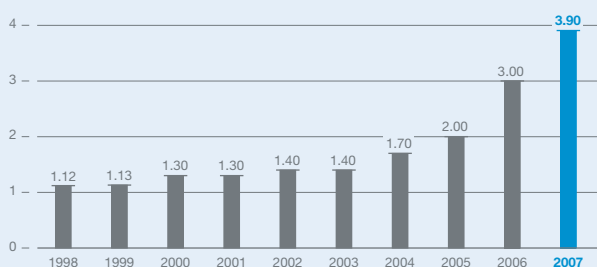
Increased attendance at the Annual Meeting



BASF no longer listed on the NYSE

As of September 6, 2007, BASF is no longer listed on the New York Stock Exchange (NYSE). In addition, BASF cancelled its registration with the American Securities and Exchange Commission (SEC). The deregistration became effective as of December 6, 2007, thus terminating the associated reporting obligations under U.S. securities

Dividend per share (€ per share)



- Proposed dividend of €3.90 per share exceeds previous year's level by 30%
- Attractive dividend yield
- Dividend increase in 11 of past 13 years

laws. This withdrawal from the New York Stock Exchange is helping BASF to reduce both complexity and costs.

Following the deregistration, BASF is still maintaining the high degree of transparency that is expected in international financial markets.

BASF is continuing its American Depositary Receipts program (ADR) in the United States in "Over the Counter" markets. Shareholders can access the current ADR price and further information on BASF via the leading electronic platform, International PremierQX, under the ticker "BASFY."

→ More information can be found at: www.otcqx.com and www.pinksheets.com

Inclusion in sustainability indices

In 2007, BASF shares were included in the Dow Jones Sustainability World Index (DJSI World) for the seventh year in succession. The DJSI World is a leading sustainability index and represents the top 10% of the largest 2,500 companies in the Dow Jones Global Index in terms of sustainability in their respective industries. BASF was awarded "Gold Class Member" status in the classification of listed companies introduced in 2007. This award is given when a company is rated less than 5% below the best in industry.

In addition, BASF is still included in the FTSE4Good Index, launched by the Financial Times and the London Stock Exchange, and in the Global 100 list compiled by the New York research house Innovest. Both of these indices/rankings focus on companies with good records with regard to commitment to environmental protection, social responsibility and corporate governance.

→ More information can be found at: corporate.basf.com/sustainabilityindexes

Excellent credit ratings

With an AA-/A-1+/outlook stable rating from the Standard and Poor's rating agency and an Aa3/P-1/ outlook negative rating from Moody's, BASF has significantly stronger ratings than its competitors in the chemical industry.

Bonds issued

As part of its long-term financing strategy, BASF issued two bonds in 2007 through BASF Finance Europe N.V. in order to further optimize its capital structure. An extendible note in the amount of \$1.35 billion was issued in June. This variable-interest bond was issued as a private placement. In September, BASF placed a Eurobond worth €1.25 billion on the capital market. This bond, issued with a term of 7 years and an annual interest coupon of 5%, was oversubscribed four times.

→ More information can be found on page 185.

Close dialog with the capital markets

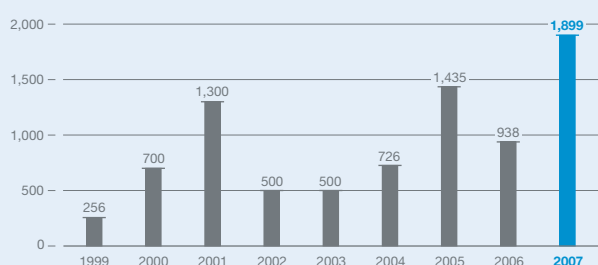
Our corporate strategy aims to create sustainable value. We support this strategy through regular and open communication with all participants in the capital markets. We have kept institutional investors and rating agencies informed through numerous individual meetings and road shows worldwide, while also holding information events to provide private investors with an insight into the world of BASF. We present our principles and sustainability performance to investors and analysts at special events.

Analysts and investors confirm the quality of our communication work and have ranked BASF Investor Relations as the number one on many occasions. For example, BASF was presented with the "German-Investor-Relations-Award" 2007 in the category of DAX companies and the "Capital Investor Relations Prize" 2007 among EURO STOXX 50 companies, and also received a distinction in the Thomson Extel Survey for the best IR work in the European chemical industry. ///



More information can be found at:
corporate.basf.com/share

Share buyback program (million €)



- As part of our €3 billion share buyback program, a record amount of €1.9 billion was used to repurchase shares in 2007
- We plan to continue to buy back further shares
- Since 1999, 25.6% of the outstanding shares were repurchased for a total of €8.25 billion

Key BASF share data

		2003	2004	2005	2006	2007
Year-end price	€	44.58	53.00	64.71	73.85	101.41
Year high	€	44.58	53.00	65.33	74.24	101.61
Year low	€	28.41	40.49	50.11	58.97	71.95
Year average	€	38.52	45.18	57.13	64.82	89.00
Daily trade in shares ¹						
– million €		127.2	121.7	154.0	198.6	298.3
– million shares		3.3	2.7	2.7	3.1	3.35
Number of shares as of December 31 ²	Million shares	556.6	540.4	514.4	499.7	478.2
Market capitalization as of December 31	billion €	24.8	28.6	33.3	36.9	48.5
Earnings per share ³	€	1.62	3.65	5.73	6.37	8.32
Dividend per share	€	1.40	1.70	2.00	3.00	3.90
Dividend yield ⁴	%	3.14	3.21	3.09	4.06	3.85
Payout ratio ³	%	85	45	34	46	46 ⁵
Price-earnings ratio (P/E ratio) ^{3, 4}		27.5	14.5	11.3	11.6	12.2

¹ Average, Xetra-Handel

² After deduction of shares earmarked for cancellation

³ Starting in 2005, the accounting and reporting of the BASF Group has been performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figure has been restated accordingly. The figures up to and including 2003 were prepared according to German Commercial Code.

⁴ Based on year-end share price

⁵ With regard to the number of qualifying shares as of December 31, 2007

Further information

Securities code numbers

Germany	515100
Great Britain	0083142
Switzerland	323600
USA (CUSIP-Number)	055262505
ISIN International Stock Identification Number	DE0005151005

International ticker symbol

Deutsche Börse	BAS
London Stock Exchange	BFA
Swiss Exchange	AN



“In marketing, we’re looking for ways to make projects more successful – we are all working for the same goal: Shaping the future.”

EUGENIO LUPORINI NETO

Director Marketing
Decorative Paints

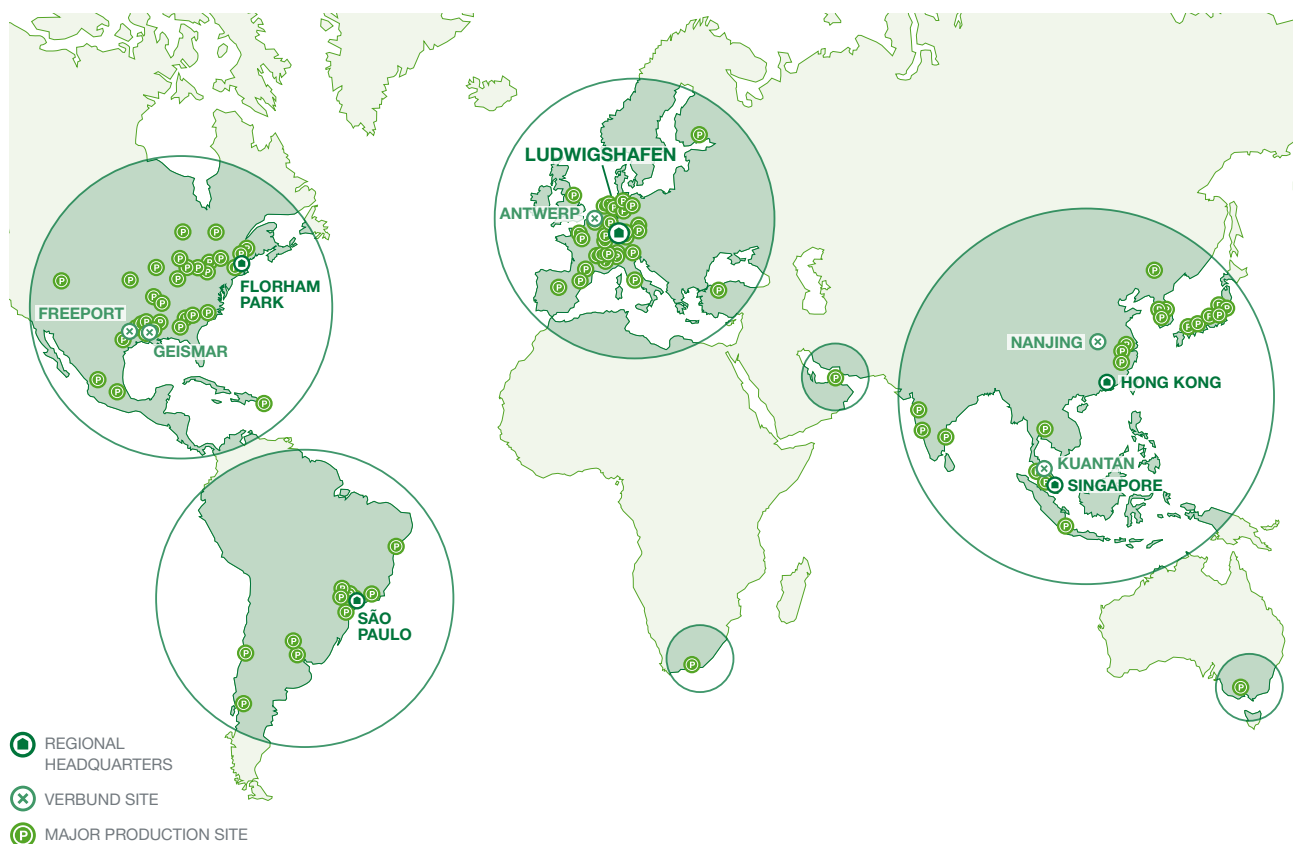
SÃO PAULO, BRAZIL

With BASF for 25 months

MARKETS, STRUCTURES AND ORGANIZATION

BASF is the world's leading chemical company – The Chemical Company. With over 95,000 employees as well as close to 100 large and a multitude of smaller production sites worldwide we serve customers and partners in almost all countries of the world. Our portfolio ranges from oil and gas to chemicals, plastics, performance products, agricultural products and fine chemicals.

BASF sites



THE VERBUND

- Six Verbund sites worldwide
- Production plants linked intelligently to save resources and energy
- Ludwigshafen is the largest Verbund site, where the Verbund concept was developed and is continuously optimized

Markets and Sites

BASF has subsidiaries in more than 80 countries and supplies its products to a large number of business partners in almost all countries. In 2007, we generated 56% of our sales with customers in Europe, of which 17 percentage points were in the Oil & Gas segment; 21% of sales were generated in North America; 16% in Asia Pacific; and 7% in South America, Africa, Middle East. We operate six Verbund sites worldwide, the largest of which is in Ludwigshafen, as well as almost 100 large and a multitude of smaller production sites. In our Verbund, we link production plants intelligently to save resources and energy. Ludwigshafen is the largest integrated chemical complex in the world. This was where the Verbund concept was developed and optimized before it was applied to other sites around the world.

Organization of BASF Group

In 2007, BASF's 14 operating divisions were aggregated into five segments. The divisions carry the operational responsibility and manage our 67 global and regional business units. As profit centers, the business units are responsible for business operations and are organized along business or product lines. We restructured our segments to mirror similar products, customers and production processes as of January 1, 2008. As a result, investors are better able to assess BASF because we are combining similar businesses in each of our segments and we can align our portfolio with the acquisitions, divestitures and restructuring of the past years.

→ More information can be found in section "New Structures" from page 12 onward.

Our regional divisions contribute to the local development of BASF's business and help to exploit market potential. These divisions are also responsible for optimizing the regional infrastructure. For reporting purposes, the divisions are grouped into the following four regions: Europe; North America; Asia Pacific; and South America, Africa, Middle East.

Segments:

- Chemicals
- Plastics
- Performance Products
- Agricultural Products & Nutrition
- Oil & Gas

Regions:

- Europe
- North America
- Asia Pacific
- South America, Africa, Middle East

Corporate Divisions:

- Finance
- Legal, Taxes & Insurance
- Strategic Planning & Controlling

Corporate Departments:

- Communications BASF Group
- Corporate Audit
- Corporate Controlling
- Corporate & Governmental Relations
- Global HR – Executive Management & Development
- Investor Relations

BASF GROUP ORGANIZATION

- Divisions that are combined into segments, manage our global and regional business units
- Regional divisions optimize the infrastructure and support operations
- Corporate divisions and departments as well as competence centers perform Group-wide services

BASF'S FIVE SEGMENTS

- Chemicals
- Plastics
- Performance Products
- Agricultural Products & Nutrition
- Oil & Gas

As of 2008, the segments have been newly structured and the additional segment Functional Solutions has been established.

Competence Centers:

- BASF Plant Science
- Chemicals Research & Engineering
- Environment, Health & Safety
- Global Procurement & Logistics
- Human Resources
- Information Services
- Polymer Research
- Science Relations and Innovation Management
- Specialty Chemicals Research

Management Structures for Sustainability

Our Sustainability Council ensures that the BASF Group is strategically aligned with the principles of sustainable development. The Council, chaired by Board member Dr. Harald Schwager, comprises nine supervisors of operating and regional divisions. The Sustainability Council is supported by regional networks in Asia, North and South America as well as Europe in order to implement developed strategies worldwide. The worldwide Responsible Care network supports and advises the Sustainability Council in all questions regarding environment, safety and health. Our Sustainability Center acts as a nerve center for the Sustainability Council, the regional Steering Committees, project teams and specialist units.

BASF is the first company to appoint an environmental protection officer who coordinates all climate protection activities of BASF.

Corporate Legal Structure

In January 2008, BASF Aktiengesellschaft changed its legal form with its entry in the commercial register. BASF is now a European Company, a Societas Europaea (SE).

→ More information can be found in sections "New Structures" from page 12 onward and "Corporate Governance" from page 114 onward.

BASF SE, headquartered in Ludwigshafen, Germany, takes the central role as the largest operating company in the BASF Group. Directly or indirectly, it holds the shares in the companies that belong to the BASF Group. All of BASF SE's shares are available for public trading on stock exchanges.

→ More information can be found in section "BASF on the Capital Market" from page 20 onward.

The majority of BASF Group companies cover a broad spectrum of the businesses of our operating divisions. Some companies concentrate on specific areas such as the Coatings division or the Oil & Gas segment. The BASF Group Consolidated Financial Statements include BASF SE and 278 consolidated subsidiaries. We consolidate 18 joint ventures with one or more partners on a proportional basis. Additionally, we include four joint ventures and six associated companies in which we have a 20% to 50% interest, as well as 10 more companies in the financial result using the equity method. Furthermore, we have a stake in numerous smaller companies that are not material to BASF's operations, either individually or in the aggregate. ///

→ More information can be found in Note 1 to the Consolidated Financial Statements from page 143 onward.

Compensation report and disclosures according to section 315 (4) German Commercial Code

→ The compensation report with the disclosures according to section 315 (2) 4 and section 315 (4) of the German Commercial Code can be found from page 125 onward. It forms part of the Management's analysis audited by the external auditor.

MANAGEMENT STRUCTURES FOR SUSTAINABILITY

- Sustainability Council ensures that the BASF Group is aligned with the principles of sustainable development
- Regional networks and the Responsible Care network support the Sustainability Council
- Sustainability Center acts as a nerve center between the Sustainability Council, project teams and specialist units
- Climate protection officer coordinates all climate protection activities of BASF

LEGAL CORPORATE STRUCTURE

- BASF SE, headquartered in Ludwigshafen, is the largest operating company in the BASF Group
- BASF Group Consolidated Financial Statements include 279 consolidated group companies and 18 joint ventures on a proportional basis
- An additional 20 companies are included using the equity method

CHEMICALS

In 2007, the Chemicals segment consisted of the **Inorganics, Catalysts, Petrochemicals and Intermediates divisions**. We produce a broad range of basic chemicals and higher value products at our integrated production facilities – the Verbund – in Europe, Asia and North America.

Segment Strategy

Our strategy is twofold. Firstly, we successfully market our products to external customers in downstream industries; primarily in the pharmaceuticals, construction, electronics, textile and automotive industries. Secondly, we supply other BASF segments with chemicals at market price for the production of higher-value products. Sales to these other segments account for 26% of our total sales including intersegmental transfers. We are working on further expansion of our value-adding chains, often in cooperation with our industrial partners. Technology and cost leadership are important success factors.

We aim to strengthen our market leadership in Europe, further improve our cost structure and market position in North America, and expand our activities in Asia. To this end, we constantly improve our competitiveness by exploiting the synergy potential of our Verbund, by developing and introducing innovative processes and products, and by investing and making acquisitions in strongly-growing business areas. We constantly optimize our portfolio and our production structures and adapt them to meet regional market requirements in Europe, North America and Asia.

The Divisions

The success of the **Inorganics** division is based on a broad product range comprising basic products for use in our Verbund and specialties, which are mainly for our external customers in the electronics and pharmaceuticals industries. Here we profit from detailed knowledge of our customers' technological requirements and demands. We are the market leader in electronic chemicals in Asia and Europe. We concentrate our research activities on electronic materials, inorganic specialties as well as glues and impregnating resins.

The **Catalysts** division develops and produces catalysts for vehicles and industrial catalysts and is the global market leader in the field of catalysis. The materials services unit supplies the catalysts businesses and our customers with precious metals and services. We have a unique research platform and are strengthening our leading technological position through constant process and product innovations.

The **Petrochemicals** division, with a broad range of basic chemicals, is the backbone of BASF's value-adding chain. In addition, we offer solvents and plasticizers for both the chemicals and plastics industry. Our aim is to meet our external and internal customers' demand for feedstocks by offering solutions and business models which are both intelligent and competitive.

With 600 products, our **Intermediates** division develops, produces and markets the most comprehensive range of intermediates of all producers worldwide. Our products include amines, diols, polyalcohols, acids and specialties. They serve as starting materials for products such as coatings, plastics, pharmaceuticals, textile fibers, agricultural products as well as detergents and cleaners. Worldwide, BASF is one of the three largest suppliers of key intermediates. Our research activities center on the development of new products through the further extension of our value-adding chains and through collaboration with our customers.

STRATEGY

- Market our products to external customers and supply other segments with chemicals at market prices
- Strengthen our market leadership in Europe and expand our position in North America and Asia
- Continually optimize our portfolio and production structures and adapt them to meet regional market requirements

THE DIVISIONS

- Inorganics
- Catalysts
- Petrochemicals
- Intermediates

From 2008, the Catalysts division will be part of the new Functional Solutions segment

Research and Development

We focus on the development of more competitive production processes and structures as well as new products for internal and external customers. Our product development is based on meeting customers' challenges and needs. Existing products and applications are continually being improved. In addition, we also develop novel solutions and future technologies. One example is ionic liquids – salts which are liquid below 100°C. We signed a joint development agreement with G24 Innovations Limited (G24i), a U.K. company that manufactures solar cells, to test and optimize the performance of BASF's ionic liquids in G24i's dye-sensitized solar cells. The ionic liquids are specifically adapted to the electrode and dye system and play a significant role in power generation in solar cells. The solar cells will be used to power portable electronic devices such as mobile telephones.

Our catalysts are used in numerous fields of the chemical, automotive and oil refining industries. The new catalyst NaphthaMax®, for example, is based upon our Distributed Matrix Structure technology and significantly increases the gasoline yield in refineries. NaphthaMax has been successfully launched and has already proven its worth to our customers in numerous refineries.

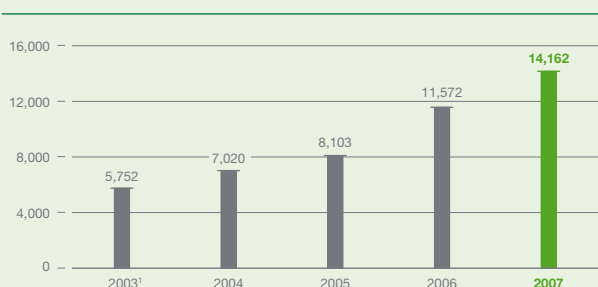
IChem, the leading international institution for chemical and process engineers, awarded us the "IChemE Award" 2007 for our novel process for producing cyclododecanone (CDon). The new process consists of three steps and requires just one catalyst, whereas conventional production processes consist of five steps and require three catalysts. It also offers additional advantages: It delivers higher yields of the final product, and for the first time, it is possible to use nitrous oxide – a by-product of the BASF Verbund – as an oxidizing agent. CDOn is the key raw material in the production of laurilactam, an intermediate used to produce a polyamide based high-performance plastic and valuable fragrances. We are building a CDOn production plant at our Verbund site in Ludwigshafen, Germany, which is due to start operations in 2009.

Marketing and Sales

In the area of standard products, we concentrate on optimizing the efficiency of marketing channels. We generally market our standard products without intermediaries and, to an increasing extent, via e-commerce.

We are continuously strengthening and extending our portfolio with organic and inorganic specialties and catalysts. In these areas, our development laboratories are working jointly with our customers and we are marketing the products with the associated technical applications know-how. We are expanding our activities in the marketing of product innovations and solutions in order to develop new applications, attract new customers and increase business with third parties. ///

Sales (million €)



¹ according to German Commercial Code

RESEARCH AND DEVELOPMENT

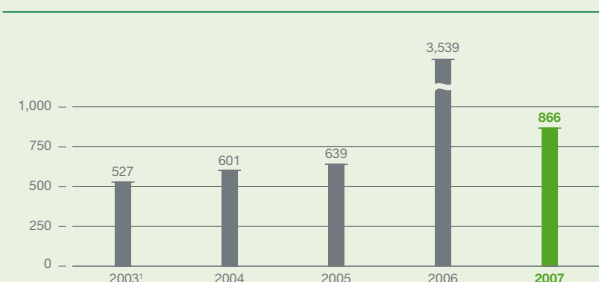
- Joint-development agreement for ionic liquids in dye-sensitized solar cells
- Successful launch of the NaphthaMax catalyst for refineries
- "IChemE Award" 2007 for the novel and environmentally friendly production process for cyclododecanone (CDOn)

Capital Expenditures

Location	Project	Additional capacity through expansion	Total capacity (metric tons)	Startup
Antwerp, Belgium	Expansion steam cracker			2008
	ethylene	280,000	1,080,000	
	propylene	200,000	650,000	
	benzene	30,000	280,000	
Chennai, India	Expansion vehicle catalysts		n/a	2008
Geismar, Louisiana	Construction of plant for alkylethanolamines		28,000	2007
Huntsville, Alabama	Expansion vehicle catalysts		n/a	2008
Ludwigshafen, Germany	Expansion Hexamoll DINCH	75,000	100,000	2007
	Construction of plant for cyclododecanone		25,000	2009
	Construction Electronic Materials Center Europe		n/a	2007
Moscow, Russia	Construction of plant for vehicle catalysts		n/a	2008
Nanjing, China	Expansion oxo C ₄ alcohols ¹	55,000	305,000	2008
Pasadena, Texas	Construction of plant for plasticizers		125,000	2007
Savannah and Attapulcus, Georgia	Expansion refinery catalysts		n/a	2008
Shanghai, China	Expansion vehicle catalysts ²		n/a	2009

¹ Operated by a joint venture company in which BASF has a 50% share and which is accounted for proportionally.

² BASF effectively has a 95.66% share in the company.

Capital expenditures in the Chemicals segment (million €)

¹ according to German Commercial Code

STARTUPS IN 2007

- New alkylethanolamine plant in Geismar, Louisiana
- Ludwigshafen: Expansion of Hexamoll DINCH plant; startup of the Electronic Materials Center Europe
- New plasticizers plant in Pasadena, Texas

Production Capacities of Significant Products

Product	Verbund Sites				Annual Capacity (metric tons)
	Europe	North America	Asia	Other Sites	
Alkylamines	X		X	X	221,000 ⁷
Formic and propionic acid	X		X		255,000 119,000 ⁷
Ammonia	X				1,525,000
Benzene	X		X	X	790,000 ^{1, 7}
Butadiene	X			X	515,000 ²
Butanediol equivalents	X	X	X	X	585,000 ^{3, 5}
Chlorine	X				385,000
Ethanolamines and derivatives	X				270,000
Ethylene	X		X	X	2,955,000 ^{1, 7}
Ethylene oxide	X	X	X		1,175,000 ⁷
Formaldehyde condensation products	X				750,000
Neopentylglycol	X	X		X	165,000 ^{6, 8}
Oxo C ₄ alcohols (calculated as butyraldehyde)	X	X	X	X	1,360,000 ^{3, 7}
Polytetrahydrofuran	X	X	X	X	185,000
Propylene	X		X	X	2,280,000 ^{1, 4, 7}
Plasticizers	X		X	X	620,000 ³

¹ Contains the full capacity of a joint venture company for the production of 935,000 metric tons of ethylene; 830,000 metric tons of propylene and 110,000 metric tons of benzene (including metathesis) in Port Arthur, Texas, in which BASF has a 60% share.

² Contains the full capacity of a joint venture company for the production of 410,000 metric tons of butadiene in Port Arthur, Texas, in which BASF has a 22.82% share and which is proportionally consolidated in the Group Consolidated Financial Statements.

³ Contains the full capacity of a joint venture company for the production of 250,000 metric tons of oxo C₄ alcohols; 40,000 metric tons of phthalic anhydride; 100,000 metric tons of plasticizer; 100,000 metric tons of butanediol equivalents and 160,000 metric tons of acrylic monomers in Kuantan, Malaysia, in which BASF has a 60% share.

⁴ Contains the full capacity of a joint venture company for the production of 350,000 metric tons of propylene in Tarragona, Spain, in which BASF has a 51% share.

⁵ Contains the full capacity of a joint venture company for the production of 25,000 metric tons of butanediol equivalents in Chiba, Japan, in which BASF has a 67% share.

⁶ Contains the full capacity of the joint venture company for the production of 35,000 metric tons of neopentylglycol in Jilin, China, in which BASF has a 60% share.

⁷ Contains the full capacity of a joint venture company for the production of 600,000 metric tons of ethylene; 300,000 metric tons of propylene; 130,000 metric tons of benzene; 250,000 metric tons of ethylene oxide; 350,000 metric tons of ethylene glycol; 250,000 metric tons of oxo-C4 alcohols; 36,000 metric tons of alkylamines; 50,000 metric tons of formic acid; 39,000 metric tons of propionic acid and 160,000 metric tons of acrylic monomers in Nanjing, China, in which BASF has a 50% share and is proportionally consolidated.

⁸ Contains a small capacity expansion (10,000 metric tons) of the plant in Ludwigshafen, Germany.

PLASTICS

BASF is one of the world's leading producers of plastics. We offer our customers innovative solutions based on these energy-efficient materials. In 2007, the segment was organized in three divisions: Styrenics, Performance Polymers and Polyurethanes.

Strategy

We concentrate on activities which allow us to differentiate ourselves from our competitors and which offer profitable growth opportunities. Our customers are primarily in the following industries: automotive, electrical/electronics, textile, packaging and construction.

Nevertheless, the diverse properties of our plastics are increasingly appealing to customers from other industries. This allows us to broaden our portfolio of customers' industries, grow faster than the market and become less dependent on the cyclicity of individual industries. Our focus is on close collaboration with our customers in the development of new products or solutions.

We aim to improve our production processes in a sustainable way: conserving even more resources, producing even more energy-efficiently and using more cost-effective raw materials.

The Divisions

The **Styrenics** division is one of the market leaders in standard products, specialties and foams. Styrenics are used in many areas, for example, in the construction, packaging, automotive, electrical and leisure industries. In the long term, we do not see sufficient possibilities to differentiate ourselves from our competitors in the market for standard styrenics. Therefore we plan to sell the styrene monomer (SM), polystyrene (PS), styrene butadiene copolymer (SBS) and acrylo-nitrile butadiene styrene (ABS) businesses. In the future, our specialties and foam businesses will be operated by the Performance Polymers division and expanded.

The **Performance Polymers** division is one of the world's leading suppliers of engineering plastics as well as

polyamide and polyamide intermediates. Our products are used in a diverse array of industries, such as in packaging for the food industry, in textiles, in automotive construction and in the electric and electronics industries. Our research focuses on the development of new applications, engineering plastics and packaging materials with improved properties. In particular, we work closely with our global customers to respond to their needs and compete successfully in the long term.

The **Polyurethanes** division is one of the world's leading manufacturers of polyurethanes. The product range includes the entire spectrum of basic products, tailor-made systems and specialties. Polyurethanes are used, for example, as rigid or flexible foams in construction, for furniture and household appliances, and as specialty plastics for the automotive and footwear industries. The fashion industry increasingly uses our polyurethanes, especially in the manufacture of synthetic leather. Our research focuses on the optimization of existing processes and the development of new and efficient processes. In particular, we focus on the development of new applications for polyurethanes.

Research and Development

We concentrate on innovative production processes as well as on product and system development. One area we are focusing on is the use of plastics as energy-efficient materials, for example, as insulating materials in the construction and automotive industries. The innovative, silver-gray plastic granules Neopor® have a considerably higher insulation capacity than conventional insulating materials. The same insulation capacity is provided by using approximately half as much material compared with Styropor®. As a result, less fossil fuels are needed for the temperature control of buildings. Moreover, the same amount of fossil fuels that is needed for the production of the insulating product is already saved during the first heating period.

STRATEGY

- Leading producer of foam, engineering plastics and polyurethanes
- Increasingly new market segments through diversified and innovative portfolio
- Close cooperation with customers in the development of new products and solutions
- Optimization of production processes to conserve resources and energy

DIVISIONS

- Styrenics
- Performance Polymers
- Polyurethanes

Following the planned sale of our businesses with styrene monomers, and standard styrene polymers and copolymers, the remaining activities of the Styrenics division will be operated by the Performance Polymers division.

Polyurethane is increasingly being used as a thermal insulation core in sandwich building elements. Such elements have established themselves as construction materials for industrial buildings because of their exceptionally good thermal and mechanical properties as well as their speed and ease of installation. We have developed a new generation of polyurethane rigid foams under the name of Elastopir™ in order to meet the needs of heightened fire protection regulations for core materials. Elastopir combines the heat insulating properties of polyurethane foams with high fire resistance and thus makes it possible to build modern industrial buildings which are both energy-efficient and safe.

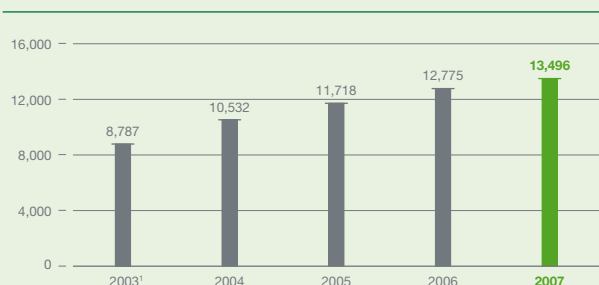
Along with their insulating properties, plastics are also characterized by their low specific weight that contributes to the optimization of energy efficiency in many industries. For example, in automotive and aircraft development, lightweight construction is constantly gaining importance because lightweight structures help to reduce fuel consumption and conserve resources. We are developing innovative plastics concepts for these industries to reduce weight, and thus also operating costs. One example is the energy-efficient foam specialty Basotect® which provides both excellent sound absorption capacities and weight reduction for both automobiles and aircrafts.

At our customers' request, we offer plastics based on renewable raw materials for various applications.

Marketing and Sales

In the Plastics segment, we develop, produce and market standard products and specialties as well as special systems and compounded polymers. For standard products, which are distributed in large quantities, a high priority is placed on quality and efficiency. For specialties and tailor-made products, we focus on customer-specific technical marketing. We work with our customers at an early stage of development in order to meet their demands and thus help them sustain long-term success. ///

Sales (million €)



¹ according to German Commercial Code

RESEARCH AND DEVELOPMENT

- Neopor foam: contribution to energy efficiency through improved insulating capacity
- Elastopir rigid foam: thermal insulation and high fire resistance
- Basotect specialty foam: excellent sound absorption capacities; reduces fuel consumption in automobiles and airplanes

Capital Expenditures

Location	Project	Additional Capacity through expansion	Total capacity (metric tons)	Startup
Antwerp, Belgium	Expansion MDI (diphenylmethane diisocyanate)	110,000	560,000	2007
	Construction of plant for propylene oxide		300,000 ¹	2008
	Construction of plant for hydrogen peroxide		230,000 ²	2008
Freeport, Texas	Construction of plant for polyamide 6 (Nylon)		120,000	2007
Geismar, Louisiana	Expansion polyols	155,000	350,000	2008
Ludwigshafen, Germany	Expansion Ultrason (PES/PSU)	6,000	12,000	2007
	Expansion Ultraform	12,000	55,000	2008
Shanghai, China	Construction of compounding plant for engineering plastics		45,000	2007
Schwarzheide, Germany	Acquisition of 50% share of PBT plant (Ultradur)		100,000 ³	2007

¹ Operated by a joint venture company, in which BASF has a 50% share and which is proportionally consolidated in the Group Consolidated Financial Statements.

² Operated by a joint venture company, in which BASF has a 25% share and which is consolidated using the equity method.

³ At year-end 2007, BASF acquired SABIC's shares in BASF GE Schwarzheide GmbH & Co. KG and will hold 100% of the shares on conclusion of the contract.

Production Capacities of Significant Products

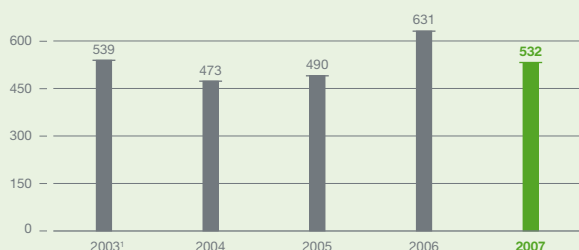
Product	Verbund Sites			Other Sites	Annual capacity (metric tons)
	Europe	North America	Asia		
Isocyanate	X	X	X	X	1,840,000
Polyamide	X	X		X	680,000 ¹
Polyamide precursors	X	X		X	1,330,000 ¹
Propylene oxide	X			X	625,000 ^{2,3}
Styrene and styrene-based polymers	X		X	X	5,780,000

¹ Contains small capacity expansions as part of maintenance turnarounds for polyamide (10,000 metric tons) and polyamide precursors (40,000 metric tons).

² Of which 500,000 metric tons are for polyurethane application.

³ Contains the full capacity of two joint venture companies for the production of propylene oxide in the Netherlands and in Singapore, in which BASF has a 50% share in each and both of which are proportionally consolidated in the Group Consolidated Financial Statements.

Capital expenditures in the Plastics segment (million €)



¹ according to German Commercial Code

STARTUPS 2007

- Expansion of MDI plant in Antwerp, Belgium
- Construction of polyamid 6 (Nylon) plant in Freeport, Texas
- Expansion of Ultrason plant in Ludwigshafen
- Startup of a compounding plant for engineering plastics in Shanghai, China

PERFORMANCE PRODUCTS

In 2007, the Performance Products segment was made up of the Construction Chemicals, Coatings, Functional Polymers and Performance Chemicals divisions. In this segment, we use intermediates from the BASF Verbund to create products, formulations and system solutions for customers in almost all sectors of the processing industry. Performance products add significantly to the functionality and performance of processes and final products and thus create differentiation potentials on the market for our customers.

Segment Strategy

The driving force behind our profitable growth is our dynamic product range with a high share of new products. The active management of the business portfolio through acquisitions in innovative, cyclically resilient and high-growth sectors is a focus of the Performance Products segment.

The success of the segment is based on tailor-made products, formulations and system solutions, which we develop in cooperation with our customers. We contribute to solving our partners' problems quickly and according to their needs and thus help them to be more successful. We thereby use innovative business models, as well as a global network for research, production and service. An important factor of our success is specialized know-how: technical development and service centers close to our customers play a central role. In 2007, we therefore opened among other things a new training center for the application of automotive refinish coatings in Shenyang, China and new service centers for the leather business in Thane, India; and Valencia, Spain.

Depending on the business model, we extend our position in the market by investing either in local production sites close to our customers or in integrated world-scale plants.

The Divisions

The **Construction Chemicals** division is the global technology leader for intelligent system solutions which make construction more efficient, safer and more environmentally friendly. The success of this business is based on an excellent sales network, proximity to the customer as well as the speed and flexibility of local problem solving. We are the world market leader in concrete admixtures and sports flooring. We have a leading position in the large, highly-fragmented market for construction systems such as tile adhesives, water proofing membranes or thermal-insulation systems. We focus our research on the improvement of concrete properties and the increase in efficiency in construction processes. Here, we are working on novel polymers and admixtures in the business sector Admixture Systems. For the finishing of buildings, we are developing tailor-made formulations in the Construction Systems unit for our broad customer base including tile fixing, concrete repair and sealing systems.

The **Coatings** division is amongst the world's largest providers of innovative and environmentally friendly coatings solutions for automotive and industrial applications. In South America, we are one of the leading producers of architectural coatings in the premium segment. We combine protection, esthetics and eco-efficiency in tailor-made products, services and system solutions. In close collaboration with our customers in the automotive industry we are developing new solutions for integrated coating processes, unique eco-efficient coatings, as well as highly scratch resistant clearcoats. Furthermore, new technologies and markets such as special coatings for wind power plants play an important role.

The **Functional Polymers** division is one of the largest producers of acrylic acid and its derivatives superabsorbents and dispersions. We achieve cost advantages in comparison to less integrated competitors through our technological leadership and the integration of our production facilities into the Verbund structures. In the European market, we lead the field in adhesive and construction

STRATEGY

- Development of tailor-made products, formulations and system solutions in cooperation with our customers
- Innovative business models and a global network for research, production and service
- Technical development and service centers close to our customers
- Active portfolio management

THE DIVISIONS

- Construction Chemicals
- Coatings
- Functional Polymers
- Performance Chemicals

As of 2008, the operating divisions Coatings and Construction Chemicals will be reported under the Functional Solutions segment.

polymers; in the global market in acrylic monomers, superabsorbents and paper chemicals. Our research and development activities focus on tailor-made system solutions to improve the products and processes of our customers as well as the further development of our production processes for acrylic acid, superabsorbents and dispersions.

In the **Performance Chemicals** division, the majority of BASF's specialty chemicals activities are pooled. The innovative products and systems solutions of BASF are used amongst others by our customers in the production of textiles, leather and detergents as well as in the oil, automotive, coatings and plastics industries. We are one of the three largest suppliers in the majority of the markets in which we are active. In the Performance Chemicals division, we work in close collaboration with our customers in terms of research and development activities. A significant proportion of our research projects are directly market driven. We focus above-all on new, fast growing markets where we can use our numerous competencies to differentiate ourselves from our competitors.

Research and Development

Our researchers are working on a large number of innovations which decisively improve the performance of our products and processes. We frequently develop new tailor-made products and systems solutions in collaboration with our customers that are adapted to their processes and technologies. Close collaboration with the innovation leaders among our customers is of great importance in order to optimally exploit research resources and accelerate the launch of innovative solutions. Detailed knowledge regarding our customers' processes as well as specific application centers and pilot plants form the foundations for the successful implementation of our strategy.

One example that arose from the close collaboration with a leading customer is a coating system that provides technical textiles with a self-cleaning effect. After having been treated with Mincor® TX TT, a finishing system based

on nanotechnology, sunshades, awnings and tents, are easier to clean and look new for longer.

By employing the Smart Dynamic Construction™ concept, our customers can increase the durability of concrete and can build more energy efficiently and economically. This systems solution for highly fluid, self-compacting concrete consists of a special mix design, a tailor-made GLENIUM® superplasticizer and the new Viscosity Modifying Agent (VMA) RheoMATRIX™ 100. The concrete no longer needs to be mechanically compacted, saving on labor and energy.

The Coatings division has developed a clearcoat technology in the field of automotive OEM coatings that has reached a new dimension of scratch resistance for example to car wash brushes. The nanostructure of the clearcoat imparts a unique quality that stands up to the test of time.

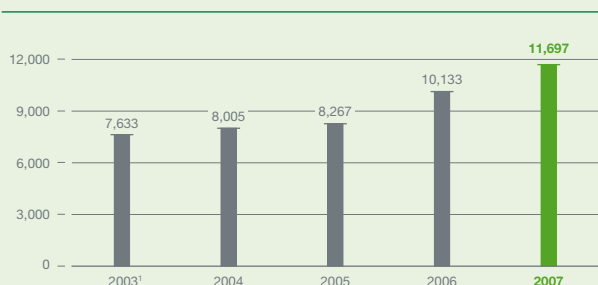
We have added an attractive specialty to our portfolio of raw materials for architectural coatings. The nanoparticle binder COL.9® is the starting material for facade coatings that are characterized by lower dirt pick-up and excellent color retention.

Marketing and Sales

Our customer portfolio is highly diversified. It ranges from major customers in global consumer and capital goods industries to medium-sized regional customers to small local businesses, such as car repair shops.

The specific product properties that allow our customers to differentiate themselves from their competitors are decisive for success. This requires both a local tailor-made applications service as well as targeted marketing. ///

Sales (Million €)



¹ according to German Commercial Code

RESEARCH AND DEVELOPMENT

- Finishing system Mincor TX TT: for technical textiles with self-cleaning effect
- Smart Dynamic Construction – concept makes concrete more durable and building more energy efficient and economical
- Unique scratch-resistant quality for clearcoats due to nanostructure

Capital Expenditures

Location	Project	Additional capacity through expansion	Total capacity (metric tons)	Startup
Antwerp, Belgium	Expansion superabsorbents	60,000	175,000	2007
	Expansion acrylic acid	160,000	320,000	2008
	Expansion polyisobutene (low molecular weight)	25,000	100,000	2008
Brighton, Colorado	Expansion polyurethane sealants	4,000	29,000	2007
Caojing, China	Construction of plant for HDI-based coatings (Basonat®)		8,000	2007
Freeport, Texas	Construction of plant for superabsorbents		180,000	2007
Ludwigshafen, Germany	Expansion polyisobutene (medium molecular weight)	6,000	18,000	2007
	Expansion polyisobutene (high molecular weight)	3,000	9,000	2008
	Expansion butylacrylate		n/a	2008
Pavlovski Posad, Russia	Construction of plant for automotive coatings		6,000	2008
Shanghai, China	Construction of plant for performance chemicals for leather tanning		12,000	2008
	Construction of plant for polyacrylate polymers		30,000	2008

Production Capacities of Significant Products

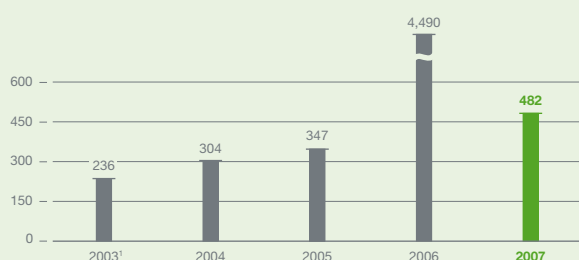
Product	Verbund Sites			Other Sites	Annual capacity (metric tons)
	Europe	North America	Asia		
Organic pigments	X			X	21,000
HDI (hexamethylenediisocyanate)				X	10,000
Polyisobutene	X				112,000
Non-ionic surfactants	X	X		X	435,000 ¹
Methanesulfonic acid	X				10,000
Solventborne coatings				X	400,000
Waterborne coatings/ decorative paints				X	45,000/ 320,000
Acrylic acid	X	X	X		1,015,000 ^{2, 3}
Superabsorbents	X	X		X	400,000

¹ Contains a small capacity expansion (15,000 metric tons) as part of process adjustments in Antwerp, Belgium.

² Contains the total production capacity of a joint venture company for the production of 160,000 metric tons of acrylic acid in Kuantan, Malaysia, in which BASF has a 60% share.

³ Contains the total capacity of a joint venture company for the production of 160,000 metric tons of acrylic acid in Nanjing, China, in which BASF has a 50% share and which is proportionally consolidated in the Group Consolidated Financial Statements.

Capital expenditures in the Performance Products segment (million €)



¹ according to German Commercial Code

STARTUPS 2007

- Startup of new superabsorbents plant in Freeport, Texas
- Expansion of superabsorbents plant in Antwerp, Belgium
- Expansion of the production facilities for mid-molecular polyisobutene in Ludwigshafen, Germany
- Startup of plant for HDI-based coatings (Basonat) in Caojing, China

AGRICULTURAL PRODUCTS & NUTRITION

In 2007, the Agricultural Products & Nutrition segment comprised the Agricultural Products and Fine Chemicals divisions. BASF Plant Science conducts research in the field of plant biotechnology.

Agricultural Products Strategy

We focus our activities on meeting the requirements of our customers in all key agricultural markets. As leaders in innovation, we are continually researching and developing both new solutions to improve the plant health and yield of crops and value-adding applications in the non-agricultural area.

Products

Our products and services make us a strong partner to the farming industry. Independent surveys confirm high levels of customer satisfaction.

Our innovative portfolio of fungicides, insecticides, herbicides and seed treatment make us a leader in crop protection. Our strong research and development pipeline as

well as our high share of patent protected products contribute to this.

We develop new markets and make use of profitable growth opportunities based on our knowledge of plant physiology and our active ingredients. A prime example of this is our successful plant health concept for increasing yield.

Research and Development

We target investment on identifying novel active ingredients at an early stage and on accelerating the time to market of our research and development projects. In 2007, research and development expenses were €328 million. As a percentage of sales, this amounts to 10.5%, compared with 10.8% in the previous year.

Our pipeline currently has a peak sales potential of €1,800 million. Of this, €700 million relates to our future product innovations. A total of €1,100 million relates to active ingredients launched since 2002. We have achieved approximately 65% of our sales peak potential with these products in 2007. Our fungicide F 500®, launched in 2002,

Agricultural Products Pipeline

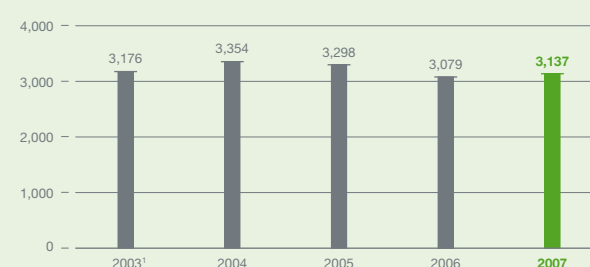
	Market segments	Total peak sales potential
Active ingredients launched on the market		
F 500/pyraclostrobin (F)	Crops, specialty crops	€1,100 million
Chlorfenapyr (I)	Pest control	
Active ingredients in market launch		
Boscalid (F), dimoxystrobin (F), metrafenone (F), orysastrobin (F)	Crops, specialty crops	€700 million
Titrosulfuron (H), topramezone (H),	Crops	
Metaflumizone (I)	Specialty crops	
Active ingredients/projects in development		
3 fungicides	Crops, specialty crops	€700 million
1 herbicide	Crops, non-crop	
1 herbicide tolerance	Crops	
1 insecticide	Pest control	
Total		€1,800 million

(F): Fungicides (H): Herbicides (I): Insecticides

AGRICULTURAL PRODUCTS

- Leading position due to innovative portfolio
- Successfully expanded new market segment plant health
- Future product innovations with peak sales potential of €700 million
- Product launches with peak sales potential of €1,100 million

Sales Agricultural Products (million €)



¹ according to German Commercial Code

is used for numerous crops thanks to its excellent properties in combating fungi. Furthermore, with F 500 we were able to identify and develop the novel and high-value market segment plant health that we are purposefully expanding.

In 2007, we successfully launched the insecticide metaflumizone for specialty crops and the fungicide orysastrobin for the important Japanese rice market. Once again sales of the fungicide boscalid increased strongly. Its market potential has been expanded significantly due to new mixtures with other active ingredients. With boscalid, we intend to achieve annual sales considerably above €200 million.

We are currently working on developing five new active ingredients and one herbicide tolerance project. Our novel herbicide saflufenacil is particularly promising and will mainly be used in the North American market. It has excellent performance against hard-to-control weeds in important crops. It will also play a significant role in successfully combating weeds that are resistant against glyphosate. In the future, we expect to achieve annual sales of over €100 million with this active ingredient. The launch is planned for 2009/2010.

Marketing and Sales

Innovative, high-value products and services as well as strong, local competence are key factors for the successful partnership with our customers. We supply farmers in the key agricultural markets of Western and Central Europe, North America, Brazil and Japan via a global network of trading partners. In 2006, we divested parts of our business with generic products in North America.

Investments

In 2007, we invested €83 million. For 2008, we plan to invest €90 million. Our largest single project is the investment in production capacity for our new herbicide saflufenacil.

BASF Plant Science

Strategy

Plant biotechnology is one of the key technologies of the 21st Century. In this area, we are extending our leading position in the field of genome analysis to identify and utilize agronomically important traits. With our strategic partners we are developing tailor-made research and marketing concepts.

Plant Biotechnology at BASF

BASF Plant Science coordinates and is responsible for an international research and technology platform. We employ 700 people at eight sites, in five countries. In addition, BASF Plant Science has established numerous cooperations. We focus our research on plants for more efficient agriculture, healthier nutrition and for use as renewable raw materials. From 2006 to 2008, BASF is investing more than €400 million in its plant biotechnology operations.

We actively take part in public debates through close dialog with farmers, politicians and consumers and inform in good time on the value of the processes and products used.

Research and Development

As the first product from the pipeline, the starch potato Amflora is soon to be approved in the E.U. This renewable raw material offers advantages for the entire value chain from the farmer to industrial processing.

We commenced a long-term cooperation with Monsanto in spring 2007. Together, we are developing higher yielding crops and crops that are more tolerant to adverse environmental conditions such as drought. In the coming years, the partners will invest up to €1.2 billion. Joint projects, from their development to their commercialization, will be equally financed by BASF and Monsanto and will be commercialized by Monsanto alone. Monsanto receives 60% of net profit and BASF 40%. The joint pipeline

PLANT BIOTECHNOLOGY

- Leading position in genome analysis to identify and utilize agronomically important traits
- More than €400 million spent on research and development from 2006 to 2008
- Metanomics is a pioneer in metabolic profiling, the broad and highly sensitive analysis of plant metabolism

COOPERATION WITH MONSANTO

- Development of higher yielding and more resilient crops: corn, soybeans, cotton and canola
- Equal financing: €1.2 billion over the next years
- Commercialization by Monsanto
- Net profit: Monsanto 60%, BASF 40%

includes both companies' existing and planned programs in these fields for the most important, worldwide crops of corn (maize), soybeans, cotton and canola (oil-seed rape). First products, out of the drought-tolerant corn family, should hit the market from 2012 onward.

Our research activities are being supported in particular by our subsidiaries CropDesign in Belgium and Metanomics in Berlin. Metanomics is a pioneer of so-called metabolic profiling, the multi-parallel and highly-sensitive analysis of metabolism. The application of this BASF technology is unique in the field of industrial plant biotechnology. Metabolic profiling is also being used in the research and development of medicines as well as in the diagnosis and early prognosis of illnesses. Our subsidiary Metanomics Health uses metabolic profiling in order to develop products and solutions for the pharmaceutical and diagnostics industries.

Since plant biotechnology is a corporate technology platform, it is reported under 'Other.'

Fine Chemicals

Strategy

Our leading position is based on innovative products and customer-oriented solutions. We actively manage our portfolio and costs to strengthen our competitiveness. We are building on our chemical expertise in the BASF Verbund, our global presence, reliable service and consistent product quality in order to grow quicker than the market.

Products

We develop, produce and market high-value products for customers in the cosmetics, pharmaceuticals, animal and human nutrition industries as well as the fragrance and flavors industry. We are one of the three largest suppliers in our key product groups comprising aroma chemicals and UV filters, excipients and active ingredients for the pharmaceutical industry as well as vitamins and carotenoids. With our products for the cosmetics industry, we are the market leader in UV filters and citral-based aroma chemi-

cals. These are both areas with good growth perspectives. In pharmaceuticals, we see particular growth potential for our custom synthesis business and for excipients.

In animal and human nutrition, we expect a continuation of the trend towards standard products. We differentiate ourselves from our competitors here through higher value products and reliable services.

Research and Development

In 2007, we invested 3.6% of our sales in research and development, focusing on product innovation. We started with the commercialization of Ludiflash®, a new excipient for the rapid dissolving of medicines which are in tablet form, and Luvitol® Lite, a new active ingredient for beauty care products.

For the pharmaceutical industry, we are researching in particular new excipients to improve API (active pharmaceutical ingredients) bioavailability and drug stability. In the custom synthesis business, our subsidiary Orgamol in Switzerland is developing processes for the production of pharmaceutical active ingredients and their precursors in collaboration with their customers in the pharmaceuticals industry.

Furthermore, our research includes the areas of effect pigments for cosmetic use as well as beauty care solutions with the goal, for example, to develop new solutions against skin aging.

Marketing and Sales

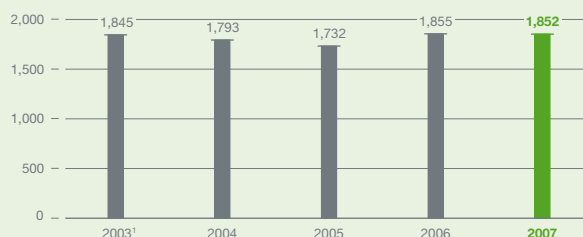
We supply our products through a global marketing and sales system. The local presence of regional business units ensures customer orientation and competency in our key markets: cosmetics, pharmaceuticals and nutrition. ///

FINE CHEMICALS

- Leading position in aroma chemicals and UV filters, excipients and active ingredients for the pharmaceutical industry as well as vitamins and carotenoids
- Good growth perspectives in cosmetics and pharmaceuticals

As of 2008 our Fine Chemicals division has been reorganized and will continue operations in the Functional Solutions segment as the Care Chemicals division.

Sales Fine Chemicals (million €)



¹ according to German Commercial Code

OIL & GAS

BASF's oil and gas activities are pooled in the Wintershall Group. Wintershall and its subsidiaries are active in two business sectors: The exploration and production of crude oil and natural gas, as well as the trading, transport and storage of natural gas.

Segment Strategy

In the exploration and production of crude oil and natural gas, we concentrate on oil and gas-rich regions in Europe, North Africa, South America, Russia and the Caspian Sea region. Our future corporate success is based on two pillars: investing in the exploration, development and production of hydrocarbons; and extending technological know-how.

The growing demand for natural gas in Western Europe, coupled with the decline in domestic energy production, means that in the future natural gas will have to be imported into Europe in even greater amounts. This challenge offers an opportunity for both our business sectors and we have therefore brought them together in our joint concept "Gas for Europe". Consequently, we will explore for and produce natural gas in and around Europe and help to construct the linking infrastructure to deliver gas to our customers. We are contributing to supply security for Germany and Europe by operating a pipeline network and further expanding strategically positioned gas transport and storage facilities.

Exploration and Production Europe

The Mittelplate oil field, in the North Sea tidal flats is Germany's largest known oil deposit and is the cornerstone of our oil production in Germany. Wintershall and its partner RWE-DEA each hold a 50% stake in this field.

Wintershall is one of the largest producers of natural gas in the southern North Sea, producing more than 2 billion cubic meters annually from 26 platforms. Since July 2007, 18 of these platforms are controlled from the mainland by a new platform control center. The new radio moni-

toring system contributes to the optimization of production processes and allows the economic production of small and medium-sized deposits off the Dutch coast.

In 2007, four exploration licenses each were acquired for Norway and the Netherlands. Further exploration rights for three blocks and two sub-blocks in the German North Sea as well as seven sub-blocks in the British North Sea were secured. In one of the biggest cross-border seismic initiatives, survey data was collected in an area of about 2,300 km² (approximately 1,429 sq. mi.) in German, Danish and British territorial waters.

Russia and the Caspian Sea Region

BASF concluded a cooperation agreement with Gazprom, which serves as the economic and legal framework for joint field development in Siberia. In the first project, the development of the Achimov formation in a section of the Urengoy field, Wintershall holds a 50% stake. Five out of a total of six planned wells in the first project phase were successfully completed and the first production tests were successful. Production will be started during the first half of 2008.

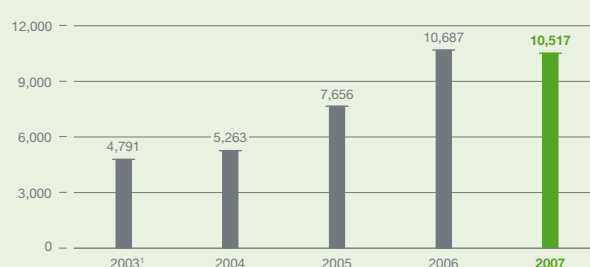
At the end of 2007, Wintershall acquired a stake of 25% less one share in Severneftegazprom, through an asset swap with Gazprom. Severneftegazprom holds the production license to the Yuzhno Russkoye natural gas field in Western Siberia. By means of an additional preference share, Wintershall holds a 35% share in the economic rewards of this field, which started production in the fourth quarter of 2007. In return, Gazprom took a 49% stake in a German Wintershall subsidiary which holds the exploration and production rights to onshore concessions 96 and 97 in Libya. In addition, Gazprom has increased its stake in WINGAS from 35 to 50% minus one share.

In the Caspian Sea region, we are pursuing exploration projects in Turkmenistan, Dagestan and Azerbaijan.

THE OIL & GAS SEGMENT

- Two business sectors: The exploration and production of oil and natural gas as well as the trading, transport and storage of natural gas are pooled in the Wintershall Group
- Success driven by investing in exploration and production and the extension of technical know-how
- The "Gas for Europe" concept for long-term supply security

Sales (million €)



¹ according to German Commercial Code

North Africa and the Middle East

In Libya, Wintershall operates eight onshore oil fields and exploits the associated gas, which is released during crude oil production, in a gas utilization plant for the local market. Preparatory tests for further exploration activity were carried out in the Kufra basin, in which Wintershall operates and holds a 65% stake. In addition, we hold a stake of 12.5% in the Al Jurf offshore oil field.

In Mauritania, we are active in one offshore and two onshore exploration blocks. In Qatar, Wintershall already holds a 51% stake in Block 11 and received 40% of the exploration rights in Block 3 via a bidding round. In Dubai, our stake of 5% in an offshore oil concession was given back on March 31, 2007.

South America

In Argentina, Wintershall has been active in the exploration and production of oil and gas since 1978. Over the past few years, this unit delivered the largest share of the total natural gas production and has a substantial reserve basis. The production activities are accompanied by supplemental exploration measures.

→ Read more about our reserves in the section "Supplementary Information concerning Oil and Gas Producing Activities (unaudited)" from page 200 onward.

Natural Gas Trading

Our natural gas trading business is operated with Gazprom in several joint ventures in Germany and several other European countries. WINGAS Transport operates a long-distance network of more than 2000 km (approximately 1243 mi) in length, which connects the markets in Western Europe with the natural gas infrastructure stretching through Eastern Europe and the Russian Federation all the way to the gas fields in Siberia. The natural gas storage facility in Rehden, Lower Saxony, Germany, which has a working gas volume of over 4 billion cubic meters, plays a further significant role for WINGAS's activities.

The planned construction of the Nord Stream Pipeline through the Baltic Sea to the German coast and its associ-

ated onshore projects will considerably strengthen our network infrastructure. Together with Gazprom which holds a 51% stake, our partners involved in the construction of the pipeline are E.ON Ruhrgas and Wintershall with stakes of 24.5% each in Nord Stream Aktiengesellschaft which is included in the BASF Group Consolidated Financial Statements using the equity method. After joining, Nederlandse Gasunie will hold a 9% stake in Nord Stream, Wintershall and E.ON Ruhrgas will accordingly be reduced by 4.5 percentage points to 20%. Nord Stream Aktiengesellschaft has initiated the necessary approval process and environmental impact assessment, signed contracts with suppliers for the pipes and secured installation capacity. Onshore, work on the Jemgum storage facility and the OPAL (Ostseepipeline-Anbindungsleitung) connection pipeline is in preparation.

Our growth strategy is additionally supported by further expanding our storage capacity. In Austria, the first stage of the development of the Haidach natural gas storage facility with a working gas volume of 1.2 billion cubic meters started operations. In addition, a storage facility in the United Kingdom (Saltfleetby) is in the planning stage.

In July 2007, WINGAS acquired StatoilHydro's 50% stake in HydroWingas and, as WINGAS UK, is now sole operator of this former joint venture. ///

EXPLORATION AND PRODUCTION

- Cooperation with Gazprom on the development of natural gas fields in Siberia
- Extensive production and further exploration in the North Sea
- Established production and exploration in Libya and Argentina
- Further exploration projects in Qatar and in the Caspian Sea region

NATURAL GAS TRADING

- Expansion of natural gas infrastructure in Germany and Europe in cooperation with Gazprom
- BASF is a partner in the construction of the Nord Stream pipeline running from Russia, through the Baltic Sea to the German coast
- Further expansion of storage capacity

Capital Expenditures

Location	Project	Total capacity	Startup
Siberia, Russia	Achimgaz, development of the Achimov formation in the Urengoy natural gas and condensate field ¹	70,000,000 BOE ^{2,3}	2008
Siberia, Russia	Development of the Cenoman formation in the Yuzhno Russkoye natural gas field ⁴	143,000,000 BOE ⁵	2007 ⁶
Haidach, Austria	Expansion and startup of the Haidach natural gas storage facility ⁷	2,400,000,000 m ³ ⁸	2007
Haiming and Mallnow, Germany	Expansion of the compressor stations Haiming ⁹ and Mallnow	60,000,000 W	2007
	Construction of the Nord Stream Pipeline through the Baltic Sea ¹⁰	55,000,000,000 m ³	2011
Germany	Construction of the onshore pipeline link to the Nord Stream natural gas pipeline OPAL ¹¹ and NEL ¹²	ca. 55,000,000,000 m ³ ¹³	2011

¹ Joint venture company for the production of natural gas, in which Wintershall has a 50% share and which is proportionally consolidated in the Group Consolidated Financial Statements.

² BOE = Barrel oil equivalent

³ The capacity shown relates to the total capacity in the plateau phase from 2015 on.

⁴ Joint venture company in which Wintershall has 35% of the economic rewards.

⁵ The capacities shown relate to the total capacity in the plateau phase.

⁶ Participation and the start of production in 2007 is being continuously developed.

⁷ Natural gas storage facility, in which WINGAS has a 33% share, recorded as a jointly-controlled asset.

⁸ The capacity shown relates to the total capacity of the storage facility on completion of the second stage of expansion in 2011.

⁹ Startup of the compressor stations Haiming is in 2007, completion of the second stage of expansion planned for 2011. The figures relate to the total performance of the compressor stations.

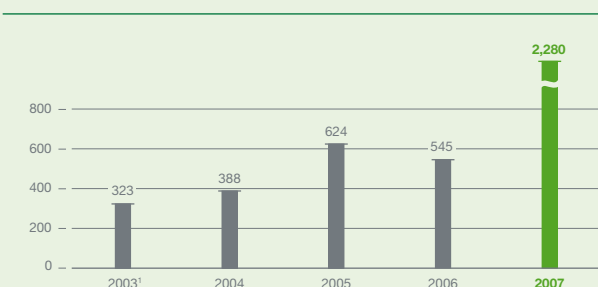
¹⁰ Operated by Nord Stream AG, in which Wintershall has a 24.5% share and which is consolidated using the equity method. The figure relates to capacity on overall completion.

¹¹ WINGAS Transport has an 80% share in OPAL.

¹² WINGAS Transport has a 75% share in NEL.

¹³ The total capacity of OPAL and NEL is shown.

Capital expenditures in the Oil & Gas segment (million €)



¹ according to German Commercial Code

STARTUPS IN 2007

- Development of the Cenoman formation in the Yuzhno Russkoye gas field in Siberia
- Development and startup of the Haidach natural gas storage facility in Austria

RESEARCH AND DEVELOPMENT IN THE BASF GROUP

The innovative chemistry of BASF is the driving force for many industries and provides an important impetus for new products, technologies and processes. Our know-how and our products offer solutions for key societal concerns and enable our customers to be successful in the long term. Their success ensures profitable growth and sustainable commercial success for BASF.

Our four global technology platforms, Polymer Research, Specialty Chemicals Research, Chemicals Research and Engineering, and Plant Biotechnology Research act as knowledge and competence centers. Here our researchers develop the chemistry of the future together with customers, startup companies, research institutes and universities.

Customer needs and technological progress are the main innovation drivers of our research. Once again in 2007, we further expanded our activities in research and development. The results are diverse: ranging from the new refinery catalyst NaphthaMax®, the binder COL.9® for dirt resistant façade coatings with a nanostructured surface, to Ludiflash®, an excipient for the rapid disintegration of medicines in tablet form.

Our Plant Biotechnology Research has benefited from new, valuable inputs through its collaboration with Monsanto. Over the life of the collaboration, crops are to be developed and commercialized that are, for example, more tolerant to drought and higher yielding. BASF is also active in additional future markets such as organic photovoltaics and lithium-ion batteries for power storage. We have started research alliances together with partner companies in this domain. A global network with industrial partners and reputable universities are also important success factors for efficient and future-oriented research. Our network includes 1,800 collaborative partnerships with universities, research institutes, startup companies and industrial partners. In this regard we have established an interdisciplinary research initiative with Harvard University mainly to research innovative

products in the field of medical technology.

In 2007, BASF had more than 8,600 employees in research and development worldwide. We spent €1,380 million on research and development, compared with €1,277 million in 2006. In 2008 we are planning expenditures of €1,450 million – no other company in the world spends more on chemical research. One third will be invested in products and technologies for increased energy efficiency and climate protection. In 2007, BASF filed 1,140 patents.

From 2010, we expect product innovations alone to generate annual sales of more than €4 billion. Of this amount, up to 20% of sales will be additional – in other words, not generated by replacing existing products. Of the amount spent on research and development in 2007, almost 80% fell under the operational responsibility of the operating divisions. Over 20% was accounted for by corporate research, which has a longer time horizon.

In recent years, we have introduced new methods for our project and portfolio management, such as the Phase Gate process, to continually improve the efficiency of our research processes. As a result of a research pact for the future, we expect higher efficiency from research and development at the Ludwigshafen and Limburgerhof sites. This pact further improves leadership and personnel tools as well as workflow and competence management.

Corporate Research

Corporate research, which is cross-divisional, has enabled us to establish a strategic tool with which we can develop growth clusters and ensure the long-term technical and methodical competence of BASF. In so doing, we focus on five growth clusters that cover the most important approaches for future challenges: energy management, nanotechnology, white (industrial) biotechnology, plant biotechnology, and raw material change. As part of our strategy “We innovate for growth” we link chemistry with the related natural sciences. Consequently, the clusters represent a cross-section of various technologies and mirror the

RESEARCH AND DEVELOPMENT

- Leading research company in the chemical industry, spending €1,380 million in 2007
- Over 1,800 cooperations with universities, research institutes, startup companies and industrial partners
- Starting in 2010, annual sales of over €4 billion from product innovations

Segmental research costs



- 1 -- Chemicals: 15%
- 2 -- Plastics: 11%
- 3 -- Performance Products: 22%
- 4 -- Agricultural Products & Nutrition: 28%
- 5 -- Oil & Gas: 1%
- 6 -- Corporate research, other: 23%

breadth of our know-how. From the years 2006 to 2008, we will be investing over €900 million in our growth clusters. Starting in 2015, we expect additional annual sales of between €2 billion and €4 billion from innovations based on projects in the growth clusters.

In the area of energy management, we are focusing on developing new technologies and materials for energy storage and conversion. Our new laboratory for organic electronics in Singapore as well as our research cooperations in the field of organic photovoltaics and lithium-ion batteries for power storage strengthen our activities in this cluster. PEMEAS, a leading supplier of fuel cell components, was completely integrated into our research in the field of fuel cells.

Nanostructured surfaces and molecular architecture create new possibilities for products and solutions. The diverse areas of application include for example dirt repellent textiles and architectural coatings, rapidly processible plastic components as well as sun protection pigments. The first products from this growth cluster are already being launched.

We consider biotechnology and genetic engineering to be an additional key technology of the 21st century. It enables numerous product and process innovations that would be mostly unachievable by conventional means.

Our white (industrial) biotechnology research concentrates on three areas: enzyme catalysis for the production of specialty chemicals, fermentation based on renewable raw materials as well as industrial proteins and other biopolymers. In collaboration with our customers, we are currently testing various applications for Hydrophobin, a protein obtained from fungi that in the future can be used to make car windshields and other surfaces water repellent.

In the growth cluster plant biotechnology, we are developing plants for more efficiency in agriculture, healthier nutrition and for use as renewable raw materials. The success of our research in this area is underlined by our cooperation with Monsanto, the leading company in plant bio-

technology, as well as the pending approval for the starch potato Amflora.

In the raw materials change growth cluster, we aim to expand the range of starting materials for our value-adding chains; examples include renewable raw materials and natural gas. ///

→ More information can be found in the section "BASF Segments" from page 29 onward.

GROWTH CLUSTERS

- Interdisciplinary cooperation between chemistry and other natural sciences
- More than €900 million planned for investments from 2006 to 2008
- Starting in 2015, additional annual sales of between €2 billion and €4 billion from projects in the growth clusters expected

Expenditure on research and development in the growth clusters 2006 – 2008 (million €)



- 1 -- Raw material change: 100
- 2 -- White biotechnology: 160
- 3 -- Nanotechnology: 180
- 4 -- Energy management: 80
- 5 -- Plant biotechnology: 400

CUSTOMER-ORIENTED SOLUTIONS

Our aim is to help our customers be more successful. As an innovative partner we offer considerably more than just high-value products: We support our customers in facing a multitude of challenges and offer them tailor-made solutions.

Continuous dialog with our partners is essential for stable business relations and long-term success. Therefore our business units regularly carry out market analyses and customer surveys. We have established a Non Conformance Management (NCM) team to help us learn from any complaints made by customers and as a consequence to optimize our business processes accordingly.

In our forum "perspectives" we discuss the specific needs of our customers together with them, and based upon these discussions, develop new business models.

Efficiency due to close partnership

Many of our products and technologies are for the automotive industry – coatings, plastics and additives are just a few examples. We practice system-partnerships with a number of customers such as BMW, Daimler, Nissan, Renault and Volkswagen. This form of close cooperation promotes innovative and efficient solutions for both partners. In 2007, BASF developed for example the new plastic specialty Ultramid® Top. Thanks to its very high thermal stability, this material can go through coating lines just like the rest of the metal car body. Our product portfolio also includes new plastics which are especially suitable for crash tests in the automotive industry.

We have been developing chemical solutions for the production of energy-efficient, high-performance chips together with our customer IBM, since 2007. BASF opened a new Electronic Materials Center in Ludwigshafen, Germany for our customers in the semiconductor industry.

Sustainability solutions create added value

Our customers are faced with complex challenges – one of them being sustainability. We help our customers integrate

environmental protection and social responsibility in their business processes. For this, we have bundled our competencies in the fields of environment, safety, health and sustainability and offer them to our customers in the form of the initiative "Success – Added Value through Sustainability." The spectrum of our offers includes individual measures as well as tailor-made complete packages. Included are consultancy and solutions for increased distribution and product safety, support for the implementation of REACH as well as Eco and Socio-eco-efficiency Analyses. Through "Success" we are increasingly being considered not only as a product supplier but also as a strategic competency partner.

→ More information can be found at: corporate.basf.com/success_e

Eco-Efficiency Analysis

Eco-efficiency Analysis is a strategic instrument for product and process optimization. This analysis helps us develop efficient solutions that also protect the environment. This tool also helps customers to decide which products and processes are the most suitable for their purposes, both in commercial and environmental terms. The complete life cycle of a product or a production process is observed, for example, resource and energy consumption, emissions to the air and into the water and soil as well as possible risk potential. In this way, information establishing the relationship between the financial value of a product and its impact on the environment is gathered. We have already assessed major products using the eco-efficiency analysis in more than 90% of our product lines. In total, we carry out approximately 40 analyses per year. In 2007, we realized around 60% of our analyses with and for our customers.

Socio-Eco Efficiency Analysis

We have refined our Eco-efficiency Analysis to include social criteria. "SEEBalance®," our Socio-eco-efficiency Analysis, incorporates criteria of social relevance such as numbers of employees and trainees, occupational diseases,

BASF OFFERS SUSTAINABLE SOLUTIONS IN THE FIELDS OF

- housing and construction
- mobility
- health and nutrition
- climate protection

ECO-EFFICIENCY LABEL

BASF has developed a new label for products that have been evaluated by an Eco-efficiency Analysis. The awarding of the label is dependent on demanding requirements: After realization of the analysis a third party evaluation (critical review) is requested. Furthermore, the results of the analysis have to be published on the Internet. The label is valid for three years. After that period, a revision of the analysis is required.

work-related accidents, spending on research and development, and payments for wages and salaries. In this way we can establish the social effects of products and production processes as well as the economic and ecological effects. These evaluations make it possible to observe all three dimension of sustainability. SEEBALANCE can be used for the inspection of socio-economic criteria in the form of approval procedures under the E.U. chemicals directive REACH.

→ More information about BASF's Eco-Efficiency Analysis and SEEBalance can be found at: corporate.basf.com/ecoefficiency

Solutions for global challenges

Many of our products contribute to meeting global challenges such as resource shortage and climate protection. For example, in the area of construction and housing, we offer innovative insulating materials. In Germany, one third of the annual energy consumption is for the heating of buildings; a house loses approximately 30% of heat through external walls alone. With correct insulation, for example with Neopor®, house owners can save on energy and heating costs and consequently do their bit for environment protection. Neopor contains special graphite particles that reflect heat radiation like a mirror, thus reducing thermal losses. If all old residential homes in Germany were upgraded from minimum insulation to meet the standards of a low-energy home, approximately 80 million metric tons of CO₂ would be saved.

→ More information can be found at: corporate.basf.com/future/housing

BASF offers a wide range of solutions in the field of mobility. We are, for example, the leading supplier of catalysts. In 2007, in the United States we won the "Society of Automotive Engineers" (SAE) innovation prize for a novel catalyst. This catalyst makes it possible for the first time, to convert up to 96% of a vehicle's emissions. More than 5 million vehicles in the United States have already been fitted with this technology. In Hong Kong, as part of an environmental protection program run by the local adminis-

tration, we fitted over 35,000 vans, trucks and buses with catalysts. The largest bus company of the local public transit system alone fitted 2,800 of its buses with our catalysts. As a consequence emissions of pollutants are reduced by 60,000 metric tons per year.

→ More information can be found at: corporate.basf.com/future/mobility

Alongside products, BASF also develops innovative processes to reduce emissions to air. We are jointly developing a new technology for removing and storing the CO₂ contained in natural gas with JGC Corporation, Japan. Here, the CO₂ released from the production of natural gas is injected back underground and can consequently not be released into the environment. The process is estimated to be 20% less expensive than the cost of traditional methods.

→ More information about our solutions can be found in section "Energy and Climate Protection" on page 94.

Access to clean drinking water is one of the global challenges in the area of health and nutrition. This is why BASF develops products that improve the quality of drinking water. For example, ABATE® destroys the larvae of disease-causing insects in stagnant waters. This has helped to almost completely eradicate the Guinea worm, an organism indigenous to Africa. This parasite causes painful infections in its human victims. ARM 300 granules eliminate arsenic from drinking water. Special polymers made by BASF extend the life cycle of desalination plants used to obtain drinking water. ///

→ More information can be found at: www.basfpublichealth.com

CUSTOMER SATISFACTION

Our customers' satisfaction is shown by numerous awards. For example, Bosch awarded us the "Bosch Supplier Award" for the third time in succession as supplier for engineering plastics. General Motors, Shanghai awarded BASF Coatings the "Green Supply Chain Award" for our long-standing partnership in environmentally friendly technologies. With the support of BASF, General Motors was the first car manufacturer in China to introduce waterborne coatings in series production. Our Chinese customer Yutian, awarded BASF with the accolade of best supplier. BASF has supplied the Chinese producer with intermediates for the manufacture its polyurethane products for over 10 years.

VALUE-BASED MANAGEMENT

We aim to earn a premium on our cost of capital in order to further increase BASF's value. Our value-based management concept is a comprehensive approach that includes all functions within the company and supports and encourages all employees in acting in an entrepreneurial manner.

EBIT after cost of capital

Earnings before interest and taxes (EBIT) after cost of capital is the key performance and management indicator for our operating divisions and business units.

The BASF Group must achieve an EBIT at least as high as its cost of capital to meet the interest rates payable to providers of debt, to satisfy the returns expected by providers of equity, and to cover tax expenses.

Calculation of the cost of capital percentage

The cost of capital percentage depends primarily on three factors:

- the capital structure of the BASF group
- the level of interest rates on debt and
- the return expected by shareholders

We calculate our cost of equity on the basis of the market value of BASF shares; we calculate the cost of external financing based on book value. The cost of capital percentage is reviewed annually in the light of current data.

The cost of capital percentage for 2007 of 9% will be increased to 10% in 2008. This change is due to the higher, absolute capital costs resulting from BASF's increased market capitalization. As a result of almost unchanged average assets in the segments, the average cost of capital percentage of the BASF Group is to be increased accordingly for 2008.

Value-based management throughout the company

Value-based management is only successful if it is firmly rooted in the company and consistently implemented. An important factor in ensuring its successful implementation is achieved by linking performance-related pay to the extent that employees achieve target agreements. In operating units EBIT after cost of capital is the most important performance indicator. The performance of functional units in other words of regions, sites, corporate units and competence centers are frequently hard to determine in monetary terms. Therefore value proposition has been defined as the highest goal for functional units. Two general value drivers upon which we evaluate the performance of our units result from this: efficiency and effectiveness.

A number of continuous training programs provide our employees worldwide with relevant information on value-based management. Our goal is to make our employees more aware of business contexts, thus furthering entrepreneurship at all levels of BASF. To do this, we use among others things, a business simulation game specially adapted for BASF, an interactive web-based program and a tailor-made range of seminars.

Several thousand employees from specialist and managerial positions applied the principles of value-based management to specific, practical examples. We have also developed a practice-oriented training on value-based management for employees from non-business backgrounds. ///

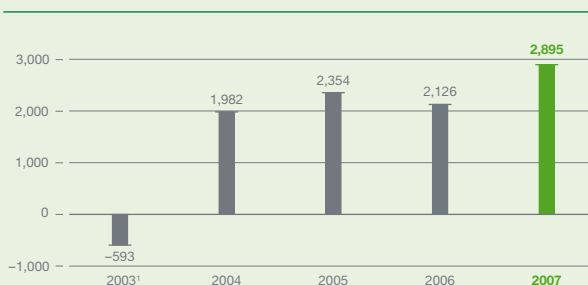
Calculation of EBIT after cost of capital (million €)

	2007
EBIT BASF Group	7,316
less EBIT for activities not assigned to the segments ¹	(293)
less noncompensable foreign income taxes for oil production	1,302
less cost of capital ²	3,412
EBIT after cost of capital	2,895

¹ This net expense is already provided for in the cost of capital percentage

² 9% on the average operating assets of the segments

EBIT after cost of capital (million €) Five-year summary



¹ according to German Commercial Code

VALUE ADDED STATEMENT

The value added statement enables us to show the social component of our sustainable development in a transparent manner. Unlike the statement of income, the value added statement is not from the shareholder's perspective, but shows BASF's contribution to private and public income.

Value added is calculated as the company's business performance less goods and services purchased and less depreciation and amortization. In 2007, BASF's value added amounted to €14,442 million and increased by 7.0% compared with 2006.

The resulting amount is distributed to BASF's stakeholders including employees, shareholders and the state. The majority of value added was distributed to our employees in the form of wages, salaries and social benefits. In addition, a significant share of value added was distributed to the state in the form of taxes. This amounted to

€2,855 million in 2007 (2006: €3,268 million). The decline in the share of taxes in the use of value added resulted from the reassessment of deferred tax assets and liabilities due to the reduction in the nominal tax rate to 29% as part of the German Tax Reform 2008.

In 2007, BASF spent a total of €75.3 million on donations, sponsoring and funding for our own projects. This amount is contained in "other expenses".

→ Further information on donations and sponsoring can be found on page 92.

The remaining value added of €4,065 million was available to be paid out as a dividend or retained. ///

Creation of value added

(million €, previous year's figures in brackets)

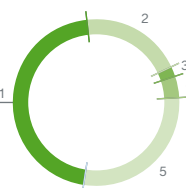
- 1 -- Value added: 14,442 (13,488)
- 2 -- Amortization and depreciation: 2,917 (2,988)
- 3 -- Services purchased, energy costs and other expenses: 10,066 (9,095)
- 4 -- Cost of raw materials and merchandise: 31,813 (28,230)



Use of value added

(%, previous year's figures in brackets)

- 1 -- Employees: 46.0 (46.0)
- 2 -- Taxes: 19.8 (24.3)
- 3 -- Minority interests: 1.8 (1.9)
- 4 -- Creditors: 4.3 (4.0)
- 5 -- Remaining value added (dividend and retention): 28.1 (23.8)



VALUE ADDED

- Shows the contribution of the BASF Group to private and public income
- Value added increased by 7.0% to €14.4 billion
- The majority distributed to employees

USE OF VALUE ADDED

- €6,648 million for employees
- €2,855 million for taxes
- €77 million for social commitment
- €4,065 million available for dividend or retention

TRENDS IN THE GLOBAL ECONOMY AND THE CHEMICAL INDUSTRY

The global economy grew in real terms by 3.5% in 2007 after growing by 3.8% in 2006. This was above the 3.2% level forecasted in 2006, and was driven primarily by the robust development of the Asian economy.

The economic environment weakened slightly compared with the previous year, primarily as a consequence of the financial crisis in the United States and significantly higher raw material prices. However, it did develop more positively than expected. The drivers of global growth for the chemical industry have eased off slightly.

In the second half of the year, the turbulence in the international financial markets sparked a crisis of confidence in the finance sector and led to higher financing costs, risk premiums and credit standards. The long-lasting real estate boom evident in some countries has turned, in particular in the United States. Investments activity, particularly in industrialized countries, has slackened. In contrast, expansion remained dynamic in China and in several other Asian countries and the raw material exporting countries quickly translated their export income into demand.

The economy in the European Union was relatively robust and developed better than expected. Growth was driven by investments and strong foreign demand and at 2.8% was higher than in the United States for the first time in years. During 2007, the consumer and business climate slowed down. Germany acted as a driver of the European economy, which did not slow down till the fourth quarter as a result of the financial crisis in the United States.

In the United States, gross domestic product (GDP) grew by 2.2% which was significantly weaker than in the previous year. The crises in the financial and housing markets slowed growth in the construction sector and in consumption. Higher interest rates and negative wealth effects as a result of depreciating housing prices curbed private spending.

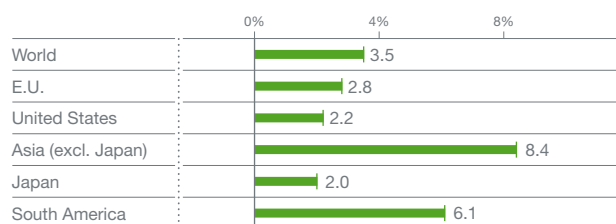
The Japanese economy grew by 2.0%, the political restructuring in recent years strengthened investor trust and resulted in increased investment activity.

GDP growth in Asia (excluding Japan) exceeded expectations, once again growing strongly at 8.4%. This is attributable to good capital investment activity, an enormous increase in intra-Asian trade, and strong global demand for Asian products. As in the previous year, despite the Chinese government's attempts to rein back economic growth, GDP in China grew more strongly than anticipated and reached a growth rate of 11.4%.

With a growth of 4.6%, global industrial production was almost as dynamic as in 2006. This is predominantly due to the strong growth in the capital goods industry.

Gross domestic product 2007

Real change compared with previous year



TRENDS IN THE GLOBAL ECONOMY

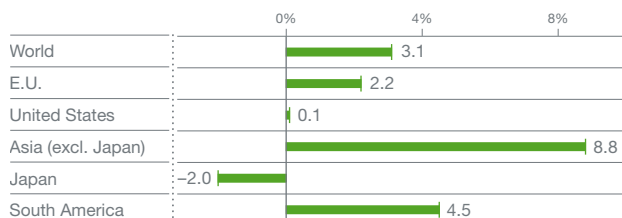
- Global gross domestic product grew by 3.5%
- Overall weaker development compared with previous years due to the credit crisis in the United States as well as higher oil prices
- Slowdown of global growth drivers for the chemical industry

REGIONAL TRENDS

- European Union: robust growth of 2.8% due to strong demand for exports and capital investment
- United States: weaker growth of 2.2% due to financial and housing market crises
- Japan: 2% growth, strengthened investor trust
- Asia (excluding Japan): strong growth of 8.4% thanks to solid investment and demand

Chemical production (excluding pharma)

Real change compared with previous year



Worldwide chemical production (excluding Pharmaceuticals) grew by 3.1% in 2007, despite record energy and raw materials prices. The strong industrial sector and exports stimulated chemical demand whereby this was no longer due only to growth drivers from Asia and other emerging countries.

Growth in the European Union was also relatively solid at 2.2%, while production in the United States slowed significantly.

As in previous years, the chemical industry in Japan took a different path than the domestic economy and despite solid growth in customers' industries, the chemical industry shrank.

Asia (excluding Japan) remains the most dynamic region in the world, with chemical production growing at 8.8%. In China, the chemical industry recorded double-digit growth of 10.3%.

In 2007, growth in the chemical industry in South America was solid at 4.5%. In particular, growth in Brazil was encouraging despite the strong appreciation of the real.

Prices for feedstocks such as naphtha increased significantly, reaching record levels by the end of December. This was caused by the considerably higher oil prices which reached a peak of \$95 per barrel in December. In 2007, average oil prices rose by 11% to approximately \$72 per barrel. As a result of the significant weakening of the U.S. dollar against the euro, the price in euros increased by only €1 per barrel to €53 per barrel. Naphtha prices increased by 19.3% to \$676 per metric ton.

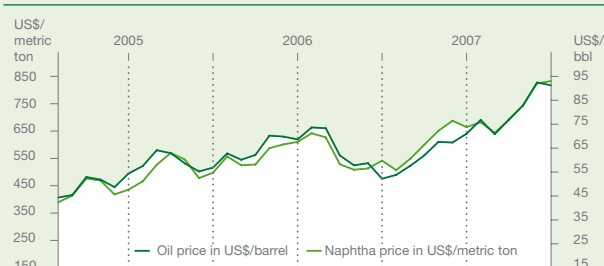
The natural gas market in North America was characterized by relatively low prices in 2007 compared with other regions. The level was slightly above that of 2006. Mild weather and high natural gas storage levels ensured sufficient supplies. The natural gas price remained at a constantly low level in the Middle East while it rose sharply in Asia as a result of the development in oil prices. During the year, Europe accordingly recorded a strong increase in the price of natural gas. ///

DEVELOPMENTS IN THE CHEMICAL INDUSTRY

- Worldwide chemical production increased by 3.1%
- Growth in Asia (excluding Japan) very dynamic at 8.8%, in the European Union solid at 2.2%; weak performance in Japan and the United States
- High price increases for crude oil and naphtha
- Natural gas price constantly low in North America and the Middle East; sharp increase in Europe and Asia

Price trends for crude oil and naphtha

US\$/barrel, US\$/metric ton



TRENDS IN KEY CUSTOMER INDUSTRIES

In 2007, global industrial growth reached 4.6%. Due to the slowdown in the United States, global industrial production eased off compared with the previous year, however, it performed better than expected due to the rapid expansion in Asia.

Industrialized countries recorded growth of 2.3% in industrial production. This was considerably less dynamic than the growth in China, which recorded its highest growth rate since 1992 at 17%.

Global development was driven by the strong demand for capital goods. In contrast, the consumer goods industry and the energy-intensive basic industries had lower growth rates.

In total, automotive production increased by 5.5%. In the industrialized countries, this was negatively impacted by oil price increases. As a result of falling demand, sales volumes in the United States and in Japan decreased, while they stagnated in Western Europe. In North America, Ford, General Motors and Chrysler reduced their production capacity. This adverse development was offset by strong growth of 14% in Asia (excluding Japan). In Europe, production grew by 5.0% due to the favorable export situation.

At 2.8%, global growth in agricultural production was significantly stronger than in 2006, when production only increased by 0.8% due to unfavorable weather conditions. In the industrialized countries production grew by 2.1%, in the emerging countries by 3%. Growing demand for agricultural commodities resulted in historically low inventory levels, and increased prices were due, among other things, to the increased use of corn (maize), sugarcane and oil-seeds for the production of biofuels.

Despite the housing crisis in the United States, the global construction industry grew by 1.8%. While production in industrialized nations stagnated as a result of the recession in the U.S. construction industry, the building boom in Asia continued unabated, with a growth of more than 7%.

Significant capital investment in Asia and Europe helped the electrical and electronics industry to grow globally by 6.7%. In Western Europe, the industry grew by 4.5%. At 12.4%, Asia (excluding Japan) benefited from the trend to shift production from other regions.

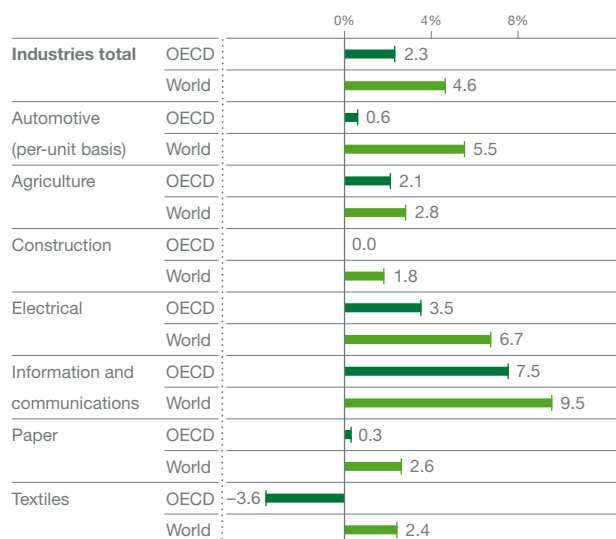
Growth in the information and communication industry (ICT) of 9.5% was weaker than in the previous year and for the first time in many years did not record double-digit growth rates. In Europe, in particular, growth slowed strongly while Asia and the United States recorded robust growth.

The worldwide paper industry grew by 2.6%. The strong growth in the emerging nations compensated for the stagnation in industrialized nations.

The global growth of the textile industry of 2.4% was primarily achieved in Asia where an increase of 9.4% was reached. Markets in industrialized countries were strongly impacted by higher imports from Asia; only Europe posted slight growth.

Growth in key customer industries in 2007

Real change compared with previous year



INDUSTRIAL PRODUCTION DEVELOPMENT

- Global industrial growth of 4.6% thanks to strong demand for capital goods
- Slightly weaker increase in consumer goods and basic industries
- With 9.5% growth, information and communication industry remains the strongest of our customer industries

BASF sales by industry* (percentage of sales in 2007)

> 15%	Chemicals
10–15%	Automotive Construction Utilities
5–10%	Agriculture Plastics industry Oil industry
< 5%	Electrical/Electronics Furniture Paper
10–15%	Other industries

* Distribution by direct customers of BASF

RESULTS OF THE BASF GROUP

Sales and Earnings (million €)

	2007	2006	Change in %
Sales	57,951	52,610	10.2
Income from operations before depreciation and amortization (EBITDA)	10,225	9,723	5.2
EBITDA margin (%)	17.6	18.5	–
Income from operations (EBIT) before special items	7,614	7,257	4.9
Income from operations (EBIT)	7,316	6,750	8.4
Financial result	(381)	(223)	(70.9)
Income before taxes and minority interests	6,935	6,527	6.3
Income before minority interests	4,325	3,466	24.8
Income before minority interests as a percentage of sales	7.5	6.6	–
Net income	4,065	3,215	26.4
Earnings per share (€)	8.32	6.37	30.6

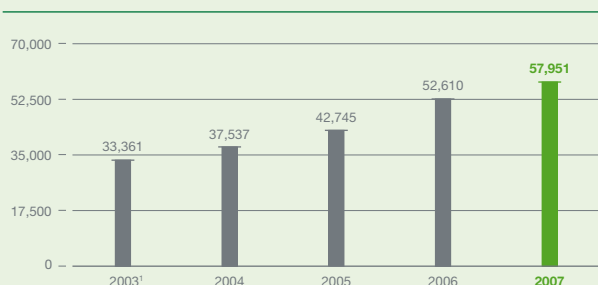
Sales and Earnings by quarter 2007 (million €)

	1st quarter	2nd quarter	3rd quarter	4th quarter	2007
Sales	14,632	14,656	13,963	14,700	57,951
Income from operations before depreciation and amortization (EBITDA)	2,673	2,663	2,355	2,534	10,225
Income from operations (EBIT) before special items	2,116	2,030	1,705	1,763	7,614
Income from operations (EBIT)	2,010	2,007	1,689	1,610	7,316
Financial result	(94)	(65)	(105)	(117)	(381)
Income before taxes and minority interests	1,916	1,942	1,584	1,493	6,935
Net income	1,035	1,024	1,213	793	4,065
Earnings per share (€)	2.08	2.08	2.50	1.65	8.32

Sales and Earnings by quarter 2006 (million €)

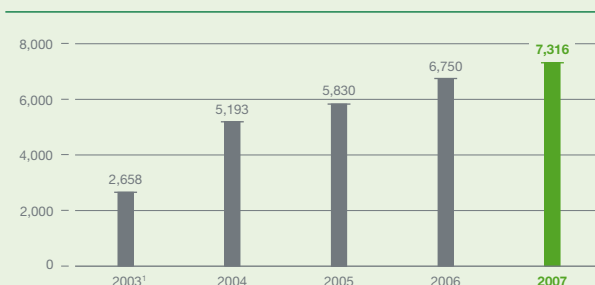
	1st quarter	2nd quarter	3rd quarter	4th quarter	2006
Sales	12,515	12,322	13,299	14,474	52,610
Income from operations before depreciation and amortization (EBITDA)	2,401	2,374	2,368	2,580	9,723
Income from operations (EBIT) before special items	1,865	1,910	1,615	1,867	7,257
Income from operations (EBIT)	1,849	1,797	1,438	1,666	6,750
Financial result	21	23	(133)	(134)	(223)
Income before taxes and minority interests	1,870	1,820	1,305	1,532	6,527
Net income	950	920	613	732	3,215
Earnings per share (€)	1.87	1.82	1.22	1.46	6.37

Sales (million €)



¹ according to German Commercial Code

Income from operations (million €)



¹ according to German Commercial Code

BASF remained on its successful course in 2007. Sales and income from operations were significantly higher than in the previous record year of 2006. This was driven in particular by organic growth and the positive development of the businesses acquired in 2006.

Sales

Sales in 2007 rose by 10.2% compared with the previous year to €57,951 million. The change in sales was due to the following factors:

Factors influencing sales

Million €	2007	Contribution to sales growth (%)
Volumes	2,557	4.9
Prices	1,321	2.5
Currencies	(1,989)	(3.8)
Acquisitions and additions to the scope of consolidation	3,598	6.9
Divestitures	(146)	(0.3)
	5,341	10.2

We posted higher sales volumes in almost all areas of our portfolio. In many businesses this was associated with increases in sales prices due to continued strong demand and higher raw material costs.

Acquisitions, especially the businesses acquired in mid-2006, contributed €3,580 million to the sales increase. Additions to the scope of consolidation contributed €18 million to sales.

Divestitures reduced sales by €146 million. This was due in particular to portfolio measures in the Fine Chemicals division.

Currency effects reduced sales by 3.8%, or €1,989 million: in 2007, the average euro/dollar exchange rate was \$1.37 per euro compared with \$1.26 in 2006.

The Chemicals segment achieved double-digit sales growth. This was primarily due to the first full-year contribution of sales by the Catalysts division.

In the Plastics segment, sales volumes were higher and we were largely able to pass on increased raw material and energy costs in the form of higher sales prices.

We posted higher sales in all divisions of the Performance Products segment. A significant contribution was made by the activities acquired in mid-2006, especially construction chemicals and the water-based resins and effect pigments businesses.

Sales increased in the Agricultural Products division due to strong demand for our innovative products and a favorable market development. Sales in the Fine Chemicals division declined slightly due to the exit from the lysine and premix businesses.

Overall, sales in the Oil & Gas segment declined. Higher volumes and sales in natural gas trading could not offset the sales decline in exploration and production.

Income from operations

We increased income from operations by €566 million to a new record high of €7,316 million. At €2,895 million, we again earned a significantly higher premium on our cost of capital (2006: €2,126 million).

We were able to largely offset significantly higher raw material prices by increasing sales prices. The increase in earnings was due to our ongoing programs to optimize and increase efficiency and, in particular, to the businesses acquired in 2006. In 2007, income from operations was negatively impacted by higher research and development expenditures, plant turnarounds and higher costs for the BASF Option Program.

Earnings increased in the Chemicals segment. This was due in particular to restructuring measures introduced in recent years in the Intermediates division and to improved earnings in the Petrochemicals division.

SALES

Significant increase in sales due to higher volumes and the contribution of the acquired businesses

+10.2%

INCOME FROM OPERATIONS

Higher earnings due to new businesses, higher prices and volumes and lower special charges

+8.4%

In the Plastics segment, income from operations increased further in the Polyurethanes and Styrenics divisions.

In the Performance Products segment, the increase in earnings in the Construction Chemicals and Performance Chemicals divisions more than offset the decline in earnings in the Coatings and Functional Polymers divisions.

In the Agricultural Products division, income from operations improved significantly due to higher sales volumes and prices. Higher earnings in the Fine Chemicals division were due in particular to the restructuring measures introduced in recent years.

Income from operations in the Oil & Gas segment was below the previous year's record level despite the higher oil price. In the exploration and production business sector, earnings declined due in particular to the general cost trend in the industry. In the natural gas trading business sector, earnings also declined. Margins were negatively impacted by the steady increase in oil prices throughout the year. The purchase price of natural gas responds to this trend faster than sales prices which contractually can only be adjusted with a lag of several months.

Special items

Income from operations in 2007 contained special charges of €298 million compared with €507 million in the previous year.

Structural measures were responsible for €185 million. These measures related to European sites and the Coatings division in North America.

The integration of the businesses acquired in 2006 resulted in special charges of €63 million in 2007.

In 2007, special income resulted from divestitures associated with portfolio optimization in the Fine Chemicals division and from the sale of our approximately 42% stake in an ethane cracker in the United States.

Income before taxes and minority interests

Compared with 2006, income before taxes and minority interests increased by €408 million to €6,935 million.

The financial result declined by €158 million to €(381) million. Interest expenses increased because of the financing costs for the acquisitions made in mid-2006. In addition, the financial result in 2006 contained a tax-free gain from the sale of securities.

The return on assets was 16.4% compared with 17.5% in 2006.

Net income/earnings per share

Net income increased by €850 million, or 26.4% to €4,065 million.

The tax rate decreased significantly from 46.9% in 2006 to 37.6%. As a result of the reduction of the average overall corporate tax rate to 29% as part of the German Corporate Tax Reform 2008, deferred tax assets and liabilities needed to be reassessed. This resulted in non-recurring, non-cash income of €229 million because there are predominately deferred tax liabilities in Germany. Noncompensable foreign income taxes on oil production amounted to €1,302 million compared with €1,282 million in 2006.

Minority interests amounted to €260 million. As in 2006, they primarily related to our partners in the natural gas trading companies, in the steam cracker in Port Arthur, Texas, and in our Verbund site in Kuantan, Malaysia.

We increased earnings per share by €1.95 to a record high of €8.32. ///

INCOME FROM OPERATIONS / INCOME BEFORE TAXES AND MINORITY INTERESTS

- Largest increase in earnings in the Chemicals and Agricultural Products & Nutrition segments
- Special charges due to restructuring measures and the integration of businesses acquired in 2006
- Higher interest expenses due to the financing costs for the acquisitions made in mid-2006

NET INCOME / EARNINGS PER SHARE

- Lower tax rate in particular as a result of revaluation of deferred taxes due to German Corporate Tax Reform 2008
- Net income 26% higher than in 2006
- Earnings per share increase by €1.95 to a new record high of €8.32

CONSOLIDATED BALANCE SHEETS

Assets

	2007 Million €	2007 %	2006 Million €
Long-term assets			
Intangible assets	9,559	20.4	8,922
Property, plant and equipment	14,215	30.4	14,902
Investments accounted for using the equity method	834	1.8	651
Other financial assets	1,952	4.2	1,190
Deferred taxes	679	1.4	622
Other receivables and miscellaneous long-term assets	655	1.4	612
	27,894	59.6	26,899
Short-term assets			
Inventories	6,578	14.1	6,672
Accounts receivable, trade	8,561	18.3	8,223
Other receivables and miscellaneous short-term assets	2,337	5.0	2,607
Marketable securities	51	0.1	56
Cash and cash equivalents	767	1.6	834
Assets of disposal groups	614	1.3	–
	18,908	40.4	18,392
Total assets	46,802	100.0	45,291

Stockholders' equity and liabilities

	2007 Million €	2007 %	2006 Million €
Stockholders' equity			
Subscribed capital	4,397	9.4	4,420
Retained earnings	14,556	31.1	13,302
Other comprehensive income	174	0.3	325
Minority interests	971	2.1	531
	20,098	42.9	18,578
Long-term liabilities			
Provisions for pensions and similar obligations	1,292	2.8	1,452
Other provisions	3,015	6.4	3,080
Deferred taxes	2,060	4.4	1,441
Financial indebtedness	6,954	14.9	5,788
Other liabilities	901	1.9	972
	14,222	30.4	12,733
Short-term liabilities			
Accounts payable, trade	3,763	8.1	4,755
Provisions	2,697	5.8	2,848
Tax liabilities	881	1.9	858
Financial indebtedness	3,148	6.7	3,695
Other liabilities	1,976	4.2	1,824
Liabilities of disposal groups	17	–	–
	12,482	26.7	13,980
Total stockholders' equity and liabilities	46,802	100.0	45,291

Long-term assets increased by €995 million to €27,894 million. The ratio of long-term assets to total assets increased slightly to 59.6% in 2007 (2006: 59.4%). This increase was primarily due to the asset swap with Gazprom and the associated addition to intangible assets for the marketing contract for the natural gas from the Yuzhno Russkoye gas field. Furthermore, the production company, which is consolidated using the equity method, was financed with loans. The increase was partially offset by the appreciation of the euro against a range of currencies.

→ Comprehensive information on the composition of, and changes in, long-term assets are provided in the Notes to the Consolidated Financial Statements from page 168 onward. The most important capital expenditures are explained in the section "BASF Segments" from page 29 onward.

Inventories declined slightly by €94 million to €6,578 million despite a higher business volume and higher raw material prices. Days of inventory invested could be reduced slightly in the course of the year.

Accounts receivable, trade increased by €338 million. We further reduced days of sales outstanding.

Stockholders' equity increased by €1,520 million, mainly due to our high net income. Minority interests increased due to the asset swap with Gazprom. The measurement of the swapped assets at fair value resulted in an excess of €634 million which was recognized directly in retained earnings.

These effects were partially offset by the payment of dividends, the repurchase of 21.5 million shares for a total of €1.9 billion as well as negative foreign currency translation effects in the amount of €524 million. The equity ratio increased from 41.0% to 42.9%.

Net debt increased by €686 million to €9,335 million.

Net debt (million €)

	2007	2006
Cash and cash equivalents	767	834
Financial indebtedness	10,102	9,483
Net debt	9,335	8,649

Long-term liabilities increased by €1,489 million to €14,222 million. This was mainly due to partial refinancing of our commercial papers through long-term bonds.

Short-term liabilities decreased by €1,498 million to €12,482 million. This was affected by foreign currency translation effects and the repayment of liabilities from our natural gas trading and the materials services business. As a result, the ratio of short-term liabilities to total liabilities declined from 30.9% in 2006 to 26.7% in 2007.

→ Provisions, financial indebtedness, other liabilities as well as existing lines of credit are explained in Notes 20, 21 and 22 of the Notes to the Consolidated Financial Statements from page 180 onward.

Since we do not see sufficient differentiation possibilities vis-à-vis our competitors in the market for standard styrenics, we are planning to divest our businesses in styrene monomers, and standard styrene polymers and copolymers. The **assets and liabilities** of these businesses are reported separately in the balance sheet under **disposal groups**. ///

→ Further information regarding the disposal group in the Styrenics division is provided in Note 2 to the Consolidated Financial Statements from page 155 onward.

Assets by region (%)

	Property, plant and equipment		Inventories		Accounts receivable, trade	
	2007	2006	2007	2006	2007	2006
Europe	56.9	53.5	56.4	53.4	60.1	59.6
North America	21.0	22.4	25.4	28.4	16.6	18.5
Asia Pacific	18.1	20.3	13.5	13.6	17.2	15.6
South America, Africa, Middle East	4.0	3.8	4.7	4.6	6.1	6.3
	100.0	100.0	100.0	100.0	100.0	100.0

LIQUIDITY AND CAPITAL RESOURCES

Our goal is to maintain the financial flexibility needed to continually develop our business portfolio and take advantage of strategic opportunities. BASF's equity ratio is above the average of the chemical industry.

Financial Management

The objectives of our financial management are to ensure liquidity, limit financial risks and optimize our cost of capital by means of an appropriate capital structure. Our financial activities are conducted in line with the needs of the operational business and the company's strategic direction.

Dividends and share buybacks

Our shareholder-oriented buyback policy allows us to manage our equity ratio, reduce our capital costs and boost earnings per share. We aim to further increase our dividend annually and match the previous year's level even in years in which the business environment is difficult.

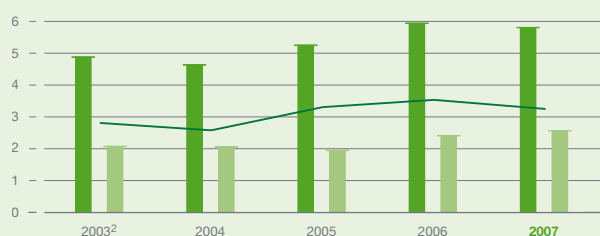
Cash provided by operating activities

In 2007, we generated cash provided by operating activities of €5,807 million despite the expansion of the business and the associated higher amount tied up in working capital. This almost matched the record level achieved in 2006.

Consolidated Statements of Cash Flows (million €)

	2007	2006
Net income	4,065	3,215
Depreciation and amortization of intangible, tangible and financial assets	2,947	2,994
Changes in working capital	(999)	10
Miscellaneous items	(206)	(279)
Cash provided by operating activities	5,807	5,940
Payments related to tangible and intangible assets	(2,562)	(2,411)
Acquisitions/divestitures	(536)	(6,240)
Financial investments and other items	(514)	237
Cash used in investing activities	(3,612)	(8,414)
Capital increases/repayments, share repurchases	(1,749)	(920)
Changes in financial liabilities	1,137	4,574
Dividends	(1,624)	(1,233)
Cash provided by financing activities	(2,236)	2,421
Net changes in cash and cash equivalents	(41)	(53)
Cash and cash equivalents as of beginning of year and other changes	808	887
Cash and cash equivalents as of end of year	767	834

Cash flow (billion €)



- Cash provided by operating activities
- Payments related to property, plant and equipment and intangible assets
- Free cash flow¹

¹ Cash provided by operating activities less payments for property, plant and equipment and intangible assets; in 2005 before external financing of pension obligations (CTA)

² According to German Commercial Code

Miscellaneous items primarily reflected reclassification of non-cash gains resulting from the reduction in the average overall corporate tax rate to 29% due to the German Corporate Tax Reform 2008.

Cash used in investing activities

Net expenses decreased to €3,612 million compared with €8,414 million in 2006. Expenditures for acquisitions were significantly higher in 2006.

In 2007, expenditures for acquisitions totaled €635 million and were primarily attributable to the compensation payment for the asset swap with Gazprom in connection with the Yuzhno Russkoye project.

We generated proceeds of €99 million from divestitures. These resulted primarily from portfolio optimization measures in the Fine Chemicals division and from the sale of a stake of almost 42% in an ethane cracker in the United States to Williams Olefins.

In 2007, we invested a total of €2,562 million, or 6% more than in 2006, in property, plant and equipment and intangible assets. Investments in property, plant and equipment and intangible assets were again below the level of depreciation and amortization. Free cash flow amounted to €3,245 million compared with €3,529 million in 2006.

→ All material additions to property, plant and equipment are described in the section "BASF Segments" from page 29 onward.

Payments for financial investments, marketable securities and financial receivables of €755 million in 2007 related primarily to BASF's contribution to the financing of the production company for the Yuzhno Russkoye natural gas field. This company is consolidated using the equity method. The disposal of long-term assets generated proceeds of €241 million.

Cash provided by/(used in) financing activities

In 2007, cash used in financing activities was €(2,236) million compared with a cash inflow of €2,421 million in 2006. We repurchased 21.5 million shares at an average price of €88.35 per share for a total of €1,899 million.

→ For further information on the share buyback program see also Note 17 to the Consolidated Financial Statements on page 178.

The sum of €1,624 million was paid in dividends and profit transfers in 2007. Of this amount, €1,484 million, or €3.00 per share, was for dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2006. Partners in fully or proportionately consolidated companies received €140 million.

Financial indebtedness increased by 6.5% to €10,102 million compared with 2006. Net debt increased by €686 million to €9,335 million. We partially refinanced our commercial papers with long-term bonds.

→ More information on financial indebtedness can be found in Note 22 to the Consolidated Financial Statements from page 185 onward. Detailed information on other financial obligations can be found in Note 23 to the Consolidated Financial Statements on page 187.

Key ratios and ratings

In 2007, the key financial ratios have remained solid, thus laying the foundation for a good rating. With an AA-/A-1+/outlook stable rating from Standard and Poor's and an Aa3/P-1/outlook negative rating from Moody's, BASF has significantly stronger ratings than its competitors in the chemical industry. ///

Capital expenditures by region (%)

	2007	2006
Europe	79.4	46.6
North America	14.3	41.4
Asia Pacific	4.2	7.0
South America, Africa, Middle East	2.1	5.0
	100.0	100.0

CONSOLIDATED STATEMENTS OF CASH FLOWS

- Cash provided by operating activities almost matches the record level of 2006
- Over €2.5 billion spent on property, plant and equipment and intangible assets
- Expenditures on acquisitions amounted to €635 million

Balance sheet ratios

		2007	2006
Fixed asset coverage I (%)	= $\frac{\text{Stockholders' equity}}{\text{Intangible assets} + \text{Property, plant and equipment} + \text{Financial assets}}$	76	72
Fixed asset coverage II (%)	= $\frac{\text{Stockholders' equity} + \text{Long-term liabilities}}{\text{Intangible assets} + \text{Property, plant and equipment} + \text{Financial assets}}$	129	122
Equity ratio (%)	= $\frac{\text{Stockholders' equity}}{\text{Stockholders' equity} + \text{liabilities}}$	42.9	41.0

Liquidity and debt ratios

		2007	2006
Liquidity (%)	= $\frac{\text{Current assets}}{\text{Short-term liabilities}}$	151	132
Dynamic debt level (%)	= $\frac{\text{Cash provided by operating activities}}{\text{Financial indebtedness}}$	57	63
Leverage (%)	= $\frac{\text{Financial indebtedness}}{\text{Stockholders' equity}}$	50.3	51.0 ¹

¹ Previous year's figure adjusted based on new calculation method.

Interest coverage

		2007	2006
EBITDA interest coverage	= $\frac{\text{Income from operations before depreciation and amortization}}{\text{Interest expense} - \text{Interest income}}$	21.7	26.1

PRINCIPLES AND OBJECTIVES OF OUR FINANCIAL MANAGEMENT

Financial management in the BASF Group is largely centralized and supported by regional competence centers. Our financing and investment policy is value-based, with risk management taking precedence over return. The risks associated with currencies, interest rate changes and creditworthiness are systematically analyzed and limited using modern processes and financial instruments. We manage the capital structure of BASF with efficient financial planning tools while taking into account selected financial ratios.

→ Information regarding the use of financial instruments can be found in Note 26 to the Consolidated Financial Statements from page 191 onward.

RESULTS OF OPERATIONS BY SEGMENT

Segment overview (million €)

	Sales		Income from operations before depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
	2007	2006	2007	2006	2007	2006
Chemicals	14,162	11,572	2,689	2,235	2,014	1,704
Plastics	13,496	12,775	1,817	1,715	1,327	1,216
Performance Products	11,697	10,133	1,311	1,177	842	848
Agricultural Products & Nutrition	4,989	4,934	980	847	653	435
Thereof Agricultural Products	3,137	3,079	692	663	499	378
Fine Chemicals	1,852	1,855	288	184	154	57
Oil & Gas	10,517	10,687	3,575	3,766	3,014	3,245
Other ¹	3,090	2,509	(147)	(17)	(236)	(191)
Thereof corporate research costs	–	–	–	–	(323)	(258)
	57,951	52,610	10,225	9,723	7,614	7,257

Segment overview (million €)

	Income from operations (EBIT)		Assets		Capital expenditures ²	
	2007	2006	2007	2006	2007	2006
Chemicals	1,995	1,380	10,219	10,473	866	3,539
Plastics	1,236	1,192	6,737	6,911	532	631
Performance Products	704	669	9,431	9,727	482	4,490
Agricultural Products & Nutrition	660	381	5,605	6,054	151	466
Thereof Agricultural Products	489	447	4,157	4,458	83	88
Fine Chemicals	171	(66)	1,448	1,596	68	378
Oil & Gas	3,014	3,250	7,057	5,434	2,280	545
Other ¹	(293)	(122)	7,753	6,692	114	368
Thereof corporate research costs	(323)	(258)	–	–	–	–
	7,316	6,750	46,802	45,291	4,425	10,039

¹ Information on the composition of 'Other' can be found in Note 4 to the Consolidated Financial Statements from page 159 onward.

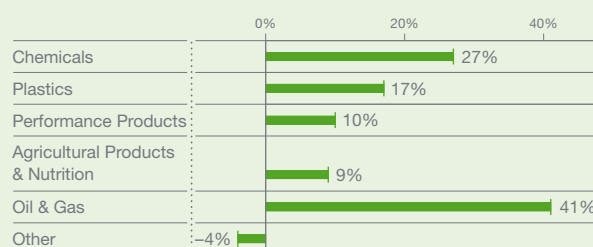
² Additions to property, plant and equipment (thereof from acquisitions: €17 million in 2007 and €1,754 million in 2006) and intangible assets (thereof from acquisitions: €1,779 million in 2007 and €5,860 million in 2006).

Sales by segment



- 1 -- Chemicals: 25%
- 2 -- Plastics: 23%
- 3 -- Performance Products: 20%
- 4 -- Agricultural Products & Nutrition: 9%
- 5 -- Oil & Gas: 18%
- 6 -- Other: 5%

Income from operations by segment



Sales (million €)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2007	2006	2007	2006	2007	2006	2007	2006
Chemicals	3,489	2,239	3,660	2,443	3,597	3,442	3,416	3,448
Plastics	3,348	3,091	3,480	3,168	3,361	3,256	3,307	3,260
Performance Products	2,826	2,147	3,010	2,197	2,990	2,959	2,871	2,830
Agricultural Products & Nutrition	1,375	1,376	1,429	1,389	1,039	973	1,146	1,196
Thereof Agricultural Products	897	928	957	924	574	509	709	718
Fine Chemicals	478	448	472	465	465	464	437	478
Oil & Gas	2,970	2,985	2,269	2,481	2,185	2,116	3,093	3,105
Other ¹	624	677	808	644	791	553	867	635
	14,632	12,515	14,656	12,322	13,963	13,299	14,700	14,474

Income from operations (EBIT) before special items (million €)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2007	2006	2007	2006	2007	2006	2007	2006
Chemicals	628	317	602	351	470	444	314	592
Plastics	325	332	362	315	295	316	345	253
Performance Products	229	248	260	209	217	239	136	152
Agricultural Products & Nutrition	257	224	264	183	33	(46)	99	74
Thereof Agricultural Products	225	213	235	165	(12)	(54)	51	54
Fine Chemicals	32	11	29	18	45	8	48	20
Oil & Gas	845	848	708	868	657	749	804	780
Other ¹	(168)	(104)	(166)	(16)	33	(87)	65	16
	2,116	1,865	2,030	1,910	1,705	1,615	1,763	1,867

Income from operations (EBIT) (million €)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2007	2006	2007	2006	2007	2006	2007	2006
Chemicals	618	317	593	263	501	229	283	571
Plastics	325	331	361	314	293	306	257	241
Performance Products	219	247	251	209	206	180	28	33
Agricultural Products & Nutrition	248	290	265	227	36	(81)	111	(55)
Thereof Agricultural Products	220	280	235	164	(12)	(55)	46	58
Fine Chemicals	28	10	30	63	48	(26)	65	(113)
Oil & Gas	845	848	708	868	657	754	804	780
Other ¹	(245)	(184)	(171)	(84)	(4)	50	127	96
	2,010	1,849	2,007	1,797	1,689	1,438	1,610	1,666

¹ Information on the composition of 'Other' can be found in Note 4 to the Consolidated Financial Statements from page 159 onward.

CHEMICALS

Segment data (million €)

	2007	2006	Change in %
Sales to third parties	14,162	11,572	22.4
Thereof Inorganics	1,192	1,134	5.1
Catalysts	4,804	2,411	99.3
Petrochemicals	5,696	5,754	(1.0)
Intermediates	2,470	2,273	8.7
Intersegmental transfers	4,880	4,483	8.9
Sales including intersegmental transfers	19,042	16,055	18.6
Income from operations before depreciation and amortization (EBITDA)	2,689	2,235	20.3
Income from operations (EBIT) before special items	2,014	1,704	18.2
Income from operations (EBIT)	1,995	1,380	44.6
Income from operations (EBIT) after cost of capital	1,060	479	121.3
EBITDA margin (%)	19.0	19.3	–
Assets	10,219	10,473	(2.4)
Research and development expenses	201	178	12.9
Additions to property, plant and equipment and intangible assets	866	3,539	(75.5)

The Chemicals segment consists of the Inorganics, Catalysts, Petrochemicals and Intermediates divisions. In 2007, sales to third parties increased by €2,590 million to €14,162 million compared with the previous year (volumes 2%, prices 7%, portfolio 18%, currencies –5%).

The Catalysts division, included for the first time for an entire year, contributed in particular to the segment's double-digit sales growth. However, other parts of the segment also grew faster than the market. Sales in Inorganics and Intermediates grew due to higher sales volumes and sales prices. Sales in Petrochemicals were lower than last year. All regions contributed to sales growth, Europe and Asia in particular grew strongly.

Income from operations rose by 44.6% to €1,995 million. All four divisions recorded higher earnings, in spite of increasing raw material prices and scheduled plant turnarounds. The restructuring measures initiated in Intermedi-

ates in recent years contributed to the increase in earnings. Earnings were negatively impacted by special items connected with the integration costs of the catalysts business acquired in 2006. Special income resulted from the sale of our stake of approximately 42% in an ethane cracker in Geismar, Louisiana, to Williams Olefins.

As of January 1, 2008, the Catalysts division will come under the new Functional Solutions segment. We expect a slight increase in sales and earnings for the remaining businesses in the Chemicals segment. Increased production capacities due to capacity expansions at our steam cracker in Antwerp, Belgium and a decrease in the number of scheduled plant shutdowns as well as high demand will contribute to our strong performance.

CHEMICALS SEGMENT

- Worldwide increase in sales due to acquisitions, higher volumes and prices
- New Catalysts division made a key contribution
- Despite higher raw material costs and plant turnarounds: Earnings improved as a result of restructuring measures introduced in recent years and less special charges
- Slight sales and earnings increase expected for 2008

Inorganics

In 2007, sales increased to €1,192 million (volumes 5%, prices 3%, currencies –3%). Sales of inorganic specialties as well as glues and impregnating resins grew particularly strongly.

In 2007, income from operations was significantly higher than the previous year's level. Margins for basic inorganic chemicals such as sodium hydroxide, ammonia and methanol were both robust and high. These positive developments more than offset charges arising from the startup of new plants - in particular the Electronic Materials Center Europe in Ludwigshafen – as well as from plant turnarounds.

We expect sales to increase slightly in 2008 and aim to match 2007's strong level of earnings. In particular, higher sales in our inorganic specialties and electronic chemicals business will contribute to this growth. Earnings in 2008 will be adversely impacted by decreasing margins with our methane-based derivatives and currency effects.

Inorganics -- Sales by region (location of customer)



Catalysts

Sales grew strongly by €2,393 million to €4,804 million in 2007 (volumes 10%, prices 10%, portfolio 84%, currencies –5%) primarily due to the first full-year contribution from the division.

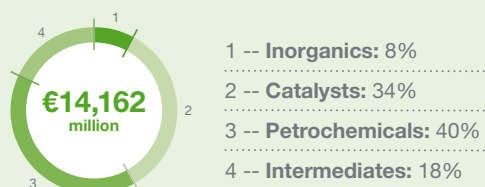
Higher demand for our catalysts was driven by strong demand from emerging markets, which were in turn supported by overall economic growth. Worldwide tightening of controls on emissions and rising raw material prices also contributed to the higher demand. Higher sales in the materials services business were due to higher precious metal prices and its first full-year contribution. In 2007, sales amounted to €2,405 million.

In April, we further strengthened our leading position in Asia through the completion of the acquisition of Guilin REEcat Catalyst Co. Ltd., China's market leader in small engine and motorcycle catalysts. In addition, we invested €110 million globally for capacity expansion projects in growth markets.

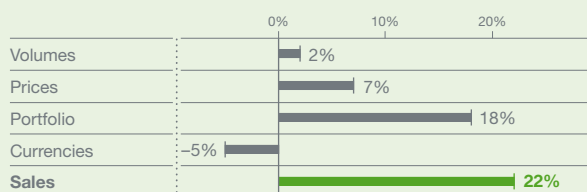
Even without taking increased precious metal prices into consideration, we recorded significant growth in our business with vehicle catalysts, in particular due to higher volumes. Volumes of light-duty catalysts increased in all regions. Strong growth was recorded in particular in Asia Pacific. In addition, sales volumes for diesel catalysts for use in heavy-duty vehicles increased significantly in North America, due to new government controls on emissions.

In Process Technologies, we posted higher volumes of chemical catalysts, with higher prices and an improved product mix. The depreciation of the U.S. dollar and slightly weaker demand for refinery catalysts had a negative impact on sales.

Sales by division



Factors influencing sales – Chemicals

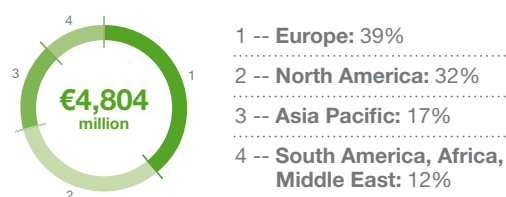


Income from operations increased compared with 2006. Integration costs negatively impacted earnings.

The integration was largely completed. We are now focusing on exploiting the growth potential of the global catalysts business. Through the integration, we have created a unique research and development platform that allows us to support our customers faster and more effectively.

Assuming precious metal prices remain high and that the U.S. dollar does not depreciate further, we expect sales and earnings to increase in 2008. We will benefit from the growth in emission-control technologies for vehicles, as well as from the strong growth in Asian markets and the ongoing strong demand for chemical and petroleum refining catalysts and adsorbents.

Catalysts -- Sales by region (location of customer)



Petrochemicals

Sales decreased by €58 million to €5,696 million in 2007, compared with the previous year (volumes -4%, prices 8%, currencies -5%). This was primarily due to sales declines in cracker products as a result of scheduled plant turnarounds which could not be fully offset by significant higher sales of plasticizers and solvents. Sales of alkylene oxides and glycols remained stable at the previous year's level. Due to persistently high demand, we were largely able to pass on higher crude oil and naphtha costs, which reached record highs through the course of the year, in the form of higher sales prices in all product lines.

Income from operations in this division exceeded the previous year's very strong level. In particular, plasticizers and solvents as well as alkylene oxides and glycols developed positively. Overall, our production facilities continued to operate at high capacity utilization rates. Plant turnarounds negatively impacted earnings. The impact was due, in particular, to the scheduled plant turnarounds of the steam cracker in Antwerp, Belgium; and Port Arthur, Texas in the second half of 2007, that lasted longer than expected.

At the beginning of the year, we started operations at a new plant in Pasadena, Texas for the production of the plasticizer di-2-propylheptyl phthalate (DPHP). In Europe, larger quantities of our innovative plasticizer Hexamoll® DINCH are available to us, after completing the expansion of production capacity in Ludwigshafen, Germany in May 2007. As part of our scheduled maintenance shutdown, we increased the annual capacity of our steam cracker in Antwerp, Belgium, by 280,000 to 1,080,000 metric tons.

INORGANICS

- High sales growth in particular in inorganic specialties as well as in glues and impregnating resins
- Earnings higher than in 2006
- Robust and high margins for basic inorganic chemicals more than offset special charges

CATALYSTS

- Higher sales in particular due to full-year contribution of business acquired in 2006
- Higher earnings despite additional integration costs
- Expanding our leading position in Asia

We expect our business to develop positively in 2008, provided the global economy continues to be strong. We expect to exceed the previous year's sales due to the additional steam cracker capacity in Antwerp and increased plant availability. Assuming high sales and stable demand, we aim to exceed the previous year's strong earnings in 2008.

Petrochemicals -- Sales by region (location of customer)



Intermediates

In 2007, Intermediates increased sales to third parties by €197 million to €2,470 million (volumes 8%, prices 5%, currencies –4%.) Supported by strong demand, all regions continued to develop well. Sales increased most strongly in Asia, especially for butanediol and its derivatives.

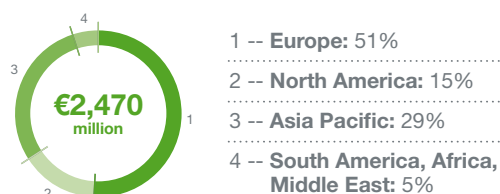
Income from operations in 2007 was significantly higher than in the previous year. In 2006, earnings had been impacted by high special charges, primarily as a result of the mothballing of the tetrahydrofuran (THF) plant in Caojing, China. In 2007, we successfully tested this plant for the production of maleic anhydride. The plant will now be adapted to produce maleic anhydride as a second product alongside tetrahydrofuran.

Earnings increased due to the restructuring measures introduced in recent years. In addition, earnings were no longer adversely affected by high charges as in 2006. We could thus reduce fixed costs and achieve high utilization rates. Despite higher raw material costs, we were able to increase our margins in our important product lines.

In 2008, we expect robust demand and further sales growth in all regions. In the course of the year, we anticipate pressure on margins due to continuing shortages and high costs of important raw materials as well as the startup of new capacities by competitors. We are responding to this by optimally utilizing our plants and by furthering our measures to increase efficiency.

In 2008, we expect to match the high level of earnings posted in 2007. ///

Intermediates -- Sales by region (location of customer)



PETROCHEMICALS

- Sales and earnings negatively impacted by decrease in volumes in cracker products due to scheduled plant turnarounds
- Earnings exceed the previous year's very strong level due to strong performance of plasticizers and solvents
- Expansion of production capacities for plasticizers in Europe and the United States

INTERMEDIATES

- Higher sales due to dynamic demand in all regions
- Significant improvement in earnings
- THF plant in Caojing, China, successfully tested for the production of maleic anhydride
- Successful restructuring measures reduce fixed costs and guarantee high capacity utilization of our plants

PLASTICS

Segment data (million €)

	2007	2006	Change in %
Sales to third parties	13,496	12,775	5.6
Thereof Styrenics	5,306	4,994	6.2
Performance Polymers	3,024	2,932	3.1
Polyurethanes	5,166	4,849	6.5
Intersegmental transfers	624	526	18.6
Sales including intersegmental transfers	14,120	13,301	6.2
Income from operations before depreciation and amortization (EBITDA)	1,817	1,715	5.9
Income from operations (EBIT) before special items	1,327	1,216	9.1
Income from operations (EBIT)	1,236	1,192	3.7
Income from operations (EBIT) after cost of capital	623	514	21.2
EBITDA margin (%)	13.5	13.4	–
Assets	6,737	6,911	(2.5)
Research and development expenses	149	145	2.8
Additions to property, plant and equipment and intangible assets	532	631	(15.7)

The Plastics segment is composed of the Styrenics, Performance Polymers and Polyurethanes divisions. In 2007, we increased sales to third parties by €721 million to €13,496 million (volumes 7%, prices 3%, currencies –4%).

Once again we have successfully positioned our products in an expanding market. We increased sales volumes and we were largely able to pass on increased raw material and energy costs in the form of higher sales prices. The increase in volumes was mainly achieved in Europe and Asia. We increased income from operations by €44 million to €1,236 million compared with the previous year's high level.

In the Styrenics division, we were able to establish specialties and foams in new applications and markets. Since we do not see sufficient differentiation possibilities vis-à-vis our competitors in the market for standard styrenics in the long term, we are planning to sell our businesses in styrene monomers, and standard styrene polymers and

copolymers. Sales in the businesses concerned amounted to approximately €3 billion in 2007.

In the Performance Polymers division, we have expanded our global plant capacity to meet increasing customer demand in the long term. Scheduled plant turn-arounds and production interruptions negatively impacted earnings in this division. Furthermore, earnings also decreased as a result of an impairment loss on property, plant and equipment in Europe.

We have also strongly expanded capacity in the Polyurethanes division and could further improve our high level of earnings. In addition to expanding the global network of systems houses, we also aim to increase the efficiency of our basic products. With our partner Dow Chemical, we will start operations in 2008 at our plant in Antwerp, Belgium, that is the largest of its kind in the world to use the new HPPO process to produce propylene oxide.

PLASTICS SEGMENT

- Increase in sales due to higher volumes and prices
- Further improvement on the high level of earnings of the previous year
- Divestiture planned of our businesses in styrene monomers, and standard styrene polymers and copolymers
- Ongoing business: 2008 higher sales and volumes expected

Sales by division



- 1 -- Styrenics: 39%
- 2 -- Performance Polymers: 23%
- 3 -- Polyurethanes: 38%

In our ongoing operations, in a market environment which is still dynamic, we expect sales volumes for our products to increase faster than the market average in 2008, especially in Asia and Europe. Despite the expected continued high raw material and energy prices, overall we expect a slight increase in earnings.

Styrenics

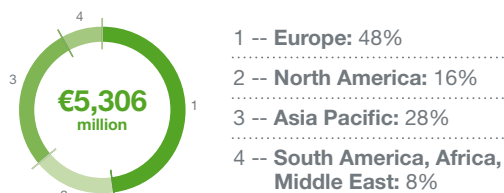
At €5,306 million, sales to third parties in 2007 were 6% higher than in 2006 (volumes 5%, prices 5%, currencies –4%). The greatest increase was recorded in Europe, but sales also grew in Asia and South America. Sales in North America declined. Overall, income from operations increased significantly. Our business in Europe contributed most to this improvement, where earnings increased in all product lines.

We further expanded our market position in specialties and foams by opening up new applications and markets for our products. Our Basotect® melamine resin foam is being increasingly used in airplane construction and our Neopor insulating foam was launched in the South Korean market.

Thanks to a series of initiatives to optimize existing business models, we improved earnings with standard styrenics. However, we do not see sufficient long-term potential to differentiate ourselves from our competitors. We have therefore decided to divest our businesses with styrene monomers and standard styrene polymers and copolymers. In the future, the specialties and foams business will be run by the Performance Polymers division and will be further expanded so as to position ourselves as the preferred suppliers in the market for these products.

Following the planned divestiture of the above-mentioned businesses, we expect higher sales and earnings from the continuing operations in 2008.

Styrenics -- Sales by region (location of customer)



Performance Polymers

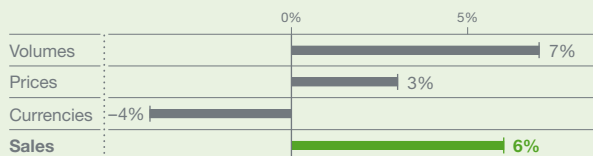
At €3,024 million, sales increased in 2007 compared with the previous year (volumes 5%, prices 3%, currencies –5%).

Sales volumes of polyamides and intermediates as well as engineering plastics rose compared with 2006. Sales in Asia grew most strongly, where all product lines contributed to the increase in volumes. We increased prices in local-currency terms in all regions and businesses. Sales in Asia and North America were negatively impacted by the weakness of the U.S. dollar.

Income from operations was negatively impacted by special charges from an impairment loss on property, plant and equipment in Europe. Supply bottlenecks for feedstocks led to occasional production outages. In addition, income from operations was lower due to costs for expanding capacity for Ultraform® and Ultrason®, higher raw material costs, scheduled plant turnarounds and special charges from the closure of a pilot plant.

We started operations at a compounding plant in Shanghai, China, to further strengthen our global presence in engineering plastics. To support our customers, we have opened two new technical centers in Shanghai, China and Pasir Gudang, Malaysia. We also expanded the production of Ultraform in Ludwigshafen, Germany. In addition, we have doubled the capacity for the high-performance plastic Ultrason and have begun construction of a plant for the feedstock dihydroxydiphenylsulfone (DHDPS).

Factors influencing sales -- Plastics



STYRENICS

- Sales increase once again, earnings significantly higher than the previous year's level
- Continued expansion of our market position in specialties and foams
- Products established in new applications and markets

As part of our efforts to optimize our cost structures in the polyamides and intermediates business, we started operations at the world's largest plant for polyamide 6 (Nylon) in Freeport, Texas and optimized our raw material supplies for polyamide 6.6 by entering into a purchase contract for adipodinitrile (ADN).

Our success rests on productive research and customer orientation. Our customers appreciate our capacity to innovate. This is underlined by the BOSCH Supplier Award for outstanding quality and excellent services which we were awarded for the third year in succession.

In 2008, we want to increase earnings. Volume and sales growth as a result of expanded capacities as well as optimized cost structures will contribute to the increase in earnings.

Performance Polymers -- Sales by region (location of customer)



Polyurethanes

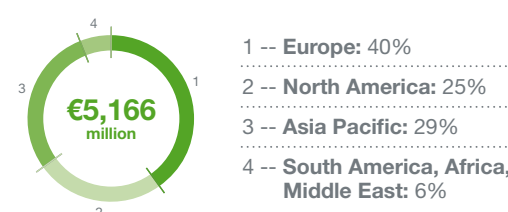
In 2007, we once again participated in the increase in the worldwide polyurethane market. Sales to third parties increased by €317 million to €5,166 million (volumes 9%, prices 2%, currencies -4%). Sales rose significantly in all regions except North America. Growth in North America was negatively impacted by unscheduled plant shutdowns of the MDI and TDI plants in Geismar, Louisiana during the first half of the year and by the weak U.S. dollar. New production capacity, which started up in the second half of 2006 and in 2007, contributed to the increase in sales in Asia Pacific and Europe.

Income from operations increased again in 2007, in particular due to higher sales volumes. We were largely able to pass on increased raw material and energy costs in the form of higher sales prices.

In China, we are planning the construction of a plant for the production of MDI and are considering a location in Chongqing, West China. The startup is planned for 2010, and the plant is expected to have an annual capacity of 400,000 metric tons per year of crude MDI. In 2008, at our Verbund site in Antwerp, Belgium, we will start operations with our partner Dow Chemical at a plant which uses the new HPPO process to produce propylene oxide (PO) on the basis of hydrogen peroxide (HP). The plant is the largest of its kind and the process produces no by-product other than water.

In 2008, we expect ongoing strong market growth for polyurethanes worldwide. China is especially important for us as it is expected to have established itself as the largest sales market by 2010. We continue to expect high raw material and energy prices in 2008. In 2008, as a result of the startups of new plants it will call for a concerted effort to match the very strong earnings level of 2007. ///

Polyurethanes -- Sales by region (location of customer)



PERFORMANCE POLYMERS

- Increase in sales over previous year
- Expansion of our position due to the startup of new plants in Shanghai, China; and Freeport, Texas
- Opening of new technical centers in Shanghai, China; and Pasir Gudang, Malaysia
- Lower earnings due to plant turnarounds, supply bottlenecks for feedstocks and impairment losses

POLYURETHANES

- Significant increase in sales in almost all regions
- Earnings increase for the sixth time in succession despite higher energy and raw material prices
- Startup of the world's largest propylene oxide plant using the new HPPO process, in Antwerp, Belgium, in 2008
- New MDI plant in China planned for 2010

PERFORMANCE PRODUCTS

Segment data (million €)

	2007	2006	Change in %
Sales to third parties	11,697	10,133	15.4
Thereof Construction Chemicals ¹	2,100	1,081	94.3
Coatings ¹	2,587	2,414	7.2
Functional Polymers	3,522	3,387	4.0
Performance Chemicals ¹	3,488	3,251	7.3
Intersegmental transfers	412	390	5.6
Sales including intersegmental transfers	12,109	10,523	15.1
Income from operations before depreciation and amortization (EBITDA)	1,311	1,177	11.4
Income from operations (EBIT) before special items	842	848	(0.7)
Income from operations (EBIT)	704	669	5.2
Income from operations (EBIT) after cost of capital	(168)	(71)	(136.6)
EBITDA margin (%)	11.2	11.6	–
Assets	9,431	9,727	(3.0)
Research and development expenses	304	288	5.6
Additions to property, plant and equipment and intangible assets	482	4,490	(89.3)

¹ As of January 1, 2007, the architectural and industrial coatings businesses were transferred from the Construction Chemicals division to the Coatings division and the wood preservatives business was transferred from the Performance Chemicals division to the Construction Chemicals division. The 2006 figures were adjusted accordingly.

The Performance Products segment is made up of the Construction Chemicals, Coatings, Functional Polymers and Performance Chemicals divisions. In 2007, we increased sales to third parties by €1,564 million to €11,697 million compared with the previous year (volumes 3%, prices 1%, portfolio 14%, currencies –3%).

We posted sales and volume increases in all divisions. A significant portion of the increase in sales resulted from the acquisitions made in mid-2006. The Construction Chemicals division, which reported its first full year of sales, made the most significant contribution. The integration of new businesses also strengthened the portfolio in the other divisions and increased sales. In particular, the businesses with water-based resins and effect pigments in the Performance Chemicals division and the kaolin business in the Functional Polymers division contributed to the positive sales development in the segment.

In spite of negative currency effects and further increases in raw material costs, segment earnings rose, thanks to innovative, customer specific solutions in a challenging market environment. In total, we increased income from operations to €704 million, €35 million higher than in 2006. The Construction Chemicals division, in particular, contributed to this. The decline in the private housing market in the United States was more than offset by growth in infrastructure measures and commercial projects as well as the positive development in other regions. We also significantly increased earnings in the Performance Chemicals division.

In the Coatings division, business was satisfactory despite the weak American automotive market. Earnings decreased, primarily due to an impairment loss on property, plant and equipment and intangible assets in the industrial coatings business in North America. A significant decrease in earnings was posted in Functional Polymers in particular due to continuing margin pressure in acrylic monomers.

PERFORMANCE PRODUCTS SEGMENT

- Higher sales and volumes in all divisions
- Integration of new businesses, in particular of Construction Chemicals contributes to positive business performance
- Higher earnings in performance chemicals, performance of acquired businesses stronger than expected
- Higher income from operations for the segment despite integration costs
- Positive sales and earnings development expected for 2008

Segment earnings were less impacted by special items than in the previous year. Special items primarily arose from the integration of the businesses acquired in 2006 and an impairment loss on property, plant and equipment and intangible assets in the Coatings division.

As of January 1, 2008, the operating divisions Construction Chemicals and Coatings will be reported under the new segment Functional Solutions. For the remaining businesses in the Performance Products segment we expect positive sales and earnings development in a challenging market environment. We will strengthen our product portfolio through innovations and accelerate business development in the growth regions.

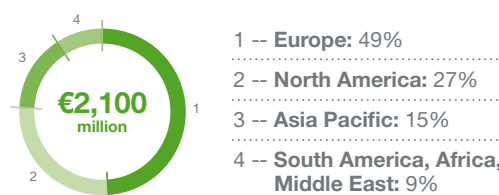
Construction Chemicals

Sales to third parties increased in 2007, due to the new division's first full-year contribution (volumes 2%, prices 2%, portfolio 94%, currencies -4%). Admixture Systems' greatest growth in sales was recorded in Europe, where the volume growth was significantly higher than the market growth. Construction systems could also achieve significant volume growth in Europe despite the strong decline in new constructions in Germany and Spain. The dynamic development was due, in particular, to the growing business in Eastern Europe and the continuing construction boom in the Middle East. In North America, business was impacted by the decline in private housing construction, the weak U.S. dollar and the severe winter in parts of the region. Sales in dollars were improved however, in particular, by the growth in infrastructure measures and commercial projects. Business in Asia Pacific developed favorably. Strong growth in China, India, South East Asia and Australia and the acquisition of Hi Con – a Chinese producer of concrete admixtures – offset the negative currency effects and the continuing weakness in the construction industry in Japan.

Income from operations also developed positively and was higher than the previous year's strong level. We offset higher raw material costs by increasing our prices. The integration is being implemented rapidly and the synergy potential is being exploited systematically.

For 2008, we anticipate continuing increases in sales and earnings. We particularly want to participate in the dynamic developments in the growth markets of China, India, Eastern Europe and the Middle East.

Construction Chemicals -- Sales by region (location of customer)

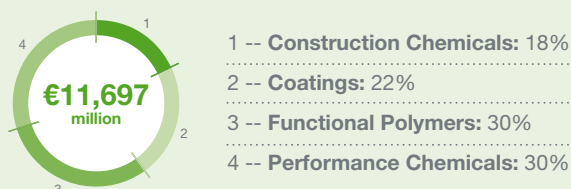


Coatings

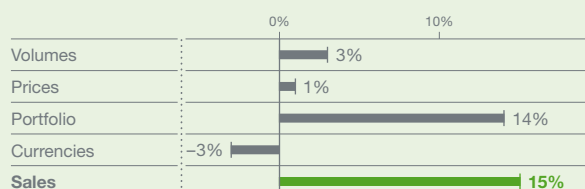
We increased sales in all regions except North America by a total of €173 million to € 2,587 million (volumes 7%, prices -1%, portfolio 4%, currencies -3%). The decline in North America is attributable to negative currency effects and a difficult market environment in the American private housing construction and automotive industries.

In particular, the growth in automotive coatings in China and Europe, and in architectural coatings in South America contributed to the increase in sales. We expanded our system supplier business, which enables our customers to reduce the overall costs of coating processes. In addition to supplying products, we also provide inventory management and other additional services for our customers.

Sales by division



Factors influencing sales – Performance Products



In automotive refinish coatings, we posted slightly lower sales than in 2006. Negative currency effects could not be fully offset by strong demand in commercial transport coatings in Europe, or by the expansion of our brands Glasurit® and Salcomix®.

Sales in industrial coatings surpassed those of the previous year. In Europe, both organic business growth and the activities we added as part of the acquisition of the construction chemicals business in 2006 contributed to the growth in sales. This more than compensated for weaker business in North America and Japan.

Business in architectural coatings in South America developed favorably. In Europe, the activities in architectural coatings acquired with the Construction Chemicals business contributed to the increase in sales.

Income from operations was below the previous year's level. This was primarily due to the appreciation of the euro, higher raw material costs and special charges as a result of an impairment loss on property, plant and equipment and intangible assets in the industrial coatings business in North America.

We plan to further increase sales in 2008 and expect earnings above the previous year's level. We are expanding our presence in the growth markets of Eastern Europe and Asia, particularly in Russia, China and India.

Coatings -- Sales by region (location of customer)



Functional Polymers

In 2007, we increased sales to third parties by €135 million to €3,522 million compared with 2006 (volumes 2%, prices 1%, portfolio 4%, currencies -3%).

The performance of the individual businesses was mixed: Sales of acrylic monomers were slightly lower than in 2006. We could not fully pass on the higher raw material costs, which led to lower margins. High excess capacity still exists, particularly in Asia. Sales of superabsorbents were approximately at the same level as in 2006. In the paper chemicals business, sales increased due to higher volumes. In Europe and Asia, we further expanded business in adhesive and construction polymers, while in North America, it decreased slightly due to weaker development in the automotive industry and the private housing sector.

Income from operations was below the previous year's level. This is primarily due to further margin decline for acrylic monomers. The continuing consolidation measures of our customers in the paper industry led to pressure on margins in paper chemicals. In Europe, we matched the margins of 2006 for adhesive and construction polymers despite increased raw material prices, thanks to our leading technical position and a consequent expansion of our market position. The kaolin business acquired in 2006 is completely integrated and recorded an increase in earnings in 2007.

In 2007, we reached significant strategic milestones: In Freeport, Texas we started operations at a new plant for superabsorbents with a capacity of 180,000 metric tons. This plant replaces the plants in Aberdeen, Mississippi; and Portsmouth, Virginia. The capacity of our superabsorbents plant in Antwerp, Belgium, was increased by 60,000 metric tons to a capacity of 175,000 metric tons. These investments improve our competitiveness and allow us to cover the growing needs of our customers.

CONSTRUCTION CHEMICALS

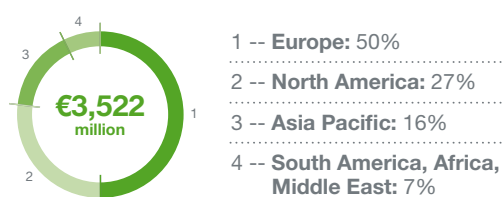
- Higher sales, strong performance in particular in Europe and Asia
- Earnings higher than the strong level in 2006
- Strong construction markets in Eastern Europe, the Middle East, Asia and Australia
- Rapid integration and systematic realization of synergies

COATINGS

- Higher sales in Europe, Asia and South America
- Business in industrial and architectural coatings stronger due to acquisitions made in 2006
- Decrease in earnings due to currency effects, higher raw material costs and special charges

In 2008, we continue to expect increased volumes despite sluggish growth in the construction related industries in Western Europe and the United States and the tough global market for raw materials. We expect higher sales and earnings slightly below the level of 2007 in this extremely challenging market.

Functional Polymers -- Sales by region (location of customer)



Performance Chemicals

In 2007, sales to third parties increased by €237 million to €3,488 million (volumes 2%, prices 1%, portfolio 7%, currencies -3%). A significant part of the increase in sales was due to the acquired water-based resins and effect pigments businesses.

The strongest sales growth was posted in North America due to acquisitions. In Europe, sales grew in particular due to higher sales prices, while in Asia Pacific sales increased as a result of higher volumes and the startup of a plant for HDI-based coatings in Caojing, China. The sale of the Chemische Fabrik Wibarco GmbH and the weak dollar negatively impacted sales.

Overall, we significantly increased income from operations compared with 2006. The previous year's results in particular for performance chemicals for detergents and formulators as well as for the automotive and oil industry were surpassed. Results in performance chemicals for coatings, plastics and specialties were also higher than in the previous year as a result of acquisitions. Performance

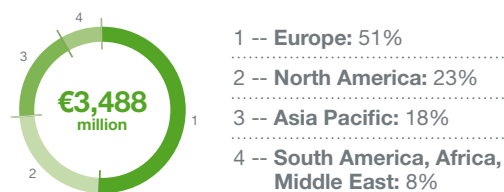
chemicals for textiles and leather posted a decrease in earnings in what remains to be a difficult market environment.

We will continue with our measures taken to improve efficiency in our market activities, such as the alignment of our business models and structures. We are developing new products and solutions in collaboration with our customers and are even more geared towards market needs, in order to press ahead with the profitable expansion of our business in all regions.

The detergents and formulators business will be included in the new Care Chemicals division from the first quarter of 2008 onward. In 2008, we expect higher sales and earnings from the remaining operations. ///

→ The outlook for the Care Chemicals division can be found in the section "Results of Operations by Segment," "Agricultural Products and Nutrition" on page 75.

Performance Chemicals -- Sales by region (location of customer)



FUNCTIONAL POLYMERS

- Higher sales particularly in adhesive and construction polymers in Europe and Asia
- Earnings declined, primarily due to lower margins in acrylic monomers
- Significant milestones reached: operations started at new superabsorbents plant in Freeport, Texas; plant capacity expansion in Antwerp, Belgium

PERFORMANCE CHEMICALS

- Higher sales; significant contributions from acquired resins and effect pigments businesses
- Earnings increased in particular for performance chemicals for detergents and formulators as well as for the automotive and oil industry
- Measures continued to improve efficiency in market activities

AGRICULTURAL PRODUCTS & NUTRITION

Agricultural Products

Agricultural Products: Division data (million €)

	2007	2006	Change in %
Sales to third parties	3,137	3,079	1.9
Intersegmental transfers	19	25	(24.0)
Sales including intersegmental transfers	3,156	3,104	1.7
Income from operations before depreciation and amortization (EBITDA)	692	663	4.4
Income from operations (EBIT) before special items	499	378	32.0
Income from operations (EBIT)	489	447	9.4
Income from operations (EBIT) after cost of capital	84	(48)	–
EBITDA margin (%)	22.1	21.5	–
Assets	4,157	4,458	(6.8)
Research and development expenses	328	334	(1.8)
Additions to property, plant and equipment and intangible assets	83	88	(5.7)

In 2007, sales to third parties increased by €58 million to €3,137 million compared with 2006 (volumes 6%, prices 1%, portfolio –2%, currencies –3%). Currency effects impacted sales by €108 million. The market for crop protection products developed favorably compared with the previous year. Higher prices for important agricultural commodities such as soybeans, corn (maize) and cereals played a role as did the increased demand for biofuels.

Sales to customers in Europe increased by 4% to €1,441 million. Demand increased due to favorable weather conditions and the early start to the season, compared with 2006. The high disease pressure in specialty crops boosted our business, particularly in Southern Europe. Our business with innovative products for the cultivation of canola (oilseed rape), which is used as a source of energy in Europe, also developed favorably. The development of our business in the growth markets of Eastern Europe was once again encouraging.

In North America, sales decreased by 11% to €789 million due to the divestitures in 2006, negative currency effects and the strong competitive pressure in the forestry

sector. We were very successful with our product Headline®, which contains the active ingredient F 500®, in particular in corn cultivation in the United States. Our plant health concept for increasing yields is being well received by our customers there.

In Asia, sales were slightly lower than in 2006 at €267 million. The weakness of the Yen negatively impacted sales. Our new rice fungicide Arashi®, with the active ingredient orysastrobins, was successfully launched in the Japanese market.

In South America, sales increased significantly by 21% to €640 million, in particular due to the positive market development in Brazil. Here, our export-oriented customers are once again investing in high-value crop protection products as a result of continued high prices for soybeans and the increased acreage of sugarcane for the production of bioethanol.

This trend has benefited in particular our fungicides for soybean cultivation and our insecticides for sugar cane. Our fungicide Opera®, with the active ingredient F 500, maintained its leading market position in the soybean

AGRICULTURAL PRODUCTS DIVISION

- Increase in sales thanks to strong demand for our innovative products
- Significant increase in earnings due to higher volumes and sales prices as well as cost reductions
- Great success for our product Headline in corn cultivation in the United States; our plant health concept was well received by our customers
- Growth in fungicides for soybean cultivation and insecticides for sugarcane due to the positive market development in South America
- 2008 higher sales and earnings expected

fungicide market. In addition, we have successfully extended our plant health concept to other crops, under the umbrella brand AgCelence™.

Income from operations increased significantly by €42 million to €489 million. This was primarily due to higher volumes and sales prices in particular for high-value fungicides in Brazil. In addition, our ongoing cost reduction measures contributed to the increase in earnings.

We further reduced our assets by €301 million to €4,157 million. This was due to currency effects, our continued efforts to reduce current assets and divestitures. We remain committed to the strict management of receivables and inventories.

Sales by indication (million €)

	2007	2006
Fungicides	1,256	1,167
Herbicides	1,167	1,215
Insecticides and other	714	697
Total	3,137	3,079

Assuming continuing good seasonal conditions and unfavorable exchange rates, we anticipate slightly higher sales and earnings in 2008. In an intensely competitive environment, our plant health concept and innovative portfolio put us in a strong position to shape important trends in agriculture and grow profitably.

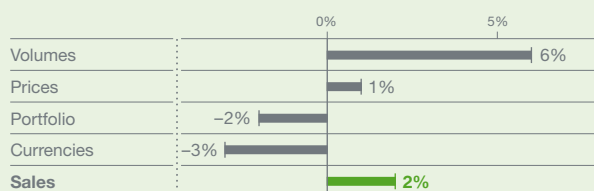
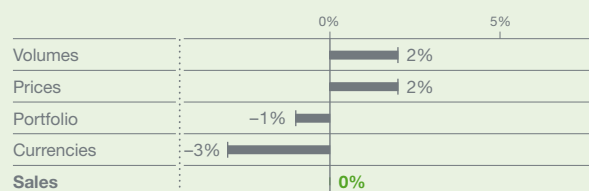
We see great opportunities in continuing increased demand for plants as food and to produce renewable energy.

Agricultural Products -- Sales by region (location of customer)

Fine Chemicals

At €1.852 million, sales to third parties matched the level in 2006 (volumes 2%, prices 2%, portfolio -1%, currencies -3%). The loss of sales due to the exit from the lysine and premix businesses as well as negative currency effects were offset. Higher sales prices in the unit Nutrition and the cosmetics business acquired in 2006, contributed significantly to this increase.

In the nutrition business, the restructuring initiated in 2006 continued to be successfully implemented. As a consequence of the exit from the lysine business, the production facility in Gunsan, South Korea, was closed in May and the negotiations to sell it were completed in November. The exit from the premix business was furthered by the sale of a large part of the business activities. At the same time, the market environment for individual vitamins improved during the course of the year, so that sales increased significantly despite negative currency effects. Margins were higher as a result of the optimized portfolio and reduced fixed costs; accordingly, earnings increased significantly.

Factors influencing sales -- Agricultural Products

Factors influencing sales -- Fine Chemicals


Fine Chemicals: Division data (million €)

	2007	2006	Change in %
Sales to third parties	1,852	1,855	(0.2)
Intersegmental transfers	10	17	(41.2)
Sales including intersegmental transfers	1,862	1,872	(0.5)
Income from operations before depreciation and amortization (EBITDA)	288	184	56.5
Income from operations (EBIT) before special items	154	57	170.2
Income from operations (EBIT)	171	(66)	–
Income from operations (EBIT) after cost of capital	36	(226)	–
EBITDA margin (%)	15.6	9.9	–
Assets	1,448	1,596	(9.3)
Research and development expenses	66	70	(5.7)
Additions to property, plant and equipment and intangible assets	68	378	(82.0)

In the unit Cosmetics, sales rose slightly in part due to the full-year contribution of the cosmetics business acquired in mid-2006. Earnings matched the previous year's high level. In the Pharma Solutions business, sales were stable and we increased earnings compared with 2006. Following the restructuring of the Minden, Germany site, the business with active ingredients and excipients developed favorably. The sales and earnings potential of the custom synthesis business could not yet be fully exploited. The initial work on development projects with our customers in the pharmaceutical industry will only contribute to sales and earnings in 2008.

Income from operations rose significantly by €237 million to €171 million. It contains special income from the reversal of provisions established in the previous year which were not needed to their full amount. In addition, 2006 was negatively impacted by special charges due to restructuring measures.

As of the first quarter 2008, the new Care Chemicals division will combine the activities of the Fine Chemicals division as well as the Performance Chemicals division's detergents and formulators business. In 2008, we expect lower sales in Care Chemicals due to the divestitures in 2007; earnings will increase further. ///

Fine Chemicals -- Sales by region (location of customer)

- 1 -- Europe: 48%
- 2 -- North America: 24%
- 3 -- Asia Pacific: 19%
- 4 -- South America, Africa, Middle East: 9%

FINE CHEMICALS DIVISION

- Sales matched level of 2006, higher sales volumes and sales prices offset portfolio measures and currency effects
- Restructuring measures in the unit Nutrition were further implemented successfully
- Earnings significantly higher in 2007; cost of capital earned
- In the newly established Care Chemicals division we expect a decrease in sales as a result of the divestitures, however we expect higher earnings

OIL & GAS

Segment data (million €)

	2007	2006	Change in %
Sales to third parties	10,517	10,687	(1.6)
Thereof Exploration and production	4,365	4,555	(4.2)
Natural gas trading	6,152	6,132	0.3
Intersegmental transfers	1,189	1,062	12.0
Sales including intersegmental transfers	11,706	11,749	(0.4)
Income from operations before depreciation and amortization (EBITDA)	3,575	3,766	(5.1)
Thereof Exploration and production	2,885	3,008	(4.1)
Natural gas trading	690	758	(9.0)
Income from operations (EBIT) before special items	3,014	3,245	(7.1)
Thereof Exploration and production	2,470	2,640	(6.4)
Natural gas trading	544	605	(10.1)
Income from operations (EBIT)	3,014	3,250	(7.3)
Thereof Exploration and production	2,470	2,645	(6.6)
Natural gas trading	544	605	(10.1)
Income from operations (EBIT) after cost of capital ¹	1,260	1,478	(14.7)
EBITDA margin (%)	34.0	35.2	–
Assets	7,057	5,434	29.9
Thereof Exploration and production	4,037	2,300	75.5
Natural gas trading	3,020	3,134	(3.6)
Exploration expenses	268	167	60.5
Additions to property, plant and equipment and intangible assets	2,280	545	318.3
Income taxes on oil-producing operations non-compensable with German corporate income tax	1,302	1,282	1.6

¹ Non-compensable foreign income taxes for oil production are deducted.

At €10,517 million, net sales to third parties were €170 million lower in 2007 than in 2006 (volumes 3%, prices/currencies –5%). Income from operations declined to €3,014 million, which is €236 million below the record level of 2006.

Exploration and Production

In the exploration and production business sector, net sales to third parties declined by €190 million to €4,365 million compared with 2006. The average price of Brent crude in 2007 increased by \$7 to \$72 per barrel. As

a result of the significant weakening of the U.S. dollar against the euro, the price in euros increased by only €1 to €53 per barrel.

Crude oil and natural gas production rose by 1% to 112 million barrels of oil equivalent (BOE).

In the exploration and production business sector, income from operations decreased by €175 million to €2,470 million. This was due to increased expenditures on crude oil and natural gas exploration and the general cost trend in the industry. Earnings in the exploration and production business were also negatively impacted by struc-

OIL & GAS SEGMENT

- Sales slightly below previous year
- Successful conclusion of negotiations with Gazprom for a stake in the Yuzhno Russkoye gas field in Western Siberia; production started in fourth quarter
- Production of hydrocarbons increased slightly compared with previous year
- Decline in earnings due to increased exploration expenditure, the general cost development in the industry and structure effects
- In 2008, we expect higher sales due to the strong performance of the natural gas trading business and earnings to match the level achieved in 2007, due to the higher share of natural gas in the production of hydrocarbons

tural effects – for example the farming out of a concession in Dubai. The reversal of provisions for royalties in South America was more than offset by exploration project costs.

The results of the Oil & Gas segment in 2007 include €1,302 million from income taxes on oil production in North Africa and the Middle East that are noncompensable with German corporate income taxes (2006: €1,282 million). These taxes are reported as income taxes.

Assets in the Oil & Gas segment increased by 30% to €7,057 million primarily in connection with the asset swap with Gazprom and the associated addition to intangible assets for the marketing contract for natural gas from the Yuzhno Russkoye gas field.

In 2007, 22 exploration and appraisal wells were drilled in the search for new oil and natural gas deposits, of which 11 were successful. We acquired a stake in licenses to explore in the North Sea off the coasts of Germany, Great Britain, the Netherlands and Norway and in Qatar. We replenished 389% of the volumes produced in 2007. As part of our “Gas for Europe” strategy, we focus particularly on the expansion of our natural gas reserve base.

Proven crude oil and natural gas reserves increased by 39% to 1,132 million BOE compared with the end of 2006. The acquisition of a share in the natural gas field Yuzhno Russkoye more than offset declines in the remaining units. The total reserve-to-production ratio was 10 years (2006: 7 years). This is based on Wintershall's share of production in 2007 and refers to the reserves at year end. Because of contractual rules, these figures do not include any volumes from the Achimgaz project.

→ More information on our reserves can be found in the section “Supplementary Information Concerning Oil and Gas Producing Activities” from page 200 onward.

Negotiations with Gazprom concerning a stake in the Yuzhno Russkoye deposit were successfully completed in 2007. Wintershall has an interest of 35% in the economic rewards of this field through a stake in Severneftegazprom (SNG), which holds the license to this field. Production began in the fourth quarter. In return, Gazprom received a

49% stake in a German Wintershall company that holds concessions 96 and 97 in Libya. In addition, Gazprom's stake in our natural gas trading company WINGAS was increased from 35% to 50% minus one share. The activities in Libya and of WINGAS will be fully consolidated in the BASF Group Consolidated Financial Statements, minority interests will increase accordingly.

In the Achimgaz joint venture for the production of natural gas and condensate from the Achimov deposit of the Urengoy field, five out of a total of six wells for the first project phase were successfully drilled. Production will be started during the first half of 2008.

Natural Gas Trading

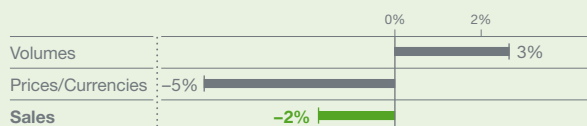
The natural gas trading business sector generated net sales to third parties of €6,152 million, which represents an increase of €20 million compared with 2006. In total, natural gas volumes grew by 5% to 368.4 billion kilowatt hours. Contrary to market developments in the domestic and foreign markets WINGAS grew further and was able to increase volumes by almost 10% to 249.8 billion kilowatt hours. Approximately 16% of these volumes were delivered to BASF Group companies. The increase in volumes more than offset the declines in prices.

Earnings in our natural gas trading business declined by €61 million to €544 million. Margins were negatively impacted by the steady increase in oil prices throughout the year. The purchase price of natural gas responds to this trend faster than sales prices which contractually can only be adjusted with a lag of several months.

Sales by business sector



Factors influencing sales – Oil & Gas



A significant element of our growth strategy in natural gas trading is the stake in Nord Stream AG, which is building a pipeline running from Russia through the Baltic Sea to the German coast. Currently Nord Stream is pushing ahead with the necessary approval processes in the respective countries. Nord Stream has signed contracts with suppliers for the pipes and secured installation capacity.

Onshore, work on the Jemgum storage facility and the planning for the OPAL (Ostsee-Pipeline-Anbindungsleitung) pipeline link has begun as part of the Nord Stream project. The OPAL will run from Greifswald to Olbernhau. In Austria, the first stage of the expansion of the Haidach pore storage facility started operations in July 2007. It has a working gas volume of 1.2 billion cubic meters. In July 2007, WINGAS also acquired StatoilHydro's 50% stake in HydroWingas and is now operating this sales business on its own trading as WINGAS UK.

Outlook Oil & Gas

We have based our planning for 2008 on persistently high crude oil prices of around \$78 per barrel and in euro terms of approximately the same level as in the previous year. We expect higher sales due to the strong performance of the natural gas trading business, while due to the higher share of natural gas in the production of hydrocarbons, earnings will match the level achieved in 2007. ///

Oil & Gas -- Sales by region (location of customer)



- 1 -- **Europe:** 95%
- 2 -- **North America:** 1%
- 3 -- **Asia Pacific:** 1%
- 4 -- **South America, Africa, Middle East:** 3%

EXPLORATION AND PRODUCTION:

- First phase of the project of the Achimgaz joint venture for the production of natural gas and condensate in Siberia almost complete
- New exploration licenses in the North Sea and Qatar
- Decline in sales and earnings due to increased exploration expenditures, the general cost development in the industry and structure effects

NATURAL GAS TRADING

- Sales match 2006 level
- In contrast to general market developments, WINGAS continued to grow
- Nord Stream AG is pushing ahead with the construction of the pipeline which runs from Russia through the Baltic Sea to the German coast
- Decline in earnings due to the lag between the adjustment of sale prices and the development in oil prices

REGIONAL RESULTS

Regions (million €)

	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
	2007	2006	Change in %	2007	2006	Change in %	2007	2006	Change in %
Europe	34,316	31,444	9.1	32,367	29,529	9.6	5,415	5,485	(1.3)
Thereof Germany	24,312	22,963	5.9	11,967	11,062	8.2	4,226	4,125	2.4
North America	12,007	11,415	5.2	11,928	11,522	3.5	762	869	(12.3)
Asia Pacific	8,785	7,450	17.9	9,561	8,102	18.0	828	181	357.5
South America, Africa, Middle East	2,843	2,301	23.6	4,095	3,457	18.5	311	215	44.7
	57,951	52,610	10.2	57,951	52,610	10.2	7,316	6,750	8.4

Europe

In 2007, companies in Europe increased sales by 9.1% to €34,316 million. Almost all segments contributed to the strong performance in total sales.

The strong sales growth in the Chemicals segment was due to the large contribution of the Catalysts division; higher volumes and prices in the Intermediates and Inorganics divisions; and higher sales prices in the Petrochemicals division.

The Plastics segment in Europe profited from strong demand in the construction sector as well as higher sales prices. Sales rose in the Performance Products segment due in particular to the Construction Chemicals business acquired in mid-2006 as well as strong demand.

Sales rose in the Agricultural Products division, mainly due to higher volumes. In the Fine Chemicals division, business grew due to strong demand in pharmaceuticals and cosmetics as well as to the integration of the acquired cosmetics business.

Sales in the Oil & Gas segment were lower than the level achieved in 2006. Higher volumes could not offset the declines due to price and currency effects.

At €5,415 million, income from operations was slightly lower than in 2006. The Oil & Gas segment again contributed significantly to this result but could not match the record level of 2006. This was due in particular to higher

expenses for oil and gas exploration, the general cost trend in the industry and lower margins in natural gas trading due to the time lag in the adjustment of sales prices to purchase prices. In the Plastics segment, earnings were negatively impacted by an impairment loss on property, plant and equipment in the Performance Polymers division.

Our project "Further Development of European Organization" pursues the goal of systematically adapting structures and processes to changing market conditions. We have successfully increased the efficiency of our internal service units and further reduced costs. Overall, we expect annual savings of approximately €90 million from this project by 2008, €79 million of which had already been achieved by the end of 2007.

The development of our European Shared Services Center in Berlin, which combines finance and accounting functions as well as standard human resource services under one roof, is proceeding according to plan. Presently, 45 Group companies from nine countries are served from Berlin, including several of the European companies acquired in 2006 from the Catalysts and Construction Chemicals divisions.

Income from operations by region



- 1 -- **Germany:** 58%
- 2 -- **Europe (excl. Germany):** 16%
- Europe total:** 74%
- 3 -- **North America:** 11%
- 4 -- **Asia Pacific:** 11%
- 5 -- **South America, Africa, Middle East:** 4%

REGIONAL TRENDS

- Europe: Increase in sales, earnings slightly below 2006
- North America: Sales increase in Chemicals and Performance Products divisions, special charges impact earnings
- Asia Pacific: Higher sales and earnings due to startup of new plants
- South America, Africa, Middle East: Higher sales and earnings

North America

Sales by companies in North America rose by 5.2% to €12,007 million. In local-currency terms, sales improved by 13.2%. Sales in the Plastics segment and the Agricultural Products division declined due to currency effects as well as to temporary unscheduled plant shutdowns and divestitures respectively. Sales in the Chemicals and Performance Products segments increased significantly, both in local-currency terms as well as in euro terms. The activities acquired in 2006 in the Catalysts, Construction Chemicals and Performance Chemicals divisions contributed significantly to the higher sales.

The major share of the synergies resulting from the integration of the catalysts business is being realized in North America. In addition, the acquired construction chemicals activities and the U.S.-based business of Johnson Polymer have been integrated into our regional structures.

Income from operations amounted to €762 million, which was 12.3% lower than in 2006. This was, in particular, the result of the scheduled maintenance turnarounds in the Petrochemicals division, the shutdown of the TDI plant in Geismar, Louisiana, for several weeks as well as weaker demand from the automotive and construction industries. The decline in these industries particularly affected the Coatings and Functional Polymers divisions as well as the Plastics segment.

We generated special income from the sale of our stake in an ethane cracker in Geismar, Louisiana.

Income from operations was negatively impacted by special charges from integration costs for the activities acquired in 2006, costs for environmental protection measures, and an impairment loss on property, plant and equipment and intangible assets in the Coatings division.

Furthermore, special charges resulted from the shutdown of plants in Aberdeen, Mississippi; Portsmouth, Virginia; and Enka, North Carolina. These were replaced by two new world-scale plants at our Verbund site in Freeport, Texas: an integrated plant for superabsorbents with a

capacity of 180,000 metric tons per year and a production plant for polyamide 6 (Nylon) with an annual capacity of 120,000 metric tons. As a result, Freeport is now the manufacturing base for BASF's entire polyamide intermediates and polymers business in North America. The caprolactam feedstock necessary for the production of plastic is supplied by another BASF plant in Freeport. The new plant for superabsorbents also sources the raw material, acrylic acid, directly from the Verbund in Freeport.

In 2007, we successfully completed the Commercial Effectiveness Program we initiated in 2005 with the goal to further improve earnings. Under this program, we adapted our pricing mechanisms, supply-chain processes and business models to better match market conditions.

Asia Pacific

The companies in Asia Pacific increased sales by 17.9% to €8,785 million. In local-currency terms, sales rose by 25.2%.

The Chemicals segment made the largest contribution to the growth in sales in Asia Pacific. Higher sales in this segment were due in particular to the catalysts activities acquired in 2006. Sales more than doubled compared with 2006. In particular, the startup of plants in the Plastics and Performance Products segments allowed them to benefit from the above-average growth in the Asian markets and to expand strongly in the region. We opened a compounding plant for engineering plastics in Shanghai, China, as well as a production site for polyurethane specialties. In addition, we started up a plant for HDI-based coatings in Caojing, China. Sales were also driven by new plants in the Construction Chemicals division.

Income from operations increased significantly by €647 million to €828 million. This was primarily due to strong growth in earnings in the Chemicals, Agricultural Products & Nutrition, and Plastics segments. Moreover, special charges of €338 million had a considerable negative impact on the previous year's income from operations. In 2007, special items improved earnings by €28 million.

EUROPE

Higher sales in almost all segments, sales in the Oil & Gas segment match level achieved in 2006

+9.1%

NORTH AMERICA

Sales growth compared with 2006, synergies from the integration of the businesses acquired in 2006 realized

+5.2%

We have implemented the steps which were announced concerning the restructuring of several of our business fields. For example, a plant for the production of process chemicals for paper manufacturing was closed at the Kasumi site in Yokkaichi, Japan. As part of our global restructuring program in the Fine Chemicals division, we have divested the lysine production facility in Gunsan, Korea, as well as several premix plants in Asia.

Our plan to expand the Verbund site in Nanjing, China, together with our Chinese joint venture partner Sinopec is on track. We aim to submit a technical and economic feasibility study in the first quarter of 2008. In addition, we are evaluating the construction of a MDI plant in Chongqing, China. The startup is planned from 2010 on, and the plant is expected to have an annual capacity of 400,000 metric tons per year of crude MDI. We will invest over €47 million in a new, environmentally-friendly steam generation plant at our site in Yeosu, Korea.

In Caojing, China, we successfully tested the moth-balled THF plant for the production of maleic anhydride. The plant will now be adapted to produce maleic anhydride as a second product alongside tetrahydrofuran.

We are also intensifying our research and development activities in Asia. To this end, we opened a new research center for organic electronics in Singapore. In the field of plant biotechnology, we signed a cooperation and licensing agreement with the Crop Functional Genomics Center in Seoul, Korea.

In China, we have significantly expanded our development activities in order to be able to respond better and faster to new market impulses in the region. Shanghai has been further expanded to become the innovation center in China and now houses research and development units for all of our segments. This year we have opened new laboratories there for the Catalysts, Petrochemicals, Performance Polymers, Polyurethanes, and Construction Chemicals divisions.

South America, Africa, Middle East

Sales of companies in the region rose by 23.6% to €2,843 million compared with 2006. In local-currency terms, sales grew by 27.8%.

The dynamic growth in South America was primarily due to Brazil, where the Agricultural Products division in particular significantly improved sales. In a positive market environment with persistently high prices for soybeans and a strong demand for sugarcane, export-oriented customers are increasingly investing in high-value crop protection products. Sales were also higher in architectural coatings as well as in the businesses in the construction and automotive sectors. We increased our share in the Brazilian market for automotive coatings. The newly integrated Construction Chemicals and Catalysts divisions have also developed well. In addition, currency effects contributed to higher sales in Brazil.

In Africa and the Middle East, sales grew mainly due to contributions from the Catalysts and Construction Chemicals divisions. Moreover, growth in the Styrenics and Performance Chemicals divisions offset lower sales in the Oil & Gas segment and in the Functional Polymers division.

Earnings improved by 44.7% to €311 million. This was due in particular to the higher sales volumes and prices achieved by the Agricultural Products division in South America. The successful integration of the catalysts business in South Africa also contributed to the increase in earnings. ///

ASIA PACIFIC

Higher sales in all segments; in the Plastics and Performance Products divisions due in particular to startup of new plants

+17.9%

SOUTH AMERICA, AFRICA, MIDDLE EAST

Higher sales driven by the Agricultural Products division, additional growth drivers were the Catalysts and Construction Chemicals divisions

+23.6%

SUPPLY CHAIN

In 2007, BASF purchased approximately 500,000 different raw materials and technical goods as well as services for plant construction, maintenance and logistics.

Procurement Verbund ensures competitive advantage

Global and regional procurement teams link the local purchasing units and pool local needs of different sites. Joint projects with suppliers reduce procurement chain costs.

Central coordination for the purchase of raw materials

We coordinate the purchase of key raw materials centrally by means of global or regional product teams. The most important petrochemical feedstocks used in production at our Verbund sites are naphtha, LPG (liquefied petroleum gas) and natural gas. We also purchase a large number of other raw materials like ammonia, precious metals and even sugar.

Technical purchasing satisfies demand quickly and efficiently

Global and regional procurement teams coordinate our purchasing of technical goods and services such as machines, laboratory equipment, construction and installation work. We work in close collaboration with our engineering and maintenance units in order to bundle our demands quickly and efficiently and to standardize goods and services, thus achieving savings.

Procurement of logistics services

We purchase logistics services for approximately €2.4 billion and thereby ensure that goods reach our sites and customers on time.

We optimize logistics costs and strengthen BASF's competitiveness by the global coordination for the procurement of air and sea freight as well as the regional planning and control of land freight providers.

More efficiency through e-commerce

In 2007, we focused on the worldwide introduction of electronic catalogs. In addition, we expanded our e-commerce activities. We offer our customers a wide range of information by means of internet portals that are increasingly being used. Our goal is that even more orders are placed electronically in order to ensure rapid and automatic processing. In Europe, half of all incoming orders are already placed on our electronic portals, worldwide the figure is over 40%. In 2007, all regions recorded an increase of sales and information transfer via electronic media.

Sustainability in the supply chain

In our Values and Principles we state our commitment to internationally recognized labor and social standards as well as our responsibility toward the environment. These commitments are being met. For us, it is important that our suppliers and business partners also conduct their business in accordance with these values. Several years ago we therefore established the "Safety Matrix" to systematically assess environmental protection and labor safety standards in the supply chain and evaluate selected suppliers. Supplier selection occurs on the basis of a country and product risk evaluation.

BASF has extended this tried and tested tool with a system to assess internationally recognized labor and social standards. We inform our suppliers with regard to the social standards we expect. A country and industry risk assessment as well as a self-evaluation made by selected suppliers will be further components of our process. Based on these results concrete steps will be developed and taken. ///

→ More information can be found at: corporate.basf.com/supplychain

PURCHASING

- Key petrochemical materials used in production at our Verbund sites: naphtha, LPG and natural gas
- Linking of local purchasing units through global and regional procurement teams

SUSTAINABILITY IN THE SUPPLY CHAIN

We assess our suppliers with regard to financial aspects and also to:

- Environmental protection and labor safety standards
- Internationally recognized labor and social standards

Worldwide, we assessed over 400 suppliers locally in 2007.

EMPLOYEES

BASF's success is based on the performance of its employees worldwide. Therefore, we help our employees to develop their potential and their strengths. We place particular importance on continuous dialog between employees and managers across national and divisional borders. This creates trust, promotes knowledge transfer and innovativeness at BASF.

It is our goal to form the best team in industry. We meet this challenge by offering our employees attractive conditions and services. This is vital in the global competition for highly qualified professionals. We therefore place our focus on people. The trust that our employees, partners and communities place on our activities is important to us. This is why we take our social responsibility seriously and are committed to a wide variety of projects worldwide, above all in the communities in which our sites are located.

Generations@Work

One of our key strategic programs is "Generations@Work," that was started in 2006. The goal of this program is to maintain the performance, flexibility and productivity of our employees, as the population structure at many of our sites is set to change fundamentally in the near future. Both the declining population and the age distribution of our employees pose new challenges for BASF. As a first step, we analyzed the personnel structure at our sites as well as demographic changes in the respective countries: For example, today in Ludwigshafen 55% of our employees are aged between 35 and 50. By 2020, the average age of our employees is set to be over 50. We want to help our employees to remain both mentally and physically fit, right into their retirement years.

Life-long learning will become an integral part of working life – also for our older employees. Similarly, we are paying greater attention to health care. We have been offering our employees preventative medical checkups, health care measures and a wide range of sporting activities for years. Working hour models are also scrutinized and enhanced, taking into account the specific requirements of older workers. It is important that both our managers and employees start rethinking today.

However, Generations@Work does not focus only on the ageing of our employees. As part of our sustainable HR policy, we also provide continuous training and regularly hire qualified new talents. As a result of demographic change, we must be ready to cope with a decline in the number of qualified new talents available in the long term. This makes it all the more important to be an attractive employer. For this reason, we are reviewing not only the financing of our company pensions, but also our salary systems. Offers to help our employees balance career and family are also part of what makes us an attractive employer.

→ More information can be found at: corporate.basf.com/demographic_change

BASF's commitment to the European CSR Alliance

BASF is playing an active role in the European Alliance for Corporate Social Responsibility (CSR) a partnership between the E.U. Commission and European industry. Within the alliance, BASF is playing a leading role in the "Laboratory for Demographic Change." The Laboratory's purpose is to develop strategies and solutions to meet the challenges presented by demographic change. We are developing company-oriented approaches together with other companies and relevant stakeholders.

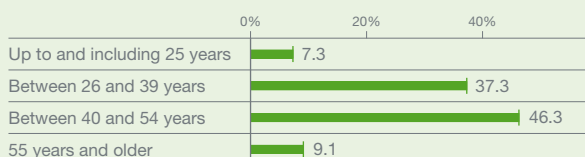
→ More information can be found at: demographicchange.info

GENERATIONS@WORK PROGRAM

Scope of Generations@Work:

- Employability
- Long-term recruiting
- Competitive productivity
- Culture change
- Social commitment
- Financing of pension plans

BASF Group employee structure 2007 (proportion of employees in percent)



Diversity as a competitive advantage

Intercultural competence is a clear advantage in global competition. Diversity means variety and incorporates all facets that an employee brings to working life at BASF worldwide. We understand and appreciate the diversity of our employees at all levels of the hierarchy as a major gain. Diverse cultural backgrounds, individual perspectives, expertise, mindsets and approaches help to ensure greater creativity, a faster pace and more innovative solutions in responding to the challenges of our business. Therefore, further internationalization is one of the key focuses of our personnel development. We recruit specialists and managers worldwide, and provide intercultural training to support the integration of employees from other countries. Such programs are offered by 81.4% of Group companies (2006: 73%).

We have set ourselves the goal of increasing the proportion of international senior executives. In 2007, the percentage of non-German senior executives was 29.3%. Moreover, we want over 70% of our senior managers to have had international experience. In 2007, the percentage was 73%.

We are committed to the equal treatment of women and men. We do not make any distinction between male and female employees when it comes to setting salaries. One of our goals is to increase the proportion of women in top management positions, which amounted to 5.6% in 2007.

In the various regions, project teams are working on measures to promote diversity. In Brazil, for example, we have established an advisory committee on diversity and have drawn up specific diversity guidelines. In order to anchor diversity even more firmly in the company, we set up a global project at the beginning of 2008. It is our goal to strengthen BASF's fundamental orientation toward employee diversity. We are assessing the significance of diversity for BASF at the regional and global levels, are developing global measures and goals accordingly.

→ More information can be found at: corporate.basf.com/diversity_e

BASF Group employee structure 2007 (2006 in parentheses)

	Women	Men
Total number of employees	21.2% (20.7%)	78.8% (79.3%)
Management & Professionals	21.8% (20.7%)	78.2% (79.3%)
Senior executives	5.6% (5.6%)	94.4% (94.4%)

Feedback for managers

It is common practice for managers to assess their employees at BASF. However, with our "leadership feedback system," employees also inform their superiors how they perceive their conduct. Thanks to this structured and moderated process, our managers gain a better understanding of their strengths and their development potential. This also enables them to improve their leadership skills. Within teams, this feedback makes it possible to improve communication, increase trust and work more effectively, therefore making an essential contribution towards fulfilling our guideline "Form the best team in industry." By the end of 2007, 47.8% of our senior managers had received feedback as part of our "Global Leadership Feedback" or our internal management seminar "Inspirational Leadership."

Transparency through a job evaluation system

Our human resources work involves both Group-wide standards as well as market and culture-specific solutions for sites and regions. In order to standardize our systems worldwide, we have introduced a mandatory Group-wide job evaluation system at nearly all sites. Fixed criteria, including professional, social and decision-making skills, are used to analyze and rate all functions. This creates transparency and facilitates comparison across the organization.

DIVERSITY AS A COMPETITIVE ADVANTAGE

Scope of the diversity project:

- Promotion of equal opportunities
- Promoting the diversity of our employees at all levels of the hierarchy
- Internationalization of management

PRINCIPLES FOR OUR SENIOR EXECUTIVES

- Ensure clarity and demonstrate a sense of reality
- Be a role model in performance and speed
- Promote and develop enthusiasm and inspiration
- Demonstrate strategic and operational leadership

Open dialog with employee representatives

We work together with elected employee representatives as partners. We observe international labor standards and orient ourselves toward the customs of the respective countries. With the conversion of BASF Aktiengesellschaft into an SE, we have established a new European employee representation body: the European works council (BASF Europa Betriebsrat). This council will not only be responsible for international issues, but also for those employees who do not have a national representative for their interests. → More information can be found on page 12.

In Asia and South America, our companies are also engaged in constructive dialog with employee representatives. BASF employee representatives regularly share their experiences at regional networking meetings.

→ More information can be found at:
corporate.basf.com/employeerepresentation

Employee surveys

We regularly carry out surveys to incorporate the opinions of our employees into the further development of BASF and our working environment.

Our goal is to establish a global employee survey for the entire BASF Group. In order to do this, we will standardize the content and timing of the various regional surveys by 2009. All employee surveys already contain questions on issues such as workplace situation, collaboration and leadership and relate to the focus of our strategic guideline "Form the best team in industry." Information resulting from the surveys is summarized in a global aggregate value. This enables us to pinpoint regional differences and take any necessary measures.

In 2007, as part of our global employee survey, we analyzed BASF's corporate culture among our managers. The results of this survey clearly show that those questioned place great confidence in our corporate management and identify themselves strongly with BASF. Moreover, those surveyed see BASF as a pioneer in the area of environmental protection, safety and social responsibility.

Career and family

One important concern of our personnel policy and an aspect of Generations@Work is to further enable employees to balance career and family. We therefore offer our employees models for flexible working hours as far as possible. For example, our employees in Europe, the United States and Asia are able to work part time.

The BASF subsidiary Wintershall offers its employees in Kassel and Barnstorf, Germany a "Work & Life Service" that provides advice with regard to questions improving the balance between career and family. This includes aspects such as flexible working hours, part-time work, teleworking or job sharing, parental leave and returning to work. In addition, employees are supported in matters regarding childcare and the search for suitable schools in the region. In Brazil, we support families through our "Life in Balance" program. We offer working mothers financial assistance in paying for daycare for up to two years, among other things.

In Ludwigshafen, we opened a second daycare center at the beginning of 2007. From the beginning of 2008, "LuKids adhoc," will offer BASF SE employees the opportunity to place their children in safe hands if their own childcare arrangements are cancelled unexpectedly at short notice. Three additional offers are available to parents in the form of daycare facilities for children, improved pension provisions for parents and seminars for employees returning from parental leave.

In 2007, BASF Coatings followed BASF SE and Wintershall in being certified for its family-friendly human resources by the non-profit trust HERTIE-Stiftung.

→ More information can be found at: [corporate.basf.com /worklife_balance](http://corporate.basf.com/worklife_balance)

CAREER AND FAMILY

- We support our employees in better balancing career and family and help maintain performance levels and satisfaction.
- We promote equal opportunities in the company through our programs to improve the balance between career and family.
- We further expand our appeal as an employer and are already preparing for the effects of demographic change.

Further training opportunities

To keep pace with global competition, we need employees who continually further their training. As our working lives are likely to become longer in the future, life-long learning is becoming more and more important. We therefore support independent, practice-oriented learning – both on and off the job. In Ludwigshafen, for example, employees have access to a Learning Center, where they can get job qualification consulting, assemble needs-based skills packages, and access modern learning media.

Together with our offer of classic further training we are also expanding our offer of e-learning opportunities. One example is our web-based European Learning Portal (ELP). We have been offering a wide variety of courses via this platform since 2006, with topics ranging from project management to information technology. Employees can choose from six different course languages, determine how quickly to proceed, and discuss various topics with others in virtual learning groups and project teams. In addition, changes and additions to ELP can be made from any country. Our employees have the opportunity to make use of our e-learning offer at almost half of all Group companies.

In 2007, BASF spent a total of €131.2 million on education and training (2006: €123.3 million). More than 78,300 employees participated in at least one further training course (2006: 71,300). Each of these employees spent an average of 3.6 days on a course (2006: 3.7 days).

Commitment to training

BASF trains 2,160 young people in over 50 professions in 16 countries. In this way, we make a significant contribution to offering as many young people as possible the opportunity of starting their career. In 2007, BASF in Ludwigshafen took on more than 90% of its trainees and apprentices following upon completion of their training.

We continue to support numerous training initiatives together with partners from industry, works councils and politics. One example is the Training Verbund, established

in 2003, by BASF in the Rhine-Neckar metropolitan region. In this Verbund, we create additional trainee positions in cooperation with around 800 partner companies and together are currently training 1,187 young people. The first set of Verbund trainees completed their training in 2007, with 86% of them being offered a job by the company that trained them. In 2007, the successful model of the Training Verbund was also implemented in Lower Saxony and Westphalia: Prospective mechatronics engineers and chemical technicians started their central training at BASF subsidiaries in the newly established Training Verbund Nord. Additional careers and training positions will be added in 2008.

As part of our social commitment, we spend approximately €65.2 million on our trainees and around €24.6 million on the BASF Training Verbund each year. In 2007, we also provided the BASF social fund's "JobChance 100" project with sponsorship totaling €2.5 million. This project helps 100 young unemployed people to improve their career skills and find a job or trainee position. In addition, BASF continued to support the Training Initiative for the Palatinate (AiP) as part of the "We Help the Region Win" campaign. With a BASF donation amounting to €1.5 million, the AiP sponsored around 300 new trainee positions in 2007.

Employees worldwide

At the end of 2007, BASF had 95,175 employees worldwide. Although the fluctuation rate differs from region to region, the average rate worldwide in 2007 was just 1.6%. In 2007, 2,160 trainees worked at BASF, and 22,223 employees from other companies provided technical and other services at our sites.

BASF EMPLOYEES

(as of December 31, 2007)

- 95,175 employees worldwide
- 2,160 trainees
- 22,223 contractors at BASF sites

Number of employees by region (as of December 31)

	2007	% 2007	% 2006
Europe	61,020	64.1	64.5
Thereof Germany	46,890	49.3	49.7
Thereof BASF SE	32,706	34.4	34.9
North America	15,191	16.0	16.3
Asia Pacific	13,278	13.9	13.4
South America, Africa, Middle East	5,686	6.0	5.8
	95,175	100.0	100.0

Personnel costs and social benefits

In 2007, the BASF Group spent €6,648 million on salaries, wages, social security contributions, pension contributions and assistance, 7.1% more than the previous year.

BASF Group personnel costs 2007 (million €)

	2007	Change in %
Wages and salaries	5,379	6.9
Social security contributions and expenses for pensions and assistance	1,269	7.5
Thereof for pension benefits	359	25.1
Personnel costs	6,648	7.1

We offer our employees attractive and competitive remuneration. We supplement this remuneration with social benefits. These benefits include supplementary health insurance, company pension plans and share programs.

Employee participation in the company's success

We are convinced that recognizing and encouraging performance promotes entrepreneurial thinking. For this reason, we have been using remuneration systems based on performance and success for years, that usually involve both fixed and variable components. The variable part is determined by the BASF Group's return on assets as well as an employee's individual performance. Employee performance is assessed in an annual review, which is compulsory for all BASF Group employees. In addition to BASF SE, these reviews are carried out at almost 95% of BASF companies. Employees share in company success at almost 74% of the Group companies.

Share programs for employees

As part of the BASF incentive share program "plus," employees can invest part of their variable compensation in shares. In 2007, BASF employees purchased 426,640 shares worldwide through the "plus" program.

Since 1999, BASF has offered its managers opportunity to participate in the BASF Option Program (BOP), which ties a considerable proportion of remuneration to the long-term development of the BASF share price. In 2007, more than 85% of about 1,000 managers eligible, participated in the BASF Option Program worldwide, investing up to 30% of their variable compensation in shares. ///

→ More information can be found on page 189.

INCENTIVE SHARE PROGRAM

We want our employees to have a long-term interest in our company and to awaken their interest in a strong share price and high dividends. In this way, the interests of our employees and shareholders converge. The precondition for this is that employees participate in the company by holding shares. The "plus" program promotes the long-term involvement of employees through incentive shares. By participating in the success of the company, the employees are awarded for their personal performance. It encourages them to also give their best in the future.

OCCUPATIONAL SAFETY

The safety and health of our employees are very important to us. As a result we are continually working not only on maintaining but also on improving safe working conditions. Qualified, safety-conscious employees and safe plants are a prerequisite for smooth production.

In order to promote safety awareness and minimize risks, we focus on local programs and measures developed and implemented according to the particular needs of individual sites. Managers play a key role here. We expect them to act consciously as role models.

2020 GOAL

We want to reduce our lost time injury rate per million working hours by 80% worldwide compared with 2002.

In 2007, the lost time injury rate in the BASF Group was 2.2 accidents per million working hours (2006: 1.7). This corresponds to a 30% increase compared with the previous year. There were two main reasons for this increase: In 2007, we included the accidents of employees from leasing companies for the first time in our reporting Group-wide. In addition, we included the businesses acquired in 2006 in our reporting for the first time.

Among employees of partner companies working at BASF sites, the lost time injury rate declined by 10% to 3.6 (2006: 4.0). We are updating our occupational safety goals to 2020.

We regret to report that a total of four fatal accidents occurred at our company and at partner companies in 2007.

Systematically reducing risk

Accident analysis enables us to pinpoint potential weaknesses and to minimize or eliminate any risks. We are therefore introducing an incident database for the entire BASF Group in 2008.

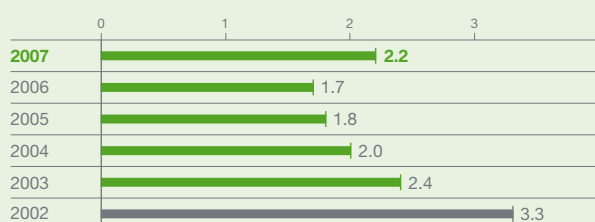
Accidents, environmental incidents, transportation incidents and damage will be recorded in even greater detail and near-accidents will also be included in the database in the future. In addition, it will be easier for sites to report incidents.

Occupational safety is the responsibility of all our employees. We promote the safety awareness of our employees by means of regular company safety briefings, seminars and training courses. In addition, we offer computer-based training programs at many of our sites. The intensive experience-sharing among our safety experts from all regions of the BASF Group in the Responsible Care network also helps us to achieve our goal of accident prevention.

Promoting safety awareness

We started a new worldwide initiative at the beginning of 2008 due to the increase in accidents the previous year. We aim to further increase employee awareness with regard to safety and safe behavior, above and beyond technical safety measures. Our goal is to develop a new safety culture within the BASF Group. A central part of our activities is to strengthen open dialog. We will encourage discussions regarding safety issues, by means of additional workshops, particularly at the sites acquired in 2006. In doing so, we aim to further sensitize employees with regards to BASF's safety awareness. We are focusing on constructive cooperation and the active involvement of all employees in order to reach our ambitious goal. ///

Lost time injuries per million hours worked
(reduction compared with baseline 2002: -33%)



FOUR KEY POINTS WITH REGARDS TO OCCUPATIONAL SAFETY

- Managers act as role models
- Open communication regarding unsafe situations
- Systematic risk assessment of work processes and individual tasks
- Enhancing safety awareness among employees

HEALTH PROTECTION

We protect and promote the health and performance of our employees. Our experts work to ensure that prevention and health promotion at BASF meet the same high standards worldwide. Similarly, they help to ensure that our products do not pose a health risk to employees, customers, neighbors or consumers.

2020 GOAL

We have set ourselves the goal of reducing cases of occupational diseases within the BASF Group by 80% based on the criteria and rate for 2004: 0.4 occupational diseases per million working hours.

Such diseases include noise-induced hearing damage, skin and respiratory diseases caused by chemicals, and diseases of the musculoskeletal system. We are making use of both technical and organizational measures in order to achieve our goal. Additionally, we also rely on medical data that we derive from screening tests and regular hazard assessments, for example during occupational medicine plant inspections and audits. We have been successful: In 2007, we recorded 0.22 occupational diseases per million working hours, corresponding to a 45% reduction compared with the baseline figure for 2004.

Occupational medicine and health protection worldwide

We ensure that preventive medicine and health promotion at BASF meet the same high standards worldwide. The standards for the medical performance toward our employees are described in detail in the "Occupational Medicine and Health Protection Program in the BASF Group." This program is implemented by a worldwide network of our specialists. In 2006, in accordance with our Values and Principles, we issued a HIV/AIDS guideline. This guideline guarantees that individuals infected with HIV are not dis-

criminated against in any way.

We check our performance on a regular basis by means of occupational health audits. Our internal auditing system for occupational medicine and health complies with the commonly used external auditing processes ISO 19011 and OHSAS 18001.

→ More information about our audits can be found on page 101.

Activities for employees, neighbors and customers

Our expertise in occupational medicine and health protection is available to all employees, neighbors and customers. There are 15 Centers of Excellence, which cover all areas of occupational medicine. An internal hotline provides information on urgent medical issues 24 hours a day, 365 days a year.

In 2007, a total of around 20,000 people participated in our health promotion campaigns. In one of several campaigns in 2006/2007 at the Ludwigshafen site, we offered skin checks to detect early symptoms of skin cancer – an offer taken up by 8,500 employees. Skin irregularities were noted in 405 cases and in 28 cases malignant or pre-malignant conditions were diagnosed and referred for treatment. Additionally, approximately 9,500 employees took part in an on-line vision test as part of a road safety initiative. This test enables us to play a part in improving road safety both on and off the site. ///



More information can be found at:
corporate.basf.com/occupational_health

HEALTH PROMOTION AGAINST HIGH BLOOD PRESSURE

High blood pressure is a widespread disease often resulting in serious cardiovascular diseases. The aim of our health promotion campaign in 2007 was to diagnose previously undetected cases of high blood pressure as well as to verify the effectiveness of blood pressure medication for those already affected. Participants were given a detailed examination and provided with individual advice. In order to achieve more reliable results, blood pressure was measured five times over a period of three months. A total of approximately 2,600 employees took part in the campaign. High blood pressure was diagnosed for the first time in 331 individuals, while 124 employees were made aware of insufficient blood pressure treatment.

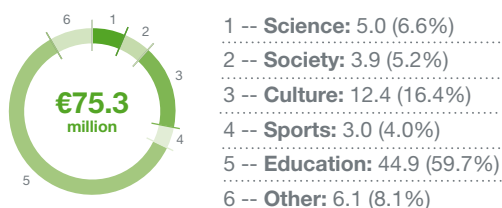
SOCIAL COMMITMENT

Our economic success also depends on social acceptance and on the confidence that those around us have in our actions. This means that our future-oriented corporate policy involves taking on social responsibility. This applies especially in the communities and regions in which our sites are located. Education and young people are key focal points of our social commitment.

Our Values and Principles state our commitment to making a positive contribution to social development – not only through our business activities. Through our involvement in numerous projects worldwide, we actively support the communities in which our sites are located. In 2007, we achieved the number one position in the “Good Company Ranking” presented by the German business publication – *manager magazin*. Our corporate social responsibility is recognized by them as being the most comprehensive of all European companies.

In 2007, the BASF Group spent a total of €75.3 million on promoting projects (2006: €67.2 million). Of the total amount 35.3% was donated and 64.7% was spent on sponsoring and funding for our own projects.

BASF Group donations, sponsoring and own projects in 2007
€75.3 million (2006: €67.2 million)



As a matter of principle, BASF does not support political parties. This applies worldwide. However, our employees in the United States have made use of their right to establish a Political Action Committee (PAC). The BASF Corpo-

ration PAC is a non-partisan, federally registered group of employees who support candidates for political posts at the federal, state and local levels. Following a resolution by the steering committee of the PAC, no candidate will receive support in the U.S. presidential elections. In 2007, employee donations of approximately \$160,000 were received by the committee. Approximately \$71,000 was donated to individual candidates.

Future through education

Supporting education is a key issue for BASF and its social commitment. We consider education to be vital for the future of our children and our society as a whole. As a company, education is essential to us. It is the driving force behind innovation and growth. For this reason, we are committed to supporting education in the communities where our sites are located and support activities around the world that provide and promote access to education. We also believe it is important to encourage curiosity for knowledge and learning in young children. Therefore, together with the city and church-sponsored daycare center operators, we have been involved in the “Action on Education” initiative at our Ludwigshafen site since 2005. The initiative promotes early education with numerous projects and focuses on nature education, science, language and art.

We have been providing Kids’ Labs for children and young people on a global scale for 11 years now. In these labs, children can carry out experiments and discover the exciting world of chemistry. Since being set up, these labs have become hugely popular in 12 countries, with additional locations being added all the time. A total of 170,000 children have participated worldwide since the labs were first introduced.

Interest in science

As the leading chemical company, we strive to encourage interest in science. In 2007, for example we supported the “Science Express” in India. The train is a state-of-the-art

PRINCIPLES FOR DONATIONS AND SPONSORING IN THE BASF GROUP

- We primarily sponsor activities in the communities and regions in which our sites are located
- We create values that benefit society
- We promote projects with sustainable benefits: We pay special attention to the target group of children and young people

science exhibition that visits more than 50 cities in India and is set to arouse interest in science, especially among young people. BASF also established a cooperation with the German Hygiene Museum in Dresden, in 2007. We are supporting the further development of the museum's own "transparent laboratory" in which visitors can perform experiments themselves and look into issues relating to biology. In the Rhineland-Palatinate region of Germany, BASF sponsors the Young Researchers science competition for young people and has done so for more than 40 years. In addition, we are involved in further training for teachers on interdisciplinary topics, and donate both laboratory equipment and chemicals for teaching. At our site in Brazil, for example, we have launched an educational program called "ReAção" (ReAction), which is intended to improve school teaching in the area of science. There, BASF provides further training courses for around 500 teachers each year and assists state schools in obtaining the necessary equipment for experiments. We also support many other school projects, including projects in Britain, Africa, India, Pakistan and Malaysia.

Knowledge Factory

As a founder member of the "Knowledge Factory" we have been committed to promoting knowledge and education since 2005. BASF encourages a learning culture and creativity in kindergartens, schools and colleges together with 60 further companies. In doing so, we introduce our existing projects into the "Knowledge Factory" and at the same time benefit from centrally developed and tested concepts. A new project entitled "KiTec – Children Discover Technology," developed in collaboration with neuroscientists and technology experts, was launched in the fall of 2007. Specially-developed boxes of materials and tools invite pupils at Ludwigshafen elementary schools to build, puzzle and discover, thereby encouraging technical thinking.

In addition to its involvement in education, the "Knowledge Factory" also promotes young entrepreneurship. Through a mentoring program, employees of the member

companies provide professional support and advice to those founding companies.

→ More information on the Knowledge Factory can be found in German at: www.wissensfabrik-deutschland.de

"We Help the Region Win!"

Based on the motto "We Help the Region Win!" our largest site Ludwigshafen is committed to promoting projects in the following areas in order to make the Rhine-Neckar metropolitan region more attractive for its employees and surrounding communities:

- Education and Science
- Art and Culture
- Community and Social issues
- Sports

As in 2006, we spent €22 million on projects in these areas. Several hundred thousand people have participated in events that we either staged ourselves or supported.

Global donations

We supported two UNICEF projects in 2007 through a Christmas donation campaign organized by the BASF social fund. Both projects targeted malnutrition among children in India and the Democratic Republic of Congo. BASF donated starting capital of €100,000, and a total of €125,000 was additionally collected from over 2,800 employees. On top of this, the Fine Chemicals division provided technical support amounting to €50,000. BASF supported a further UNICEF aid project in South America, with BASF S.A. and its employees donating over €16,000 for the victims of an earthquake in Peru. Amongst other things, this donation made it possible to provide earthquake victims with sanitary facilities as well as access to clean drinking water. ///

DIALOG WITH OUR NEIGHBORS

We have established Community Advisory Panels (CAPs) or neighborhood forums worldwide, in particular at our production sites. Their aim is to foster regular and close dialog with our neighbors. Currently there are 66 CAPs at BASF sites.

ENERGY AND CLIMATE PROTECTION

Climate change is one of the main challenges faced by society. Industries, science, politics and society need to curb further increases in greenhouse gas emissions and make efficient use of available resources. Innovative solutions developed by BASF contribute to protecting our climate.

We support the goals of the Kyoto Protocol and are committed to climate protection around the globe. This is a task that requires global action. We are facing up to this challenge and have revised and extended our global environmental goals in 2008. We will also be appointing a Climate Protection Officer in 2008, who, as a member of our Sustainability Council, will coordinate all BASF activities in the area of climate protection worldwide.

Alongside our internal efforts, our products and technologies make a significant contribution toward energy efficiency and climate protection. We published a carbon balance in 2008, and were the first company in industry to do so. This balance contrasts the CO₂ emission-savings that are achieved with BASF products and procedures with the emissions from raw material extraction, production and product disposal. The results show that BASF products can save three times more greenhouse gas emissions than the entire amount caused by the production and disposal of all BASF products. These calculations have been checked and confirmed by the Öko-Institut in Freiburg, Germany.

One example of our energy-efficient products involves materials to improve thermal insulation in buildings, such as Neopor® and Micronal® PCM. We also offer plastics that make vehicles lighter, and additives that improve fuel consumption. For vehicles, a 10% reduction in weight equates to a reduction in fuel consumption of around 5%, while our fuel additives reduce consumption by a further 2%.

As a result of increasing pollution to the air and environment, the issues of energy efficiency and climate protection are becoming increasingly important, especially in Asia. Bearing this in mind, we are participating from 2007

to 2010 in an initiative called "Germany and China – Moving Ahead Together." Using innovative BASF products, we are demonstrating how both construction and mobility can be made energy efficient and therefore more environmentally friendly.

Our nitrification inhibitor is an example of a product for the agricultural industry. The use of fertilizers releases large quantities of nitrous oxide through the decomposition of nitrogen in the soil. Our nitrification inhibitor ensures that the nitrogen contained in fertilizers is metabolized more slowly by bacteria in the soil, thus resulting in a reduction in nitrous oxide. The fertilizer can supply crops with nutrients for longer, and the soil requires fertilization much less frequently. More than 400,000 metric tons of CO₂ equivalent per year are saved in this way.

→ More information on our products and technologies can be found on page 48.

Climate protection through technology transfer

In 2002, BASF became the first German company to join the World Bank's climate fund. The Community Development Carbon Fund (CDCF) invests in projects in developing countries that reduce greenhouse gas emissions and simultaneously play a role in development. CDCF projects are recognized as clean development mechanisms (CD) under the Kyoto Protocol. The modernization of production plants for adipic acid and nitric acid offers enormous potential for reducing worldwide emissions of greenhouse gases. For years, we have been reducing nitrous oxide emissions by using a BASF catalyst – for instance at our sites in Ludwigshafen, Germany, and Antwerp, Belgium. In 2007, BASF Antwerp received the Responsible Care award for the chemical industry in Belgium for using this catalyst. Since 1998, we have been able to reduce nitrous oxide emissions by approximately 20 million metric tons of CO₂ equivalent worldwide using this technology, both at our sites and at customer companies. As of 2008, the figure will increase to around 40 million tons.

In addition to our commitment in the areas of energy efficiency and climate protection, we are analyzing the

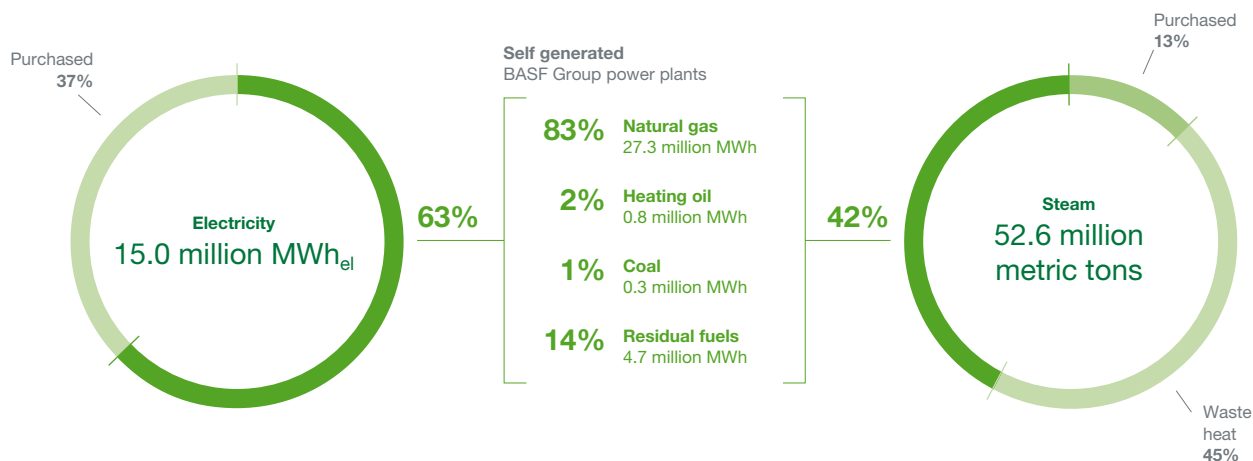
TASKS OF THE CLIMATE PROTECTION OFFICER

The Climate Protection Officer is a member of BASF's Sustainability Council and coordinates all BASF activities in this area worldwide. This includes topics such as greenhouse gas emissions, production and disposal as well as the long-term positioning of BASF in the area of climate protection. BASF's Climate Protection officer will also establish networks with business units and research.

OUR CONTRIBUTIONS TOWARDS CLIMATE PROTECTION

- Innovative materials for energy and resource efficiency
- Consumption-cutting fuel additives
- Nitrification inhibitors in fertilizers
- Catalysts for nitrous oxide
- Investigation of alternative energy sources
- Verbund system in production
- New technologies to reduce emissions

Energy balance of the BASF Group 2007



In 2007, we used 33.0 million MWh of fossil and residual fuels worldwide to generate electricity and steam in our central power plants. The amount of primary fuels used (28.3 million MWh) corresponds to 69% of the total primary fuel used to generate energy for the BASF Group. Primarily by means of cogeneration technology, 9.5 million MWh_{el} of electrical power and 22.1 million metric tons of steam were generated. Compared with conventional generation of electricity and steam, the use of cogeneration saved approximately 10.8 million MWh of fossil fuels. BASF's total electricity requirements amounted to 15.0 million MWh_{el}. A total of 52.6 million metric tons of steam was provided by steam networks.

possible impact of climate change on our sites. For this purpose, we have established a global expert network in our Responsible Care Competence Center.

→ More information can be found at: corporate.basf.com/climateprotection

Resources in the Verbund

One major factor that contributes towards efficient energy use is our Verbund system by which crude oil and natural gas are used not only as raw materials, but also simultaneously as fuels to generate electricity and steam. Heat from production processes is not discharged into the environment, but captured to power downstream production plants. In this way, production and energy requirements

are linked in an intelligent manner. This principle is applied at all major BASF production sites. Without our Energy Verbund, the total energy needed to generate electricity and steam in BASF Group power plants in 2007 would have been approximately 4.4 million metric tons rather than 2.8 million metric tons of oil equivalent, in other words 56% higher.

We are further developing our Energy Verbund: Substitute fuels that until now have only been used in power plants are now also being used in certain production plants. In this way we are able to minimize natural gas consumption and improve the capacity utilization of the highly efficient combined heat and power (CHP) plants.

BASF'S CARBON BALANCE

We are the first industrial company to have drawn up a comprehensive carbon balance. The results show that BASF products make a significant contribution toward climate protection. Our products can save three times more greenhouse gas emissions than the entire amount caused by the production and disposal of all BASF products. The carbon balance not only shows emissions from BASF's production, but for the first time also takes into account emissions from raw materials and precursors as well as the disposal of all products. In addition, we have looked at the product lifecycle of 90 key products that reduce CO₂ emissions when used in end products.

The Verbund is one of BASF's greatest strengths. At our major sites, we interconnect our production plants in a sophisticated system that spans the entire length of our value chains. The by-products from one plant are often used elsewhere as starting materials. We thus save energy and raw materials, reduce logistics costs and jointly use infrastructure facilities.

Power supply at the production sites

Since energy is one of the main cost factors in production, BASF constantly strives to generate and use energy efficiently. To supply our production sites with energy, we have been using combined heat and power (CHP) plants to generate both heat and steam for many years. These cogeneration plants run in our power plants with an overall efficiency of almost 90% – the best technology currently available for energy conversion methods suitable for use on an industrial scale. BASF currently operates 16 cogeneration plants worldwide. Partner companies at BASF sites operate another seven plants, mainly to supply BASF. The CHP power plant that started up in Ludwigshafen in 2005, has alone reduced CO₂ emissions by more than 500,000 metric tons per year. Worldwide, we produce around 75% of the electricity we need using CHP plants.

Energy and raw material supplies of the future

In the future, we will continue to rely on a mixture of energy and raw materials that includes all conventional fuels. The chemical industry will remain reliant on fossil fuels in the medium term. Techniques to sequester the CO₂ generated during combustion are currently being tested. In 2007, BASF, RWE Power and the Linde Group agreed to collaborate on developing new processes for CO₂ sequestration from combustion gases in coal-fired power plants. Long-term testing of new BASF solvents will be carried out at a planned pilot facility. This new technology should enable us to remove more than 90% of CO₂ from the combustion gas of a power plant and then to subsequently store this gas underground. The goal is to apply CO₂

sequestration commercially in coal-fired power plants by 2020.

Renewable raw materials

BASF has long been making successful use of renewable raw materials in numerous processes and constantly researches new possible usages. In our white (industrial) biotechnology growth cluster, for instance, we are working on the development of biopolymers and substances for surface modification. Environmentally friendly processing of cellulose using our ionic liquids also has great potential. In addition, we are already marketing products based on renewable raw materials. In 2007, for instance, we presented a plastic called Ultramid® Balance, which is used in areas such as automotive engineering. This polyamide consists of around 60% sebacic acid, which is derived from castor oil. BASF subsidiary Elastogran has developed Lupranol® Balance 50, which is also largely produced from castor oil. This polyol can be used to manufacture slab-stock foams for mattress production.

We use our products to enable customers to benefit from renewable raw materials. For example, we are an important partner in the value chain for the production of biodiesel. We optimize the cultivation of renewable raw materials by providing products and technologies that increase agricultural productivity. In addition, we supply process chemicals and catalysts for the production of bio-fuels, and offer fuel additives for biofuel optimization. ///

→ More information can be found at: corporate.basf.com/renewables

INNOVATIONS FOR CLIMATE PROTECTION

As our carbon balance confirms, BASF products can save three times more greenhouse gas emissions than the amount released through the production and disposal of all BASF products. We are continuing to commit ourselves to this area, and are developing innovative technologies and materials for sustainable climate protection. We spend one-third of our entire research budget in the areas of energy efficiency, climate protection, resource conservation and renewable raw materials. Examples of our current research include projects to develop materials for the next generation of solar cells and work on plants that can be used as renewable raw materials.

→ More information on our research and development can be found on page 45.

GLOBAL ENVIRONMENTAL GOALS

Whoever wants to enjoy long-term success has to conduct their business in a sustainable manner. BASF combines financial success with its global responsibility for environmental and climate protection. We continually optimize our processes in order to reduce emissions. We have set ourselves challenging new goals in 2008, which we intend to reach by 2020.

BASF supports the goals of the 1997 Kyoto Protocol. We accept our responsibility and intend to further extend our work in the area of environmental and climate protection. Since our efforts enabled us to achieve our global environmental goals for 2012 ahead of schedule in 2007, we revised these goals at the beginning of 2008. We have now set ourselves highly challenging new goals for 2020, which we aim to achieve with a comparable port-folio. We intend to do this by using efficient processes and technologies in our production processes. In this way, we can increase yields while at the same time reducing resource consumption, emissions and waste.

The data for the sites we acquired in 2006 have been included in our reporting for the first time in 2007.

2020 GOAL

By 2020 we intend to reduce our specific greenhouse gas emissions per metric ton of sales product by 25% compared with 2002.

Thanks to numerous measures, we have been successful in significantly reducing emissions of greenhouse gases. In the period from 1990 to 2002, we reduced emissions of greenhouse gases by 38% in absolute terms and by as much as 61% in specific terms. In 2007, emissions of greenhouse gases from BASF's chemical operations worldwide amounted to 27.5 million metric tons (2006: 25.0 million metric tons). This rise can be attributed to the

increased production quantities resulting from acquisitions in 2006.

Our previous goal of cutting specific greenhouse gas emissions by 10% by 2012 was already reached in 2007. We reduced greenhouse gas emissions per metric ton of sales product in 2007 by 16.6% compared with 2002. Among other things, this was due to the reduction of nitrous oxide emissions from nitric acid production in Antwerp, Belgium. A BASF catalyst converts nitrous oxide into nitrogen and oxygen – substances that are naturally found in the atmosphere. This technical improvement reduces emissions of greenhouse gases by 800,000 metric tons of CO₂ equivalent per year. In total, nitrous oxide emissions increased compared with 2006, partly due to extensive maintenance and repair work on the nitrous oxide decomposer in Ludwigshafen. In addition, we have launched an innovative project in Ludwigshafen with the aim of retaining part of the nitrous oxide that is produced as a waste gas during production and using it on a large scale as an ingredient in other production processes.

Greenhouse gas emissions
(1,000 metric tons of CO₂ equivalent per year)

	GWP factor*	2002	2003	2004	2005	2006	2007
CO ₂ ***	1	18,236	18,960	20,729	19,737	20,250	21,433
N ₂ O	310	6,407	4,788	6,696	4,915	4,602	5,963
CH ₄	21	10	10	13	16	12	21
HFC**	140–11,700	61	36	138	116	121	96
PFC**	6,500–9,200	0	0	0	0	0	0
SF ₆	23,900	0	0.6	0.6	1	2	1
		24,714	23,795	27,577	24,785	24,987	27,514

* GWP factor: global warming potential of the individual gases compared with CO₂

** Calculated using the GWP factors of the individual components (IPCC 1995)

*** CO₂ emissions include process-related and energy-related emissions. Energy-related CO₂ emissions cover both direct emissions arising from the generation of electricity and steam as well as indirect emissions from the acquisition and sale of electricity and steam.

Specific emissions

Per metric ton of sales product (changes compared with 2006)

Emissions to air	
Greenhouse gases	–4.8%
Air pollutants	–10.8%
Emissions to water	
Nitrogen	–24.3%
Organic substances (COD)	–17.7%
Heavy metals	–16.1%

Reduction of specific greenhouse gas emissions

Per metric ton of sales product (baseline 2002)



2020 GOAL

We want to improve the specific energy efficiency of our production processes by 25% compared with 2002.

Increasing the energy efficiency of our power supplies and production facilities is a core competency of BASF. Through the unique implementation of our Verbund approach and the process-integrated optimization of our energy use, we have made constant progress in recent years.

We have set a quantitative goal for improving energy efficiency for the first time in 2008, and intend to achieve this goal by implementing numerous measures. For instance, we will continue to optimize energy production and distribution at our sites, consistently use energy-saving technologies for replacement investments and establish a global program for reducing energy use in our chemical plants. We see energy efficiency as the key to combining climate protection with resource conservation and achieving a financial competitive advantage.

2012 GOAL

We want to stop flaring associated gas that is released during crude oil production by Wintershall.

The production of crude oil releases gas that is often flared in routine production. In Libya, however, BASF subsidiary Wintershall implements a process that makes a substantial contribution toward reducing CO₂ emissions. The gas associated with crude oil production is no longer flared. Instead, it is processed in a special plant and then piped to power

plants where it is used to generate power. Now, the resulting gas from all fields on which Wintershall produces crude oil in Libya is used in this way. Power plants save on crude oil through the use of this low-emission gas and consequently also reduce CO₂ emissions. In this way, we reduce greenhouse gas emissions by around 2 million metric tons per year. Wintershall has set itself the goal of ceasing to flare the resulting gas in routine operations at all production sites at which crude oil is produced by 2012.

Our emission figures do not include oil and gas production as it is difficult to predict the emissions that will result from the development of new oil and gas fields. In 2007, emissions of greenhouse gases from oil and gas production totaled 1.3 million metric tons (2006: 1.5 million metric tons). Emissions of air pollutants amounted to 3,900 metric tons (2006: 6,400 metric tons).

2020 GOAL

We intend to reduce air pollutants from our chemical plants by 70% compared with 2002.

By 2012, we originally intended to reduce air pollutants emitted by our chemical plants by 40% compared with 2002. We already achieved this goal in 2007 and have therefore set ourselves a new goal. Air pollutants include inorganic gases such as carbon monoxide (CO), sulfur dioxide (SO₂), nitrogen oxides (N₂O), ammonia and other inorganic compounds such as dust, heavy metals and volatile organic compounds (NMVOCs). Although we increased production volumes by 33% between 2002 and 2007, we reduced emissions of air pollutants by 40.9% in the same period. The slight increase compared with the previous year is due to the sites acquired in 2006.

In 2007, emissions to air from BASF's chemical operations totaled 50,600 metric tons (2006: 49,100 metric tons). Emissions of heavy metals totaled 22 metric tons (2006:

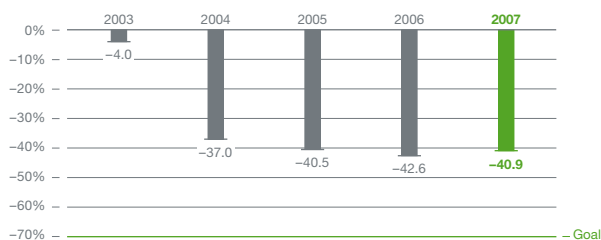
NEW ENVIRONMENTAL GOALS

The principles of sustainable development are an integral part of our actions. BASF combines financial success with global responsibility for environmental and climate protection. We therefore endeavor to reduce emissions and make even better use of available resources. Since 2002, the constant reduction of greenhouse gases has been one of our global environmental goals. Thanks to our wealth of ideas and discipline, we have achieved many of our goals ahead of schedule. We have therefore set ourselves challenging new goals that we intend to reach by 2020.

8 metric tons) as a result of acquisitions, while ozone-depleting substances as defined by the Montreal Protocol amounted to 99 metric tons (2006: 107 metric tons).

Emissions to air

Air pollutants* (reduction compared with baseline 2002)



Consists of: CO, NO_x (Sum of NO₂ + NO, calculated as NO₂), NMVOC (Non-methane volatile organic compounds), SO_x, dust and NH₃/other inorganics

At the end of 2007, we converted our phthalic anhydride plant at our Ludwigshafen site and installed a thermoreactor that has reduced our emissions of carbon monoxide by 18%.

2020 GOAL

By 2020, we want to reduce emissions of both organic substances and nitrogen to water by 80% and heavy metal emissions by 60% compared with 2002.

We had set ourselves the goal of reducing emissions of both organic substances and nitrogen by 60% by 2012, and heavy metal emissions by 30%. Compared with 2002, in 2007 we reduced emissions of organic substances by 65.9% and nitrogen emissions by 76.3%. The further reduction of nitrogen emissions will involve a particularly great effort over the next few years, as additional improvements can only be achieved with a high technical outlay. We reduced heavy metal emissions by 44.3% compared

with 2002, by improving processes at several sites. Among other things, we have optimized the processes at our wastewater plant in Ludwigshafen, this enabled us to reduce copper emissions at that site by around 75% compared with 2002.

In 2007, BASF's water requirements worldwide totaled 2,093 million cubic meters (2006: 2,035 million cubic meters). Of this amount, 95% was drawn from rivers or lakes. Drinking water accounted for approximately 1% and around 4% was groundwater.

In total, BASF discharged 202 million cubic meters of wastewater. Emissions of organic substances to the environment – calculated as chemical oxygen demand (COD) – amounted to 31,200 metric tons (2006: 32,800 metric tons). Emissions to water of nitrogen (N total) were 5,300 metric tons (2006: 6,000 metric tons). Emissions of phosphorous were 437 metric tons (2006: 382 metric tons). Wastewater contained 34 metric tons of heavy metal (2006: 35 tons).

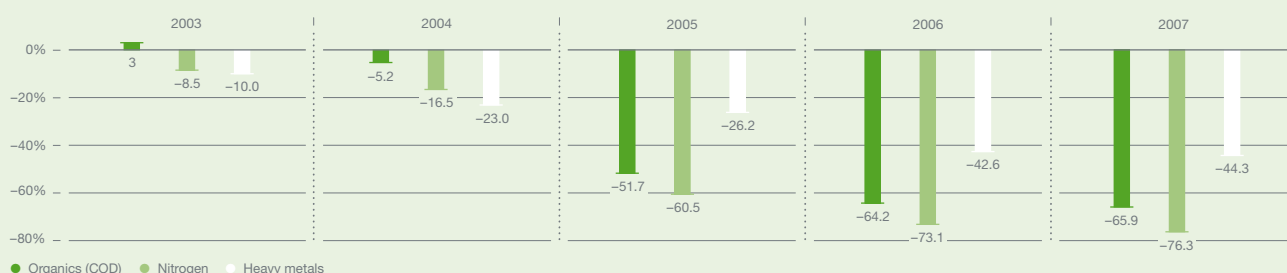
→ More information on emissions of individual substances to air or water can be found at: corporate.basf.com/emissions_lists

Water consumption at BASF

The careful use of water worldwide is of utmost importance to BASF. We take great efforts to minimize our water consumption and maximize the use of recycled water. The vast majority is used for cooling; only a small fraction of 10.6% comes into direct contact with products. Sewage water from production and graywater is treated appropriately. For example, wastewater is treated biologically in wastewater treatment plants, if necessary in combination with other methods such as neutralization, precipitation or flocculation.

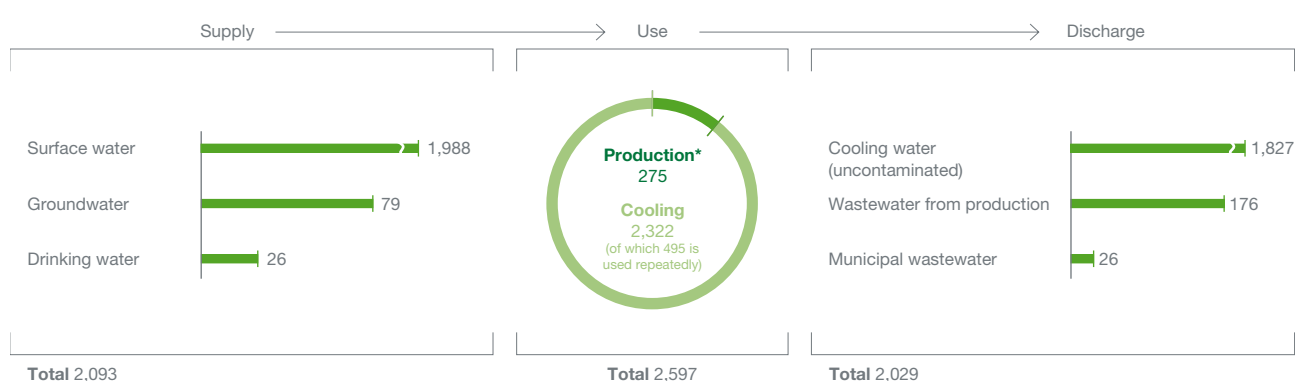
Emissions to water

(Reduction compared with baseline 2002)



Water balance of the BASF Group in 2007

Million cubic meters per year



* Sum of production processes, graywater, rising and purification in production

Waste management

Worldwide, BASF produced 1.93 million metric tons of waste in 2007 (2006: 1.50 million metric tons). Oil and gas exploration accounted for 232,000 metric tons. Around 43% of our waste was recycled or subjected to thermal recovery. The remainder was disposed of by incineration (40%), landfilling (44%) or underground storage (16%). In line with the customary international categories, 589,000 metric tons of the waste we disposed of was classified as hazardous and 509,000 metric tons as non-hazardous. For the future, we are working to further reduce the waste we produce and improve recycling.

Abbreviations used

CH₄ = Methane
 CO = Carbon monoxide
 CO₂ = Carbon dioxide
 COD = Chemical oxygen demand
 HFC = Halogenated fluorocarbons
 MWh_{el} = Megawatt hours (electrical)
 N₂O = Nitrous oxide/dinitrogen oxide
 NO = Nitrogen monoxide
 NO₂ = Nitrogen dioxide
 NMVOCs = Non-methane volatile organic compounds
 PFC = Perfluorocarbons
 SF₆ = Sulfur hexafluoride
 SO₂ = Sulfur dioxide



More information can be found at:
corporate.basf.com/environment2007

ENVIRONMENTAL PROTECTION COSTS

The costs of operating environmental protection facilities throughout the BASF Group amounted to €640 million in 2007 (2006: €657 million). We invested €103 million in new and improved environmental protection plants and facilities (2006: €116 million). These capital expenditures involved both end-of-pipe measures as well as integrated environmental protection measures. Provisions established for environmental protection measures and remediation worldwide amounted to €255 million as of December 31, 2007 (December 31, 2006: €271 million).

ENVIRONMENTAL AND SAFETY MANAGEMENT

In line with Responsible Care®, the worldwide chemical industry initiative, we aim to systematically improve our performance in terms of environmental protection, health and safety. Our global environmental goals and the BASF Responsible Care Management System will help us to do just that.

We have a worldwide network of Responsible Care experts who coordinate our environmental protection, health and safety activities. These experts work in teams to develop our worldwide standards. We have established detailed global safety directives for the planning and construction of new plants, for transportation, for storage of chemical goods, and for product safety. On a decentralized level, our experts ensure that regional and local requirements are taken into account.

With the aim of further improving our performance in the area of environmental protection, health and safety, and standardizing the associated organizational processes worldwide, we began in summer 2007 to implement our Responsible Care Management System. This means that we now have a tool that brings together existing regional management systems throughout the BASF Group. The system defines responsibilities and minimum requirements, taking into account all aspects of safety, environmental and health protection – from 24 hour emergency service and wastewater management through to data collection. In conjunction with our global environmental goals, the system enables us to conduct efficient environmental and safety management.

→ More information can be found at: corporate.basf.com/rc-center

Transparency through audits

Our goal is to continuously improve safety at our sites and plants. Thus, our experts for safety, the environment and occupational medicine regularly monitor all our sites and plants. We track the implementation of our standards using a verification catalog. We use the results to establish a

comprehensive site profile, which is then used to determine any necessary measures.

In 2007, 107 environmental and safety audits were carried out at 78 BASF sites. We also conducted occupational medicine and health protection audits at 22 sites.

→ More information on occupational medicine and health protection can be found on page 91.

Our international BASF Audit Group meets annually to standardize and further develop auditing systems worldwide.

Promoting safety at service providers and suppliers

Our global guidelines on safety, health and environmental protection also apply to employees of other companies who work at our sites. If we detect shortcomings, we offer companies support in eliminating them – we consider this to be part of our responsibility for the supply chain. In return, we expect partner companies to monitor adherence to regulations and take appropriate measures where necessary. All BASF companies and joint ventures in which we hold a majority stake are committed to assessing and promoting the performance of partner companies in this area. For this reason, we also assess companies that produce on our behalf. → More information can be found on page 84.

Security management

Knowledge of chemical procedures and the products manufactured using these procedures is extremely important for our long-term success. With a view to protecting this knowledge as a corporate value, BASF is currently implementing an integrated information protection strategy. The main focus of this strategy is on measures to protect IT systems and associated networks. The strategy also includes rules for employees who handle sensitive information. In parallel, BASF takes suitable technical and personnel measures to prevent unauthorized parties from accessing BASF sites. ///

AUDITS OF NEW SITES

In 2007, our audits “safety & environment” mainly focused on the assessment of sites acquired in the previous year. All in all, we investigated 31 new sites in the Construction Chemicals and Catalysts divisions and we established what needs to be modified in order to achieve compliance with our safety and environmental standards at all sites.

CERTIFIED SITES

In a review in 2002, auditing company Deloitte & Touche confirmed that our internal auditing system complies with the standards and criteria of external auditing procedures. A total of 119 of our sites are certified in accordance with ISO 14001 or EMAS. A list can be found at: corporate.basf.com/certified.

PROCESS AND DISTRIBUTION SAFETY

Safety is a top priority for us. Plant reliability and the safe distribution of our products are part of our social responsibility. For this purpose we have defined clear procedures, which are recorded in our uniform global safety, health and environmental protection directives.

Safe plants at all our sites

Preventing malfunctions and accidents at our production sites is of utmost importance to us. Such incidents not only cause environmental damage and production losses, but also endanger the health of our employees and neighbors. To prevent fires, explosions and chemical leaks, we have introduced a five-step review system for plant planning worldwide that covers all aspects of safety, health and environmental protection – from plant design to start-up. If malfunctions or accidents should occur, they are examined thoroughly and necessary measures are taken. In the future, we will analyze events even more systematically through the use of new key indicators.

In order to implement uniform safety standards, we place particular importance on training our safety experts worldwide. We hold regular seminars on plant safety and explosion protection with an emphasis on discussion about instruments to improve process safety as well as the use of new safety concepts and our risk matrix. The matrix is used as part of the hazard assessment process to classify potential risks according to their impact and estimated frequency. Various risk classes and appropriate measures are derived from this matrix.

Periodic audits are carried out at locations and sites to check compliance of our safety standards.

→ More information can be found on page 101.

Safe product transportation worldwide

Last year, we came another step closer to achieving our goal of reducing transportation accidents. In 2007, there were 0.28 transportation accidents per 10,000 shipments (2006: 0.45). This value is based on the accidents reported to us by our logistics partners. Thanks to an improvement

in our database, we will, as of 2008, also be able to report on the frequency of product emissions during shipping.

2020 GOAL

We aim to reduce the rate of transportation accidents worldwide per 10,000 shipments by 70% compared with 2003.

We attribute the clear improvement compared with the previous year to our ongoing checks and assessments. However, we will have to continue making a substantial effort to ensure that our successes are sustainable. We are particularly committed to emerging economic regions in which the necessary infrastructure is only now being established. For this reason, we will be continuing to follow our transportation safety goal into the year 2020. We intend to achieve this goal through global standards, a powerful organization and reliable logistics partners. We outlined the existing rules and guidelines regarding transportation and distribution safety (TDS) Group-wide in a BASF directive in 2007. It determines responsibilities, requirements and assessment methods.

A key role is also played by our hazardous goods representatives, who ensure that internal, national and international regulations are adhered to in all transport operations. If an accident occurs, they collect and evaluate all the relevant information. Their reports help us to develop strategies and measures in order to avoid similar incidents in the future.

Safety through assessments

Internally, we continually assess and evaluate our performance using a globally coordinated procedure. Collaboration with our external logistics service providers is also oriented toward safety. To assess the performance of our carriers, we use recognized assessment systems such as

UNIFORM STANDARDS WORLDWIDE

We have binding directives that set out our global standards for transporting and storing chemical products. Our global network of distribution safety officers plays a decisive role in implementing these standards. These experts ensure that national and international regulations are observed when chemicals are shipped.

the Safety Quality Assessment System (SQAS). This verification system was developed under the leadership of the European Chemical Association (CEFIC) and provides information regarding issues such as the training level of carrier employees, accident response times and equipment carried by vehicles.

BASF introduced a similar system for checking transportation companies in Asia back in 2005, the "Road Safety Assessment" (RSA). In 2007, we successfully established a process in China by independent reviewers assess carriers, the results can be used throughout the industry. A counterpart to the European SQAS has been set up under the patronage of the Association of International Chemical Manufacturers in China. In a move to promote distribution safety in Asia Pacific, BASF has been organizing special roadshows in various countries including Thailand, Malaysia, Japan and Korea since October 2007.

Safety and quality assessment of marine transportation using tankers is organized on a global scale by the "Chemical Distribution Institute" (CDI). Independent specialists assess ship condition, equipment and operation. As a CDI member, BASF evaluates these safety reports and uses the results as a basis to decide which tankers to use for transportation.

→ More information can be found at: corporate.basf.com/distribution_safety

Emergency response

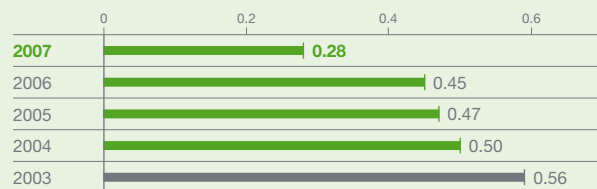
In order to be better prepared for any incidents, we are continually extending our emergency response management system. Information regarding each plant, an account of the alarm plan, the number of facilities to deal with fire or explosion as well as organizational emergency response measures are described in the emergency response plan.

The management system covers all our subsidiaries and joint ventures worldwide and also extends to suppliers, customers, neighboring companies as well as the cities and communities in which we operate. We have established local site incident and crisis management teams at all major production sites. Global support is available from Ludwigshafen.

A swift response is essential whenever accidents occur while chemicals are being transported. This is why we belong to networks that supply information and assist in emergencies. These include the German Transport Accident Information and Emergency Response System (TUIS) and the International Chemical and Environmental (ICE) initiative. In addition, we have established an international network of emergency contact numbers and control centers. These systems exist primarily in Europe and in North and South America. In Asia, we are in the process of expanding these networks. ///

Transportation accidents

Per 10,000 shipments (reduction compared with baseline 2003: -50%)



EMERGENCY RESPONSE EXPERTISE

Our expertise covers the following areas:

- Safe use of products in emergencies (fire, product emission)
- Preventive fire protection and firefighting
- Concepts for information and support systems for transportation accidents
- Dealing with emergencies and disturbances

PRODUCT STEWARDSHIP

We make sure that our products are safe and do not pose a danger to people or the environment when they are used responsibly and in the manner intended. We ensure that our information on this topic is always up to date and are quick to include new information in our risk assessments. Thanks to the fact that all regions are incorporated into a global product database, we are able to provide information about our products worldwide at any time.

In 2003, we set ourselves the goal of completing the data records for all substances in our product range where we handle more than 1 metric ton per year. We will achieve this goal as planned in 2008. Product safety officers from all company divisions and regions are working on this together with the corporate department for product safety. Working as a team, they record information worldwide regarding potential hazardous properties of our substances and products, and carry out any necessary supplementary investigations. Our experts from around the globe share their ideas and experience at our annual product safety workshop, which enables us to network our knowledge between our various sites and across international boundaries.

At the end of 2007, we successfully established a global product database for all regions. This allows us to evaluate all our substances and products worldwide according to uniform standards and to provide new information to our customers as soon as possible. Due to BASF's continually changing portfolio of BASF, we will continue to incorporate new substances and products for 2008 and beyond.

REACH

The European chemicals directive REACH sets out terms for the registration, evaluation and authorization of chemicals in the European Union. With its networked structure and extensive chemical portfolio, BASF is one of the companies most heavily affected by REACH. We are well aware of the changes it will bring, which prompted us to start preparing for REACH as far back as 2004.

BASF will register several thousand chemical substances under the terms of REACH. Until completion of implementation in 2018, the company expects REACH to lead to annual costs of €50 million for products such as compiling registration documents and carrying out additional studies.

→ More information can be found at: corporate.basf.com/reach_e

2015 GOAL

Based on a risk assessment, we want to review all substances produced or sold worldwide in the BASF Group in quantities of more than 1 metric ton per year by 2015.

For BASF, information regarding the hazardous properties of substances is simply one component that is needed for the safe and responsible handling of chemical products. Further information such as the type and extent of potential exposure to humans and the environment is also required in order to assess all possible risks. In conjunction with our voluntary commitment, we will review our risk assessments of all substances and conduct new risk assessments in line with REACH specifications.

Safety of our products worldwide

BASF provides safety data sheets for all the products it sells, not just where legally required. We update the data sheets as soon as new data become available. They are now available in 34 languages. To encourage the safe use of our products, our BASF companies offer training courses and workshops specially tailored to individual customer needs. Our customers and employees can also obtain information on BASF products around the clock using our global network of emergency hotlines. On request, we also carry out eco-efficiency analyses for our customers.

→ More information can be found on page 47.

REACH IMPLEMENTATION AT BASF

For the implementation of REACH, we have developed efficient processes and structures for the entire BASF Group. For example, a REACH implementation team ensures that all operating division products are recorded for REACH. In addition, our product safety experts have developed a central database for BASF. The REACH Tracking System contains information about all chemical substances, user details, and hazard assessments. As a result, we are able to optimally design the pre-registration for REACH. BASF intends to pre-register all substances in its current portfolio.

BASF has a broad range of products for applications in numerous industries. A product may consist of just one substance or a large number of substances.

2020 GOAL

By 2020, we want to conduct a risk assessment for all products of which quantities of more than 1 metric ton are sold worldwide in the BASF Group per year.

Through this new goal, we take our responsibility for BASF products much further than all existing legal regulations. Risk assessments will be available for all BASF products of which we sell more than 1 metric ton – regardless of the volumes of individual substances used in them. We will provide both our customers and the general public with transparent information about these risk assessments. BASF will issue annual reports on the processes for assessing substances and products, the way in which substances and products are handled, and our progress in achieving the goals we have set ourselves. Through these product safety goals, we are supporting the Global Product Strategy (GPS) and other initiatives proposed by the International Council of Chemical Associations (ICCA).

Environmental and toxicological testing

Our products must be safe for humans and the environment. Before new chemical substances enter the market we subject them to all necessary environmental and toxicological tests and apply to the appropriate authorities for registration. Animal studies are needed to comply with legal and regulatory requirements. REACH will require additional data on the properties of chemical substances and this will automatically lead to an increase in the number of animal studies required by law.

We are committed to the ethical principles of animal protection and have set ourselves the goal of developing

and using alternative methods to animal studies. Currently, 25% of our studies already use such alternatives. To date, very few animal-free alternative methods have been recognized by the authorities. Those available are all used at BASF and we have even helped to develop some of them. For more than 20 years, we have been involved in all relevant research projects to develop alternative and supplementary methods for animal studies and have invested considerable resources. Through a combination of alternative methods and measures taken to improve the significance of studies, we have been able to significantly reduce the number of animals in research testing. ///



More information can be found at:
corporate.basf.com/product_stewardship

SAFE HANDLING OF NANOMATERIALS

Health and safety protection regarding the use of new technologies are also of key importance to us. Together with our experts in occupational medicine and health protection, we have created a nanotechnology guideline that provides a basis for the responsible use of nanomaterials. We are also actively involved in projects such as the E.U.'s Nanosafe2 and the Nanocare project sponsored by the German Ministry of Education and Research. The goal of both projects is to develop product-specific methods for analyzing and evaluating nanomaterials.

RISK REPORT

BASF Risk management's goal is to identify and evaluate risks as early as possible, limit business losses by taking suitable measures and avoid risks that pose a threat to the company's continued existence. Moreover we use risk and opportunity assessments as a strategic planning instrument.

Organization, responsibilities and tools

Regular risk analyses are conducted by BASF's Chief Compliance Officer and the following units:

- Corporate Controlling
- Environment, Health & Safety
- Finance
- Global Procurement & Logistics
- Human Resources
- Legal, Taxes & Insurance
- Strategic Planning & Controlling

Specific risks pertaining to operating divisions and units are continually registered, evaluated and monitored centrally. The Board of Executive Directors regularly receives reports on the risk situation of the BASF Group. We continually monitor certain risk areas with the help of performance data and indicators, and reports are immediately submitted if pre-defined risk thresholds are reached. The Board of Executive Directors is informed by means of monthly reports on the current and expected development of the business as well as the risks and opportunities. Strategic opportunities and risks are assessed as part of the regularly monitored product and regional strategies and weighed up against one another.

Our risk management process is continually being further developed. In 2007, we installed a new IT system for the quantitative recording and aggregation of opportunities and risks. In addition we are developing a new method of detailed analysis of opportunities and risks regarding the volatility of raw materials prices that takes the value adding chains of the BASF-Verbund into account.

Corporate Audit continually examines the functioning and effectiveness of our risk management systems as well as its continual development and its integration into business processes. The auditing of system for early risk recognition forms a part of the audit.

Internal Control

Corporate Audit acts on behalf of the Board of Executive Directors and operates throughout all divisions of the BASF Group. It audits:

- the adherence to directives, guidelines, approval limits and anti-trust regulations;
- safeguarding of assets and the attainment of an appropriate rate of return on invested capital;
- the organization and its processes in terms of efficiency, effectiveness and compliance;
- the functionality and reliability of the risk management system; and
- the reliability of reporting

The general principles of risk avoidance, such as the segregation of duties and dual control, form the basic foundation of internal control. In addition, we have introduced guidelines for currency hedging, financial investments and the use of derivative financial instruments to hedge against price and market risks or as an alternative to original financial instruments.

In 2007, we continued to use the system introduced in accordance with the Sarbanes-Oxley Act to assess our internal controls for financial reporting purposes and further improved efficiency. The effectiveness of the control system is confirmed by management's self-assessment. We will continue to assess the internal controls for financial reporting after the delisting of BASF from the NYSE and the deregistration from the American Securities and Exchange Commission.

FUNDAMENTALS OF OUR RISK MANAGEMENT SYSTEM

- High safety standards in plant operation to protect people and the environment
- Clear code of conduct to ensure compliance with laws
- Leadership Compass that places high demands on the integrity of our management
- Control bodies to verify important business decisions
- Organizational measures to prevent the infringement of guidelines and laws

Risk controlling

The Strategic Planning and Controlling and Finance divisions are responsible for centralized risk controlling. They regularly inform the Board of Executive Directors.

Corporate systems

The Strategic Planning & Controlling division ensures that the risk management standards are implemented and further develops methods and tools. The division is responsible for worldwide communication with the operating units, corporate divisions, competence centers as well as the regional divisions and coordinates the identification of all significant risks for BASF throughout the company and systematically evaluates them according to uniform standards.

Fourteen operating divisions bear responsibility for the business operations of the BASF Group. It therefore follows that operational risk management is focused in these units. We have also established decentralized risk controlling units in the competence centers and regional divisions that work closely with the centralized units.

Financial risks

We monitor and control financial risks in the Treasury department of the Corporate Center or through appropriately authorized Group companies. Detailed guidelines and procedures exist for dealing with financial risks. Among other things, they provide for separate trading and processing functions.

Currency, interest rate and price risks: These risks are hedged using derivative instruments.

→ Detailed information can be found in Note 26 to the Consolidated Financial Statements "Derivatives and Other Financial Instruments" from page 191 onward.

Risks from commodity positions: In connection with the catalysts business, BASF holds large positions in base and precious metals whose value is exposed to market price volatility. These positions can also encompass derivatives.

They are only entered into within fixed limits and exposure constraints and are subject to constant monitoring.

Liquidity risks: We promptly recognize any risks from cash flow fluctuations using our liquidity planning system. We ensure a balanced debt repayment profile through the issuing of long-term bonds and thus reduce our refinancing risks. We have ready access to sufficient liquid funds in view of our good credit ratings, the ongoing commercial paper program and committed credit lines from banks.

Credit risk and default risk: We limit country-specific risks through internal country ratings, which are continually updated to reflect changing environment conditions. We use export credit insurance and investment guarantees as the main tools to limit specific country-related risks.

We lessen credit risks for our financial investments by engaging in transactions only with business partners and banks with good credit ratings and by adhering to fixed limits. Monetary transactions are also conducted through such banks. We reduce the risk of default on receivables by continually monitoring the creditworthiness and payment behavior of customers and by setting appropriate credit limits. Risks are also limited through the use of credit insurance and bank guarantees.

Pension obligations: We predominantly finance company pension obligations externally through separate pension assets. In addition to the pension plans of our Group companies in North America, this applies particularly to BASF Pensionskasse VVaG and the BASF Pensionstreuhand e.V. in Germany. We address the risk of pension plan underfunding due to market volatility of plan assets by aligning the investment strategy in terms of return and risk optimization to the structure of the pension obligations. Furthermore, we are reducing this risk by increasingly offering employees defined contribution schemes.

GOALS OF RISK MANAGEMENT

- Earliest possible detection of risks
- Taking measures to limit business losses
- Avoid risks that threaten the company's continued existence

FINANCIAL RISIK MANAGEMENT

- Credit limits and credit insurance
- Use of country ratings, credit insurance and investment guarantees
- Use of derivatives to hedge against currency, interest rate and price risk
- Funding of pension obligations through external pension assets
- Introduction of defined contribution plans

Supply risks

The availability and price volatility of feedstock especially of oil products and precious metals, pose a special risk for BASF. Therefore in 2007, we implemented a method with which we can capture the opportunities and risks arising out of raw materials price volatility with regard to the value adding chains of the BASF-Verbund and consequently take any appropriate actions. We reduce our risks through the diversification of our portfolio from the oil and gas business all the way through to our high value products. Our global purchasing activities, long-term supply contracts and a diversification of our suppliers, as well as optimized procedures for the purchase of additional quantities of raw materials on spot markets make an important contribution to risk minimization. We minimize remaining cost risks through commodity derivatives. We address the risks from changes in the market for raw materials in the mid- and long term by developing new technologies.

Market risks

In addition to the risks arising from the development of the overall economy, fluctuations in demand in key customer segments as well as competition in sales markets by nature present further risks. We reduce these risks through operative measures such as working in close collaboration with our customers and developing tailored system solutions as well as through strategic measures such as geographic diversification, the continuous development of innovative products and systems and active portfolio management. Diversification of our portfolio and the continuous focus on businesses resistant to cyclicity take center stage. The latter is reflected for example in the acquisitions in the areas of catalysts and construction chemicals. Further examples of our continuous measures for portfolio optimization are the asset swap with Gazprom and the planned sale of parts of our styrenics business.

→ Detailed information regarding the asset swap with Gazprom can be found in the section "Results of Operations by Segment, Oil & Gas" from page 78 onward.

Economic cycle risks

Economic risks are presenting themselves in the form of continued high oil prices as well as increasing foreign currency instability in the global markets. On the production side we counter foreign currency risks through our local production sites. However on the market side we face risks through our key customer industries. The problems on the U.S. real estate and financial markets had a negative effect on the housing market and private consumption. There is the risk that the credit crisis may deteriorate into a longer crisis of confidence. An increase in the interest rates on loans has an impact on our customers' interest-rate sensitive industries such as the construction, automotive and capital goods industries. It is hard to estimate the magnitude of the global impact that an intensifying US financial crisis will have, it can however be considerable. In addition, an aggravation of geopolitical tensions and the destabilization of currently politically stable systems pose risks.

Regulatory risks

As of June 1, 2007, a new European chemicals directive REACH setting forth terms for the registration, evaluation and authorization of chemicals came into effect. With its networked structure and extensive product portfolio, BASF is one of the companies most heavily affected. BASF is aware of the demands and therefore started preparing for REACH several years ago. We will register approximately 2,500 substances under the terms of REACH. We expect annual costs of around €50 million until completion of its implementation in 2018. Despite good preparation and planning we and our European customers face disadvantages due to the cost intensive test and registration procedures of REACH in comparison to our non-European competitors.

Within the framework of E.U. emissions trading the BASF Group was allocated allowances for 2007. Affected plants at our European sites were allocated allowances for approximately 7 million metric tons of carbon dioxide (CO₂). For the second trading period from 2008 until 2012,

RISKS THAT COULD INFLUENCE OPERATING INCOME

- Increase in oil-dependent raw materials and energy prices
- Increasing imbalance of exchange rates
- Cyclical fluctuations in our important markets
- Development of the business cycle
- Regulatory risks in particular in climate protection

We counter these risks with immediate and longer-term measures.

a number of chemical plants will also be included in the Europe-wide trading system. Moreover increased pressure from the E.U. commission could give rise to stringent guidelines for further reductions which may mean additional costs for BASF.

The application procedure for the allocation of emission certificates for the second trading period is currently in process. A decision has not yet been reached by the authorities.

Other significant risks

Research and Development: Because of the high degree of complexity and uncertainty involved in chemical and biological research, there is a risk that projects might be discontinued or that developed products will not receive approval for marketing. We lessen this risk through our global Know-how Verbund, our collaboration with our partners and customers as well as our innovation process whereby efficiency, chances of success and general conditions of research projects are continuously reviewed.

Risks arising from acquisition and investment decisions: The implementation of acquisitions and capital investment decisions bring with them complex risks, therefore implementation and follow-up are subject to specified processes. The risk assessment for the businesses acquired in 2006 was integrated in the BASF risk management process with the focus being placed in each case on business-relevant risk areas.

Exploration risk: The search for new oil and gas reserves is dependent on geological conditions. We lessen such risks by means of a balanced exploration portfolio.

IT risks: To reduce possible risks, BASF has an integrated, Group-wide-standardized IT infrastructure and applications, back-up systems, replicated databases, viruses and access protection, and encoding systems. Risk management results from Group-wide regulations for organization

and application as well as an internal control system based on this.

Patent risks: The Global Intellectual Property department of BASF SE, together with the appropriate units of the U.S.-based BASF Corporation and BASF Coatings, Munster, Germany monitors all the intellectual property rights of BASF. At the same time, we aim to avoid patent and licensing disputes as far as possible through our extensive clearance research.

Prospective candidates for specialist and management positions: Demographic change and international competition for highly qualified specialist and management positions are new challenges for human resources. To meet these demands, we have initiated regional projects to analyze local employment markets and to plan for mid- to long-term recruiting.

Corporate Security: BASF's Corporate Security department, through its Group-wide network, works in close cooperation with local security authorities to develop measures to protect BASF from worldwide security risks.

Legal risks: We limit risks from potential wrongdoing or legal infringements by using compliance programs, and centralized contract management. ///

ASSESSMENT OF THE OVERALL RISK SITUATION OF THE BASF GROUP

In our opinion, there are no individual risks that pose a threat to our continued existence at the present time or in the foreseeable future. The total sum of individual risks also does not pose a threat to the continued existence of the BASF Group.

→ Further information on legal risks can be found in Note 24 to the Consolidated Financial Statements from page 188 onward.

FORECAST OF ECONOMIC ENVIRONMENT

In 2008, we expect global economic growth of 2.8%. The financial and property crisis in the United States affected the global economy, which will cool off slightly compared with 2007. In the following years, we expect growth of over 3%.

We anticipate moderate economic growth of 2.0% in the European Union. The high euro and the weak global economic growth will lead to a decline in exports. This will be only partly offset by domestic demand and strong capital spending. In the medium-term, we expect growth of just over 2% per year.

In the United States, the economy will weaken in 2008 as a result of the credit crisis with growth coming at 1.6%. This is due to the decline in real estate investment and private consumption which will ease off due to negative wealth effects and high energy costs. In the medium-term, we expect growth of just over 2.5% per year.

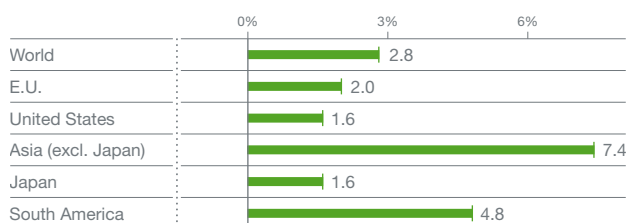
The higher yen and declining export demand slow growth in Japan.

Asia (excluding Japan) will remain the motor of the global economy in 2008, posting growth of over 7%. This will be driven by intensive trade within the region, continued strong capital investment and higher consumption. China will grow strongly by just under 10% despite slackening demand from other regions and a restrictive economic policy. For the years 2008 to 2010, we expect economic growth in Asia to slow to just over 7%.

In South America, we anticipate continued robust economic growth of just under 5%. The credit crisis in the United States will have only a slight impact on the regional economy. As South America is a large raw material exporter, continued high raw material prices will mean that export earnings will stabilize at a high level. The strongly over-valued Brazilian real will negatively impact industrial exports.

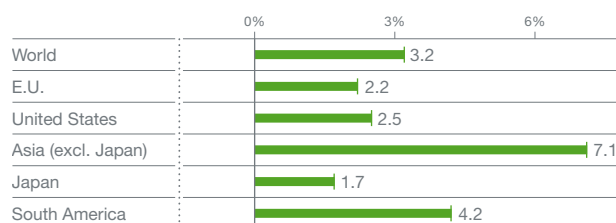
Outlook for Gross Domestic Product 2008

Real change compared with previous year



Trends 2008–2010

Average annual real change



WE HAVE BASED OUR BUSINESS PLANNING FOR 2008 ON THE FOLLOWING ASSUMPTIONS:

- A moderate slowdown in global economic growth and growth in chemical production (excluding pharmaceuticals) of 2.8%
- Declining interest rates in the United States in the course of 2008 with moderate knock-on effects for Europe
- An average euro/dollar exchange rate of \$1.45 per euro
- Average oil prices of approximately \$78 per barrel in 2008

Outlook for the chemical industry

We expect global chemical production in 2008 to grow by 2.8%. In the medium term, we estimate growth of 3.3% per year.

In the European Union, chemical production in 2008 will grow slower than the overall economy and industry. In the medium-term, growth will recover slightly to just under 2%.

The period of weakness of chemical production in the United States will continue in 2008 despite improved export conditions. In the medium-term however, we expect the construction industry to stabilize and stronger industrial demand to result in growth in the chemical industry.

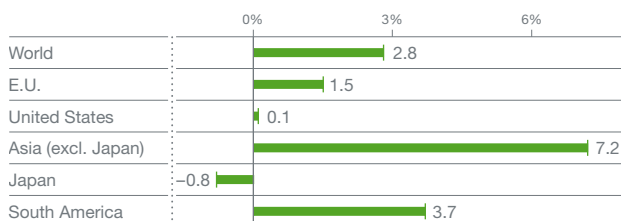
In 2008, chemical production in Japan will remain below industrial growth and decline further. This is due in particular to the higher yen against the U.S. dollar and increasing imports.

Chemical production in Asia (excl. Japan) will ease off moderately to 7%, although China will continue to grow strongly at 9%. The credit crisis in the United States will not impact Asia as strongly because the importance of trade within the region has increased. This development is being driven by robust industrial activity and the high level of investment in India and China. The region is benefiting from strong growth in industrial customer sectors and is likely to maintain the existing growth trend from 2008 until 2010. Hence, Asia should retain its function as the economic motor.

In 2008, the growth in chemical production in South America should slow down to just under 4%. The strength of the Brazilian real will dampen industrial and chemical exports. ///

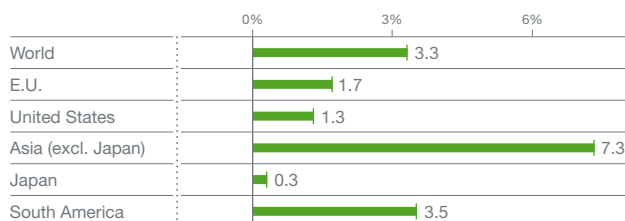
Outlook for Chemical Production 2008 (excl. pharma)

Real change compared with previous year



Trends 2008–2010 (excl. pharma)

Average annual real change



OUTLOOK FOR THE CHEMICAL INDUSTRY 2008: GLOBAL GROWTH OF 2.8%

- European Union: Growth to slow to 1.5% due to the strong euro
- United States: Zero growth in chemical production with improved export outlook
- Japan: Declining chemical production due to the higher yen and increasing imports
- Asia (excluding Japan): Growth will ease off slightly to 7% with continued strong industrial activity
- South America: Growth in chemical production of 4%

BASF GROUP OUTLOOK AND OPPORTUNITIES

Our business has continued to develop successfully since the beginning of 2008. The level of orders remains strong. Taking into account the economic assumptions described above, we expect BASF's business to develop positively in the next two years.

We aim to further extend our position as the world's leading chemical company. Our goal is to continue to increase BASF's value and earn an attractive premium on our cost of capital.

Opportunities

Four strategic guidelines define the way in which we act. Rigorous value-based management, a strong customer focus, the best team in industry and sustainable development form the foundations for our success.

Innovations are an important impetus for BASF's profitable growth. We have therefore increased the budget for our five growth clusters – energy management, nanotechnology, white (industrial) biotechnology, plant biotechnology and raw material change – to more than €900 million for the period 2006 through 2008. Starting in 2015, BASF expects additional annual sales of between €2 billion and €4 billion from innovations based on projects in the growth clusters.

In 2008, we will further increase our research and development expenditures by approximately 5%.

→ More information can be found in the section "Research and Development" from page 45 onward.

Investments in existing high-growth areas open up further opportunities for BASF. For example, we are planning the construction of a new plant for diphenylmethane diisocyanate (MDI) and are considering a location in Chongqing, West China. The startup is planned from 2010. In addition, we are expanding existing Verbund sites. In Ludwigshafen, we are expanding production capacity for our innovative insulation material Neopor. We will expand the successful

Verbund site in Nanjing, China, which we operate with our Chinese joint venture partner Sinopec Corp.

Planned capital expenditures for 2008 to 2012 amount to approximately €11 billion and are expected to be below the level of depreciation and amortization. We aim to finance these planned expenditures from cash provided by operating activities.

We will continue to optimize our portfolio through acquisitions, divestitures, restructuring measures and cost reduction programs. Since we do not see sufficient differentiation possibilities vis-à-vis our competitors in the market for standard styrenics, we are planning to sell our styrene monomer (SM), polystyrene (PS), styrene butadiene copolymer (SBS) and acrylo-nitrile butadiene styrene (ABS) businesses. We will further expand our specialties and foams businesses.

By expanding global partnerships, BASF is in a position to act flexibly in world markets. In Gazprom, we have a reliable partner in the joint production, transport, storage and marketing of natural gas. In the area of plant biotechnology, the U.S. company Monsanto is our partner in the research, development and commercialization of stress tolerant and higher yielding crops.

The goal of our initiative "Success," started in 2007, is to generate added value through sustainability. In this initiative we bundle our sustainability expertise in the areas of environment, energy, safety and health. Together with our products, we offer tailor-made services that we develop with our customers. In this way, we want to deepen existing customer relationships and attract new customers.

→ More information can be found in the section "Customer-oriented Solutions" from page 47 onward.

OUTLOOK 2008

Assuming that our portfolio remains unchanged we aim to:

- Increase sales and slightly improve income from operations before special items
- Grow faster than the chemical market in the following years
- Earn our cost of capital each year
- Increase or at least maintain our dividend each year
- Continue our share buyback program

With effect from January 1, 2008, BASF reorganized its business. The new segment Functional Solutions combines the Catalysts, Construction Chemicals and Coatings divisions. A new division, Care Chemicals, has been established in the Performance Products segment. The Specialty Plastics and Foams business units have been transferred from the Styrenics division to the Performance Polymers division. The new structure enables BASF to focus its business even more closely on the customers and to tap synergy potential for research and development. Investors are better able to assess BASF because we have combined similar businesses in each of our new segments.

In addition, BASF changed its legal form: As of January 14, 2008, BASF Aktiengesellschaft became a European Company, a Societas Europaea (SE). In making this change, BASF is a pioneer in the European chemical industry.

→ More details are provided in the section "New Structures" from page 12 onward.

Risks

Risks are posed by continuing uncertainty due to the global credit crisis and unfavorable developments in our customer industries, in particular in the construction and automotive industries. Economic risks are also posed by continued high oil prices as well as the risk global markets face as a result of an increasing imbalance in exchange rates. In addition, an aggravation of geopolitical tensions and the destabilization of political systems also pose risks.

Based on currently available information, there are no significant individual risks at the present time or in the foreseeable future. Neither does the total sum of individual risks pose a threat to the continued existence of the BASF Group.

→ More details are provided in the section "Risk Report" from page 106 onward.

Forecast

Acquisitions made in recent years have extended our portfolio into high-growth and innovative areas, strengthened our profitability and further reduced our dependency on the cyclicity of the chemical industry. In 2008, assuming there are no changes made to our portfolio, we aim to increase sales and slightly improve income from operations before special items. We expect to grow faster than the chemical market each year and we are confident of earning at least our cost of capital in any given year.

→ Outlooks for each of our segments and operating divisions are provided in the section "Results of Operations by Segment" from page 62 onward.

Dividends and share buybacks

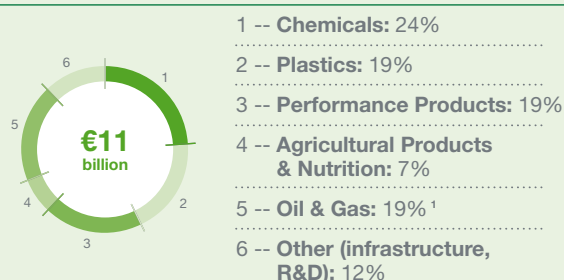
We aim to further increase our dividend annually and match the previous year's level even in years in which the business environment is difficult. Moreover, we also intend to continue to buy back shares.

Supplementary Report

The Board of Executive Directors decided on February 12, 2008, to cancel a total of 17,470,000 shares. Of this amount, 12,300,000 were own shares held by the company on December 31, 2007, and a further 5,170,000 were BASF SE shares repurchased in the period January 1 to 31.

Since the beginning of fiscal 2008, there have not been any material changes affecting BASF's situation or its competitive environment. ///

Planned capital expenditures by segment¹
2008 – 2012



Planned capital expenditures by region¹
2008 – 2012



¹ Excluding capital expenditures in the Nord Stream project and Yuzhno Russkoye

² Thereof 19 percentage points relate to the Oil & Gas segment



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CORPORATE GOVERNANCE AT BASF GROUP

Corporate governance refers to the entire system for managing and supervising a company, including its organization, its commercial principles and guidelines as well as all internal and external regulatory and monitoring mechanisms. Effective and transparent corporate governance guarantees that BASF is managed and monitored in a responsible and value-driven manner. This fosters the confidence of our domestic and international investors, the financial markets, our business partners, employees and the public in the company.

Conversion of BASF Aktiengesellschaft into BASF SE

As of January 14, 2008, BASF took on the new legal European form of a European Company. A highly significant goal of the conversion into BASF SE was the strengthening of BASF's corporate governance structure. By reducing the size of the Supervisory Board to twelve members and broadening the European composition of the employee representatives' side, the future direction for a modern and efficient corporate constitution has been set. At the same time, the equal representation of shareholders and employees has been maintained. Proven structures such as the two tier administrative system of BASF's Board of Executive Directors and Supervisory Board will be retained in the SE.

Management and supervision in BASF SE

The legal foundations of BASF SE's corporate constitution are primarily the SE Council Regulation of the European Union, the German SE Implementation Act and the German Stock Corporation Act. Despite these new legal foundations, the previous fundamental elements of BASF Aktiengesellschaft's corporate constitution remain unchanged in BASF SE: these are the two-tier system consisting of BASF's Board of Executive Directors and the Supervisory Board, the equal representation of shareholders and employees in the Supervisory Board and the shareholders' rights of co-administration and supervision at the Annual Meeting.

Direction and management by the Board of Executive Directors

Under the two-tier administrative system of BASF SE, the Board of Executive Directors is responsible for the management of the company and represents BASF SE in business undertakings with third parties. BASF's Board of Executive Directors is strictly separated from the Supervisory Board: A member of the Supervisory Board cannot simultaneously be a member of the Board of Executive Directors. The Board of Executive Directors agrees on company goals and corporate strategy and manages and

monitors the business units of the BASF Group through the planning and setting of the company budget, the allocation of resources and management capacities, the monitoring and decision making regarding vital individual measures and the control of operative management. The Board is obliged to act and decide in the company's best interests. It is dedicated to the goal of increasing the company's value in the long term. The decisions made by the Board of Executive Directors are based on a simple majority. In the case of a tied vote, the casting vote is given by the Chairman of the Board.

The Board of Executive Directors reports to the Supervisory Board regularly, comprehensively and in a timely manner on all relevant matters concerning the company with regard to strategic planning, business development, risk issues and risk management. Furthermore, they agree on corporate strategy. Where required by the Statutes of BASF SE, the Board of Executive Directors must have the approval of the Supervisory Board for certain transactions before they are concluded. Such cases include the acquisition and disposal of enterprises and parts of enterprises, the issuance of bonds or comparable financial instruments provided that the acquisition or disposal price in an individual case exceeds 3% of the equity reported in the last consolidated financial statements of the BASF Group.

→ The members of the Board of Executive Directors, including their membership of the supervisory bodies of other companies, are listed on pages 120 to 121. The compensation of the Board of Executive Directors is described in detail in the Compensation Report on pages 125 to 128.

Monitoring of company management by the Supervisory Board

The Supervisory Board appoints the members of the Board of Executive Directors and monitors and advises the Board on management issues. Members of the Supervisory Board cannot simultaneously be members of the Board of Executive Directors. Structurally, this ensures a high level of autonomy with regards to the supervision of the Board of Executive Directors.

With the change in legal form to an SE come substantial changes in the Supervisory Board. The German Codetermination Act, which is the relevant statutory foundation regarding the size and composition of the Supervisory Board, does not apply to the SE. Together with the SE Council Regulation, other relevant statutory foundations include the Statutes of BASF SE and the Agreement Concerning the Involvement of Employees in BASF SE (Employee Participation Agreement) that was signed on November 15, 2007 by company management and the representatives of BASF Group's European employees.

→ The Statutes of BASF SE and the Employee Participation Agreement can be found on the Internet at: corporate.basf.com/en/investor/cg

Whilst the Supervisory Board of BASF Aktiengesellschaft acting until January 14, 2008, comprised 20 members, ten of whom were elected at the Annual Meeting and ten of whom were elected by employees employed in Germany by the BASF Group Companies, the Supervisory Board of BASF SE comprises twelve members. Six members are elected by the shareholders at the Annual Meeting. The remaining six members are elected by the newly appointed "BASF Europa Betriebsrat," the European employee representation body of the BASF Group, as agreed to in the Employee Participation Agreement.

→ The members of the Supervisory Board of BASF Aktiengesellschaft with effect until January 14, 2008, and the members of the first Supervisory Board of BASF SE including their membership of the supervisory bodies of other companies are listed on pages 122 to 123. The compensation of the Supervisory Board is described in detail in the Compensation Report on pages 128 to 129.

Resolutions of the Supervisory Board are passed by a simple majority of the votes of the participating members of the Supervisory Board. In the event of a tie, the vote of the Chairman of the Supervisory Board, who must always be a shareholder representative, shall be the casting vote. This resolution process is also applicable for the appointment and dismissal of members of the Board of Executive Directors by the Supervisory Board. In the Aktiengesellschaft, in accordance with the Codetermination Act, a specific election process with an increased majority vote applied and a Mediation Committee was established. The sole task of the Mediation Committee was to make a proposal concerning the appointment of a member to the Board of Executive Directors in the event that the necessary two-thirds majority was not attained in the first round of voting in the Supervisory Board.

In addition to the Mediation Committee, BASF Aktiengesellschaft's Supervisory Board established two further Supervisory Board Committees: the Nomination and Compensation Committee, dealing with personnel issues and the granting of loans and the Audit Committee. Among other things, the **Nomination and Compensation Committee** was charged with setting Board members' remuneration and related contractual issues. The members of the Nomination and Compensation committee were Supervisory Board Chairman Professor Dr. Jürgen Strube (chairman) as well as Supervisory Board members Robert Oswald, Dr. Tessen von Heydebreck and Michael Vassiliadis. The members of the **Mediation Committee** comprised Supervisory Board Chairman Professor Dr. Jürgen Strube (chairman) as well as Supervisory Board members Wolfgang Daniel, Robert Oswald and Dr. Tessen von Heydebreck.

The **Audit Committee** makes preparations for the negotiations and resolutions of the Supervisory Board for the approval of the financial statements and consolidated

financial statements of BASF SE and deals with risk monitoring and the internal control over financial reporting. The Audit Committee is also responsible for business relations with the company's auditors: It prepares the Supervisory Board's proposal to the Annual Meeting regarding the selection of an auditor, monitors the auditor's independence, defines the key aspects of the audit together with the auditor, negotiates the auditing fees and establishes the conditions for the provision of the auditor's non-audit services. The members of the Audit Committee were Max Dietrich Kley, Dr. Karlheinz Messmer (until April 30, 2007), Hans Dieter Pötsch, Michael Vassiliadis and Dr. Friedrich Wirsing (as of July 6, 2007). Max Dietrich Kley was chairman of the Audit Committee. Max Dietrich Kley (former Chief Financial Officer of BASF AG) and Hans Dieter Pötsch (Chief Financial Officer of Volkswagen AG) have particular knowledge and experience in the application of accounting principles and internal control procedures, and have been named by the Supervisory Board as Audit Committee Financial Experts.

In its constitutive meeting on December 5, 2007, the Supervisory Board of BASF SE first of all appointed the members of the Board of Executive Directors of BASF SE and established a new **Audit Committee** of the Supervisory Board. The members of the Audit Committee are Max Dietrich Kley (chairman), Ralf Bastian, Franz Fehrenbach and Michael Vassiliadis. In addition, BASF's Supervisory Board established a new **Personnel Committee** (formerly the **Nomination and Compensation Committee**) and, according to the recommendation of the German Corporate Governance Code, newly introduced in July 2007, established a **Nomination Committee** for the first time that will prepare the proposals for the election of Supervisory Board members at the Annual Meeting. The members of the Personnel Committee are Prof. Dr. Jürgen Strube, Robert Oswald, Dr. Tessen von Heydebreck and Michael Vassiliadis. The members of the "Nomination Committee" are the members of the Supervisory Board elected at the Annual Meeting, in other words, Prof. Dr. Jürgen Strube, Prof. Dr. François N. Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck and Max Dietrich Kley.

Shareholders' rights

At the Annual Meeting, shareholders perform their rights of co-administration and supervision. Each BASF share represents one vote. Shareholders may exercise their voting rights at the Annual Meeting either personally, through a representative of their choice or through a company-appointed proxy authorized by shareholders to vote according to their instructions. There are neither voting

caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has fully implemented the principle of "one share, one vote." All shareholders are entitled to participate in the Annual Meeting, to have their say concerning any resolution and to demand information about company issues to the extent that it serves to help make an informed judgment about the resolution under discussion. Half of the members of the Supervisory Board are elected at the Annual Meeting where above all the formal discharge of the Board of Executive Directors and the Supervisory Board is decided on as well as the distribution of profits, capital measures, the authorization of share buy-backs and changes to the Statutes.

German Corporate Governance Code

BASF accords good corporate governance great importance. We therefore support the German Corporate Governance Code, which we regard as an important tool in the capital market-driven continuing development of corporate governance and control. We follow the recommendations of the German Governance Code in its revised version of June 2007 with few exceptions. You can find the Compliance Statement 2007 of the Board of Executive Directors and Supervisory Board of BASF Aktiengesellschaft at the end of this section on page 133. In the same manner, BASF also fulfils most of the non-obligatory suggestions of the German Corporate Governance Code.

→ The Compliance Statement 2007, an overview of the implementation of the code's suggestions and the German Corporate Governance Code are available on the Internet at: corporate.basf.com/en/investor/cg/kodex

Values and Principles of the BASF Group / Code of Conduct

In order to guarantee a high standard of corporate governance, the Board of Executive Directors has set down and published the "Values and Principles" of the BASF Group, and the "Code of Conduct/Compliance Program." These lay down our business principles and guidelines for the conduct of all activities within the BASF Group. The Code of Conduct describes in detail the conduct we expect from BASF employees – based on the principle of integrity. Key areas for us include observing all relevant legislation, in particular antitrust and competition legislation; embargo and export controls legislation – including those on chemical weapons; labor laws and legislation relating to plant safety. Other issues covered are bans on insider dealing for personal benefit and bans on facilitation payments to, or from, business partners or government officials, and the responsible treatment of BASF's assets. The Corporate Audit department, together with BASF's Chief Compliance Officer, monitors compliance on a regular basis.

→ The "Values and Principles" of the BASF Group and the "Code of Conduct" are also available on the Internet at: corporate.basf.com/values

Disclosure according to Section 315 (4) of the German Commercial Code and the explanatory report of the Board of Executive Directors according to Section 175 (2) of the German Stock Corporation Act

According to Section 315 (4) of the German Commercial Code the company is obliged to disclose certain legal company structures and other legal relationships so as to enable a better overview of the company and of possible barriers to takeover.

As of December 31, 2007, the subscribed capital of BASF Aktiengesellschaft amounted to €1,255,641,600.00, divided into 490,485,000 bearer shares with no par value (thereof 12,300,000 bought back and designated for cancellation). Each share shall, at an Annual Meeting, entitle the holder to one vote. Restrictions on the right to vote or transfer shares do not exist. The same rights and duties are associated with all shares. According to the Statutes, shareholders are not entitled to securitized shares. There are neither different classes of shares nor shares with preferential voting rights (golden shares).

The appointment and dismissal of members of the Board of Executive Directors is legally governed by the regulations in Article 39 of the SE Council Regulation, Section 16 of the SE Implementation Act and Sections 84, 85 of the German Stock Corporation Act as well as Section 7 of the BASF SE Statutes. Members of the Board of Executive Directors are appointed and dismissed by the Supervisory Board according to these Acts. The members of the Board of Executive Directors are appointed for a maximum of five years, whereby re-appointments are permissible. The Supervisory Board can dismiss a member of the Board of Executive Directors if there is significant reason to do so. Examples include, in particular, a gross breach of the duties pertaining to the Board of Executive Directors or a motion of no confidence at the Annual Meeting. Appointments and dismissals are decided by the Supervisory Board according to their dutiful discretion.

Amendments to the Statutes of BASF SE require a resolution of the Annual Meeting adopted with at least a two-thirds majority of the votes cast, provided that the legal provisions applicable to public limited liability companies do not stipulate or allow for larger majority requirements (Art. 59 para. 1 SE Council Regulation). In the case of amendments to the Statutes, the German Stock Corporation Act (Section 179 para. 2) requires a majority of at least three quarters of the subscribed capital represented. Pursuant to Art. 12 No. 6 of the Statutes of BASF SE, the Supervisory Board is authorized to make amendments

to the Statutes which only concern their wording. This applies, in particular to the alignment of share capital and the number of shares after a BASF share buyback and after a new issue of shares from the authorized capital.

Until May 1, 2009, the Board of Executive Directors of BASF SE is empowered by a resolution passed at the Annual Meeting of April 29, 2004 to increase the subscribed capital, with the consent of the Supervisory Board, by a total amount of €500 million through the issue of new shares (authorized capital). This includes the authorization of the Board of Executive Directors to exclude the statutory subscription right of the shareholders in certain cases outlined in Section 3 (8) of the BASF Statutes (now Section 5 (8) in the BASF SE Statutes) with the consent of the Supervisory Board. Such cases include the acquisition of companies, parts of companies or holdings in companies in return for the transfer of BASF shares and capital increases in return for cash contributions, provided that the issue price of the new shares is not substantially lower than the stock market price of the BASF share and the total number of shares issued under this authorization is not more than 10% of the subscribed capital on the date of issue.

The Annual Meeting of April 26, 2007, empowered the Board of Executive Directors to buy back up to 10% of the shares until 25 October, 2008. The shares will be purchased at the discretion of the Board of Executive Directors, via the stock exchange through a public purchase offer addressed to all shareholders. The Board is empowered to cancel the shares bought back and to reduce share capital by the portion of the cancelled shares in the share capital. The shares bought back can only be reissued after a resolution of the Annual Meeting passed with a three-quarters majority. However, notwithstanding the above, the Board of Executive Directors is authorized, with consent of the Supervisory Board to use the shares bought back for the acquisition of companies, parts of companies or holdings in companies without a resolution from the Annual Meeting.

In the case of a change of control, members of the Board of Executive Directors shall, under certain additional conditions, receive compensation details of which are listed in the compensation report on page 128. A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF SE and its subsidiaries who are designated as 'executives' (Obere Führungskräfte) will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the change-of-control event, provided the

employee has not given cause for the termination. The employee whose service contract has been terminated in such a case will receive a severance payment to the maximum of 1.5 times the annual salary (fixed component) depending on the number of months that have passed since the change-of-control event.

The remaining specifications stipulated in Section 315 para. 4 of the German Commercial Code refer to situations that are not applicable to BASF SE.

Directors' and Officers' liability insurance

BASF has taken out liability insurance that covers the activities of members of the Board of Executive Directors and the Supervisory Board (D&O insurance). The policy provides for a suitable level of deductibles.

Share ownership by members of the Board of Executive Directors and the Supervisory Board

No member of the Board of Executive Directors or the Supervisory Board owns shares in BASF SE and related options or other derivatives that account for 1% or more of the share capital. Furthermore, the entire holdings by members of the Board of Executive Directors and the Supervisory Board account for less than 1% of the shares issued by the company.

Share dealings of the Board of Executive Directors and Supervisory Board (notifiable transactions under Section 15a of German Securities Trading Act)

In accordance with Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz), all members of the Board of Executive Directors and the Supervisory Board, as well as certain members of their relatives, are required to disclose the purchase or sale of BASF shares and other related rights to the German Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) and to the company if transactions within the calendar year exceed the threshold of €5,000.

In 2007, there were a total of six reportable purchases and four reportable sales notified by the members of the Board of Executive Directors and the Supervisory Board. The transactions involved between 40 and 2,700 BASF shares with a share price of between €74.27 and €99.71. The volume of the individual trades was between €3,470 and €244,383.31.

→ All transactions reported in 2007 are published on the Internet at: corporate.basf.com/governance_e

MANAGEMENT AND SUPERVISORY BOARDS

Board of Executive Directors

As of December, 31 2007, there were eight members on the **Board of Executive Directors of BASF Aktiengesellschaft**. All board memberships ended with the entry of the conversion from BASF Aktiengesellschaft to the legal structure of a European company (SE) in the commercial register on January, 14 2008.

DR. JÜRGEN HAMBRECHT

Chairman of the Board of Executive Directors

Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications BASF Group; Global HR – Executive Management & Development; Investor Relations

First appointed: 1997 (chairman since 2003)

Term expires: 2011

Supervisory board memberships (excluding internal memberships):

Bilfinger Berger AG (supervisory board member)

Daimler AG (supervisory board member since February 2008)

DR. H.C. EGGERT VOSCHERAU

Vice Chairman of the Board of Executive Directors

Responsibilities: Industrial Relations Director; Human Resources; Environment, Safety & Energy; Occupational Medicine & Health Protection; Corporate & Governmental Relations; Verbund Site Management Europe; Region Europe

First appointed: 1996

Term expires: 2008

Supervisory board memberships (excluding internal memberships):

HDI Haftpflichtverband der Deutschen Industrie VVaG

(supervisory board member)

Talanx AG (supervisory board member)

CropEnergies AG (supervisory board chairman)

Deutsche Bahn AG (supervisory board member)

Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW) (supervisory board member since March 2007; supervisory board deputy member since July 2007)

Internal memberships as defined in Section 100 (2) of the German

Stock Corporation Act:

BASF Schwarzheide GmbH (supervisory board chairman until May 2007)

Comparable German and non-German controlling bodies:

Nord Stream AG (supervisory board member)

BASF Antwerpen N.V.

(chairman of the administrative council until October 2007)

DR. KURT BOCK

Responsibilities: Finance; Catalysts (since April 2007); Market & Business Development North America (since April 2007); Regional Functions North America (since April 2007); Information Services; Corporate Controlling; Corporate Audit; Global Procurement & Logistics; Region South America (until August 2007)

First appointed: 2003

Term expires: 2012

Internal memberships as defined in Section 100 (2) of the German

Stock Corporation Act:

Wintershall Holding AG (supervisory board member)

Wintershall AG (supervisory board member)

BASF Coatings AG (supervisory board member until December 2007)

Comparable German and non-German controlling bodies:

The European Equity Fund Inc. (member of the board of directors)

The Central Europe and Russia Fund Inc. (member of the board of directors)

DR. MARTIN BRUDERMÜLLER

Responsibilities: Market & Business Development Asia Pacific; Regional Functions & Market Efficiency Asia Pacific

First appointed: 2006

Term expires: 2008

DR. JOHN FELDMANN

Responsibilities: Styrenics; Performance Polymers; Polyurethanes; Oil & Gas; Polymer Research

First appointed: 2000

Term expires: 2009

Internal memberships as defined in Section 100 (2) of the German

Stock Corporation Act:

Wintershall Holding AG (supervisory board chairman)

Wintershall AG (supervisory board chairman)

DR. ANDREAS KREIMEYER

Responsibilities: Construction Chemicals; Coatings; Functional Polymers; Performance Chemicals

First appointed: 2003

Term expires: 2012

Internal memberships as defined in Section 100 (2) of the German

Stock Corporation Act:

BASF Coatings AG (supervisory board chairman until December 2007)

DR. STEFAN MARCINOWSKI**Research Executive Director**

Responsibilities: Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; Corporate Engineering; Science Relations & Innovation Management; BASF Future Business GmbH; Region South America (since September 2007)

First appointed: 1997

Term expires: 2012

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding AG (supervisory board member)

Wintershall AG (supervisory board member)

BASF Coatings AG (supervisory board member since December 2007, supervisory board chairman since January 2008)

PETER OAKLEY

Responsibilities: Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science

First appointed: 1998

Term expires: January 2008

Retired from BASF Aktiengesellschaft on July 31, 2007:

KLAUS PETER LÖBBE

Responsibilities: Catalysts; Region North America

First appointed: 2002

Entered the Board of Executive Directors on January 1, 2008:

DR. HARALD SCHWAGER

First appointed: 2008

Term expires: 2010

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

BASF Schwarzheide GmbH (supervisory board member since May 2007, supervisory board chairman since July 2007)

Comparable German and non-German controlling bodies:

BASF Antwerpen N.V. (member of the administrative council, chairman of the administrative council since October 2007)

As of the conversion of the legal structure on January 14, 2008, members of the **Board of Executive Directors of BASF SE** are:

DR. JÜRGEN HAMBRECHT**Chairman of the Board of Executive Directors**

Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications BASF Group; Global HR - Executive Management & Development; Investor Relations, Chief Compliance Officer

Term expires: 2011

DR. H.C. EGGERT VOSCHERAU**Vice Chairman of the Board of Executive Directors**

Responsibilities (until Annual Meeting 2008): Industrial Relations Director; Human Resources; Environment, Health & Safety; Verbund Site Management Europe; Engineering & Maintenance; Corporate & Governmental Relations; Region Europe

Term expires: 2008

DR. KURT BOCK

Responsibilities: Finance; Catalysts; Market & Business Development North America; Regional Functions North America; Information Services; Corporate Controlling; Corporate Audit; Global Procurement & Logistics

Term expires: 2012

DR. MARTIN BRUDERMÜLLER

Responsibilities: Performance Polymers; Polyurethanes; Market & Business Development Asia Pacific; Regional Functions & Market Efficiency Asia Pacific

Term expires: 2008

DR. JOHN FELDMANN

Responsibilities: Oil & Gas; Construction Chemicals; Acrylics & Dispersions; Care Chemicals; Performance Chemicals; Styrenics; Polymer Research

Term expires: 2009

DR. ANDREAS KREIMEYER**Research Executive Director**

Responsibilities: Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; BASF Future Business; Science Relations & Innovation Management

Term expires: 2012

DR. STEFAN MARCINOWSKI

Responsibilities: Crop Protection; Coatings; Specialty Chemicals Research; BASF Plant Science; Region South America

Term expires: 2012

DR. HARALD SCHWAGER

Responsibilities (as of Annual Meeting 2008): Industrial Relations Director; Human Resources; Environment, Health & Safety; Verbund Site Management Europe; Engineering & Maintenance; Corporate & Governmental Relations; Region Europe

Term expires: 2010

Supervisory Board

Until the entry of the conversion from BASF Aktiengesellschaft to the legal structure of a European company (SE) in the commercial register on January 14, 2008, the **Supervisory Board of BASF Aktiengesellschaft** comprised 20 members. Ten members were elected by shareholders at the Annual Meeting, and the remaining ten were elected by employees. The term of all supervisory board members of BASF Aktiengesellschaft ended on January 14, 2008, with the entry of the conversion of the legal structure in the commercial register to a European company (SE).

Effective May 1, 2007, Dr. Friedrich Wirsing, who had been elected by employees as substitute, replaced Dr. Karlheinz Messmer, who retired effective April 30, 2007.

Members of the Supervisory Board of BASF Aktiengesellschaft (as of December 31, 2007)

PROFESSOR DR. JÜRGEN STRUBE, Mannheim, Germany
Chairman of the Supervisory Board of BASF Aktiengesellschaft
Former Chairman of the Board of Executive Directors of BASF Aktiengesellschaft

Supervisory board memberships (excluding internal memberships):

Allianz Deutschland AG (supervisory board member)
Bayerische Motoren Werke AG (supervisory board member)
Bertelsmann AG (supervisory board deputy chairman)
Commerzbank AG (supervisory board member)
Fuchs Petrolub AG (supervisory board chairman)
Hapag-Lloyd AG (supervisory board member)
Linde AG (supervisory board member)

ROBERT OSWALD, Altrip, Germany
Deputy Chairman of the Supervisory Board of BASF Aktiengesellschaft
Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft and chairman of the joint works council of the BASF Group

RALF GERD BASTIAN, Neuhofen, Germany
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

WOLFGANG DANIEL, Limburgerhof, Germany
Deputy chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

PROFESSOR DR. FRANÇOIS N. DIEDERICH, Zurich, Switzerland
Professor at the Swiss Federal Institute of Technology Zurich

MICHAEL DIEKMANN, Munich, Germany
Chairman of the Board of Management of Allianz SE

Supervisory board memberships (excluding internal memberships):

Linde AG (supervisory board deputy chairman)
Deutsche Lufthansa AG (supervisory board member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Allianz Deutschland AG (supervisory board chairman)
Allianz Global Investors AG (supervisory board chairman)
Dresdner Bank AG (supervisory board chairman)

Comparable German and non-German bodies:

Assurances Générales de France (administrative council member)
Riunione Adriatica di Sicurtà S.p.A. (administrative council member)

DR. TESSEN VON HEYDEBRECK, Frankfurt (Main), Germany
Former Member of the Board of Managing Directors of Deutsche Bank AG

Supervisory board memberships (excluding internal memberships):

DWS Investment GmbH (supervisory board deputy chairman)

Comparable German and non-German bodies:

Deutsche Bank OOO (supervisory board chairman)
Deutsche Bank Luxembourg S. A. (administrative council chairman)
Deutsche Bank Polska S. A. (supervisory board chairman)
Deutsche Bank Rt. (supervisory board chairman)

ARTHUR L. KELLY, Chicago, Illinois, USA
Chief Executive of KEL Enterprises L. P.

Supervisory board memberships (excluding internal memberships):

Bayerische Motoren Werke AG (supervisory board member)

Comparable German and non-German bodies:

Data Card Corporation (member of the board of directors)
Deere & Company (member of the board of directors)
Northern Trust Corporation (member of the board of directors)
Snap-on Incorporated (member of the board of directors)

ROLF KLEFFMANN, Wehrbleck, Germany
Chairman of the works council of Wintershall Holding AG's Barnstorf Oil Plant

MAX DIETRICH KLEY, Heidelberg, Germany
Lawyer

Supervisory board memberships (excluding internal memberships):

HeidelbergCement AG (supervisory board member)
Infineon Technologies AG (supervisory board chairman)
Schott AG (supervisory board member)
SGL Carbon AG (supervisory board chairman)

Comparable German and non-German bodies:

UniCredito Italiano S.p.A. (member of the board of directors)

PROFESSOR DR. RENATE KÖCHER, Allensbach, Germany
Managing Director of the 'Institut für Demoskopie Allensbach',
Gesellschaft zum Studium der öffentlichen Meinung mbH

Supervisory board memberships (excluding internal memberships):

Allianz SE (supervisory board member)
MAN AG (supervisory board member)
Infineon Technologies AG (supervisory board member)

EVA KRAUT, Ludwigshafen, Germany
Chairwoman of the works council of BASF IT Services GmbH,
Ludwigshafen

ULRICH KÜPPERS, Ludwigshafen, Germany
Regional manager of the Rhineland-Palatinate/Saarland branch of the
Mining, Chemical and Energy Industries Union (IG BCE)

Supervisory board memberships (excluding internal memberships):

Klinikum der Stadt Ludwigshafen gGmbH
(supervisory board deputy chairman)
Evonik New Energies AG (supervisory board deputy chairman)
Technische Werke Ludwigshafen AG (TWL) (supervisory board deputy
chairman)
Villeroy & Boch AG (supervisory board deputy chairman)
Villeroy & Boch Fliesen GmbH (supervisory board member)

KONRAD MANTEUFFEL, Bensheim, Germany
Member of the works council of the Ludwigshafen site of
BASF Aktiengesellschaft

Supervisory board memberships (excluding internal memberships):

BASF Pensionskasse VVaG (supervisory board deputy chairman)
LUWOG Wohnungsunternehmen der BASF GmbH
(supervisory board member)

HANS DIETER PÖTSCH, Wolfsburg, Germany
Member of the Board of Management of Volkswagen AG

Supervisory board memberships (excluding internal memberships):

Allianz Versicherungs AG (supervisory board member)
Bizerba GmbH & Co. KG (supervisory board chairman)

Comparable German and non-German bodies:

Scania AB (administrative council member)

PROFESSOR DR. HERMANN SCHOLL, Stuttgart, Germany
Chairman of the Supervisory Council of Robert Bosch GmbH and Manag-
ing Director of Robert Bosch Industrietreuhand KG

Supervisory board memberships (excluding internal memberships):

Robert Bosch GmbH (supervisory board chairman)

Comparable German and non-German bodies:

Robert Bosch Internationale Beteiligungen AG
(administrative council member)
Robert Bosch Corporation (member of the board of directors)

RALF SIKORSKI, Ludwigshafen, Germany
Manager of the Ludwigshafen branch Mining, Chemical and Energy
Industries Union (IG BCE)

ROBERT STUDER, Zurich, Switzerland
Former Chairman of the Supervisory Board of the Union Bank of
Switzerland

Comparable German and non-German bodies:

Espirito Santo Financial Group S. A. (administrative council member)
Schindler Holding AG (administrative council member)

MICHAEL VASSILIADIS, Hemmingen, Germany
Member of the Central Board of Executive Directors of the Mining,
Chemical and Energy Industries Union (IG BCE)

Supervisory board memberships (excluding internal memberships):

Henkel KGaA (supervisory board member)
K+S Aktiengesellschaft (supervisory board deputy chairman)
K+S Kali GmbH (supervisory board deputy chairman)
Evonik Steag GmbH (supervisory board deputy chairman)

DR. FRIEDRICH WIRSING, Kaiserslautern, Germany
Plant manager at the Ludwigshafen site of BASF Aktiengesellschaft

In accordance with the Statutes, the **Supervisory Board of BASF SE** comprises twelve members. Based on Sec. 35 para. 1 of the German Act on the Involvement of Employees in a European Company (SE Involvement Act – SEBG), BASF SE is following the principle of parity between shareholder representatives and employee representatives already applied for the constitution of the Supervisory Board of BASF Aktiengesellschaft. The six shareholder representatives were elected at the Annual Meeting on April 26, 2007, within the decision on the conversion into an SE. By way of derogation from Sec. 40 para. 2 of the Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE), the six employee representatives are not elected by the Annual Meeting, but appointed by the representative body of the employees, the BASF SE Euro Dialog, according to the Agreement Concerning the Involvement of Employees in BASF SE concluded within the conversion procedure based on Sec. 21 ff. SEBG. The employee representatives on the first Supervisory Board of BASF SE have been appointed directly by the Agreement Concerning the Involvement of Employees in BASF SE and are members of the Supervisory Board with effect from January 14, 2008 (day of entry of BASF SE in the commercial register of the Ludwigshafen district court). The term of office of all members of the first Supervisory Board of BASF SE terminates upon the conclusion of the Annual Meeting of BASF SE to be held in 2009.

Members of the first Supervisory Board of BASF SE

(The memberships of supervisory boards are not restated if the information has already been mentioned in the section on the supervisory board of BASF Aktiengesellschaft.)

PROF. DR. JÜRGEN STRUBE, Mannheim, Germany
Chairman of the Supervisory Board of BASF SE

RALF GERD BASTIAN, Neuhofen, Germany
Member of the works council of the Ludwigshafen site of BASF SE

WOLFGANG DANIEL, Limburgerhof, Germany
Deputy chairman of the works council of the Ludwigshafen site of BASF SE

PROF. DR. FRANÇOIS N. DIEDERICH, Zurich, Switzerland
Professor at the Swiss Federal Institute of Technology Zurich

MICHAEL DIEKMANN, Munich, Germany
Chairman of the Board of Management of Allianz SE

FRANZ FEHRENBACH, Stuttgart, Germany
Chairman of the Board of Management of Robert Bosch GmbH

Comparable German and non-German bodies:
Robert Bosch Corporation (member of the board of directors)

DR. TESSEN VON HEYDEBRECK, Frankfurt (Main), Germany
Former Member of the Board of Managing Directors of Deutsche Bank AG

MAX DIETRICH KLEY, Heidelberg, Germany
Lawyer

ULRICH KÜPPERS, Ludwigshafen, Germany
Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union (IG BCE)

ROBERT OSWALD, Altrip, Germany
Chairman of the works council of the Ludwigshafen site of BASF SE and the chairman of the joint works council of the BASF Group

DENISE SCHELLEMANS, Kalmthout, Belgium
Full time trade union delegate

MICHAEL VASSILIADIS, Hemmingen, Germany
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union (IG BCE)

Compensation Report

This report outlines the main principles of the compensation system for the Board of Executive Directors. It also discloses the amount and structure of the compensation for each individual Board member. Furthermore, this report provides information on end-of-service undertakings with respect to Board members. This report also includes information on the compensation of the Supervisory Board members.

This report meets the disclosure requirements of the German Commercial Code extended by the additional requirements for the Board of Executive Directors and the Supervisory Board based on the German Law on the Disclosure of Compensation of Members of the Board (Vorstandsvergütungs-Offenlegungsgesetz) and is aligned with the recommendations of the German Corporate Governance Code.

Compensation of Board members

The compensation of Board members is determined and reviewed every two to three years by the Nomination and Compensation Committee of the Supervisory Board (Personalausschuss) (see page 117). The determination of the amount and structure of the compensation depends on the company's size and its financial position, as well as the performance of the Board of Executive Directors. Globally operating European-based companies serve as a reference. The last such review took place on April 27, 2006. This review resulted in an increase of the variable bonus as of 2007.

The compensation of Board members is composed of:

1. a fixed annual salary
2. an annual variable bonus
3. stock price-based compensation in the form of virtual stock options (hereafter options) as a long-term component
4. non-monetary compensation and other additional compensation in varying amounts
5. company pension benefits

The amount of the annual variable compensation, the value of the options granted and the company pension are largely determined by company performance. This means, in terms of total compensation, significance is attached to company performance.

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.
2. The Board member's annual variable compensation (variable bonus) is based on the return on assets (ROA). The variable bonus for the prior fiscal year is payable after the Annual Meeting. For more information on the return on assets, which is also used to determine the variable compensation of other groups of employees, see page 198. Board members, as other employee groups, may contribute a portion of their bonus up to a maximum of €30,000 annually into a deferred compensation program. Board members have taken advantage of this offering to varying degrees.
3. Board members may also participate in the BASF option program (BOP) for senior executives (see table below). For further details on the BASF option program, see page 189 onward.
4. Non-monetary compensation and other additional compensation include: delegation allowances, accident insurance premiums and other similar benefits, as well as the personal use of, or benefit from, communication equipment, company cars and security measures made available by the company. The members of the Board did not receive loans or advances from the company.
5. For details on the company pension benefits, see page 127.

Based on these principles, individual Board members received the following compensation:

Thousand €

	Non-performance related compensation			Performance-related compensation	Total cash compensation	Options granted		Total compensation (cash compensation plus options granted)
	Year	Fixed salary	Non-monetary compensation and other additional compensation	Variable bonus ⁽¹⁾		Number	Market value at option grant date	
Dr. Jürgen Hambrecht Chairman of the Board of Executive Directors	2007	1,100	140	2,800	4,040	30,084	1,172	5,212
	2006	1,100	151	2,175	3,426	38,448	716	4,142
Dr. h.c. Eggert Voscherau Vice Chairman of the Board of Executive Directors	2007	732	145	1,862	2,739	20,004	779	3,518
	2006	732	98	1,446	2,276	25,532	475	2,751
Dr. Kurt Bock	2007	550	106	1,400	2,056	15,040	586	2,642
	2006	550	109	1,088	1,747	19,224	358	2,105
Dr. Martin Brudermüller	2007	550	964 ⁽²⁾	1,400	2,914	15,040	586	3,500
	2006	550	813 ⁽²⁾	1,088	2,451	7,740	144	2,595
Dr. John Feldmann	2007	550	93	1,400	2,043	15,040	586	2,629
	2006	550	74	1,088	1,712	19,224	358	2,070
Dr. Andreas Kreimeyer	2007	550	96	1,400	2,046	15,040	586	2,632
	2006	550	123	1,088	1,761	18,000	335	2,096
Klaus Peter Löbbe (until 31.07.2007)	2007	309 ⁽²⁾	621 ⁽³⁾	1,072 ⁽⁴⁾	2,002	15,040	586	2,588
	2006	535 ⁽²⁾	725 ⁽³⁾	1,088	2,348	17,540	326	2,674
Dr. Stefan Marcinowski	2007	550	102	1,400	2,052	15,040	586	2,638
	2006	550	78	1,088	1,716	19,224	358	2,074
Peter Oakley	2007	550	123	1,400	2,073	15,040	586	2,659
	2006	550	114	1,088	1,752	19,224	358	2,110
	Total 2007:	5,441	2,390	14,134	21,965	155,368	6,053	28,018
	Total 2006:	5,667	2,285	11,237	19,189	184,156	3,428	22,617

⁽¹⁾ The variable bonus is, based on the return on assets, which is also used to determine the variable compensation of other groups of employees. The shown figure includes all contributions, if any, made to the deferred compensation program.

⁽²⁾ Payment is made in local currency based on a theoretical (pro rata temporis) net salary in Germany. As a result, there is a deviation from the contractually agreed fixed gross salary (€550,000 yearly).

⁽³⁾ Includes delegation allowances, such as the assumption of prevailing local rental fees

When comparing with the cash compensation in 2006 it should be considered that Klaus Peter Löbbe left the Board on July 31, 2007. Adjusted for this effect and based on the decision of the Nomination and Compensation Committee to raise the variable bonus on April 27, 2006, the cash compensation for the Board increased by 19%.

The personnel expenses for the year 2007 relating to the options issued were as follows: Dr. Jürgen Hambrecht €6,268 thousand (2006: €1,805 thousand); Dr. h.c. Eggert Voscherau €3,226 thousand (2006: €1,083 thousand); Dr. Kurt Bock €2,978 thousand (2006: €921 thousand); Dr. Martin Brudermüller €1,095 thousand (2006: €274 thousand);

Dr. John Feldmann €3,333 thousand (2006: €1,009 thousand), Dr. Andreas Kreimeyer €1,327 thousand (2006: €273 thousand); Klaus Peter Löbbe €3,442 thousand (2006: €920 thousand), Dr. Stefan Marcinowski €3,574 thousand (2006: €1,051 thousand) and Peter Oakley €3,788 thousand (2006: €1,088 thousand).

The personnel expenses refer to the sum of all options from the programs BOP 2001 to BOP 2007. The figure is derived by the difference of the value of the options on December 31, 2007, (balance sheet date) compared with the value on December 31, 2006, considering the options exercised and granted in 2007. The value of the options is based on the development of the BASF share price and its outperformance compared with the benchmark index chosen for the programs BOP 2001 to BOP 2007. The personnel expenses attributable to the year 2007 increased compared with 2006 in particular due to the higher value of the options as of December 31, 2007. This is mainly due to the higher BASF share price at year end (2007: €101.41 compared with 2006: €73.85) and the outperformance compared with the benchmark index.

The personnel expenses are purely accounting figures which do not equate with the actual cash gains in case options are exercised. The members of the Board decide on the timing and scope of the exercise of options taking into account the general terms and conditions and ceilings of the BASF option program (BOP) for senior executives (see page 189 for further details).

The members of the Board are covered by a consequential loss liability insurance concluded by the company (D&O insurance). The policy provides for a deductible.

Pension benefits

Annual pension units are accrued for the members of the Board. The method of determination of the amount of the pension benefits generally corresponds to that used for other employee groups. The method is designed such that both the performance of the company and the progression of the individual Board member's career significantly affect the pension entitlement.

The annual pension benefits accrued for Board members in a given reporting year (pension unit) are composed of a fixed and a variable component. The fixed component is calculated by multiplying the annual fixed compensation above the Social Security Contribution Ceiling by 35%. The resulting amount is converted into a lifelong pension payable on retirement using actuarial factors based on a discount rate (6%), the probability of death, invalidity and mortality (Heubeck-Richttafeln, 1998) and an assumed pension increase (1.5% per annum). This is the amount that is payable upon retirement. The variable component of the pension unit depends on the return on assets in the reporting year under consideration. The variable component is based on a return on assets of 12% at which point the variable component is equal in value to the fixed component. Based on a return on assets of 12%, there is a linear relationship between the variable component and the

return on assets figures between 10% and 14%. The sum of the pension units accumulated over the respective reporting years determines the respective Board member's pension benefit at the end of service upon the attainment of retirement age of 60 years or disability or death. Pension payments are adjusted on an annual basis according to the changes in the German consumer price index.

The pension units also include survivor benefits. Upon the death of an active or former member of the Board, the surviving spouse receives a survivor pension amounting to 60% of the Board member's pension entitlement. The orphan pension amounts to 10% for each half-orphan, 33% for an orphan, 25% each for two orphans and 20% each for three or more orphans of the pension entitlement of the deceased Board member. The survivor benefits may not exceed 75% of the Board member's total pension entitlement. If the survivor pensions exceed the upper limit, they will be proportionately reduced.

Board members are members of the BASF Pensionskasse VVaG, as are generally all employees of BASF SE. Contributions and benefits are determined by the statutes and general conditions of the BASF Pensionskasse VVaG. The service cost attributable to the year 2007 were as follows: Dr. Jürgen Hambrecht €507 thousand (2006: €830 thousand); Dr. h.c. Eggert Voscherau €108 thousand (2006: €171 thousand); Dr. Kurt Bock €633 thousand (2006: €625 thousand); Dr. Martin Brudermüller €638 thousand (2006: €571 thousand); Dr. John Feldmann €658 thousand (2006: €588 thousand); Dr. Andreas Kreimeyer €652 thousand (2006: €595 thousand); Klaus Peter Löbbe €141 thousand (2006: €154 thousand); Dr. Stefan Marciniowski €621 thousand (2006: €577 thousand) and Peter Oakley €577 thousand (2006: €566 thousand). These amounts include the costs for the pension claims arising from the deferred contribution program.

End of service benefits

A Board member that leaves the company before the age of 60, whose employment contract is not renewed or is revoked, is entitled to pension benefits. In such a case, the company is entitled to offset compensation received for any other work done against pension benefits.

End of service following a change of control event: A change of control event, in terms of this provision, occurs when a shareholder informs BASF of a shareholding of at least 25%, or the increase of such a holding.

If a Board member's position is revoked within one year following a change-of-control event, the Board member will continue to receive the contractually agreed payments (fixed compensation and variable bonus) for the remaining contractual term of office. In addition, the Board member

will receive a severance payment, depending on the remaining contractual term of office, up to a maximum of 2.5 years of compensation (based on the fixed compensation and the previous year's variable bonus), which, together with the continuing compensation, may not exceed five years of compensation. Furthermore, the Board member may receive the fair value of the option rights acquired in connection with BOP within a period of three months. The premature termination of service due to the revocation of a Board member's position entitles the Board member to pension benefits. When calculating the amount of the pension benefits, the missing years of service up to the age of 60 years will be considered.

The aforementioned is also applicable upon the occurrence of a change-of-control event, if the time to the end of the current contractual term of office is less than two years and the appointment is not subsequently extended by a minimum of two years.

The aforementioned payments are only payable if the Board member has not given cause for the termination or non-renewal of his service contract.

Contracts for future Board members

The contracts for future Board members will contain the following major changes:

A Board member that leaves the company before the age of 60 is entitled to pension benefits only if he/she has been a Board member for at least 10 years or has less than 10 years until the legal retirement age.

If a Board member's position is revoked within one year following a change-of-control event, the Board member will only receive the contractually agreed payments (fixed compensation and variable bonus based on a return on assets of 12%) for the remaining contractual term of office as a lump sum.

Previous Board members

Total compensation for previous Board members and their surviving dependents amounted to €7.1 million (2006: €6.0 million) in the year 2007. This figure also contains payments which former Board members have themselves financed through the deferred compensation program. Pension provisions for previous Board members and their surviving dependents amounted to €76.9 million (2006: €75.1 million).

Compensation of Supervisory Board members

The compensation of the Supervisory Board is regulated by the company statutes.

Each member of the Supervisory Board receives fixed compensation of €60,000 and a performance-oriented variable compensation for each full €0.01 by which the earnings per share of the BASF Group declared in the BASF Group Consolidated Financial Statements for the year for which the remuneration is being paid exceeds the minimum earnings per share. The minimum earnings per share for the year 2007 is €2.60. The performance-oriented variable remuneration is €400 for each full €0.01 of earnings per share up to an earnings per share of €4.10, €300 for each further €0.01 of earnings per share up to an earnings per share of €5.10 and €200 for each €0.01 beyond this. The performance-oriented variable remuneration is limited to a maximum amount of €120,000. The minimum earnings per share and the corresponding thresholds shall increase by €0.10 for each subsequent financial year. Based on the earnings per share of €8.32 published in the BASF Group Consolidated Statements 2007, the performance-oriented compensation amounted to the maximum of €120,000. The chairman of the Supervisory Board receives two-and-a-half times and a deputy chairman one-and-a-half times the remuneration of an ordinary member.

Members of the Supervisory Board who are members of a committee, with the exception of the Mediation Committee formed in accordance with Section 27 (3) of the German Codetermination Act, shall receive a further fixed remuneration for this purpose in the amount of €12,500. For the Audit Committee, the further fixed remuneration shall be €25,000. The chairman of a committee shall receive twice and a deputy chairman one-and-a-half times the further fixed remuneration.

The company reimburses members of the Supervisory Board for out-of-pocket expenses and value-added tax to be paid with regard to their activities as members of the Supervisory Board or of a committee. The company further grants the members of the Supervisory Board a fee of €500 for attending a meeting of the Supervisory Board or one of its committees to which they belong and includes the performance of the duties of the members of the Supervisory Board in the cover of a consequential loss liability insurance concluded by it (D&O insurance).

The total compensation, including attendance fees, of the Supervisory Board amounted to €4.2 million in 2007 (2006: €4.1 million). The compensation of the individual Supervisory Board members was as follows:

Thousand €

	Fixed compensation		Performance-oriented variable compensation		Payment for committee membership(s)		Total compensation	
	2007	2006	2007	2006	2007	2006	2007	2006
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board ⁽¹⁾	150	150	300	293.5	25	25	475	468.5
Robert Oswald, Vice Chairman of the Supervisory Board ⁽²⁾	90	90	180	176.1	12.5	12.5	282.5	278.6
Ralf-Gerd Bastian	60	60	120	117.4			180	177.4
Wolfgang Daniel	60	60	120	117.4			180	177.4
Prof. Dr. François N. Diederich	60	60	120	117.4			180	177.4
Michael Diekmann	60	60	120	117.4			180	177.4
Dr. Tessen von Heydebreck ⁽²⁾	60	60	120	117.4	12.5	12.5	192.5	189.9
Arthur L. Kelly	60	60	120	117.4			180	177.4
Rolf Kleffmann	60	60	120	117.4			180	177.4
Max Dietrich Kley ⁽³⁾	60	60	120	117.4	50	50	230	227.4
Prof. Dr. Renate Köcher	60	60	120	117.4			180	177.4
Eva Kraut	60	60	120	117.4			180	177.4
Ulrich Küppers	60	60	120	117.4			180	177.4
Konrad Manteuffel	60	60	120	117.4			180	177.4
Dr. Karlheinz Messmer ⁽⁴⁾ (until 30.04.2007)	20	60	40	117.4	8.3	25	68.3	202.4
Hans Dieter Pötsch ⁽⁴⁾	60	60	120	117.4	25	25	205	202.4
Prof. Dr. Hermann Scholl	60	60	120	117.4			180	177.4
Ralf Sikorski	60	60	120	117.4			180	177.4
Robert Studer	60	60	120	117.4			180	177.4
Michael Vassiliadis ^{(2) (4)}	60	60	120	117.4	37.5	37.5	217.5	214.9
Dr. Friedrich Wirsing ⁽⁵⁾ (since June 1, 2007)	40	–	80	–	12.5		132.5	–

⁽¹⁾ Chairman of the Nomination and Compensation Committee

⁽²⁾ Member of the Nomination and Compensation Committee

⁽³⁾ Chairman of the Audit Committee

⁽⁴⁾ Member of the Audit Committee

⁽⁵⁾ Member of the Audit Committee (since July 2007)

Compensation for Supervisory Board membership and membership of Supervisory Board committees is payable after the Annual Meeting, which approves the Consolidated Financial Statements upon which the variable compensation is based. Accordingly, compensation relating to the year 2007 will be paid following the Annual Meeting on April 24, 2008.

In the year 2007, the company paid the Supervisory Board member, Prof. Dr. Diederich, approximately €23,400 (2006: approximately €24,400) plus value-added taxes and

out-of-pocket expenses for consulting work in the area of chemical research based on a consulting contract approved by the Supervisory Board.

Beyond this, Supervisory Board members did not receive any further compensation in 2007 for services rendered personally, in particular, the rendering of advisory and agency services.

→ For information on the shareholdings of Board and Supervisory Board members see page 119.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In 2007, BASF again posted outstanding results: Income from operations, income before taxes and earnings per share were again at record highs. In addition, the year was marked by the conversion of BASF Aktiengesellschaft into a European Company. The conversion had been decided at the Annual Meeting on April 26, 2007, and reached its formal end when the change in new legal form was entered into the commercial register at the district court in Ludwigshafen on January 14, 2008. We are now a European Company: BASF SE. This change in legal form underlines our self-concept: We are a European and worldwide orientated company with strong roots in our home market - Europe.

The conversion into an SE has brought with it important changes for the Supervisory Board. When the SE came into existence the mandates of the Supervisory Board members ended. The statutory foundation for the formation and composition of the Supervisory Board also changed. According to the Statutes, the Supervisory Board of BASF SE now has 12 members and – just as with BASF Aktiengesellschaft – consists in equal parts of shareholder and employee representatives. The six shareholder representatives had already been appointed at the Annual Meeting on April 26, 2007, when the resolution for the conversion was passed. The six employee representatives were named in the Employee Participation Agreement. This agreement was negotiated with the special negotiating body representing the European employees as part of the foundation of the SE. For the first time, both German and other European employees were involved in the appointment of employee representatives to the Supervisory Board.

Monitoring and consultation in continual dialog with the Board of Executive Directors

In 2007, the Supervisory Board of BASF Aktiengesellschaft carefully and regularly monitored the management of the company by the Board of Executive Directors and provided advice on the company's strategic development and important individual measures. To this end, the Supervisory Board requested detailed information from the Board of Executive Directors at five meetings, as well as in written and verbal reports. Topics included: business policies, the business situation and business trends, profitability, the company's planning with regard to finances, capital expenditures and human resources at BASF SE and its major subsidiaries, as well as deviations from plan. The Chairman of the Supervisory Board also regularly requested information from the Chairman of the Board of Executive Directors outside of Supervisory Board meetings with regard to current business developments and important events. The

Supervisory Board was involved at an early stage in decisions of major importance.

At five meetings, the Supervisory Board discussed reports from the Board of Executive Directors. The Supervisory Board also discussed the company's prospects as a whole and its individual businesses with the Board of Executive Directors. The members of the Supervisory Board, elected by shareholders and by employees, prepared for the meetings in separate preliminary discussions.

In 2007, no resolutions on individual measures which require the approval of the Supervisory Board by law or Statutes were submitted by the Board of Executive Directors. In the December 5, 2007, meeting, we discussed and approved the operating and financial planning of the Board of Executive Directors for 2008 and empowered the Board to procure financing under certain conditions.

In addition to monitoring management by the Board of Executive Directors, one of the core duties of the Supervisory Board is to offer advice on BASF's strategic direction. The Supervisory Board dealt intensively in all meetings with the further development of the BASF Group and its businesses. We discussed with the Board the reorganization of BASF's businesses into six segments, the strategic positioning of the individual segments and business units and possible individual transactions. In particular, we dealt in 2007 with the Plastics segment and intensively debated its positioning in the market and its strategic perspectives of the Performance Polymers, Polyurethanes and Styrenics divisions. The Supervisory Board supports the Board's suggested reorganization of the Plastics segment, which took effect as of January 1, 2008, and the intended sale of the general-purpose styrenics business. Another important subject was the cooperation between the BASF Group and Gazprom in the Oil & Gas segment. The cooperation was deepened to the mutual benefit of both companies by the participation of the BASF Group in the Yuzhno Russkoye gas field in Western Siberia, and in the construction of a new gas pipeline through the Baltic Sea coupled with Gazprom's taking a participation in a German Wintershall company which produces crude oil in Libya. BASF has taken a further important step through its cooperation with Monsanto in the field of plant biotechnology - an issue which the Supervisory Board has concerned itself with repeatedly within the last few years.

Founding of BASF SE

The Supervisory Board actively accompanied the change in legal form from BASF Aktiengesellschaft into a European Company and dealt with this issue at the February 27, July 6, and October 25 meetings. The decision to propose the change in legal form to the Annual Meeting was made at the February 27 meeting. In the two subsequent meetings, the Supervisory Board received reports on the progress of the negotiations between company management and the special negotiating body representing the employees dealing with employee participation in BASF SE. In addition, the Supervisory Board counseled on the emerging design of codetermination in the Supervisory Board and the creation of the BASF Europa Betriebsrat (Europe Works Council).

The members of the first Supervisory Board of BASF SE appointed at the Annual Meeting on April 26, met for the constitutive meeting of the Supervisory Board on December 5, 2007. They examined the progress on the founding of the SE, made the formal foundation audit report and appointed the first Board of Executive Directors of BASF SE. The period of the new mandate of these Executive Directors corresponds to the remaining term of the old mandate at BASF Aktiengesellschaft. Employee representatives named in the Employee Participation Agreement, whose mandates in the Supervisory Board only began with the creation of the SE on January 14, 2008, attended the constitutive meeting as guests.

Corporate governance and compliance statement

In 2007, the Supervisory Board again addressed in detail the financial and corporate legal framework in which the company operates, as well as the issue of corporate governance standards at BASF. In particular, this involved the revised German Corporate Governance Code as of June 14, 2007.

At its meeting on December 5, 2007, the Supervisory Board approved the joint compliance statement by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act, as well as conducting an examination of efficiency and an assessment of independence. BASF follows the recommendations of the German Corporate Governance Code, in its version of June 14, 2007, with very few exceptions. No Nomination Committee was set up as a result of the fact that the term in office of the Supervisory Board of BASF Aktiengesellschaft ended with the registration of the SE and that the members of the first Supervisory Board of BASF SE had already been appointed at the Annual Meeting on April 26, 2007. However, it was decided at the meeting on October 25, 2007, that a Nomination Committee based on the latest recommendation of the German Corporate Governance Code would be formed in the Supervisory Board of BASF SE. The complete text of the compliance statement is provided on page 133 and is also available to shareholders on BASF's website.

The compensation report containing full details on the structure and amount of the compensation for the Board of Executive Directors and the Supervisory Board, including

the pension benefits of the members of the Board of Executive Directors are found on pages 125 to 129.

Committees

The Supervisory Board of BASF Aktiengesellschaft had established three committees with equal representation from shareholders and employee representatives: the Nomination and Compensation Committee (Personalausschuss) created in accordance with Section 89 (4) of the German Stock Corporation Act; the Audit Committee; and the Mediation Committee established in accordance with Section 27 (3) of the German Codetermination Act. The Supervisory Board received regular reports on the activities of the committees.

The members of the Nomination and Compensation Committee were as follows: Supervisory Board Chairman Prof. Dr. Jürgen F. Strube (chairman), Supervisory Board Deputy Chairman Robert Oswald (deputy chairman), Dr. Tessen von Heydebreck and Michael Vassiliadis. The Nomination and Compensation Committee met four times in 2007. In its meetings, sometimes with the Chairman of the Board of Executive Directors, it discussed, in particular, plans for the future appointment of members of the Board of Executive Directors (long-term succession planning), as well as the remuneration of the Board of Executive Directors. The Nomination and Compensation Committee debated intensively the decisions to be taken by the Supervisory Board in 2007 regarding of the membership the Board of Executive directors and submitted their proposals to the full Supervisory Board. This included the appointment of Dr. Harald Schwager and Dr. Wolfgang Büchele as new board members as of January 1, 2008, the early retirement of Klaus Peter Löbbe for health reasons and the extension of the contracts of the Board members Dr. Kurt Bock and Dr. Andreas Kreimeyer (both until the Annual Meeting in 2012). The Supervisory Board approved the proposals of the Nomination and Compensation Committee at the meeting on July 6, 2007. Following the proposal of the Nomination and Compensation Committee, the Supervisory Board decided to suspend the appointment of Dr. Wolfgang Büchele to the Board, who has decided to leave the company at his own request, as of December 31, 2007.

In 2007, the members of the Audit Committee were Max Dietrich Kley, Dr. Karlheinz Messmer (until April 30, 2007), Hans Dieter Pötsch, Michael Vassiliadis and Dr. Friedrich Wirsing (as of July 6, 2007). The chairman of the Audit Committee was Max Dietrich Kley, who like Hans Dieter Pötsch, had been appointed Audit Committee Financial Expert. The Audit Committee met three times in 2007. Its activities primarily included reviewing the Consolidated Financial Statements of BASF Aktiengesellschaft and BASF Group for 2006; reviewing the Annual Report on Form 20-F prepared in accordance with U.S. accounting standards for the last time; advising the Board of Executive Directors on accounting issues; discussing and defining particular features of the audit; regulating business relations with the company's auditors, including the adoption of a resolution regarding the provision of non-audit services by the auditors; agreeing on the auditing fees; and monitoring the auditor's indepen-

dence. The Audit Committee dealt with the implications of new recommendations and regulations for the work of the Audit Committee. In particular, this related to the revised German Corporate Governance Code as of June 14, 2007, the E.U. auditing directive and the changes resulting from the change in the legal framework following the delisting from the New York Stock Exchange.

It was not necessary to convene the Mediation Committee in 2007. Its members were Prof. Dr. Jürgen F. Strube (chairman), Robert Oswald (deputy chairman), Wolfgang Daniel and Dr. Tessen von Heydebreck.

The Supervisory Board of BASF SE formed three committees, whose members are as follows:

- Personnel Committee: Prof. Dr. Jürgen Strube (chairman), Dr. Tessen von Heydebreck, Robert Oswald, Michael Vassiliadis
- Audit Committee: Max Dietrich Kley (chairman and financial expert), Ralf Gerd Bastian, Franz Fehrenbach, Michael Vassiliadis
- Nomination Committee: Prof. Dr. Jürgen Strube, Prof. Dr. François N. Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck, Max Dietrich Kley

Financial Statements of the BASF Group and BASF SE

On the basis of the preliminary review by the Audit Committee, on which the Chairman of the Audit Committee reported to the Supervisory Board, the Supervisory Board of BASF SE have examined; the Financial Statements and Management's Analysis of BASF SE for 2007: the proposal by the Board of Executive Directors for the appropriation of profit; the BASF Group Consolidated Financial Statements; and Management's Analysis for the BASF Group for 2007. KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the auditors elected by the Annual Meeting have examined the 2007 Financial Statements of BASF SE and the BASF Group Consolidated Financial Statements, including the Management's Analysis and their bookkeeping, and have approved them free of qualification. The auditors also noted that the Board of Executive Directors, in accordance with Section 91 (2) of the German Stock Corporation Act, had instituted a suitable information and monitoring system which met the needs of the company and appeared suitable, both in design and the way in which it had been applied, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditors' reports were sent timely to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on February 20, 2008, as well as the accounts meeting of the Supervisory Board on March 4, 2008, and reported on the main findings of their audit. The auditors also provided detailed explanations of their reports on the day before the accounts review meeting. We have taken note of and agree to the auditors' reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board

sees no grounds for objection to the management and submitted reports.

At the Supervisory Board's accounts meeting on March 4, 2008, we approved the Financial Statements of BASF SE drawn up by the Board of Executive Directors and the Consolidated Financial Statements of the BASF Group, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €3.90 per share.

Composition of the Supervisory Board and Board of Executive Directors

Dr. Karlheinz Messmer, who was the representative of executive employees, retired from BASF and the Supervisory Board as of April 30, 2007. Dr. Friedrich Wirsing was elected to replace him in this position in the Supervisory Board. All mandates of the Supervisory Board of BASF Aktiengesellschaft lapsed as of January 14, 2008.

Since January 14, 2008, the Supervisory Board of BASF SE is composed twelve members. six of them being shareholder representatives appointed at the Annual Meeting on April 26, 2008: Prof. Dr. Jürgen Strube, Prof. Dr. François N. Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck and Max Dietrich Kley. The other six members are employee representatives named in the Employee Participation Agreement of November 15, 2007: Ralf Gerd Bastian, Wolfgang Daniel, Ulrich Küppers, Robert Oswald, Denise Schellemans and Michael Vassiliadis. At the meeting of December 5, 2007, Prof. Dr. Jürgen Strube was elected chairman. In addition, Prof. Dr. Berthold Leibinger was appointed honorary chairman of the Supervisory Board.

Klaus Peter Löbbe retired from the Board of Executive Directors of BASF Aktiengesellschaft due to health reasons as of July 31, 2007. On January 1, 2008, Dr. Harald Schwager joined the Board of Executive Directors. All board mandates of BASF Aktiengesellschaft lapsed following the registration of BASF SE. Peter Oakley retired from the Board of Executive Directors in this connection. Since January 14, 2008 the Board of Executive Directors of BASF SE is composed of: Dr. Jürgen Hambrecht (Chairman), Dr. h. c. Eggert Voscherau (Vice Chairman), Dr. Kurt Bock, Dr. Martin Brudermüller, Dr. John Feldmann, Dr. Andreas Kreimeyer, Dr. Stefan Marcinowski and Dr. Harald Schwager.

Thanks

The Supervisory Board thanks all employees of the BASF Group worldwide, the management of the company and the retired members of both the Board of Executive Directors and Supervisory Board for their work performed in 2007.

Ludwigshafen, March 4, 2008

The Supervisory Board

PROFESSOR DR. JÜRGEN STRUBE
Chairman of the Supervisory Board

COMPLIANCE STATEMENT 2007

IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Compliance Statement 2007 by the Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft

1. Statement of Principles pursuant to § 161 AktG [Stock Corporation Act]

We declare that the recommendations by the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied within the year 2007 and will be complied with in the year 2008 subject to the measures outlined below.

2. Deviations

a) Compensation of Chair and Membership in the Mediation Committee of the Supervisory Board (Section 5.4.7 of the Code)

As set forth in Section 5.4.7 of the Code, compensation shall take into account the chair position and the membership in Supervisory Board committees. In respect to the Mediation Committee pursuant to § 27 section 3 of the MitbestG [Co-Determination Act], which, at our company, did not have to convene to date, our company does not comply with this recommendation. The members of the Mediation Committee are not entitled to a specific compensation in addition to any possible attendance fee for the meetings.

b) Dealing with the structure of the Executive Board compensation system by the full Supervisory Board; assessment of the appropriateness of the compensation of the members of the Executive Board by also applying performance-related criteria (Section 4.2.2 of the Code)

The respective chairmen of the Supervisory Board Committees report regularly to the Supervisory Board on the work of the Committees. This includes the work of the Nomination and Compensation Committee (Personalaus-schuss) which is responsible for the treatment of the management contracts of the members of the Board of Executive Directors at our company. Beyond that we do not and will not comply with the abovementioned recommendations.

c) Publication to the shareholders of candidates proposed for the Supervisory Board Chair (Section 5.4.3 of the Code) In accordance with this recommendation, candidates for the Supervisory Board Chair shall be published to the shareholders, although those candidates, as a rule, are members of a Supervisory Board still to be elected and the Chairman of the Supervisory Board has to be elected from among them. An early nomination may, therefore, lead, in fact, to a prior determination of the Supervisory Board's future members. In the event of a by-election, separate in time from a Supervisory Board election, there is, a priori, no opportunity to publish the candidates to the shareholders. We, therefore, consider the recommendation to be less practical. For the time being, we intend to observe the further development, before we decide on a comply or an explain.

d) Recommendations by the Government Commission on the German Corporate Governance Code according to the status of the Code on June 14, 2007

In its meeting held on October 25, 2007, the Supervisory Board has resolved to comply with the new recommendations according to Sections 5.3.2 and 5.3.3 of the Code. With regard to Section 5.3.2, the resolution has been taken with immediate effect. The resolution regarding Section 5.3.3 will take effect at the conversion of our company into an SE which is being expected for early January, 2008.

e) Compliance Statement (Section 3.10 of the Code) Pursuant to Section 3.10 of the Code, the Board of Executive Directors and the Supervisory Board shall report each year in the Company's Annual Report on the Company's corporate governance. This includes the explanation of possible deviations from the recommendations of the Code. By § 161 AktG this reporting obligation is regulated with, in part, different content. The Board of Executive Directors and the Supervisory Board resolved to exclusively report as required by law.

Ludwigshafen, December 5, 2007

The Supervisory Board
of BASF Aktiengesellschaft

The Board of Executive Directors
of BASF Aktiengesellschaft



**“As a business analyst,
I contribute to value-
based management –
that’s how I shape the
future.”**

CHUNYIN-ANDY HO

Business Analyst
Intermediates Asia Pacific

HONG KONG, CHINA

With BASF for 6 months

CONSOLIDATED FINANCIAL STATEMENTS

Statement by the Board of Executive Directors and assurance pursuant to Section 297 (2), Section 315 (1) German Commercial Code

The Board of Executive Directors of BASF SE is responsible for preparing the Consolidated Financial Statements and Management's Analysis of the BASF Group.

The Consolidated Financial Statements were prepared according to the International Financial Reporting Standards (IFRS), which are published by the International Accounting Standards Board (IASB), London, and have been endorsed by the European Union.

In order to ensure the adherence of the Consolidated Financial Statements of the BASF Group and Management's Analysis to the applicable accounting rules, and the accuracy of reporting, we have established effective internal control systems.

The adherence to uniform, Group-wide accounting and reporting standards, and the reliability and effectiveness of our control systems are continually audited throughout the Group by our internal audit department. The risk management system we have set up complies with the requirements of the German Control and Transparency in Business Act (91 (2), Stock Corporation Act) and is designed

to identify material risks in a timely manner, thus enabling the Board of Executive Directors to take appropriate defensive measures as required.

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements of the BASF Group give a true and fair view of the assets, liabilities, financial position and profit situation of the Group, and the Management's Analysis includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has audited the Consolidated Financial Statements of the BASF Group and Management's Analysis and approved them free of qualification. The Consolidated Financial Statements of the BASF Group, the Management's Analysis and the auditors' report were examined at length by the Audit Committee of the Supervisory Board in the presence of the auditors at its meeting on February 20, 2008. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

Ludwigshafen, February 20, 2008



DR. JÜRGEN HAMBRECHT

Chairman of the Board of Executive Directors



DR. H.C. EGGERT VOSCHERAU

Vice Chairman



DR. JOHN FELDMANN



DR. STEFAN MARCINOWSKI



DR. KURT BOCK

Chief Financial Officer



DR. MARTIN BRUDERMÜLLER



DR. ANDREAS KREIMEYER



DR. HARALD SCHWAGER

Auditor's Report

We have audited the Consolidated Financial Statements prepared by the BASF SE (until January 13, 2008, BASF Aktiengesellschaft), Ludwigshafen am Rhein, comprising the income statement, the balance sheet, statement of recognized income and expense, cash flow statement and the Notes to the Consolidated Financial Statements, together with the group Management's Analysis for the business year from January 1 to December 31, 2007. The preparation of the Consolidated Financial Statements and the Group Management's Analysis is in accordance with IFRS as adopted by the E.U., and the additional requirements of German commercial law pursuant to Section 315a (1) HGB are the responsibility of the parent company's board of management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Group Management's Analysis based on our audit. In addition, we were charged with assessing if the Consolidated Financial Statements overall correspond to IFRS.

We conducted our audit of the Consolidated Financial Statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the Group Management's Anal-

ysis are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the Group Management's Analysis are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Group Management's Analysis. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB, and IFRS overall as published by the IASB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management's analysis is consistent with the consolidated financial statements, and as a whole provides a true and fair view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 20, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

PROF. DR. WESNER
Wirtschaftsprüfer

KUHN
Wirtschaftsprüfer

CONSOLIDATED STATEMENTS OF INCOME

Consolidated statements of income (million €)

	Explanations in Note	2007	2006
Sales	(4)	57,951.3	52,609.7
Cost of sales		41,899.4	37,697.5
Gross profit on sales		16,051.9	14,912.2
Selling expenses		5,585.6	4,995.5
General and administrative expenses		1,067.0	893.2
Research and development expenses		1,379.7	1,276.6
Other operating income	(5)	1,053.0	934.1
Other operating expenses	(6)	1,756.3	1,931.1
Income from operations	(4)	7,316.3	6,749.9
Income from companies accounted for using the equity method		57.1	35.0
Other income from participations		26.6	36.7
Interest result		(471.8)	(371.9)
Other financial result		7.2	77.0
Financial result	(7)	(380.9)	(223.2)
Income before taxes and minority interests		6,935.4	6,526.7
Income taxes	(8)	2,609.9	3,060.6
Income before minority interests		4,325.5	3,466.1
Minority interests	(9)	260.0	250.9
Net income		4,065.5	3,215.2
Earnings per share (€)	(3)	8.32	6.37
Dilution effect	(3)	–	–
Diluted earnings per share (€)	(3)	8.32	6.37

CONSOLIDATED BALANCE SHEETS

Assets (million €)

	Explanations in Note	2007	2006
Long-term assets			
Intangible assets	(11)	9,559.5	8,921.6
Property, plant and equipment	(12)	14,215.1	14,901.5
Investments accounted for using the equity method	(13)	834.6	650.5
Other financial assets	(13)	1,951.7	1,190.3
Deferred taxes	(8)	678.8	622.4
Other receivables and miscellaneous long-term assets	(15)	654.7	612.2
		27,894.4	26,898.5
Short-term assets			
Inventories	(14)	6,577.9	6,672.4
Accounts receivable, trade	(15)	8,561.2	8,222.8
Other receivables and miscellaneous short-term assets	(15)	2,337.1	2,607.3
Marketable securities	(16)	50.7	55.8
Cash and cash equivalents	(16)	766.6	834.2
Assets of disposal groups	(2)	614.2	–
		18,907.7	18,392.5
Total assets		46,802.1	45,291.0

Stockholders' equity and liabilities (million €)

	Explanations in Note	2007	2006
Stockholders' equity			
Subscribed capital	(17)	1,224.2	1,279.2
Capital surplus	(17)	3,173.1	3,141.0
Retained earnings	(18)	14,555.6	13,301.9
Other comprehensive income	(18)	173.8	325.5
		19,126.7	18,047.6
Minority interests	(19)	971.2	530.5
		20,097.9	18,578.1
Long-term liabilities			
Provisions for pensions and similar obligations	(20)	1,292.3	1,452.0
Other provisions	(21)	3,015.0	3,079.8
Deferred taxes	(8)	2,060.5	1,441.0
Financial indebtedness	(22)	6,953.8	5,788.2
Other liabilities	(22)	900.9	971.6
		14,222.5	12,732.6
Short-term liabilities			
Accounts payable, trade		3,763.3	4,754.7
Provisions	(21)	2,696.6	2,848.3
Tax liabilities	(8)	880.8	858.7
Financial indebtedness	(22)	3,147.7	3,694.9
Other liabilities	(22)	1,976.1	1,823.7
Liabilities of disposal groups	(2)	17.2	–
		12,481.7	13,980.3
Total stockholders' equity and liabilities		46,802.1	45,291.0

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE

Income and expense items (million €)

	2007	2006
Income before minority interests	4,325.5	3,466.1
Fair value changes in available-for-sale securities	342.6	83.3
Cash flow hedges	33.0	(8.5)
Change in foreign currency translation adjustments	(531.4)	(456.9)
Revaluation due to acquisition achieved in stages	11.9	–
Actuarial gains/losses from pensions and similar obligations; asset ceiling	55.1	159.6
Deferred taxes	(155.0)	(36.7)
Minority interests	(45.1)	(20.8)
Total income and expense recognized in equity	(288.9)	(280.0)
Total income and expense for the period	4,036.6	3,186.1
Thereof BASF	3,821.7	2,956.0
Thereof minority interests	214.9	230.1

Development of income and expense recognized directly in equity (million €)

	Retained earnings	Other comprehensive income					Total income and expense recognized directly in equity
	Actuarial gains/losses; asset ceiling	Foreign currency translation adjustment	Fair value changes in available-for-sale securities	Cash flow hedges	Revaluation due to acquisition achieved in stages	Total of other comprehensive income	
As of January 1, 2007	(781.8)	26.6	341.0	(42.1)	–	325.5	(456.3)
Additions	–	(531.4)	349.0	(63.9)	11.9	(234.4)	(234.4)
Releases	55.1	–	(6.4)	96.9	–	90.5	145.6
Deferred taxes	(147.2)	7.7	(3.6)	(11.9)	–	(7.8)	(155.0)
As of December 31, 2007	(873.9)	(497.1)	680.0	(21.0)	11.9	173.8	(700.1)
As of January 1, 2006	(893.8)	474.7	258.5	(36.5)	–	696.7	(197.1)
Additions	–	–	123.9	(16.2)	–	107.7	107.7
Releases	159.6	(456.9)	(40.6)	7.7	–	(489.8)	(330.2)
Deferred taxes	(47.6)	8.8	(0.8)	2.9	–	10.9	(36.7)
As of December 31, 2006	(781.8)	26.6	341.0	(42.1)	–	325.5	(456.3)

CONSOLIDATED STATEMENTS OF CASH FLOWS*

Consolidated statements of cash flows (million €)

	2007	2006
Net income	4,065.5	3,215.2
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	2,947.3	2,993.6
Changes in pension provisions, defined benefit assets and other non-cash items	(163.8)	(72.4)
Net gains from disposal of long-term assets and securities	(42.7)	(206.9)
Changes in inventories	(335.4)	(518.6)
Changes in receivables	(863.5)	22.4
Changes in operating liabilities and other provisions	199.9	506.4
Cash provided by operating activities	5,807.3	5,939.7
Payments related to intangible assets and property, plant and equipment	(2,562.4)	(2,410.9)
Payments related to financial assets and securities	(755.3)	(201.1)
Payments related to acquisitions	(635.3)	(6,396.7)
Proceeds from divestitures	98.8	156.5
Proceeds from the disposal of long-term assets and securities	241.6	438.1
Cash used in investing activities	(3,612.6)	(8,414.1)
Capital increases/repayments	149.9	18.1
Share repurchases	(1,899.1)	(938.4)
Proceeds from the addition of financial liabilities	3,162.4	7,868.7
Repayment of financial liabilities	(2,025.2)	(3,294.6)
Dividends paid		
To shareholders of BASF SE	(1,483.9)	(1,014.5)
To minority shareholders	(140.0)	(217.9)
Cash provided by (used in) financing activities	(2,235.9)	2,421.4
Net changes in cash and cash equivalents	(41.2)	(53.0)
Effects on cash and cash equivalents		
From foreign exchange rates	(9.5)	(30.0)
From changes in scope of consolidation**	(16.9)	9.4
Cash and cash equivalents at the beginning of the year	834.2	907.8
Cash and cash equivalents at the end of the year	766.6	834.2

* The statements of cash flows are discussed in detail in the Liquidity and Capital Resources section on pages 59 to 60 of the Management's Analysis.

For further information regarding Consolidated Statements of Cash Flows, see explanations in Note 10 on page 167.

** Including €(2.6) million cash and cash equivalents transferred to the disposal group.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Consolidated statements of stockholders' equity (million €)

	Number of subscribed shares out- standing	Subscribed capital	Capital surplus	Retained earnings	Other Com- prehensive income ¹	Minority interest	Total stockholders' equity
January 1, 2007	499,680,000	1,279.2	3,141.0	13,301.9	325.5	530.5	18,578.1
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(21,495,000)	(55.0)	27.1	(1,871.2)			(1,899.1)
Capital withdrawal/contribution						149.9	149.9
Asset swap ⁴				634.0		215.9	849.9
Dividends paid				(1,483.9)		(140.0)	(1,623.9)
Net income				4,065.5		260.0	4,325.5
Income and expense recognized directly in equity				(92.1)	(151.7)	(45.1)	(288.9)
Changes in scope of consoli- dation and other changes			5.0 ³	1.4			6.4
December 31, 2007	478,185,000	1,224.2	3,173.1	14,555.6	173.8	971.2	20,097.9
January 1, 2006	514,379,000	1,316.8	3,100.2	11,928.0	696.7	481.8	17,523.5
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(14,699,000)	(37.6)	35.8	(936.6)			(938.4)
Capital withdrawal/contribution						18.1	18.1
Dividends paid				(1,014.5)		(217.9) ²	(1,232.4)
Net income				3,215.2		250.9	3,466.1
Income and expense recognized directly in equity				112.0	(371.2)	(20.8)	(280.0)
Changes in scope of consoli- dation and other changes			5.0 ³	(2.2)		18.4	21.2
December 31, 2006	499,680,000	1,279.2	3,141.0	13,301.9	325.5	530.5	18,578.1

¹ Details are provided in the "Consolidated Statements of Recognized Income and Expense" on page 140.

² Including profit and loss transfers

³ Granting of BASF shares under the employee share program "plus"

⁴ For comprehensive information on the asset swap with Gazprom see Note 2 on page 155.

1 -- Summary of accounting policies

A -- Basis of presentation

The Consolidated Financial Statements of BASF SE are valid as of December 31, 2007, and were prepared according to the International Financial Reporting Standards (IFRS) applicable at that date and Section 315 (1) of the German Commercial Code (HGB). All of the binding IFRS in the reporting year 2007 as well as the pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) were applied.

Those IFRSs which had not been endorsed by the European Union at the balance sheet date had no effect on BASF's Consolidated Financial Statements.

The accounting policies and valuation methods that have been applied are the same as those of the previous year. Exceptions to this are changes required by the application of new or revised standards and interpretations. In this regard, there were no material changes in 2007.

On February 19, 2008, the Consolidated Financial Statements were authorized for issue by the Board of Executive Directors and submitted for approval by the Audit Committee to the Supervisory Board of BASF SE at their meeting on March 4, 2008.

B -- Scope of consolidation

The Consolidated Financial Statements include BASF SE, the parent company, with its headquarters in Ludwigshafen, Germany, as well as all the material subsidiaries in which BASF SE directly or indirectly exercises a majority of the voting rights (collectively, the "Company"). Material, jointly operated companies are included on a proportional consolidation basis.

Scope of consolidation

	2007	2006
Consolidated companies as of January 1	328	180
Thereof proportionally consolidated	19	15
First-time consolidations	20	151
Thereof proportionally consolidated*	(1)	4
Deconsolidations	51	3
Thereof proportionally consolidated	–	–
Consolidated as of December 31	297	328
Thereof proportionally consolidated	18	19

* Consolidation after purchase of interest as of December 31, 2007.

Associated companies are accounted for using the equity method. These are companies in which the Company has a participation of at least 20% or can exercise a significant influence over the operating and financial policies. In total, this applies to:

Companies consolidated using the equity method

	2007	2006
Subsidiaries	10	11
Joint ventures	4	6
Other associated companies	6	3
	20	20

First-time consolidations in 2007 comprised:

- the formation of three companies headquartered in South Africa, the Netherlands and the United States;
- the Chinese manufacturer of catalysts for motorcycles and small engines, Guilin REECat Catalyst Co., Ltd, in Guilin, China, acquired in April;
- a project company which was acquired through Wintershall's asset swap with Gazprom; and
- an additional 15 subsidiaries due to their increased importance, which were previously not consolidated, with headquarters in Germany, the Netherlands, India, the Czech Republic, China and the United States.

In 2007, 51 companies were deconsolidated due to merger, sale or immateriality.

First-time consolidations in 2006 comprised:

- a total of 59 companies related to the acquisition of Engelhard Corp.;
- a total of 65 companies related to the acquisition of the construction chemicals business from Degussa AG;
- a total of three companies related to the acquisition of Johnson Polymer;
- CropDesign N.V., a biotechnology company acquired in June;
- PEMEAS GmbH, acquired in December; and
- an additional 22 subsidiaries due to their increased importance, which were previously not consolidated, with headquarters in Germany, Spain, Australia, China, Malta and Switzerland.

In 2006, three companies were deconsolidated due to merger, sale or immateriality.

Effects of changes in the scope of consolidation

	2007 Million €	2007 %	2006 Million €	2006 %
Sales	17.6	.	9.9	.
Long-term assets	0.9	.	59.6	0.3
Thereof property, plant and equipment	0.8	.	16.2	0.1
Short-term assets	(0.2)	.	(108.2)	(0.7)
Thereof cash and cash equivalents	(14.3)	(1.6)	9.3	1.0
Total assets	0.7	.	(48.6)	(0.1)
Stockholders' equity	17.6	0.1	(0.3)	.
Long-term liabilities	(3.7)	.	(18.7)	(0.2)
Thereof financial indebtedness	2.4	.	6.9	0.2
Short-term liabilities	(13.2)	(0.1)	(29.6)	(0.4)
Thereof financial indebtedness	8.2	0.2	–	–
Total stockholders' equity and liabilities	0.7	.	(48.6)	(0.1)
Contingent liabilities and other financial obligations	0.9	.	31.5	1.0

Financial information on proportionally consolidated companies (million €)

	2007	2006
Income statement information		
Sales	4,178.4	4,256.0
Gross profit on sales	368.2	334.7
Income from operations	285.1	259.6
Income before taxes and minority interests	300.8	260.2
Net income	305.6	242.1
Balance sheet		
Long-term assets	1,237.7	1,258.6
Thereof property, plant and equipment	1,158.6	1,185.1
Short-term assets	960.3	1,023.1
Thereof marketable securities, cash and cash equivalents	31.1	82.3
Total assets	2,198.0	2,281.7
Stockholders' equity	862.2	718.1
Long-term liabilities	537.8	740.7
Thereof financial indebtedness	218.4	342.5
Short-term liabilities	798.0	822.9
Thereof financial indebtedness	38.7	36.3
Total stockholders' equity and liabilities	2,198.0	2,281.7
Contingent liabilities and other financial obligations	136.7	244.6
Consolidated statements of cash flows		
Cash provided by operating activities	279.5	340.8
Cash used in investing activities	(128.8)	(105.3)
Cash provided by (used in) financing activities	(198.3)	(192.9)
Net changes in cash and cash equivalents	(47.6)	42.6

Proportional consolidation

Proportionally consolidated companies of major significance are as follows:

- Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany, as well as Wintershall Erdgas Handelshaus Zug AG, Switzerland, in which our jointly operated trading activities with Gazprom are combined;
- ELLBA C.V., Rotterdam, the Netherlands, and ELLBA Eastern Private Ltd., Singapore, which are operated together with Shell and produce propylene oxide and styrene monomer; and
- BASF-YPC Company Ltd., a joint venture between BASF and Sinopec, that operates the Verbund site in Nanjing, China.

A complete listing of all proportionally consolidated companies is available in the List of Shares Held.

The following associated companies of major significance have been accounted for using the equity method: the Solvin Group (BASF share: 25%), Svalöf Weibull Group (BASF share: 40%), N.E. Chemcat Corporation*, Tokyo, Japan (BASF share: 42%), Heesung Catalysts Corporation, Seoul, South Korea (BASF share: 49%), Shanghai Lianheng Isocyanate Co. Ltd., Shanghai, China (BASF share: 35%), Nord Stream AG, Zug, Switzerland (BASF share: 24.5%) and OAO Severneftegazprom, Krasnoselskuskuy, Russian Federation (BASF share: 35%). Consolidated financial information is shown below:

Financial information on companies accounted for using the equity method (million €)

	2007	2006
Income statement information		
Sales	2,736.0	1,980.4
Gross profit on sales	474.5	379.6
Income from operations	253.6	174.2
Income before taxes and minority interests	250.9	186.1
Net income	166.8	122.7
BASF's share of net income	54.2	36.4
Balance sheet		
Long-term assets	2,467.0	655.3
Thereof property, plant, and equipment	2,260.8	589.5
Short-term assets	1,850.9	1,112.3
Thereof marketable securities, cash and cash equivalents	368.6	153.2
Total assets	4,317.9	1,767.6
Stockholders' equity	1,429.5	772.1
Long-term liabilities	1,885.4	352.4
Thereof financial indebtedness	1,379.1	132.4
Short-term liabilities	1,003.0	643.1
Thereof financial indebtedness	115.7	39.8
Total stockholders' equity and liabilities	4,317.9	1,767.6
BASF's proportional interest	484.4	268.3

* The market capitalization of the 42% stake in N.E. Chemcat Corporation amounts to a total of €145.0 million as of December 31, 2007.

C -- Accounting policies

Balance sheet date: The individual financial statements of the companies consolidated in the Consolidated Financial Statements of the BASF Group (hereinafter referred to as "consolidated companies") are generally prepared as of the balance sheet date of the Consolidated Financial Statements.

Uniform valuation: Assets and liabilities of consolidated companies are accounted for and valued uniformly in accordance with the principles described herein. For companies accounted for using the equity method, material deviations from our accounting policies are adjusted.

Eliminations: Transactions between consolidated companies as well as inter-company profits resulting from sales and services rendered between consolidated companies are eliminated in full. For jointly operated companies this is conducted on a pro rata basis. Material inter-company profits related to companies accounted for using the equity method are eliminated.

Capital consolidation: Capital consolidation is based on the purchase method. Initially, all assets, liabilities and intangible assets that are to be capitalized are valued at fair value. Finally, the acquisition cost is compared with the proportionate share of the net assets acquired at fair value. Differences not allocated to individual assets are capitalized as goodwill and written down in the case of impairment (see page 168 for further information on intangible assets).

Revenue recognition: Revenues from the sale of goods or the rendering of services are recognized upon the transfer of ownership and risk to the buyer. They are recognized without sales taxes. Expected rebates and other trade discounts are either accrued or deducted. Provisions are made to cover the return of products, estimated future warranty obligations and other claims.

Revenues from the sale of precious metals to industrial customers as well as some revenues from natural gas trading are recognized at the time of shipment and the corresponding purchase price is recorded at cost of sales.

Revenues from the trading of precious metals and their derivatives with broker-traders as well as the natural gas trading activities of a project company consolidated by BASF are recorded on a net basis. In these transactions, physical delivery generally does not take place.

In certain cases on delivery, customer acceptance is required. In these cases, revenues are recognized after customer acceptance occurs.

Long-term contracts primarily relate to the construction of chemical plants for third parties. Realization of revenues and costs takes place according to the stage of completion when the outcome of the construction contract can be reliably estimated. To the extent that the outcome of the construction cannot be estimated reliably, revenue is recognized based on the contract costs incurred. Expected losses on the construction contract are recognized with a write-down to the fair value.

Payments relating to the sale or licensing of technologies or technological expertise are recognized in income according to the contractually agreed transfer of the rights and obligations associated with those technologies.

Borrowing costs: If the construction phase of property, plant and equipment extends beyond a period of one year, the interest incurred on borrowed capital that is directly attributable to that asset is capitalized as part of the cost of that asset. Borrowing costs are capitalized up to the date the asset is ready for its intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Investment subsidies: Government grants related to the acquisition or construction of property, plant and equipment reduce the acquisition or construction cost of the respective assets. Other government grants or government assistance are treated as deferred income and recognized as income over the underlying period or the expected useful life of the related asset.

Foreign currency transactions: The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at the exchange rate on the date of the transaction. Foreign currency receivables and liabilities are valued at the exchange rates on the balance sheet date. Foreign exchange gains or losses resulting from the conversion of assets and liabilities are reported as other operating expenses or other operating income.

Translation of foreign currency financial statements:

The translation of foreign currency financial statements depends on the functional currencies of the consolidated companies. Translation into the reporting currency is based on the current rate method: balance sheet items are translated to euros at year-end rates, expenses and income are translated to euros at monthly average rates and accumulated for the year. The translation adjustments due to the use of the current rate method are shown under currency translation adjustments as a component of other comprehensive income in equity and are recognized in income only upon the disposal of a company.

For certain companies outside the euro or U.S. dollar zone, the euro or U.S. dollar is the functional currency.

Acquired intangible assets – excluding goodwill and intangible assets with indefinite useful lives are valued at cost less scheduled straight-line amortization. The useful life is determined based on the period of the underlying contract and the period of time over which the intangible asset is expected to be used.

Impairment losses are recognized if the recoverable amount of the asset is lower than the carrying amount. The recoverable amount is the higher of net sales price and the value-in-use. Reversals of impairment losses are recorded if the reasons for the previous years' impairment losses no longer exist.

Depending on the type of intangible asset, the amortization expense is recorded as cost of sales, selling expense, research and development expense or other operating expense.

Intangible assets with indefinite useful lives: Intangible assets with indefinite useful lives are trade names and trademarks that have been acquired as part of the 2006 acquisitions. They are tested for impairment annually.

Internally generated intangible assets are primarily comprised of internally developed software. Such software, as well as other internally generated assets for internal use, are valued at cost and amortized over their useful lives. Impairments are recorded if the carrying amount of an asset exceeds the recoverable amount.

Development costs also include, in addition to those costs directly attributable to the development of the asset, an appropriate allocation of overhead cost. Borrowing costs are capitalized to the extent that they are material and related to the period over which the asset is generated.

The average amortization period for intangible assets with definite useful lives, provided not a part of the amortization on the basis on produced and distributed volumes, was 10 years in both 2007 and 2006 based on the following expected useful lives:

Amortization periods in years

Distribution, supply and similar rights	2–20
Product rights, licenses and trademarks	2–30
Know-how, patents and production technologies	3–25
Internally generated intangible assets	3–5
Other rights and values	2–20

Goodwill is only written down if there is an impairment. Impairment testing takes place annually or if there is an indication of an impairment. The goodwill impairment test is based on cash-generating units and compares the recoverable amount of the unit with the respective carrying amount. The cash-generating units at BASF are, in general, the business units. The recoverable amount is the higher of fair value less selling costs and value-in-use. Value-in-use is generally determined using the discounted cash flow method. The estimated cash flows are generally based on the current business plans for the next three years and on the expertise of the respective business unit management. For cash flow projections beyond the detailed planning period, growth rates ranging from 0% to 3% were assumed depending on the individual business units. The discount rates used depend on the underlying business and the country in which the business operates and correspond to after-tax rates ranging from 7.5% to 15.5%.

If the impairment loss exceeds the carrying amount of goodwill, the goodwill is written off completely. Any impairment loss left over is allocated to the remaining assets of the cash-generating unit. Goodwill impairment losses are reported under other operating expenses.

The goodwill of the BASF Group is mainly attributable to the Agricultural Products division of the Agricultural Products and Nutrition segment, the Catalysts division of the Chemicals segment and the Construction Chemicals division of the Performance Products segment.

Goodwill of €1,304 million relates to the Agricultural Products division (2006: €1,375 million), €1,269 million relates to the Catalysts division (2006: €1,284 million), €612 million relates to the Construction Chemicals division (2006: 665 million). Changes arose in 2007 in particular from foreign currency translation effects and adjustment of the preliminary purchase price allocation from 2006.

Emission rights: Emission right certificates granted free-of-charge by the German Emissions Trading Authority ('Deutsche Emissionshandelsstelle') or a similar authority in other European countries, are recognized on the balance sheet date at their fair value at the time they are credited to the electronic register run by the relevant government authority. Purchased emission rights are recorded at cost. The measurement at the balance sheet date occurs at fair value. If the fair value at the balance sheet date is lower than the carrying amount, the emission rights are written down.

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation over their estimated useful lives. Low-value assets are fully written off in the year of acquisition and are shown as disposals. The revaluation method is not used.

The cost of self-constructed plants includes direct costs, appropriate allocations of material and manufacturing overhead and an appropriate share of the administrative costs for those areas involved in the construction of the plants. Borrowing costs that are incurred during the period of construction are capitalized. For companies in Germany, borrowing costs were capitalized at 4.5% whereas country-specific rates were used for Group companies outside Germany.

Expected costs related to scheduled maintenance turnarounds of large-scale plants are capitalized as part of the asset and depreciated using the straight-line method over the period to the next planned turnaround.

Both movable and immovable fixed assets are depreciated using the straight-line method. The weighted-average depreciation periods used were as follows:

Depreciation in years

	2007	2006
Buildings and structural installations	23	26
Machinery and technical equipment	11	11
Factory, office equipment and other facilities	8	9

Impairment write-downs are recorded whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation is based on the present value of the expected future cash flows less expected costs for the disposal of the asset. An impairment write-down is recorded for the difference between the carrying amount and the value of discounted future cash flows.

Investment properties held to realize capital gains or rental income are immaterial. They are valued at the lower of acquisition cost less scheduled depreciation and fair value.

Oil and gas exploration: Exploration and production costs are accounted for using the successful efforts method. Under this method, costs of successful exploratory drilling as well as successful and dry development wells are capitalized as property, plant and equipment. Exploration expenses are related exclusively to the oil and gas exploration business sector. These expenses include all costs connected with non-proven oil and gas deposits. Included here are costs for the exploration of areas with possible oil or gas reserves. Costs for geological and geophysical investigations are, as a matter of principle, reported under exploration expenses. In addition, this item includes depreciation on exploration wells which have no proven reserves. Scheduled depreciation on successful exploration wells is part of cost of sales.

Exploratory drilling is reported, as a matter of principal, under construction in progress until its success can be determined. As soon as the presence of hydrocarbons is proved such that the economic development of the field is probable, the costs remain capitalized as suspended well costs. Once a year, all suspended wells are assessed from an economic, technical and strategic viewpoint to see if development is still intended. If this is not the case, the well concerned is written off. When reserves are proven and the development of the field begins, the exploration wells are reclassified as machinery and technical equipment.

An Exploration and Production Sharing Agreement (EPSA) is a type of contract in crude oil and gas concessions whereby the expenses and profits from the exploration, development and production phases are divided between the state (National Oil Company) and one or more exploration and production companies using defined keys. The amounts BASF is entitled to under such contracts are reported as sales.

Provisions for required recultivations associated with oil and gas operations primarily concern the filling of wells and the removal of production facilities upon the termination of production. Initial measurement is conducted when the obligation arises at the present value of the future recultivation costs. Interest is accrued on the provision annually until the time of the planned recultivation. An asset of the same value is capitalized as part of the carrying amount of the plant concerned and together they are depreciated.

The unit of production method is used to depreciate assets from oil and gas exploration at the field or deposit level. As a matter of principal, depreciation is calculated on the basis of proven, developed reserves. In the natural gas trading business, long-distance natural gas pipelines are depreciated using the straight-line method. The weighted-average depreciation period amounted to 24 years in 2007 (2006: 25 years). The intangible assets from the marketing contract for natural gas from the Yuzhno Russkoye natural gas field is amortized based on BASF's share of the produced and distributed volumes.

Leasing: According to IAS 17, leasing contracts are classified as either financing or operating leases. Assets which are subject to operating leases are not capitalized. Leasing payments are charged to income in the year they are incurred.

A lease is classified as a finance lease if it transfers substantially all of the risks and rewards related to its ownership. Assets subject to a finance lease are recorded at the present value of the minimum lease payments. Leasing payments are apportioned between the interest component and the principal component. The principal component reduces the outstanding liability, while the interest component is charged as interest expense. Depreciation takes place over the shorter of the useful life of the asset or the period of the lease.

Details on the individual leasing contracts can be found in Note 27 on page 197.

Investments in companies accounted for using the equity method: These investments are accounted for under the same principles as for consolidated subsidiaries. The carrying amounts of these companies are adjusted annually based on the pro rata share of income, dividends and other changes in stockholders' equity.

Financial Instruments: Financial assets and financial liabilities are recorded on the balance sheet when the BASF Group becomes a party to a financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset, with all risks and rewards of ownership, is transferred. Financial liabilities are derecognized when the contractual obligation expires or is discharged or cancelled. Standard purchases and sales of financial instruments are accounted for using the settlement date and in precious metals trading using the day of trading.

Financial assets and liabilities are divided into the following valuation categories:

- Financial assets and liabilities that are measured at fair value and recognized in income consist of derivatives and other trading instruments. At BASF, this valuation category only includes derivatives. Derivatives are reported in other short-term assets or other short-term liabilities. BASF does not make use of the fair value option under IAS 39.

- Loans and receivables comprise financial assets with fixed or determinable payments, which are not quoted on an active market and are not derivatives or classified as available-for-sale. Included in this category are receivables and loans classified under accounts receivable, trade; other receivables and miscellaneous short-term assets; and other long-term assets. Initial valuation is done at fair value, which generally matches the nominal value of the receivable or loan. Interest-free and low-interest long-term loans and receivables are recorded at present value. Subsequent valuations are generally done at amortized cost, under consideration of the effective interest method.
- Held-to-maturity financial instruments consist of non-derivative financial assets with fixed or determinable payments. These financial instrument have a fixed term, for which the company has the ability and intent to hold until maturity, and they do not fall under other valuation categories. Initial valuation is done at fair value, which generally matches the nominal value. Subsequent valuation is generally done at amortized cost, under consideration of the effective interest method. For BASF, there are no material financial assets that fall under this category.
- Available-for-sale financial instruments comprise financial assets which are not derivatives and do not fall under any of the previously stated valuation categories. This valuation category comprises participations not accounted for using the equity method under the item 'other financial assets'; 'long-term securities'; and securities contained under the item 'marketable securities'. Initial valuation is done at fair value. Changes in the fair value are booked to equity under the item other comprehensive income and are only recorded in the income statement when they are disposed of or have an impairment in value. Participations whose fair value cannot be reliably determined are carried at historical cost and are written down in the case of an impairment in value. For these participations, the book values represent the best estimates of value.

- Financial liabilities which are not derivatives are initially valued at fair value. This normally corresponds to the amount received. Subsequent valuations are done at amortized cost under consideration of the effective interest method.

There were no reclassifications between the valuation categories in 2006 and 2007.

Revenue from interest-bearing assets is recognized on the outstanding receivables at reporting date using the interest rates calculated under the effective interest method. Dividends from participations not accounted for under the equity method are recognized when the shareholders' right to receive payment is established.

The fair value is the amount for which an instrument could be exchanged in an arm's length transaction between knowledgeable, willing parties. When pricing on an active market is available, for example on a stock exchange, this price is used. In other cases, a valuation is based on an internal valuation model using current market parameters. Commonly used techniques include net present value and option pricing models.

Derivative financial instruments can be embedded within other contracts. If IFRS prescribes separation, then the embedded derivative is recorded separately from its host contract and shown at fair value.

BASF employs hedge accounting for selected hedges of future transactions (cashflow hedges). The effective portion of the change in fair value is thereby recognized directly in equity under other comprehensive income, taking deferred taxes into account. The ineffective portion is recognized immediately in income. In the case of future transactions that will lead to a non-financial asset or a non-financial debt, the cumulative fair value changes in equity are either charged against the acquisition cost on initial recognition or recognized in profit or loss in the reporting period in which the hedged item is recorded in the income statement. For hedges that are based on financial debts or assets, the cumulative fair value changes of the hedges are recognized in profit and loss in the reporting period in which the hedged item is recognized in the income statement. The hedging time frame of future transactions generally extends up to one year; the maturity of the hedging instrument is based upon the effective date of the future transaction.

The derivatives employed by BASF are effective hedges from an economic point of view. Changes in the fair value of the derivatives almost completely offset the change in the value of the underlying contracts. At the end of 2007, all derivatives designated as hedging instruments within the framework of hedge accounting expired.

If there is objective evidence of a permanent impairment of an available-for-sale financial instrument, impairment write-downs are made.

If there is objective evidence for an impairment of a receivable or loan, an individual valuation adjustment is undertaken. Such evidence could, for example, be when the financial difficulties of a debtor become known or payment delays occur. In addition, an impairment loss occurs when the contractual conditions which form the basis for the receivable or loan need to be changed in such a way through renegotiation that the present value of the future cashflows decreases. When assessing the need for an impairment, regional and sector specific conditions are considered. In addition, use is made of external ratings as well as the assessments of debt collection agencies and credit insurers when available. In this way, it can be safeguarded that all receivables and loans which are not of excellent credit quality are immediately impaired. Receivables and loans are derecognized when their uncollectibility is finally determined.

A significant proportion of receivables is covered by credit insurance. Bank guarantees and letters of credit are used to a limited extent. Only those receivables which are not covered by insurance or other collateral are impaired. Receivables whose insurance includes a deductible are impaired to the value of the deductible. Receivables for which no objective indication of an impairment exist are examined as a portfolio and, if necessary, impaired on the basis of expected default rates. These rates are derived from historic default rates, general economic risks and the markets in which the debtor operates. In addition, valuation adjustments on receivables for transfer risks in certain countries are established.

If the reason for a write-down of loans and receivables as well as held-to-maturity financial instruments no longer exists, the write-down is reversed up to the amortized cost and recognized in income. Impairment losses on financial instruments are booked separately in an allowance account.

In the case of available-for-sale securities, write-ups principally are not recognized in the income statement, but are taken directly to equity (other comprehensive income). Write-ups up to the amount of the original write-down are recognized in income in the case of debt instruments; write-ups above this amount are recognized in equity.

Deferred tax assets: Deferred tax assets are recorded for deductible temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes. In addition, deferred taxes are recorded for tax loss carryforwards to the extent that it is probable that future taxable profit for the relevant tax authority will be available against which the tax loss carryforwards can be utilized. For companies located in Germany, a 29% tax rate is applied; for other companies, the tax rates applicable in the individual countries are used. Appropriate valuation allowances are made if expected future earnings of a company make it seem more likely than not that the tax benefits will not be realized.

Inventories: Inventories are carried at acquisition costs or production costs. Write-downs are made if the net realizable value is lower than the carrying amount. The net realizable value is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

Cost of sales include, in addition to direct costs, an appropriate allocation of production overhead costs based on normal utilization rates of the production plants. In addition, pensions, social services and voluntary social benefits are included as well as allocations for administrative costs, provided they relate to the production process. Financing costs are not included in production costs.

IAS 2 "Inventories" does not apply to commodity broker-traders. Accordingly, precious metals held for trading purposes are measured at fair value. Changes in fair value are recognized in income.

Assets and liabilities of disposal groups: These comprise those assets and directly associated liabilities shown on the balance sheet whose sale in the context of a single transaction is highly probable. The assets and liabilities of disposal groups are recognized at the lower of the sum of their carrying amounts or fair value less costs to sell. Scheduled depreciation of long-term assets is suspended. An explanation of disposal groups is found in Note 2 on page 155 to the Consolidated Financial Statements.

Pension provisions and other employee obligations: Provisions for pensions are based on actuarial computations made according to the projected unit credit method. Similar obligations, especially those arising from commitments in North America to pay the healthcare costs and life insurance premiums of retired staff and their dependents, are included in pension provisions. Actuarial profits and losses are offset against retained earnings. The calculation of pension provisions is based on actuarial reports.

Other provisions: Other provisions are accrued when there is a present obligation as a result of a past event and when there is a probable outflow of resources whose amount can be reliably estimated. Provisions are made at the probable settlement value.

Provisions for German trade income tax, German corporate income tax and similar income taxes are made in the amount necessary to meet the expected payment obligations, less any prepayments that have been made. Other taxes assessed are appropriately considered.

Provisions are established for certain environmental protection measures and risks if the measures are considered likely as a result of legal or regulatory obligations or other events and these measures have not to be capitalized. Provisions for required recultivations associated with oil and gas operations primarily concern the filling of wells and the removal of production facilities upon the termination of production. The present value of the obligation increases the cost of the respective asset when it is initially recognized.

Provisions are made for expected severance payments or similar personnel expenses as well as for demolition expenses and other charges related to the closing down of operations that have been planned and publicly announced by management.

The probable amount required to settle long-term obligations is discounted if the effect of discounting is material. In this case, valuation of the provision is done at present value. Related financing costs are shown in other financial results.

Provisions for long service and anniversary bonuses are predominantly calculated based on actuarial principles. For contracts signed under the early retirement programs, provisions for the supplemental payments are provided in their full amount and the wage and salary payments due during the passive phase of agreements are accrued in installments. Provisions are recorded for the expected costs that are anticipated to be contracted during the term of the collective bargaining agreements.

The formation of provisions for the BASF option program (BOP) is described in detail in Note 25 on page 189.

Deferred tax liabilities: Deferred tax liabilities are recorded for temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes to the extent that there is a surplus of taxable temporary differences relating to a fiscal unit.

Earnings per share: The calculation of earnings per share is based on the average number of common shares outstanding during the applicable period and the net income. Own shares are included in the calculation for the period of time that they were outstanding.

Use of estimates and assumptions in financial statement preparation: The carrying amount of assets, liabilities and provisions, contingent liabilities and other financial obligations in the Consolidated Financial Statements depends on the use of estimates and assumptions. They are based on the circumstances and estimates on the balance sheet date and affect the reported amounts of revenues and expenses during the reporting periods. These assumptions affect the selection of useful lives of property, plant and equipment and intangible assets, the measurement of provisions, the carrying amount of investments, and other similar valuations of assets and obligations. Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates.

Relevance of estimates and assumptions for recognition and measurement

Goodwill has to be allocated to cash-generating units and tested for impairment once a year. Impairment losses are recorded when the carrying amount of the cash-generating unit exceeds the recoverable value. Impairment testing relies upon long-term earnings predictions based on economic trends.

Deferred tax assets are also recognized for tax loss carryforwards. Their realization depends on the future taxable profits of the respective group companies. Allowances are recorded when it is uncertain if future earnings will be sufficient to take advantage of the tax loss carryforwards. See Note 8 on page 164 for additional information.

Pension provisions are influenced by assumptions covering the future development of wages and salaries, future pension payments, interest rates and the performance of plan assets. Differences between assumptions and actual events could lead to an over or underfunding of pension liabilities which would be offset against retained earnings. See Note 20 on page 180 for additional information.

Other provisions cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, claims awarded in similar cases and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible claims. The actual costs can deviate from these estimates. See Note 24 on page 188 for more information.

Other provisions also include expected charges for the rehabilitation of contaminated sites, the recultivation of landfills, the removal of environmental contamination at existing production or storage facilities and other similar measures. If BASF is the only possible responsible party that can be identified, the provision covers the entire expected claim. At sites operated together by one or more parties, the provision covers only BASF's share of the expected claim. The determination of the amount of the claim is based on the available information on the site, the technology and processes used as well as current regulations. See Note 21 on page 184 for more information.

Assumptions have to be made in determining the discount rate to be used in calculating long-term provisions.

Write-downs of assets are made in the case of an impairment. An impairment test is conducted if certain events indicate an impairment. Impairment tests are based on a comparison of the carrying amount and the recoverable amount. The recoverable amount is the higher of net realizable value and value-in-use. The determination of value-in-use requires the estimation and discounting of cash flows. The estimation of the cash flows considers all the information available at that date, which may deviate from actual future developments. This includes, among other things, expected revenue from the sales of products, the return on investments, material and energy costs. If the recoverable value is lower than the carrying amount, a writedown in the amount of the difference is recorded. See Note 11 on page 168 and Note 12 on page 170 for more information.

IFRSs and IFRICs which do not yet have to be considered in the preparation of these statements

The effects of IFRSs and IFRICs not yet in force or not yet endorsed by the European Union in the reporting year 2007 were reviewed:

- IFRS 8 “Operating Segments”, which follows the Management Approach, replaces IAS 14 which follows the Risk-and-Reward Approach. This leads to segmentation based on the internal reporting structure and associated with this the disclosure of management information used for evaluating segment performance and deciding how to allocate resources to operating segments. IFRS 8 shall be applied to financial years beginning on or after January 1, 2009. Earlier application is permitted. As BASF already uses the same performance indicators for external reporting as for internal management reporting, IFRS 8 will not have any effect on the Consolidated Financial Statements of the BASF Group.
- IAS 1 “Presentation of Financial Statements” was amended by the IASB as of September 6, 2007. The goal is to ease the analysis and comparison of financial statements. Additional information on stockholders’ equity must be presented, for example on the determination, planning and control of the capital structure, and on any supervisory requirements regarding the equity level. The revised approach shall be applied to financial years beginning after January 1, 2009.
- The IASB published an amended version of IAS 23 “Borrowing Costs” on March 29, 2007. It is mandatory to capitalize borrowing costs directly associated with the purchase, construction or production of a qualifying asset. The standard applies to all borrowing costs eligible for capitalization from January 1, 2009. BASF took the option to capitalize such costs, hence there will be no impact on the BASF Group Consolidated Financial Statements.
- IFRIC 12 “Service Concession Arrangements” regulates the accounting for service concession arrangements between private sector companies and government or other public sector entities to provide public services. IFRIC 12 will not have an effect on BASF.
- IFRIC 13 “Customer Loyalty Programmes” regulates the reporting of loyalty award credits (or “points”) allocated under Customer Loyalty Programmes. These programs are generally used by companies to offer incentives to customers to purchase a company’s goods or services. The incentives involve granting loyalty award credits that entitle the customer to acquire free or discounted goods or services from the company or third parties in the future. Until now there has been a lack of uniform guidance on how to report such matters according to IFRS. Per IFRIC 13 revenues must be split into two categories. The first component is the revenue from the sale of the main product or service. The second component involves the future fulfillment on redemption of the rewards. The second component must be deferred until redemption. IFRIC 13 shall be applied to financial years beginning on or after July 1, 2008. IFRIC 13 will have no material effect on BASF because customer loyalty programs are only used to a limited extent.
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” provides guidance on how to assess the limitation in IAS 19 “Employee Benefits” on the amount of the surplus that can be recognized as an asset. It also deals with how the pension assets or liability may be affected when there is a statutory minimum funding requirement. The goal is to recognize an asset in relation to a plan surplus in a consistent manner. IFRIC 14 shall be applied to financial years beginning on or after January 1, 2008. BASF already adopts IFRIC 14, which provides clarification of the asset ceiling according to IAS 19.58. See Note 20 page 180 for additional information.
- The amended versions of IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements” allow the option of measuring minority interests at fair value or based on their identifiable net assets. In addition, changes in the ownership percentage without loss of control are recognized directly in equity. Changes in the ownership percentage with loss of control are recognized in profit and loss. Incidental acquisition costs are to be expensed in the future. The changes affect business combinations whose acquisition date falls in a reporting period beginning on or after of July 1, 2009.

2 -- Acquisitions/Divestitures

BASF cooperates with Gazprom in gas exploration and production in Siberia. Production started at the Yuzhno Russkoye field in the fourth quarter of 2007. At the end of 2007, Wintershall acquired a stake of 25% less one share in OAO Severneftegazprom (SNG), through an asset swap with Gazprom. SNG holds the production license to the Yuzhno Russkoye natural gas field in Western Siberia. By means of an additional preference share, Wintershall holds a 35% share in the economic rewards of this field. SNG is accounted for using the equity method as an associated company in the BASF Group Consolidated Financial Statements.

In return, Gazprom received a 49% interest in a German company that holds onshore exploration and production rights in Libya. In addition, Gazprom's stake in our natural gas trading company, WINGAS GmbH, Kassel, was increased from 35% to 50% minus one share. Both the Libyan activities and WINGAS GmbH continue to be included in the BASF Group Consolidated Financial Statements.

A cash payment of €598 million was made by BASF to compensate for the assets swapped with Gazprom.

The marketing of BASF's share of the gas produced will be carried out through a project company. By means of a non-voting preference share, BASF is entitled to 100% of the earnings of the project company. As BASF bears all the economic risks and rewards of the project company, it is consolidated.

Gazprom's additional shares have led to an increase in minority interests of €216 million in the balance sheet. The measurement of the swapped assets at fair value of €850 million resulted in an excess of €634 million which was recognized in retained earnings.

Effects on the balance sheet of the asset swap with Gazprom (million €)

Fair value of the assets given up	849.9
Compensation payment	598.1
Fair value of the assets received	1,448.0
Balance sheet items affected	
Long-term assets	1,871.5
Thereof intangible assets	1,761.5
Thereof financial assets	110.0
Deferred tax liabilities from the measurement at fair value	423.5

In 2007, BASF acquired the following companies for a total of €38.3 million:

Guilin REEcat Catalyst Co., Ltd. was taken over by BASF on April 20, 2007. The Chinese company, which has a production site for small engine and motorcycle catalysts in Guilin, China, has strengthened BASF's catalysts activities.

In addition, BASF acquired the remaining 50% stake in Prodrive Engelhard LLC Wixom, Michigan. The company provides services connected with the testing of catalysts.

On December 31, 2007, BASF acquired SABIC Innovative Plastics's shares in the PBT-Joint Venture – BASF GE Schwarzheide GmbH & Co. KG –, Schwarzheide, Germany.

The purchase price allocations for the individual acquisitions are preliminary and may, according to IFRS, be adjusted when finalized within one year after the date of acquisition.

Preliminary purchase price allocations of the acquisitions in 2007 (million €)

	Historical book value	Adjustment to fair value	Fair value as of acquisition date
Long-term assets	6.7	16.4	23.1
Property, plant and equipment	5.2	11.9	17.1
Goodwill	–	–	–
Other intangible assets	1.5	4.5	6.0
Investments	–	–	–
Other long-term assets	–	–	–
Short-term assets	16.9	0.1	17.0
Inventories	1.7	0.1	1.8
Other short-term assets	15.2	–	15.2
Total assets	23.6	16.5	40.1
Long-term liabilities	0.7	1.7	2.4
Provision for pensions and similar obligations	0.2	–	0.2
Deferred taxes	0.4	1.7	2.1
Financial indebtedness	–	–	–
Other liabilities	0.1	–	0.1
Short-term liabilities	10.7	–	10.7
Total liabilities	11.4	1.7	13.1
Net assets	12.2	14.8	27.0
Goodwill			11.3
Total purchase price			38.3
Thereof incidental acquisition cost			0.6

The material acquisitions in 2006 included the acquisition of the construction chemicals business of Degussa AG, Düsseldorf, Engelhard Corp., Iselin, New Jersey and Johnson Polymer from JohnsonDiversey Inc. The acquisitions conducted in 2006 were reported based on preliminary purchase price allocations.

In 2007, adjustments were made for the acquisitions of Engelhard Corp. and PEMEAS GmbH. The preliminary purchase price allocations of the remaining acquisitions have proved final. New information relating primarily to the value of the acquired technology resulted in adjustments of the fair value of other intangible assets and the associated deferred taxes of PEMEAS GmbH. The preliminary purchase price allocation of Engelhard Corp. was adjusted primarily due to the amended fair value of long-term assets

and deferred tax assets. The adjustments resulted in an increase in goodwill for Engelhard of €87.9 million and a reduction for PEMEAS of €23.1 million.

The following overview shows the preliminary purchase price allocations of the acquisitions conducted in 2007, as well as the impact of the final purchase price allocations conducted in 2006 on the consolidated balance sheet.

Effects of acquisitions in the year of acquisition (million €)

	2007		2006			
	Million €	%	Final purchase price allocations	Adjustments	Preliminary purchase price allocations	%
Long-term assets	34.4	0.1	8,499.5	(2.2)	8,501.7	41.4
Property, plant and equipment	17.1	0.1	1,724.4	(29.2)	1,753.6	12.5
Goodwill	11.3	0.3	2,839.9	64.8	2,775.1	58.9
Other intangible assets	6.0	0.1	3,125.0	40.3	3,084.7	73.3
Other assets	–	–	810.2	(78.1)	888.3	28.9
Short-term assets	7.2	.	3,725.4	6.4	3,719.0	24.6
Thereof cash and cash equivalents	1.1	0.1	336.9	–	336.9	37.1
Total assets	41.6	0.1	12,224.9	4.2	12,220.7	34.3
Stockholders' equity	–	–	0.8	–	0.8	.
Long-term liabilities	2.4	.	2,030.0	4.2	2,025.8	20.8
Thereof financial indebtedness	–	–	227.2	–	227.2	6.2
Short-term liabilities	0.9	.	3,460.5	–	3,460.5	41.3
Thereof financial indebtedness	–	–	958.4	–	958.4	369.6
Total stockholders' equity and liabilities	3.3	.	5,491.3	4.2	5,487.1	15.4
Purchase price	38.3		6,733.6	–	6,733.6	
Contingent liabilities and other financial obligations	0.6	.	252.8	–	252.8	7.7

The acquisitions conducted in 2007 had no material influence on the BASF Group. For that reason, proforma sales and proforma net income are not disclosed.

In 2007, BASF divested the following activities:

- On June 26, 2007, BASF concluded the divestiture of Chemische Fabrik WIBARCO GmbH to Hansa Chemie International AG, Zollikon-Zurich, Switzerland. The company, headquartered in Ibbenbüren, North Rhine-Westphalia, was assigned to the Performance Chemicals division.
- On July 1, 2007 BASF sold its stake in an ethane cracker in Geismar, Louisiana to Williams Olefins, LLC. The associated infrastructure was sold to PetroLogistics, LLC.
- On October 31, 2007 BASF sold a major part of its pre-mix business to Nutreco, an animal feed group headquartered in the Netherlands. The divested business with premixes, a mix of vitamins and other feed additives for animal nutrition, has sites in eight countries.

In 2006, BASF divested the following activities:

- On March 31, 2006, BASF sold major parts of the Micro Flo company LLC, Memphis, Tennessee to Arysta LifeScience North America Corporation. The divested business includes many generic, off-patent crop protection products and their corresponding registrations, trademarks and patents, as well as a development laboratory.
- On November 27, 2006, BASF sold its global Terbufos insecticide business to AMVAC Chemical Corporation. It comprises the active ingredient Terbufos (trademark Counter®) and the formulation and production processes, registrations and patents as well as inventories.

Effects of divestitures in the year of divestiture

	2007		2006	
	Million €	%	Million €	%
Sales	(146.0)	(0.3)	(167.0)	(0.4)
Long-term assets	(54.7)	(0.2)	(41.2)	(0.2)
Thereof property, plant and equipment	(42.6)	(0.3)	(0.3)	.
Short-term assets	(59.7)	(0.3)	(41.0)	(0.3)
Thereof cash and cash equivalents	(2.8)	(0.4)	–	–
Total assets	(114.4)	(0.2)	(82.2)	(0.2)
Stockholders' equity	25.7	0.1	99.2	0.6
Long-term liabilities	(5.2)	.	(27.1)	(0.3)
Thereof financial indebtedness	–	–	–	–
Short-term liabilities	(33.3)	(0.3)	2.2	.
Thereof financial indebtedness	(1.2)	.	–	–
Total stockholders' equity and liabilities	(12.8)	(0.1)	74.3	0.2
Proceeds from divestitures	101.6		156.5	
Contingent liabilities and other financial obligations	(0.5)	.	–	–

Assets and liabilities of disposal groups

BASF plans to sell parts of the Styrenics division. The sales of these businesses amounted to approximately €3 billion in 2007. These concern BASF's styrene monomer (SM), polystyrene (PS), styrene butadiene copolymer (SBC) and acrylonitrile butadiene styrene (ABS) businesses with plants in Antwerp, Belgium; Altamira, Mexico; São José dos Campos, Brazil; Ulsan, South Korea; and Dahej, India.

The sale is highly probable in 2008. The classification of the assets and liabilities into a disposal group was conducted as of December 31, 2007. As it is planned that material items under working capital will remain at BASF, they are not included in the disposal group. The values of the disposal group are shown in the following table.

Disposal group of the Styrenics division (million €)

	31.12.2007
Intangible assets	59.4
Property, plant and equipment	363.4
Inventories	175.4
Accounts receivable, trade	9.6
Other receivables and miscellaneous short-term assets	3.8
Cash and cash equivalents	2.6
Assets of the disposal group	614.2
Provisions for pensions and similar obligations	14.9
Accounts payable, trade	1.2
Other liabilities	1.1
Liabilities of the disposal group	17.2

3 -- Earnings per share

Earnings per share (million €)

	2007	2006
Net income	4,065.5	3,215.2
Number of shares (1.000)		
Weighted-average number of outstanding shares	488,893	504,479
Earnings per share (€)	8.32	6.37

The calculation of earnings per share is based on the weighted-average number of common shares outstanding. The calculation of diluted earnings per common share reflects all possible outstanding common shares and their effect on income of the BASF employee participation program "plus".

In 2007 and 2006, the potentially dilutive instruments were antidilutive and should not be considered.

4 -- Reporting by segment and region

BASF is a worldwide chemical manufacturer which offers a wide range of products, including chemicals, plastics, dyes and pigments, dispersions, automotive and industrial coatings, agricultural products, fine chemicals, crude oil and natural gas.

The Company conducts its worldwide operations through operating divisions, which have been aggregated into five reporting segments based on the nature of the products and production processes, the type of customers, the channels of distribution and the nature of the regulatory environment.

The Chemicals segment consists of the Inorganics, Petrochemicals, Catalysts and Intermediates divisions.

The Plastics segment is composed of the Styrenics, Performance Polymers and Polyurethanes divisions.

The Performance Products segment comprises Performance Chemicals, Coatings, Functional Polymers and Construction Chemicals divisions.

The Agricultural Products & Nutrition segment comprises the Agricultural Products and Fine Chemicals divisions.

The Oil & Gas segment consists of the operating division Oil & Gas, which conducts exploration and production as well as natural gas trading. Business activities not allocated to any operating division are shown as 'other' and include, among other things, the sale of feedstock, the remaining fertilizers activities, engineering and other services as well as rental income and leases.

Income from operations (EBIT) of 'other' (million €)

	2007	2006
Corporate research costs	(323)	(258)
Foreign currency results not allocated to the segments	89	86
Other income and expenses	(59)	50
	(293)	(122)

Other income and expenses comprises primarily expenses for environmental protection, training and regional sponsorship. In 2006, the reversal of provisions made for risks associated with the pharmaceuticals business divested in 2001 contributed to earnings.

Assets from 'other' (million €)

	2007	2006
Assets of businesses included under 'other'	1,913	2,050
Financial assets	2,786	1,841
Deferred taxes	679	622
Cash and cash equivalents/ marketable securities	818	890
Defined benefit assets	417	367
Miscellaneous receivables/ prepaid expenses	1,140	922
	7,753	6,692

Transfers between the reportable segments are shown separately and generally executed at market-based prices.

The allocation of assets and depreciation to the segments is based on economic control. Assets used by more than one segment are allocated based on the percentage of usage.

Segments

2007 (million €)

	Chemicals	Plastics	Performance Products	Agricultural Products & Nutrition			Oil & Gas		Other	BASF Group
				Agricultural Products	Fine Chemicals	Total		Thereof Explorations		
Sales	14,162	13,496	11,697	3,137	1,852	4,989	10,517	4,365	3,090	57,951
Change (%)	22.4	5.6	15.4	1.9	(0.2)	1.1	(1.6)	(4.2)	23.2	10.2
Intersegmental transfers	4,880	624	412	19	10	24	1,189	514	537	7,666
Sales including intersegmental transfers	19,042	14,120	12,109	3,156	1,862	5,013	11,706	4,879	3,627	65,617
Income from operations	1,995	1,236	704	489	171	660	3,014	2,470	(293)	7,316
Change (%)	44.6	3.7	5.2	9.4	.	73.2	(7.3)	(6.6)	(140)	8.4
Assets	10,219	6,737	9,431	4,157	1,448	5,605	7,057	4,037	7,753	46,802
Thereof goodwill	1,384	114	1,184	1,304	183	1,487	64	64	72	4,305
property, plant and equipment	3,886	2,587	2,743	507	550	1,057	3,125	1,460	817	14,215
Debt	2,370	1,387	2,673	813	449	1,262	2,624	1,456	16,388	26,704
Research and development expenses	201	149	304	328	66	394	9	9	323	1,380
Investment in property, plant and equipment and intangible assets	866	532	482	83	68	151	2,280	2,162	114	4,425
Depreciation and amortization of property, plant and equipment and intangible assets	694	581	607	203	117	320	561	415	146	2,909
Thereof due to impairments	15	58	80	8	161

2006 (million €)

	Chemicals	Plastics	Performance Products	Agricultural Products & Nutrition			Oil & Gas		Other	BASF Group
				Agricultural Products	Fine Chemicals	Total		Thereof Explorations		
Sales	11,572	12,775	10,133	3,079	1,855	4,934	10,687	4,555	2,509	52,610
Change (%)	42.8	9.0	22.6	(6.6)	7.1	(1.9)	39.6	30.2	27.3	23.1
Intersegmental transfers	4,483	526	390	25	17	36	1,062	287	450	6,947
Sales including intersegmental transfers	16,055	13,301	10,523	3,104	1,872	4,970	11,749	4,842	2,959	59,557
Income from operations	1,380	1,192	669	447	(66)	381	3,250	2,645	(122)	6,750
Change (%)	4.1	17.4	(22.5)	(34.4)	(13.8)	(38.8)	34.9	26.3	70.0	15.8
Assets	10,473	6,911	9,727	4,458	1,596	6,054	5,434	2,300	6,692	45,291
Thereof goodwill	1,422	157	1,352	1,375	192	1,567	64	64	151	4,713
property, plant and equipment	3,895	3,131	2,771	550	590	1,140	3,117	1,438	848	14,902
Debt	2,762	1,636	2,350	845	561	1,406	2,508	998	16,051	26,713
Research and development expenses	178	145	288	334	70	404	.	.	262	1,277
Investment in property, plant and equipment and intangible assets	3,539	631	4,490	88	378	466	545	411	368	10,039
Depreciation and amortization of property, plant and equipment and intangible assets	855	523	508	216	250	466	516	363	105	2,973
Thereof due to impairments	188	3	48	.	114	114	.	.	.	353

Regions

2007 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	32,367	11,967	11,928	9,561	4,095	57,951
Change (%)	9.6	8.2	3.5	18.0	18.5	10.2
Share (%)	55.8	20.7	20.6	16.5	7.1	100.0
Location of companies						
Sales	34,316	24,312	12,007	8,785	2,843	57,951
Sales including intersegmental transfers	41,599	27,278	14,203	11,761	2,969	70,532
Income from operations	5,415	4,226	762	828	311	7,316
Assets	26,799	16,483	11,704	6,185	2,114	46,802
Thereof property, plant and equipment	8,082	5,198	2,984	2,569	580	14,215
Investment in property, plant and equipment and intangible assets	3,513	873	634	184	94	4,425
Depreciation and amortization of property, plant and equipment and intangible assets	1,763	1,004	677	376	93	2,909
Employees as of December 31	61,020	46,890	15,191	13,278	5,686	95,175

2006 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South- America, Africa, Middle East	BASF Group
Location of customers						
Sales	29,529	11,062	11,522	8,102	3,457	52,610
Change (%)	24.3	24.8	21.6	24.6	14.8	23.1
Share (%)	56.1	21.0	21.9	15.4	6.6	100.0
Location of companies						
Sales	31,444	22,963	11,415	7,450	2,301	52,610
Sales including intersegmental transfers	39,612	25,842	13,892	10,968	2,426	66,898
Income from operations	5,485	4,125	869	181	215	6,750
Assets	24,849	15,902	11,611	6,498	2,333	45,291
Thereof property, plant and equipment	7,977	5,216	3,331	3,018	576	14,902
Investment in property, plant and equipment and intangible assets	4,682	2,580	4,158	700	499	10,039
Depreciation and amortization of property, plant and equipment and intangible assets	1,647	983	584	665	77	2,973
Employees as of December 31	61,444	47,296	15,513	12,788	5,502	95,247

5 -- Other operating income

Million €	2007	2006
Reversal and adjustment of provisions	151.7	275.2
Revenue from miscellaneous revenue-generating activities	150.3	62.3
Gains from foreign currency transactions	221.6	119.7
Gains from the translation of financial statements in foreign currencies	27.4	10.8
Gains from disposal of property, plant and equipment and divestitures	104.6	127.8
Gains on the reversal of allowances for doubtful receivables	39.1	89.0
Other gains	358.3	249.3
	1,053.0	934.1

The **reversal and adjustment of provisions** primarily related to risks arising from lawsuits and damage claims, risks from sales as well as from various other items as part of the normal course of business. Provisions were reversed or adjusted if the circumstances on the balance sheet date indicate that the provision was needed to a limited extent or not at all.

Revenue from miscellaneous revenue-generating activities primarily represents revenues from energy sales, sales of raw materials as well as income from rentals and logistics services.

Gains from foreign currency transactions related to gains arising from foreign currency positions and foreign currency derivatives, as well as from the valuation of receivables and liabilities denominated in foreign currencies at the closing rate on the balance sheet date.

Gains from the translation of financial statements in foreign currencies included gains arising from the use of the temporal method.

Gains from the disposal of property, plant and equipment and divestitures in 2007 related to the sale of a stake in an ethane cracker in Geismar, Louisiana, and the divestiture of the premix business. In 2006 they primarily related to divestitures in the Agricultural Products division to optimize its portfolio.

Gains on the reversal of allowances for doubtful receivables result primarily from an improved assessment of the creditworthiness of customers.

Other gains comprises refunds and settlements; write-ups on property, plant and equipment; gains from precious metal trading and miscellaneous sales as well as a number of other items.

6 -- Other operating expenses

Million €	2007	2006
Restructuring measures	118.9	399.4
Environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditure projects not subject to mandatory capitalization	173.3	180.5
Amortization of intangible assets and depreciation of property, plant and equipment	212.5	430.3
Costs from miscellaneous revenue-generating activities	126.1	85.1
Losses from foreign currency transactions	140.0	48.4
Losses from the translation of the financial statements in foreign currencies	40.1	51.6
Losses from the disposal of property, plant and equipment and divestitures	97.7	21.8
Oil and gas exploration expenses	267.8	167.3
Expenses from additions to allowances for doubtful receivables	66.1	90.4
Other	513.8	456.3
	1,756.3	1,931.1

Restructuring measures in 2007 were primarily impairment losses on property, plant and equipment at two sites in Europe as well as integration costs. In 2006, they primarily related to charges associated with acquisitions and restructuring measures in the Fine Chemicals division.

Amortization of intangible assets and depreciation of property, plant and equipment related, among other things, to impairment losses in the coatings business in North America.

Further expenses were related to **demolition and removal measures as well as the preparation of capital expenditure projects** to the extent that they were not subject to mandatory capitalization according to IFRS.

Costs from miscellaneous revenue-generating activities refer to costs related to the items shown as miscellaneous revenue-generating activities (see Note 5 on page 162).

Losses from foreign currency transactions represent gains arising from foreign currency positions and foreign currency derivatives, as well as from the valuation of receivables and liabilities denominated in foreign currencies at the closing rate on the balance sheet date.

Other expenses were incurred as a result of the write-offs of obsolete inventories in the amount of €91.0 million in 2007 (2006: €74.6 million) as well as numerous other items.

7 -- Financial result

Million €	2007	2006
Income from companies accounted for using the equity method	57.1	35.0
Income from participations in affiliated and associated companies	42.4	44.5
Income from the disposal of participations	11.4	6.8
Income from profit transfer agreements	3.1	1.5
Losses from loss transfer agreements	(23.5)	(3.1)
Write-down of, and losses from, the sales of participations	(8.0)	(13.9)
Income from tax allocation to participating interests	1.2	0.9
Other income from participations	26.6	36.7
Interest expenses	(613.6)	(543.0)
Interest income	118.1	146.5
Interest and dividend income from dividend income and loans	23.7	24.6
Interest result	(471.8)	(371.9)
Write-ups/profits from the sale of securities and loans	9.0	85.3
Write-downs/losses from the disposal of securities and loans	(12.7)	(7.1)
Net financing income/(expense) from defined benefit plans	47.4	56.1
Net financing income/(expense) from other long-term personnel provisions	(21.5)	(18.1)
Interest accrued on other interest-bearing assets and liabilities	(33.2)	(39.8)
Construction interest	44.1	36.6
Other financial expenses and income	(25.9)	(36.0)
Other financial result	7.2	77.0
Financial result	(380.9)	(223.2)

In 2007, **income** from companies accounted for using the equity method rose primarily due to higher contributions from N.E. Chemcat Corporation and Heesung Catalysts Corporation.

Interest expenses increased in 2007 primarily due to higher financing requirements associated with the acquisitions in mid-2006.

8 -- Income taxes

Million €	2007	2006
German corporate income tax, solidarity surcharge, German trade taxes	338.5	492.9
Foreign income tax	2,355.2	2,235.0
Taxes for prior years	(85.9)	(3.2)
Corporate income tax credits	2.3	(51.8)
Current taxes	2,610.1	2,672.9
Deferred tax expense (+)/income (-)	(0.2)	387.7
Income taxes	2,609.9	3,060.6
Thereof income taxes on oil-producing operations	1,768.0	1,736.1
Other taxes as well as sales and consumption taxes	245.2	229.1
Tax expense	2,855.1	3,289.7

Income before taxes and minority interests is broken down into domestic and foreign as follows:

Million €	2007	2006
Germany	1,758.7	2,088.5
Foreign oil production branches of German companies	1,895.4	1,814.6
Foreign	3,281.3	2,623.6
	6,935.4	6,526.7

On July 6, 2007, the German Corporate Tax Reform 2008 was approved by the Federal Council of Germany. This tax reform will reduce the overall German corporate tax rate from 38% to 29%. Deferred tax assets and liabilities in the Consolidated Financial Statements have to be valued using the tax rates applicable for the period in which the asset or liability is realized or settled. As the Corporate Tax Reform 2008 was approved in July 2007, the excess deferred tax liabilities of German Group companies were assessed at the lower tax rate. This resulted in a non-recurring, non-cash income of €229 million.

In Germany, a uniform corporate tax rate of 25% (as of 2008: 15%) and thereon a solidarity surcharge of 5.5% is levied on all paid out and retained earnings. In addition to corporate income tax, income generated in Germany is subject to a trade tax that varies depending on the municipality in which the company is located. After accounting for trade tax, which stops being a deductible operating expense as of 2008, BASF has a weighted-average for trade tax rate of 15.4% (as of 2008: 12.7%).

The profits of foreign Group companies are assessed using the tax rates applicable in the respective countries.

For foreign Group companies, deferred taxes are calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 30% in 2007 and 33% in 2006.

Income taxes on foreign oil-producing operations in certain regions are compensable up to the level of the German corporate income tax on this foreign taxable income. The non-compensable amount is shown separately in the table on the following page.

Other taxes include real estate taxes and other comparable taxes in the amount of €77.1 million in 2007 and €90.3 million in 2006; they are allocated to the appropriate functional costs.

Changes in valuation allowances on deferred tax assets resulted in charges of €22.9 million in 2007 and €59.7 million in 2006.

Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2007		2006	
	Million €	%	Million €	%
Expected German corporate income tax (25%)	1,733.8	25.0	1,631.7	25.0
Solidarity surcharge	8.9	0.1	13.8	0.2
German trade income tax net of corporate income tax	106.4	1.5	240.9	3.7
Foreign tax-rate differential	158.0	2.3	157.2	2.4
Tax exempt income	(338.2)	(4.9)	(196.1)	(3.0)
Non-deductible expenses	74.1	1.1	106.6	1.6
Income after taxes of companies accounted for using the equity method	(14.3)	(0.2)	(8.8)	(0.1)
Taxes for prior years	(85.9)	(1.2)	(3.2)	.
Income taxes on oil-producing operations non-compensable with German corporate income tax	1,302.3	18.8	1,282.4	19.7
Deferred taxes for planned dividend distributions of Group companies	31.1	0.4	15.2	0.2
Corporate income tax credits	2.3	.	(51.8)	(0.8)
Adjustment of deferred taxes due to corporate tax reform	(228.9)	(3.3)	–	–
Other	(139.7)	(2.0)	(127.3)	(2.0)
Income taxes/effective tax rates	2,609.9	37.6	3,060.6	46.9

Higher tax free income resulted primarily from increasing tax free earnings contributions from Asian Group companies.

Deferred tax assets and liabilities (million €)

	Tax assets		Tax liabilities	
	2007	2006	2007	2006
Intangible assets	26.7	24.7	1,374.5	1,141.6
Property, plant and equipment	145.8	133.8	1,357.7	1,396.0
Financial assets	8.6	17.7	113.0	65.2
Inventories and accounts receivable	163.5	216.8	271.5	330.5
Provisions for pensions	484.2	639.8	101.8	8.7
Other provisions and liabilities	660.5	536.0	54.2	145.4
Tax loss carryforwards	636.8	627.3	–	–
Other	62.1	343.2	215.8	142.8
Netting	(1,428.0)	(1,789.2)	(1,428.0)	(1,789.2)
Valuation allowances	(81.4)	(127.7)	–	–
Thereof for tax loss carryforwards	(77.9)	(43.7)	–	–
Total	678.8	622.4	2,060.5	1,441.0
Thereof short-term	444.9	275.3	259.9	251.0

Deferred taxes result primarily from temporary differences between tax balances and the valuation of assets and liabilities according to IFRS, as well as from tax loss carryforwards. The revaluation of all the assets and liabilities associated with acquisitions according to IFRS 3 has resulted in significant deviations between fair values and the values in the tax accounts. This has primarily led to deferred tax liabilities. The valuation of deferred tax assets depends on the estimation of the probability of a reversal of the valuation differences and the utilization of the tax loss carryforwards. A deferred tax asset is recognized for future tax benefits arising from temporary differences and for tax loss carryforwards to the extent that the tax benefits are likely to be realized. Based on experience and the expected development of taxable income, it is assumed that the benefit of deferred tax assets recognized will be realized.

Deferred tax assets were offset against deferred tax liabilities of the same maturity if they were related to the same taxation authority.

Deferred tax liabilities for undistributed earnings of subsidiaries in the amount of €4,985.5 million in 2007 and €3,258.1 million in 2006 were not recognized, as they are either not subject to taxation or they are expected to be reinvested for indefinite periods of time.

For these temporary differences, only the respective withholding tax, taking into consideration the German taxation of 5% on dividends paid, would need to be considered.

The regional distribution of tax loss carryforwards is as follows:

Regional tax loss carryforwards (million €)

	2007	2006
Germany	33.7	64.4
Foreign	1,583.7	1,758.1
	1,617.4	1,822.5

German tax losses may be carried forward indefinitely. Foreign tax loss carryforwards exist primarily in North America. These expire starting in 2020. Loss carryforwards in North America were reduced in 2007 and 2006 as a result of high earnings.

For tax loss carryforwards of €195.6 million in 2007 and €112.3 million in 2006, valuation allowances were recorded.

Tax obligations are comprised of both tax liabilities and short-term tax provisions. Tax liabilities primarily concern the assessed income tax and other taxes. Tax provisions concern estimated income taxes not yet assessed for the current and previous years.

Tax liabilities (million €)

	2007	2006
Tax provisions	346.6	294.4
Tax liabilities	534.2	564.3
	880.8	858.7

9 -- Minority interests

Million €	2007	2006
Minority interests in profits	275.3	265.1
Minority interests in losses	15.3	14.2
	260.0	250.9

Minority interests in profits related primarily to Group companies engaged in natural gas trading, to the operating company for the steam cracker in Port Arthur, Texas, and to BASF Petronas in Kuantan, Malaysia. Minority interests in losses related primarily to BASF Plant Science GmbH, Ludwigshafen, Germany.

See Note 19 on page 179 for a detailed analysis of consolidated subsidiaries with minority shareholdings.

10 -- Other information

Additional information related to the Consolidated Statements of Cash Flows

Cash provided by operating activities includes the following cash flows:

Million €	2007	2006
Income tax payments	2,431.6	2,730.0
Interest payments	502.1	319.0
Dividends received	57.3	47.5

Information related to subsidiaries

German subsidiaries which are either joint-stock companies or partnerships make use of the exemptions according to Section 264 (3) and Section 264b of the German Commercial Code (HGB). The individual companies are listed in the List of Shares Held.

List of Shares Held

A list of companies included in the Consolidated Financial Statements and a list of all companies in which BASF SE has a participation as required by Section 313 (2) (in connection with Section 313 (4)) of the German Commercial Code is provided separately in the List of Shares Held. The

List of Shares Held together with the Consolidated Financial Statements have been submitted to the electronic Federal Gazette as required by Section 325 of the German Commercial Code and are available from BASF SE. They are also available on the internet at:

→ corporate.basf.com/cg_reports

Statement of compliance according to Section 161 of the German Stock Corporation Act

The statement of compliance with the German Corporate Governance Code according to Section 161 of the German Stock Corporation Act was signed by the Board of Executive Directors and the Supervisory Board of BASF SE.

Personnel costs and number of employees

On December 31, 2007 the number of employees was 95,175 and on December 31, 2006 95,247.

The number of employees in proportionally-consolidated companies is included in full in the table below. Considered pro-rata, the average number of employees in the BASF Group was 94,893 in 2007 and 88,160 in 2006. This increase was attributable to the acquisitions in 2006.

Personnel costs (million €)

	2007	2006
Wages and salaries	5,378.9	5,029.8
Social security contributions and expenses for pensions and assistance	1,269.2	1,180.0
Thereof for pension benefits	359.2	286.7
	6,648.1	6,209.8

Average number of employees

	Consolidated companies		Proportionally-consolidated companies		BASF Group	
	2007	2006	2007	2006	2007	2006
Europe	60,754	58,497	428	376	61,182	58,873
Thereof Germany	46,738	46,017	24	18	46,762	46,035
North America	15,088	12,789	454	466	15,542	13,255
Asia Pacific	12,080	10,384	1,814	1,740	13,894	12,124
South America, Africa, Middle East	5,623	5,199	–	–	5,623	5,199
BASF Group	93,545	86,869	2,696	2,582	96,241	89,451
Thereof with trainee contracts	1,936	2,036	3	2	1,939	2,038
Thereof with limited-term contracts	2,268	1,966	37	24	2,305	1,990

11 -- Intangible assets

Development 2007 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Goodwill	Internally generated intangible assets	Other rights and values*	Total
Acquisition costs							
Balance as of January 1, 2007	1,835.0	1,211.6	1,683.8	4,713.2	215.5	964.4	10,623.5
Changes in scope of consolidation	5.8	–	1.7	6.4	–	1.7	15.6
Additions	1,773.5	5.8	6.1	11.3	19.7	44.9	1,861.3
Disposals	(9.6)	(2.1)	(28.5)	(91.3)	(94.6)	(68.0)	(294.1)
Transfers	1.1	(24.4)	34.2	30.9	0.2	(108.3)	(66.3)
Exchange differences	(134.1)	(25.3)	(46.5)	(365.8)	(5.2)	(45.5)	(622.4)
Balance as of December 31, 2007	3,471.7	1,165.6	1,650.8	4,304.7	135.6	789.2	11,517.6
Amortization							
Balance as of January 1, 2007	297.3	377.0	427.4	–	149.5	450.7	1,701.9
Changes in scope of consolidation	(0.2)	(0.1)	1.1	–	–	0.7	1.5
Additions	177.8	82.8	143.5	65.0	26.0	120.0	615.1
Disposals	(6.5)	(1.9)	(28.4)	(65.0)	(93.6)	(62.1)	(257.5)
Transfers	6.7	(28.1)	7.1	–	–	(30.8)	(45.1)
Exchange differences	(16.0)	(12.3)	(5.7)	–	(2.4)	(21.4)	(57.8)
Balance as of December 31, 2007	459.1	417.4	545.0	–	79.5	457.1	1,958.1
Net carrying amount as of December 31, 2007	3,012.6	748.2	1,105.8	4,304.7	56.1	332.1	9,559.5

* Including licenses on such rights and values

As part of the asset swap with Gazprom, there was an addition to intangible assets from a marketing contract for the natural gas from the Yuzhno Russkoye gas field.

Disposals from goodwill in 2007 related in particular to impairment losses of €65.0 million in the North American coatings business of the Performance Products segment. Further impairment losses of €18.7 million were recognized on a variety of intangible assets. Impairment losses are recorded under 'other operating expenses'.

Concessions for oil and gas production with a net carrying amount of €61.6 million in 2007 and €59.0 million in 2006 convey the right to produce oil and gas at certain sites. To a limited extent, these rights entail obligations to deliver a portion of the produced amount to local companies. At the end of the term of a concession, the rights are returned.

The amounts recorded under transfers resulted primarily from the reclassification of intangible assets as assets held for sale. Further information on disposal groups can be found in Note 2 on page 155.

The valuation adjustments of emission rights as of the balance sheet date are included in the line item transfers in the column 'Other rights and values'.

There were no material write-ups in 2007.

Developments 2006 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Goodwill	Internally generated intangible assets	Other rights and values*	Total
Acquisition costs							
Balance as of January 1, 2006	548.3	723.3	995.7	2,138.5	272.6	807.3	5,485.7
Changes in scope of consolidation	–	3.0	–	6.1	1.4	22.6	33.1
Additions	1,411.5	522.2	1,069.3	2,775.1	24.7	167.7	5,970.5
Disposals	(84.8)	(16.7)	(357.4)	(47.2)	(76.7)	(57.9)	(640.7)
Transfers	4.7	0.1	(0.5)	–	–	68.4	72.7
Exchange differences	(44.7)	(20.3)	(23.3)	(159.3)	(6.5)	(43.7)	(297.8)
Balance as of December 31, 2006	1,835.0	1,211.6	1,683.8	4,713.2	215.5	964.4	10,623.5
Amortization							
Balance as of January 1, 2006	260.4	322.7	652.2	–	179.0	351.8	1,766.1
Changes in scope of consolidation	–	–	–	–	–	22.5	22.5
Additions	122.7	80.6	111.3	–	50.1	126.7	491.4
Disposals	(84.1)	(15.5)	(330.6)	–	(76.4)	(29.3)	(535.9)
Transfers	2.7	–	0.4	–	–	0.2	3.3
Exchange differences	(4.4)	(10.8)	(5.9)	–	(3.2)	(21.2)	(45.5)
Balance as of December 31, 2006	297.3	377.0	427.4	–	149.5	450.7	1,701.9
Net carrying amount as of December 31, 2006	1,537.7	834.6	1,256.4	4,713.2	66.0	513.7	8,921.6

* Including licenses on such rights and values

Additions in 2006 related in particular to the acquisition of Engelhard Corp., the construction chemicals business of Degussa AG and Johnson Polymer.

In 2006, impairment losses of €9.5 million related primarily to know-how and patents. These were reported under other operating expenses. There were no material write-ups.

12 -- Property, plant and equipment

Development 2007 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2007	7,443.9	34,826.6	2,762.3	1,597.7	46,630.5
Changes in scope of consolidation	6.4	7.8	2.2	1.9	18.3
Additions	78.7	962.4	114.2	1,408.8	2,564.1
Disposals	(114.8)	(703.0)	(156.3)	(31.9)	(1,006.0)
Transfers	(10.9)	143.6	31.3	(1,351.3)	(1,187.3)
Exchange differences	(191.0)	(960.3)	(59.8)	(51.4)	(1,262.5)
Balance as of December 31, 2007	7,212.3	34,277.1	2,693.9	1,573.8	45,757.1
Depreciation					
Balance as of January 1, 2007	4,221.9	25,268.0	2,236.6	2.5	31,729.0
Changes in scope of consolidation	2.8	1.6	1.8	–	6.2
Additions	208.1	1,900.4	169.7	16.0	2,294.2
Disposals	(74.3)	(672.6)	(142.9)	(0.2)	(890.0)
Transfers	(58.1)	(761.3)	(38.4)	(2.6)	(860.4)
Exchange differences	(86.7)	(600.4)	(49.9)	–	(737.0)
Balance as of December 31, 2007	4,213.7	25,135.7	2,176.9	15.7	31,542.0
Net carrying amount as of December 31, 2007	2,998.6	9,141.4	517.0	1,558.1	14,215.1

In 2007, additions related primarily to expansion projects at our Verbund site in Antwerp, the construction of a superabsorbents plant in Freeport, Texas, and investments associated with field development of the Achimov formation in the Urengoy gas and condensate field.

Impairment losses of €77.6 million in 2007 related primarily to the restructuring at two European sites and the North American coatings business. They were reported as other operating expenses.

The amounts recorded under transfers resulted from the reclassification of property, plant and equipment to 'assets of disposal groups'. Further information on disposal groups can be found in Note 2 on page 155.

In 2007, write-ups were made on the vitamin B₂ plant at the site in Gunsan, Korea, and on the cushion gas in the Rehden natural gas storage facility.

Development 2006 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2006	7,098.0	33,533.4	2,688.6	1,302.2	44,622.2
Changes in scope of consolidation	3.2	14.4	5.0	7.1	29.7
Additions	630.6	1,672.7	216.2	1,548.9	4,068.4
Disposals	(242.3)	(413.9)	(145.7)	(45.0)	(846.9)
Transfers	149.1	927.5	73.1	(1,152.9)	(3.2)
Exchange differences	(194.7)	(907.5)	(74.9)	(62.6)	(1,239.7)
Balance as of December 31, 2006	7,443.9	34,826.6	2,762.3	1,597.7	46,630.5
Depreciation					
Balance as of January 1, 2006	4,242.5	24,103.2	2,264.2	25.4	30,635.3
Changes in scope of consolidation	0.2	10.9	2.4	–	13.5
Additions	234.2	2,074.4	173.1	0.4	2,482.1
Disposals	(175.8)	(384.2)	(136.6)	(23.1)	(719.7)
Transfers	6.1	2.2	(5.6)	(0.2)	2.5
Exchange differences	(85.3)	(538.5)	(60.9)	–	(684.7)
Balance as of December 31, 2006	4,221.9	25,268.0	2,236.6	2.5	31,729.0
Net carrying amount as of December 31, 2006	3,222.0	9,558.6	525.7	1,595.2	14,901.5

Impairment losses of €344.0 million in 2006 related in particular to the Intermediates division of the Chemicals segment. Of this amount, €184.2 million was attributable to the mothballing of the THF plant at the site in Caojing, China.

Further impairment losses resulted from the measures to restructure the Fine Chemicals division, especially the lysin and vitamin B₂ business at the site in Gunsan, Korea.

13 -- Investments accounted for using the equity method and other financial assets

Development 2007 (million €)

	Investments accounted for using the equity method	Investments in affiliated companies	Investments in associated companies	Shares in other participations	Long-term securities
Acquisition cost					
Balance as of January 1, 2007	705.9	361.2	62.2	563.0	42.5
Changes in scope of consolidation	(4.8)	6.0	–	–	–
Additions	174.3	2.5	10.7	4.8	0.4
Disposals	(1.4)	(37.5)	(0.5)	(2.3)	(10.7)
Transfers/Changes in market value	51.6	(0.1)	(2.2)	339.8	0.1
Exchange differences	(35.6)	(5.2)	(1.7)	(1.1)	(3.0)
Balance as of December 31, 2007	890.0	326.9	68.5	904.2	29.3
Accumulated valuation adjustments					
Balance as of January 1, 2007	55.4	89.1	9.7	31.1	1.2
Changes in scope of consolidation	–	(0.8)	–	–	–
Additions	–	6.0	0.8	1.0	0.2
Disposals	–	(5.2)	(0.2)	(1.1)	–
Transfers	–	2.8	(2.8)	0.4	–
Exchange differences	–	(0.2)	–	–	–
Balance as of December 31, 2007	55.4	91.7	7.5	31.4	1.4
Net carrying amount as of December 31, 2007	834.6	235.2	61.0	872.8	27.9

Development 2007 (million €)

	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Other financial assets	Investments accounted for using the equity method and other financial assets
Acquisition cost					
Balance as of January 1, 2007	131.5	202.0	58.8	1,421.2	2,127.1
Changes in scope of consolidation	0.2	–	–	6.2	1.4
Additions	11.0	518.4	14.5	562.3	736.6
Disposals	(8.7)	(16.3)	(9.0)	(85.0)	(86.4)
Transfers/Changes in market value	0.7	(1.0)	(7.7)	329.6	381.2
Exchange differences	(0.1)	(9.2)	(2.4)	(22.7)	(58.3)
Balance as of December 31, 2007	134.6	693.9	54.2	2,211.6	3,101.6
Accumulated valuation adjustments					
Balance as of January 1, 2007	92.2	4.2	3.4	230.9	286.3
Changes in scope of consolidation	–	–	–	(0.8)	(0.8)
Additions	28.4	0.8	0.8	38.0	38.0
Disposals	–	(1.5)	–	(8.0)	(8.0)
Transfers	–	–	(0.1)	0.3	0.3
Exchange differences	–	(0.3)	–	(0.5)	(0.5)
Balance as of December 31, 2007	120.6	3.2	4.1	259.9	315.3
Net carrying amount as of December 31, 2007	14.0	690.7	50.1	1,951.7	2,786.3

Development 2006 (million €)

	Investments accounted for using the equity method	Investments in affiliated companies	Investments in associated companies	Shares in other participations	Long-term securities
Acquisition cost					
Balance as of January 1, 2006	299.7	256.1	83.1	424.4	6.7
Changes in scope of consolidation	–	(21.1)	(10.1)	–	(0.2)
Additions	405.5	144.4	12.3	6.8	36.3
Disposals	–	(15.6)	(21.5)	(0.9)	–
Transfers/Changes in market value	3.1	0.1	(0.5)	133.6	(0.2)
Exchange differences	(2.4)	(2.7)	(1.1)	(0.9)	(0.1)
Balance as of December 31, 2006	705.9	361.2	62.2	563.0	42.5
Accumulated valuation adjustments					
Balance as of January 1, 2006	55.4	103.9	24.3	28.6	1.1
Changes in scope of consolidation	–	(11.0)	–	–	–
Additions	–	6.3	3.6	3.1	0.1
Disposals	–	(5.4)	(18.2)	(0.2)	–
Transfers	–	(4.3)	–	(0.4)	–
Exchange differences	–	(0.4)	–	–	–
Balance as of December 31, 2006	55.4	89.1	9.7	31.1	1.2
Net carrying amount as of December 31, 2006	650.5	272.1	52.5	531.9	41.3

Development 2006 (million €)

	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Other financial assets	Investments accounted for using the equity method and other financial assets
Acquisition cost					
Balance as of January 1, 2006	139.6	140.1	55.8	1,105.8	1,405.5
Changes in scope of consolidation	42.1	29.0	0.8	40.5	40.5
Additions	13.4	50.7	30.2	294.1	699.6
Disposals	(63.8)	(6.9)	(19.2)	(127.9)	(127.9)
Transfers/Changes in market value	0.3	0.6	(7.5)	126.4	129.5
Exchange differences	(0.1)	(11.5)	(1.3)	(17.7)	(20.1)
Balance as of December 31, 2006	131.5	202.0	58.8	1,421.2	2,127.1
Accumulated valuation adjustments					
Balance as of January 1, 2006	127.5	2.1	5.3	292.8	348.2
Changes in scope of consolidation	19.6	–	–	8.6	8.6
Additions	5.4	1.2	0.3	20.0	20.0
Disposals	(60.7)	–	(0.5)	(85.0)	(85.0)
Transfers	–	0.9	(1.7)	(5.5)	(5.5)
Exchange differences	0.4	–	–	–	–
Balance as of December 31, 2006	92.2	4.2	3.4	230.9	286.3
Net carrying amount as of December 31, 2006	39.3	197.8	55.4	1,190.3	1,840.8

In 2007, the additions to investments accounted for using the equity method resulted primarily from the purchase of a stake in OAO Severneftegazprom and a contribution to the capital of Nord Stream AG.

Additions to investments accounted for using the equity method in 2006 were primarily due to investments in N.E. Chemcat Corporation, Heesung Catalysts Corporation and Prodrive Engelhard LLC acquired in connection with the Engelhard acquisition.

The shares in other participations and long-term securities are recognized at fair value.

The disposal of other investments resulted in a gain of €11.2 million in 2007 and a loss of €0.4 million in 2006.

Due to impairments of other participations and long-term securities, impairment losses of €7.8 million in 2007 and €3.2 million in 2006 were charged to income.

In 2007, loans to associated companies and participating interests related primarily to BASF's share of the financing of OAO Severneftegazprom.

The market values of available-for-sale shares are summarized below:

Market values of available for sale securities (million €)

	2007		Recognized in other comprehensive income	2006		
	Original acquisition cost	Book/market value		Original acquisition cost	Book/market value	Recognized in other comprehensive income
Shares in funds	29.4	26.3	(2.4)	39.7	39.2	–
Shares in other participations and securities	208.9	874.4	672.9	208.1	534.2	335.4
	238.3	900.7	670.5	247.8	573.4	335.4

14 -- Inventories

Million €	2007	2006
Raw materials and factory supplies	1,799.6	1,656.0
Work-in-process, finished goods and merchandise	4,708.2	4,962.0
Advance payments and services-in-process	70.1	54.4
	6,577.9	6,672.4

Work-in-process, finished goods and merchandise are combined into one item due to the production conditions in the chemical industry. Services-in-process relate primarily to inventory not invoiced at the balance sheet date.

Impairment losses on inventory amounted to €15.6 million in 2007 and €2.7 million in 2006. Of the total inventory, €1,444.2 million in 2007 and €1,528.7 million in 2006 was valued at net realizable value. Reversals of impairment losses are made if the reasons for the impairment no longer apply. Reversals amounted to €4.2 million in 2007 and €8.2 million in 2006.

Inventories were valued using the weighted-average cost method.

15 -- Other receivables and miscellaneous assets

Other receivables and miscellaneous assets (million €)

	2007		2006	
		Thereof short-term		Thereof short-term
Receivables from affiliated companies	284.4	284.4	309.2	308.9
Prepaid expenses	197.2	166.4	189.3	150.5
Defined benefit assets	416.7	–	366.9	–
Receivables from associated companies and other participating interests	195.6	191.4	61.6	56.2
Tax refund claims	488.1	419.4	406.5	345.3
Loans and interest receivables	3.6	3.6	28.5	28.5
Derivatives with positive fair values	233.1	229.4	294.3	290.1
Employee receivables	42.6	33.7	33.3	26.3
Rents and deposits	50.8	23.6	58.9	24.1
Insurance claims	24.8	24.8	36.1	25.9
Receivables from joint venture partners	87.2	69.7	46.0	33.3
Precious metal trading positions	600.5	600.5	1,006.8	1,006.8
Other	367.2	290.2	382.1	311.4
	2,991.8	2,337.1	3,219.5	2,607.3

Prepaid expenses include prepayments for operating expenses of €13.9 million in 2007 and €30.4 million in 2006 as well as prepayments for insurance premiums of €24.9 million in 2007 and €35.0 million in 2006.

Precious metal trading positions comprise above all long positions in precious metals, which are largely hedged through sales or derivatives. Unhedged precious metal

positions are also included in this item. On the balance sheet date 2007, precious metal trading positions contained derivatives with a positive fair value of €15.6 million (2006: €1.8 million). Forward contracts made up the bulk of these.

The prepaid expenses amounted to €2.7 million in 2007 and €5.1 million in 2006.

Valuation allowances for doubtful receivables (million €)

	As of January 1, 2007	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2007
Accounts receivable, trade	353.3	58.1	69.4	57.0	34.8	364.2
Miscellaneous receivables	42.4	8.0	13.9	1.9	7.4	31.0
	395.7	66.1	83.3	58.9	42.2	395.2

Valuation allowances for doubtful receivables (million €)

	As of January 1, 2006	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2006
Accounts receivable, trade	355.8	85.6	83.6	26.2	30.7	353.3
Miscellaneous receivables	46.5	4.8	5.4	0.4	3.9	42.4
	402.3	90.4	89.0	26.6	34.6	395.7

The reversals affecting income resulted mainly from the improved assessment of the creditworthiness of our customers.

The reversals not affecting income related primarily to changes in the scope of consolidation, translation adjustments and write-offs of uncollectible receivables.

In 2007, after being individually assessed for impairment, valuation allowances of € 50.8 million were established for trade accounts receivable (reversals €37.4 million) and €8.0 million for miscellaneous receivables (reversals €13.7 million). In 2006, after being individually assessed for impairment, valuation allowances of €76.0 million were established for trade accounts receivable (reversals €44.9 million) and €0.2 million for miscella-

neous receivables (reversals €5.2 million). The contractually conditions which form the basis for receivables did not need to be re-negotiated to any major extent in 2006 and 2007.

Overdue trade accounts receivables which have not been individually assessed for impairment, but which were covered by credit insurance, amounted to €658.8 million on December 31, 2007 (€318.8 million December 31, 2006).

Contingent assets were immaterial in 2007 and 2006.

Aged list of trade account receivable (million €)

	2007	2006
Not yet due	7,658.0	7,154.1
Less than 30 days	592.6	718.6
Between 30 and 89 days	176.0	260.6
More than 90 days	134.6	89.5
	8,561.2	8,222.8

Aged list of other receivables (million €)

	2007	2006
Not yet due	790.1	702.9
Less than 30 days	208.9	189.6
Between 30 and 89 days	8.4	24.4
More than 90 days	48.8	38.5
	1,056.2	955.4

16 -- Marketable securities, cash and cash equivalents

Cash and cash equivalents of €766.6 million in 2007 and €834.2 million in 2006 consisted primarily of cash on hand and bank balances.

In addition, on the balance sheet date marketable securities of €50.7 million (2006: €55.8 million) were held.

Marketable short-term securities (million €)

	2007		2006	
	Original acquisition cost	Book/ market value	Original acquisition cost	Book/ market value
Fixed-term, interest-bearing certificates	15.4	15.5	15.8	15.7
Shares	35.6	33.4	36.0	39.8
Other securities	1.7	1.8	0.3	0.3
	52.7	50.7	52.1	55.8

The sale of marketable securities in 2007 resulted in proceeds of €27.5 million and a profit of €6.3 million. In 2006, the sale of marketable securities resulted in proceeds of €166.4 million and a profit of €84.1 million.

Maturities of fixed-term securities (million €)

	2007		2006	
	Original acquisition cost	Book/ market value	Original acquisition cost	Book/ market value
Less than 1 year	6.9	7.0	6.0	5.9
Between 1 and 5 years	3.3	3.3	7.2	7.2
More than 5 years	5.2	5.2	2.6	2.6
	15.4	15.5	15.8	15.7

17 -- Capital and reserves

Development of conditional and authorized capital (million €)

	Conditional capital		Authorized capital	
	2007	2006	2007	2006
January 1	22.4	411.7	500.0	500.0
Conditional capital for the option program BOP 1999/2000, the BOP 2001/2005, decrease due to expiration of option rights (2006) and expiry without issuance of option rights (2007)	(22.4)	(5.3)	—	—
Conditional capital to ensure the exercise of options on BASF shares in the event of the issuance of stock warrants, retirement due to expiry (April 1, 2006)	—	(384.0)	—	—
December 31	0.0	22.4	500.0	500.0

Subscribed capital (million €)

	Outstanding shares	Subscribed capital	Capital surplus
Outstanding shares as of December 31, 2007	490,485,000	1,255.7	3,173.1
Repurchased shares intended to be cancelled	(12,300,000)	(31.5)	–
Outstanding shares as disclosed in the financial statements	478,185,000	1,224.2	3,173.1

Share buyback/Own shares

The Board of Executive Directors received approval at the Annual Meeting on April 26, 2007 to buy back BASF shares to a maximum amount of 10% of subscribed capital by October 25, 2008. The shares shall be purchased on the stock exchange or through a public purchase offer open to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the highest market price on the buying day and may not be more than 25% lower than that highest price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 10% higher than the highest market price on the third trading day prior to the announcement of the public purchase offer. This authorization supersedes the prior authorization to repurchase BASF shares granted at the Annual Meeting on May 4, 2006.

The Board of Executive Directors is authorized to cancel the repurchased shares without the approval of a further resolution at an Annual Meeting.

A sale of treasury shares is only authorized after a corresponding resolution at the Annual Meeting, except when, with the approval of the Supervisory Board, the shares are used to acquire companies, parts of companies or participations in companies in return for shares.

In 2007, a total of 21,495,000 shares, or 4.3% of the issued shares, were acquired under the respective approvals. The average purchase price was €88.35 per share. A total of 10,605,000 shares were cancelled by December 31, 2007. Of that amount, 1,410,000 shares were acquired in 2006. As of the balance sheet date, 12,300,000 shares of BASF stock were held by BASF SE. These were acquired for the purpose of cancellation. Therefore, these shares were not capitalized but deducted from the subscribed capital. BASF spent a total of €1,899.1 million on the share buyback program in 2007.

14,699,000 shares, or 2.86% of the issued shares, were acquired in 2006. The average purchase price was €63.84 per share.

BASF's shares are no-par-value shares.

Authorized capital

At the Annual Meeting of April 29, 2004, shareholders authorized the Board of Executive Directors to increase subscribed capital by issuing new shares in an amount of up to €500.0 million against cash or contribution in kind with the approval of the Supervisory Board through May 1, 2009. The Board of Executive Directors is empowered to decide on the exclusion of shareholders' subscription rights for these new shares.

Capital surplus

Capital surplus includes share premiums from the issuance of shares, the fair value of options and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for the issue of BASF SE shares at par value.

18 -- Retained earnings and other comprehensive income

Million €	2007	2006
Legal reserves	354.3	311.0
Other retained earnings	14,201.3	12,990.9
	14,555.6	13,301.9

Changes in the scope of consolidation led to an increase in the legal reserves of €2.6 million in 2007. In 2006, there was a reduction of €0.4 million. Transfers from other retained earnings increased legal reserves by €39.5 million in 2007 and €19.7 million in 2006.

The effect of applying the fair value option to the asset swap with Gazprom resulted in an excess of €634.0 million recognized in retained earnings.

The offsetting of actuarial gains and losses resulted in a decrease in retained earnings of €92.1 million in 2007 and an increase in retained earnings of €112.0 million in 2006.

Other comprehensive income

According to IFRS, certain expenses and income have been recorded in 'other comprehensive income'. This includes translation adjustments, the valuation of securities at fair value, changes in the fair value of derivatives held to hedge future cash flows and effects from the revaluation of assets and liabilities for acquisitions achieved in stages. In 2007, there was an effect from the revaluation following the purchase of the remaining 50% stake in BASF GE Schwarzheide GmbH & Co. KG of €11.9 million.

Translation adjustments

The translation adjustments due to the use of the current rate method are shown under currency translations adjustments as a component of other comprehensive income in equity (translation adjustments) and are recognized in income only upon the disposal of a company.

Valuation of securities at fair value

Changes in value of available-for-sale securities are accounted for in other comprehensive income, without impacting the income statement, until the securities are disposed of. Upon disposal, the changes accumulated in other comprehensive income are recognized in income.

19 -- Minority interests

Group company	Partner	2007		2006	
		Equity stake (%)	Million €	Equity stake (%)	Million €
WINGAS GmbH, Kassel, Germany	Gazprom-Group, Moscow, Russia	49.98	268.7	35.00	75.1
Wintershall AG, Kassel, Germany	Gazprom-Group, Moscow, Russia	49.00	152.0	—	—
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochemical Corp. Ltd., Nanjing, China	40.00	43.6	40.00	44.3
BASF India Ltd., Mumbai, India	Shares are publicly traded	47.31	32.3	47.31	29.3
BASF Petronas Chemicals Sdn. Bhd., Petaling Jaya, Malaysia	PETRONAS (Petroleum Nasional Bhd.), Kuala Lumpur, Malaysia	40.00	152.3	40.00	127.9
BASF Sonatrach PropanChem S.A., Tarragona, Spain	SONATRACH, Algiers, Algeria	49.00	56.7	49.00	50.0
BASF Fina Petrochemicals Ltd., Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.00	146.8	40.00	114.3
Shanghai BASF Polyurethane Company, Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China and SINOPEC Shanghai Gao Qiao Petrochemical Corporation, Shanghai, China	30.00	64.6	30.00	43.1
Other			54.2		46.5
			971.2		530.5

20 -- Provisions for pensions and similar obligations

In addition to state pension plans, most employees are entitled to Company pension benefits from either defined contribution or defined benefit plans. Benefits generally depend on years of service, contributions or compensation, and take into consideration the legal framework of labor, tax and social security laws of the countries where companies are located. To control the risks of changing market conditions, as well as increasing life-expectancies, over the last few years new employees have been increasingly offered defined contribution plans.

For BASF SE and other German subsidiaries, a basic level of benefits is provided by the legally independent funded plan, BASF Pensionskasse VVaG, which is financed by contributions of employees and the Company and the return on its assets. In mid-2004, the defined benefit plan of BASF Pensionskasse VVaG was closed and a new defined contribution plan was introduced. To fulfill legal solvency obligations (Section 53c VAG), in 2006 a contribution of €34.7 million was made to the equity of BASF Pensionskasse. Additional occupational pension commitments

at German Group companies are financed almost exclusively via pension provisions.

In 2007, German Group companies committed themselves to increase the additional occupational pensions and the pensions from BASF Pensionskasse VVaG by 5% as of December 31, 2010 – thereafter by 1% annually. This has resulted in a standardization of the rules of adjustment for the German defined benefit plans. There was no impact on earnings as actuarial assumptions already include an annual pension increase of 2%.

In the case of non-German subsidiaries, pension benefits are covered in some cases by pension provisions, but mainly by external insurance companies or pension funds.

The measurement date for the pension plans is set as December 31. The most recent actuarial mortality tables are used.

The valuations using the projected unit credit method per IAS 19 were carried out under the following assumptions:

Assumptions used to determine the defined benefit obligation as of December 31 (weighted average %)

	Germany		Foreign	
	2007	2006	2007	2006
Discount rate	5.25	4.50	5.82	5.31
Projected increase of wages and salaries	2.75	2.50	4.50	4.46
Projected pension increase	2.00	1.75	0.68	0.56

Assumptions used to determine expenses for pension plans (weighted average %)

	Germany		Foreign	
	2007	2006	2007	2006
Discount rate	4.50	4.25	5.31	5.42
Projected increase of wages and salaries	2.50	2.50	4.46	4.48
Projected pension increase	1.75	1.50	0.56	0.49
Expected return on plan assets	4.93	4.92	7.35	7.71

Similar obligations refer to commitments by BASF's North American Group companies to provide for the costs of medical and life insurance benefits for employees and eligible dependents after retirement. They are based upon an actuarial valuation, considering the future cost trend and a discount rate of 6.25% in 2007 (2006: 5.75%).

The assumptions regarding the overall expected long-term rate of return are based on forecasts of expected individual asset class returns and the desired portfolio structure. The forecasts are based on long-term historical average returns and take into consideration the current yield level and the inflation trend. In 2007, the discount rate used in this calculation was adjusted to account for developments in the capital markets.

The target asset allocation has been defined by using asset liability studies and is reviewed regularly. Accordingly, plan assets are aligned with long-term pension liabilities, taking into consideration investment risks and adherence to government regulations. The existing portfolio structure is oriented towards the target asset allocation. In addition, current market views are taken into consideration. In order to mitigate risks and maximize returns, a widely spread global portfolio of individual asset classes is held.

Portfolio structure of plan assets (%)

	Target allocation	Share of plan assets	
	2008	2007	2006
Shares	30	30	39
Bonds	59	60	51
Property	4	3	3
Other	7	7	7
Total	100	100	100

Development of defined benefit obligation (million €)

	2007	2006
Defined benefit obligation as of January 1	12,693.4	11,907.5
Service cost	269.9	262.7
Interest cost	587.6	541.9
Benefits paid	(660.4)	(631.8)
Participants' contributions	40.7	40.0
Actuarial gains	(721.8)	(57.0)
Acquisition-related effects	0.3	938.9
Settlements and other plan changes	0.5	(61.9)
Exchange differences	(296.0)	(246.9)
Defined benefit obligation as of December 31	11,914.2	12,693.4

Development of plan assets (million €)

	2007	2006
Plan assets as of January 1	12,078.5	11,015.2
Expected return on plan assets	659.8	619.4
Difference between expected and actual returns	(119.0)	158.9
Employer contributions	130.6	187.7
Participants' contributions	40.7	40.0
Benefits paid	(516.3)	(404.6)
Acquisition-related effects	–	697.1
Other changes	7.8	(19.8)
Exchange differences	(269.8)	(215.4)
Plan assets as of December 31	12,012.3	12,078.5

On December 31, 2007, plan assets contained securities issued by BASF Group companies with a market value of €15.7 million (December 31, 2006: €11.9 million). The market value of the properties of legally independent pension funds rented to BASF Group companies amounted to

€50.8 million on the balance sheet date (2006: €47.3 million).

No material transactions took place between the legally independent pension funds and BASF Group companies in 2007.

Reconciliation of funded status to provisions for pensions and similar obligations (million €)

	2007	2006
Plan assets as of December 31	12,012.3	12,078.5
Less defined benefit obligation as of December 31	11,914.2	12,693.4
Funded status of pension plans	98.1	(614.9)
Unrecognized past service cost	0.2	(0.1)
Asset ceiling in accordance with IAS 19.58	(538.2)	(10.0)
Provisions for similar obligations	(435.7)	(460.1)
Net obligation recognized on the balance sheet	(875.6)	(1,085.1)
Thereof defined benefit assets	416.7	366.9
Thereof pension provisions	(856.6)	(991.9)
Thereof provisions for similar obligations	(435.7)	(460.1)

The change in the asset ceiling is primarily attributable to the reduction in defined benefit obligations in the BASF Pensionskasse following discount rate increases. Actuarial gains and losses are recognized directly in retained earnings in the reporting period in which they occur. Past service costs are amortized over the average service period of the entitled employees until the benefits become vested. €583.3 million in actuarial gains were charged to retained earnings in 2007

and €159.6 million in actuarial losses in 2006. Since the introduction of this accounting policy, a total actuarial loss of €697.5 million has been charged against retained earnings, not taking deferred taxes into account.

Current funding situation of the plans (million €)

	2007		2006	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Unfunded pension plans	643.3	–	676.0	–
Partially funded pension plans	2,495.0	2,340.1	2,872.3	2,586.4
Total of pension plans that are not fully funded	3,138.3	2,340.1	3,548.3	2,586.4
Fully funded pension plans	8,775.9	9,672.2	9,145.1	9,492.1
	11,914.2	12,012.3	12,693.4	12,078.5

Deviation between actuarial assumptions and the actual development (million €)

	2007	2006	2005	2004
Defined benefit obligation	11,914.2	12,693.4	11,907.5	9,814.1
Thereof impact of experience adjustments	(138.3)	(59.2)	19.5	22.6
Plan assets	12,012.3	12,078.5	11,015.2	6,204.3
Thereof impact of experience adjustments	(119.0)	158.9	438.4	192.8
Funded status	98.1	(614.9)	(892.3)	(3,609.8)

Expected payments resulting from pension obligations existing as of December 31, 2007

	Million €
2008	613.9
2009	615.8
2010	658.5
2011	669.9
2012	672.8
2013 through 2017	3,901.8

Composition of expenses for pension plans (million €)

	2007	2006
Service cost	269.9	262.7
Amortization of past service cost	8.1	2.4
Settlement gains	(2.5)	(40.4)
Expenses for similar obligations	5.5	2.4
Expenses for defined benefit plans charged to income from operations	281.0	227.1
Interest cost	587.6	541.9
Expected return on plan assets	(659.8)	(619.4)
Expenses for similar obligations	24.8	21.4
Income from defined benefit plans in the financial result	(47.4)	(56.1)
Expenses for defined contribution plans	78.2	59.6
Expenses for pension plans	311.8	230.6

In addition, contributions to public pension plans were €363.6 million in 2007 and €354.1 million in 2006.

The estimated contribution payments for defined benefit plans for 2008 are €149.9 million.

21 -- Other provisions

Million €	2007		2006	
	Total	Thereof short-term	Total	Thereof short-term
Recultivation obligations	702.9	3.5	649.4	16.7
Environmental protection and remediation costs	254.5	30.8	271.5	67.4
Personnel costs	1,756.3	1,091.3	1,749.9	1,037.3
Sales and purchase risks	1,033.2	996.5	1,064.5	996.0
Restructuring measures	78.9	62.2	154.8	140.0
Legal, damage claims, guarantees and related commitments	156.3	81.3	200.0	119.2
Other	1,729.5	431.0	1,838.0	471.7
	5,711.6	2,696.6	5,928.1	2,848.3

Recultivation obligations relate to the estimated costs for the filling of wells and the removal of production equipment after the end of production.

Environmental protection and remediation costs concern expected costs for rehabilitating contaminated sites, recultivating landfills, removal of environmental contamination at existing production or storage sites and other measures.

The **personnel cost** provision includes obligations for the granting of long-service bonuses and anniversary payments, variable compensation including related social security contributions, and other accruals as well as provisions for early retirement programs for employees nearing retirement. BASF's German Group companies have various programs that entitle employees who are at least 55 years old to reduce their working hours to 50% for up to 8 years.

Under such arrangements, employees generally work full time during the first half of the transition period and leave the Company at the start of the second half. Employees receive a minimum 85% of their net salary throughout the transition period.

The **sales and purchase risks** provision includes warranties, product liability, customer rebates, payment discounts and other price reductions, sales commissions and provisions for expected losses on committed purchases as well as provisions for onerous contracts.

Restructuring costs provisions include severance payments to employees as well as specific site shutdowns or restructuring costs, including the costs for demolition and similar measures.

Provisions were reduced in 2007 and 2006 due to the restructuring measures introduced in the prior year. In 2007, this was due in particular to severance payments associated with a voluntary redundancy program at the Ludwigshafen site and to restructuring in the Fine Chemicals division.

Provisions for **legal, damage claims, guarantees and related commitments** include the expected costs of litigation, obligations under damage claims, other guarantees and antitrust proceedings. The reversals in 2007 resulted primarily from provisions for threatened legal disputes in Argentina, which are no longer necessary due to amended case law.

Other also includes long-term tax provisions. The reversal in 2007 was partly due to provisions for risks arising from the tax audit which were no longer needed.

Other changes contain in particular currency effects. In addition, provisions decreased due to changes in the scope of consolidation and the transfer to liabilities of obligations that have become more concrete as to amount and timing.

Development of other provisions im 2007 (million €)

	January 1, 2007	Additions	Interest compounding	Utilization	Reversals	Other changes	December 31, 2007
Recultivation obligations	649.4	79.3	25.2	(20.3)	(24.3)	(6.4)	702.9
Environmental protection and remediation costs	271.5	70.1	2.6	(64.0)	(24.5)	(1.2)	254.5
Personnel costs	1,749.9	1,156.9	23.2	(1,048.7)	(61.8)	(63.2)	1,756.3
Sales and purchase risks	1,064.5	1,084.5	0.2	(982.2)	(117.9)	(15.9)	1,033.2
Restructuring costs	154.8	27.3	0.1	(90.3)	(11.9)	(1.1)	78.9
Legal, damage claims, guarantees and related commitments	200.0	53.4	5.4	(29.3)	(69.7)	(3.5)	156.3
Other	1,838.0	1,105.6	4.7	(946.0)	(242.8)	(30.0)	1,729.5
	5,928.1	3,577.1	61.4	(3,180.8)	(552.9)	(121.3)	5,711.6

22 -- Liabilities**Financial indebtedness** (million €)

	Nominal volume	Effective interest rate	Carrying amounts based on effective interest method	
			2007	2006
3.5% Euro Bond 2003/2010 of BASF SE	1,000	3.63 %	996.8	995.7
3.375% Euro Bond 2005/2012 of BASF SE	1,400	3.42 %	1,397.4	1,396.8
4% Euro Bond 2006/2011 of BASF SE	1,000	4.05 %	998.6	998.2
4.5% Euro Bond 2006/2016 of BASF SE	500	4.62 %	496.0	495.6
3-Month EURIBOR Bond 2006/2009 of BASF SE	500	variabel	499.8	499.7
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	1,000	5.09 %	996.3	–
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	250	4.83 %	252.7	–
Extendible Floating Rate Notes of BASF Finance Europe N.V.		variabel	917.0	–
Other bonds			548.3	613.8
USD Commercial papers			1,878.0	3,219.3
Bonds and other liabilities to the capital markets			8,980.9	8,219.1
Liabilities to credit institutions			1,120.6	1,264.0
			10,101.5	9,483.1

Breakdown of financial liabilities by currency (million €)

	2007	2006
Euro	5,741.3	4,545.1
U.S. dollar	3,854.5	4,250.1
Chinese renminbi	354.9	504.3
Brazilian real	76.2	125.4
Malaysian ringgit	11.7	18.3
Other	62.9	39.9
	10,101.5	9,483.1

Maturities of financial liabilities (million €)

	2007	2006
Following year 1	3,147.7	3,694.9
Following year 2	609.0	43.7
Following year 3	1,334.5	694.4
Following year 4	1,018.6	1,062.1
Following year 5	1,588.6	1,058.0
Following year 6 and thereafter	2,403.1	2,930.0
	10,101.5	9,483.1

Bonds and other liabilities to the capital markets

Other bonds consist primarily of industrial revenue and pollution control bonds that are used to finance investments in the United States. The weighted-average interest rate was 3.8% in 2007 and in 2006. The weighted-average effective interest rate was 3.9% in 2007 and 3.8% in 2006. The average maturity amounted to 205 months as of December 31, 2007, and 214 months as of December 31, 2006.

Liabilities to credit institutions

Liabilities to credit institutions relate to a large number of different credit institutions in various countries. Liabilities to credit institutions denominated in ringgit and renminbi resulted from the local financing of investments in Malaysia and China. BASF SE had committed and unused credit lines with variable interest rates of €4,075.8 million as of December 31, 2007, and €4,898.3 million as of December 31, 2006. Additional uncommitted credit lines of BASF SE amounted to €227.0 million as of December 31, 2007, and €227.0 million as of December 31, 2006 – these are free of any commitment fees. The weighted-average interest rate on borrowings was 6.2% in 2007 and 6.1% in 2006.

Other liabilities

Other liabilities contained precious metal derivatives with a negative fair value of €33.5 million as of the balance sheet date. Liabilities to companies in which participations are held include the proportionate amount of liabilities of joint venture companies accounted for using the proportional consolidation method of €173.4 million in 2007 and €110.5 million in 2006. Further liabilities relating to associated companies accounted for using the equity or cost method were €221.0 million in 2007 and €190.0 million in 2006.

Further information on disposal groups can be found in Note 27 on page 197.

Maturities of liabilities (million €)

	2007			2006		
	Less than 1 year	1–5 years	More than 5 years	Less than 1 year	1–5 years	More than 5 years
Accounts payable, trade	3,763.3	–	–	4,754.7	–	–
Bonds and other liabilities to the capital market	2,483.3	4,299.3	2,198.3	3,219.3	2,596.8	2,403.0
Liabilities to credit institutions	664.4	251.4	204.8	475.6	261.4	527.0
Financial indebtedness	3,147.7	4,550.7	2,403.1	3,694.9	2,858.2	2,930.0
Advances received on orders	110.9	–	–	108.6	–	–
Liabilities on bills	11.2	3.6	1.3	46.6	3.4	–
Liabilities relating to social security	148.3	0.9	15.7	136.4	18.3	–
Non-trade liabilities to joint venture partners	268.7	173.8	283.0	187.5	182.8	382.8
Derivative instruments	88.1	2.8	–	149.3	30.9	–
Liabilities arising from finance leases	22.9	50.5	23.0	15.3	55.5	34.1
Miscellaneous liabilities	1,191.0	158.0	26.0	1,052.9	66.0	1.3
Deferred income	135.0	52.8	109.5	127.1	196.5	–
Other liabilities	1,976.1	442.4	458.5	1,823.7	553.4	418.2
	8,887.1	4,993.1	2,861.6	10,273.3	3,411.6	3,348.2

Secured liabilities and contingent liabilities (million €)

	2007	2006
Liabilities to credit institutions	8.8	6.6
Other liabilities	14.9	6.9
	23.7	13.5

Certain liabilities were secured with mortgages on land.

In addition, BASF SE has given covenants in favor of BASF Pensionskasse VVaG with regard to adhering to certain balance sheet ratios.

23 -- Contingent liabilities and other financial obligations

The contingencies listed below are stated at nominal value:

Contingent liabilities (million €)

	2007	2006
Bills of exchange	12.8	10.7
Thereof to affiliated companies	–	–
Guarantees	373.9	330.4
Thereof to affiliated companies	60.1	70.0
Warranties	67.7	35.8
Granting collateral on behalf of third-party liabilities	20.1	16.3
	474.5	393.2

Other financial obligations (million €)

	2007	2006
Construction in progress	4,973.5	2,422.7
Thereof purchase commitments	983.2	687.2
Thereof for the purchase of intangible assets	23.6	18.8
Obligation arising from long-term leases (excluding financing leases)	1,272.0	1,281.0
Payment and loan commitments and other financial obligations	6.7	7.5
	6,252.2	3,711.2

The significant increase in construction in progress was attributable to the start of construction of the OPAL long-distance natural gas pipeline (Ostsee-Pipeline-Anbindungs-Leitung).

Property, plant and equipment used under long-term leases

Property, plant and equipment used under long-term leases primarily concern buildings and IT infrastructure. Finance leasing obligations are explained in detail in Note 27 on page 197 onward.

Obligations from long-term rental and lease contracts (excluding financing leases)

	Million €
2008	292.2
2009	192.5
2010	130.7
2011	102.2
2012	79.6
2013 and thereafter	474.8
	1,272.0

Purchase commitments for raw materials and natural gas from long-term contracts

The Company has entered into long-term purchase contracts for natural gas, which are subject to continual price adjustments. These obligations to purchase relate to long-term supply contracts with customers with terms between one and 13 years.

The Company purchases raw materials, both on the basis of long-term contracts and on spot markets. The fixed purchase obligations of long-term purchase contracts with a remaining term of more than one year as of December 31, 2007, are as follows:

Purchase obligations from natural gas and raw material supply contracts

	Million €
2008	12,620.6
2009	10,218.7
2010	7,119.1
2011	5,575.2
2012	5,127.6
2013 and thereafter	32,379.5
	73,040.7

24 -- Risks from litigation and claims

In previous years, several class action lawsuits against BASF SE and BASF Corporation were filed at U.S. courts. It was alleged that sales of TDI, MDI and polyether polyols had violated antitrust laws. BASF is defending itself against these lawsuits.

In February 2006, the U.S. Department of Justice served a Grand Jury subpoena upon BASF Corporation requesting the presentation of documents relating to the sale of TDI, MDI, polyether polyols and related systems. The U.S. Department of Justice was investigating the allegations of price fixing. On December 14, 2007 the U.S. Department of Justice informed BASF that they had ceased these proceedings.

BASF Corporation, Bayer Corporation and Bayer Crop-Science Corporation have been sued by a number of plaintiffs for damages because of alleged price fixing in the distribution of the termiticides Premise® (Bayer) and Termidor® (BASF) in the United States. The plaintiffs contend that BASF and Bayer have each engaged in unlawful resale price maintenance resulting in overcharges to plaintiff purchasers who are professionals in termite control. The plaintiffs are suing for trebled damages of \$600 million. BASF maintains that its pricing was lawful because its sales were through agency agreements rather than through distributors and therefore the claims are without merit. The court dismissed the action on July 13, 2007. The plaintiffs have appealed against this decision.

In July 2006, the US-company Moncrief Oil International filed a declaratory action against BASF SE and its subsidiary Wintershall AG at the District Court of Frankenthal. Moncrief sought to have declared null and void agreements concluded or to be concluded between BASF/Wintershall and Gazprom in connection with the proposed joint exploitation of the Russian gas field Yuzhno Russkoye. Subject matter of the action was Moncrief's allegation that BASF/Wintershall had unlawfully induced Gazprom to violate alleged contracts between subsidiaries of Gazprom and Moncrief. Moncrief alleged to incur damages in the amount of several billion U.S. dollars, if it should be excluded from the exploitation of the gas field. BASF/Wintershall are of the opinion that all claims are without any merit.

On July 5, 2007 the District Court of Frankenthal dismissed the action as unsubstantiated. The judgment is final.

In addition, BASF SE and its affiliated companies are defendants in or parties to further judicial and arbitral proceedings. Based on the current state of knowledge these proceedings will have no material influence on the economic situation of BASF.

25 -- Stock price-based compensation program and BASF incentive share program

Stock price-based compensation program

In 2007, BASF continued the BASF option program (BOP) for senior executives of the BASF Group. This program has existed since 1999. Approximately 1,000 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program. As a matter of principle the options are settled in cash when exercised.

To participate in the BASF option program, each participant must hold as a personal investment BASF shares in the amount of 10% to 30% of his or her individual variable compensation. The number of shares to be held is determined by the amount of variable compensation designated by the participant and the weighted-average market price for BASF shares on the first business day after the Annual Meeting, which was €86.75 on April 27, 2007 (base price).

For each BASF share held as an individual investment, a participant receives four options. Each option consists of two parts, right A and right B, which may be exercised if defined thresholds have been met: The threshold of right A is met if the price of the BASF share has increased by more than 30% in comparison to the base price (absolute threshold). The value of right A will be the difference between the market price of BASF shares at the exercise date and the base price; it is limited to 100% of the base price. Right B may be exercised if the cumulative percentage performance of BASF shares exceeds (relative threshold) the percentage performance of the MSCI World Chemicals IndexSM (MSCI Chemicals). The value of right B will be the base price of the option multiplied by twice the percentage outperformance of BASF shares compared to the MSCI Chemicals index on the exercise date. It is limited to the closing price on the date of exercise minus computed nominal value of BASF shares. Shares of the individual investment must be held for at least two years following the granting of the options.

The options were granted on July 1, 2007 and may be exercised following a two-year vesting period, between July 1, 2009 and June 30, 2015. During the exercise period, it is not possible to exercise options during certain periods (closed periods). Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right lapses. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment. Option rights are forfeited if the option holders no longer work for BASF or have sold part of their individual investment before the two-year holding period. They remain valid in the case of retirement.

The option programs BOP 2001 – 2006 were structured in a similar way to BOP 2007.

The benchmark index used to determine the value of right B for BOP 2001 to 2004 is the Dow Jones Chemicals Total Return Index (DJ Chemicals). This index was replaced by MSCI Chemicals starting with the option program 2005. The MSCI Chemicals is a global industry index for the chemical industry that measures the performance of the companies contained within it in their respective local currencies, which significantly reduces currency effects.

The model used in the valuation of the option plans is based on the arbitrage-free valuation model according to Black-Scholes.

Due to the complexity of the option programs, a numerical solution method was used (Monte Carlo simulation).

Fair value and assumptions used as of December 31, 2007¹

	BASF option program of the year	
	2007	2006
Fair value	41.00 €	59.16 €
Dividend yield	2.96 %	2.96 %
Risk-free interest rate	4.33 %	4.28 %
Volatility BASF shares	21.67 %	21.35 %
Volatility MSCI Chemicals	15.44 %	15.15 %
Correlation BASF share price: MSCI Chemicals	83.27 %	82.98 %

¹ It is assumed that the options will be exercised based upon the potential gains.

On December 31, 2007, the fair values and the valuation parameters relate to the option programs 2007 and 2006. For the option programs from preceding years, corresponding fair values were computed and valuation parameters were used.

The number of options granted amounted to 1,540,404 in 2007 and 1,701,884 in 2006.

Volatility was determined on the basis of the monthly closing prices over a historical period corresponding to the remaining term of the options.

As a result of a resolution by the Board of Executive Directors in 2002, to generally settle options in cash, options outstanding as of December 31, 2007 from the BOP 2001 to 2007 were valued with the fair value as of the balance sheet date. This amount is accrued as a provision over the respective vesting period. Because of this, an amount of €235.3 million was charged to income as a personnel expense in 2007 and €67.3 million was charged in 2006. Provisions were increased from €147.2 million on December 31, 2006, to €239.0 million on December 31, 2007.

The total intrinsic value of exercisable options amounted to €140.7 million on December 31, 2007, and €88.9 million on December 31, 2006.

BASF incentive share program

In 1999, BASF started an incentive share program called "plus" for all eligible employees except the senior executives entitled to participate in the BOP. Currently, employees of German and of various European and Mexican subsidiaries are entitled to participate in the program. Each participant must make an individual investment in BASF shares from his or her variable compensation. For every 10 BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and 10 years of holding the BASF shares. The first 10 shares entitle the participant to receive one BASF share at no extra cost for each year for the next ten years.

The right to receive free BASF shares lapses if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement.

The number of free shares to be granted developed as follows:

Number of free shares to be granted

	2007	2006
As of January 1	1,423,282	1,310,401
Newly acquired entitlements	303,650	365,840
Bonus shares issued	(201,980)	(187,421)
Lapsed entitlements	(75,040)	(65,538)
As of December 31	1,449,912	1,423,282

The free shares to be provided by the company are valued at the fair value on the grant date. Fair value is determined on the basis of the stock price of BASF shares, taking into account the present value of dividends, which are not paid during the term of the program. The weighted-average fair value at grant date amounted to €73.14 for the program in 2007 and €58.06 for the program in 2006.

The fair value of the free shares to be granted is booked through the income statement against capital surplus over the period until the shares are issued.

Provisions for the costs for the 1999–2002 programs continue to be accrued proportionally on the basis of the BASF closing stock price.

Compensation cost of €18.8 million was recorded in 2007 and €13.4 million in 2006 for the employee stock program.

26 -- Derivatives and other financial instruments

Market risks

Foreign currency risk: Changes in exchange rates could lead to negative changes in the value of financial instruments and adverse changes in future cash flows from planned transactions. Foreign currency risks from financial instruments result for BASF from the conversion of financial receivables, loans, securities, cash, as well as financial liabilities into the functional currency of the respective Group company. Foreign currency contracts in a variety of currencies are used to hedge foreign exchange risks from primary financial instruments and planned transactions.

The foreign currency risk exposure corresponds to the net amount of the nominal volume of the primary and derivative financial instruments which are exposed to currency risk. In addition, all planned purchase and sales transactions of the respective following year are included, if they fall under the currency risk management system. Opposite positions in the same currency are offset against each other.

The sensitivity analysis is conducted by simulating a depreciation by 10% of all currencies against the respective functional currency and quantifying the effect on BASF's income before taxes and minority interests. Due to the use of options to hedge currency risks, the sensitivity analysis is not a linear function of the assumed changes in exchange rates.

Foreign currency risk (million €)

	2007		2006	
	Exposure	Sensitivity	Exposure	Sensitivity
U.S. dollar	(120.2)	(9.4)	783.2	(97.7)
Pound sterling	39.2	(4.3)	15.5	(1.6)
Australian dollar	30.5	3.7	16.9	2.3
Korean won	68.2	(6.2)	(1.4)	0.1
Japanese yen	47.5	(1.9)	63.0	(1.3)
Other	101.3	(10.4)	162.0	(0.3)
	166.5	(28.5)	1,039.2	(98.5)

Interest rate risk: Interest rate risk results from changes in prevailing market interest rates, which can cause a change in the present value of fixed-rate instruments, and changes in the interest payments of variable-rate instruments. To hedge this risk, interest rate swaps and combined interest rate and currency derivatives are used. These risks are relevant in the case of investments and financial obligations, however they are not of material significance on the operating side.

An increase in all relevant interest rates by one percentage point would have lowered earnings by €43.4 million on December 31, 2007, before taking income taxes into consideration. On December 31, 2006, the same increase would have lowered earnings by €44.4 million, before taking income taxes into consideration. The sensitivity of stockholders' equity to changes in interest rates is not material.

Carrying amount of original interest-bearing financial instruments (million €)

	2007		2006	
	Fixed-interest rate	Variable-interest rate	Fixed-interest rate	Variable-interest rate
Loans	627.8	127.0	149.9	142.6
Securities	16.3	4.0	15.7	–
Financial indebtedness	8,054.3	2,047.2	8,124.6	1,358.5

Nominal and fair value of interest rate and combined interest and cross currency swaps (million €)

	2007		2006	
	Nominal value	Fair value	Nominal value	Fair value
Interest rate swaps	296.2	(10.8)	409.5	(28.7)
Thereof payer swaps	166.0	(9.4)	279.3	(21.7)
Thereof receiver swaps	130.2	(1.4)	130.2	(7.0)
Combined interest and cross currency swaps	62.6	(5.3)	209.6	35.0
Thereof fixed rate	18.1	0.2	29.0	1.7
Thereof variable rate	44.5	(5.5)	180.6	33.3

Equity price risk: BASF holds shares in listed companies and mutual stock funds as a vehicle for investing liquid funds and, to a limited extent, with a view to taking strategic stakes in companies. They are included under participations, long-term and short-term securities, and are classified as available-for-sale in the BASF Group. A decline in all relevant stock prices by 10% would have lowered stockholders' equity by €77.9 million on December 31, 2007 (December 31, 2006: €45.1 million), before taking income taxes into consideration.

Commodity price risks: Some BASF's divisions are occasionally exposed to strong fluctuations in raw material prices. These result primarily from the following raw materials: naphtha, propylene, benzene, titanium dioxide, cyclohexane, methanol, natural gas, butadiene, LPG Condensate, ammonia and metals. BASF takes the following measures to reduce price risks associated with the purchase of raw materials:

- BASF uses commodity derivatives to hedge the risks from the volatility of raw material prices. These are primarily options and swaps on crude oil, oil products and natural gas.
- In order to secure margins, the Oil & Gas division uses commodity derivatives, primarily swaps and options, in natural gas trading. Risks to margins arise in volatile markets when purchase and sales contracts are priced differently.

- The Catalysts division enters into both short-term and long-term purchase contracts with metal producers. It also buys metals on spot markets from a variety of business partners. The price risk from metals purchased to be sold on to third parties, or for use in the production of catalysts, are hedged using derivative instruments. Forward contracts are primarily used and they are settled by entering into offsetting contracts or by delivering the metals. In addition, the Catalysts division also holds limited unhedged metal positions, which could also include derivatives, for trading on its own account. The value of these positions is exposed to market price volatility and is subject to constant monitoring.

BASF is exposed to commodity price risk as a result of holding commodity derivatives and precious metal trading positions. The valuation of commodity derivatives and precious metal trading positions at fair value means that adverse changes in market prices could negatively affect the earnings and equity of BASF.

BASF performs "Value-at-Risk" analyses for all commodity derivatives and metals trading positions. Using the value-at-risk analysis, we continually quantify market risk and forecast the maximum possible loss within a given confidence interval over a defined period. Our value at risk calculation is based on a confidence interval of 95% and a holding period of one day. The use of a confidence interval of 95% means that the maximum loss does not exceed the value-at-risk in a one-day period with a probability of 95%. BASF uses the variance-covariance approach.

Based on the assumptions mentioned already, the value at risk was €1.4 million for metals trading positions and €4.7 million for crude oil, oil products and natural gas on December 31, 2007. On December 31, 2006, the value at risk was €1.6 million for metals trading positions and €6.9 million for crude oil, oil products and natural gas.

BASF uses value at risk as a supplement to other risk management tools. We also use volume-based, exposure and stop loss limits.

Exposure to commodity price risk (million €)

	2007	2006
Crude oil, oil products and natural gas	71.8	235.2
Metals	40.3	82.6
Swaps on CO ₂ Emissions certificates	19.1	–
	131.2	317.8

The risk position corresponds to the net amount of all long and short positions of the respective commodity category.

→ Further information regarding financial risks and BASF's risk management can be found in BASF Management's Analysis, "Risk Report" on page 106 onward.

Swaps are entered into in connection with CO₂ emissions trading, in which various types of CO₂ certificates are swapped. The goal of these transactions is to exploit market price differences. These deals are settled by physical

delivery. The value-at-risk of these instruments amounted to €0.5 million on December 31, 2007. On December 31, 2006 no such transactions existed.

Default and credit risk

This is the risk that counterparties do not fulfill their contractual obligations. BASF regularly analyzes the creditworthiness of each significant debtor, and on the basis of this analysis grants credit limits. Due to the global activities and diversified customer structure of the BASF Group, there is no significant concentration of default risk. The fair value of all receivables, loans and interest-bearing securities plus the nominal value of contingent liabilities excluding potential warranty obligations represents the maximum default risk. Further information on credit risks is provided in Note 15 on page 175 'Other receivables and miscellaneous assets'.

Liquidity risks

We promptly recognize any risks from cash flow fluctuations using our liquidity planning system. BASF has ready access to sufficient liquid funds in view of BASF's good credit ratings, the ongoing commercial paper program and committed credit lines from banks.

Maturities of contractual cash flows from financial liabilities

2007 (million €)

	Bonds and other liabilities to the capital markets	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities
2008	2,780.8	688.8	82.8	1,410.3
2009	845.4	95.6	7.3	161.3
2010	1,560.1	88.9	0.5	38.9
2011	1,194.9	87.7	18.4	45.1
2012	1,555.0	82.4	–	30.0
2013 and thereafter	2,695.9	247.4	1.8	370.0
	10,632.1	1,290.8	110.8	2,055.6

Maturities of contractual cash flows from financial liabilities 2006 (million €)

	Bonds and other liabilities to the capital markets	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities
2007	3,423.2	483.0	195.2	1,040.8
2008	187.0	94.4	9.3	71.9
2009	768.3	101.6	5.6	80.4
2010	1,177.7	107.4	0.3	35.1
2011	1,132.4	105.7	8.5	38.1
2012 and thereafter	2,930.4	400.8	9.3	551.0
	9,619.0	1,292.9	228.2	1,817.3

The interest and principal payments as well as other payments for derivative financial instruments are relevant for the presentation of the maturities of the contractual cash flows from financial liabilities. Future cash flows are not discounted here.

Derivatives are included using their net cash flows, provided they have a negative fair value and so represent a liability. Derivatives with positive fair values are assets and are not considered.

Trade accounts payable are generally interest free and fall due within one year. Therefore the carrying amount of trade accounts payable equals the sum of future cash flows.

Differences between book and fair values of financial instruments

For accounts receivable, trade, other receivables and miscellaneous assets, loans, cash and cash equivalents, as well as trade accounts payable and other liabilities, the carrying amount approximates the fair value. Participations which are not traded on an active market and whose fair value could not be reliably determined are recognized at amortized cost and contained within 'other financial assets'.

The carrying amount of participations which are traded on an active market and hence recognized at fair value amounted to €707.5 million on December 31, 2007 (December 31, 2006: €368.6). They are included in the item 'shares in other participations', whose development can be found in Note 13 on page 173. Unless shown separately as held for sale, BASF intends to hold participations for the long-term.

The carrying amount of financial indebtedness amounted to €10,101.5 on December 31, 2007 (December 31, 2006: €9,483.1 million). The fair value of financial indebtedness amounted to €10,020.0 on December 31, 2007 (December 31, 2006: €9,430.5 million). The fair value of financial debt is determined on the basis of interbank interest rates. The difference between book and fair values resulted primarily from changes in market interest rates.

Carrying value of financial instruments (million €)

	2007	2006
Financial assets at fair value through profit or loss	248.7	296.1
Financial liabilities at fair value through profit or loss	124.2	180.2
Loans and receivables	10,372.2	9,471.0
Cash and cash equivalents	766.6	834.2
Available-for-sale financial assets	1,247.6	953.6
Liabilities valued at amortized cost	16,044.3	16,266.0
Thereof financial indebtedness	10,101.5	9,483.1

Net gains and losses from financial instruments (million €)

	2007	2006
Receivables and loans	(814.1)	(288.5)
Thereof interest result	131.1	153.9
Available-for-sale financial assets	42.9	141.2
Thereof interest result	2.2	17.9
Liabilities valued at amortized cost	58.0	(221.6)
Thereof interest result	(507.8)	(437.5)
Financial instruments at fair value through profit or loss	471.8	37.4

Net gains and losses comprise the results of valuations, scheduled and extraordinary write-downs and write-ups, results from the conversion of foreign currencies, interest, dividends and all other effects on profit of financial instruments. The item 'financial instruments at fair value through profit or loss' contains only those gains from such instruments which are not designated as hedging instruments as defined by IAS 39. Net gains or net losses from available-for-sale financial assets contain income from write-downs/write-ups, interest, dividends and the transfers of valuation effects from stockholders' equity on the sale of the securities and participations.

The net loss from receivables and loans, and net gains from financial liabilities valued at amortized cost relate primarily to income from the translation of foreign currencies.

→ The gains and losses from the valuation of securities and participations taken directly to equity are shown in the Consolidated Statements of Recognized Income and Expense on page 140.

The use of derivative instruments

The Company is exposed to foreign currency, interest rate and commodity price risks during the normal course of business. In addition, financial assets are also exposed to equity price risk. These risks are hedged through a centrally determined strategy employing derivative instruments. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities. Hedging is only employed for underlying positions from the operating business, cash investments, financing or planned sales and raw material purchases. The risks arising from the underlying transactions and the derivative transactions concluded to hedge them are monitored constantly. Where derivatives have a positive market value, the Company is exposed to credit risks in the event of nonperformance of their counterparts. This credit risk is minimized by trading contracts exclusively with creditworthy banks and partners within predefined credit limits.

To ensure effective risk management, market risks are centralized at BASF SE and certain Group companies. Contracting and execution of these instruments is per-

formed according to internal guidelines, and complies with strict control mechanisms.

Derivative instruments (million €)

	2007	2006
Foreign currency forward contracts	111.2	101.9
Currency options	62.3	43.8
Foreign currency derivatives	173.5	145.7
Interest swaps	(10.8)	(28.7)
Combined interest and cross currency swaps	(5.3)	35.0
Interest derivatives	(16.1)	6.3
Commodity derivatives/Other derivatives	(33.1)	(36.1)
Thereof designated hedging instrument as defined by IAS 39 (Hedge Accounting)	–	(25.8)

Hedge Accounting

In 2007 and 2006, some of the planned purchases of naphtha were hedged using derivatives. These hedges were shown in the Consolidated Financial Statements of the BASF Group by means of Cashflow Hedge Accounting. Gains and losses from hedges were recognized directly in equity. The gains and losses on hedges were recorded in the acquisition cost of the purchased inventories at the moment the underlying transaction took place or in cost of sales in the income statement at the moment the underlying transaction was recognized in the income statement. In the same way, Cashflow Hedge Accounting was also used for options and swaps to hedge purchases of natural gas used as a raw material for chemical production in North America.

All planned transactions and their effect on earnings took place in the fiscal year following the balance sheet date. In 2007, €96.9 million (2006: €(22.2) million) in effective changes in value from hedges were recognized in stockholders' equity. In 2007, €(14.6) million was derecognized from stockholders' equity and recorded as income in cost of sales (2006: €(7.3) million). In 2007, €86.1 million was derecognized from stockholders' equity and deducted from the cost of inventories (2006: €1.2 million). The ineffective part in the change in value of the hedge was €7.0 million in 2007 (2006: €(1.9) million). This amount was recorded in the income statement in cost of sales.

At the end of 2007, all derivatives designated as hedging instruments within the framework of hedge accounting expired.

In 2004 and 2005, fair value changes from forward interest swaps entered into to hedge interest-rate risk from the refinancing of an expiring bond were recognized directly in equity using Cashflow Hedge Accounting. The hedge was closed in 2005 as a new bond was issued to refinance the expiring bond. The new bond is due in 2012. In both 2007 and 2006, €7.6 million was derecognized from the item 'other comprehensive income' and charged as interest expense.

27 -- Leasing

Leased assets

Property, plant and equipment include those assets which are considered to be economically owned through a finance lease. They primarily concern the following items:

Leased assets (million €)

	2007		2006	
	Acquisition cost	Net book value	Acquisition cost	Net book value
Land, land rights and buildings	26.2	18.3	34.8	23.8
Machinery and technical equipment	225.8	118.4	205.0	131.2
Miscellaneous equipment and fixtures	71.3	19.7	76.4	23.1
Advance payments and construction in progress	–	–	–	–
	323.3	156.4	316.2	178.1

Liabilities from finance leases (million €)

	2007			2006		
	Minimum lease payments	Interest portion	Leasing liability	Minimum lease payments	Interest portion	Leasing liability
Following year 1	28.6	5.7	22.9	21.6	6.3	15.3
Following year 2	18.9	5.3	13.6	19.7	5.9	13.8
Following year 3	18.4	4.9	13.5	18.2	5.5	12.7
Following year 4	21.0	5.3	15.7	18.3	5.0	13.3
Following year 5	10.2	2.5	7.7	21.5	5.8	15.7
Over 5 years	35.3	12.3	23.0	52.0	17.9	34.1
	132.4	36.0	96.4	151.3	46.4	104.9

In the current business year and in 2006, no additional lease payments arising from contractual obligations were recognized in income above the minimum lease payments.

In 2007, leasing liabilities were not offset by any expected minimum lease payments from sub-leases. In 2006, leasing liabilities were offset by payments from sub-leases of €2.5 million.

In addition, BASF is a lessee under operating lease contracts. The resulting lease obligations totaling €1,272.0 million in 2007 and €1,281.0 million in 2006 are due in the following years:

Commitments due to operating lease contracts (million €)

	Nominal value of the future minimum payments	
	December 31, 2007	December 31, 2006
Less than 1 year	292.2	329.9
1–5 years	505.0	519.1
Over 5 years	474.8	432.0
	1,272.0	1,281.0

In 2007, commitments due to operating lease contracts of less than one year contained leases of precious metals of €92.6 million (2006: €106.2 million). These metals were immediately leased to third parties. Offsetting the other leasing commitments are expected minimum lease payments from sub-leases of €12.3 million in 2007 (2006: €13.3 million).

Minimum lease payments of €241.9 million (2006: €234.4 million), conditional lease payments of €0.3 million (2006: €0.8 million), and payments received from sub-leases of €3.8 million (2006: €3.7 million) were included in income from operations in 2007.

BASF as lessor

BASF acts as both a lessee and a lessor under finance leases. BASF acts as a lessor in a minor capacity only for finance leases. Receivables on finance leases were €1.4 million in 2007 and of €0.3 million in 2006. In 2007, nominal minimum payments arising from operating leases amount to €101.1 million within one year, and €22.6 million within the next five years. For 2006, these figures amounted to €113.9 million within one year, and €25.7 million within the next five years.

In 2007, precious metal accounts of €597.8 million (2006: €639.3 million) continue to be held for customers where the metals are stored physically at BASF.

28 -- Compensation for the Board of Executive Directors and Supervisory Board of BASF SE

Million €	2007	2006
Board of Executive Directors' compensation		
Performance-related and fixed payments	22.0	19.2
Market value of options granted in the fiscal year on date of grant	6.1	3.4
Service cost	4.5	4.7
Supervisory Board's compensation	4.2	4.1
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	7.1	6.0
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	76.9	75.1
Loans to members of the Board of Executive Directors and the Supervisory Board	–	–
Guarantees to members of the Board of Executive Directors and the Supervisory Board	–	–

Performance-related compensation for Board members is based on the return on assets, which corresponds to earnings before taxes plus borrowing costs as a percentage of average assets.

When comparing with the cash compensation in 2006 it should be considered that one member of the board left on July 31, 2007. Adjusted for this effect and based on the decision of the Nomination and Compensation Committee to raise the variable bonus on April 27, 2006, the cash compensation for the Board increased by 19%.

Moreover, in 2007, the members of the Board of Executive Directors were granted 155,368 options under the BASF option program (BOP).

Option rights of active and former members of the Board resulted in personnel expenses of €29.7 million (2006: €8.4 million).

→ The individual compensation of the members of the Board of Executive Directors and the Supervisory Board are reported in the Compensation Report on pages 125 to 129.

→ The members of the Board of Executive Directors and the Supervisory Board as well as their memberships on other supervisory boards are shown on pages 120 to 124.

29 -- Related-party transactions

IAS 24 "Related Party Disclosures" requires the disclosure of transactions with related parties; both with companies that are not consolidated, as well as with individuals.

Material supply relationships exist between the proportionally consolidated joint venture companies Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany, Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland, and companies of the BASF Group for the supply of oil and gas. The unconsolidated portion of these supplies amounted to €725.6 million in 2007 and €765.5 million in 2006.

Please see Notes 15 (page 175) and 22 (page 185) for details regarding receivables and payables with companies accounted for proportionally, at acquisition cost or according to the equity method.

30 -- Services provided by the external auditor

BASF Group companies have used the following services from KPMG:

Million €	2007	2006
Annual audit	19.1	23.9
Thereof domestic	6.2	8.1
Audit-related services	0.4	0.2
Thereof domestic	0.1	0.1
Tax consultation services	0.1	0.2
Thereof domestic	–	–
Other services	0.4	0.8
Thereof domestic	0.3	0.8
	20.0	25.1

The annual audit related to the audit of the annual financial statements of the BASF Group as well as the legally required audit of the financial statements of BASF SE and the consolidated subsidiary companies and joint ventures. In 2006, auditing costs included expenses for the audit of the opening balance sheet of newly acquired companies.



“I develop cost and project plans for new products – that’s how I help our researchers to shape BASF’s future.”

RAHIM J. BROWN

Controlling R&D
Catalysts

ISELIN, NEW JERSEY

With BASF for 6 months

SUPPLEMENTARY INFORMATION CONCERNING OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

The following tables provide supplemental information on the exploration and production business sector of the Oil & Gas segment. In the absence of detailed disclosure rules in this area under IFRS, the Group has elected to voluntarily disclose the data that would have been required under SFAS No.69 (Disclosure of Oil and Gas Producing Activities). In order to present an economically meaningful reporting of the cooperation with Gazprom in the Yuzhno Russkoye project, several modifications have been made to SFAS 69. BASF has an interest of 35% in the economic rewards of this field through Severneftegazprom (SNG), the company which holds the production license. SNG is accounted for using the equity method. A consolidated project company was established for these operations.

In the following overviews, BASF's stake in the project is included under 'Russia'. In addition, the values for SNG, which is accounted for using the equity method, are presented separately.

All consolidated subsidiaries are included with 100%. To the extent that other investors have a stake in these companies, their share is presented separately. This relates to a stake in a German Wintershall subsidiary which was part of the asset swap with Gazprom. This company holds the production and exploration rights to the Libyan onshore concession 96 and 97. Due to contractual rules, the following does not include any volumes from the Achimgaz project.

Statistical information on the concession areas or the number of wells is not given due to its limited economic value.

Oil and gas reserves

Proved oil and gas reserves are the estimated volumes of crude oil, natural gas and natural gas liquids that are shown by geological and engineering data with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions. Accordingly, reserve estimates could be materially different from the quantities of oil and natural gas that are ultimately recovered. To reduce uncertainties, Wintershall has used independent, internationally recognized reserve auditors for some years to perform reserves audits of its major oil and gas fields.

The tables below show the estimated net quantities as of December 31, 2007 and 2006 of the Company's proved oil and gas reserves and proved developed oil and gas reserves, as well as changes in estimated proved reserves as a result of production and other factors.

2007

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Proved developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)	68	1	12	306	54	1	442
Revisions and other changes	4	.	1	8	-4	.	9
Extensions and discoveries	-	-	-	3	-	-	3
Purchase/sale of reserves	-	-	-	-	-	-	-
Production	9	.	2	47	5	1	64
Proved reserves as of December 31	63	1	11	270	45	-	390
Minority interests	-	-	-	126	-	-	126
Proved reserves after minority interests	63	1	11	144	45	-	264
Thereof at equity companies	-	-	11	-	-	-	11
Proved reserves after minority interests and at equity companies	63	1	-	144	45	-	253
Minority interests in production	-	-	-	2	-	-	2
<i>Proved developed reserves as of December 31.</i>	<i>44</i>	<i>1</i>	<i>11</i>	<i>265</i>	<i>37</i>	<i>-</i>	<i>358</i>

¹ The Netherlands, Great Britain, Denmark

2007

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Proved developed and undeveloped gas reserves as of January 1, Billion Standard Cubic Feet (BSCF) ²	376	200	-	232	1,408	14	2,230
Revisions and other changes	34	35	-	(14)	55	(3)	107
Extensions and discoveries	-	2	-	4	-	-	6
Purchase/sale of reserves	-	1	3,254	-	-	(2)	3,253
Production	45	76	15	28	126	1	291
Proved reserves as of December 31	365	162	3,239	194	1,337	8	5,305
Minority interests	-	-	-	95	-	-	95
Proved reserves after minority interests	365	162	3,239	99	1,337	8	5,210
Thereof at equity companies	-	-	3,239	-	-	-	3,239
Proved reserves after minority interests and at equity companies	365	162	-	99	1,337	8	1,971
Minority interests in production	-	-	-	1	-	-	1
<i>Proved developed reserves as of December 31.</i>	<i>332</i>	<i>162</i>	<i>1,275</i>	<i>190</i>	<i>956</i>	<i>8</i>	<i>2,922</i>

¹ The Netherlands, Great Britain, Denmark

² The natural gas volumes can be converted with the factor 6 BSCF per MMBOE (Million Barrel Oil Equivalent).

2006

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Proved developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)	79	2	11	329	57	2	480
Revisions and other changes	(1)	–	2	22	3	–	26
Extensions and discoveries	–	–	1	–	–	–	1
Purchase/sale of reserves	–	–	–	–	–	–	–
Production	10	1	2	45	6	1	65
Proved reserves as of December 31	68	1	12	306	54	1	442
Minority interests	–	–	–	–	–	–	–
Proved reserves after minority interests	68	1	12	306	54	1	442
Thereof at equity companies	–	–	12	–	–	–	12
Proved reserves after minority interests and at equity companies	68	1	–	306	54	1	430
Minority interests in production	–	–	–	–	–	–	–
<i>Proved developed reserves as of December 31.</i>	<i>42</i>	<i>1</i>	<i>12</i>	<i>303</i>	<i>45</i>	<i>1</i>	<i>404</i>

¹ The Netherlands, Great Britain, Denmark

2006

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Proved developed and undeveloped gas reserves as of January 1, Billion Standard Cubic Feet (BSCF) ²	395	249	–	217	1,462	24	2,347
Revisions and other changes	32	9	–	41	73	–	155
Extensions and discoveries	–	16	–	–	–	–	16
Purchase/sale of reserves	–	–	–	–	–	10	10
Production	51	74	–	26	127	–	278
Proved reserves as of December 31	376	200	–	232	1,408	14	2,230
Minority interests	–	–	–	–	–	–	–
Proved reserves after minority interests	376	200	–	232	1,408	14	2,230
Thereof at equity companies	–	–	–	–	–	–	–
Proved reserves after minority interests and at equity companies	376	200	–	232	1,408	14	2,230
Minority interests in production	–	–	–	–	–	–	–
<i>Proved developed reserves as of December 31.</i>	<i>352</i>	<i>196</i>	<i>–</i>	<i>232</i>	<i>978</i>	<i>10</i>	<i>1,768</i>

¹ The Netherlands, Great Britain, Denmark

² The natural gas volumes can be converted with the factor 6 BSCF per MMBOE (Million Barrel Oil Equivalent).

Operating results of operations from oil and gas producing activities

This represents only those revenues and expenses directly associated with Wintershall's oil and gas production. These amounts do not include any allocation of interest expenses or corporate overheads and are therefore not necessarily indicative of contributions to consolidated net earnings of the Company. Estimated income taxes were computed by applying the statutory income tax rates to the pretax income from producing activities.

2007 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Sales crude oil (incl. condensate and LPG)	400	28	60	2,346	142	19	2,995
Sales natural gas	265	417	26	9	128	2	847
Local duties (royalties, export, etc.)	102	6	27	148	54	4	341
Total sales (net of duties)	563	439	59	2,207	216	17	3,501
Production costs	94	86	15	170	65	3	433
Exploration expenses	13	115	33	39	9	67	276
Depreciation, amortization and impairments	67	125	5	55	39	2	293
Other	23	(1)	2	10	(33)	(16)	(15)
Operating income before taxes	366	114	4	1,933	136	(39)	2,514
Income taxes	131	29	–	1,756	31	(14)	1,933
Operating income after taxes	235	85	4	177	105	(25)	581
Minority interests	–	–	–	6	–	–	6
Operating income after taxes and minority interests	235	85	4	171	105	(25)	575
Thereof at equity companies	–	–	12	–	–	–	12
Operating income after taxes, minority interests and at equity companies	235	85	(8)	171	105	(25)	563

¹ The Netherlands, Great Britain, Denmark

2006 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Sales crude oil (incl. condensate and LPG)	399	32	50	2,256	166	90	2,993
Sales natural gas	298	435	–	9	134	2	878
Local duties (royalties, export, etc.)	100	2	21	157	54	20	354
Total sales (net of duties)	597	465	29	2,108	246	72	3,517
Production costs	89	82	9	154	70	8	412
Exploration expenses	10	62	2	30	12	53	169
Depreciation, amortization and impairments	60	122	1	53	33	6	275
Other	–	–	–	20	(7)	–1	12
Operating income before taxes	438	199	17	1,851	138	6	2,649
Income taxes	167	59	4	1,677	21	40	1,968
Operating income after taxes	271	140	13	174	117	(34)	681
Minority interests	–	–	–	–	–	–	–
Operating income after taxes and minority interests	271	140	13	174	117	–34	681
Thereof at equity companies	–	–	13	–	–	–	13
Operating income after taxes, minority interests and at equity companies	271	140	–	174	117	(34)	668

¹ The Netherlands, Great Britain, Denmark

Costs incurred in oil and gas property acquisition, exploration and development activities

Costs incurred represent amounts capitalized or charged against income as incurred in connection with oil and gas property acquisition, exploration and development activities. The expenditure on acquisitions in 2007 relates to proved reserves from the asset swap with Gazprom.

2007 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Acquisitions	–	–	1,448	–	–	–	1,448
Exploration	17	76	13	48	6	70	230
Development	57	55	532 ²	71	41	4	760
Total expenditure	74	131	1,993	119	47	74	2,438

¹ The Netherlands, Great Britain, Denmark

² Includes BASF's share in the financing of the investments of SNG

2006 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Acquisitions	–	–	–	–	–	–	–
Exploration	16	68	6	52	17	43	202
Development	47	72	–	60	45	3	227
Total expenditure	63	140	6	112	62	46	429

¹ The Netherlands, Great Britain, Denmark

Capitalized costs relating to oil and gas producing activities

Capitalized costs represent total expenditures on proved and unproved oil and gas properties with related accumulated depreciation, depletion and amortization.

2007 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Proved properties	534	427	1,993	1,120	849	3	4,926
Unproved properties	10	283	5	–	–	8	306
Other equipment	582	547	11	49	–	–	1,189
Total gross costs	1,126	1,257	2,009	1,169	849	11	6,421
Accumulated depreciation	817	925	74	744	534	3	3,097
Total net costs	309	332	1,935	425	315	8	3,324

¹ The Netherlands, Great Britain, Denmark

2006 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Proved properties	501	435	14	1,032	805	22	2,809
Unproved properties	13	224	–	–	–	7	244
Other equipment	576	493	2	34	–	174	1,279
Total gross costs	1,090	1,152	16	1,066	805	203	4,332
Accumulated depreciation	792	719	9	669	495	180	2,864
Total net costs	298	433	7	397	310	23	1,468

¹ The Netherlands, Great Britain, Denmark

Capitalized exploration well-drilling costs: Suspended well costs

Exploratory drilling costs are capitalized until the drilling of the well is complete. If hydrocarbons are found, and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil or natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment. This disclosure doesn't include amounts that were capitalized and subsequently expensed in the same annual period.

The following table indicates the changes to the company's capitalized exploration well-drilling costs.

Capitalized exploration well-drilling costs (million €) ¹

	2007	2006
At January 1	86.3	61.5
Additions pending determination of proved reserves	71.6	59.9
Capitalized exploratory well costs charged to expense	(51.0)	(21.4)
Reclassifications to wells, facilities and equipment	(31.6)	(13.7)
Ending balance at December 31	75.3	86.3

¹ only consolidated companies

The following table provides an aging of capitalized well costs (million €) and, on the last line, the number of suspend exploration wells.

Capitalized exploration well-drilling costs (million €) ¹

	2007	2006
Wells for which drilling is not complete	13.8	32.0
Wells capitalized less than one year	36.8	29.4
Wells capitalized greater than one year	24.8	24.9
Total	75.3	86.3
Number of wells	15	18

¹ only consolidated companies

Standardized measure of discounted future net cash flows relating to proved oil and gas reserves (SMOG)

The information presented below has been prepared in accordance with SFAS No. 69, which requires the standardized measure of discounted future net cash flows to be based on year-end sales prices, costs and statutory income tax rates and a 10% annual discount rate. Because prices used in the calculation are as of December 31, the standardized measure could vary significantly from year to year depending on market conditions at that specific date.

The projection should not be viewed as realistic estimates of future cash flows nor should the "standardized measure" be interpreted as representing current value to the company. Material revisions of estimates of proved reserves may occur in the future, development and production of the reserves may not occur in the period assumed, actual prices realized are expected to vary significantly from those used and actual costs may also vary. The company's investment and operating decisions are not based on the information presented below, but on a wide range of reserves, and on different price and cost assumptions from those reflected in this information.

Beyond the above considerations, the "standardized measure" is also not directly comparable with asset balances appearing elsewhere in the Consolidated Financial Statements because any such comparison would require a reconciling adjustment.

2007 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Future revenues	4,776	1,048	8,120	16,547	2,629	14	33,134
Future production/development costs	1,577	489	913	2,204	936	7	6,126
Future income taxes	850	260	1,644	12,445	222	3	15,424
Future net cash flows	2,349	299	5,563	1,898	1,471	4	11,584
Discounted to present value at a 10% annual rate	960	5	2,248	663	655	3	4,534
Standardized measure of discounted future cash flows	1,389	294	3,315	1,235	816	1	7,050
Minority interests	–	–	–	410	–	–	410
Standardized measure of discounted future cash flows after minority interests	1,389	294	3,315	825	816	1	6,640
Thereof at equity companies	–	–	531	–	–	–	531
Standardized measure of discounted future cash flows after minority interests and at equity companies	1,389	294	2,784	825	816	1	6,109

¹ The Netherlands, Great Britain, Denmark

2006 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Future revenues	3,949	1,267	257	12,249	2,346	92	20,160
Future production/development costs	1,428	478	160	2,222	986	57	5,331
Future income taxes	832	360	33	8,709	240	20	10,194
Future net cash flows	1,689	429	64	1,318	1,120	15	4,635
Discounted to present value at a 10% annual rate	678	35	5	437	423	24	1,602
Standardized measure of discounted future cash flows (SMOG)	1,011	394	59	881	697	(9)	3,033
Minority interests	–	–	–	–	–	–	–
Standardized measure of discounted future cash flows (SMOG) after minority interests	1,011	394	59	881	697	(9)	3,033
Thereof at equity companies	–	–	59	–	–	–	59
Standardized measure of discounted future cash flows after minority interests and at equity companies	1,011	394	–	881	697	(9)	2,974

¹ The Netherlands, Great Britain, Denmark

Summary of changes in standardized measure of discounted future net cash flows 2007 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Balance as of January 1	1,011	394	59	881	697	(9)	3,033
Sales and transfers of oil and gas produced, net of production costs	(470)	(353)	(44)	(2,037)	(151)	(14)	(3,069)
Net changes in price and in development and production cost	547	(33)	95	3,887	122	(3)	4,615
Extension, discoveries and improved recovery, less related costs	–	10	–	94	–	–	104
Revisions of previous quantity estimates	113	145	18	173	(3)	(1)	445
Development costs incurred during the period	47	20	–	68	40	1	176
Changes in estimated future development costs	(21)	(22)	(2)	(39)	22	19	(43)
Purchase/sale of reserves	–	–	3,196	–	–	–	3,196
Net change in income taxes	27	54	(20)	(2,383)	7	8	(2,307)
Accretion of discounts	136	79	8	591	80	–	894
Other	(1)	–	5	–	2	–	6
Balance as of December 31	1,389	294	3,315	1,235	816	1	7,050
Minority interests	–	–	–	410	–	–	410
Standardized measure of discounted future cash flows (SMOG) after minority interests	1,389	294	3,315	825	816	1	6,640
Thereof at equity companies	–	–	531	–	–	–	531
Standardized measure of discounted future cash flows after minority interests and at equity companies	1,389	294	2,784	825	816	1	6,109

¹ The Netherlands, Great Britain, Denmark

Summary of changes in standardized measure of discounted future net cash flows 2006 (million €)

	Germany	Southern North Sea ¹	Russia	Libya	Argentina	Rest of World	Total
Balance as of January 1	1,056	456	93	1,187	1,005	(5)	3,792
Sales and transfers of oil and gas produced, net of production costs	(508)	(383)	(20)	(1,954)	(176)	(64)	(3,105)
Net changes in price and in development and production cost	131	138	(24)	(744)	(336)	3	(832)
Extension, discoveries and improved recovery, less related costs	–	50	10	–	–	–	60
Revisions of previous quantity estimates	(54)	30	8	519	80	16	599
Development costs incurred during the period	34	42	–	54	37	3	170
Changes in estimated future development costs	29	(14)	2	(20)	(36)	1	(38)
Purchase/sale reserves	–	–	–	–	–	(2)	(2)
Net change in income taxes	156	64	9	725	109	2	1,065
Accretion of discounts	168	11	(13)	1,114	14	36	1,330
Other	(1)	–	(6)	–	–	1	(6)
Balance as of December 31	1,011	394	59	881	697	(9)	3,033
Minority interests	–	–	–	–	–	–	–
Standardized measure of discounted future cash flows (SMOG) after minority interests	1,011	394	59	881	697	(9)	3,033
Thereof at equity companies	–	–	59	–	–	–	59
Standardized measure of discounted future cash flows after minority interests and at equity companies	1,011	394	–	881	697	(9)	2,974

¹ The Netherlands, Great Britain, Denmark

GLOSSARY

-- A

acrylic monomers

Acrylic monomers are part of the product range of the Functional Polymers division and are used among other things as starting materials in the production of polymer dispersions.

Admixture Systems

The concrete admixtures from the Admixture Systems business unit ensure optimal concrete characteristics, even under extreme conditions, for sky scrapers, complex bridge constructions and tunnels.

Agricultural Products

The Agricultural Products division develops, produces and markets products to protect crops from fungal attack, insect pests and weeds to increase quality and ensure yields.

automotive OEM coatings

Coating systems for vehicle bodies that protect the vehicle from corrosion (cathodic dip) and gravel and chippings (primer), provide color (basecoat) and offer protection from environmental factors (topcoat).

automotive refinish coatings

Coatings systems for the repair of vehicles under the trademarks Glasurit® and R-M®.

audits for safety, environment and health

Audits are a strategic tool for managing safety and environmental protection efforts. During a site or plant audit, a profile is created using clearly defined environmental, safety or health criteria.

-- B

barrels of oil equivalent (BOE)

International standard for comparing the thermal energy of different fuels.

biotechnology

This term covers all processes and products that use living organisms, for example bacteria and yeasts, or their cellular constituents. Plant biotechnology and white biotechnology belong to the five growth clusters of BASF.

-- C

Catalysts

The Catalysts division comprises the environmental technologies, process technologies as well as materials services, which provides both the BASF Catalysts business and customers of BASF with precious metals and services.

Coatings

The Coatings division comprises the automotive refinish coatings, industrial coatings and decorative paints business units.

CO₂ equivalent

A parameter to describe the effect of greenhouse gas emissions. A factor known as the global warming potential (GWP) shows the effect of the individual gases compared with CO₂ (reference value).

compliance

Compliance is an important element of corporate governance. It refers to the company's behavior in accordance with laws, guidelines and voluntary codices.

Construction Chemicals

The Construction Chemicals division comprises the Admixture Systems and Construction Systems businesses.

Construction Systems

The Construction systems business unit offers, among other things, building products, sports and industrial flooring as well as façade systems.

corporate governance

Corporate governance refers to the entire system of managing and overseeing a company. This includes the organization of a company, its principles and guidelines as well as all internal and external regulatory and monitoring mechanisms.

-- D

dividend yield

The dividend yield is the return received by a shareholder in the form of a dividend in relation to the year-end share price. It is calculated by dividing the per-share dividend by the year-end share price and multiplying by 100.

-- E

earnings per share

The amount earned by BASF in euros per share based on the weighted number of shares.

EBIT

Earnings before interest and taxes. This type of income shows the value of the company's operations before interest expenses and taxes are deducted.

EBIT after cost of capital

The EBIT after cost of capital is calculated by deducting the cost of capital from the operating income earned by BASF's operating divisions. If the EBIT after cost of capital has a positive value BASF has earned a premium on the expected return of its providers of debt and equity. The EBIT after cost of capital is the key performance and management indicator.

We use this key performance and management indicator for our operating divisions and business units to ensure that we meet the interest rate payments to providers of debt, satisfy the returns expected by providers of equity and cover tax expenses.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

EBITDA margin

This is the margin that we earn on sales from our operating activities before depreciation and amortization. It is calculated as income from operations before depreciation and amortization as a percentage of sales.

eco-efficiency analysis

This analysis allows both economic and environmental aspects to be considered when developing and optimizing products and processes. The aim is to offer the best possible cost-effective products with good environmental performance.

energy management

The development of new materials and technologies to convert and store energy. Energy management also refers to the responsible use of fossil fuels, for example through the development of energy-saving materials such as insulation.

exploration

To investigate and explore an area in the search for mineral resources such as crude oil or natural gas. For successful exploration, it is important to discover oil and gas-bearing structures (deposits, fields) using suitable geophysical processes at sea or on land rather than by means of expensive drilling.

-- F

fermentation

Fermentation is a process in which renewable raw materials are reacted with the aid of microorganisms such as bacteria, fungi or cell cultures.

Fine Chemicals

In the Fine Chemicals division, we develop, produce and market high-value products for the cosmetics and pharmaceutical industries, as well as for human and animal nutrition. Our primary products are aroma chemicals and UV-filters, pharmaceutical active ingredients and excipients as well as vitamins and carotenoids.

free cash flow

Cash provided by operating activities less payments related to property, plant and equipment and intangible assets.

Functional Polymers

The Functional Polymers division is the global market leader in acrylic acid and superabsorbents and is a leading supplier of functional polymers for the adhesives, construction and paper industries.

fungicide

An active ingredient that kills fungi or inhibits their growth (for example in plants).

-- G

growth clusters

BASF combines the important technology-driven issues of the future in five growth clusters: energy management, raw material change, nanotechnology, plant biotechnology and white biotechnology.

-- H

herbicide

An active ingredient used to destroy weeds.

HPPO process

Technology to produce propylene oxide (PO) from hydrogen peroxide (HP). HPPO technology is more environmentally and economically viable than conventional PO methods of production, because no by-products are produced besides water. PO is an intermediate, for example, in the production of polyurethane.

-- I

IAS

International Accounting Standards (see also IFRS)

IFRIC

The International Financial Reporting Interpretations Committee is a committee that publishes proposed guidance on IFRS and IAS.

IFRS

International Financial Reporting Standards (until 2001: International Accounting Standards, IAS) are developed and published by the International Accounting Standards Board (IASB) headquartered in London, United Kingdom. In accordance with the IAS Regulations, IFRS are mandatory for listed companies headquartered in the European Union since 2005.

industrial coatings

Coating materials for industrial goods with the exception of vehicles.

Inorganics

The Inorganics division produces raw materials such as ammonia, sulfuric acid and nitric acid, as well as the electrolysis products chlorine and sodium hydroxide. The division also produces innovative specialties such as electronic chemicals, impregnating resins and powder injection molding technologies.

insecticide

An active ingredient used to destroy harmful insects.

Intermediates

The Intermediates division develops, produces and markets a comprehensive range of intermediates worldwide. The most important of the division's more than 600 products include amines, diols, polyalcohols as well as acids and specialties. They serve as starting materials for products such as coatings, plastics, pharmaceuticals, textile fibers, agricultural products as well as detergents and cleaners. .

-- K

key performance indicator (KPI)

A key performance indicator is a quantifiable measurement that can be used to track the progress in achieving important goals within a company.

Kyoto Protocol

The Kyoto Protocol is a supplement to the United Nations Framework Convention on Climate Control. Its main goal is to reduce emissions of greenhouse gases.

-- L

liquefied petroleum gas (LPG)

LPG contains liquefied elements of natural gas (except for methane), e.g., propane, butane and propane-butane blends, are used as an alternative feedstock for cracker operations and for other chemical processes.

-- M

metabolic profiling

Metabolic Profiling is the parallel and sensitive analysis of a broad spectrum of small-molecule metabolites from a given biological sample. Metabolites comprise components such as amino acids, fatty acids, hormones, sugars and other substance classes.

MWh

Megawatt hour: a measuring unit for energy

-- N

nanotechnology

The term nanotechnology applies to materials, structures and technologies with one thing in common: the creation or presence of at least one spatial dimension smaller than one hundred nanometer.

naphtha

Liquid petroleum that is obtained as a by-product of oil refining. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.

-- O

OECD

The Organization for Economic Cooperation and Development is an international body headquartered in Paris, France.

Oil & Gas

Our oil and gas operations are conducted by Wintershall Holding AG and its subsidiaries and include exploration and production of crude oil and natural gas, as well as natural gas trading, transportation and storage in Europe.

-- P

payout ratio

The distribution ratio shows what proportion of earnings is distributed in the form of a dividend. It is calculated by dividing the total dividend paid by net income and multiplying by 100.

Performance Chemicals

The Performance Chemicals division comprises the majority of BASF's specialty chemicals activities. It includes the business areas Coatings, Plastics & Specialties; Automotive & Oil Industry; Textiles; Leather; and Detergents & Formulators.

Performance Polymers

The Performance Polymers division develops, produces and markets engineering plastics for use in the automotive and electronics industries, for example, as well as polyamide and polyamide intermediates.

Petrochemicals

The Petrochemicals division operates world-scale facilities to supply the Verbund sites with petrochemical feedstocks such as ethylene and propylene, as well as with technical gases such as hydrogen and oxygen. In later processing stages, products in BASF's plasticizers and solvents value-adding chains are produced, as are alkylene oxides and glycols.

plant biotechnology

An area of biotechnology in which methods of traditional cultivation are optimized using methods from molecular biology and biochemistry. Plants can be developed for more efficient agriculture, a healthier diet as well as for use as renewable resources.

plant health

Crop protection products that increase crop yield and improve quality beyond disease and insect control.

Polyurethanes

The Polyurethanes division is one of the world's leading producers of polyurethanes. Our product range includes the entire spectrum of basic polyurethane products, tailor-made polyurethane systems and polyurethane specialties. Polyurethanes are used, for example, as rigid or flexible foams for household appliances, and as specialty plastics for the automobile and footwear industries.

pore storage facility

Underground gas storage facilities in depleted natural gas deposits or oil fields. The natural gas is pressed into the existing porous rock layers. These are mainly used to balance out seasonal differences in gas demand.

product innovations

New or improved products and applications, which have been on the market for less than five years.

-- R

raw material change

Analysis and evaluation of processes to use natural gas, coal and renewable raw materials for chemical value-adding chains.

REACH

An E.U. regulatory framework for the registration, evaluation and authorization of chemicals.

reserve-to-production

The reserve-to-production ratio of oil and gas reserves indicates how many years proved reserves will last at current rates of production. It is assumed that production remains constant and there is no development of new reserves. The reserve-to-production ratio is calculated by dividing total proved reserves of crude oil and natural gas at year end by annual production.

Responsible Care®

A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, health and safety.

return on assets

This describes the return we make on the average assets employed during the year. It is calculated as income from ordinary activities plus interest expenses as a percentage of average assets.

return on equity after tax

This describes the return we make on the average equity used during a fiscal year. It is calculated as income before minority interests as a percentage of average equity.

-- S**Seed Treatment Products**

Seed Treatment Products are crop protection products applied with specific technologies directly on the seed and thus protect crops in the emerging stages against diseases and harmful insects.

special items

One-time charges or one-time income that significantly affect the earnings of a segment or the BASF Group. Special items include, for example, charges arising from restructuring measures and severance payments.

spot market

A market where an agreed deal including delivery, acceptance and payment occurs immediately. In contrast to forward contracts where the delivery, acceptance and payment occurs at point in time after the conclusion of the deal.

stakeholders

The designation for persons or groups whose interests are interlinked with those of a company in a variety of ways. BASF's stakeholders include shareholders, business partners, employees, neighbors and society, and the environment.

steam cracker

A plant in which steam is used to "crack" naphtha (petroleum) or natural gas. The resulting petrochemicals – above all, ethylene and propylene – are the starting materials used to manufacture most of BASF's products.

Styrenics

This operating division produces and distributes styrene and styrenics worldwide. The production of the primary product styrene is primarily for captive use (backward integration). Styrenics are used in many fields, including the construction, packaging, automotive, electric and leisure industries.

sustainable development

The objective of sustainable development is to meet the economic, environmental and social needs of society without harming the development opportunities of future generations.

swap

An agreement between two companies to exchange payment flows in the future. In an interest swap, a fixed (variable) interest rate is exchanged for a floating (fixed) rate for an agreed nominal amount.

-- T**technology platforms**

Our four global technology platforms – Polymer Research, Specialty Chemicals Research, Chemicals Research & Engineering and Plant Biotechnology Research – form the heart of our Know-how Verbund.

-- V**value-adding chain**

Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

Verbund

The Verbund is one of BASF's greatest strengths: At our major sites, we link our production plants in a sophisticated system along our value-adding chains. We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly.

-- W**white biotechnology**

An area of biotechnology that uses microorganisms and/or enzymes to produce chemical products, utilized in many levels of the value-adding chain in the chemical industry. This involves, for example, the biotechnological production of enzymes and chiral intermediates.

WINGAS GmbH

WINGAS GmbH is a joint venture company with our Russian partner Gazprom. At the end of 2007, BASF held 50% plus one share of WINGAS through its 100% subsidiary Wintershall Holding AG. WINGAS is an European company active in natural gas trading and distribution. Its customers include regional and communal gas suppliers, industrial companies and power plant operators.

world-scale plants

Large production plants in which products can be manufactured on a world scale. The more a plant produces, the lower the fixed costs per metric ton of product (economies of scale). BASF is therefore committed to cost-effective and large-scale plants of this kind in all major economic regions.

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REGISTERED TRADEMARKS

ABATE: reg. trademark of BASF Group

AgCelence: reg. trademark of BASF Group

Arashi: reg. trademark of BASF Group

Basonat: reg. trademark of BASF Group

Basotect: reg. trademark of BASF Group

COL.9: reg. trademark of BASF Group

Counter: reg. trademark of Amvac Chemical Corporation

Elastopir: reg. trademark of BASF Group

F 500: reg. trademark of BASF Group

Glasurit: reg. trademark of BASF Group

Glenium: reg. trademark of BASF Group

Headline: reg. trademark of BASF Group

Hexamoll: reg. trademark of BASF Group

Ludiflash: reg. trademark of BASF Group

Luvitol: reg. trademark of BASF Group

Lupranol: reg. trademark of BASF Group

Mincor: reg. trademark of BASF Group

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Micronal: reg. trademark of BASF Group
NaphthaMax: reg. trademark of BASF Group
Neopor: reg. trademark of BASF Group
Opera: reg. trademark of BASF Group
Premise: reg. trademark of Bayer AG
Responsible Care: reg. trademark of the Conseil Européen de l'Industrie Chimique

RheoMATRIX: reg. trademark of BASF Group
Salcomix: reg. trademark of BASF Group
SEEBALANCE: reg. trademark of BAS Group
Smart Dynamic Construction: non-reg. trademark rights of BASF Group
Styropor: reg. trademark of BASF Group

Termidor: reg. trademark of BASF Group
Ultradur: reg. trademark of BASF Group
Ultraform: reg. trademark of BASF Group
Ultramid: reg. trademark of BASF Group
Ultrason: reg. trademark of BASF Group

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Since 2003, BASF has been participating in the feedback meetings of the Global Reporting Initiative (GRI) and has been working to further develop the guidelines together with experts from industry, nongovernmental organizations, analysts and financial auditors. We reported on the basis of the GRI for the first time in our Corporate Report 2003. The GRI aims to make international reporting comparable. Since 2005, we have been supporting the Global Reporting Initiative as an Organizational Stakeholder.

For the first time, the Report 2007 has been aligned with the indicators of the current GRI-guideline G3. This compact index shows where to

find information on the core elements and indicators of the GRI in this report. An extended overview is available on the Internet at: corporate.basf.com/gri_e

The online index contains all GRI reporting elements, all GRI core and additional indicators and shows where details are to be found in our online reporting. We also give a brief explanation if no data are available for a given indicator.

→ More information can be found at: www.globalreporting.org

TEN-YEAR SUMMARY

Million €

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Sales and Earnings¹										
Sales	27,643	29,473	35,946	32,500	32,216	33,361	37,537	42,745	52,610	57,951
Income before depreciation and amortization (EBITDA)	4,884	4,671	5,986	4,142	5,105	5,110	7,685	8,233	9,723	10,225
Income from operations (EBIT)	2,624	2,009	3,070	1,217	2,641	2,658	5,193	5,830	6,750	7,316
Income from ordinary activities	2,771	2,606	2,827	609	2,641	2,168	4,347	5,926	6,527	6,935
Extraordinary income	–	–	–	6,121	–	–	–	–	–	–
Income before taxes and minority interests	2,771	2,606	2,827	6,730	2,641	2,168	4,347	5,926	6,527	6,935
Income before minority interests	1,664	1,245	1,282	5,826	1,599	976	2,133	3,168	3,466	4,325
Net income	1,699	1,237	1,240	5,858	1,504	910	2,004	3,007	3,215	4,065
Capital expenditures and depreciation¹										
Additions to tangible and intangible assets	3,722	3,253	6,931	3,313	3,055	3,415	2,163	2,523	10,039	4,425
Thereof property, plant and equipment	2,899	2,764	3,631	3,037	2,677	2,293	2,022	2,188	4,068	2,564
Depreciation of tangible and intangible assets	2,260	2,662	2,916	2,925	2,464	2,452	2,492	2,403	2,973	2,909
Thereof property, plant and equipment	1,843	2,018	2,245	2,307	2,012	1,951	2,053	2,035	2,482	2,294
Number of employees										
At year-end	105,945	104,628	103,273	92,545	89,389	87,159	81,955	80,945	95,247	95,175
Annual Average	106,928	107,163	105,784	94,744	90,899	88,167	85,022	80,992	88,160	94,893
Personnel costs¹	6,010	6,180	6,596	6,028	5,975	5,891	5,615	5,574	6,210	6,648
Key data¹										
Earnings per share (€)	2.73	2.00	2.02	9.72 ²	2.60	1.62	3.65	5.73	6.37	8.32
Cash provided by operating activities	3,744	3,255	2,992	2,319	2,313	4,878	4,634	5,250 ³	5,940	5,807
EBITDA in percent of sales	17.7	15.8	16.7	12.7	15.8	15.3	20.5	19.3	18.5	17.6
Return on assets (%)	11.9	10.2	9.9	3.1	8.4	7.4	13.2	17.7	17.5	16.4
Return on equity after tax (%)	13.2	9.1	9.0	36.6 ²	9.3	6.0	12.9	18.6	19.2	22.4
Appropriation of profits										
Net income of BASF AG ⁴	1,074	1,007	1,265	5,904	1,045	1,103	1,363	1,273	1,951	2,267
Transfer to retained earnings ⁴	381	304	50	5,153	247	334	449	–	–	–
Dividend	693	695	1,214	758	789	774	904	1,015	1,484	1,865 ⁵
Dividend per share (€)	1.12	1.13	1.30	1.30	1.40	1.40	1.70	2.00	3.00	3.90
			+0.70 ⁶							
Number of shares as of December 31 (in thousands)⁷	623,794	620,985	607,399	583,401	570,316	556,643	540,440	514,379	499,680	478,185

¹ Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The 2004 figures have been reported in accordance with IFRS. The figures for years up to and including 2003 were prepared according to the German Commercial Code.

² Including extraordinary income

³ Before external financing of pension obligations

⁴ Calculated in accordance with the German Commercial Code

⁵ With regard to the number of qualifying shares on December 31, 2007

⁶ Special dividend of stockholders' equity charged with 45% corporate income tax

⁷ After deduction of repurchased shares intended to be cancelled

Consolidated Balance Sheets (German Commercial Code) (million €)

	1998	1999	2000	2001	2002	2003
Intangible assets	1,965	2,147	4,538	3,943	3,464	3,793
Tangible assets	10,755	12,416	13,641	14,190	13,745	13,070
Financial assets	1,826	1,507	3,590	3,360	3,249	2,600
Fixed assets	14,546	16,070	21,769	21,493	20,458	19,463
Inventories	3,703	4,028	5,211	5,007	4,798	4,151
Accounts receivable, trade	4,017	4,967	6,068	5,875	5,316	4,954
Other receivables	1,856	2,211	3,369	2,384	2,947	3,159
Deferred taxes	1,077	1,225	1,270	1,373	1,204	1,247
Marketable securities	746	518	364	383	132	147
Cash and cash equivalents	757	990	506	360	231	481
Current assets	12,156	13,939	16,788	15,382	14,628	14,139
Total assets	26,702	30,009	38,557	36,875	35,086	33,602
Subscribed capital	1,595	1,590	1,555	1,494	1,460	1,425
Capital surplus	2,590	2,675	2,746	2,914	2,948	2,983
Paid-in capital	4,185	4,265	4,301	4,408	4,408	4,408
Retained earnings	8,695	9,002	8,851	12,222	12,468	12,055
Currency translation adjustment	39	549	662	532	(330)	(972)
Minority interests	331	329	481	360	396	388
Stockholders' equity	13,250	14,145	14,295	17,522	16,942	15,879
Pensions and other long-term provisions	5,561	5,812	6,209	6,809	6,233	6,205
Tax and other short-term provisions	2,185	2,826	3,334	3,332	2,764	2,982
Provisions	7,746	8,638	9,543	10,141	8,997	9,187
Financial indebtedness	1,316	1,294	7,892	2,835	3,610	3,507
Accounts payable, trade	1,871	2,316	2,848	2,467	2,344	2,056
Other liabilities	2,519	3,616	3,979	3,910	3,193	2,973
Liabilities	5,706	7,226	14,719	9,212	9,147	8,536
Provisions and liabilities	13,452	15,864	24,262	19,353	18,144	17,723
Thereof long-term liabilities	6,898	7,529	9,059	9,955	9,211	10,285
Total stockholders' equity and liabilities	26,702	30,009	38,557	36,875	35,086	33,602

Consolidated Balance Sheets (IFRS) (million €)

	2004	2005	2006	2007
Intangible assets	3,607	3,720	8,922	9,559
Property, plant and equipment	13,063	13,987	14,902	14,215
Investments accounted for using the equity method	1,100	244	651	834
Other financial assets	938	813	1,190	1,952
Deferred taxes	1,337	1,255	622	679
Other receivables and miscellaneous long-term assets	473	524	612	655
Long-term assets	20,518	20,543	26,899	27,894
Inventories	4,645	5,430	6,672	6,578
Accounts receivable, trade	5,861	7,020	8,223	8,561
Other receivables and miscellaneous short-term assets	2,133	1,586	2,607	2,337
Marketable securities	205	183	56	51
Cash and cash equivalents	2,086	908	834	767
Assets of disposal groups	–	–	–	614
Short-term assets	14,930	15,127	18,392	18,908
Total assets	35,448	35,670	45,291	46,802
Subscribed capital	1,383	1,317	1,279	1,224
Capital surplus	3,028	3,100	3,141	3,173
Retained earnings	11,923	11,928	13,302	14,556
Other comprehensive income	(60)	696	325	174
Minority interests	328	482	531	971
Stockholders' equity	16,602	17,523	18,578	20,098
Provisions for pensions and similar obligations	4,124	1,547	1,452	1,292
Other provisions	2,376	2,791	3,080	3,015
Deferred taxes	948	699	1,441	2,060
Financial indebtedness	1,845	3,682	5,788	6,954
Other liabilities	1,079	1,043	972	901
Long-term liabilities	10,372	9,762	12,733	14,222
Accounts payable, trade	2,372	2,777	4,755	3,763
Provisions	2,364	2,763	2,848	2,697
Tax liabilities	644	887	858	881
Financial indebtedness	1,453	259	3,695	3,148
Other liabilities	1,641	1,699	1,824	1,976
Liabilities of disposal groups	–	–	–	17
Short-term liabilities	8,474	8,385	13,980	12,482
Total stockholders' equity and liabilities	35,448	35,670	45,291	46,802

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KEY DATA

Sales	Million €
BASF Group sales	57,951
Sales by segment	
– Chemicals	14,162
– Plastics	13,496
– Performance Products	11,697
– Agricultural Products & Nutrition	4,989
– Oil & Gas	10,517
– Other	3,090
Sales by region (location of customer)	
– Europe	32,367
– Thereof Germany	11,967
– North America	11,928
– Asia Pacific	9,561
– South America, Africa, Middle East	4,095
Earnings	
Income from operations (EBIT)	7,316
Income before taxes and minority interests	6,935
Net income	4,065
Other key data	
Equity ratio (%)	42.9
Return on assets (%)	16.4
Research and development expenses (million €)	1,380
Additions to fixed assets (million €)	2,564
Number of employees (December 31, 2007)	95,175
Key BASF share data	
Year-end price	101.41
Dividend per share	3.90
Earnings per share	8.32



In 2007, BASF shares were included in the Dow Jones Sustainability World Index for the seventh year in succession.



BASF is a founding member of Global Compact.



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Oct. 30, 2008

FULL YEAR 2008 RESULTS

Feb. 26, 2009

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April 30, 2009

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These statements are based on current experience, estimates and projections of BASF management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results, performance or achievements of BASF to be materially different from those that may be expressed or implied by such statements. Such factors include those discussed in the Risk Report from page 106 onward. We do not assume any obligation to update the forward-looking statements contained in this report.

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We combine **economic success** with **social responsibility** and **environmental protection**.
We make our contribution to finding the answers to global challenges, such as **climate protection**, **energy efficiency**, **nutrition** and **mobility**.

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General inquiries

Phone: +49 621 60-0, Fax: +49 621 60-42525

Corporate Media Relations

Michael Grabicki: Phone: +49 621 60-99938, Fax: +49 621 60-92693

Sustainability Center

Dr. Lothar Meinzer: Phone: +49 621 60-41976, Fax: +49 621 60-95873

Investor Relations

Magdalena Moll: Phone: +49 621 60-48230, Fax: +49 621 60-22500

Internet

www.basf.com

BASF SE, D-67056 Ludwigshafen, Germany

Further information

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