

A group of four diverse BASF employees are smiling and holding a large white sign. The man on the left is wearing a white lab coat with a BASF logo. The man in the center is wearing a yellow hard hat and a blue jacket. The woman next to him is wearing a blue striped shirt. The woman on the right is wearing a white striped shirt and a blue lanyard. They are standing in front of a glass wall in a modern office or laboratory setting.

# WE SHAPE THE FUTURE

## Report 2008

Economic, environmental  
and social performance

 **BASF**

The Chemical Company

# BASF GROUP 2008

## Economic data (million €)

	2008	2007	Change in %
Sales	62,304	57,951	7.5
Income from operations before depreciation and amortization (EBITDA)	9,562	10,225	(6.5)
Income from operations (EBIT) before special items	6,856	7,614	(10.0)
Income from operations (EBIT)	6,463	7,316	(11.7)
Income before taxes and minority interests	5,976	6,935	(13.8)
Net income	2,912	4,065	(28.4)
Earnings per share (€)	3.13	4.16	(24.8)
Dividend per share (€)	1.95	1.95	–
Cash provided by operating activities	5,023	5,807	(13.5)
Additions to long-term assets <sup>1</sup>	3,634	4,425	(17.9)
Depreciation and amortization	3,099	2,909	6.5
Return on assets (%)	13.5	16.4	–
Return on equity after tax (%)	17.0	22.4	–
Research and development expenses	1,355	1,380	(1.8)

## Environment and safety

		2008	2007	Change in %
Operating costs for environmental protection facilities	Million €	706	640	10.3
Investments in environmental protection	Million €	165	103	60.2
Emissions of greenhouse gases (CO <sub>2</sub> equivalent) <sup>2</sup>	Million metric tons/year	27.1	27.5	(1.5)
Emissions to air (air pollutants) <sup>2</sup>	Thousand metric tons/year	36.5	50.6	(27.9)
Emissions to water <sup>2</sup> of:				
– Organic substances	Thousand metric tons/year	20.6	31.2	(34.0)
– Nitrogen	Thousand metric tons/year	4.4	5.3	(17.0)
– Heavy Metals	Metric tons/year	27.0	34.0	(20.6)
Transportation accidents	Per 10,000 shipments	0.36	0.28	28.6
Number of environmental and safety audits		86	107	(19.6)

## Employees and society

		2008	2007	Change in %
Employees as of December 31		96,924	95,175	1.8
Trainees as of December 31		2,171	2,160	0.5
Personnel costs	Million €	6,364	6,648	(4.3)
Donations and sponsoring	Million €	64.7	75.3	(14.1)
Annual bonus	% of Group companies	74.7	73.7	1.4
Lost time accidents	Per million working hours	1.8	2.2	(18.2)
Occupational diseases	Per million working hours	0.31	0.22	40.9

<sup>1</sup> Including acquisitions

<sup>2</sup> Excluding emissions from oil and gas production

# BASF'S SEGMENTS

## CHEMICALS

→ PAGE 50



In the Chemicals segment, we offer products for customers in the chemical, electronic, construction, textile, automotive, pharmaceutical and agricultural industries and provide other BASF segments with chemicals for the production of higher-value products. Our portfolio ranges from basic chemicals, glues and electronic chemicals for the semiconductor and flat panel display industry, to solvents and plasticizers, as well as starting materials for detergents, plastics, textile fibers, paints, coatings and pharmaceuticals.

## PLASTICS

→ PAGE 57



The Plastics segment offers a comprehensive range of products, system solutions and services. We offer a variety of engineering plastics for the automotive and electric industries as well as for use in household appliances, sport and leisure. Our styrenic foams are used as insulating materials in the construction industry and in the packaging industry. Our polyurethanes are extremely versatile: as soft foams, for example, they are to be found in car seats and mattresses, and as rigid foams they serve as highly efficient insulation in refrigerators.

## PERFORMANCE PRODUCTS

→ PAGE 63



Our Performance Products help our customers improve their products and processes. They are found in countless everyday products: from diapers, paper, vitamins for food supplements and light stabilizers for sun creams to products for the oil, automotive, coatings and plastics industries and for the manufacture of leather and textiles.

## FUNCTIONAL SOLUTIONS

→ PAGE 69



In the Functional Solutions segment we bundle system solutions and innovative products for specific customers and industries, in particular for the automotive and construction sectors. Our portfolio comprises automotive and industrial catalysts, automotive and industrial coatings, concrete admixtures and building products such as tile adhesives and architectural coatings.

## AGRICULTURAL SOLUTIONS

→ PAGE 75



Our crop protection products guard against fungal diseases, insects and weeds, increase quality and secure crop yields. Our research in plant biotechnology concentrates on plants for greater efficiency in agriculture, healthier nutrition and for use as renewable raw materials.

## OIL & GAS

→ PAGE 80



As the largest German producer of oil and gas, we focus on exploration and production in oil and gas-rich regions of Europe, North Africa, South America, Russia and the Caspian Sea region. Together with our Russian partner Gazprom, we are active in the trading, transport and storage of natural gas in Europe.

# KEY SEGMENT DATA

## CHEMICALS

- 1 -- Inorganics: 14%
- 2 -- Petrochemicals: 62%
- 3 -- Intermediates: 24%

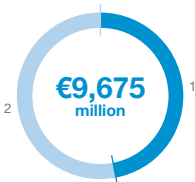


### Key data Chemicals

Million €	2008	2007	Change in %
Sales	10,324	9,358	10.3
Income from operations before special items	1,421	1,889	(24.8)
Income from operations (EBIT)	1,376	1,903	(27.7)

## PLASTICS

- 1 -- Performance Polymers: 47%
- 2 -- Polyurethanes: 53%

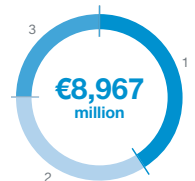


### Key data Plastics

Million €	2008	2007	Change in %
Sales	9,675	9,976	(3.0)
Income from operations before special items	544	1,261	(56.9)
Income from operations (EBIT)	530	1,172	(54.8)

## PERFORMANCE PRODUCTS

- 1 -- Acrylics & Dispersions: 41%
- 2 -- Care Chemicals: 34%
- 3 -- Performance Chemicals: 25%



### Key data Performance Products

Million €	2008	2007	Change in %
Sales	8,967	8,862	1.2
Income from operations before special items	785	712	10.3
Income from operations (EBIT)	787	681	15.6

## FUNCTIONAL SOLUTIONS

- 1 -- Catalysts: 50%
- 2 -- Construction Chemicals: 23%
- 3 -- Coatings: 27%



### Key data Functional Solutions

Million €	2008	2007	Change in %
Sales	9,388	9,491	(1.1)
Income from operations before special items	265	557	(52.4)
Income from operations (EBIT)	151	434	(65.2)

## AGRICULTURAL SOLUTIONS

- 1 -- Crop Protection: 100%

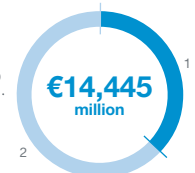


### Key data Agricultural Solutions

Million €	2008	2007	Change in %
Sales	3,409	3,137	8.7
Income from operations before special items	706	526	34.2
Income from operations (EBIT)	705	516	36.6

## OIL & GAS

- 1 -- Exploration & Production: 37%
- 2 -- Natural Gas Trading: 63%



### Key data Oil & Gas

Million €	2008	2007	Change in %
Sales	14,445	10,517	37.3
Income from operations before special items	3,844	3,031	26.8
Income from operations (EBIT)	3,844	3,031	26.8

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# WE SHAPE THE FUTURE

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We combine  
economic success  
with social  
responsibility and  
environmental  
protection.

→ The cover shows, from left to right, our employees Godwin Mabande (Catalysts Research), Ulrich Schwind (Pressure Vessel Workshop), Talke Schroedter (Project “Diversity + Inclusion”), and Thi-Thu-Trinh Nguyen (Forum “perspectives”).

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# REPORT 2008

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## THIS IS AN INTEGRATED REPORT

It documents our economic, environmental and social performance for 2008.

## VALUE FOR BASF

Sustainability is an integral part of our strategy. This report therefore combines our financial and sustainability reporting in one publication. We document our financial performance and provide solid examples of how sustainability contributes to the success of our company.

## VALUE FOR SOCIETY

This report shows how we create value – for our employees, shareholders, business partners, neighbors and the public. With sustainable products, technologies and services, we contribute to finding answers to global challenges, such as climate protection, resource conservation, nutrition and demographic change. We promote education, our most important future resource, and support projects with long-term value worldwide. This is our contribution to a better future.



# ABOUT THIS REPORT

## CONTENT AND STRUCTURE


This integrated report combines our financial and sustainability reporting and is addressed to interested readers from all fields. The reporting of the BASF Group has continued to develop: For the second time, the integrated BASF Report replaces the individual financial and sustainability reports. Our dialogue with internal and external stakeholders as well as the positive feedback from our readers survey in 2008 confirmed our reporting approach. This year, we report once again in detail on how we combine economic success, social responsibility and environmental protection, in a single publication. The global reporting of the BASF Group is complemented by BASF In Brief 2008.

Alongside the traditional content index, the cover of this report folds out to provide an index of key topics. It classifies the content according to central themes: information on our strategy, business development, sustainability as well as factors driving our growth and our response to global trends.

## TOPICS

The information on the financial position and financial performance of BASF Group is based on the requirements of International Financial Reporting Standards (IFRS), and where applicable, the German Commercial Code and German Accounting Standards (DRS).

After delisting from the NYSE, we retained, in an adjusted form, the internal control system for financial reporting based on the guidelines of the Sarbanes-Oxley Act. Internal control mechanisms ensure the reliability of the information we report. The management of BASF confirmed the effectiveness of the internal control system as well as the compliance with regulations relevant to financial reporting.

Together with our external partners, we regularly analyze and assess the topics of sustainability that are relevant to BASF. We identify topics of global interest and topics which represent risks or opportunities for the BASF Group today or in the future. The results of these processes are incorporated into this report as well as the results from our annual stakeholder survey on reporting and our dialogue with stakeholders. The sustainability reporting follows the international guidelines (G3) of the Global Reporting Initiative (GRI). It also serves as a progress report for the implementation of the ten principles of the United Nations Global Compact. The symbol  within the text of the report indicates the relevance to the principles of the U.N. Global Compact.

## ADDITIONAL INFORMATION

- The Online Report 2008 with additional information and interactive service functions can be found at [basf.com/report](http://basf.com/report)
- BASF In Brief 2008 offers a quick overview of the entire reporting year and provides concise reporting on how BASF is contributing to important issues of the future. More information can be found at [basf.com/basf\\_in\\_brief](http://basf.com/basf_in_brief)
- More information on the subject of sustainability can be found at [basf.com/sustainability](http://basf.com/sustainability)

- More information on our matrix for sustainability topics can be found on page 28 and at [basf.com/materiality](http://basf.com/materiality)
- Information on our contribution to solving global challenges can be found at [basf.com/future](http://basf.com/future)
- A short GRI- and Global Compact-Index can be found on page 240 and comprehensive information on this subject is available at [basf.com/gri\\_gc\\_e](http://basf.com/gri_gc_e)



### THE GLOBAL COMPACT

Our reporting serves as a progress report on the implementation of the ten principles of the U.N. Global Compact.

## DATA

All data and bases of calculation in this report are in line with international standards for financial and sustainability reporting. All corporate information is sourced from BASF documents as well as from central queries to the appropriate competence centers and regions. The reporting period is calendar year 2008.

Our data collection methods for environmental protection and 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. In the reporting year 2008, we continued to improve the data collection on environmental protection and safety. In these areas, data processing systems were optimized and the data collection frequency was increased. Unless otherwise indicated, additional information on social responsibility is based on all consolidated Group companies. All employees in the BASF Group as of December 31, 2008 are represented in the information.

To increase the relevance of this report, information available up to the editorial deadline of February 24, 2009 has been included. The report is published each year in mid-March in English and in German.

## EXTERNAL AUDITING AND VALIDATION

Our reporting is audited by a third party. KPMG AG Wirtschaftsprüfungsgesellschaft has audited the BASF Group Consolidated Financial Statements, including the Management's Analysis, and has approved them free of qualification. This assurance comprises financial and non-financial information. The verification was also conducted in accordance with assurance standards for sustainability reporting, the International Standard on Assurance Engagements 3000.

The transparency of our reporting was recognized on several occasions in 2008: Based primarily on its environmental and social reporting, BASF was named as chemical sector leader in the global Dow Jones Sustainability Index (DJSI World). Our reporting on our progress in implementing the ten principles of the U.N. Global Compact earned us "Notable Communication on Progress" status in 2008. The sustainability reporting of the BASF Group has again achieved the highest application level A+ from the Global Reporting Initiative.

→ More information on emissions can be found in the chapters "Our Goals", "Climate Protection", "Energy", "Water" and "Environmental and Safety Management"

→ More information on work-related accidents can be found on page 95

→ The report of the independent auditors can be found on page 151

→ More information on the U.N. Global Compact can be found at [www.globalcompact.org](http://www.globalcompact.org)

→ More information on the Global Reporting Initiative can be found at [www.globalreporting.org](http://www.globalreporting.org)





# 2008

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WWW.BASF.COM 

### The 2008 Report on the internet

This report is also available as a HTML version and as a PDF download on our internet site. Additional service functions include quick links to key topics and enable a tailor-made compilation of individual text sections, tables and diagrams. A new function enables the direct comparison of elements with last year's report. Through examples from the report and additional information, we also show how we are creating value – for BASF and for society.

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## HOW WE SHAPE THE FUTURE

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We are meeting the challenges of our time. Around the world, almost 97,000 employees are helping our customers to be more successful through their creativity, commitment and performance. We combine economic success and social responsibility with environmental protection. This is our contribution to a better future for us and for coming generations.

In this report, five employees show how we create value – for BASF and for society.

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### 01 Houses that protect the climate

CLAIRE FARRAR is project manager of the BASF low energy house in England. → [Page 7](#)

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### 02 Electricity for the next generation

JAE HYUNG HWANG is researching affordable and simple to produce solar cells of the future. → [Page 23](#)

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### 03 Earning trust

THERESA EGLER is one of over 80 BASF compliance officers worldwide. → [Page 127](#)

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### 04 Harvesting under extreme conditions

FREDY MARISCAL helped to develop the successful umbrella brand AgCelence® for the Latin American crop protection market. → [Page 149](#)

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### 05 Securing energy supplies

THEO BERGERS helped to build a radio control system for gas production platforms. → [Page 221](#)

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A woman with short brown hair, wearing a dark pinstriped suit jacket over a light blue shirt, is sitting on a large, grey, rectangular block. She is smiling and looking towards the camera. Her hands are resting on a large blue rectangular sign that she is holding. The sign has the text '3:1' in large white letters and 'FOR CLIMATE PROTECTION\*' in smaller white letters. The background is a bright, modern interior with large windows and a light-colored wooden floor.

## CLAIRE FARRAR

is project manager of the BASF  
low energy house in Nottingham.

\* BASF products save three times more greenhouse gas emissions than the entire amount caused by the production and disposal of all the company's products – as shown by our corporate carbon footprint.

3:1

FOR  
CLIMATE PROTECTION\*

## VALUE FOR BASF

### Success with products for climate protection



Claire Farrar on site during construction of the low energy house in Nottingham, England, inaugurated in spring 2008.

#### Innovation for energy efficient building

The BASF low energy house in Nottingham shows how modern construction chemicals and plastics contribute to climate protection. BASF sells, for example, 400,000 metric tons of insulation materials like Styropor® and Neopor® each year. Our corporate carbon footprint proves that BASF products save 252 million metric tons of CO<sub>2</sub> worldwide, in contrast to 87 million metric tons of CO<sub>2</sub> emissions from raw material extraction, production and disposal of all our products.

## VALUE FOR SOCIETY

### Energy efficient houses that protect the climate



The use of innovative products saves energy and better protects building materials: the BASF low energy house in Nottingham.

#### Homeowners save energy and protect the environment

BASF products and technologies help save CO<sub>2</sub> in many areas of life. In the BASF low energy house, modern materials like Neopor® and Elastopor® provide energy efficient insulation. The phase change material Micronal® PCM is used as an alternative to air conditioning and accordingly saves on electricity and maintenance costs. Black pigments like Paliogen®, Lumogen® or Sicopal® in roof coatings absorb only a small amount of the sun's infrared radiation and prevent dark surfaces from overheating. In this way, homeowners can save energy, protect their building materials, and at the same time reduce their maintenance costs.

## TO OUR SHAREHOLDERS

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*Dear shareholders, dear friends of BASF,*

2008 was a year that brought dramatic change to the world economy and to BASF: a global financial crisis, massive downturns in economies around the world and enormous fluctuations in raw material prices. In the current year, the global recession and shrinking world chemical market will confront us with unprecedented challenges. All forecasts are subject to great uncertainty.

After a very good start to 2008, customer demand declined drastically, particularly in the fourth quarter. Overall, sales increased compared with 2007, while income from operations was below the previous year's very good level. BASF shares were also caught up in the worldwide decline on the stock markets – we are not satisfied with our stock performance. But even in difficult times, we stand by our ambitious dividend policy. We propose to pay a dividend of €1.95 per share.

We responded quickly to the tremendous downturn: Worldwide, we have reduced capacity or temporarily closed production facilities, and adjusted working hours to the new situation. I am impressed with the flexibility and commitment shown by the BASF team in these circumstances and would like to sincerely thank all of our employees. This year, more than ever before, it will be essential to work together to build trusting relationships both internally as well as with our customers, suppliers and other business partners. I am convinced that in tough times like these, the BASF team will show what it is capable of.

#### **Our goal remains to increase value**

Despite the immense challenges, the economic environment in the current year also presents new opportunities for our business. We will actively pursue them to assert our position as the world's leading chemical company. We are well equipped to do so thanks to our long-term strategy for sustained growth, our solid financing, and a portfolio that we have developed in the past years to be more robust and competitive.

We are working continually to improve BASF's position, for example with the acquisitions of the Swiss chemical company Ciba and the Norwegian oil and gas company Revus Energy. We completed the acquisition of Revus at the end of 2008. We aim to close the Ciba acquisition in the first quarter of 2009 so that we can start quickly with the integration and restructuring.



**“Shaping the future requires determination. Especially in difficult times like the present.”**

**Dr. Jürgen Hambrecht**  
Chairman of the Board of Executive Directors of BASF SE

Just as high on our agenda is to be quicker, more flexible and more decisive in the face of fierce global competition. We are therefore accelerating the rigorous implementation of our restructuring and efficiency programs. From 2012 onward, we expect a positive earnings contribution of more than €1 billion annually through NEXT – our new global program to improve operational excellence and efficiency in all areas of daily business. A large portion of this amount will be achieved in 2009 and 2010.

### **Chemistry remains a strong motor for innovation**

Despite the strong economic headwind, I firmly believe that chemistry is the motor for innovation when it comes to finding solutions for global challenges like climate protection, nutrition, water, energy, mobility, and an overall better quality of life for the growing world population. In short: BASF wants to shape the future with chemistry, especially in difficult times like the present. And to do so, we need outstanding innovations above all.

For example in new and innovative technologies, like plant biotechnology or nanotechnology, we want to open up new applications. Despite the difficult economic environment, we are therefore maintaining a high level of spending on research and development in 2009.

But outstanding innovations require more than that: They need a corporate culture that encourages unusual perspectives and creativity. Employees who approach topics from different angles advance our company and reflect the diversity of our customers and markets. In my view, it is therefore especially important that we continue to measurably increase the diversity and internationalism of BASF employees. To achieve this, we started the global project “Diversity + Inclusion” in 2008, and the first pilot projects are now being implemented.

### **Sustainable development**

Difficult times especially show that companies which conduct their business sustainably and responsibly are more successful in the long-term. That is why sustainability is a firm part of BASF’s strategy: Long-term success is not possible unless the environment and society are treated carefully. We are therefore committed to implementing the principles of the U.N. Global Compact.

BASF received a number of awards for its sustainability management in 2008: For example, we lead the Dow Jones Sustainability Index as the best chemical company. Success like this spurs us on: We have set ourselves ambitious goals for the future that you can read more about in this report.

For my fellow Board members and me as well as for the entire BASF team, one thing is certain: Shaping the future requires determination, especially in difficult times like the present. Our highest priorities are to be a reliable partner for our customers, maintain our strong cash flow, reduce costs and continue our restructuring efforts. What is clear is that there are enormous challenges ahead of us. We are ready to face them with our full strength and with trust in your support.

Sincerely yours,



**Dr. Jürgen Hambrecht**  
Chairman of the Board of Executive Directors of BASF SE

# THE BOARD OF EXECUTIVE DIRECTORS OF BASF SE

With schoolchildren from the Ruprecht Elementary School, Ludwigshafen, Germany

DR. HANS-ULRICH ENGEL      DR. KURT BOCK      DR. HARALD SCHWAGER  
DR. JÜRGEN HAMBRECHT      DR. MARTIN BRUDERMÜLLER



As of March 3, 2009

## DR. HANS-ULRICH ENGEL

49, with BASF for 21 years  
Board member since March 4, 2008

- Oil & Gas
- Region Europe
- Global Procurement & Logistics

## DR. KURT BOCK

Chief Financial Officer  
50, with BASF for 18 years

- Catalysts
- Market & Business Development North America
- Regional Functions North America
- Finance
- Information Services
- Corporate Controlling
- Corporate Audit

## DR. JÜRGEN HAMBRECHT

Chairman of the Board of Executive Directors  
62, with BASF for 33 years

- Legal, Taxes & Insurance
- Strategic Planning & Controlling
- Communications & Government Relations
- Global HR – Executive Management & Development
- Investor Relations
- Chief Compliance Officer

## DR. HARALD SCHWAGER

Industrial Relations Director,  
48, with BASF for 21 years

- Human Resources
- Engineering & Maintenance
- Environment, Health & Safety
- Verbund Site Management Europe



DR. STEFAN MARCINOWSKI

DR. ANDREAS KREIMEYER

DR. JOHN FELDMANN

**DR. MARTIN BRUDERMÜLLER**  
47, with BASF for 21 years

- Performance Polymers
- Polyurethanes
- Styrenics
- Market & Business Development Asia Pacific
- Regional Functions & Country Management Asia Pacific

**DR. STEFAN MARCINOWSKI**  
56, with BASF for 30 years

- Crop Protection
- Coatings
- Region South America
- Specialty Chemicals Research
- BASF Plant Science

**DR. ANDREAS KREIMEYER**  
Research Executive Director,  
53, with BASF for 23 years

- Inorganics
- Petrochemicals
- Intermediates
- Chemicals Research & Engineering
- BASF Future Business

**DR. JOHN FELDMANN**  
59, with BASF for 21 years

- Construction Chemicals
- Acrylics & Dispersions
- Care Chemicals
- Performance Chemicals
- Polymer Research

## OUR VALUES

**Long-term business success requires clearly defined principles. Our system of values and standards of conduct are laid down in our corporate Values and Principles. We promote these Values and Principles, and through acting responsibly, strengthen our stakeholders' trust in our sustainable development.**

Six values constitute the foundation of our business and the means by which we want to achieve our goals:

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

Each value is illustrated by principles that govern our conduct in day-to-day business. Together they form a system of values and standards which is binding for all BASF employees. Observance of our Values and Principles is a basic element in the annual target agreements of all senior executives in the BASF Group.

### Code of Conduct and compliance


The value "Integrity" forms the basis of our Code of Conduct, which we introduced in 2000 throughout all German-based Group companies. It is binding for all employees of the BASF Group in Germany. BASF Group companies in other countries introduced corresponding codes of conduct, which take local laws and customs into account. Codes of conduct must be explained and applied to our daily business in order for them to be realized. Compliance is the term widely used to describe this. It encompasses the obligation to abide by laws and internal corporate directives as well as signaling the company's activities to

ensure the fulfillment of this obligation. All BASF employees worldwide receive compliance training. Furthermore, we offer our employees points of contact, where they can seek advice and assistance from supervisors, the Legal and Human Resources departments as well as through an anonymous and confidential Compliance Hotline. The Chief Compliance Officer reports directly to the Board of Executive Directors and is responsible for managing, monitoring and developing our Compliance Program. 


→ More information on our Compliance Program can be found on page 30

### Dedicated to fighting corruption

An important goal of the BASF Compliance Program is to guard against cases of corruption, and when possible, prevent them. To achieve this, we are also involved in initiatives with external partners. As a member of the United Nations Global Compact (GC), we work actively in implementing the GC principle on fighting corruption. We have been a member of Transparency International Germany e.V. since 2003, and strongly support their work in fighting corruption. Since 2008, we have been a participant in the "Partnering Against Corruption Initiative" (PACI) from the World Economic Forum in Davos, Switzerland.

Since 2002, we have been working with the Indian government, local non-governmental organizations and scientific institutions in the "Million Minds Project," which aims to provide one million people with information on the subject of anti-corruption. 

## OUR RESPONSIBILITY FOR SUSTAINABLE DEVELOPMENT

With the rise of globalization, economic conditions have changed fundamentally. As a globally committed company, our stakeholders expect our decisions and conduct to serve as models for sustainable development. As a founding member of the United Nations Global Compact, we are voluntarily committed to the implementation and advancement of internationally recognized principles on human rights, labor standards, environmental protection and fighting corruption. 

→ More information can be found at [basf.com/globalcompact\\_e](http://basf.com/globalcompact_e) and under [www.globalcompact.org](http://www.globalcompact.org)

**Global labor and social standards**

We are committed to maintaining and promoting high labor and social standards: We comply with federal laws, adhere to internationally recognized standards and respect generally accepted customs.


Within our spheres of influence, we promote the protection and consistent implementation of the principles of the U.N. Global Compact. We respect and support:

- The United Nations' Universal Declaration of Human Rights;
- The International Labor Organization's (ILO) eight core labor standards;
- The OECD Guidelines for Multinational Enterprises.

Our labor conditions conform to internationally recognized labor and social standards. We are committed to the following principles:

- We provide our employees with performance-related compensation based on global principles and in line with the market, that at the very least, matches the current minimum wage. We pass on our economic success to our employees;
- An appropriate limit to the maximum number of working hours;
- Regularly paid vacation for our employees;
- In recruitment, type of work and compensation, we do not discriminate based on nationality, gender, religion or any other personal characteristics;
- We avoid and condemn the exploitation of all forms of child, forced or compulsory labor;
- The principles of freedom of assembly and cooperation with the elected employee representatives.

→ More information can be found at [basf.com/humanrights](https://basf.com/humanrights)

We believe that meeting our voluntary commitments is one of our fundamental responsibilities. We have therefore developed and implemented a global monitoring system for labor and social standards. 

→ More information on monitoring instruments can be found in the chapter "Sustainability Management" on page 29

**VALUES AND PRINCIPLES**

Our values describe our approach to business. They are supplemented by principles which explain how we implement our values in our day-to-day business.

**LABOR AND SOCIAL STANDARDS**

- Supporting the ten principles of the United Nations Global Compact
- Labor conditions conform to internationally recognized labor and social standards
- A monitoring system assesses whether our voluntary commitments are being met



# OUR STRATEGY

## Strategies for value-adding growth

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

We focus our business activities on the challenges of the future. In times of economic difficulty, we continue to concentrate on innovative business areas and profit from our wide portfolio range, operating excellence, solid financing and a high-performance team. We invest early in growth markets and are present in all important markets. Our active portfolio management, acquisitions and divestitures make us economically independent and more competitive. All BASF employees contribute to affirming our number one position in the chemical industry through their creativity, individual responsibility and performance. In order to guarantee this in the future, our personnel policy centers on long-term developments, with a program on demographic change, and a stronger focus on internationality and diversity.

### Strong portfolio through acquisitions

We strengthen our position and reduce the cyclical nature of our business through acquisitions. With the takeover of Ciba Holding AG in Switzerland, we continue to expand our leading position in specialty chemicals. In order to efficiently integrate Ciba's activities, we are developing a market-driven positioning for the combined businesses and optimizing our structures. With the acquisition of Revus Energy ASA in Norway, we have strengthened our oil and gas business in Europe.

### Value-adding growth through efficiency and effectiveness

At the end of 2008, we adjusted our production at an early stage to meet lowering demand. Our ongoing processes for restructuring and cost-cutting have been strengthened. In October 2008, we started the excellence program NEXT: It unites over 500 individual projects worldwide in all divisions and functions of BASF. Together with our ongoing programs to increase efficiency, we expect a resulting contribution of over €1 billion annually starting in 2012. NEXT creates more value, for example through simplifying processes, resource bundling, energy efficiency and intelligent use of new information technologies. Our goal is to attain the next level of operational excellence.

### Innovation creates market opportunities

For us, innovation is key to profitable growth in a competitive global marketplace. Therefore, we maintain our high level of investment in research and development, and network globally with universities, institutes, customers and industrial partners. We work on solutions for global challenges and thereby focus on future markets and technologies with high growth potential. These include:

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

### Success through strategic partnerships

Strong partnerships enable us to develop significant growth markets. Our most important cooperation partners include the biotechnology company Monsanto in the United States, our Chinese joint venture partner Sinopec, PETRONAS in Malaysia, as well as Gazprom in Russia.

## OUR POSITIONING

BASF is the world's 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.

## WE CREATE VALUE

- Restructuring and cost-cutting
- Excellence program NEXT
- Acquisitions and divestitures
- Innovative business areas
- Presence in growth markets
- Investments in research and development
- Worldwide research cooperations

### We earn a premium on our cost of capital

A prerequisite for our long-term success is that we earn a premium on our cost of capital. We therefore concentrate our funds more strongly on attractive business sectors. Income from operations after cost of capital is our key performance and management indicator. We rely on our employees for implementing this guideline. Together they make an important contribution within the framework of our value-based management and make our company more competitive.

### We form the best team in industry

Our strategy for value-adding growth relies on having the best team in industry. Every employee can contribute to value-based management. We recognize the benefits of employee diversity: With differing competencies and perspectives, they help us understand customers better and develop tailor-made solutions for them. Our management culture is built on open dialogue and trustworthy cooperation. To attract and keep the best professionals and managers, we offer development opportunities as well as pay linked to company performance.

### We help our customers to be more successful

We are there where our customers are: in all important markets around the world. As a reliable partner and advisor, we already want to understand today what our customers need tomorrow. Based on their requirements, we mutually develop innovative products and technologies – because our customers' success is our success.

### We ensure sustainable development

At BASF, sustainable development means combining economic success with environmental protection and social responsibility. We are committed to this concept in all business activities. The goal of our sustainability strategy is to minimize risks and open up new business opportunities: for example with sustainable products and services that give us and our customers a competitive advantage. Throughout the world, our products make a contribution to solving global challenges.

## FOUR STRATEGIC GUIDELINES

Our four guidelines form the basis for our activities and make us strong for the future:

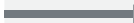
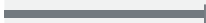


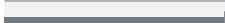

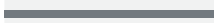


- We earn a premium on our cost of capital
- We help our customers to be more successful
- We form the best team in industry
- We ensure sustainable development

# OUR GOALS

## Economic Goals

		Status at year-end 2008	More on
<b>Premium on cost of capital</b>	<b>2008 goals</b>		
Earn an EBIT of at least 10% based on the assets of the operating divisions	At least €4,842 million	We achieved an EBIT of €6,463 million and therefore a premium of €1,621 million on our cost of capital.	> page 27
<b>Dividend</b>			
Dividend per share to be increased annually or at least to remain at the previous year's level	At least €1.95	The Board of Executive Directors and the Supervisory Board will propose a dividend payment of €1.95 per share at the Annual Meeting.	> page 45
<b>EBITDA margin</b>			
EBITDA margin of 18% until 2012	18%	15.3%	> page 39

## Environment, Safety and Product Stewardship

		Goal	Status at year-end 2008	More on
<b>Energy and Climate Protection</b>	<b>2020 goals</b>			
Emissions of greenhouse gases per metric ton of sales product (baseline 2002)	-25%		-14.2%	> page 100
Improvement of specific energy efficiency of production processes (baseline 2002)	+25%		+22.0%	> page 102
Stop the flaring of associated gas that is released during crude oil production by Wintershall (2012 goal)	100%		>95%	> page 100
<b>Reduction in emissions from chemical operations</b> (baseline 2002)				
Emissions of air pollutants <sup>1</sup>	-70%		-55.3%	> page 107
Emissions to water of				> page 104
Organic substances <sup>1</sup>	-80%		-77.5%	> page 104
Nitrogen <sup>1</sup>	-80%		-80.3%	> page 104
Heavy metals <sup>1</sup>	-60%		-55.9%	> page 104
<b>Distribution safety</b> (baseline 2003)				
Reduction in transportation accidents	-70%		-35.7%	> page 108
<b>Product Stewardship</b>				
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 (2015 goal)	> 99%		>15%	> page 110

<sup>1</sup> Assuming comparable product portfolio

## PROPOSED DIVIDEND PER SHARE

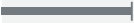
€1.95

## REDUCTION IN GREENHOUSE GASES

(Greenhouse gas emissions per metric ton of sales product/baseline 2002)

-14%

**Employees and Society**

		Goal	Status at year-end 2008	More on
<b>Occupational safety</b> (baseline 2002)	<b>2020 goals</b>			
Reduction in lost time injuries per million working hours	<b>-80%</b>		<b>-45.5%</b>	> page 95
<b>Health protection</b> (baseline 2004)				
Reduction in cases of occupational diseases	<b>-80%</b>		<b>-23.3%</b>	> page 96
<b>Senior executives</b>	<b>Long-term goals</b>			
International proportion of senior executives	Increase in the proportion of non-German senior executives (baseline 2003: 30%)		<b>30.2%</b>	> page 91
Women in senior executive positions	Increase in the proportion of female senior executives (baseline 2003: 5.2%)		<b>5.7%</b>	> page 91
Senior executives with international experience	Proportion of senior executives with international experience over 70%		<b>73.7%</b>	> page 91
<b>Leadership feedback</b>	<b>2008 goal</b>			
Mandatory leadership feedback for senior executives worldwide	80% of senior executives have taken part in the standardized leadership feedback process		<b>76.9%</b>	> page 91
<b>Employee survey</b>	<b>2009 goal</b>			
Global employee survey	Implement a global employee survey for the BASF Group		Data collected, subsequent process initiated	> page 92

**TRANSPORTATION ACCIDENTS**  
(Per 10,000 shipments/baseline 2003)**-36%****SENIOR EXECUTIVES WITH  
INTERNATIONAL EXPERIENCE****74%**

# BASF ON THE CAPITAL MARKET

## High dividend yield, good credit ratings

**BASF shares could not escape losses on the stock markets as a result of the financial and economic crisis. Even in difficult times, we are committed to our ambitious dividend policy and offer our shareholders a dividend yield of 7%. BASF has solid financing and good credit ratings compared with its competitors in the chemical industry.**

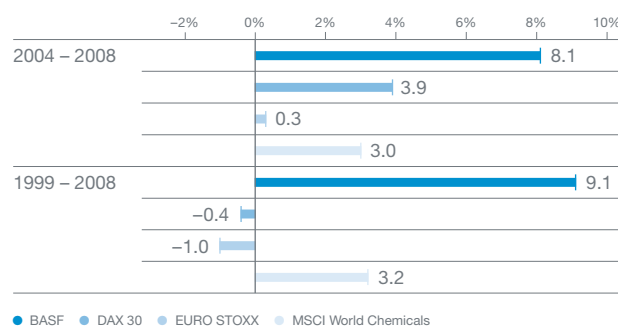
### Stock markets gripped by the financial and economic crisis

In 2008, BASF's shares were also caught up in the downward trend on the stock markets and closed the year at a price of €27.73 per share, 45.3% lower than at the end of 2007.

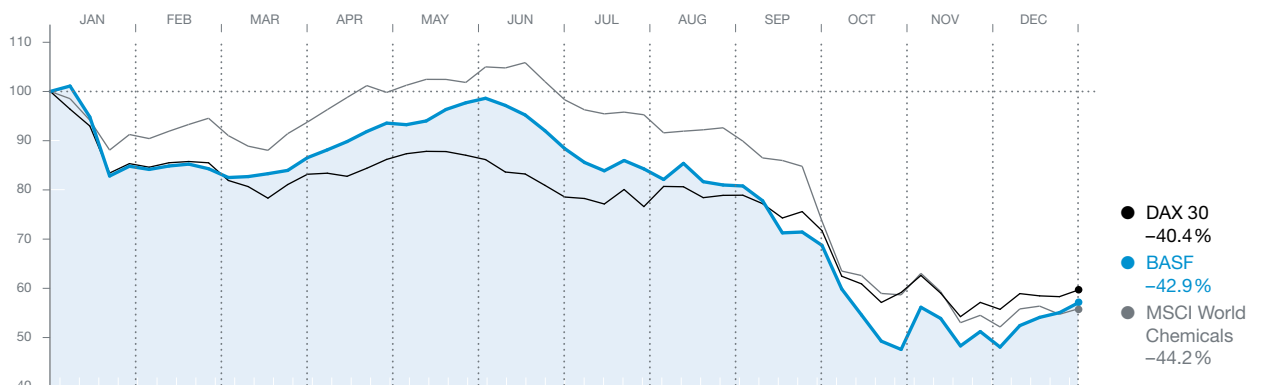
Assuming that dividends were reinvested, a holding in BASF shares declined by 42.9% in value in 2008. The global industry indices, DJ Chemicals and MSCI World Chemicals, also declined by 41.9% and 44.2%, respectively. Over the same period, the DAX 30 and DJ EURO STOXX 50, the key German and European indices, lost 40.4% and 42.4%, respectively.

The assets of an investor who invested €1,000 in BASF shares at the end of 1998 and reinvested the dividends in additional BASF shares would have increased to €2,395 by the end of 2008. This average annual return of 9.1% places BASF shares substantially above the corresponding returns for the EURO STOXX 50 (minus 1.0%) and DAX 30 (minus 0.4%) and MSCI World Chemicals at 3.2%.

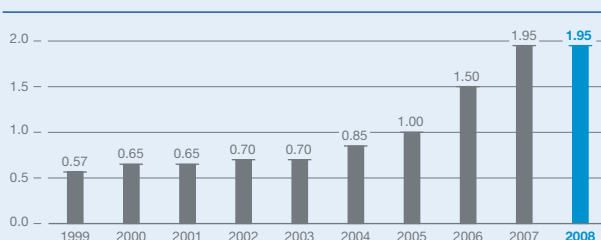
### Long-term performance of BASF shares compared with indices (average annual performance with dividends reinvested)



### Change in value of an investment in BASF shares 2008 (with dividends reinvested, indexed)



### Dividend per share <sup>1</sup> (€ per share)



<sup>1</sup> Adjusted for two-for-one stock split, conducted in the second quarter of 2008.

### DIVIDEND

- Proposed dividend of €1.95 per share matches last year
- Aim to continuously increase the annual dividend, or at least maintain it at the level of the previous year

### Proposed dividend of €1.95 per share

At the Annual Meeting, the Board of Executive Directors and the Supervisory Board will propose to distribute a dividend of €1.95 per share as in the previous year. This means that, even in difficult economic times, we stand by our ambitious dividend policy and will pay out €1.8 billion to our shareholders (based on the number of qualifying shares on December 31, 2008). Based on the year-end share price for 2008, BASF shares offer a high dividend yield of 7%. 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 €1.6 billion in 2008

In June 2008, BASF concluded ahead of schedule the €3 billion share buyback program for 2007 and 2008 that it announced in February 2007. A new share buyback program that began in July was stopped in the fourth quarter due to the financial and economic crisis.

In 2008, BASF bought back 37.9 million shares for approximately €1.6 billion at an average price of €42.70 per share. The majority of the repurchased shares have already been cancelled and the share capital of BASF SE reduced accordingly.

Following the deduction of 4.6 million shares that are earmarked for cancellation, the total number of outstanding shares was 918.5 million on December 31, 2008. Based on a year-end share price of €27.73, the market capitalization was €25.5 billion at the end of the year.

### Broad base of international shareholders

BASF is one of the largest publicly owned companies with around 460,000 shareholders and a high free float. An analysis of the shareholder structure carried out in September 2008 showed that, at 22% of share capital, the United States and Canada made up the largest regional group of institutional investors. Institutional investors from Germany made up 13%. Shareholders from the United Kingdom and Ireland held 14% of BASF shares, while a further 14% 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 residents in Germany.

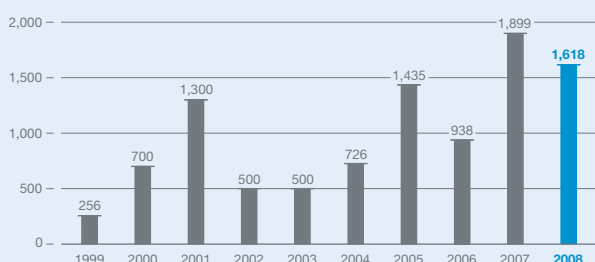
#### Shareholder structure (by region)



### Employees becoming shareholders

In many countries, we offer employee stock ownership plans to encourage our employees to become BASF shareholders. More than 19,400 employees bought employee shares in 2008, worth a total of approximately €44 million.

#### Share buybacks (million €)



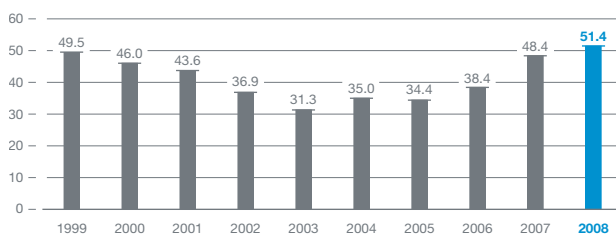
- Shares bought back for €1.6 billion in 2008
- €3 billion share buyback program for 2007 and 2008 concluded ahead of schedule in June 2008
- New share buyback program started in July 2008 stopped in the fourth quarter due to the financial and economic crisis



### Increased attendance again at the Annual Meeting

The Annual Meeting was held in Mannheim on April 24, 2008. With over 51% of the share capital represented, attendance was 3 percentage points higher than in the previous year.

Attendance at the Annual Meeting



### BASF shares in key sustainability indices

BASF was named the leading chemical company in the Dow Jones Sustainability Index (DJSI World), the most important sustainability index worldwide. BASF was recognized for its climate strategy, its environmental and social reporting and for developing innovative and eco-efficient products. BASF was included in the DJSI World for the eighth year in succession.

In addition, BASF is the worldwide number 1 in the renowned Carbon Disclosure Leadership Index (CDLI) in the category carbon-intensive sectors. This index provides investors with a tool to evaluate companies who distinguish themselves in addressing the challenges of climate change and transparent disclosure practices. The Carbon Disclosure Project represents 385 institutional investors with \$57 trillion in assets under management.

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

### Good credit ratings and solid financing

Thanks to its excellent business profile and good financial position, BASF has good credit ratings compared with its competitors in the chemical industry. At year-end, the rating agency Standard & Poor's valued BASF's creditworthiness at "AA- /A-1+/outlook negative" and the rating agency Moody's at "Aa3/P-1/outlook under review for downgrade." At the beginning of 2009, Standard & Poor's downgraded BASF's rating to a level of "A+/A-1/outlook negative" and Moody's reduced its rating to "A1/P-1/outlook stable."

At year-end 2008, the financial indebtedness of the BASF Group was €14.5 billion with a liquidity of €2.8 billion. Approximately 57% of financial indebtedness was long-term debt with a maturity of over one year.

Our medium to long-term debt financing is based on corporate bonds with a balanced maturity profile. BASF issued several bonds totaling €1.6 billion as well as promissory notes for €553 million in 2008.

Despite the tense situation on the credit markets, BASF was able to finance itself with commercial paper without any difficulty. In October 2008, we increased the maximum potential issuing volume of our commercial paper program from \$7.5 billion to \$12.5 billion. As of December 31, 2008, BASF had used approximately \$6.1 billion of this program. As back-up for the program, committed and unused credit lines of \$6 billion are available as well as a credit line of CHF 3.5 billion to finance the acquisition of Ciba.

→ More information on financial indebtedness and their maturities can be found on page 206

## SUSTAINABILITY INDICES

- BASF: Chemical sector leader in the world's leading sustainability index, the Dow Jones Sustainability Index
- BASF: Worldwide number 1 in the renowned Carbon Disclosure Leadership Index (CDLI) in the category carbon-intensive sectors

## SOLID FINANCING

- Year-end 2008, BASF Group financial indebtedness of €14.5 billion, approximately 57% of which was long-term with a maturity of over one year
- No difficulties in financing through commercial papers in 2008, commercial paper program increased to \$12.5 billion
- Liquidity at year-end 2008: €2.8 billion

Key BASF share data <sup>1</sup>

		2004	2005	2006	2007	2008
Year-end price	€	26.50	32.36	36.93	50.71	27.73
Year high	€	26.50	32.67	37.12	50.81	52.41
Year low	€	20.25	25.06	29.49	35.98	19.95
Year average	€	22.59	28.57	32.41	44.5	38.88
Daily trade in shares <sup>2</sup>						
– million €		121.7	154.0	198.6	298.3	282.1
– million shares		5.4	5.4	6.2	6.7	7.26
Number of shares as of December 31 <sup>3</sup>	million shares	1,080.80	1,028.80	999.4	956.4	918.5
Market capitalization December 31	billion €	28.6	33.3	36.9	48.5	25.5
Earnings per share <sup>4</sup>	€	1.83	2.87	3.19	4.16	3.13
Dividend per share	€	0.85	1.00	1.50	1.95	1.95
Dividend yield <sup>5</sup>	%	3.21	3.09	4.06	3.85	7.03
Payout ratio <sup>4</sup>	%	45	34	46	45	62 <sup>6</sup>
Price-earnings ratio (P/E ratio) <sup>4,5</sup>		14.5	11.3	11.6	12.2	8.9

<sup>1</sup> All values adjusted for two-for-one stock split, conducted in the second quarter of 2008

<sup>2</sup> Average, Xetra trading

<sup>3</sup> After deduction of shares earmarked for cancellation

<sup>4</sup> 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.

<sup>5</sup> Based on year-end share price

<sup>6</sup> With regard to the number of qualifying shares as of December 31, 2008

Percentage of BASF shares in important indices  
as of December 31, 2008

	%
DAX 30	5.8
DJ STOXX 50	1.3
DJ EURO STOXX 50	2.0
DJ Chemicals	7.1
MSCI World Index	0.2
S&P Global 100	0.6

## 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

**Analysts' recommendations**

Approximately thirty financial analysts regularly publish reports on BASF. At the end of 2008, 48% of analysts recommended buying our shares, 28% of analysts recommended keeping our shares, and 24% graded them to sell. On December 31, 2008, analysts estimated the average target price of BASF shares to be €31.09.

→ Analyst's current forecasts about BASF can be found at [basf.com/share](http://basf.com/share)

**Close dialogue with the capital markets**

For our corporate strategy that is aimed to create sustainable value, the continual and open communication with all participants in the capital market is important. We inform institutional investors and rating agencies 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.

In 2008, we hosted a series of presentations each focusing on a different BASF Group segment. On these Segment Days, we informed analysts and investors of the performance, strategy and growth potential of the respective segments. In 2008, we presented the Chemicals, Agricultural Solutions, and Oil & Gas segments as well as the biotechnology growth cluster.

Furthermore, we discussed our contributions to such sustainability topics as climate protection and energy efficiency with the financial analysts and investors. Information on the strategic benefit of sustainability and its full implementation within our company is in demand from our investors particularly within the framework of "Socially Responsible Investment" (SRI).

Analysts and investors confirm the quality of our communication work and have ranked BASF Investor Relations as the number one on many occasions. In June, BASF was awarded first place in the Capital Investor Relations Prize 2008. In this ranking conducted by the German business magazine Capital, and the Society of Investment Professionals in Germany (DVFA), BASF ranked first among EURO STOXX 50 companies as in the previous year, and for the first time was the overall winner among the approximately 200 participants. In the Thomson Extel Survey as well as with a survey of financial analysts conducted by the trade journal Institutional Investor, BASF won first place for the best Investor Relations work in the European chemical industry. BASF also received first place for having the best Investor Relations website of all companies in the DAX, MDAX and TEC DAX in the NetFed IR-Benchmark 2007/2008.

Our new reporting concept also received praise on the capital markets. The IR Society awarded BASF first place in the category "Best Practice Communication Through The Annual Report."

**INVESTOR RELATIONS NEWSLETTER**

The Investor Relations Team's newsletter provides current information of new topics concerning BASF and reminds the reader about important BASF dates. Registration at: [basf.com/aktie/newsletter](http://basf.com/aktie/newsletter)

**INVESTOR RELATIONS**

can be contacted by:

- phone: +49 621 60-48230
- e-mail: [investorrelations@basf.com](mailto:investorrelations@basf.com)
- Internet: [basf.com/share](http://basf.com/share)



**JAE HYUNG HWANG**  
is researching the next generation  
of solar cells.

\* with universities, research institutes and  
industrial partners

## VALUE FOR BASF

### Winning a share of the future energy market



In the Joint Innovation Lab, Peter Erk and Jae Hyung Hwang, together with their colleagues, are developing products for organic solar cells.

#### Innovations for global challenges

Our research opens up growth areas of the future. In the areas of energy management and nanotechnology, for example, we are developing new materials for solar cells to replace silicon, which is energy intensive in production, with organic compounds. Organic solar cells are therefore made more competitive in the long-term through affordable manufacturing processes. BASF created a cooperation network of leading research groups within the framework of the initiative “Organic Photovoltaics,” initiated by the German Federal Ministry of Education and Research.

## VALUE FOR SOCIETY

### Affordable electricity, clean energy



Electricity from light: In the future, solar cells could also produce energy with organic photovoltaics.

Source: Schott

#### Contributing to sustainable energy production

The contribution of organic photovoltaics to sustainable energy production unlocks new applications for turning light into electrical energy. Imprinted on transparent foil, the extremely thin photoactive layer makes solar cells light and bendable. With this, for example, house facades could produce electricity in the future.

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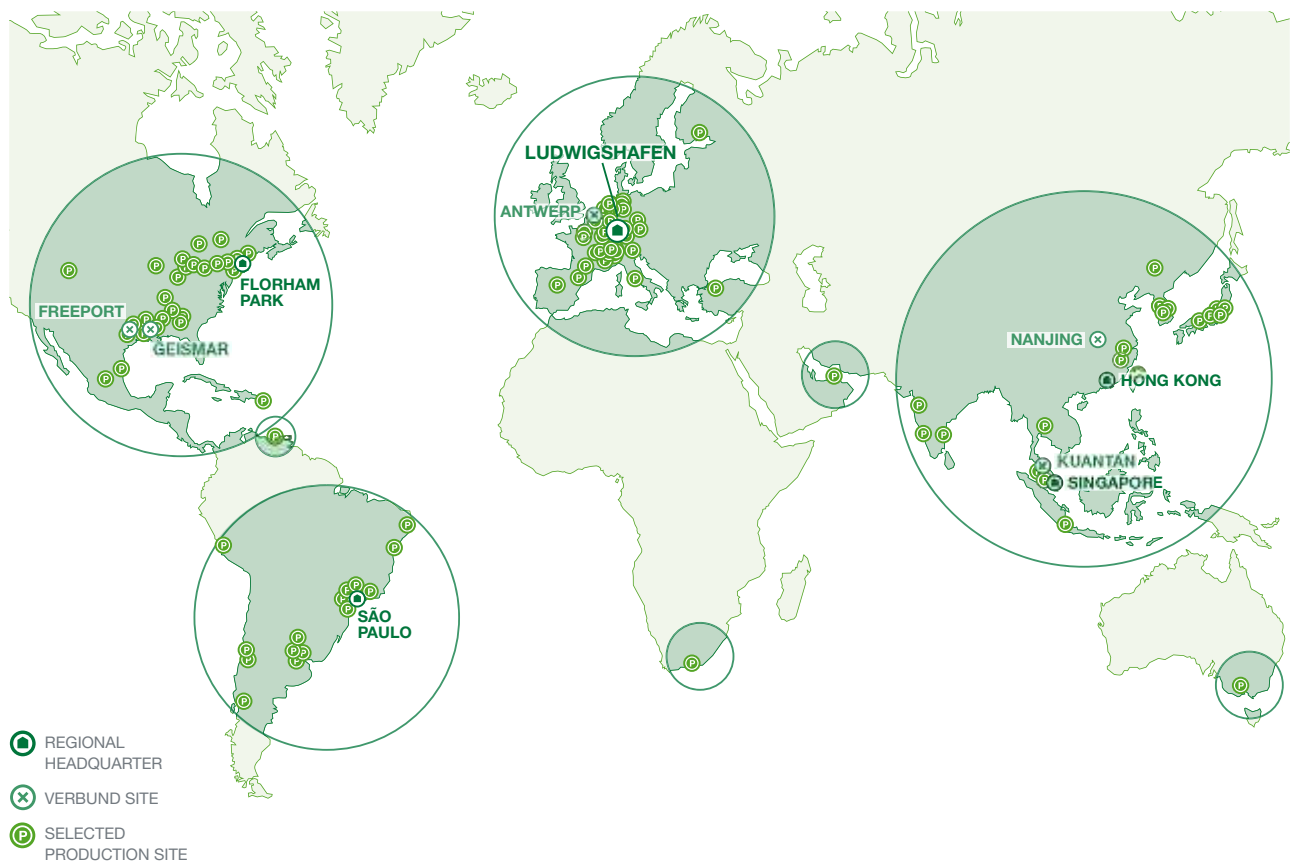


# MARKETS, STRUCTURES AND ORGANIZATION

Global leader in the chemical industry – The Chemical Company

With six Verbund sites and approximately 330 additional production sites, we support customers and partners in almost all countries. About 97,000 employees of the BASF Group help customers in nearly all industries to be more successful. Our portfolio ranges from oil and gas to chemicals, plastics, high-value products, such as specialties and tailor-made system solutions, and crop protection products.

## BASF Sites



## THE VERBUND

- Six Verbund sites worldwide and approximately 330 additional production sites
- 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 around the world. In 2008, we achieved 59% of our sales with customers in Europe, of which 22 percentage points were in the Oil & Gas segment. 19% of sales were generated in North America; 15% in Asia Pacific; and 7% in South America, Africa, Middle East. We operate six Verbund sites as well as approximately 330 additional production sites worldwide. 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 the BASF Group

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 and we can align our portfolio with the acquisitions, divestitures and restructuring of the past years.

In 2008, BASF's operating divisions were aggregated into six segments. The divisions carry the operational responsibility and manage our 61 global and regional business units. These in turn develop strategies for our 68 strategic business units and are organized along business or product lines.

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.

### VERBUND

#### Efficient use of resources

VALUE FOR BASF

**€200**

million in annual savings  
from the Energy Verbund  
Ludwigshafen

VALUE FOR THE ENVIRONMENT

**1.5**

million metric tons of  
CO<sub>2</sub> annual savings  
from the Energy Verbund  
Ludwigshafen

### VALUE FOR BASF

In the BASF Verbund, production facilities, energy flow, logistics and infrastructure are intelligently networked with each other, in order to increase production yields, save resources and energy and reduce logistic costs. A significant factor in the Verbund concept is the Know-how Verbund, which encourages the exchange of knowledge among BASF employees worldwide. The expert knowledge is pooled in research platforms. Customers inspire and drive new developments, innovations and measures to improve efficiency. The Know-how Verbund shapes the future.

### VALUE FOR THE ENVIRONMENT

As part of the Verbund system, the Energy Verbund reduces emissions of CO<sub>2</sub>. Crude oil and natural gas are not only used as raw materials, but also as energy sources. Heat from production processes is not discharged to the environment; but rather captured in BASF steam networks and used to power other production plants.

## BASF GROUP ORGANIZATION

- Divisions that are grouped 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 function Group-wide

## BASF'S SIX SEGMENTS

- Chemicals
- Plastics
- Performance Products
- Functional Solutions
- Agricultural Solutions
- Oil & Gas

**Segments:**

- Chemicals
- Plastics
- Performance Products
- Functional Solutions
- Agricultural Solutions
- Oil & Gas

**Regions:**

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

**Corporate Divisions:**

- Finance
- Legal, Taxes & Insurance
- Strategic Planning & Controlling
- Communications BASF Group
- Corporate & Governmental Relations
- Corporate Audit
- Corporate Controlling
- Global HR – Executive Management & Development
- Investor Relations

**Competence Centers:**

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

- Specialty Chemicals Research
- Chemicals Research & Engineering
- BASF Plant Science
- Verbund Site Management Europe

**Corporate legal structure**

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.

The majority of BASF Group companies cover a broad spectrum of our business. Some companies concentrate on specific areas, such as the Coatings division. In the BASF Group Consolidated Financial Statements, 274 companies including BASF SE are fully consolidated. We consolidate 19 joint ventures with one or more partners on a proportional basis. Additionally, we include four joint ventures and five affiliated companies, in which we have a 20% to 50% interest, as well as eight more companies in the financial result using the equity method. Furthermore, we have a stake in numerous smaller companies that are not material for the preparation of the annual financial statements, both individually and in the aggregate.

→ More information on the scope of consolidation can be found in Note 1 to the Consolidated Financial Statements from page 157 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 of the German Commercial Code can be found from page 138 onward, and the disclosures according to section 315 (4) of the German Commercial Code can be found from page 131 onward. It forms part of the Management's Analysis audited by the external auditor.

**REGIONS**

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

**LEGAL CORPORATE STRUCTURE**

- BASF SE, headquartered in Ludwigshafen, is the parent company in the BASF Group
- BASF Group Consolidated Financial Statements include 274 consolidated group companies and 19 joint ventures on a proportional basis
- 17 additional companies are included using the equity method

# VALUE-BASED MANAGEMENT

We earn a premium on our cost of capital

We increase BASF's value by earning a premium on our cost of capital. 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 2008 was 10%. The cost of capital percentage for 2009 will be 9% due to the higher degree of leverage.

## Value-based management throughout the company

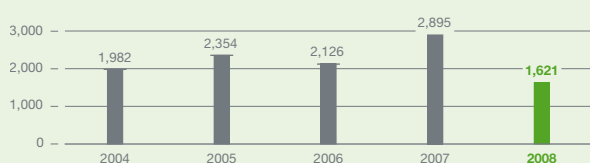
Value-based management is only successful if it is firmly rooted in the company and consistently implemented. An important factor in ensuring its successful implementation is achieved by linking the goals of BASF to the target agreements of employees. In operating units, EBIT after cost of capital is the most important performance indicator. The performance of functional units, in other words of regions, sites, corporate units and competence centers, are frequently harder to determine in monetary terms. The most important performance indicator for functional units is therefore value contribution. Two general value drivers upon which we evaluate the performance of the units result from this: efficiency and effectiveness.

A wide range of training programs provide our employees worldwide with relevant information on value-based management. In this way, we want to make our employees more aware of business contexts, thus furthering entrepreneurship at all levels of BASF.

In groups which span entire units, several thousand employees from specialist and managerial positions have applied the principles of value-based management to specific, practical examples.

## EBIT after cost of capital (million €)

Five-year summary <sup>1</sup>



<sup>1</sup> Since January 1, 2008, Group corporate costs are no longer allocated to the segments, but rather reported under "Other." The previous years' figures were not adjusted.

## Calculation of EBIT after cost of capital (million €)

	2008
EBIT BASF Group	6,463
less EBIT for activities not assigned to the segments <sup>1</sup>	(930)
less noncompensable foreign income taxes for oil production	1,851
less cost of capital <sup>2</sup>	3,921
EBIT after cost of capital	1,621

<sup>1</sup> The projected net expense is already provided for in the cost of capital percentage.

<sup>2</sup> 10% on the average operating assets of the segments

# SUSTAINABILITY MANAGEMENT

## Minimizing risks, creating new business opportunities

**Sustainability is strategically and organizationally integrated into our company: as one of the values guiding our activities, as part of our corporate strategy, and as a value driver for our business. By sharing our knowledge in the areas of environment, health, safety, and sustainability management, we help our customers and partners to be more successful.**

Conducting our business sustainably influences our activities on three levels: It helps us minimize risks, enhance existing business, and create new business opportunities. Our sustainability strategy enables us to ensure competitive advantages and to generate additional contributions to earnings. Products with economic and ecological benefits, and sustainability services for customers as part of our “Success – Added Value through Sustainability” initiative, contribute directly to this. The implementation and monitoring of environmental, safety and social standards as well as ongoing dialogue with relevant stakeholders are also part of sustainability management at BASF.

### Management structures for sustainability

Our global Sustainability Council ensures that the BASF Group is aligned with the principles of sustainable development. The Council comprises nine operating, functional and regional division heads, including the Climate Protection Officer. The Board member Dr. Harald Schwager chairs the Council. In 2008, the Sustainability Council adopted globally valid Group directives on product stewardship and distribution safety. Since 2004, regional steering committees in Asia, North and South America, as well as in Europe, support the Sustainability Council. They identify key regional topics and are responsible for the local implementation of the global strategy. The Sustainability Center acts as the interface between the Sustainability Council, regional Steering Committees and business operating

units, and coordinates the implementation of our sustainability strategy in the day-to-day business activities of the company. In addition, the Center is the focal point for external stakeholders. The worldwide BASF Responsible Care® network supports the Council in all matters regarding environment, health and safety.

### Identifying future topics

We identify important issues concerning sustainable development at an early stage. Together with external partners, we analyze sustainability topics of societal interest which are relevant to BASF and position them in a matrix. The matrix assesses the issues according to societal materiality and their relevance to BASF. This enables us to identify topics that could, in the immediate or near future, become a source of risk or opportunity for our business. We use the results of this issue management to initiate long-term change processes within the company and identify focus points for reporting. For example, we have extended our reporting on the topic of water. Every two to three years, the matrix is updated to reflect current developments.

→ More information on water can be found from page 104 onward; more information on the materiality matrix can be found at [basf.com/materiality](http://basf.com/materiality)

### Monitoring tools minimize risks

Since the mid-1980s, BASF has conducted audits according to standardized criteria on process safety, occupational health and safety and environmental protection at all sites worldwide. We also assess the adherence to internationally recognized labor and social standards. A range of systems help us to monitor compliance with environmental and social standards at our sites.

→ More information on environmental protection and occupational health and safety audits can be found on pages 96 and 106

## ORGANIZATIONAL STRUCTURES FOR SUSTAINABILITY

- The Sustainability Council ensures that the BASF Group is aligned with the principles of sustainable development
- The Council, chaired by Board member Dr. Harald Schwager, comprises nine operating, functional and regional division heads
- Regional committees identify key topics and implement the global strategy at local level

## STRATEGY


- Minimizing risks, enhancing existing business, creating new business opportunities
- Sustainable products and services
- Identifying important topics relevant to sustainable development
- Monitoring systems for process safety, occupational health and safety, environmental protection, and labor and social standards

### Monitoring labor and social standards

Ensuring that our working conditions are, at minimum, in compliance with internationally recognized labor and social standards is one of our values. We introduced a two-part monitoring system to evaluate their implementation in the company.

Firstly, we conduct an annual survey in our Group companies on legal compliance and the internationally recognized labor and social standards to which we are voluntarily committed. In addition, we obtain an updated overview of the regional conditions in our business operations. The results of the survey in 2008 cover more than 99% of the employees in our Group companies. The adherence to our voluntary commitments is documented in almost all our Group companies.

Secondly, our monitoring system comprises telephone hotlines which enable employees to seek advice on applicable labor conditions and report grievances. In this respect, we have either broadened the content of our existing hotlines to incorporate legal compliance or introduced an additional hotline. To ensure anonymity and confidentiality, calls to the hotlines are usually handled by external legal professionals. The hotlines are available to our employees wherever they are legally permitted.


When the evaluation and comparison of the two monitoring tools indicate any grievances at any of our locations, we initiate investigations and take necessary measures to redress them. 

→ More information on this topic can be found at [basf.com/monitoring\\_e](http://basf.com/monitoring_e)

### Monitoring supply chains

Common values are the basis for long-term and trusting relationships with our suppliers. This is why we choose suppliers not only based on economic criteria. Both new and existing suppliers are also evaluated on the basis of environmental protection, occupational safety and social responsibility standards. Our customers and investors are increasingly interested in the topic of sustainability – not only regarding our own activities but also in our supply chain. Risk matrices, based on specific country, product and sector databases, help us to identify high-risk suppliers. Our supply chain management comprises a multi-level process:

- Information on expected standards: By 2008, we had informed 12,000 suppliers in writing. In addition, we held “Supplier Days” in India and China in 2008, during which suppliers were trained on our requirements in the areas of environmental, safety, and social standards.
- Self-assessment by high-risk suppliers
- Onsite visits: In 2008, we made 549 onsite visits to assess suppliers.
- Corrective measures taken if necessary

If our evaluation shows that suppliers do not meet our standards or do so only partially, we provide them with support. One example is our “1+3” project in China, in which we encourage the spread of sustainability standards among partners in the value chain. The project shares successful, new best practices for sustainable enterprise with small and medium-sized companies. In 2008, BASF purchased approximately 500,000 different raw materials and technical goods as well as services for plant construction, maintenance and logistics. 

## LABOR AND SOCIAL STANDARDS

- Annual survey on compliance and adherence to internationally recognized labor and social standards
- External hotlines through which employees can seek advice and anonymously report grievances

## SUPPLY CHAIN MANAGEMENT

- Evaluation of suppliers according to economic aspects as well as environmental protection, occupational health and safety, and social standards
- Identification of high-risk suppliers using risk-matrices based on topic specific databases
- Onsite evaluation of suppliers

→ More information on this topic can be found at [basf.com/supplychain](http://basf.com/supplychain)

## HIGHLIGHTS 2008 Sustainability

- **DOW JONES SUSTAINABILITY INDEX**  
BASF is chemical sector leader in the world's most important sustainability index.
- **CARBON DISCLOSURE PROJECT**  
BASF achieves top ranking in the Carbon Disclosure Leadership Index (carbon-intensive sectors).
- **GERMAN SUSTAINABILITY AWARD**  
BASF receives award in the category "Most Sustainable Company".

### Compliance

An important aim of the BASF Compliance Program is the prevention and avoidance of legal violations. For this purpose, we have introduced a system of compliance training, decentralized information centers, Group-wide monitoring systems and have developed a compliance organization appropriate to the size of our company.

In their first year of employment, all our employees take part in a basic compliance training, in which they are introduced to the BASF Values and Principles, Code of Conduct, Compliance Hotline and Compliance Program. Since 2007, BASF has offered refresher courses, using interactive learning tools whenever possible. In addition, we hold regular training courses on specific legal topics tailored to the area of work of the employees.

Through this training, we make it clear that our Values and Principles, Code of Conduct and the Compliance Program are binding for every single BASF employee and that no breach will be tolerated. In 2008, over 26,000 employees took part in compliance training.

Employees can also seek advice anonymously via telephone hotlines that are available Group-wide regarding personal conduct or to report incidents they consider to be dubious or legally questionable. Any one who uses the hotline for this purpose is assured that he will not have to bear any negative consequences. Since its establishment, the use of the hotline has continuously increased. In 2008, approximately 300 calls were received.

Regular compliance audits by the Corporate Audit department further support the Compliance Program. In 2008, we performed 60 such audits Group-wide (2007: 137). They specifically assess if antitrust regulations are adhered to, and if dealings with business partners and public authorities conform to our Values and Principles. We make inquiries if we detect any irregularities in the conduct of our suppliers and customers.

In 2002, BASF became one of the first German companies to appoint a Chief Compliance Officer. Around 80 compliance managers from individual Group companies and the regions support him in his tasks. The Chief Compliance Officer reports directly to the Chairman of the Board of Executive Directors. He coordinates the Compliance Program and its further Group-wide development.

The Board of Executive Directors is regularly informed on the implementation of the Compliance Program, especially concerning compliance audits and hotline cases that have a wider relevance. The Board of Executive Directors informs the Supervisory Board on important issues. 

→ More information on this topic can be found at [basf.com/compliance\\_e](http://basf.com/compliance_e)

## COMPLIANCE PROGRAM

- Obligatory training for employees
- Telephone hotline employees can use anonymously
- Chief Compliance Officer coordinates compliance management
- Around 80 compliance managers worldwide

## COMPLIANCE AUDITS

- To assess adherence to antitrust regulations and ensure our interaction with business partners and public authorities conforms to the BASF Values and Principles
- Regular audits by the Corporate Audit department
- 60 audits Group-wide in 2008



### Success – Added Value through Sustainability

Sustainability is becoming an increasingly important success factor for our business partners. We see great opportunities for integrating our sustainability expertise into customer partnerships. This is why, in 2007, we developed the strategic initiative “Success – Added Value through Sustainability” which enables our business units to identify how they can differentiate themselves through sustainability. This initiative brings together our longstanding competencies in the fields of environment, health, safety and sustainability management. The services offered by Success range from individual offers to tailor-made packages. One example is our service package Greenloop® which, since 2008, has enabled customers to return used electronic chemicals, such as solvents, to BASF where they are recycled for other applications.


In 2008, we implemented 196 sustainability projects with our customers aimed at expanding and strengthening customer relationships through sustainability.

→ More information on this topic can be found at [basf.com/success\\_e](http://basf.com/success_e)

### Eco-Efficiency Analysis and SEEBALANCE

We offer the Eco-Efficiency Analysis as a strategic instrument for product and process optimization. It provides information on the relationship between the financial value of a product and its impact on the environment. This tool helps us and our customers to decide which products and processes are most suitable, both in economic and in ecological terms. The entire life cycle of a product or production process is assessed, for example, resource and energy consumption, emissions to air, water and soil as well as risk potential. We have conducted Eco-Efficiency Analyses for important products in 90% of our business units. In total, we carry out approximately 40 analyses per year. In 2008, we conducted a multitude of analyses with and for our customers. This is how we were able to demonstrate

that the use of our new product Elastocoast® for coastal protection applications, offers clear economic and ecological advantages in comparison to other products.

We have now refined our Eco-Efficiency Analysis to include social aspects: Our Socio-Eco-Efficiency Analysis SEEBALANCE® incorporates relevant social criteria such as lost time accidents, training levels, spending on research and development, equal opportunities as well as wages and salaries. In this way, we can calculate costs and environmental impact alongside the social effects of products and production processes. In 2008, we conducted Socio-Eco-Efficiency Analyses in selected product applications. 

→ More information on this topic can be found at [basf.com/eco\\_efficiency](http://basf.com/eco_efficiency)

### Customer satisfaction

The premise for long-term business success is the satisfaction of our customers. We discuss the needs of our customers with them in our forum “perspectives.” Based on this, we develop new business models. Whenever customers are not satisfied with our performance, our Non Conformance Management (NCM) system helps us to understand the reasons, to learn from our mistakes and to optimize our business processes. This global system enables us to document complaints, make inquiries and measure the satisfaction of our customers. The latter also manifests itself in numerous awards and prizes. In 2008, for example, Ford presented BASF Coatings with the “Recognition of Achievement Award” for excellent performance in the area of corporate social responsibility. For being an environmentally friendly supplier, Volkswagen awarded BASF the “Group Award 2008” which it gives to the best 15 suppliers worldwide each year.

## ECO-EFFICIENCY ANALYSIS

- Conducted for important products in 90% of BASF business units
- Approximately 40 analyses per year
- Strategic tools for product and process optimization
- Shows which products and processes are economically and environmentally most suitable


## NON CONFORMANCE MANAGEMENT

The quality of our customer relationships is also measured by the way we handle complaints and how we avoid them. We document all our customers’ problems with our products and processes, investigate them, and find ways to optimize our business processes. In 2008, we further developed our system and have improved the documentation of costs of Non Conformance Management in all regions and business units.

### Dialogue with stakeholders

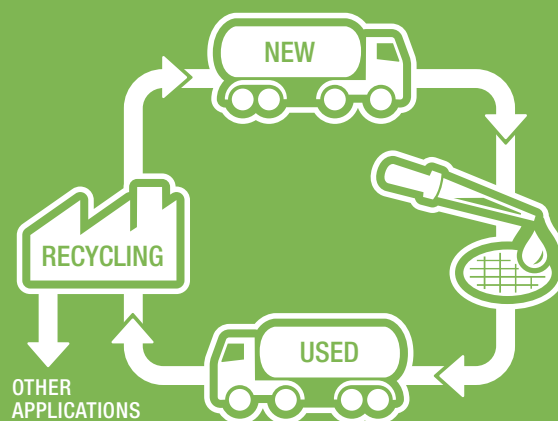
One of our values is to treat all our stakeholders with respect. Dialogue with our stakeholders helps us to identify their expectations and thus to identify opportunities and risks for our company. As a chemical company, we are aware of the particular responsibility we bear towards our immediate neighbors. We established Community Advisory Panels (CAPs) worldwide to foster regular dialogue with our neighbors on current topics, in particular, at our production sites. Currently there are 59 CAPs at BASF sites.

We also need trust to introduce products based on new technologies. As a result of our experiences with previous debates on new technologies, we started engaging in public and political debates on nanotechnology at a very early stage of its technological development. In 2004, we published our first dialogue paper on nanotechnology. Since then, we have been an active participant in numerous national and international dialogue forums including the Nano Commission of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

In 2008, we established the “Nano Dialogue Forum” with BASF experts, representatives of environmental and consumer protection organizations and churches, as well as other critical opinion leaders. We involve our employees in the dialogue on nanotechnology. Together with the works council and the Mining, Chemical and Energy Industrial Trade Union (IG BCE), we have established a dialogue forum for laboratory workers at the Ludwigshafen site in Germany, which we aim to continue in 2009. We engage in dialogue with society and politicians on further topics. 

→ More information on our stakeholder dialogue can be found at [basf.com/dialogue](http://basf.com/dialogue); more information on our nanotechnology dialogue can be found at [basf.com/dialogue-nanotechnology](http://basf.com/dialogue-nanotechnology); more information on the key points of our political dialogue can be found at [basf.com/political-dialogue](http://basf.com/political-dialogue)

### GREENLOOP Chemicals Recycling



#### VALUE FOR BASF

# 5

additional cooperations  
with customer companies  
in 2008

#### VALUE FOR THE ENVIRONMENT

# 5000

metric tons of electronic  
chemicals recycled

In 2008, our production sites, particularly in Europe and Asia, took back and recycled previously sold electronic chemicals. Through the global initiative “Success,” we were able to intensify our relationship with many customers and recycle more than 5,000 metric tons of electronic chemicals.

## SUSTAINABILITY NEWSLETTER

The Sustainability Center Newsletter provides information on sustainability topics at BASF.

Registration at [basf.com/sustainability/newsletter](http://basf.com/sustainability/newsletter)

→ More information on sustainability at [basf.com/sustainability](http://basf.com/sustainability)

## DIALOGUE WITH STAKEHOLDERS

- Identifying risks and opportunities for our company
- Community Advisory Panels for the dialogue with neighbors
- Increased social acceptance of our business operations

# VALUE ADDED STATEMENT

**The value added statement shows how BASF provides value to society through its activities. In this way, our sustainable development is shown 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 results from the company's business performance minus goods and services purchased as well as depreciation or amortization. The resulting amount is distributed to employees, shareholders or the state.

In 2008, value added at BASF amounted to €13,210 million and decreased by 8.5% compared with the previous year. The decline is mainly due to the significant increase in raw material prices. 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 €2,940 million in 2008 compared with €2,855 million in the previous year.

In 2008, BASF spent a total of €65 million on donations, sponsoring and funding for our own projects, compared with €75 million in 2007. This amount is contained in "other expenses."

The remaining value added of €2,912 million was available to be paid out as a dividend or retained.

→ Further information on wages and salaries can be found on pages 94 and 187, taxes on page 183 and donations and sponsoring on page 97

## Creation of value added

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

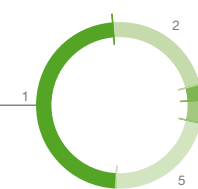
- 1 -- **Value added:**  
13,210 (14,442)
- 2 -- **Amortization and depreciation:**  
3,179 (2,917)
- 3 -- **Services purchased, energy costs and other expenses:**  
11,516 (10,066)
- 4 -- **Cost of raw materials and merchandise:**  
35,883 (31,813)



## Use of value added

(%, previous year's figures in brackets)

- 1 -- **Employees:**  
48.2 (46.0)
- 2 -- **Taxes:**  
22.3 (19.8)
- 3 -- **Minority interests:**  
3.0 (1.8)
- 4 -- **Creditors:**  
4.4 (4.3)
- 5 -- **Remaining value added (dividend and retention):**  
22.1 (28.1)



## VALUE ADDED STATEMENT

- BASF Group's financial contribution to private and public income
- Decline of 8.5% compared with 2007 to €13.2 billion, mainly due to significantly increased raw material costs
- Majority distributed to employees

## USE OF VALUE ADDED

- €6,364 million for employees
- €2,940 million for taxes
- €65 million for donations, sponsoring and own social projects
- €2,912 million available for dividend or retention

# RESEARCH AND DEVELOPMENT

Meeting challenges, developing solutions, shaping the future

**Our international and interdisciplinary research and development offers solutions to many future challenges. Our know-how, products and processes are driving forces of innovation in most manufacturing industries. They promote the long-term success of our customers, which in turn ensures our profitable growth and sustainable commercial success.**

Megatrends such as rapid population growth and increasing energy needs are creating global challenges, which we meet with innovative solutions and projects for the future. The four global technology platforms: Polymer Research, Specialty Chemicals Research, Chemicals Research & Engineering, as well as Plant Biotechnology Research, act with the research and development units of the operating divisions as our knowledge and competence centers. The close cooperation with our partners worldwide is an important factor in the success of efficient and future oriented research. Our network includes 1,900 collaborative partnerships with universities, research institutes, startup companies and industrial partners.

We continued to expand our activities in the area of research and development in 2008. New types of BASF systems made from epoxy resin and hardener from the Baxxodur® brand, for example, impart the rotor blades of wind energy plants with high mechanical cohesiveness and contribute to an acceleration of up to 30% in the production process. The first anti-microbial BASF-plastic Luran® S BX 13042 has a germ-killing effect, which is useful in hospital beds, doctor's chairs or on computer keyboards in offices. Our plastic Ecoflex® is biodegradable and is used in shopping bags, organic waste bags, mulch foil in agriculture and food packaging. Trilon M®, a chelating agent, can bind metals, thus preventing damaging reactions – making detergents highly effective and eco-friendly.

→ More information on Ecoflex can be found on page 58 and Trilon M on page 64

In 2008, BASF had approximately 8,900 employees in research and development worldwide. We spent €1,355 million in this field, compared with €1,380 million in 2007. Despite the difficult economic environment, we want to maintain the same high level of spending in 2009 as in the previous three years. More than one third will be invested in products and technologies for increased energy efficiency, as well as climate protection, resource conservation and renewable raw materials. In 2008, we also started to adopt criteria for environmental protection and social responsibility in our innovation processes, in order to systematically take into account sustainability aspects.

Approximately 76% of expenses fell under the responsibility of the operating divisions, with around 24% being allocated to corporate research. From 2010, we expect product innovations alone to generate annual sales of €4 billion, 20% of this amount will be additional sales. In 2008, BASF filed 1,265 patents worldwide.

The methods that we introduced in the previous years to increase the efficiency and effectiveness of innovation processes are showing their effects. For example the PhaseGate Process proved itself in being a successful tool for project and portfolio management. Innovation projects are divided in five different phases, from the idea-generation to market launch, thereby making the decision-making processes more transparent. In process and product development, we increase efficiency through the intensified application of high-throughput methods, for example in the development of catalysts and formulations.

## RESEARCH AND DEVELOPMENT

- Spending of €1,355 million in 2008
- Over 1,900 cooperations with universities, research institutes and industrial partners
- Starting in 2010, annual sales of €4 billion from product innovations, 20% of which additional

Expenditure on research and development  
(million €)



- 1 -- Chemicals: 9%
- 2 -- Plastics: 11%
- 3 -- Performance Products: 17%
- 4 -- Functional Solutions: 14%
- 5 -- Agricultural Solutions: 24%
- 6 -- Oil & Gas: 1%
- 7 -- Corporate research, other: 24%

## Corporate research

Our cross-divisional strategic Corporate research enables us to tap into future growth clusters. As part of our strategy started in 2006 "We innovate for growth," we focus on five growth clusters, which address future technologies and markets and cover the most important interdisciplinary approaches for future challenges: energy management, nanotechnology, white (industrial) biotechnology, plant biotechnology, and raw material change.

BASF positively assessed the results of the first phase of the initiative, which was completed in 2008. We spent more than €900 million on this initiative: The project portfolio contains approximately 200 projects, its value exceeds our expectations and we filed or obtained over 700 patents. Starting in 2015, we expect additional annual sales of between €2 billion and €4 billion from innovations based on projects in these growth clusters.

In the future market energy management, we have already achieved considerable success in developing new technologies and materials for energy storage and conversion. BASF Fuel Cell GmbH is one of the leading manufacturers of fuel cell components. Beginning in January 2009, BASF Fuel Cell was integrated into the Inorganics division. Another future project is thermoelectricity that, for example, converts the heat from a running car into electricity, thereby allowing for a significant decrease in fuel consumption.

BASF sees nanotechnology as a key technology to solve urgent issues, for example in the field of medical technology. Since the end of 2007, we have been conducting research projects with Harvard University. Together with the companies PolyIC, Evonik Industries, Elantas Beck and Siemens, BASF started a alliance project "MaDriX," sponsored by the German Federal Ministry for Education and Research. In this project, the development of radio

frequency identification tags (polymer RFID) is advanced with the help of nanotechnology.

Another key technology of the 21st century is biotechnology. Biotechnology makes many product and process innovations possible. Our white (industrial) biotechnology research concentrates on four technologies: enzyme catalysis for the production of specialty chemicals, fermentation based on renewable raw materials, biopolymers as well as industrial proteins and enzymes. An example of the successful usage of white biotechnology is the application of enzymes in the production of visually active intermediates with a high purity level. Since 2008, BASF has applied, for example, a new enzyme class, the enoate reductases, to the production of starting materials for pharmaceuticals and crop protection products.

In plant biotechnology, we are developing plants for more efficient agriculture, healthier nutrition and for better use as renewable raw materials. We are continuing our successful cooperation with Monsanto. The first results of the field experiments with drought-tolerant corn (maize) exceeded our expectations.

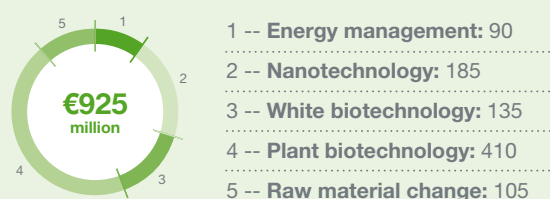
In the raw materials change business sector, we are researching a range of starting materials as alternatives to crude oil for our value-adding chains; examples include renewable raw materials and natural gas.

Our success with the initiative "We innovate for growth" has encouraged us to continue into the second phase from 2009 to 2011 with investments of up to €1 billion. We want to generate profitable growth through innovation for BASF and contribute to a better future.

## "WE INNOVATE FOR GROWTH" INITIATIVE

- Interdisciplinary cooperation between chemistry and other natural sciences
- Positive assessment after first phase of the initiative "We innovate for growth": 700 patents out of 200 projects
- From 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 €)



## TRENDS IN THE GLOBAL ECONOMY

The previous year's values have been adjusted.

**In 2008, the world economy was heavily impacted by the global financial crisis and its effects on the real economy. Due to the massive slump in demand for consumer and industrial goods in the fourth quarter, industrialized countries entered into a recession. Worldwide growth of gross domestic product in 2008 (+2.2%) was below both our forecast (+2.8%) and the growth trend. Since mid-2008, the chemical industry has shown no signs of growth.**

The global financial crisis strongly affected the economic situation in 2008. The bankruptcy of the U.S. investment bank Lehman Brothers in the middle of September intensified the crisis of confidence in the financial sector. Furthermore, very high energy and raw material prices negatively impacted demand in the second and third quarter of 2008.

Both governments and central banks have provided a financial safety net to ensure that the financial markets can begin to function again. Additionally, interest rates were dramatically reduced. These measures, however, have only partially stabilized the financial system. The turbulences caused a crisis of confidence in the global economy. Risk premiums, credit standards and financing costs have increased.

In the third quarter, the real economic effects of the financial crisis began to weaken worldwide growth significantly. Many industrialized countries have entered into a recession – especially the United States, the United Kingdom, Spain, Germany, Italy and Japan – which intensified in the fourth quarter through the slump in industrial production. The growth of the global gross domestic product in 2008 (+2.2%) was significantly weaker than in the previous three years.

### Development by region

In **Europe**, since the second quarter of 2008, the economy has been in a downturn, which intensified significantly at the end of the year. The United Kingdom, Ireland and Spain have entered into a recession as a result of the real estate and financial crisis. The rest of the E.U. is also showing signs of a recession, lead by low consumer spending and a marked decline in exports. The growth of gross domestic product decreased considerably (2007: +2.8%; 2008: +1.0%).

In the second half of 2008, the **United States** was under pressure to adjust to the recessive real estate market and the crisis in the financial market. The slump in the construction sector and in consumption, particularly in the demand for automobiles, significantly reduced the growth of gross domestic product (+1.2%). A significant decrease in private consumption and subsequently corporate investing resulted from high interest costs, negative wealth effects, and increasing unemployment.

The growth in **Asia (excluding Japan)** was very strong up until the second quarter, but afterwards it could not detach itself from the global economic downturn. In particular, the ASEAN region, as well as Korea and Taiwan, were showing signs of a recession in industrial production beginning in the second quarter. This increased in the third quarter because of the economic slowdown in China. The growth of gross domestic product in Asia (excluding Japan) weakened compared with the previous year (2008: +6.7%; 2007: +8.8%).

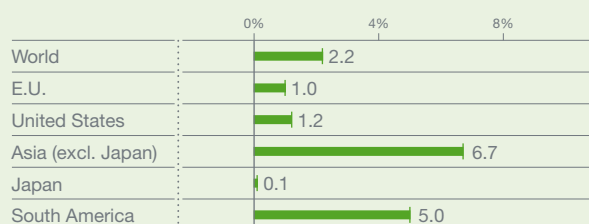
**Japan** was likewise affected by the recession and only grew slightly in 2008 (+0.1%), due to its considerable dependence on U.S. and E.U. markets.

In **South America** the previously strong regional growth declined (+5.0%). The drop in raw material prices in the second half of 2008 especially impacted the export oriented raw material industry.

### TRENDS IN THE GLOBAL ECONOMY 2008

- Growth of worldwide gross domestic product (+2.2%) significantly below the forecast (+2.8%)
- Strong impact on the world economy in 2008 from the financial crisis and very high raw material prices
- No growth impulse for the chemical industry since mid-2008

### Gross Domestic Product 2008 Real change compared with the previous year





# TRENDS IN KEY CUSTOMER INDUSTRIES

The previous year's values have been adjusted.

**Compared with the previous year (+4.3%), growth in global industrial production declined sharply (+1.0%) and was significantly below our projection (+2.8%). This was due to the drastic decline in consumer demand, which affected industrialized countries in particular. Here, industrial production declined (–1.3%).**

As a result of the recession in residential housing construction in the United States and parts of Europe, the **construction industry** only grew slightly worldwide (+0.9%). In the United States, the construction sector declined significantly (–6.2%), in Western Europe slightly (–0.8%). Building activities in transition countries, in particular in Asia and the Middle East, grew solidly (+8.2%).

Toward the end of the year, the **automotive industry** in industrialized countries entered into an extremely critical phase due to dwindling domestic sales. Production units in the industrialized countries considerably declined (–9.4%), in the United States production plunged (–19.7%). In Asia (excluding Japan) the growth rate decreased significantly (+4.5%) compared with the previous year (+14.0%). Worldwide, production fell (–3.4%).

The **electronics industry** grew only slightly (+1.4%). As a result of lower investment activities, growth levels in the industrialized countries declined (–0.4%) compared with the previous year (+3.3%). Asia (excluding Japan) benefited from the trend to offshore and recorded strongest growth (+4.6%).

Compared with the previous year, growth in the **information and communications technology industry (ICT)** was weaker (+8.7%). Due to the dependence on exports to the United States, growth especially in Asia decreased.

In the industrialized countries, production in the **textile industry** declined (–7.9%), mainly due to the reduced domestic demand and an increase in import volume from Asia. In the United States production significantly decreased (–9.8%).

As in the previous years, growth (+0.9%) was generated in Asia (+9.4%).

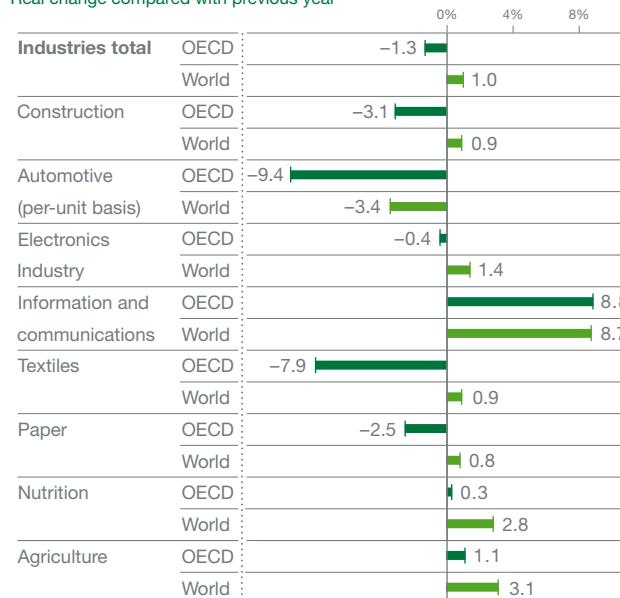
In the industrialized countries, the **paper industry** decreased (–2.5%). Worldwide growth (+0.8%) was possible because of the strong production increase in the transition countries (+6.1%).

Growth in the **food and nutrition industry** remained stable (+2.8%) as it is less affected by economic fluctuations. In the industrialized countries growth weakened (+0.3%).

**Agriculture** profited from increased acreage and the increased use of corn (maize) and cereals for biofuel and bioethanol production, and grew worldwide slightly stronger (+3.1%) compared with 2007. This was particularly due to significant growth in emerging markets (+4.0%).

## Growth in key customer industries in 2008

Real change compared with previous year



## DEVELOPMENT OF INDUSTRIAL PRODUCTION IN 2008

- Worldwide growth declined (to +1.0%)
- Construction industry: slight growth worldwide (+0.9%), in the United States (–6.2%) and Western Europe (–0.8%) decline in production
- Automotive industry: Critical situation because of the rising oil prices and financial crisis, units declined (–9.4%) in the industrialized countries, and sharply declined in the United States (–19.7%)

## BASF sales by industry Direct customers

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



## TRENDS IN THE CHEMICAL INDUSTRY

The previous year's values were adjusted.

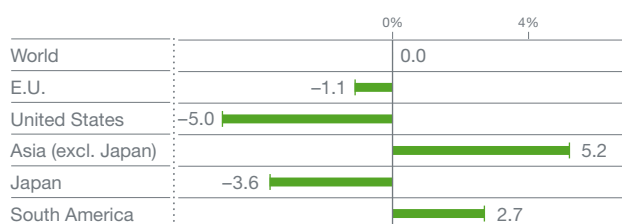
**The demand for chemical products slumped dramatically as a result of economic turbulences and has been declining since the third quarter of 2008 – for the first time since 2001. Overall, worldwide chemical production (excluding pharmaceuticals) stagnated in 2008 – after growing strongly in the previous year (+4.5%).**

After the growth phase of the previous years, 2008 brought a greater than expected slowdown for global chemical production. In the third quarter, worldwide chemical production was for the first time below the previous year's level. The solid growth that global chemical production had experienced up until then slumped in parallel to production declines in the customer industries – construction, automotive, electronics, furniture and paper.

Especially dramatic is the decline in production in the United States (–5.0%), followed by Japan (–3.6%) and Europe (–1.1%). In Asia (excluding Japan), the chemical industry grew significantly less (+5.2%) than in the previous year (+12.3%). South America's growth was also weaker (+2.7%).

### Chemical production (without pharmaceuticals) 2008

Real change compared with previous year



### Trends in the raw materials markets

The energy markets showed an unprecedentedly volatile course as a result of speculative bias. The price of oil rose from \$90 per barrel in the beginning of 2008 to a record price of up to \$145 per barrel in July, thereby causing great uncertainty for energy consumers. In the course of the economic downturn, the oil price dropped again to under \$50 per barrel, matching the level it was at in the beginning of 2007. The prices for chemical raw materials, for example naphtha, rose mid-year in parallel with oil prices to a record level of over \$1,100 per metric ton. In September 2008, demand in the energy markets strongly decreased as a result of the financial crisis. In December, energy prices reached their lowest level since 2005: the oil price was \$40 per barrel and the price of naphtha was \$245 per metric ton. The average annual price of oil rose by 34% to approximately \$97 per barrel and the price for naphtha by 17% to \$789 per metric ton above the previous year's level.

In the United States, gas prices fell after steadily increasing until mid-2008. After reaching a level of \$13/mbtu, the price stabilized to below \$6/mbtu. The average annual price of \$8.9/mbtu was however 27% higher than in 2007. In Europe, the average annual gas price increased by 50% compared with the previous year.

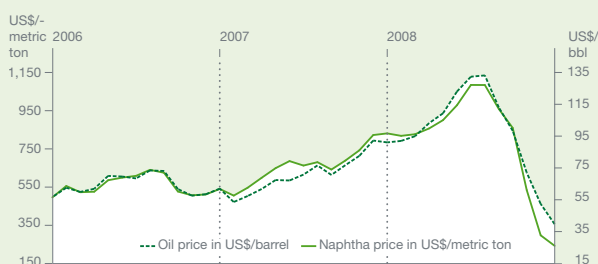
The steady increase of agricultural commodity prices since 2007 abruptly stopped in July 2008. Since then, prices have fallen, and at the end of 2008 prices were 32% below the previous year's level. The average annual agricultural commodity prices in 2008 were approximately 4% less than 2007.

The markets for nonferrous metals slumped as early as March, 2008 and at year end were 47% below the level of the previous year. The average annual price in 2008 for nonferrous metals was 11.4% lower than in the previous year.

## TRENDS IN THE CHEMICAL INDUSTRY 2008

- Stagnation of worldwide chemical production
- Decline in demand for chemical products due to downturn in production in customer industries
- Strong price volatility for crude oil and naphtha

### Price trends for crude oil and naphtha (US\$/barrel, US\$/metric ton)



# BUSINESS DEVELOPMENT BASF GROUP

## Sales and earnings (million €)

	2008	2007	Change in %
Sales	62,304	57,951	7.5
Income from operations before depreciation and amortization (EBITDA)	9,562	10,225	(6.5)
EBITDA in percent of sales	15.3	17.6	–
Income from operations (EBIT) before special items	6,856	7,614	(10.0)
Income from operations (EBIT)	6,463	7,316	(11.7)
Financial result	(487)	(381)	(27.8)
Income before taxes and minority interests	5,976	6,935	(13.8)
Income before minority interests	3,305	4,325	(23.6)
Income before minority interests as a percentage of sales	5.3	7.5	–
Net income	2,912	4,065	(28.4)
Earnings per share (€) <sup>1</sup>	3.13	4.16	(24.8)

## Sales and earnings by quarter 2008 (million €)

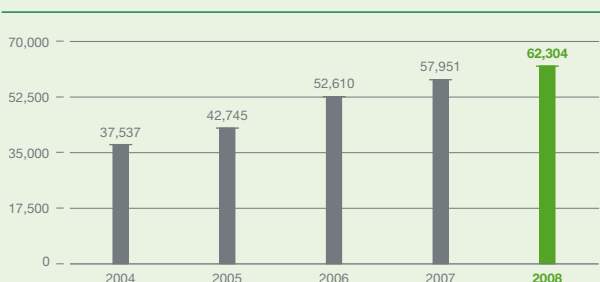
	1st quarter	2nd quarter	3rd quarter	4th quarter	2008
Sales	15,921	16,305	15,772	14,306	62,304
Income from operations before depreciation and amortization (EBITDA)	2,955	3,033	2,171	1,403	9,562
Income from operations (EBIT) before special items	2,354	2,408	1,568	526	6,856
Income from operations (EBIT)	2,303	2,359	1,509	292	6,463
Financial result	(122)	(38)	(39)	(288)	(487)
Income before taxes and minority interests	2,181	2,321	1,470	4	5,976
Net income	1,170	1,297	758	(313)	2,912
Earnings per share (€) <sup>1</sup>	1.24	1.39	0.82	(0.34)	3.13

## 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 (€) <sup>1</sup>	1.04	1.04	1.25	0.83	4.16

<sup>1</sup> In the second quarter of 2008, we conducted a two-for-one stock split. The earnings per share figure for 2007 has been adjusted accordingly.

## Sales (million €)



## Income from operations (million €)



Following a strong start, BASF Group's business worsened steadily in the further course of 2008. In the first half of the year, we continued to grow strongly as in previous years. Toward the end of the year, however, the business environment was significantly impacted by the worldwide economic crisis. In this difficult business environment, we exceeded the record level of sales posted in 2007, but income from operations decreased compared with the previous year.

### Sales

Sales in 2008 rose by 7.5% compared with the previous year to €62,304 million. The change in sales was due to the following factors:

Factors influencing sales		
Million €	2008	Contribution to sales growth (%)
Volumes	178	0.3
Prices	6,781	11.7
Currencies	(2,567)	(4.4)
Acquisitions and changes of the scope of consolidation	235	0.4
Divestitures	(274)	(0.5)
	4,353	7.5

In the first half of the year, sales volumes increased in almost all areas of our portfolio. Toward the end of the year, however, demand in many sales markets declined significantly. Nevertheless, on average we increased prices in all divisions in 2008 compared with 2007. We were, however, unable to pass on fully raw material prices, which were very volatile and on average higher than in 2007.

Acquisitions contributed €278 million to the sales increase, while divestitures reduced sales by €274 million. The main divestitures were the sale of the lysine and premixes businesses; the sale of the pharmaceuticals manufacturing business in Shreveport, Louisiana; and the sale of WIBARCO, a subsidiary involved in the surfactant business.

Currency effects reduced sales by 4.4%, or €2,567 million. The average euro/dollar exchange rate was \$1.47 per euro, compared with \$1.37 in 2007.

Sales in the Chemicals segment grew. In particular, this was due to passing on raw material prices, which on average were considerably higher in 2008 compared with 2007.

Sales decreased in both divisions in the Plastics segment, in particular due to negative currency effects. The Performance Polymers and Polyurethanes divisions reported a significant decline in volumes in all regions in the second half of the year.

Sales in the Performance Products segment rose slightly compared with 2007. The Acrylics & Dispersions division contributed mainly to this increase. Higher prices offset the impact of currency effects and divestitures.

Sales in the Functional Solutions segment decreased due to lower sales in the Catalysts and Coatings divisions. The Construction Chemicals division, however, posted higher sales due to continued growth in Eastern Europe, the Middle East and large parts of Asia.

## SALES

Sales rise due to higher prices despite significant decline in demand toward the end of the year

**+8%**

## INCOME FROM OPERATIONS

Earnings decline compared with 2007, significant drop in many divisions in the fourth quarter

**-12%**

In the Agricultural Solutions segment, sales increased due to strong demand for our crop protection products resulting from high prices for agricultural commodities.

Sales in the Oil & Gas segment rose significantly thanks to the higher average oil price in 2008 and higher sales volumes in natural gas trading.

Sales in "Other" declined, mainly due to a decrease in Styrenics and in raw materials trading. Sales of fertilizers rose.

### Income from operations

Income from operations amounted to €6,463 million in 2008, 11.7% lower than the record amount of €7,316 million in 2007. In 2008, we again earned a premium on our cost of capital amounting to €1,621 million; this compared with €2,895 million in 2007.

→ More information on the cost of capital concept can be found in the "Value-based Management" chapter on page 27

After a strong first half in 2008, the economic environment worsened steadily in the course of the second half of the year. Only South America remained largely unaffected. Raw material prices and demand declined considerably, in particular in the fourth quarter of 2008. We therefore significantly reduced production worldwide or shut down plants temporarily.

Earnings decreased in the Chemicals segment. This was primarily the result of a decline in earnings in the Petrochemicals division because of lower margins for cracker products and plant shutdowns due to lower demand toward the end of the year.

The Plastics segment also reported a decline in earnings. This was primarily due to lower volumes and margins in the Performance Polymers division.

Earnings in the Performance Products segment increased due to the strong performance of the Care Chemicals division. The Acrylics & Dispersions and Performance Chemicals divisions posted lower earnings.

In the Functional Solutions segment, earnings declined in all operating divisions. This was due to weaker demand from the automotive and construction industries as well as higher raw material costs, which negatively impacted margins.

Earnings in the Agricultural Solutions segment grew strongly due to higher sales volumes and margins.

Earnings rose in the Oil & Gas segment. The Exploration & Production business sector posted higher earnings as a result of the higher oil price. The Natural Gas Trading business sector posted a decline in earnings compared with 2007 due to lower margins.

Earnings in Other declined. This was due to expenses related to the hedging of raw material price risks as well as lower earnings in the Styrenics business. At year end 2008, the Styrenics business was no longer classified as a disposal group. Moreover, Other included income from the reversal of provisions for the BASF options program and higher earnings from the sale of fertilizers.

### Special items

Income from operations was negatively impacted by special charges of €393 million in 2008 compared with €298 million in 2007.

Restructuring measures accounted for special charges of €257 million. The major part of this was due to the write-down of assets in the Styrenics business as a result of lower profitability.

## INCOME FROM OPERATIONS

- 2008 income from operations down 11.7% at €6,463 million
- Special charges due to restructuring measures and writedowns
- Strong earnings growth in the Agricultural Solutions and Oil & Gas segments

### Special items

Million €	2008	2007
Restructuring measures	(257)	(185)
Divestitures	(5)	(3)
Other charges and income	(131)	(110)
	<b>(393)</b>	<b>(298)</b>

Net special charges were also incurred as a result of divestitures to optimize our portfolio. In particular, this applied to the sale of real estate in North America. Special income resulted from the sale of the pharmaceuticals manufacturing business in Shreveport, Louisiana.

Other special charges were incurred by the Intermediates and Coatings divisions and the Styrenics business reported in Other. These units closed plants in Asia and the United States and had to write down other plants due to unsatisfactory profitability.

In 2008, other special income resulted from the reversal of a portion of the provisions established in 2006 due to the mothballing of the THF plant in Caojing, China.

### Net income

The financial result declined to minus €487 million compared with minus €381 million in 2007. This was due to losses from foreign currency transactions at the production company for the Yuzhno Russkoye natural gas field, which is consolidated using the equity method. This was partially offset by lower interest rates for the U.S. dollar and gains from the hedging of foreign currency risks.

Income before taxes and minority interests amounted to €5,976 million compared with €6,935 million in 2007. The return on assets was 13.5% in 2008 compared with 16.4% in 2007.

The tax rate of 44.7% was approximately seven percentage points higher than in 2007. This was due to the higher level of non-compensable income taxes on oil production, which increased from €1,302 million in 2007 to €1,851 million in 2008. Furthermore, the German Corporate Tax Reform resulted in non-recurring, non-cash income of €229 million in 2007.

Net income declined by €1,153 million, or 28.4%, to €2,912 million.

Minority interests were mainly related to Gazprom's stakes in natural gas trading companies as well as in a German Wintershall subsidiary that holds production and exploration rights to onshore concessions in Libya.

Earnings per share were €3.13 compared with €4.16 in 2007. In the second quarter, we conducted a two-for-one stock split. The earnings per share figure for 2007 has been adjusted accordingly.

In 2008, we again generated a high level of cash from operating activities of €5,023 million compared with €5,807 million in the previous year. At €2,502 million, free cash flow in 2008 was also high (2007: €3,245 million).

## NET INCOME

- Financial result declines due to foreign currency transactions
- Tax rate increases due to high oil production taxes

## EARNINGS PER SHARE/CASH FLOW

- Earnings per share of €3.13, 25% below the previous year's level
- Previous year's figure adjusted accordingly due to two-for-one stock split
- Cash provided by operating activities again high at €5 billion

# CONSOLIDATED BALANCE SHEETS

## Assets

	2008 Million €	2008 %	2007 Million €
Intangible assets	9,889	19.4	9,559
Property, plant and equipment	15,032	29.6	14,215
Investments accounted for using the equity method	1,146	2.3	834
Other financial assets	1,947	3.8	1,952
Deferred taxes	930	1.8	679
Other receivables and miscellaneous long-term assets	642	1.3	655
<b>Long-term assets</b>	<b>29,586</b>	<b>58.2</b>	<b>27,894</b>
Inventories	6,763	13.3	6,578
Accounts receivable, trade	7,752	15.2	8,561
Other receivables and miscellaneous short-term assets	3,948	7.8	2,337
Marketable securities	35	0.1	51
Cash and cash equivalents	2,776	5.4	767
Assets of disposal groups	—	—	614
<b>Short-term assets</b>	<b>21,274</b>	<b>41.8</b>	<b>18,908</b>
<b>Total assets</b>	<b>50,860</b>	<b>100.0</b>	<b>46,802</b>

## Stockholders' equity and liabilities

	2008 Million €	2008 %	2007 Million €
Subscribed capital	4,417	8.7	4,397
Retained earnings	13,250	26.0	14,556
Other comprehensive income	(96)	(0.2)	174
Minority interests	1,151	2.3	971
<b>Stockholders' equity</b>	<b>18,722</b>	<b>36.8</b>	<b>20,098</b>
Provisions for pensions and similar obligations	1,712	3.4	1,292
Other provisions	2,757	5.4	3,015
Deferred taxes	2,167	4.3	2,060
Financial indebtedness	8,290	16.3	6,954
Other liabilities	917	1.8	901
<b>Long-term liabilities</b>	<b>15,843</b>	<b>31.2</b>	<b>14,222</b>
Accounts payable, trade	2,734	5.4	3,763
Provisions	3,043	6.0	2,697
Tax liabilities	860	1.7	881
Financial indebtedness	6,224	12.2	3,148
Other liabilities	3,434	6.7	1,976
Liabilities of disposal groups	—	—	17
<b>Short-term liabilities</b>	<b>16,295</b>	<b>32.0</b>	<b>12,482</b>
<b>Total stockholders' equity and liabilities</b>	<b>50,860</b>	<b>100.0</b>	<b>46,802</b>

Long-term assets rose by €1,692 million to €29,586 million.

As of December 31, 2007, parts of the former Styrenics division were classified as a disposal group. In 2008, these businesses, which we operate under the name Styrenics, could not be sold. Due to the underlying macroeconomic conditions and the changes on the capital market, a divestiture is no longer likely in the near future. Therefore, the assets and liabilities of Styrenics were no longer reported as disposal group as of December 31, 2008.

Intangible assets increased by €330 million, mainly due to the acquisition of Revus Energy ASA, Norway.

Other financial assets decreased slightly, in particular due to the partial repayment of the loan to finance the production company in the Yuzhno Russkoye natural gas field. This was partially offset by the purchase of 15.2% of the shares of Ciba Holding AG.

Additional reasons for the increase in long-term assets were the strengthening of the U.S. dollar against the euro as of the balance sheet date as well as various investment projects.

→ More information on our investments can be found in "BASF Segments" from page 50 onward

Inventories increased by €185 million to €6,763 million. Due to lower demand toward the end of the year, days of inventory invested increased compared with 2007.

Trade accounts receivable declined by €809 million to €7,752 million. This was mainly due to lower sales in the fourth quarter. Despite the global credit crisis, we further reduced the number of days of sales outstanding.

Compared with 2007, other receivables and miscellaneous short-term assets increased by €1,611 million to €3,948 million, primarily due to higher market values of derivatives held to hedge against currency risks.

Stockholders' equity decreased by €1,376 million, mainly due to the repurchase of 37.9 million shares for a total of €1,618 million. Additional factors included the lower net income compared with 2007 and dividend payments of €2,157 million. The equity ratio declined from 42.9% to 36.8%.

Long-term liabilities increased by €1,621 million to €15,843 million. Pension provisions increased as a result of the lower market value of pension assets. To finance its activities, BASF issued bonds totaling €1.6 billion as well as promissory notes for €553 million in the course of 2008.

#### Net debt (million €)

	2008	2007
Cash and cash equivalents	2,776	767
Financial indebtedness	14,514	10,102
<b>Net debt</b>	<b>11,738</b>	<b>9,335</b>

Short-term liabilities increased by €3,813 million to €16,295 million. This was mainly due to the expansion of our commercial paper program.

→ More information on the consolidated balance sheets is provided in the Notes to the Consolidated Financial Statements from page 153 onward

## ASSETS

- Disposal group of the Styrenics dissolved, sale not likely in the near future
- Intangible assets increased due to the acquisition of Revus Energy ASA, Norway
- Accounts receivable, trade decreased, particularly due to lower sales in the fourth quarter

## STOCKHOLDERS' EQUITY AND LIABILITIES

- Stockholders' equity decreased, due especially to share buybacks, dividends and lower net income
- Long-term liabilities increased due to higher pension provisions and the issuing of bonds
- Short-term liabilities increased due to the expansion of the commercial paper program



# LIQUIDITY AND CAPITAL RESOURCES

Value-based financial management, high cash flow

**Our goal is to maintain the financial flexibility needed to continually develop our business portfolio and take advantage of strategic opportunities.**

## Financing Policy

The objectives of our financing policy are to ensure liquidity, limit financial risks and optimize capital costs 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.

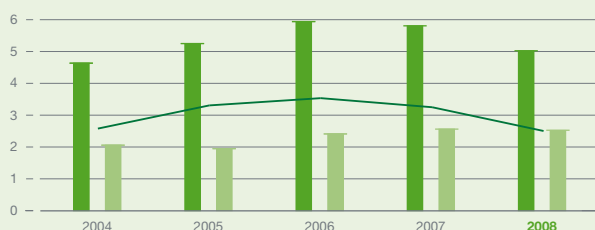
## Share buybacks and dividends

Due to our shareholder-oriented buyback policy we managed our equity ratio, reduced our capital costs and boosted earnings per share in the past years. We aim to increase our dividend annually and in years with difficult business conditions, we aim to at least maintain it at the previous year's level.

## Consolidated Statements of Cash Flows (million €)

	2008	2007
Net income	2,912	4,065
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,180	2,947
Changes in working capital	(1,339)	(999)
Miscellaneous items	270	(206)
<b>Cash provided by operating activities</b>	<b>5,023</b>	<b>5,807</b>
Payments related to property, plant and equipment and intangible assets	(2,521)	(2,562)
Acquisitions/divestitures	(564)	(536)
Financial investments and other items	(375)	(514)
<b>Cash used in investing activities</b>	<b>(3,460)</b>	<b>(3,612)</b>
Capital increases/repayments, share repurchases	(1,573)	(1,749)
Changes in financial liabilities	4,189	1,137
Dividends	(2,157)	(1,624)
<b>Cash provided by (used in) financing activities</b>	<b>459</b>	<b>(2,236)</b>
Net changes in cash and cash equivalents	2,022	(41)
Cash and cash equivalents as of beginning of year and other changes	754	808
<b>Cash and cash equivalents as of end of year</b>	<b>2,776</b>	<b>767</b>

## Cash flow (billion €)



- Cash provided by operating activities
- Payments related to property, plant and equipment and intangible assets
- Free cash flow <sup>1</sup>

<sup>1</sup> Cash provided by operating activities minus payments related to property, plant and equipment and intangible assets, in 2005 excluding external financing of pension obligations (CTA)

### Cash provided by operating activities

Despite an increase in net working capital in the first three quarters, we again generated a high level of cash from operating activities of €5,023 million in 2008 compared with €5,807 million in 2007. Miscellaneous items reflect the reclassification of equity income and minority interests. In 2007, miscellaneous items also contained the elimination of non-cash income resulting from the German Corporate Tax Reform.

### Cash used in investing activities

At €3,460 million, net expenses were slightly lower than in the previous year.

In 2008, expenditures for acquisitions totaled €637 million compared with €635 million in 2007 and were primarily related to the purchase of Revus Energy ASA, Stavanger, Norway.

We generated proceeds of €73 million from divestitures, in particular from the sale of the pharmaceuticals manufacturing business in Shreveport, Louisiana.

In 2008, payments related to property, plant and equipment and intangible assets amounted to €2,521 million, and were accordingly below the corresponding level of depreciation and amortization.

Free cash flow in 2008 was €2,502 million compared with €3,245 million in 2007.

→ More information on additions to property, plant and equipment is in the chapter "BASF Segments" from page 50 onward

Financial investments and miscellaneous items resulted in a net cash outflow of €375 million in 2008. Payments were primarily related to the purchase of 15.2% of the shares of Ciba Holding AG as well as capital contributions to Nord Stream AG and OAO Severneftegazprom. Cash inflows resulted from the repayment of loans, in particular by OAO Severneftegazprom, and the sale of assets.

### Cash provided by financing activities

Cash provided by financing activities amounted to €459 million in 2008 compared with minus €2,236 million in 2007. This was primarily due to an increase in financial indebtedness of €4,412 million compared with the previous year to €14,514 million at the end of 2008. Net debt rose by €2,403 million to €11,738 million.

We spent a total of €1,618 million to buy back 37.9 million shares at an average price of €42.70 per share.

→ For further information on the share buyback program, see also Note 17 to the Consolidated Financial Statements on page 198

We paid out €2,157 million in dividends and profit transfers in 2008. Of this amount, €1,831 million or €3.90 per share (before the stock split) was to shareholders of BASF SE for fiscal year 2007. Minority interests in proportionally or fully consolidated companies received €326 million.

Key financial ratios remained solid in 2008 and thus provided the basis for good ratings. With an "AA- /A-1+/outlook negative" rating from Standard & Poor's and an "Aa3/P-1/outlook under review for downgrade" rating from Moody's, BASF had significantly stronger ratings than its competitors in the chemical industry at the end of 2008. At the beginning of 2009, Standard & Poor's downgraded its rating of BASF to "A+/A-1/outlook negative" and Moody's reduced its rating to "A1/P-1/outlook stable."

### Capital expenditures by region (%)

	2008	2007
Europe	77.6	79.4
North America	14.9	14.3
Asia Pacific	4.7	4.2
South America, Africa, Middle East	2.8	2.1
	100.0	100.0

## CONSOLIDATED STATEMENTS OF CASH FLOWS

- Cash provided by operating activities again high at €5 billion
- Free cash flow of €2,502 million compared with €3,245 million in 2007
- €2.5 billion spent on property, plant and equipment and intangible assets
- Expenditures on acquisitions of €637 million; income from divestitures of €73 million

#### Balance sheet ratios

		2008	2007
Fixed asset coverage I (%)	= $\frac{\text{Stockholders' equity}}{\text{Intangible assets} + \text{Property, plant and equipment} + \text{Financial assets}}$	66.8	75.7
Fixed asset coverage II (%)	= $\frac{\text{Stockholders' equity} + \text{Long-term liabilities}}{\text{Intangible assets} + \text{Property, plant and equipment} + \text{Financial assets}}$	123.4	129.2
Equity ratio (%)	= $\frac{\text{Stockholders' equity}}{\text{Stockholders' equity} + \text{liabilities}}$	36.8	42.9

#### Liquidity and debt ratios

		2008	2007
Liquidity (%)	= $\frac{\text{Current assets}}{\text{Short-term liabilities}}$	130.6	151.5
Dynamic debt level (%)	= $\frac{\text{Cash provided by operating activities}}{\text{Financial indebtedness}}$	34.6	57.5
Leverage (%)	= $\frac{\text{Financial indebtedness}}{\text{Stockholders' equity}}$	77.5	50.3

#### Interest coverage

		2008	2007
EBITDA interest coverage	= $\frac{\text{Income from operations before depreciation and amortization}}{\text{Interest expense} - \text{Interest income}}$	22.4	21.7

#### Solid Financing

Despite the tense situation on the credit markets, BASF was able to finance itself with commercial paper without any difficulty. In October 2008, we increased the maximum potential issuing volume of our commercial paper program from \$7.5 billion to \$12.5 billion. As of December 31, 2008, BASF used approximately \$6.1 billion from the commercial

paper program. As back-up for the program, contractually agreed and unused credit lines of \$6 billion are available as well as a credit line of CHF 3.5 billion to finance the acquisition of Ciba. Furthermore, BASF issued bonds totaling €1.6 billion as well as promissory notes of €553 million in the course of 2008.

## PRINCIPLES AND OBJECTIVES OF OUR FINANCIAL MANAGEMENT

Financial management in the BASF Group is centrally organized and is supported by regional competence centers. Our financing and investment policy is value-based. Risk management takes precedence over return. The risks associated with currencies, interest rate changes and creditworthiness are analyzed and limited using modern processes and financial instruments. Within the framework of our financial management, we govern the capital structure of BASF by taking into account selected financial ratios.

→ More information regarding the use of financial instruments can be found in Note 26 to the Consolidated Financial Statements from page 212 onward.

# BUSINESS DEVELOPMENT BY SEGMENT

## Segment overview (million €)

	Sales		Income from operations before depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
	2008	2007	2008	2007	2008	2007
Chemicals	10,324	9,358	1,988	2,416	1,421	1,889
Plastics	9,675	9,976	962	1,655	544	1,261
Performance Products	8,967	8,862	1,286	1,143	785	712
Functional Solutions	9,388	9,491	564	876	265	557
Agricultural Solutions	3,409	3,137	905	718	706	526
Oil & Gas	14,445	10,517	4,409	3,592	3,844	3,031
Other <sup>1</sup>	6,096	6,610	(552)	(175)	(709)	(362)
	<b>62,304</b>	<b>57,951</b>	<b>9,562</b>	<b>10,225</b>	<b>6,856</b>	<b>7,614</b>

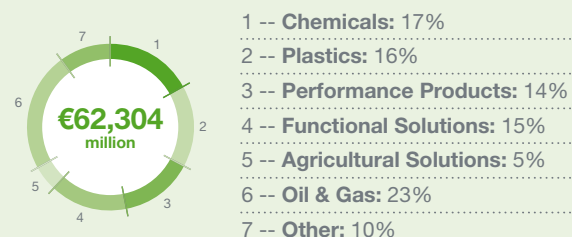
## Segment overview (million €)

	Income from operations (EBIT)		Assets		Capital expenditures <sup>2</sup>	
	2008	2007	2008	2007	2008	2007
Chemicals	1,376	1,903	5,455	5,971	528	668
Plastics	530	1,172	5,060	5,605	478	510
Performance Products	787	681	6,352	6,397	432	434
Functional Solutions	151	434	8,693	8,730	234	315
Agricultural Solutions	705	516	4,352	4,157	196	83
Oil & Gas	3,844	3,031	8,356	7,057	1,651	2,280
Other <sup>1</sup>	(930)	(421)	12,592	8,885	115	135
	<b>6,463</b>	<b>7,316</b>	<b>50,860</b>	<b>46,802</b>	<b>3,634</b>	<b>4,425</b>

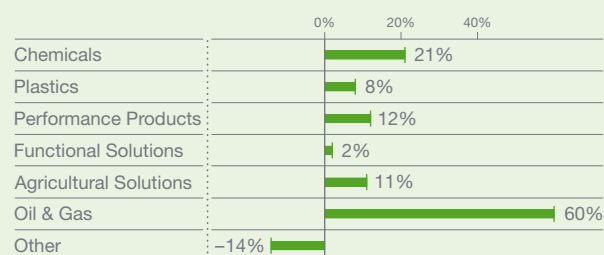
<sup>1</sup> Information on the composition of 'Other' can be found in Note 4 to the Consolidated Financial Statements from page 175 onward.

<sup>2</sup> Additions to property, plant and equipment (thereof from acquisitions: €363 million in 2008 and €17 million in 2007) and intangible assets (thereof from acquisitions: €745 million in 2008 and €1,779 million in 2007).

## Sales by segment



## Income from operations by segment



**Sales (million €)**

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2008	2007	2008	2007	2008	2007	2008	2007
Chemicals	2,561	2,290	2,863	2,434	2,788	2,348	2,112	2,286
Plastics	2,547	2,466	2,654	2,541	2,592	2,497	1,882	2,472
Performance Products	2,206	2,226	2,297	2,268	2,370	2,254	2,094	2,114
Functional Solutions	2,394	2,278	2,490	2,440	2,479	2,448	2,025	2,325
Agricultural Solutions	946	897	1,159	957	636	574	668	709
Oil & Gas	3,744	2,970	3,201	2,269	3,182	2,185	4,318	3,093
Other <sup>1</sup>	1,523	1,505	1,641	1,747	1,725	1,657	1,207	1,701
	<b>15,921</b>	<b>14,632</b>	<b>16,305</b>	<b>14,656</b>	<b>15,772</b>	<b>13,963</b>	<b>14,306</b>	<b>14,700</b>

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

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2008	2007	2008	2007	2008	2007	2008	2007
Chemicals	524	566	378	573	396	446	123	304
Plastics	359	314	291	340	198	299	(304)	308
Performance Products	223	204	226	185	233	174	103	149
Functional Solutions	140	151	111	168	117	153	(103)	85
Agricultural Solutions	259	231	363	241	31	(5)	53	59
Oil & Gas	984	848	1,026	712	870	662	964	809
Other <sup>1</sup>	(135)	(198)	13	(189)	(277)	(24)	(310)	49
	<b>2,354</b>	<b>2,116</b>	<b>2,408</b>	<b>2,030</b>	<b>1,568</b>	<b>1,705</b>	<b>526</b>	<b>1,763</b>

**Income from operations (EBIT) (million €)**

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2008	2007	2008	2007	2008	2007	2008	2007
Chemicals	524	566	378	573	396	475	78	289
Plastics	358	313	291	339	194	297	(313)	223
Performance Products	231	194	249	180	233	170	74	137
Functional Solutions	137	137	108	155	112	151	(206)	(9)
Agricultural Solutions	259	226	363	241	31	(5)	52	54
Oil & Gas	984	848	1,026	712	870	662	964	809
Other <sup>1</sup>	(190)	(274)	(56)	(193)	(327)	(61)	(357)	107
	<b>2,303</b>	<b>2,010</b>	<b>2,359</b>	<b>2,007</b>	<b>1,509</b>	<b>1,689</b>	<b>292</b>	<b>1,610</b>

<sup>1</sup> Information on the composition of 'Other' can be found in Note 4 to the Consolidated Financial Statements from page 175 onward.

# CHEMICALS

**Excellence in the Verbund, technology and cost leadership**

**The Chemicals segment consists of the Inorganics, Petrochemicals and Intermediates divisions. At our integrated production facilities – our Verbund – in Europe, Asia and North America we produce a broad range of basic chemicals and higher value products for our internal and external customers.**

## Segment Strategy

We create value by growing with an attractive product portfolio, investments in growth markets and process and product innovations as well as by integrating our production competitively and flexibly into the BASF Verbund structures.

We supply the BASF segments efficiently with basic chemicals for the production of higher value products. As a reliable supplier, we market our products to customers in downstream industries; primarily in the chemical, electronics, construction, textile, automotive, pharmaceutical and agrochemical industries. We continually develop our value-adding chains through innovations and acquisitions in strongly growing markets.

Technology and cost leadership are some of our most important success factors. We achieve them by improving processes, implementing market-oriented business models, and efficiently exploiting the synergy potentials of our Verbund. We constantly optimize our portfolio and production structures and align them with the regional market requirements in Europe, North America and Asia.

## Our Products

The success of the **Inorganics** division is based on a product range comprising basic products for use in our Verbund and specialties for our business with third parties. Our most important basic products are ammonia, methanol, sodium hydroxide, chlorine as well as sulfuric and nitric acid. Our specialties have a clear industry focus, for example for the electronics or pharmaceutical industries. We benefit from the knowledge of our customers' technological requirements and demands. We are the market leader in electronic chemicals in Asia and Europe.

The **Petrochemicals** division, with its broad range of basic chemicals, is the backbone of BASF's value-adding chain. Products such as ethylene, propylene, butadiene and benzene are produced in steam crackers from naphtha or natural gas. In further processing stages, we produce alcohols, solvents and plasticizers for the chemicals and plastics industries. Alkylene oxides and glycols are starting materials for the detergents, automotive, packaging and textile industries.

With its 600 products, our **Intermediates** division develops, produces and markets the most comprehensive range of intermediates of all producers worldwide. Our product lines include amines, diols, polyalcohols, acids and specialties. They serve as starting materials for products such as coatings, plastics, pharmaceuticals, textile fibers, crop protection products as well as detergents and cleaners. Worldwide BASF is among the three largest suppliers for all significant intermediates.

## STRATEGY

- Supplying our value-adding chains and selling to external customers
- Technology and cost leadership as most important success factors
- Optimizing product portfolio and regional production structures

## PRODUCTS

- **Inorganics:** Basic materials for our Verbund and specialties with clear industry focus
- **Petrochemicals:** Broad range of basic chemicals for BASF's value-adding chains as well as external customers
- **Intermediates:** With 600 products, the most comprehensive range of intermediates worldwide, multiple market leader

## IONIC LIQUIDS For cellulose processing



Eco-friendly use of resources

VALUE FOR BASF

# No.1

in the development of this innovative technology

VALUE FOR THE ENVIRONMENT

# 85%

fewer excipients

In the production of cellulose fibers (viscose rayon) from wood, large amounts of excipients from non-renewable resources are used today. They subsequently need to be disposed of or otherwise recycled. Alternatively, ionic liquids can be used as solvents. They have higher solvency and can be virtually completely recovered – this is one of our contributions to resource conservation.

## Research and Development

We focus on the development of innovative production processes that allow us to further extend our competitive advantage. Existing products and applications are continuously improved.

In developing new products, we look at the needs of our internal and external customers as well as at the opportunities offered by the markets and the Verbund's value-adding chains. We also develop completely novel solutions and next-generation technologies, such as a wood-based material based on our Kaurit® Light Technology. This consists of wood chippings, a BASF foam and a Kaurit binder. It has the same mechanical properties as normal particle boards, but weighs 30% less, and, due to this, is better suited to the needs of our customers in the furniture industry. It can be produced from existing particle board plants.

Under the trade name Baxxodur®, BASF sells a new, broad range of curing agents, accelerators and additives for professional epoxy resin processing. These can, for example, be used in the production of rotor blades for wind turbines. Our goal was to shorten cycle periods in processing and further improved mechanical strength. With a new business concept, BASF has developed from a product to system supplier in this area.

BASF is also the first company to have used ionic liquids specifically and in large quantities to improve chemical processes. They can, for example, be used for cellulose processing where they represent a resource-conserving alternative to common solvents.

## RESEARCH AND DEVELOPMENT

- Innovative production processes and structures
- Improvement of existing products and applications
- Kaurit Light Technology for wood-based materials
- Baxxodur for wind turbine rotor blades
- Ionic liquids for cellulose processing

## MARKETING AND CUSTOMER RELATIONS

- Reliable and cost efficient marketing of standard products mostly without intermediaries, and often via e-commerce
- Marketing of organic and inorganic specialties with corresponding technical applications knowledge
- In specialties, particularly close cooperation of our development laboratories with customers



### Marketing and customer relations

In standard products, we focus primarily on supplying our customers reliably and cost efficiently. They are primarily sold without intermediaries, largely via e-commerce. We market organic and inorganic specialties with the corresponding applications technology knowledge. In these areas, our development laboratories work particularly closely with our customers.

We help our customers to be more successful: For example with the reduction agent AdBlue®, which in combination with a SCR catalyst, reduces the share of nitrogen oxides in diesel exhaust by 80% and emissions of soot particles by 40%.

To tap into new applications, we work closely with partners from science and technology as well as with large customers. For example through successful collaborations with IBM, a technology developer, and the Interuniversity Micro-electronics Centre (IMEC), which is one of the largest European research centers for nano and micro electronics in Belgium, BASF has access to the innovation circle in the semiconductor business. Participation in this allows us to be included with our products in the development of the next generation of chips – together with the most important manufacturers – at a very early stage.

### Capital Expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Antwerp, Belgium	Construction of nitric acid S5		500,000	2008
Ludwigshafen, Germany	Construction of cyclododecanon		25,000	2009
	Expansion of hydrogen	50,000 Nm³/h	n/a.	2009
	Construction of ethylene-/ propylene pipeline to Karlsruhe, Germany		n/a.	2009
Nanjing, China <sup>1</sup>	Expansion of oxo C <sub>4</sub> alcohols	55,000	305,000	2008
	Expansion of steam cracker	150,000	750,000	2009/2010
	Expansion of ethylene oxide, 2-propylheptanol	n/a.	n/a.	n/a.
	Construction of butylglycol ether, ethanolamines, ethyleneamines, butadiene and isobutene		n/a.	n/a.

<sup>1</sup> Operated by a joint venture company in which BASF has a 50% stake and which is proportionally consolidated in the Group Consolidated Financial Statements.

### VERBUND SITES

- Ludwigshafen, Germany
- Antwerp, Belgium
- Freeport, Texas
- Geismar, Louisiana
- Kuantan, Malaysia
- Nanjing, China

### STARTUPS IN 2008

- Nitric acid plant in Antwerp, Belgium
- Expansion of the oxo C<sub>4</sub> alcohols plant in Nanjing, China

## Production Capacities of Significant Products

Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Alkylamines	X		X	X	221,000 <sup>1</sup>
Formic and propionic acid	X		X		255,000 <sup>1</sup> 119,000 <sup>1</sup>
Ammonia	X				1,525,000
Benzene	X	X	X		820,000 <sup>1, 2</sup>
Butadiene	X	X			515,000 <sup>3</sup>
Butanediol-equivalents	X	X	X		585,000 <sup>4, 5</sup>
Chlorine	X				385,000
Ethanolamines und derivatives	X				285,000
Ethylene	X	X	X		3,235,000 <sup>1, 2</sup>
Ethylene oxide	X	X	X		1,175,000 <sup>1</sup>
Formaldehyde condensates	X				750,000
Neopentylglycol	X	X	X		165,000 <sup>6</sup>
Oxo C <sub>4</sub> alcohols (calculated as butyraldehyde)	X	X	X		1,415,000 <sup>1, 4</sup>
Polytetrahydrofuran	X	X	X		185,000
Propylene	X	X	X		2,480,000 <sup>1, 2, 7</sup>
Plasticizers	X	X	X		660,000 <sup>4</sup>

<sup>1</sup> 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 C<sub>4</sub> 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% stake and which is proportionally consolidated in the Group Consolidated Financial Statements.

<sup>2</sup> 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% stake.

<sup>3</sup> 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% stake and which is proportionally consolidated in the Group Consolidated Financial Statements.

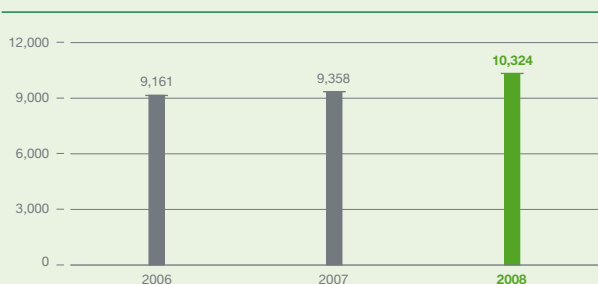
<sup>4</sup> Contains the full capacity of a joint venture company for the production of 250,000 metric tons of oxo C<sub>4</sub> alcohols; 40,000 metric tons of phthalic anhydride; 100,000 metric tons of plasticizer; 100,000 metric tons of butanediol equivalents and 160,000 metric tons of acrylic monomers in Kuantan, Malaysia, in which BASF has a 60% stake.

<sup>5</sup> 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% stake.

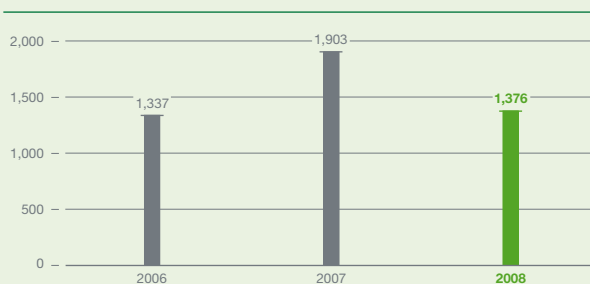
<sup>6</sup> Contains the full capacity of a joint venture company for the production of 35,000 metric tons of neopentylglycol in Jilin, China, in which BASF has a 60% stake.

<sup>7</sup> 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% stake.

## Sales Chemicals (million €)



## Income from operations Chemicals (million €)



## Segment data Chemicals (million €)

	2008	2007	Change in %
Sales to third parties	10,324	9,358	10.3
Thereof Inorganics	1,384	1,192	16.1
Petrochemicals	6,428	5,696	12.9
Intermediates	2,512	2,470	1.7
Intersegmental transfers	5,503	4,829	14.0
Sales including intersegmental transfers	15,827	14,187	11.6
Income from operations before depreciation and amortization (EBITDA)	1,988	2,416	(17.7)
Income from operations (EBIT) before special items	1,421	1,889	(24.8)
Income from operations (EBIT)	1,376	1,903	(27.7)
Income from operations (EBIT) after cost of capital	740	1,305	(43.3)
EBITDA in percent of sales	19.3	25.8	—
Assets	5,455	5,971	(8.6)
Research and development expenses	125	123	1.6
Additions to property, plant and equipment and intangible assets	528	668	(21.0)

In 2008, we increased sales to third parties by €966 million to €10,324 million (volumes 2%, prices 13%, currencies –5%). Income from operations declined to €1,376 million. Earnings were particularly impacted by the drastic decline in demand in the fourth quarter. Generally high raw material costs and declining margins for cracker products also contributed to this decline. In the fourth quarter, production was adjusted to the considerably lower demand and to reduce inventories.

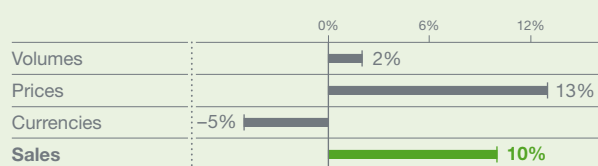
For 2009, we expect sales to decrease and income from operations to decline significantly compared with 2008, due to lower demand in many of our customer industries and stronger competition from the Middle East and Asia.

## Inorganics

In 2008, sales to third parties increased to €1,384 million (volumes 1%, prices 17%, currencies –2%). Sales grew particularly with glues and impregnating resins, inorganic specialties and inorganic salts.

Income from operations was significantly higher than in the previous year. This was primarily due to high prices and margins for basic products, especially ammonia and urea, as well as the specialties business. This more than offset declines in many business areas, which occurred due to the generally negative economic situation in the fourth quarter.

## Factors influencing sales – Chemicals



## Sales by division (million €)



- 1 -- Inorganics: 14%
- 2 -- Petrochemicals: 62%
- 3 -- Intermediates: 24%

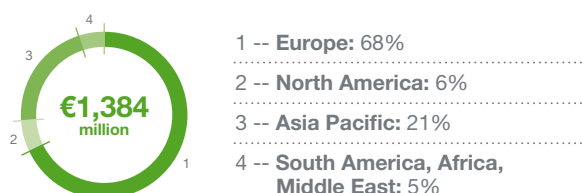
In 2008, a series of investments, such as the construction of a nitric acid plant in Antwerp, Belgium, led to a slight increase in depreciation.

We intend to sell our 50% stake in PEC-Rhin, a producer of ammonia, nitric acid and fertilizer in Ottmarsheim, France. This site is not integrated into the BASF Verbund.

As of January 2009, BASF Fuel Cell GmbH – one of the leading manufacturers of fuel cell components – will be included in the Inorganics division. Previously, it was accounted for as corporate research under "Other."

For 2009, we expect sales to decline. Significantly lower margins with methane-based derivatives will impact income from operations in 2009, which will be significantly below the excellent level achieved in 2008.

#### Inorganics -- Sales by region (location of customer)



#### Petrochemicals

Sales to third parties in 2008 increased by €732 million to €6,428 million (volumes 4%, prices 15%, currencies –6%). This was primarily due to the significantly higher prices in the first three quarters in which stable demand allowed us to pass on rising raw material prices for crude oil and naphtha. Margins for plasticizers, alcohols and solvents as well as alkylene oxides and glycols were high but below the previous year's very good level. Margins for cracker products, however, were significantly below expectations. New capacities, particularly in the Middle East, led to an

oversupply of cracker products, which meant that product prices could not be increased sufficiently.

Toward the end of the third quarter, competition intensified and demand in the automotive and construction industries declined rapidly. For business steering and inventory control purposes, we significantly reduced the capacity utilization rates of plants that had previously been operating at high rates worldwide. Numerous plants were operated at lower utilization rates or idled.

Income from operations declined significantly. This was mainly due to the drastic decline in demand in the fourth quarter, unsatisfactory margins for cracker products, as well as plant shutdowns because of the hurricanes Gustav and Ike on the U.S. Gulf Coast.

We expect economic conditions to continue to worsen. For 2009, we anticipate a decline in sales due to declining product prices with lower annual average raw material prices. Simultaneously, additional production capacities in the Middle East and Asia and weaker demand will further reduce the capacity utilization in the industry. In view of the difficult economic environment, we expect income from operations to decline significantly in 2009.

#### Petrochemicals -- Sales by region (location of customer)



## INORGANICS

- Sales growth especially in glues and impregnating resins, inorganic specialties and inorganic salts
- High market prices and margins for basic products
- Income from operations increases significantly in 2008
- For 2009, lower sales and significantly lower earnings as a result of lower margins with methane-based derivatives

## PETROCHEMICALS

- Higher sales due to higher product and raw material prices in the first three quarters
- Drastic decline in demand in the fourth quarter
- Earnings in 2008 significantly below the previous year's level
- For 2009, lower sales and significantly lower income from operations due to difficult economic environment

### Intermediates

In 2008, sales to third parties increased slightly compared with 2007 by €42 million to €2,512 million (volumes +2%, prices 7%, currencies +3%). In particular, we significantly expanded our business with products for the agrochemical industry, as well as in the gas purification and energy businesses.

Thanks to high demand for amines and carboxylic acids, we passed on higher raw material prices for these products to the market. Butanediol and its derivatives came under margin pressure as stagnating demand for PolyTHF® and new capacities of Asian competitors impeded our ability to raise volumes and prices. Hurricanes on the U.S. Gulf Coast led to plant shutdowns and sales losses.

Since the end of the third quarter, the economic crisis, in particular in the automotive, plastics and textile industries, has negatively impacted the business. In the fourth quarter we therefore reduced our production volumes worldwide.

In 2008, income from operations did not reach the previous year's high level. This was the result of the drastic decline in demand in the fourth quarter and the resulting low plant utilization rates at the end of the year. In addition, the pressure on margins for butanediol and its derivatives, as well as lost sales as a result of the hurricanes on the U.S. Gulf Coast in September contributed to the decline in earnings.

In 2008, two special items negatively impacted the division: As a result of unsatisfactory profitability, the butanediol plant in the 60:40 joint venture, BASF PETRONAS Chemicals Sdn. Bhd., in Kuantan, Malaysia, was written down. In addition, as part of the restructuring of our butanediol value-adding chain in Asia, we decided to shut down the butanediol/THF plant in Ulsan, Korea because of sustained worldwide overcapacity and permanent high costs for the raw material butadiene. This was partially offset by the reversal of a portion of the provisions established for the mothballing

of the THF plant in Caojing, China, which were recorded as special charges in income from operations in 2006. The technical design for the conversion of the plant to co-produce THF and maleic anhydride has been completed. Thus we have different options for its future operation, which we will decide on according to the development of the market.

For 2009, we expect the performance of our product lines to continue to be heterogeneous. Income from operations will decline significantly due to lower sales resulting from lower volumes.

#### Intermediates -- Sales by region (location of customer)



## INTERMEDIATES

- Slight increase in sales due to strong demand for products for the agrochemical industry as well as in the gas purification and energy businesses
- Earnings decline due to significantly lower demand in the fourth quarter as well as margin pressure for butanediol and derivatives
- Lower sales as a result of lower volumes as well as significantly lower income from operations expected for 2009

# PLASTICS

Energy-efficient materials, innovative solutions

**BASF is one of the world's leading producers of plastics. The Performance Polymers and Polyurethanes divisions offer our customers energy-efficient products, system solutions and services.**

## Strategy

We concentrate on activities which allow us to distinguish ourselves from our competitors and offer us profitable growth opportunities. Our customers are primarily in the automotive, electric/electronics, textile, packaging and construction industries. At the same time, the diverse properties of our plastics are increasingly appealing to customers from other industries.

This allows us to broaden our portfolio of customer industries, grow faster than the market and become less dependent on the cyclicity of individual industries. In the development of new products and system solutions we focus on a close collaboration with our customers.

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.

## Our Products

The **Performance Polymers** division is one of the world's leading suppliers of engineering plastics, polyamides and polyamide intermediates, foams and specialty plastics.

We offer our customers a broad portfolio of engineering plastics based on polyamide 6 and polyamide 6.6 with the products Ultramid®, Miramid® and Capron®. This is complemented by our products Ultradur®, Ultraform® and Ultrason®. Due to their special mechanical properties which simultaneously combine low weight, high temperature and chemical resistance, our engineering plastics are widely used in the automotive, electric and electronics industries, for household appliances and in sports and leisure products.

For the packaging, textile and food industries, we offer Ultramid, an important base product for the manufacturing of fibers and foils. Our product range also includes Ecoflex® and Ecovio®, biodegradable specialty plastics for the packaging industry.

Styropor® and its innovative refinement Neopor® – both styrene-based precursors for foams – are used in insulating material for construction and packaging. Not only do our foams contribute to energy efficiency: the melamine-based foam Basotect® additionally provides excellent sound absorption in buildings and in airplanes, and is also marketed as a cleaning sponge in consumer goods industry.

## STRATEGY


- Tapping into new market segments with a diversified and innovative portfolio
- Close cooperation with customers in the development of new products and system solutions
- Process optimization for resource and energy efficient production

## PRODUCTS


- Performance Polymers: Engineering plastics, polyamide and polyamide intermediates as well as foams and specialty plastics for various applications
- Polyurethanes: Basic products, customer-specific systems and specialties for automotive, construction and furniture industries as well as household appliances

### ECOFLEX

Biodegradable plastic



Robust in its application



Biodegradable after use

VALUE FOR BASF

# 10x

higher market growth than conventional plastics

VALUE FOR THE ENVIRONMENT

# 100%

biodegradable

The biodegradable polymer Ecoflex® is mostly used in blends. These are combinations of renewable raw materials such as starch, cellulose and polylactic acid and a petrochemically based polymer such as Ecoflex. It is used in shopping bags, agricultural mulch films and food packaging materials. In this way, Ecoflex imparts renewable raw materials with high-value properties.

The **Polyurethanes** division is one of the leading suppliers of basic products, systems and specialties. With its world-wide network of more than 30 polyurethane system houses and its comprehensive product and service portfolio, BASF is the preferred partner of its customers in many industries.

Polyurethanes make life more comfortable, safer and more pleasant – and they help to save energy sustainably. They help architects to better insulate buildings and automotive producers to design their vehicles more attractively and to construct lighter frames. The manufacturers of shoe soles, mattresses and household appliances as well as sports equipment use the manifold opportunities and advantages of this specialty plastic together with the knowledge and expertise of the polyurethane experts of BASF worldwide.

We can offer tailor-made polyurethane products for numerous customer applications. Under brand names such as Elastoflex® and Elastopor®, polyurethanes are used, for example, as rigid or flexible foams in construction for furniture and household appliances. The automotive industry is increasingly using our polyurethanes, for example our product Elastoskin®, in the manufacture of interior surfaces. Its visual and tactile qualities are nearly indistinguishable from those of leather. BASF develops, manufactures and sells components of cellular polyurethane elastomers under the brand name Cellasto®, which are used for automotive spring aids. Nine in ten automotive manufacturers use BASF springs – making us the market leader.

Our range of polyurethanes continues to include products with thermoplastic properties. On the market, we sell these under the brand name Elastollan® as granulates, which are used in almost all industries, especially in the automotive industry, in products of the electronic and shoe industries, and in sports and leisure articles.

## PERFORMANCE POLYMERS PRODUCTS

- Engineering plastics Ultramid, Miramid and Capron as well as Ultradur and Ultraform for the automotive and electronics industries
- Biodegradable plastics Ecoflex and Ecovio for the packaging industry
- Precursor for foams Neopor, for energy-efficient materials in the construction industry

## POLYURETHANES PRODUCTS

- Elastoflex and Elastopor: Rigid or flexible foams for the construction and furniture industries as well as electric devices
- Elastoskin surfaces for sophisticated vehicle interiors
- Spring aids made of Cellasto for the automotive industry
- Granulate Elastollan with thermoplastic properties for various applications ranging from heart-lung machine to ski boots and cable sheathing



## Research and Development

In addition to innovative manufacturing processes, we focus in particular on product and system development. With our customers, we were able to launch numerous innovations on the market. These include sophisticated structures in vehicles, such as engine mounts and body panels, which are lighter than the alternatives made of metal, thus contributing to the reduction of fuel consumption. They are developed with BASF software directly at the customer's location.

One area we are also focusing on is the use of plastics as energy-efficient products, for example in insulating materials in the construction and automotive industries. The innovative silver gray material Neopor displays a much better insulation capacity than conventional insulation materials. It achieves the same insulation as Styropor while using only half the material. Thus, fewer fossil fuels are needed for the temperature control of buildings. The same amount of fossil fuels needed for the production of the insulating product is already saved during the first heating period.

Polyurethanes are increasingly used as the 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 the ease and speed of installation. We have developed a new generation of polyurethane rigid foams under the name of Elastopir™ in order to meet the needs of stricter 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 that are both energy-efficient and safe.

We offer solutions based on renewable raw materials for various plastics applications. Mattresses made of Lupranol® Balance, for example, contain natural castor oil from the castor oil plant (*Ricinus communis*). This can be used as a raw material for the production of low-emission slab polyols for the first time by utilizing a novel catalyst. In this way the use of fossil energy sources can be reduced. A 10 kilogram mattress core made of Lupranol Balance contains an average of 2.2 kilograms of castor oil. In 2008, this BASF innovation was awarded with the Innovations Award of the American Polyurethanes-Association CPI.

## Marketing and Customer Relations

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 we sell 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 intensively with our customers at an early stage of development in order to find optimal solutions and thus help them sustain long-term success.

In the highly service-oriented business with polyurethane systems and specialties, trust, experience and competence are especially asked for. Through its network of more than 30 polyurethane system houses BASF provides fast local support – from technical service and sales to marketing – in the development of customized solutions.

## RESEARCH AND DEVELOPMENT

- Sophisticated structures in vehicles, which are lighter than alternatives such as metal
- Energy-efficient insulation materials for the reduction of fossil fuel consumption in the temperature control of buildings
- Lupranol Balance: low-emission slab polyol based on castor oil for use in mattresses

## MARKETING AND CUSTOMER RELATIONS

- Quality and efficiency in the marketing of standard products
- Tailor-made technical marketing for specialties and customer-specific products
- Intensive collaboration with our customers at an early stage of development in order to achieve optimized solutions and sustained success

### Capital Expenditures

Location	Project	Additional capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startups
Antwerp, Belgium	Construction of propylen oxide		300,000 <sup>1</sup>	2008
	Construction of hydrogen peroxide		230,000 <sup>2</sup>	2008
Geismar, Louisiana	Expansion of polyols	155,000	350,000	2008
Ludwigshafen, Germany	Expansion of Ecoflex	60,000	74,000	2010
	Expansion of Ultraform	12,000	55,000	2008
	Expansion of Ultrason	6,000	12,000	2008
	Expansion of Neopor	70,000	150,000	2009
Thane, India	Construction of compounding plant for engineering plastics		9,000	2009

<sup>1</sup> Operated by a joint venture company in which BASF has a 50% stake and which is proportionally consolidated in the Group Consolidated Financial Statements.

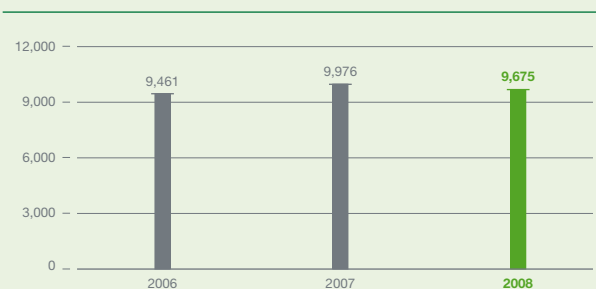
<sup>2</sup> Operated by a joint venture company in which BASF has a 25% stake and which is consolidated using the equity method.

### Production Capacities of Significant Products

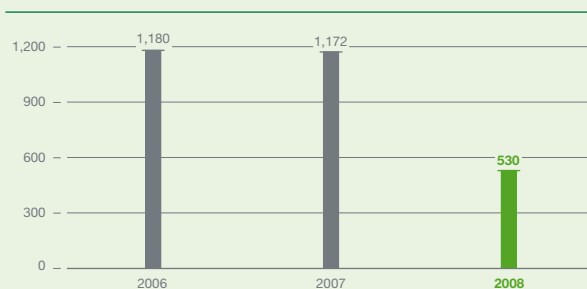
Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Isocyanate	X	X	X		1,840,000
Polyamide	X	X			720,000
Polyamide precursors	X	X			1,370,000
Propylene oxide	X		X		925,000 <sup>1</sup>

<sup>1</sup> Of which 800,000 metric tons are for polyurethane applications. Contains the full capacity of three joint venture companies for the production of propylene oxide in Belgium, the Netherlands, and in Singapore, in which BASF has a 50% stake in each and which are proportionally consolidated in the Group Consolidated Financial Statements.

### Sales Plastics (million €)



### Income from operations Plastics (million €)



#### Segment data (million €)

	2008	2007	Change in %
Sales to third parties	9,675	9,976	(3.0)
Thereof Performance Polymers	4,535	4,810	(5.7)
Polyurethanes	5,140	5,166	(0.5)
Intersegmental transfers	642	828	(22.5)
Sales including intersegmental transfers	10,317	10,804	(4.5)
Income from operations before depreciation and amortization (EBITDA)	962	1,655	(41.9)
Income from operations (EBIT) before special items	544	1,261	(56.9)
Income from operations (EBIT)	530	1,172	(54.8)
Income from operations (EBIT) after cost of capital	(42)	626	—
EBITDA in percent of sales	9.9	16.6	—
Assets	5,060	5,605	(9.7)
Research and development expenses	147	142	3.5
Additions to property, plant and equipment and intangible assets	478	510	(6.3)

**Sales to third parties decreased slightly by €301 million to €9,675 million (volumes –2%, prices 3%, currencies –4%). In the wake of the economic crisis, income from operations dropped significantly due to lower volumes and margins. At €530 million, income from operations was €642 million lower than in 2007. In 2009, we expect sales to decrease. We aim to increase earnings due to lower one-time charges and optimized cost structures.**

#### Performance Polymers

Since January 2008, the division consists of the foams and specialty plastics businesses in addition to the engineering plastics and the polyamide and intermediates businesses.

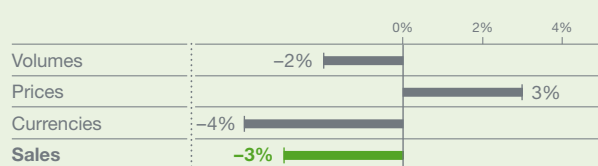
At €4,535 million, sales to third parties were lower than the corresponding level of the previous year (volumes –4%, prices 2%, currencies –4%). Sales volumes declined due to drastic order cutbacks from our key customer industries – automotive, construction, and in Asia, textiles – in response to the global economic downturn.

In the first three quarters, we were able to raise sales prices in all major product lines due to increasing raw material prices. In the fourth quarter, the economic downturn led to a decline in raw material prices which, at declining demand, required us to adjust prices particularly for polyamides and intermediates.

As a result of the development of the crisis and extremely volatile raw material prices, the income from operations achieved up to August was eroded in the last months of 2008, and was negative for the full year. This was due to lower volumes and margin erosion, especially for polyamides and intermediates, reduced capacity utilization at production facilities and inventory writedowns.

In August, we sold our site in Seal Sands, United Kingdom, to Ineos Nitriles as part of the optimization of our cost structure for polyamides and intermediates. Because inventories and property, plant and equipment had already been written down in the previous year, the lack of scheduled depreciation had a positive effect on income from

#### Factors influencing sales – Plastics



#### Sales by division (million €)



operations in 2008. However, we suffered a loss because of contractual obligations in conjunction with the sale. The production plant for hexamethylenediamine, an important precursor for polyamide 6.6, remains the property of BASF but is operated by Ineos Nitriles.

For 2009, we expect sales to decline due to weak demand in our key customer industries – automotive, construction and textile – and lower raw material prices. Nevertheless, we expect income from operations to grow due to improved cost structures and new potential offered by the marketing of innovative products.

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



#### Polyurethanes

At €5,140 million, sales to third parties were €26 million below the previous year's level (volumes 0%, prices 4%, currencies –5%).

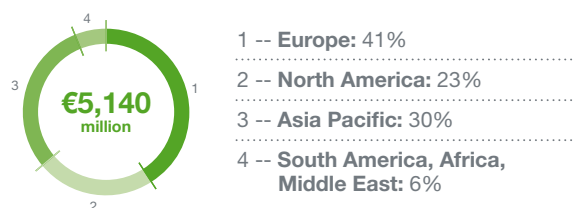
In Europe, our business grew until the third quarter. The previous years' growth trajectory continued in Asia Pacific in the first half of 2008. During the Olympic Games in Beijing, China, however, the authorities imposed restrictions on our customers' production and on the transportation of our own products. This led to a decline in demand in China at the beginning of the second half of the year. In North America, we posted lower sales, in particular due to the slowdown in our most important customer industries – construction and automotive. In September, we had to

curtail our activities and temporarily stop production due to Hurricane Gustav. In the first three quarters, we were able to largely pass on higher raw material and energy prices in the form of higher prices.

In 2008, we posted a lower income from operations due to the drastic decline in demand in the fourth quarter. Writedowns on inventory were necessary in the fourth quarter because of a significant decline in sales prices.

For 2009, we expect a continued difficult economic environment and lower margins also due to new capacities for important basic products. We expect sales as well as income from operations below the level of the previous year.

#### Polyurethanes -- Sales by region (location of customer)



## PERFORMANCE POLYMERS

- Lower sales because of significantly lower sales volumes in the fourth quarter
- Income from operations was negative because of lower volumes and margin erosion, lower capacity utilization rates, inventory writedowns and special charges
- Lower sales, but higher earnings due to efficiency enhancements expected for 2009

## POLYURETHANES

- Sales almost match previous year's level, despite significant declines in the fourth quarter
- Decline in earnings due to drop in demand and declining margins in the fourth quarter
- Lower sales and earnings expected for 2009

# PERFORMANCE PRODUCTS

## Innovative and high-growth specialties

**The Performance Products segment consists of the Acrylics & Dispersions, Care Chemicals and Performance Chemicals divisions. Our customers use our products and services to make their processes more efficient and to offer products on the market that clearly stand out in the competition.**

### Segment strategy

Specialties make up a major part of our product range. Key success factors are innovations, close links to leading companies of our customer industries as well as special applications and development expertise. Our products create an additional benefit for our customers, which distinguish them from their competitors. This is why we develop new solutions preferably with our customers and strive for long-term collaborations which create profitable growth opportunities for both sides.

We follow another business model for standard products such as acrylic acid and vitamins. Here, efficient production structures within the BASF Verbund, capacity management as well as technology and cost leadership are crucial.

A central element of the value-adding strategy is the active management of our business and product portfolios. We expand our share of innovative, cyclically resilient, and growth businesses through acquisitions and divestitures. With the planned acquisition of Ciba Holding AG we will strengthen our position in several specialties markets, in particular in plastic additives.

### Our Products

**Acrylics & Dispersions** produces acrylic acid as well as its derivatives superabsorbents and polymer dispersions. Superabsorbents are used particularly in diapers. Polymer dispersions are used in the production of glues, coatings, nonwoven materials and construction chemicals. Our product portfolio for the paper industry comprises binders, process chemicals and kaolin pigments. Innovative Luredur® polyvinylamin products, for example, optimize the process of paper manufacturing through higher productivity and lower energy needs.

The portfolio of the **Care Chemicals** division for the cosmetics, as well as the detergents and formulators business is made up of polymers, surfactants, UV filters, chelating agents and other specialties, which are increasingly used in chemical-technical industries. Here, sustainability is an important goal. An innovative product in our chelating agent range is Trilon® M, a highly effective and environmentally friendly detergent. Important products for human nutrition and animal nutrition include vitamins, carotenoids and enzymes. The division provides the pharmaceutical industry with active ingredients such as caffeine and ibuprofen, as well as excipients and customized synthesized products.

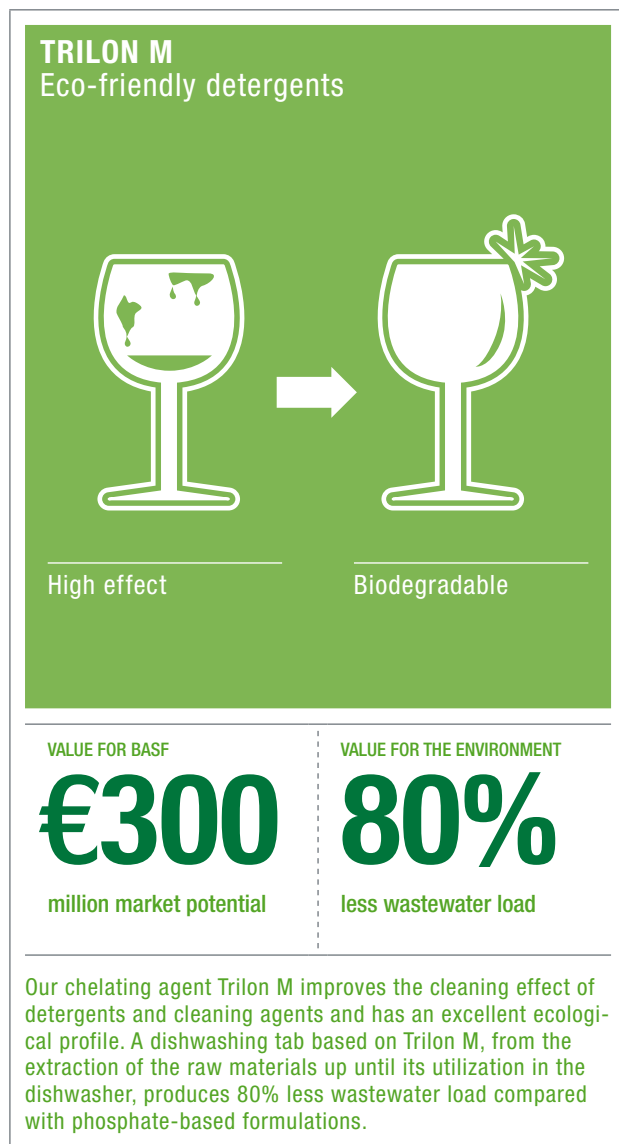
**Performance Chemicals** pools high-value specialties for various customer industries. These include chemicals for the production and finishing of leather and textiles as well as pigments and resins for the coatings and plastics industries. For example, our innovative black pigments do not absorb long wave solar radiation so that dark surfaces remain cooler and there is less strain on the material of the colored construction components. The division develops the latest brake fluids and engine coolants for the automotive, refinery and oil industries as well as fuel additives, refinery and oilfield chemicals.

## STRATEGY

- Success factors for specialties: Innovation, close links to leading customer companies, applications and development expertise
- Success factors for standard products: Efficient production structures within the Verbund, capacity management as well as technology and cost leadership
- Active portfolio management

## PRODUCTS

- Acrylics & Dispersions: Acrylic acid as well as its derivatives superabsorbents and polymer dispersions
- Care Chemicals: Product portfolio for the cosmetics, detergents and formulators industries, animal nutrition and human nutrition as well as the pharmaceutical industry
- Performance Chemicals: High-quality specialties for various industrial applications



### Research and Development

We focus on the development of new products as well as the improvement of existing products. We align ourselves with our customers' needs and sustainable market trends, for example novel adhesive raw materials for resealable food packaging. Close collaboration with innovation leaders among our customers is decisive when it comes to the development of new solutions and their successful launch on the market, as for example with our innovative superabsorbents for ultra thin hygiene products which need less raw materials. We concentrate our resources on innovative, rapidly growing markets and applications in which we can distinguish ourselves from competitors through our special expertise. Simultaneously, we are accelerating the further development and flexibility of our production technologies and processes. This applies in particular for the acrylic acid value-adding chain and for vitamins in the Care Chemicals division.

### Marketing and customer relations

Our customer portfolio is made up of large and medium-sized enterprises, global and regional customers in almost all areas of the consumer and capital goods industries. We service them directly and individually. With many customers, we have had business collaborations and partnerships for many years. In addition to innovative products, applications services are often part of the service package. We work with specialized distributors for the servicing of smaller customers and for certain products and applications. We also supply internal customers, for example the Coatings and Construction Chemicals divisions, that obtain important feedstocks from the divisions in the Performance Product segment.

## RESEARCH AND DEVELOPMENT

- Development of new products, alignment to customers' needs and sustainable market trends
- Cooperation with innovation leaders of the respective sectors
- Focus on innovative and rapidly growing markets
- Further development and increase in flexibility of our production technology and processes

## MARKETING AND CUSTOMER RELATIONS

- Broad customer portfolio of large and medium sized as well as global and regional customers from almost all areas of the consumer and capital goods industries
- Applications services are often part of the service package
- Specialized distributors for the servicing of smaller customers as well as for certain products and applications

## Capital Expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Antwerp, Belgium	Expansion polyisobutene (low molecular weight)	25,000	100,000	2008
Antwerp, Belgium	Expansion acrylic acid	160,000	320,000	2008
Ludwigshafen, Germany	Expansion butylacrylate	n/a.	n/a.	2008
Nanjing, China	Construction polyisobutene, surfactants and superabsorbents		n/a.	n/a.
Shanghai, China	Construction performance chemicals for leather tanning		12,000	2008
Shanghai, China	Construction polyacrylate polymers		30,000	2008
Wyandotte, Michigan	Construction water-based resins		n/a.	2009

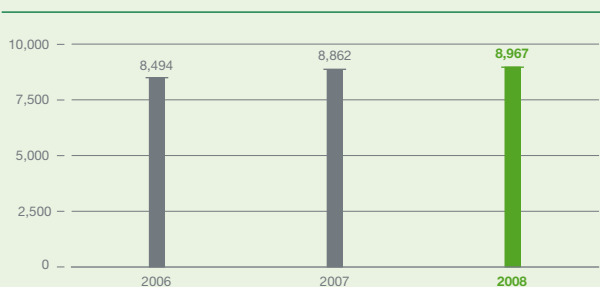
## Production Capacities of Significant Products

Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Acrylic acid	X	X	X		1,175,000 <sup>1, 2</sup>
Citral	X				40,000
HDI (hexamethylenediisocyanate)	X				10,000
Methanesulfonic acid	X				10,000
Nonionic surfactants	X	X			435,000
Organic pigments	X	X		X	21,000
Polyisobutene	X				145,000
Superabsorbents	X	X	X		400,000

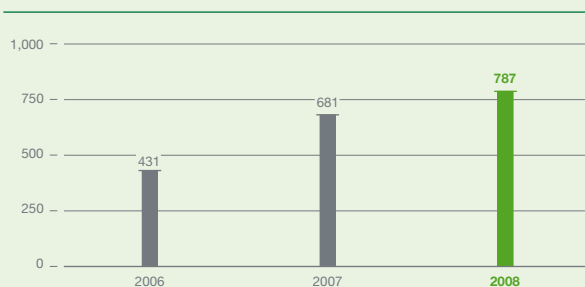
<sup>1</sup> Contains the total capacity of a joint venture company for the production of 160,000 metric tons of acrylic acid in Kuantan, Malaysia, in which BASF has a 60% stake.

<sup>2</sup> 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% stake and which is proportionally consolidated in the Group Consolidated Financial Statements.

## Sales Performance Products (million €)



## Income from operations Performance Products (million €)





## Segment data Performance Products (million €)

	2008	2007	Change in %
Sales to third parties	8,967	8,862	1.2
Thereof Acrylics & Dispersions	3,632	3,522	3.1
Care Chemicals	3,065	3,029	1.2
Performance Chemicals	2,270	2,311	(1.8)
Intersegmental transfers	422	361	16.9
Sales including intersegmental transfers	9,389	9,223	1.8
Income from operations before depreciation and amortization (EBITDA)	1,286	1,143	12.5
Income from operations (EBIT) before special items	785	712	10.3
Income from operations (EBIT)	787	681	15.6
Income from operations (EBIT) after cost of capital	138	24	475.0
EBITDA in percent of sales	14.3	12.9	—
Assets	6,352	6,397	(0.7)
Research and development expenses	231	267	(13.5)
Additions to property, plant and equipment and intangible assets	432	434	(0.5)

**We increased sales to third parties by €105 million to €8,967 million (volumes 0%, prices 8%, portfolio –4%, currencies –3%). Income from operations increased to €787 million due to the high profitability of the Care Chemicals division.**

**For 2009, we expect significantly higher sales following the integration of the Ciba business. Due to difficult market conditions and acquisition-related charges, we expect income from operations to be below the level of 2008.**

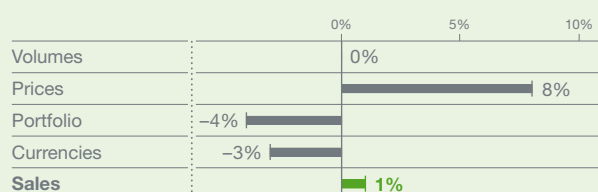
## Acrylics &amp; Dispersions

In 2008, we posted sales to third parties of €3,632 million, an increase of €110 million compared with 2007 (volumes 1%, prices 5%, currencies –3%). Business in the individual product lines was mixed. Sales of acrylic monomers increased compared with the previous year due to higher

volumes and prices. Higher volumes increased sales of superabsorbents. Sales of paper chemicals declined slightly due to lower volumes caused by the continuing consolidation of our customers in the paper industry. Sales of adhesive and construction polymers improved in all regions. Sales volumes and sales of kaolin minerals declined due to the persistent weakness of the paper industry.

Raw material prices, which had been rising into the third quarter, could not be passed on fully to the market. This led to lower margins in almost all businesses. Margins for acrylic monomers declined, in particular as a result of continued high overcapacities in Asia. Continued consolidation measures by our customers in the paper industry put pressure on margins for paper chemicals. Margins for adhesive and construction polymers declined in Europe compared with 2007 due to higher raw material prices. The kaolin business was negatively impacted by lower

## Factors influencing sales – Performance Products



## Sales by division (million €)



- 1 -- Acrylics & Dispersions: 41%
- 2 -- Care Chemicals: 34%
- 3 -- Performance Chemicals: 25%

volumes, higher gas prices in the middle of the year and significantly higher container freight rates. In North America, we further expanded our successful asphalt business. Toward the end of the year, the normal seasonal slowdown in construction-related industries was intensified by the economic slump. This was reflected in the significant decrease of demand for acrylic monomers as well as from the packaging industry. Demand-related adjustments in production led to higher costs due to underutilization. Income from operations was below the previous year's level.

In the third quarter of 2008, we started up additional annual capacity of 160,000 metric tons of acrylic acid in Antwerp, Belgium, thus achieving a further milestone in securing the internal supply of acrylic acid.

We expect a difficult economic environment for 2009. Hardly any growth will come from our key customer industries - automotive, construction and packaging. In the paper industry, we do not expect any improvement of the present situation. We expect solid performance from the hygiene sector. Overall, in this difficult economic environment, we expect sales to decline due to lower prices, with volumes remaining stable. We anticipate earnings to decrease only slightly thanks to our productivity improvement and cost-saving initiatives.

#### Acrylics & Dispersions -- Sales by region (location of customer)



- 1 -- **Europe:** 49%
- 2 -- **North America:** 24%
- 3 -- **Asia Pacific:** 19%
- 4 -- **South America, Africa, Middle East:** 8%

#### Care Chemicals

Sales to third parties in the Care Chemicals division increased by €36 million to €3,065 million, (volumes 1%, prices 12%, portfolio -9%, currencies -3%). Sales rose by €311 million when adjusted for structural effects related to the sale of the lysine and premixes businesses; the sale of the pharmaceuticals manufacturing business in Shreveport, Louisiana; and the sale of WIBARCO, a subsidiary involved in the surfactant business.

We significantly increased income from operations in a stable market environment, in particular because of the strong performance of the nutrition unit. This was due to lower fixed costs following restructuring measures and higher sales prices for the citral-based vitamins E and A.

Integrating the personal care ingredients and detergents & formulators units, the division gave new impetus to marketing activities and innovation. By launching new products, we managed to satisfy the growing demand for environmentally friendly and sustainable solutions. In addition, margins were held stable despite higher raw material prices.

## ACRYLICS & DISPERSIONS

- Higher sales due to higher volumes for superabsorbents as well as higher volumes and prices for acrylic monomers
- Lower earnings, margins decline in almost all businesses
- Lower sales and slightly lower earnings expected for 2009

## CARE CHEMICALS

- Higher sales despite divestitures
- New stimulus from optimized marketing activities and innovations
- Significant increase in earnings thanks in particular to the nutrition unit
- For 2009, sales and earnings expected slightly below the level of 2008

Overall, special items did not have a significant influence on income from operations.

In 2009, as a result of our broadly positioned, cyclically resilient portfolio, we expect the negative impact from the economic crisis on the Care Chemicals division to be only limited. Despite the difficult market environment, we expect sales and earnings to decline only slightly compared with the exceptionally high levels reached in 2008.

#### Care Chemicals -- Sales by region (location of customer)



#### Performance Chemicals

At €2,270 million, sales to third parties declined compared with 2007 (volumes -1%, prices 5%, portfolio -3%, currencies -3%). Negative currency effects were offset by price increases. Until the third quarter, sales volumes matched the previous year's level, but then fell significantly in the fourth quarter due to the drop in demand in almost all customer industries.

In Europe, we increased prices, although sales declined for structural reasons. Sales also declined in North America. Here, higher sales prices could not offset lower volumes and negative currency effects. In Asia, higher prices were offset by negative currency effects; volumes were at approximately the same level as in 2007.

In 2008, we increased sales in our automotive, refinery and oilfield chemicals. In contrast, sales with chemicals for coatings and plastics decreased as a result of the difficult economic condition of important customer industries particularly in North America. In a difficult global environment, sales in leather and textile chemicals also declined.

Income from operations did not match the previous year's level despite the increase in profitability in automotive and refinery chemicals. Lower earnings were posted in particular for chemicals for coatings and plastics. The necessary adjustments in production levels following the significant decline in sales volumes toward the end of the year caused idle costs to rise.

We introduced additional measures to increase efficiency for the entire value-adding chain and will continue with this in 2009. Through these measures, we aim to ensure our success even in difficult economic times. We are creating a further basis for profitable long-term growth with the startup of a new plant for the production of water-based resins in Wyandotte, Michigan, in 2009.

For 2009, we expect the weak economic environment to continue and thus expect a slight decline in sales and earnings.

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



## PERFORMANCE CHEMICALS

- Decline of sales in particular due to lower sales volumes in the fourth quarter
- Lower earnings due to poor performance in chemicals for coatings and plastics
- In 2009 a slight decline in sales and earnings expected

# FUNCTIONAL SOLUTIONS

## Customer-specific products and system solutions

The Functional Solutions segment consists of the Catalysts, Construction Chemicals and Coatings divisions. These divisions develop innovative, sector and customer-specific products and system solutions, in particular for the automotive and construction industries.

### Segment Strategy

Our portfolio is made up of innovative products and technologies that allow our customers to differentiate themselves from their competitors. The success of the segment is based primarily on specialties and system solutions, which we develop in collaboration with our customers. Our strategy focuses on the continued optimization of our product portfolios based on regionally differentiated market requirements as well as megatrends in our customer industries. We aim to strengthen our leading market position in Europe, to continue improving our position on the North American market, and to profitably expand our activities in the growth regions of Asia, South America, Eastern Europe and the Middle East.

### Our Products

The Catalysts division develops and produces catalysts, which destroy pollutants in off-gas streams of vehicles. With our Catalyzed Soot Filter for example, we offer our customers worldwide an integrated catalytic converter for diesel vehicles. Furthermore, we produce process catalysts which increase the raw material and energy efficiency of chemical plants and refineries. Our catalyst NaphthaMax II™, for example, increases the gasoline yield of crude oil. In addition to the development and production of catalysts, the division provides base and precious metals and services in this area.

Worldwide, the Construction Chemicals division is leading in the area of concrete admixtures such as concrete plasticizers, deferrers and curing agents. These facilitate a simple and efficient processing of concrete, and increase the stability and durability of concrete structures. Our Smart Dynamic Construction concept is an example of energy-efficient and economical construction: The system solution for highly fluid, self-compacting concrete saves energy and labor, as mechanical compacting is no longer necessary. In addition, we produce and market construction systems that help to protect and repair concrete constructions. Our portfolio includes tile adhesives, mortar, water-proofing and thermal-insulation, as well as, for sports and industrial flooring such as our brand Ucrete®. These are extremely resistant to mechanical, chemical and thermal impact, thus meet the highest standards, for example, for pharmaceutical and food production.

The Coatings division is among the world's largest providers of innovative and environmentally friendly coatings solutions for automotive and industrial applications. Our brands Glasurit® and R-M® for the car refinish business make us successful in the premium segment worldwide. In South America, we are one of the leading manufacturers of architectural coatings, with an excellent market position of our brand Suvinil®.

### Research and Development

We have a worldwide unique research platform in the Catalysts division and are strengthening our leading technological position through continued process and product innovations. Our focus is on meeting stricter exhaust gas emission norms and on increasing efficiency. One of the division's innovations are the new metal-zeolite-catalysts for use in diesel powered vehicles.

## STRATEGY

- Innovative products and technologies
- Focus on the development of specialties and system solutions in collaboration with our customers
- Continued optimization of our product portfolios according to regional market requirements and global megatrends in the customer industries

## PRODUCTS

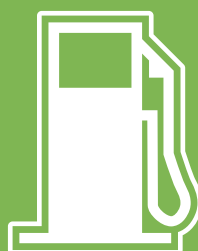
- Catalysts: Automotive and process catalysts
- Construction Chemicals: Concrete admixtures and construction systems
- Coatings: Innovative and eco-friendly coatings solutions for automotive and industrial applications, and architectural coatings

**NAPHTHAMAX**

Highly effective catalyst



Conversion of crude oil into gasoline and other fuels



Higher fuel yield

VALUE FOR BASF

**€900**

million market potential for gas oil cracking catalysts

VALUE FOR THE CUSTOMER

**2-3%**

higher fuel yield

Fluid cracking catalysts split the heavy molecules of crude oil into lighter compounds which are the basis for gasoline and other fuels. NaphthaMax ensures higher product yield without producing more unwanted by-products. Numerous experiments have shown that refineries can increase their fuel yield by 2 to 3% and therefore produce more economically.

Construction Chemicals orients its research and development activities towards customers' needs and the megatrends in the construction industry. Sustainability, cost and resource efficiency are the focus of the division's research. Key topic areas are polymers, reactive resins, new formulations and tailor-made system solutions as well as mineralogy and nanotechnology.

In the Coatings division, we are developing new solutions for integrated coatings processes, eco-efficient coatings, as well as highly scratch-resistant clear coats in close collaboration with our customers in the automotive industry. Additional research topics include improved products for rapidly growing applications such as wind turbine farms as well as for fulfilling higher ecological requirements, for example developing chrome-free coatings for industrial uses.

**Marketing and customer relations**

Our customer portfolio is highly diversified and ranges from large customers in the automotive, construction and chemical industries, to medium-sized regional customers and to small businesses, such as car repair shops. Our business models and sales channels are aligned with the needs of the specific customer groups and market segments. We service our major customers individually and offer them customer-specific research and development activities and technical services. In 2008, for example, the Coatings division opened a new Color Design Studio in Münster, Germany, enabling us to identify and present the future trends in the coatings industry with our partners from the automotive sector at an early stage.

**RESEARCH AND DEVELOPMENT**

- Worldwide unique platform for catalysis research in the Catalysts division
- Focus on sustainability and cost and energy efficiency in Construction Chemicals
- New solutions for integrated processes, eco-efficient coatings, as well as highly scratch-resistant clearcoats in the Coatings division

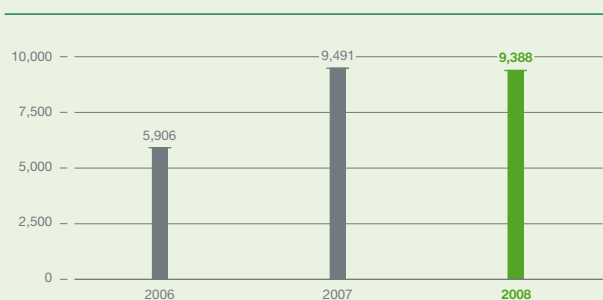
**MARKETING AND CUSTOMER RELATIONS**

- Our broad customer portfolio comprises major customers from the automotive, construction and chemical industry as well as medium-sized regional customers
- Business models and sales channels aligned with needs of the specific customers groups and segments
- Individual customer services and customer-specific development activities and technical services for major customers

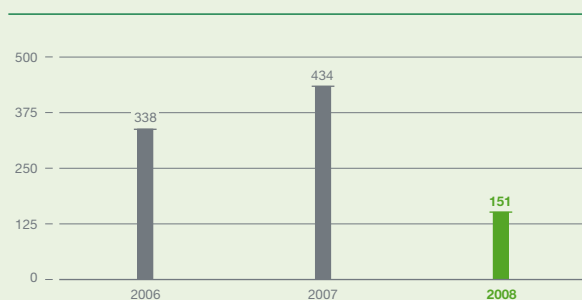
## Capital Expenditures

Location	Project	Startup
Chennai, India	Expansion of mobile emissions catalysts	2008
DeMeern, the Netherlands	Expansion of chemical catalysts	2008
Guaratinguetá, Brazil	Construction of concrete admixtures	2008
Huntsville, Alabama	Expansion of mobile emissions catalysts	2008
Calcutta, India	Construction of concrete admixtures	2008
Moscow, Russia	Construction of mobile emissions catalysts	2009
Münster, Germany	Expansion of water-based finishes	2009
Pasadena, Texas, and Tarragona, Spain	Expansion of polyolefin catalysts	2008
Pavlovsky Posad, Russia	Construction of automotive coatings	2008
Shanghai, China	Expansion of mobile emissions catalysts	2009
Shandong, China	Construction of concrete admixtures	2008
Wuhan, China	Construction of concrete admixtures	2008
Würzburg, Germany	Expansion of water-based finishes	2009

## Sales Functional Solutions (million €)



## Income from operations Functional Solutions (million €)



## Segment data Functional Solutions (million €)

	2008	2007	Change in %
Sales to third parties	9,388	9,491	(1.1)
Thereof Catalysts	4,729	4,804	(1.6)
Construction Chemicals	2,163	2,100	3.0
Coatings	2,496	2,587	(3.5)
Intersegmental transfers	147	141	4.3
Sales including intersegmental transfers	9,535	9,632	(1.0)
Income from operations before depreciation and amortization (EBITDA)	564	876	(35.6)
Income from operations (EBIT) before special items	265	557	(52.4)
Income from operations (EBIT)	151	434	(65.2)
Income from operations (EBIT) after cost of capital	(750)	(401)	(87.0)
EBITDA in percent of sales	6.0	9.2	—
Assets	8,693	8,730	(0.4)
Research and development expenses	186	181	2.8
Additions to property, plant and equipment and intangible assets	234	315	(25.7)

As a result of the significant decline in demand and negative currency effects, sales to third parties declined slightly by 1.1% to €9,388 million (volumes –3%, prices 6%, currencies –4%). Income from operations decreased by €283 million to €151 million. This was primarily due to the drastic decline in demand from our key customer industries – construction and automotive – and higher raw material costs, which negatively impacted margins.

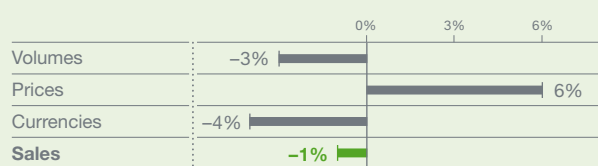
In 2009, we expect the market environment to remain difficult in the automotive and construction industries; as a result, we anticipate a slight decline in sales. We aim to increase income from operations.

## Catalysts

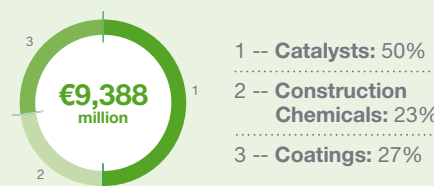
At €4,729 million, sales to third parties almost matched the previous year's level despite significant negative currency effects (volumes –4%, prices 8%, currencies –6%). Without these currency effects, sales would have increased by 4%.

We increased sales of chemical and refinery catalysts. In 2008, the market environment for automotive catalysts was difficult due to the dramatic decline in automotive production, in particular in North America and Europe. In contrast, we increased volumes and sales in emerging markets, particularly in Asia Pacific. As a result of higher average prices for precious metals, the Precious and Base Metal Services unit increased its sales by 3% to €2,467 million.

## Factors influencing sales – Functional Solutions



## Sales by division (million €)





Income from operations was below the previous year's level, in particular due to negative currency effects and the especially weak market environment in the fourth quarter. Higher contributions from our business with chemical catalysts could not offset the significantly lower earnings from automotive catalysts.

For 2009, we expect a significant decline in sales due to the lower precious metals prices. However, this will affect earnings only marginally. In addition, we expect a further deterioration in the market environment for automotive catalysts for 2009 and a probable decline in vehicle production in all regions compared with 2008. We are, nevertheless, cautiously optimistic about profitably expanding our business with process catalysts. Overall, income from operations in 2009 will not reach the level posted in 2008.

#### Catalysts -- Sales by region (location of customer)



#### Construction Chemicals

In 2008, sales to third parties increased slightly to €2,163 million due to higher prices (volumes -2%, prices 5%, portfolio 2%, currencies -2%). We continued to grow in Eastern Europe and the Middle East as well as in large parts of Asia. In contrast, in North America, Japan and Spain as well as in other important Western European markets, the very weak growth in the construction industry negatively impacted our business.

Income from operations declined significantly compared with the previous year and was negative. Higher raw material and transportation costs could not be passed on fully to customers due to the decline in business. Margins decreased.

We started up new plants for the formulation of concrete admixtures in Shandong and Wuhan, China, and Calcutta, India. We started up a new production facility for polymers in Guaratinguetá, Brazil.

In addition, we acquired the concrete admixtures business of the Chinese company, Kejie Admixture Science & Technology Co. Ltd., a leading manufacturer of concrete admixtures in southern China.

For 2009, we expect continued weak demand, particularly in North America and Western Europe. In North America, the continuing crisis in residential construction is accompanied by the cyclical downturn in commercial construction projects. In Western Europe, the global financial crisis will negatively impact industrial and residential construction in particular. We expect a better market environment in Asia, South America, and the Middle East. However, a weaker growth dynamic in the construction industry is expected also in these regions. The impact of infrastructure investments contained in the economic stimulus packages announced in many countries will be felt at the end of 2009 at the earliest.

In 2009, we expect higher sales and significantly higher earnings due to higher prices and margins as well as measures for optimizing fixed costs. In this difficult market environment, we aim to achieve larger volume growth primarily in Asia and South America.

## CATALYSTS

- Despite considerable negative currency effects, sales almost match previous year's level
- Difficult market environment for vehicle catalysts as a result of significant decline in automobile production
- Income from operations declines in 2008
- Sales and earnings decrease expected for 2009

## CONSTRUCTION CHEMICALS

- Sales increase slightly due to growth in Eastern Europe, in the Middle East and in large parts of Asia
- Very difficult market environment in the United States, Japan, and many Western European countries
- Earnings decline significantly due to economic environment and lower margins; special charges from restructuring
- 2009: Growth in sales and earnings expected

**Construction Chemicals -- Sales by division** (location of customer)**Coatings**

At €2,496 million, sales to third parties were below the previous year's level (volumes -3%, prices 2%, portfolio -1%, currencies -2%).

Strong growth in architectural coatings in South America could not offset the declines in other regions and business sectors, in which demand fell significantly, especially in the fourth quarter. A dramatic deterioration in the market environment in the automotive and construction industries as well as negative currency effects resulted in a decline in sales in North America. In Europe and Asia too, weak volumes in the automotive industry led to lower sales of automotive coatings.

Sales decreased slightly in the automotive refinish coatings business unit. The steady demand for coatings for tractors and other agricultural vehicles in Europe as well as the expansion of the business for our brands Glasurit® and Salcomix® could not completely offset the negative currency effects, particularly in North America.

As a result of weaker performance in North America and a decline in Coil Coatings in Europe in the fourth quarter, sales for industrial coatings declined slightly. Growth in coatings for wind turbine farms could not offset the downturn.

Our architectural coatings business in South America grew faster than the strongly growing market and we were able to increase our market share.

Income from operations declined compared with 2007 due to the overall decrease in sales as a result of the crisis in the automotive industry, which intensified dramatically in the fourth quarter of the year, and the continued pressure on margins resulting from higher raw material costs.

Special items were at the previous year's level and resulted from restructuring in North America, Asia and Europe, as well as the sale of our coil coatings business in North America. We will shut down the production plant in Decatur, Alabama in the second half of 2009 and the Plastisol plant in Belvidere, New Jersey, at the end of 2010. These plants were not purchased by the acquirer. With these measures and the start up of our new manufacturing site in Pavlovsky Posad, Russia, we are reacting to changes in the regional distribution of demand.

For 2009, we expect a decline in production in the automotive industry and an overall weaker consumer demand. This will result in a decline in sales. Income from operations will slightly improve due to our planned restructuring measures. We will continue to expand our presence in the growth regions of Eastern Europe and Asia, particularly in Russia, China and India.

**Coatings -- Sales by region** (location of customer)**COATINGS**

- Lower sales, in particular due to the sharp drop in demand of the automotive industry and the construction sector in North America
- Earnings below previous year's level due to lower volumes and margins
- For 2009, lower sales and slight increase in earnings expected

# AGRICULTURAL SOLUTIONS

## Development of innovative active ingredients and solutions

The Agricultural Solutions segment consists of the Crop Protection division. We develop and produce innovative active ingredients and formulations for the improvement of crop quality and yields, and market them worldwide.

### Crop Protection

#### Strategy

In the Crop Protection division we grow through innovation. Our focus is on the continuous development of new solutions to optimally address the needs of our customers. We concentrate on high value markets and applications and strategically optimize our portfolio.

Innovation is decisive for our success. For us, this means the constant development and supply of new and improved active ingredients. We achieve this through continued investments in our product pipeline. In addition, we focus on the research and development of new formulations. Successful growth for us also entails identifying and utilizing the potential of new business models as well as

tapping into new market segments, where appropriate also through acquisitions.

#### Our Products

Our products and services make us a reliable partner of the farming industry. Our products contribute to improving plant health and the yields of crops and add value to non-agricultural applications, such as pest control in buildings. Our innovative portfolio of fungicides, insecticides, herbicides and seed treatments make us a leader in crop protection. We develop new markets in close partnership with our customers and on the basis of our in-depth knowledge of plant physiology and our innovative portfolios. Increasing yields, for example, is the goal of our newly developed Plant Health market segment. Our product Headline®, with which we became market leader in the U.S. corn (maize) and soybean fungicide market in 2008, belongs to this market segment. Headline contains the active ingredient F500®, which is not only used for corn and soybean, but also for numerous other crops.

#### Crop Protection Pipeline

	Market segments	Total peak sales potential
<b>Active ingredients launched on the market</b>		
F500 (F), boscalid (F)	Crops, specialty crops	€1,400 million
Titrosulfuron (H)	Crops	
Chlorfenapyr (I)	Pest control	
<b>Active ingredients/projects in market launch</b>		
Dimoxystrobin (F), metrafenone (F), orysastrobin (F)	Crops, specialty crops	€700 million
Topramezone (H), F500 fungicide seed treatment (F)	Crops	
Metaflumizone (I)	Specialty crops	
<b>Active ingredients/projects in development</b>		
2 fungicides	Crops, specialty crops, seed treatment	€700 million
1 herbicide, 2 herbicide tolerance projects	Crops	
1 insecticide	Pest control	
<b>Total</b>		<b>€2,100 million</b>

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

## STRATEGY AND PRODUCTS

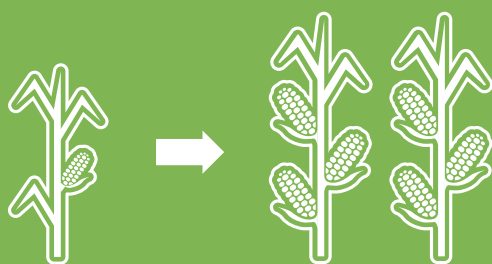
- Leading position due to innovative portfolio and continuous development of new active ingredients and formulations
- Our products are fungicides, insecticides, herbicides, seed treatments and applications in the non-agricultural sector
- Plant Health concept: Product Headline is the leader in the U.S. in corn (maize) and soybean markets

## RESEARCH AND DEVELOPMENT

- 2008: €325 million for research and development
- Pipeline with peak sales potential of €2,100 million
- Four new active ingredients and two herbicide tolerant projects in development phase
- Successful development of boscalid, market potential significantly expanded from new mixtures with other active ingredients

## HEADLINE FUNGICIDE

### Innovative active ingredient



Better quality,  
easier harvest

VALUE FOR BASF

# No.1

in the U.S. corn and  
soybean market

VALUE FOR THE CUSTOMER

# 6-10%

more yield

F500, the active ingredient contained in Headline simultaneously fights fungal diseases and strengthens plant health. In addition to improved quality, it also leads to a considerable increase in yields. With Headline, we are the market leader in the United States and are continuing to expand our position worldwide. In Brazil, we successfully launched our new umbrella brand AgCelence.

F500 is the centerpiece of our Plant Health concept. We aim to continue expanding this concept worldwide. In South America, we successfully introduced AgCelence™, our umbrella brand for Plant Health, in 2008.

## Research and Development

We make targeted investments to identify novel active ingredients at an early stage and to accelerate the time to market of our research and development projects. In 2008, research and development expenditures were €325 million. As a percentage of sales, this amounts to 9.5%. Our pipeline currently has a peak sales potential of €2,100 million. Of this, €700 million relates to our future product innovations. A total of €1,400 million relates to active ingredients launched since 2002 with which we have achieved approximately 70% of the peak sales potential in 2008.

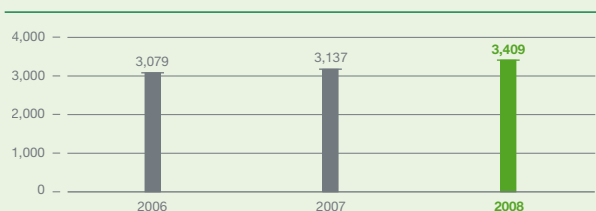
Once again the fungicide boscalid performed strongly in 2008. Its market potential has been expanded significantly due to new mixtures with other active ingredients. We intend to achieve annual sales considerably above €250 million with boscalid.

Currently, we are working on the development of four new active ingredients and two new herbicide tolerance projects. The new herbicide Kixor™ is especially promising. This active ingredient demonstrates excellent performance against hard-to-control weeds in important crops. Simultaneously, Kixor will play a significant role in successfully combating weeds that are resistant to glyphosate. In future, we aim to achieve annual sales of over €100 million with Kixor. The launch in the United States is scheduled for 2009.

## Marketing and Customer Relations

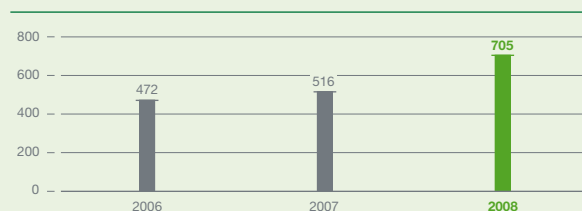
Innovative, high-value products and services as well as strong local competence are key factors for the good partnership with our customers. We supply farmers in the key agricultural markets Europe, North America, Brazil, Argentina and Japan via a global network of trading partners.

Sales Agricultural Solutions <sup>1</sup> (million €)



<sup>1</sup> Sales, earnings and all additional data of BASF Plant Science are not included in the Agricultural Solutions segment but reported in "Other."

Income from operations Agricultural Solutions <sup>1</sup> (million €)



<sup>1</sup> Sales, earnings and all additional data of BASF Plant Science are not included in the Agricultural Solutions segment but reported in "Other."

### Investments

In 2008, we invested €196 million. Our single largest project is the investment into production capacity for our new herbicide Kixor. To fully satisfy the high demand for our innovative crop protection products in the future, we have made available €150 million on expanding capacity for important products in 2008. This pertains especially to F500, fipronil, boscalid and metazachlor. This capacity will come on stream in 2010 at the latest. The majority of the capital expenditures will be incurred in 2009.

### BASF Plant Science

#### Plant biotechnology at BASF

BASF Plant Science is an international research and technology Verbund with over 700 employees at eight sites in Europe and North America. In addition, we maintain numerous cooperations with research institutes, universities and biotechnology companies. Between 1998 and 2008, BASF invested around €1 billion in total in plant biotechnology. We are one of the world's leading companies in the field of plant biotechnology research and development. We will shape this attractive market of the future with our high-performance technology platform and an extensive project portfolio.

#### Strategy

We concentrate on the second and third generation of genetically optimized plants, especially for more efficient agriculture, healthier nutrition and for use as renewable raw materials. Plant biotechnology is a controversial topic in Europe and we take our social responsibility seriously. The BASF Plant Science strategy is to develop products with clear benefits for consumers and the environment with the help of plant biotechnology. Through close dialogue with

farmers, politicians and consumers, we inform the public on the benefit of the processes and products used at an early stage.

#### Research and Development

In our long-term cooperation with Monsanto, we are jointly developing crops with higher yields and greater resistance to adverse environmental conditions, such as drought. The joint pipeline includes programs for the most important crops worldwide - corn (maize), soybeans, cotton and canola (oil-seed rape). This year, the research and development results far exceeded expectations.

For the most advanced project, the drought-tolerant corn (maize) product, data for the regulatory process is already being collected. The first corn plants are scheduled to be launched from 2012 onward. These research activities are being supported in particular by our subsidiaries CropDesign in Belgium and Metanomics in Berlin, Germany. We have expanded our activities in Asia through cooperations in China, South Korea and Taiwan. The focus is on increasing yields and the stress tolerance of rice and corn (maize).

An additional product from our pipeline is the starch potato Amflora®. This renewable raw material offers advantages for the entire value chain from the farmer to industrial processing. Amflora has been going through the European Union's approval process since 1996. On July 24, 2008, BASF Plant Science filed an action with the European Court of First Instance against the E.U. Commission for failure to act.

## INVESTMENTS

- Investments of €196 million in 2008
- Largest single project: Production capacity for our new herbicide Kixor
- Expansions of existing production capacity started, mainly for F500, Fipronil, Boscalid and Metazachlor

## BASF PLANT SCIENCE

- International research and technology Verbund with eight sites in Europe and North America
- Cooperation with research institutes, universities and biotechnology companies, in particular with Monsanto
- Investments of approximately €1 billion between 1998 and 2008

Segment data Agricultural Solutions <sup>1</sup> (million €)

	2008	2007	Change in %
Sales to third parties	3,409	3,137	8.7
Intersegmental transfers	28	19	47.4
Sales including intersegmental transfers	3,437	3,156	8.9
Income from operations before depreciation and amortization (EBITDA)	905	718	26.0
Income from operations (EBIT) before special items	706	526	34.2
Income from operations (EBIT)	705	516	36.6
Income from operations (EBIT) after cost of capital	264	84	214.3
EBITDA in percent of sales	26.5	22.9	–
Assets	4,352	4,157	4.7
Research and development expenses	325	328	(0.9)
Additions to property, plant and equipment and intangible assets	196	83	136.1

<sup>1</sup> Sales, earnings and all other data of BASF Plant Science are not included in the Agricultural Solutions segment but reported in "Other."

**In 2008, sales to third parties rose by €272 million to €3,409 million compared to the previous year. Income from operations increased to the record high of €705 million.**

**In 2009, we aim to further improve our sales and earnings despite a difficult market environment.**

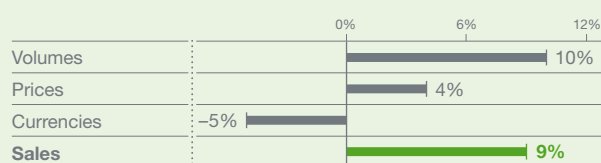
### Crop Protection

For the Crop Protection division, 2008 was a record year in which we again increased sales and earnings. Sales to third parties were €3,409 million. As a result of higher sales volumes and prices, negative currency effects were more than offset (volumes 10%, prices 4%, currencies –5%). In the course of the financial crisis, the price level for important agricultural products such as corn (maize), soybeans and cereals began to decline in the second half of 2008. Prices, nevertheless, were significantly above the historical average throughout 2008. This led to a high demand for our innovative crop protection products worldwide.

Sales to customers in Europe increased by 7.5% to €1,544 million. Good cultivation conditions and increased use of crop protection products, in particular our innovative cereal fungicides, contributed to this growth. Our business in the specialty crops segment also performed well. We again recorded a strong sales increase in the growth markets of Central and Eastern Europe.

At €781 million, sales in North America were below the previous year's level. Negative currency effects, in particular the weak annual average for the U.S. dollar, significantly impacted sales in this region. In addition, our business with non-crop applications in the United States declined due to the real estate crisis. This was largely offset by very strong growth with our product Headline in our newly created Plant Health market segment. Adjusted for currency effects, sales were significantly above the previous year's level.

### Factors influencing sales – Agricultural Solutions



### FACTORS INFLUENCING SALES

- Europe: Good cultivation conditions boost sales growth
- North America: Significant negative currency effects partly offset by product line Headline
- Asia: Increase of sales due to higher sales volumes
- South America: New record high driven by expansion of our product portfolio

In Asia, we increased sales by 15.8% to €315 million, primarily as a result of higher sales volumes. In Japan, we were particularly successful with our rice fungicide Arashi®, and in India with our soybean herbicide Pursuit®.

At €769 million, sales in South America increased by 20.2% compared with 2007. This strong performance was supported by the successful launch of products under our plant health umbrella brand AgCelence as well as the expansion of our portfolio to include additional crops. In addition, we profited from the continued increase in the cultivation of sugarcane for the production of bioethanol.

Income from operations increased to a new record high. At 26.5%, the EBITDA margin exceeded our target of 25%. In achieving this, we benefited from our “value over volume” strategy. Expenditures for marketing activities were increased.

The acquisition of Sorex Group was finalized toward the end of 2008. Through this acquisition, we are strengthening our business in North America and Europe in the general insect control segment, which is expected to grow faster than the market in the long term. Sorex has extensive expertise with regard to formulation technology. Combined with our portfolio of innovative active ingredients and our global market presence, we will be able to offer our customers even better solutions for professional pest management.

Total assets increased to €4,352 million. This was primarily due to the acquisition of the Sorex Group and the rise in inventories. Due to strong volume growth in 2008 and in anticipation of continued high demand at the start of the season in North America and Europe, we want to guarantee the optimal availability of our products. We reduced the level of receivables thanks to strict management.

For 2009, we expect a less favorable market environment compared with 2008 due to the difficult economic situation worldwide. In anticipation of good seasonal conditions, continued positive price trends for agricultural commodities and more favorable exchange rates, we nevertheless aim to improve sales and earnings.

#### Crop Protection -- Sales by region (location of customer)



#### Crop Protection -- Sales by indication



## CROP PROTECTION

- In 2008, record high in sales and earnings
- Higher sales volumes and prices more than offset negative currency effects
- Strong sales growth in Europe, South America and Asia; Sales in North America almost match the level of the previous year
- Income from operations in 2008 significantly above the previous year's level
- EBITDA margin reaches record high of 26.5%
- For 2009 we aim to achieve further growth of sales and earnings



## OIL & GAS

**Exploration and production of oil and natural gas;  
Trading, transport and storage of natural gas**

**BASF's oil and gas activities are bundled in the Wintershall Group. Wintershall and its subsidiaries operate in the business sectors Exploration & Production and Natural Gas Trading.**

### Segment Strategy

In the exploration and production of oil and natural gas, we focus on oil and gas-rich regions in Europe, North Africa and South America as well as Russia and the Caspian Sea region. In addition to investments into the exploration, development and production of hydrocarbons, the extension of technological know-how, secures our future success.

The growing demand for natural gas in Western Europe coupled with the decline in domestic gas production means that in the future natural gas will have to be imported into Europe in even greater amounts. This opens up opportunities for both our business sectors which we utilize in our concept "Gas for Europe." We explore for and produce natural gas in Europe and its proximity and also help to construct the linking infrastructure to deliver the gas to customers in Europe. We contribute to supply security in Germany and in Europe through our pipeline network operations and the expansion of strategically positioned gas transportation and storage facilities.

Wintershall pursues its own research and development activities in selected technology areas. The thematic focus is on increasing the quality of exploration methods, higher recovery rates from existing deposits, and the development of technologies for reservoirs with difficult production conditions. In the foreground of technological development is the use of synergies with the BASF Group's research competence. This is how Wintershall, in the competition for access to oil and natural gas resources, can fortify its position as a partner with outstanding technological competence.

### Exploration & Production

**Europe:** The Mittelplate oil field in the North Sea tidal flats is the cornerstone of our oil production in Germany. It is the country's largest known oil deposit. Wintershall and RWE-DEA each hold a 50% stake in this field. Wintershall is one of the largest producers of natural gas in the southern sector of the North Sea, producing approximately 1.9 billion cubic meters annually. We operate 26 platforms there, of which 18 are centrally controlled by one of the most modern radio control systems in the world. This monitoring system makes a major contribution to the future economical production of small and medium-sized deposits.

In 2008, we acquired stakes in eight exploration licenses in Norway. Seismic surveys were conducted over an area of about 2,500 square kilometers in Norwegian and Dutch territorial waters.

Through the acquisition of Revus Energy, Stavanger, Norway, in December 2008, Wintershall in addition participates in 47 licenses in Norway and 21 licenses in the United Kingdom. With its high-quality exploration portfolio, Revus ideally complements our activities in this region.

**Russia and the Caspian Sea Region:** BASF concluded a cooperation agreement with Gazprom for joint field development in Siberia, Russia. Through Severneftegazprom, Wintershall has an interest of 35% in the economic rewards of the Yuzhno Russkoye natural gas field in western Siberia. Its development is progressing ahead of schedule: At year end 2008, 106 of a total of 142 planned production wells were already operational. In the first half of 2009, we expect to already have reached a plateau production (100%) of 62 million cubic meters ( $V_n$ ) natural gas per day.

## OIL & GAS

- Two business sectors: Exploration & Production and Natural Gas Trading, bundled in the Wintershall Group
- Success driven by investing in exploration and production and the extension of technological know-how
- The "Gas for Europe" concept for long-term supply security in the gas trading business
- Wintershall's own research and development activities in selected technological areas to strengthen our position in the competition for the access to oil and natural gas resources

Wintershall holds a stake of 50% in the development of a section of the Achimov formation in the Urengoy field in Western Siberia. The startup of production in the summer of 2008 means that for the first time natural gas and condensate are being produced from this geologically complex formation. Four production wells and a gas treatment plant are currently operational. In the Caspian Sea region, we are pursuing exploration projects in Turkmenistan and Azerbaijan.

**North Africa/Middle East:** In Libya, Wintershall operates eight onshore oil fields in the concessions 96 and 97 and exploits the associated gas released during crude oil production in a gas utilization plant for the local demand. Gazprom is involved in these activities through its 49% stake in a German Wintershall subsidiary.

In 2008, the Libyan National Oil Corporation (NOC) requested Wintershall to transform its existing concession agreements into Exploration and Production Sharing Agreements according to the EPSA-IV standard. The impact on relevant net income is dependent on the conclusion of the ongoing negotiations.

In the exploration blocks in the Kufra Basin in southern Libya, in which Wintershall operates and holds a 65% stake, seismic measurements were conducted over a total of approximately 3,500 kilometers.

In addition, we hold a stake of 12.5% in the Al Jurf offshore oil field in Libya operated by another company. During the drilling of a production well in April 2008, an existing production well was damaged and production in the field had to be temporarily suspended. Production was resumed in December after repair has been finished.

In Mauritania, we operate two onshore exploration blocks. In addition to the existing stakes in block 3 and 11, Wintershall in Qatar, was awarded the license for the exploration block 4N in November 2008. This block is

located close to the North Field, the largest natural gas field in the world. Wintershall also acquired a 20% stake in block 51 in Oman.

**South America:** In Argentina, Wintershall has been active in the exploration and production of oil and natural gas for 30 years. In 2008, Wintershall acquired stakes of 50% each in two exploration areas in the Cañadón Asfalto Basin. In Chile, we were awarded an exploration license for the Otway block in the Magellan Basin, close to our existing production facilities at Tierra del Fuego.

### Natural Gas Trading

Our natural gas trading business is operated with our partner Gazprom via the WINGAS Group. We supply Germany and several other European countries. The long-distance gas pipeline network operated by WINGAS TRANSPORT connects the markets in Western Europe with a natural gas infrastructure that runs 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 – with a working gas volume of over 4 billion cubic meters the largest of its kind in Western Europe – and the Haidach natural gas storage facility in Austria play further significant roles for WINGAS's activities.

The planned construction of the Nord Stream Pipeline through the Baltic Sea to the German coast and its associated onshore projects for onward transport will decisively strengthen our natural gas infrastructure and improve supply security from the fourth quarter of 2011. The pipeline will transport additional natural gas volumes to Europe and reduce transit risk. Europe's gas supply security will be sustainably improved. Partners involved in the construction of the pipeline – and thus shareholders in Nord Stream AG – besides Gazprom, which holds a 51% stake – are E.ON Ruhrgas and Wintershall with stakes of 20%

## EXPLORATION & PRODUCTION

- Cooperation with Gazprom for the joint development of natural gas fields in Siberia, Russia
- Production startup of Achimgaz
- Quickly progressing development in the natural gas field Yuzhno Russkoye
- Strengthening of the position in the North Sea through the acquisition of Revus Energy

## NATURAL GAS TRADING

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

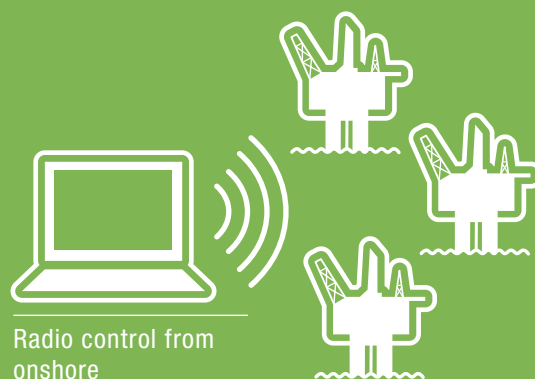
each, and N.V. Nederlandse Gasunie with a 9% stake. In 2008, Nord Stream AG, which is included in the BASF Group Consolidated Financial Statements using the equity method, continued with the authorization process and environmental assessments necessary for this project. The commissioning of the pipeline Ostsee-Pipeline-Anbindungs-Leitung (OPAL), in which WINGAS has a stake of 80% and E.ON Ruhrgas 20%, is scheduled for 2011. The pipeline Norddeutsche Erdgasleitung (NEL) is to be commissioned in 2012. Here, WINGAS has a stake of 75% and E.ON Ruhrgas 25%.

Our growth strategy is additionally supported by further expanding our storage capacity. The Saltfleetby natural gas storage facility in the United Kingdom is in the planning stage. Initial construction work started on the Jemgum storage facility in Germany and the second construction phase of the Haidach storage facility in Austria is already being implemented.

WINGAS TRANSPORT GmbH & Co. KG has appealed to the court against the decision of the German Federal Network Agency (Bundesnetzagentur) to apply in the future cost-based tariff regulation to its long-distance pipelines in Germany. These had previously been exempted.

## REMOTE CONTROLLED OPERATIONS

Efficient supervision of natural gas platforms



VALUE FOR BASF

**€2.6**

million saved per year

VALUE FOR THE ENVIRONMENT

**35%**

fewer transportation and supply flights

In the southern North Sea we centrally operate 18 natural gas platforms through one of the most modern radio control systems in the world. The number of helicopter flights for transportation and supply are significantly reduced through the centralization of supervisory and control functions. This has benefits for health, security and the environment.

## IMPORTANT DEVELOPMENTS IN 2008

- Development of a section of the Achimov formation in the Urengoy gas and condensate field in Siberia, Russia
- Development of the Cenoman formation in the Yuzhno Russkoye natural gas field
- Expansion of the Haidach natural gas storage facility in Austria
- Acquisition of Revus Energy ASA, Stavanger, Norway

## Capital Expenditures

Location	Project	Additional annual capacity through expansion	Startup
Siberia, Russia	Achimgaz, development of the Achimov formation in the Urengoy natural gas and condensate field <sup>1</sup>	70,000,000 BOE <sup>2,3</sup>	2008
	Development of the Cenoman formation in the Yuzhno Russkoye natural gas field <sup>4</sup>	143,000,000 BOE <sup>5</sup>	2007 <sup>6</sup>
Austria	Expansion of the Haidach natural gas storage facility <sup>7</sup>	2,400,000,000 m <sup>3</sup> <sup>8</sup>	2007/2011
Germany	Expansion of the compressor station Haiming	39,000,000 W <sup>9</sup>	2007/2011
	Construction of the Nord Stream Pipeline through the Baltic Sea <sup>10</sup>	55,000,000,000 m <sup>3</sup> <sup>11</sup>	2011
	Construction of the onshore pipeline link OPAL <sup>12</sup> and NEL <sup>13</sup> to the Nord Stream natural gas pipeline	ca. 55,000,000,000 m <sup>3</sup> <sup>14</sup>	2011
	Construction of the Jemgum natural gas storage facility	1,200,000,000 m <sup>3</sup>	2013

<sup>1</sup> Joint venture company for the production of natural gas, in which Wintershall has a 50% stake and which is proportionally consolidated in the Group Consolidated Financial Statements

<sup>2</sup> BOE = Barrel oil equivalent

<sup>3</sup> Total capacity in the plateau phase after 2015

<sup>4</sup> Joint venture company in which Wintershall has 35% of the economic rewards

<sup>5</sup> Total capacity in the plateau phase from 2009 onward

<sup>6</sup> Participation and the start of production in 2007 is being continuously developed.

<sup>7</sup> Natural gas storage facility, in which WINGAS has a 33% stake, recorded as a jointly-controlled asset

<sup>8</sup> Total capacity of the storage facility on completion of the second stage of expansion in 2011

<sup>9</sup> Total performance of the compressor stations after the final expansion in 2011

<sup>10</sup> Construction and operation by Nord Stream AG, in which Wintershall has a 20% share and which is consolidated using the equity method

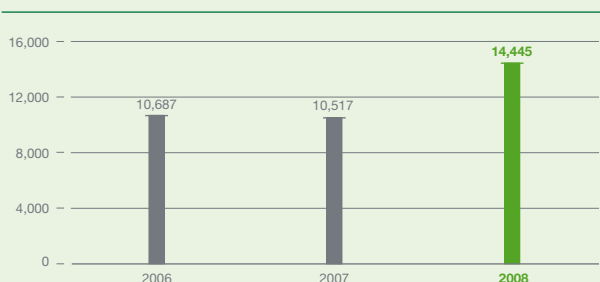
<sup>11</sup> Total capacity after completion of both pipelines

<sup>12</sup> WINGAS has a 80% stake in OPAL

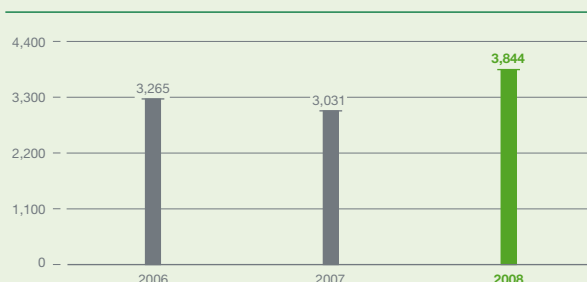
<sup>13</sup> WINGAS has a 75% stake in NEL

<sup>14</sup> Total capacity of OPAL and NEL

## Sales Oil & Gas (million €)



## Income from operations Oil & Gas (million €)



**Segment data Oil & Gas** (million €)

	2008	2007	Change in %
Sales to third parties	14,445	10,517	37.3
Thereof Exploration & Production	5,308	4,365	21.6
Natural Gas Trading	9,137	6,152	48.5
Intersegmental transfers	1,235	1,189	3.9
Sales including intersegmental transfers	15,680	11,706	33.9
Income from operations before depreciation and amortization (EBITDA)	4,409	3,592	22.7
Thereof Exploration & Production	3,744	2,901	29.1
Natural Gas Trading	665	691	(3.8)
Income from operations (EBIT) before special items	3,844	3,031	26.8
Thereof Exploration & Production	3,319	2,486	33.5
Natural Gas Trading	525	545	(3.7)
Income from operations (EBIT)	3,844	3,031	26.8
Thereof Exploration & Production	3,319	2,486	33.5
Natural Gas Trading	525	545	(3.7)
Income from operations (EBIT) after cost of capital <sup>1</sup>	1,271	1,260	0.9
EBITDA in percent of sales	30.5	34.2	—
Assets	8,356	7,057	18.4
Thereof Exploration & Production	4,740	4,037	17.4
Natural Gas Trading	3,616	3,020	19.7
Exploration expenses	227	268	(15.3)
Additions to property, plant and equipment and intangible assets	1,651	2,280	(27.6)
Income taxes on oil-producing operations non-compensable with German corporate income tax	1,851	1,302	42.2
Net income <sup>2</sup>	951	789	20.5

<sup>1</sup> Non-compensable foreign income taxes for oil production are deducted.

<sup>2</sup> Information on the net income of the Oil & Gas segment can be found in the Reconciliation Oil & Gas in the Notes to the Consolidated Financial Statements on page 177.

**OIL & GAS**

- Startup of natural gas and condensate production in the Achimgaz joint venture
- Successful development of the Yuzhno Russkoye natural gas field
- New exploration licenses in Germany, Norway, Argentina, Qatar, Oman and Chile
- Stake in Nord Stream: continued with approval process for the pipeline through the Baltic Sea, planning of the onshore connection (OPAL) carried forward
- Libya: Negotiations are being held to switch from concession contracts to exploration and production sharing agreements
- Acquisition of Revus Energy to sustainably strengthen our long-term position in the North Sea

**In 2008, sales to third parties increased by €3,928 million to €14,445 million (volumes 7%, prices/currencies 28%, portfolio 2%). Income from operations rose by €813 million to €3,844 million. Net income increased by €162 million to €951 million.**

**In 2009, as a result of economic developments, we expect both the oil price as well as the euro/dollar exchange rate to weaken significantly. We have based our planning on an oil price of \$50 per barrel and an average euro/dollar exchange rate of \$1.30 per euro. Consequently, we expect an overall decrease of sales and earnings.**

→ More information on net income of the Oil & Gas segment can be found in the Notes to the Consolidated Financial Statements on page 177

### Exploration & Production

Compared with 2007, sales increased by €943 million to €5,308 million. The average price of Brent crude increased by approximately \$25 to \$97 per barrel. As a result of the weaker U.S. dollar against the euro over the course of the year, the price in euros increased by only €13 to €66 per barrel. Crude oil and natural gas production rose by 16% to 130 million barrels of oil equivalent (BOE). This includes minority interests from Gazprom's stake in a German Wintershall subsidiary that holds the Libyan concessions 96 and 97. Due to contractual and legal stipulations, no volumes from the Achimgaz project are included.

Income from operations increased by €833 million to €3,319 million, primarily due to higher prices. In 2008, earnings in the Exploration & Production business sector included income taxes on oil production in North Africa of €1,851 million that are non-compensable with German corporate income tax (2007: €1,302 million). These taxes are reported as income taxes. Currently, negotiations are being held with the Libyan National Oil Corporation to switch

from concession contracts to exploration and production sharing agreements.

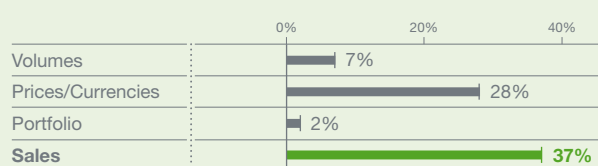
In 2008, 16 exploration and appraisal wells were drilled in the search for new oil and natural gas deposits, of which five were successful. We acquired stakes in exploration licenses in Germany, Norway, Argentina, Qatar, Oman and Chile. We replenished 116% of the volumes produced in 2008. As part of the "Gas for Europe" strategy, we concentrate in particular on the expansion of natural gas reserves.

Proven crude oil and natural gas reserves increased by 2% to 1,149 million BOE compared with the end of 2007. The reserve-to-production ratio of these reserves is 11 years (2007: 10 years). This is based on Wintershall's share of production in 2008 and refers to the reserves at year end. These figures do not include the volumes from the Achimgaz project.

Development of the Yuzhno Russkoye natural gas field, in which Wintershall has a share of 35% in the economic rewards through Severneftegazprom, is progressing faster than expected. At year end 2008, 106 of a total of 142 planned production wells were in operation. The projected plateau production from this field will be reached already in the first half of 2009.

In 2009, we expect lower sales and earnings in the exploration and production business sector due to the lower oil price.

### Factors influencing sales – Oil & Gas



### Sales by division (million €)



### Natural Gas Trading

Sales to third parties increased by €2,985 million to €9,137 million. In total, natural gas volumes increased by 13% to 417 billion kilowatt hours. WINGAS grew in Germany and abroad and increased sales volumes by approximately 19% to 298.4 billion kilowatt hours. Of this amount, approximately 13% was supplied to BASF Group companies.

Income from operations declined by €20 million to €525 million. The significant increase in oil prices in the first half of the year led to a considerable decline in margins. This was due to the fact that purchase prices for natural gas are quickly adjusted to reflect oil prices, whereas sales prices can contractually only be adjusted after a time-lag of several months. The resulting negative impact was only partially offset by the recovery in margins in the fourth quarter and by an increase in volumes.

Our stake in Nord Stream AG is a significant component of our growth strategy in natural gas trading. Nord Stream is constructing a pipeline from Russia through the Baltic Sea to the German coast. In 2008, Nord Stream advanced with the required authorization process in the relevant countries.

Onshore, work on the Jemgum storage facility and the planning for the pipeline Ostsee-Pipeline-Anbindungs-Leitung (OPAL) and the pipeline Norddeutsche Erdgas-Leitung (NEL) continued as part of the Nord Stream project. The OPAL pipeline is to run from Greifswald, Germany, to Olbernhau, Germany, on the Czech-German border.

In 2008, a memorandum of intent was signed with Gazprom to extend the existing main supply agreement to 2043 before expiration of its term. For the next 35 years, Natural Gas Trading secures more than 800 billion cubic meters of natural gas for Europe.

Volumes in natural gas trading will not reach the very good level achieved in 2008 as a result of the economic downturn. The significantly lower oil price will lead to a decline in sales in 2009. However, due to the time-lag in the adjustment of sales prices to purchase prices, we expect earnings to match the level of 2008.

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



- 1 -- Europe: 96%
- 2 -- North America: 1%
- 3 -- Asia Pacific: 1%
- 4 -- South America, Africa, Middle East: 2%

## EXPLORATION & PRODUCTION

- Sales increase due to higher prices: average oil price in U.S. dollar significantly above previous year
- Increase reduced by weak average U.S. dollar
- Production increased by 16% to 130 million BOE
- Earnings above the level of the previous year
- As a result of the lower oil price, decline in sales and earnings expected for 2009

## NATURAL GAS TRADING

- Significantly higher sales due to higher prices and volumes
- Margins negatively impacted by contractually delayed adjustment of sales prices to the development in oil prices
- Income from operations declined slightly
- For 2009, lower sales expected; earnings to match 2008 level



# REGIONAL RESULTS

## Regions (million €)

	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
	2008	2007	Change in %	2008	2007	Change in %	2008	2007	Change in %
Europe	38,652	34,316	12.6	36,693	32,347	13.4	5,822	5,415	7.5
Thereof Germany	27,497	24,312	13.1	13,796	11,967	15.3	4,744	4,226	12.3
North America	11,937	12,007	(0.6)	11,932	11,928	.	73	762	(90.4)
Asia Pacific	8,664	8,785	(1.4)	9,320	9,579	(2.7)	254	828	(69.3)
South America, Africa, Middle East	3,051	2,843	7.3	4,359	4,097	6.4	314	311	1.0
	62,304	57,951	7.5	62,304	57,951	7.5	6,463	7,316	(11.7)

## Europe

In 2008, companies in Europe increased sales by 12.6% to €38,652 million. The economic situation in the region has deteriorated since the second half of 2008. This development greatly intensified at the end of the year as a result of low consumer spending and significant export losses.

In the Chemicals segment, sales increased in all three divisions, in some significantly, although business declined in the fourth quarter.

In the Plastics and Performance Products segments, sales matched the previous year's level. The increase in sales during the first three quarters, which was significant in some businesses, was offset by the sizeable decline in business in the fourth quarter.

Sales decreased in the Functional Solutions segment, in particular as a result of the drop in demand from the automotive and construction industries in the fourth quarter. The expansion of the business in Eastern Europe could not compensate for the decline in demand in Western Europe.

Sales in the Agricultural Solutions segment increased due to higher volumes and prices.

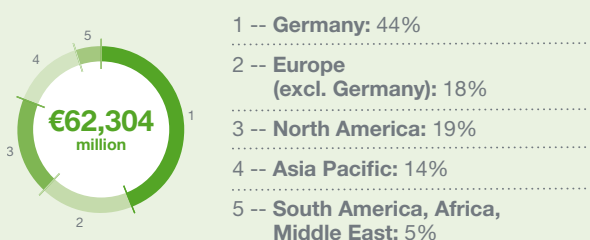
As a result of higher prices and volumes, sales in the Oil & Gas segment were significantly higher than in 2007.

At €5,822 million, income from operations was substantially higher than in 2007. The Oil & Gas segment, which posted considerably higher earnings compared with the previous year, made the greatest contribution to the increase in earnings.

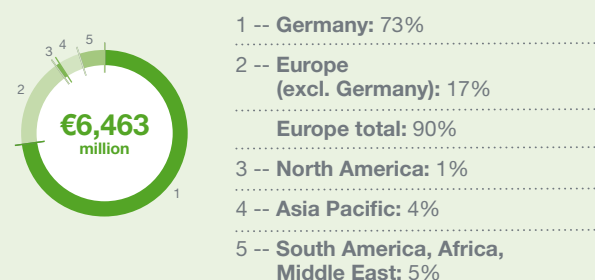
We adapted structures and processes to changing market conditions in our project "Further Development of the European Organization," which we successfully concluded in 2008. In order for our service structures to remain competitive in the future, we have started additional projects in the past few months: They encompass our services in the areas of administration, procurement and production, and are parts of the global program NEXT, which focuses on more excellence in the day-to-day business.

We continued to expand our European Shared Services Center (ESSC) in Berlin, Germany. Here, we combine finance and accounting functions as well as standard human resource services under one roof.

## Sales by region (location of company) (million €)



## Income from operations by region (million €)



### North America

Sales by companies in North America declined by 0.6% to €11,937 million. In local-currency terms, sales increased by 7.8%.

The economic environment and domestic demand in the region weakened significantly in the second half of 2008. In addition, exports of industrial goods declined as a result of the strengthening of the U.S. dollar toward the end of the year. Sales declined due to lower demand as well as destocking at our customers.

Sales in the Plastics, Performance Products and Functional Solutions segments declined as a result of the weakening automotive and construction industries. In the Agricultural Solutions segment, sales in euro terms almost matched the previous year's level due to higher sales prices and the strong demand for agricultural products.

Income from operations declined by 90.4% compared with the previous year to €73 million in 2008. The main reasons for the decline in earnings were the significant decrease in prices and margins and the marked under-utilization of our production capacities due to the drop in business in the fourth quarter. The Chemicals, Plastics and Functional Solutions segments were especially affected by this. Plant shutdowns – caused by two hurricanes on the U.S. Gulf Coast – and temporary unscheduled plant shutdowns also negatively impacted earnings in the Chemicals and Plastics segments. The decline in earnings was partially offset by the good performance of the Care Chemicals division.

Special items overall negatively impacted earnings: Special income resulted from the divestitures of the coil coatings business and the sale of the pharmaceutical manufacturing business in Shreveport, Louisiana. Special charges resulted from the writedown of assets in the Styrenics business, costs for environmental protection measures, and costs associated with the sale of real estate.

Within the framework of the excellence program NEXT, we initiated various measures in 2008, for example, we implemented a new transportation management system. Now, we can make the supply chain process more reliable and efficient as well as make the cost structures more transparent in order to facilitate future cost savings.

In the fourth quarter, we intensified our cost-cutting measures in order to promptly reduce discretionary costs by 10% and to adjust personnel resources to the expected lower demand in 2009.

### Asia Pacific

Companies in Asia Pacific generated sales of €8,664 million, which was slightly below the previous year's level. Sales in local-currency terms increased by 4%.

As the global economic downturn progressed, the economy in the region decreased from the second quarter on. Beginning in the third quarter, this development intensified with the slowdown in the Chinese economy.

Sales increased in the Performance Products, Functional Solutions and Agricultural Solutions segments, in some businesses strongly. This positive development, however, was partially offset by the decline in sales in the Chemicals and Plastics segments.

Income from operations declined substantially by €574 million to €254 million. This is largely due to weaker results in the Chemicals, Plastics and Functional Solutions segments. Furthermore, our earnings were significantly impacted by special charges of €128 million. These comprised the restructuring of our coatings business, the shutdown of our butanediol/THF plant in Korea as well as impairments of our plants for styrene monomer in Korea, and butanediol in Malaysia. The Performance Products and Agricultural Solutions segments generated earnings growth.

## REGIONAL TRENDS

- Europe: successful completion of the project "Further Development of European Organization"
- North America: divestitures of the coil coatings business as well as the pharmaceutical manufacturing business in Shreveport, Louisiana
- Asia Pacific: continued strengthening of our R&D activities; project for increased efficiency at production sites as part of the NEXT initiative
- South America, Africa, Middle East: FARO initiative for identifying sales potential in strongly growing industries

Within the framework of our global excellence program NEXT, we started a project to increase the efficiency of our production sites. By the end of 2010, we expect improvements amounting to €80 million.

We still aim to achieve 70% of our sales in Asia from local production by 2015. For this purpose, we intend to expand our Verbund site in Nanjing, China, with our Chinese partner Sinopec. In addition, we plan to build a new MDI plant in the Chongqing municipality, in Western China, with a capacity of 400,000 metric tons of crude MDI per year.

We are also intensifying our research and development activities in Asia. For example, we opened a new development center for fuel cell technology in Yokkaichi, Japan; and in the field of plant biotechnology, we have signed a new cooperation and licensing agreement with the National Institute of Biological Sciences in China, and with the Academia Sinica, a leading research institute in Taiwan.

Particularly in China and in India, we strengthened our research and especially our development activities to react better and faster to new market impulses. We have further expanded Shanghai as our innovation center for China; development units for all of our segments are located there. We expanded our research site in Thane, India, through the construction of a laboratory for organic synthesis.

### South America, Africa, Middle East

Sales of the companies in the region increased by 7.3% above the previous year to €3,051 million. In local currency terms, sales rose by 11.7%.

A large contribution to the positive business development in South America was made by the Agricultural Solutions segment and the Care Chemicals division.

In Africa and in the Middle East sales increased in particular in the Chemicals, Plastics and Oil & Gas segments. This offset lower sales in the Functional Solutions segment.

Earnings increased by 1% to €314 million. This was in particular due to the very positive development in the Agricultural Solutions segment in South America, which could boost margins significantly. The Care Chemicals division also contributed to the increase in income from operations.

To secure our future success in the Agricultural Solutions segment, a herbicide tolerant soybean, which was jointly developed with the agricultural research institute EMBRAPA, was submitted for official approval in Brazil. An analysis of the purchasing power of broad sections of the South American population led to projects with the construction industry in the region. Some of these projects were cross-divisional.

The FARO initiative constantly pinpoints sales potential for BASF's products and solutions in strongly growing industries and value-adding chains in the region. For example, additional sales potential was identified in mining and in the value-adding chains for renewable raw materials.

### Assets by region (share in %)

	Property, plant and equipment		Inventories		Accounts receivable, trade	
	2008	2007	2008	2007	2008	2007
Europe	58.4	56.9	56.6	56.4	63.4	60.1
North America	21.5	21.0	24.3	25.4	14.6	16.6
Asia Pacific	16.5	18.1	12.4	13.5	15.3	17.2
South America, Africa, Middle East	3.6	4.0	6.7	4.7	6.7	6.1
	100.0	100.0	100.0	100.0	100.0	100.0

# EMPLOYEES

**Qualified and motivated employees are the core of BASF's innovative and competitive capacities. In order to attract and retain the best talents, we offer performance-oriented pay as well as extensive training and development opportunities. Our comprehensive program on demographic change prepares BASF for the personnel related risks and opportunities of the future.**

## Demographic change as an opportunity

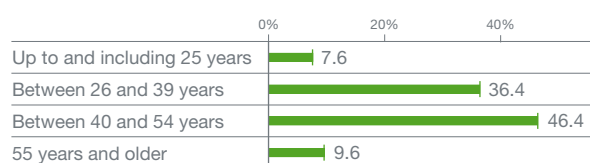
Demographic change is affecting BASF worldwide, particularly in Europe and the United States. While overall life expectancy is increasing, the population of many countries is shrinking due to low birth rates. Companies consequently have to cope with a diminishing supply of skilled labor as well as an ageing workforce. For instance, one out of three workers in the European Union will be 50 years or older by 2020.

In order to manage the challenges arising from this situation, BASF initiated the program "Generations@Work" in 2006. Its aim is to keep BASF innovative and ahead of the competition by recognizing the successful management of demographic change as a competitive advantage. As a basis for defining initiatives and measures, we conduct an internal analysis of the age structures of our workforce as well as external analyses of demographic developments in the areas surrounding our sites. As a result, the demographic risk and the derived need for action can be determined for each site. Generations@Work includes all BASF sites in Europe and encompasses all fields of human resource management – ranging from the recruitment, retention, and training of employees to the adaptation of labor conditions to the needs of an ageing workforce. The evaluation and relaunch of our existing health and sport programs against the backdrop of demographic change is only one example of the measures that have been implemented since Generations@Work started.

In cooperation with external partners, BASF leads the "Laboratory for Demographic Change," part of the alliance initiated by the E.U. Commission, between politics and business on corporate social responsibility (CSR Alliance).

→ More information on demographic change can be found at [basf.com/demographic\\_change](http://basf.com/demographic_change)

**BASF Group employee structure 2008**  
(proportion of employees in percent)



## Increasing employer attractiveness

We want to be even better in the highly competitive market for qualified talent. Therefore, we started a global initiative in 2008 to strengthen BASF's attractiveness as an employer. Especially in Europe and Asia, BASF expanded its recruiting measures: We comprehensively recruit across countries and production sites, and approach talents more actively. In those places where we are already considered to be a top employer, it is our goal to maintain that position. In 2008, for the third year in a row, BASF in Brazil was ranked as one of the best employers in the country by the business magazine Guia Você S. A. – Exame.

## EUROPEAN CSR ALLIANCE

We are in dialogue with stakeholders to develop strategies for dealing with demographic change in Europe. In cooperation with external partners, BASF leads the "Laboratory for Demographic Change," part of the alliance initiated by the E.U. Commission, between politics and business on corporate social responsibility (CSR Alliance).

→ More information at [www.demographicchange.info](http://www.demographicchange.info)

## IMPLEMENTED DEMOGRAPHY PROJECTS

- Further development of vocational training programs
- Strengthening BASF's employer brand
- Expansion of training and development offers as well as individual counseling regarding learning
- Evaluation and relaunch of health and sport programs
- Enhanced concepts for systematic knowledge transfer

### Employees worldwide

At the end of 2008, BASF had 96,924 employees. Worldwide, the percentage of employees leaving the company during their first three years of employment was on average 1.3%. This fluctuation rate varies from region to region. In 2008, 2,171 apprentices worked at BASF, and 21,700 employees from other companies provided technical and other services at our sites.

**BASF Group employee structure 2008**  
(2007 in parentheses)


	Women	Men
Total number of employees	21.9% (21.2%)	78.1% (78.8%)
Management & Professionals	23.2% (21.8%)	76.8% (78.2%)
Senior executives	5.7% (5.6%)	94.3% (94.4%)

### Diversity as a competitive advantage

The demands placed by new markets and customers are becoming ever more complex, especially in times of economic difficulty. Concurrently, demographic change intensifies the competition for the best employees. In order to remain the global number one in the chemical industry, we need employees who approach topics from different perspectives and reflect the diversity of our markets and customers. In 2008, we started the global project "Diversity + Inclusion." The goal of the program is to make clear the value of each individual employee, and to show how teams with various competencies and backgrounds can help to make BASF more successful and innovative. To this end, we developed a three point program. We want to:

- promote the skills of our employees to meet changing market demands;
- reflect the diversity of employees available worldwide in all levels of the company, especially the growing number of well-educated women and international employees;

- further develop our corporate culture through more appreciation, trust and openness. This also includes more transparent career opportunities and work-life balance measures.

In 2008, the percentage of women in senior executive positions in the BASF Group was 5.7%. The percentage of non-Germans in senior executive positions in 2008 was 30.2%. Furthermore, we achieved and exceeded our goal to increase the percentage of senior executives with international experience to over 70%. In 2008, the percentage was 73.7%. We provide equal opportunities for all employees and are committed to the equal treatment of both men and women. We do not make any distinction between male and female employees when it comes to setting salaries. 

→ More information can be found at [basf.com/diversity\\_e](http://basf.com/diversity_e)

### Leadership feedback

At BASF, all managers receive regular feedback from their employees. In an anonymous, online questionnaire, employees assess the leadership skills and conduct of their manager. This enables managers to gain a better understanding of their personal strengths and potential improvement areas. In facilitated workshops, managers establish goals and measures together with their employees to improve teamwork and communication. The program is mandatory for all senior executives. By the end of 2008, 76.9% of our senior executives had participated in our "Global Leadership Feedback" program. The feedback processes that are still outstanding will be completed at the beginning of 2009.

## DIVERSITY AS A COMPETITIVE ADVANTAGE

- Attractive employer through openness and transparency
- Employee diversity helps unlock new customer segments
- Strong employee commitment through more appreciation
- Legal conformity through equal opportunity
- Equal chances for all employees

**Number of employees by region**  
(as of December 31, 2008)

	2008	% 2008	% 2007
Europe	61,889	63.9	64.1
Thereof Germany	47,364	48.9	49.3
Thereof BASF SE	32,838	33.9	34.4
North America	15,168	15.6	16.0
Asia Pacific	13,734	14.2	13.9
South America, Africa, Middle East	6,133	6.3	6.0
	<b>96,924</b>	<b>100.0</b>	<b>100.0</b>

**GLOBAL EMPLOYEE SURVEY****Key data 2008**

- 66% of employees worldwide took part in the survey.
- The survey was conducted in 77 countries.
- 239 BASF Group companies were involved.

**First global employee survey**

The opinions of our employees are important to us. Their responses to regular surveys help us to make necessary improvements to our working environment.

For the first time, regional surveys were standardized and conducted simultaneously. Between May and June 2008, employees from 77 countries and 239 BASF Group companies could anonymously take part in the survey. Worldwide, 66% of employees responded on issues such as leadership, professional and personal development, innovation culture or BASF strategy. For example, 71% of BASF employees would recommend BASF as an employer to friends and acquaintances, and 79% of our employees are convinced that BASF has an excellent reputation among the general public. Employees see room for improvement regarding support for professional development: Currently, 48% of our employees regard support programs as very good or good.

The survey furthermore measures how we implement our strategic guideline “We form the best team in industry” – for example, in the areas of collaboration and leadership. We continue to pursue our long-term goal of implementing a global survey, including a follow-up process, for the entire BASF Group. In the steps following the completion of data collection, employees and management discuss all survey results and identify potential areas for improvement.

**Balancing career and family**

BASF promotes balancing career and family. We offer support to employees in different life situations so they can achieve a better work-life balance. We present different models for flexible working hours according to the individual employee's needs. These include telecommuting, flex-time or part-time work. The percentage of employees working part-time for BASF SE is 9.4%.

BASF offers several childcare programs to its employees. In Ludwigshafen, for example, there are two BASF daycare nurseries. In addition, we opened the child care facility “LuKids adhoc” in early 2008. Here employees can place their children in good hands if their own childcare arrangements are cancelled at short notice. Also in the United States, through our program “Backup Care,” we organize replacement care for either children or dependents of our employees when there is a need.

Since 2006, a total of 320 children and teenagers have participated in the international vacation program “BASF Global Family,” an exchange program for the children of employees. In 2008, children from 15 BASF production sites worldwide took part in the program.

For the past three years, we have supported the families of our delegated employees through a special course to prepare their children for life in a foreign country. We are also adapting to the changing lifestyles of our employees: At the end of 2008, 488 employees were on parental leave, 7.8% of them being fathers. At the beginning of 2007, 3.5% of all male employees took parental leave.

In 2008, BASF once again passed the “Familien-TÜV” awarded by the non-profit Hertie Foundation – a seal of quality for family friendly companies.

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

**GLOBAL EMPLOYEE SURVEY**

- Regional surveys were standardized and conducted simultaneously for the first time
- Helping to achieve improvements to the work environment
- Measuring acceptance of the strategic guideline “We form the best team in industry”
- Starting in 2010, employees can evaluate implementation of measures through a follow-up survey

**CAREER AND FAMILY**

- Models for flexible working hours
- Offers of childcare
- Information events for parents
- Caregiver counseling
- Quality seal from the Hertie Foundation as a family friendly company



### Commitment to professional training

It is our goal to offer as many young people as possible an opportunity to start their career. Currently, BASF is training 2,171 young people in 50 professions in 14 countries. The chances of finding a permanent job at the end of the training are very good, a fact proved by the high take-on rate. In 2008, BASF SE offered permanent positions to 92% of its apprentices following the successful completion of their training programs.

Since 2004, the BASF Training Verbund has created additional training positions in Germany, and together with around 750 partner companies, currently trains 1,174 young people. The percentage of apprentices being offered a permanent position was clearly above the national average at 75%. In 2008, the Training Verbund was awarded the "Initiative Prize for Training and Further Development 2008." This is awarded to outstanding business initiatives to improve the quality and attractiveness of company-based vocational training.

In 2008, the Training Verbund started the program "Ready, Set, Training" that encourages high school students with strengths in practical areas. Intensive mentoring makes the transition to vocational training easier for the teenagers and equips them with the required skills.

In 2008, we invested approximately €69.2 million in our apprentices and approximately €24.7 million in the "BASF Training Verbund" worldwide. We also supported "Job-Chance 100" with €2.5 million in 2008, to help 100 unemployed young people make a start in their professional lives.

### Further training opportunities

The further training of our employees is an investment in the future of the company. The need for further training forms a part of the annual performance appraisals with our employees in order to enable us to offer the necessary qualifications. We also support independent learning – both on and off the job.

Our personnel development concept includes methods such as seminars, coaching and self-regulated e-learning. Our web-based European Learning Portal (ELP) offers a wide range of courses from language training to management skills, with online e-learning programs in seven different languages. As of 2008, ELP is also the platform for the new European Technical Academy with a wide range of qualification opportunities for more than 10,000 employees working in a technical function. In addition, BASF offers e-learning portals worldwide, where our employees can make use of a wide range of offers for independent learning.

Within the framework of the company's global initiative "perspectives," over 3,700 employees from all regions took part in trainings and workshops on the topics of marketing and sales in 2008. Regular surveys show that the participants thought very highly of the quality of the internal seminars they attended.

We want to further improve the utilization of our training opportunities. In 2008, BASF invested €129.6 million (2007: €131.2 million) in vocational training and further training. More than 80,000 employees participated in training. On average, each employee spent 3.9 days in training events (2007: 3.6 days).

## APPRENTICE PROGRAMS

- BASF offers training in 50 professions in 14 countries
- 92% of trainees and apprentices receive permanent hire offers
- BASF's Training Verbund, together with 750 partner companies trains 1,174 young people in Germany
- Above national average rate of permanent hire offers, 75%, from BASF Training Verbund

## FURTHER TRAINING

- Web-based European learning portal with courses in seven languages
- 500 topics for further training and approximately 5,000 events annually at the site in Ludwigshafen
- European Technical Academy for more than 10,000 employees in technical fields
- Worldwide access to e-learning portals



**Employee participation in the company's success**

For BASF, sustainable enterprise means sharing the company's success with our employees. We want our employees to have a long-term interest in our company and we reward their personal performance. We encourage entrepreneurial thinking by implementing remuneration systems based on performance and success that follows the same basic principles for all our employees. They usually involve both fixed and variable components. The variable component is determined by two factors: the economic success of the BASF Group measured by the return on assets, and the employee's individual performance. Employee performance is assessed in an annual review, which is compulsory in BASF SE and most companies of the BASF Group.

**Share programs for employees**

Our "Plus" share program helps to foster employee interest in the company's success and business performance. The program promotes the long-term involvement of employees through incentive shares. Employees can invest varying portions of their compensation in BASF shares. In 2008, 19,452 employees worldwide purchased 974,460 shares. Since 1999, BASF has offered its senior executives the opportunity to participate in the BASF stock option program (BOP), which ties a part of remuneration to the long-term development of the BASF share price. In 2008, more than 90% of approximately 1,000 senior executives eligible participated in BOP worldwide, investing up to 30% of their variable compensation in shares.

→ More information can be found in the Notes from page 210 onward

**Personnel costs and social benefits**


At BASF, attractive compensation for our employees comprises remuneration and social benefits. Among others, these include a company pension plan, supplementary health insurance, and a share program. In 2008, the BASF

Group spent €6,364 million on wages and salaries, social security contributions, pension contributions and assistance, 4.3% less than in 2007, due in particular to lower expenses for the BASF Options Program and for variable compensation.

**BASF Group personnel costs 2008** (million €)

	2008	Change in %
Wages and salaries	5,158	(4.1)%
Social security contributions and expenses for pensions and assistance	1,206	(5.0)%
Thereof for pension benefits	310	(13.6)%
Personnel costs	6,364	(4.3)%

**Open dialogue with employee representatives**

We work in partnership with elected employee representatives on a company, national and regional level. The European employee representative body of BASF SE – the BASF Europa Betriebsrat (Europe Works Council) – was formed as a result of the conversion of BASF AG to a European Company, a Societas Europaea (SE), and succeeded the former "Euro Dialogue." The BASF Europa Betriebsrat is responsible for cross-border issues and has clearly defined rights of involvement. It comprises 23 members from 12 European countries. In Asia and South America, platforms for cooperation between BASF and employee representatives have also proven their value. The advantage of a regional approach lies in open dialogue and cooperation, which enables the diverse everyday conditions, legal situations and challenges in the different regions of the world to be met. 

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

**EMPLOYEE PARTICIPATION: LONG-TERM INVESTMENTS**

- "Plus" share program for employees since 1999
- In 2008, 19,452 employees worldwide acquired 974,460 shares (number after stock split)
- Incentive-shares encourage long-term employee commitment at BASF

# OCCUPATIONAL SAFETY

**The safety and health of our employees are of the utmost importance to us. We have made significant achievements as a result of our high safety standards and comprehensive regulations. Worldwide, the lost time injury rate has stabilized at a low level. We aim to become even better in the future, thus contributing to BASF's long-term business success.**

In 2008, we started a worldwide safety initiative that builds upon the success of safety programs in previous years. We aim to make safety a visible value and success factor. Our goal is to improve our safety culture Group-wide, above and beyond the traditional technical safety measures and rules, and to develop a strong collective commitment to safe behavior.

## Minimizing risks

Occupational safety plays a fundamental role in our daily routine through, for example, regular safety briefings in our production facilities and the activities of the safety experts who are appointed for every site. Systematic risk assessments of workflow processes and individual activities minimize risks and sensitize employees to possible sources of danger.

We have been promoting safety awareness among our employees over a long period, by means of safety regulations, seminars and training courses. We analyze accidents and near-accidents to pinpoint and eliminate potential weaknesses. We are further developing our safety management with our worldwide network of experts.

We have set ourselves the ambitious goal of reducing the lost time injury rate by 80% by 2020, compared with 2002. In 2008, the lost time injury rate in the BASF Group was 1.8 accidents per million working hours (2007: 2.2).

To date, we have reduced the lost time injury rate per million working hours by 45% compared with 2002. Among employees of partner companies working at BASF sites, the lost time injury rate declined to 3.4 accidents per million working hours (2007: 3.6). We continue to include these companies in our safety activities.

## 2020 GOAL Reduce lost time injuries

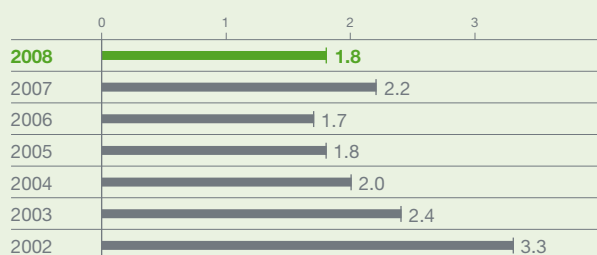
**–80%**

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

## New paths to safety excellence

With our new safety initiative, we go beyond traditional safety methods. Our success factors for occupational health and safety not only include the acceptance of rules and regulations and the personal responsibility of each individual, but it is also important that our managers lead the way by acting as role models and that our employees are actively committed. We also pursue open dialogue in order to benefit from experiences and learn from our mistakes. To achieve this, we launched the worldwide initiative "Safety Champions" in 2008. In Asia, it is implemented by the "C.A.R.E.-Initiative," in South America through "Cultura De Segurança," and in North America by "Journey to EHS Excellence." Several thousand managers, experts, employees and partner companies developed ideas for improvement in major regional events, discussion forums, and surveys.

**Lost time injury rate**  
per million working hours (reduction compared with baseline 2002: –45%)



## SUCCESS FACTORS FOR OCCUPATIONAL SAFETY

- Role model function of managers
- Personal responsibility, clear rules and guidelines
- Open dialogue to mutually benefit from experiences
- Active commitment from every single employee

## HEALTH PROTECTION

**The ability of our employees to perform, their job satisfaction and their creativity are fundamental to our economic success. The BASF global health program aims to protect their health – benefiting both employees and the company.**

A worldwide network of experts for occupational medicine and health protection work together to implement our program. They also help to ensure that our products and their production do not pose a health risk to employees, neighbors, customers or consumers.

### 2020 GOAL

#### Reduce occupational diseases

**–80%**

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 hours worked.


Examples of occupational diseases include noise-induced hearing damage, skin and respiratory diseases caused by chemicals, and musculoskeletal disorders. In 2008, there were 0.31 occupational diseases per million working hours within BASF. This corresponds to a 23% reduction compared with the baseline figure for 2004. In order to achieve our health goal, we rely on medical surveillance and regular targeted hazard assessments, for example, occupational medical plant inspections and audits. Our preventive health interventions are derived from these assessments. For us, prevention is always the priority.

### Worldwide investment in health

Standards for our medical performance for employees are laid down in our global Occupational Medicine and Health Protection Program. We ensure that prevention and health promotion at all BASF sites worldwide meet the same high standards. Our 15 expert teams cover all areas of occupational medicine. Regular medical audits help us to improve our services. Our internal auditing system corresponds to the standards of the commonly used external auditing procedures ISO 19011 and OHSAS 18001.

Our expertise in occupational medicine and health protection is available to employees, neighbors and customers. BASF's commitment to this field is also recognized outside the company. The European Commission and the German Association of Corporate Health Insurance Companies (BKK Bundesverband) awarded us with the "German Corporate Health Achievement Award" (Deutscher Unternehmenspreis Gesundheit) for our 'excellent, comprehensive and holistic health management.'

### Commitment to our employees

Our checkup and prevention modules contribute to the reduction of health risks and to promote the long-term health of our employees. Our health campaigns make an important contribution: Through our second global health campaign "Steps to Health 2009," we aim to increase our employees' awareness of the benefits of daily physical exercise and encourage them to be more active. During the campaign, a pedometer will become their constant companion. Every site can support the participants with additional offers. The pedometer readings of all participants will be entered regularly into a global database, thereby making individual or team progress immediately visible. 

→ More information on this topic can be found at [basf.com/health\\_protection](http://basf.com/health_protection)

## GLOBAL NON-SMOKING CAMPAIGN

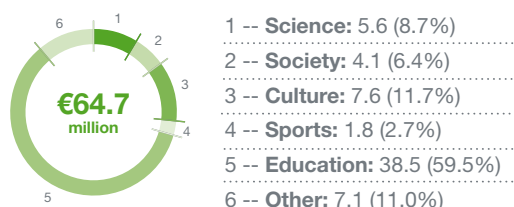
For the first time, we launched a health campaign globally: During our non-smoking campaign in 2008, 1,578 employees at 126 different BASF sites voluntarily gave up smoking for four weeks; this corresponds to 870,000 cigarettes. At many sites, permanent follow-up services such as stop smoking courses were introduced along with the campaign. Three years after the 2003 non-smoking campaign in Ludwigshafen, Germany, which was based on the same concept, 40% of the participants had stopped smoking permanently.

# SOCIAL COMMITMENT

**For BASF, taking on social responsibility means investing in the future. Knowledge is our most important future resource and the driving force behind innovation and growth around the world. We therefore focus our commitment on education, and support in particular, projects that make education accessible in the communities close to our sites worldwide.**

Our economic success depends on trust and social acceptance from our neighbors. We are therefore committed to promoting education in the communities and regions where our sites are located, as well as supporting initiatives and projects in sports, culture and society. An important selection criterion for projects is their long-term value. A framework directive for the BASF Group regulates the allocation of funds for donations and sponsoring.

**BASF Group donations, sponsoring and own projects in 2008**  
€64.7 million (2007: €75.3 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 Corporation PAC is a non-partisan, federally registered group of employees which supports candidates for political posts at federal, state and local levels.

In 2008, the BASF Group spent a total of €64.7 million (2007: €75.3 million) on promoting projects. Of the total amount, 38.6% was donated.

## We promote education

Education is key to the future of our children and the development of society as a whole. Early learning is essential: Through the "Action on Education" initiative, BASF is currently supporting more than 170 day-care centers in Ludwigshafen and the local region. Seven different projects focus, for example, on improving language skills and discovering the natural world through play. The initiative, which started in 2005, was expanded in 2008 and has so far reached 13,000 children. Aid amount for the initiative totals up to €5 million annually. In 2008, the German UNESCO Commission assumed patronage of the "Action on Education" initiative and honored its achievements. This promotes the sustainability of the initiative and gives it a unique standing compared with the multitude of different early learning projects in Germany.

We also support education projects in other countries. In South America, for example, we support neighborhood elementary schools close to our production sites, provide further education for teachers and award grants to students.

## Inspiring interest in science

The best way to inspire children about science is by conducting scientific experiments in the classroom. We therefore offer laboratories for schoolchildren at our sites and support a wide range of different projects.

In 15 countries, children can discover the world of chemistry in our Kids' Labs and through a variety of hands-on experiments. In 2008, a total of 67,000 children and young people participated in these activities. In India, we provided a rolling Kids' Lab for the "Science Express" –

## PRINCIPLES AND FOCUS

- Education is the focus of our commitment
- We primarily sponsor activities in the communities and regions close to our sites
- We create value for society with our donations and sponsorship
- We promote projects with sustainable benefits

an entire train containing a mobile exhibition from the Max Planck Society in Germany. The train stopped at 57 Indian cities and welcomed 2.25 million visitors during a seven month journey that ended in May 2008. More than 15,300 young people conducted experiments in the BASF Kids' Lab on the train.

We are also committed to discovering and encouraging scientific and business talent. For this reason, we sponsored the Young Researchers science competition in the Rhineland-Palatinate region of Germany for the 43rd time in 2008. We also offer regular summer courses and workshops for talented students from around the world.

#### Working together in the Knowledge Factory

To promote knowledge as an essential resource, we co-founded the "Knowledge Factory" in 2005. Together with approximately 70 other companies, BASF works to foster a learning culture and spirit of discovery among children in kindergartens, schools and colleges. The focus is on the topics of the future – science and technology – as well as providing insights into the world of business. In our newly developed business game "ProFi," for example, elementary school pupils can start up their own company and learn practically what it means to conduct business. In addition, the Knowledge Factory contributes to the national debate on education: At the education summit in Dresden, Germany, in October, 2008, children from education partnerships within the Knowledge Factory presented their ideas for the "ideal school of the future" to German Chancellor Angela Merkel. The Knowledge Factory also pursues another goal: promoting entrepreneurship in young people. Through a mentoring program, employees of the member companies provide professional support and advice to young entrepreneurs.

→ More information at [www.wissensfabrik-deutschland.de](http://www.wissensfabrik-deutschland.de)

#### Worldwide commitment from the BASF team

Education was also the focus of the Christmas donation campaign 2008 at BASF SE, and BASF SA in Brazil. The BASF social foundation is working together with UN-HABITAT, the United Nations' human settlements program, to build an education and community center in a poor quarter of São Paulo, Brazil. BASF SE made a donation of €100,000 to the project as starting capital. BASF employees at our sites in Ludwigshafen and Schwarzeide in Germany, and in São Paulo collectively donated over €70,000.

In 2008, the BASF team was also active in helping victims of natural disasters. A total of €900,000 for victims of the earthquake in China and the flooding in Burma was donated by employees in Germany together with employees from BASF Greater China and joint ventures in the region. The BASF social foundation, UN-HABITAT and BASF Pakistan are rebuilding a school which was badly damaged during the earthquake in 2005.

Our commitment to reconstruction after natural catastrophes makes it possible for the victims to gain long-term perspectives. This was the case in Bangladesh after cyclone Nargis: UN-HABITAT built a new school building which can withstand future storms.

In May 2008, the BASF social foundation and UN-HABITAT initiated a project in Nairobi, Kenya, to mark the entry into force of the U.N. Human Rights Convention on the Rights of Persons with Disabilities: The construction of a health and education center in the slums of Kibera-Soweto offers disabled children and young people improved medical treatment and initial aid to help them make a new start in life. 

## PARTNERSHIP WITH THE UNITED NATIONS

As a founding member of the Global Compact, BASF is committed to achieving the U.N. Millennium Development Goals. The BASF social foundation works in close collaboration with U.N. organizations to provide emergency aid and assistance for general development projects. In several projects, experts from BASF's divisions supplement the expertise of our U.N. partners. Experts from the Care Chemicals division developed a test kit to simplify nutritional analysis especially for a UNICEF Project to combat malnourishment in the Democratic Republic of Congo. Start-up funds from the Christmas donation campaign in 2007, as well as technical support from BASF, ensure the long-term success of the initiative. 

→ More information on the Millennium Development Goals at [basf.com/millennium\\_goals](http://basf.com/millennium_goals), more on our commitment to fighting against malnutrition at [www.food-fortification.com](http://www.food-fortification.com)

# CLIMATE PROTECTION

Climate change is one of the main challenges facing society. Industry, science, politics and society need to work together to find global solutions for climate protection. At the beginning of 2008, we presented our action plan for climate protection: We set ourselves ambitious climate protection goals, appointed a Climate Protection Officer and presented a comprehensive corporate carbon footprint. We create business opportunities for ourselves and our customers with our products for climate protection.

Climate protection is an integral part of our sustainability strategy. We support the goals of the Kyoto Protocol and are committed to contributing to their global implementation. We reduce greenhouse gas emissions in our production by further improving the energy efficiency of our processes. Above all, our products make a major contribution to climate protection. They enable our customers to reduce greenhouse gas emissions and save resources. We develop innovative technologies for climate protection together with customers and our partners in industry and science. BASF invests over €400 million per year in research and development for products and technologies for energy efficiency, climate protection, resource conservation and renewable raw materials.

## Listing in the Carbon Disclosure Leadership Index

BASF's commitment to climate protection and our transparent reporting on this issue have been officially recognized with our listing in the renowned Carbon Disclosure Leadership Index (CDLI). In 2008, BASF achieved the top ranking in this global index in the category carbon-intensive sectors. In the United States, BASF has been a member of the Business Environmental Leadership Council of the Pew Center on Global Climate Change since 2008. Membership is attained by invitation from the Center and

is offered to companies that actively advocate climate protection.

## Greenhouse gas emissions

(1,000 metric tons of CO<sub>2</sub> equivalent per year)

	GWP-Faktor*	2002**	2005	2006	2007	2008
CO <sub>2</sub> ***	1	18,236	19,737	20,250	21,433	20,727
N <sub>2</sub> O	310	6,407	4,915	4,602	5,963	6,294
CH <sub>4</sub>	21	10	16	12	21	15
HFC ****	140–11,700	61	116	121	96	69
PFC ****	6,500–9,200	0	0	0	0	0
SF <sub>6</sub>	23,900	0	1	2	1	2
		24,714	24,785	24,987	27,514	27,107
spec. GHG factor *****		0.897	0.800	0.786	0.749	0.770

\* GWP factor global warming potential of the individual gases compared with CO<sub>2</sub>

\*\* Baseline

\*\*\* Energy-related CO<sub>2</sub> 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.

\*\*\*\* Halogenated fluorocarbons (HFC) and perfluorocarbons (PFC); Calculated using the GWP factors of the individual components (IPCC 1995)

\*\*\*\*\* Specific greenhouse gas factor = metric tons of greenhouse gases per metric ton of sales product

## BASF's corporate carbon footprint

Analysis of the entire product life cycle is the basis on which new solutions are developed. At the beginning of 2008, we were the first industrial company to draw up a comprehensive carbon footprint for our chemical business (data based on 2006). We not only analyzed our own greenhouse gas emissions, but also the emissions from the extraction of raw materials, the production of precursors and from product disposal. These figures were set against the CO<sub>2</sub> savings achieved through the use of our products. The result: CO<sub>2</sub> savings of 252 million metric tons compared with 87 million metric tons of greenhouse gas

## CORPORATE CARBON FOOTPRINT

■ Savings of CO<sub>2</sub> equivalent per year  
■ Emissions of CO<sub>2</sub> equivalent per year

Saving of CO <sub>2</sub> emissions through BASF products	-252 mill. metric tons	3	
Emissions for raw materials, production of disposal of all BASF products		1	87 mill. metric tons

We were the first industrial company to present a comprehensive corporate carbon footprint. The result shows that BASF products save three times more greenhouse gas emissions than are caused by the production and disposal of all our products. In the long-term, we want to maintain or even improve this factor.

→ More information on this topic can be found at [basf.com/corporate\\_carbon\\_footprint](http://basf.com/corporate_carbon_footprint)



emissions. BASF products save three times more greenhouse gas emissions than are caused by the production and disposal of all BASF products. We want to maintain, or even improve this factor of three in the long-term. In 2008, BASF was distinguished with the European Responsible Care® Award by the European Chemical Industry Association for our corporate carbon footprint. 🌍

### Global climate protection goals

In 2008, emissions of greenhouse gases from BASF's chemical operations worldwide amounted to 27.1 million metric tons (2007: 27.5 million metric tons). In recent years, numerous projects have helped us to reduce emissions of relevant greenhouse gases significantly. Between 1990 and 2002, we reduced greenhouse gas emissions by 38% in absolute terms and specifically by 61%. By 2020, we aim to achieve another big step, and have set ourselves an ambitious new goal in 2008: a further 25% reduction in our specific greenhouse gas emissions per metric ton of sales product compared with 2002.

### 2020 GOAL Reduce greenhouse gas emissions

**–25%**

By 2020, we aim to reduce our specific greenhouse gas emissions per metric ton of sales product by 25% compared with 2002.

In 2008, we reduced greenhouse gas emissions per metric ton of sales product by 14.2% compared with 2002. This reduction is smaller than in 2007, due primarily to reduced plant utilization, in addition to the shutdown and startup of several plants worldwide because of the economic crisis, and following hurricanes in the United States.

### Emissions from gas and oil production

In 2008, emissions of greenhouse gases from oil and gas production totaled 1.4 million metric tons (2007: 1.3 million metric tons).

Our greenhouse gas emissions goal does not include oil and gas production as it is difficult to forecast the emissions from exploration of new oil and gas fields. In 2008, we therefore set ourselves a climate goal specifically for our oil and gas business.

### 2012 GOAL Stop the flaring of associated gases

**100%**

We want to stop the flaring of associated gases that are released during crude oil production by Wintershall.

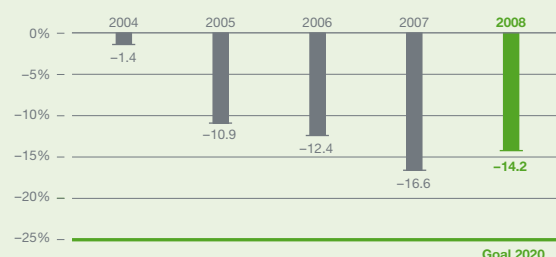
The production of crude oil releases waste gases which are often burnt off (flared) due to the lack of infrastructure to use these gases further. The BASF subsidiary Wintershall has set itself the goal to stop the continuous flaring of gases associated with crude oil production in routine operations at all its sites by 2012. In 2008, Wintershall put an oil compressor into operation in Emlichheim, Germany, to help achieve this goal. In Libya, Wintershall processes gas released during the production of crude oil in a special gas utilization plant and transports it by pipeline to power plants for the generation of electricity. Two remaining production sites will be equipped with facilities to process associated gases and ensure the achievement of the goal by 2012. Overall, gas utilization reduces greenhouse gas emissions in Germany and Libya by around two million metric tons per year.

## REDUCTION OF GREENHOUSE GASES

as of 2008, compared with the baseline 2002

**–14%**

### Reduction of specific greenhouse gas emissions per metric ton of sales product (baseline 2002)





### Innovation for climate protection

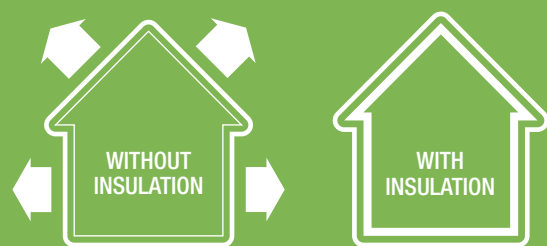
Many of our products make a contribution to climate protection. Our products for climate-friendly construction and housing range from innovative insulating materials for exteriors and windows, that increase the energy efficiency of buildings to cement additives that reduce greenhouse gas emissions in the construction phase. Our fuel additives and plastics for lightweight auto body construction contribute to decreasing greenhouse gas emissions in traffic. Baxxodur® epoxy resins enable the construction of larger, lighter rotor blades to improve the performance of wind turbines. To facilitate the transfer of modern climate protection technologies to transition and developing countries, we have pooled our competencies in a technology transfer team. Our activities in this area are operated under the Clean Development Mechanism (CDM) arrangement of the Kyoto Protocol.

In 2008, we examined the carbon footprint of various textile production processes in a joint project with our partner and customer PUMA, the company Systain, and textile companies in Bangladesh. The use of BASF textile chemicals and technologies can significantly reduce CO<sub>2</sub> emissions per garment. At our own sites, we also initiated a range of climate protection measures in 2008; one example is our Energy Efficiency Program.

BASF, RWE Power and the Linde Group have agreed on the development of a new process for CO<sub>2</sub> capture from combustion gases in coal-fired power plants. Over 90% of the CO<sub>2</sub> from combustion gases could be captured with this new technology called CO<sub>2</sub> scrubbing, and afterwards be stored underground. A pilot facility is under construction in which newly developed BASF solvents will undergo long-term tests to increase process and engineering know-how, and thus optimize CO<sub>2</sub> capture technology. The long-term goal is to improve the profitability of this technology. 🌍

→ More information at [basf.com/climate\\_protection](http://basf.com/climate_protection)

### INNOVATIVE THERMAL INSULATION MATERIALS Increased energy efficiency



Lower energy  
consumption –  
fewer emissions

VALUE FOR BASF

**400**

thousand metric tons  
of insulation material sold

VALUE FOR SOCIETY

**110**

million metric tons  
of CO<sub>2</sub> saved

Our modern insulation materials can reduce the energy consumption of residential houses by more than 70%. 400,000 metric tons of insulation material sold annually by BASF save over 110 million metric tons of greenhouse gases.

## PRODUCTS FOR CLIMATE PROTECTION

- Construction: exterior insulation, insulating materials for windows, cement additives
- Energy: epoxy resin systems for wind turbine blades
- Mobility: fuel additives, plastics for lightweight auto body construction

## ACTION PLAN CLIMATE PROTECTION

- New ambitious climate protection goals
- Corporate Carbon Footprint reporting
- Appointment of the Climate Protection Officer
- Global expert group for climate change monitoring
- Energy efficiency program in production

# ENERGY

**The conservation of resources is a fundamental economic principle for us. Therefore, we strive continually to generate and use energy efficiently. Energy efficiency will be one of the most valuable future energy sources as it brings together climate protection, resource conservation and economic benefit.**

## 2020 GOAL

Increase energy efficiency

**+25%**

We want to improve the specific energy efficiency of our production processes by 25% compared with the baseline of 2002.

Energy efficiency is the most important means of reducing our energy consumption and conserving resources. In 2008, we set a new quantitative goal to improve energy efficiency through a wide range of measures. One element of our energy management is a global initiative to reduce energy use in our chemical plants and achieve more efficient energy production and distribution at our sites. The most cost-efficient measures are connected with replacement investments.

The use of combined heat and power (CHP) plants, energy optimization of production processes as well as structural changes, increased our energy efficiency by 22% from 2002 to 2008. As part of our energy efficiency program, we are currently evaluating the most energy intensive plants at our Ludwigshafen, Germany site. Over the next three years, we aim to review and identify potential savings at these plants, which account for around 80% of our total site energy consumption.

## Energy efficiency in the production of energy

Energy is one of the main cost factors in the production of chemicals. To supply our production sites with energy, we use combined cycle gas turbines in our CHP plants which operate with a fuel efficiency of almost 90%. Worldwide, 16 BASF-owned CHP plants, and seven plants operated by external partners, supply our operations with electricity and steam.


## Energy efficiency through the Verbund

Our Verbund system links our production and energy supply networks, thus making a major contribution to energy efficiency. Crude oil and natural gas are used not only as raw materials, but also to fuel electricity and steam generation. Heat from production processes is not discharged to the environment; rather it is captured to power other production plants. This principle is applied at all major BASF production sites. Without this Energy Verbund, the total energy needed to generate electricity and steam in BASF Group power plants in 2008 would have been around 4.5 million metric tons of oil equivalent – approximately 54% higher than the actual figure of 2.9 million metric tons.

## Energy efficiency through energy management

BASF's energy management incorporates all our activities to analyze and continually improve our energy efficiency. Based on the worldwide energy data in our Responsible Care database, our experts measure current energy use and costs, and evaluate potential energy savings. On this basis, we establish energy goals and design measures to achieve them. In developing new processes, we use complex simulations and optimization models. They help us, for example, to optimize the energy requirements of existing or future plants from an economic viewpoint.

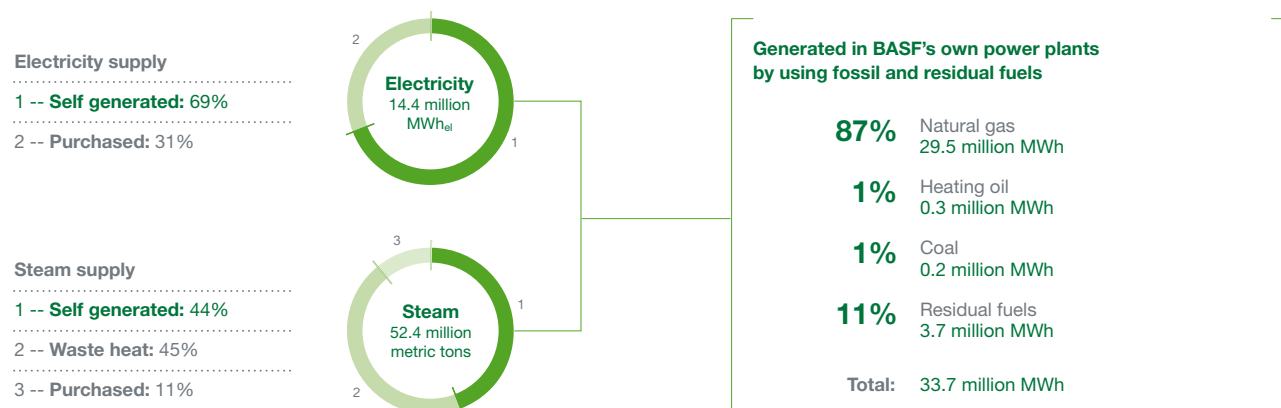
## ENERGY EFFICIENCY AT BASF

- Cost reduction, climate protection, resource conservation
- Quantitative goal to increase energy efficiency
- Three-pronged strategy to achieve energy goal: efficient energy production, savings through the Energy Verbund and successful energy management 

## ENERGY VERBUND

- Contribution to the efficient use of energy
- Linking of production and energy supply networks
- Savings of 1.6 million metric tons of oil equivalent through the generation of electricity and steam in BASF Group's power plants

## Energy supply of the BASF Group 2008



In 2008, BASF's total electricity requirements amounted to 14.4 million MWh<sub>el</sub>. In addition, a total of 52.4 million metric tons of steam was distributed via steam networks. This electricity and steam is generated in central BASF power plants. In 2008, we used 33.7 million MWh of fossil and residual fuels worldwide to generate this electricity and steam. The amount of primary fuels used (30.0 million MWh) corresponds to 60% of the total of primary fuel used in the BASF Group. 9.9 million MWh<sub>el</sub> of electrical power and 22.9 million metric tons of steam were generated. We used cogeneration as the primary source of energy supply for our sites. Compared with conventional generation of electricity and steam, this saved approximately 10.9 million MWh of fossil fuels.

At our Ludwigshafen site, 17 production plants are currently using an in-house solution that provides real-time data on energy and raw material consumption. Since 2006, this information has helped reduce annual costs in these plants by over €1.5 million.

### Sources of energy

We continue to rely on a balanced mix of energy and raw materials that includes all conventional fuels. We also evaluate renewable energy sources. These only achieve a permanent place in our energy mix, if they are assessed to be competitive. Our energy management research cluster focuses on the energies of the future. Several products in our portfolio contribute to the development of renewable

energy, for example in catalysis and electro-chemistry for fuel cells. In 2008, the German Aerospace Center presented the first manned airplane that can take-off and fly exclusively with a fuel cell fitted with BASF's Celtec-membrane electrode assemblies (MEA).

→ More information on energy efficiency can be found at [basf.com/resource\\_conservation](http://basf.com/resource_conservation)

## RENEWABLE RAW MATERIALS

Renewable raw materials are used in the manufacture of products. As for all sources of raw materials, we place a high priority on selecting the most sustainable resource for each application. We use renewable raw materials where they offer economic or environmental advantages.

We are researching new applications in many areas. Successful examples include bioplastics such as Ecovio® and Luprano® Balance. We are also developing products such as catalysts and process chemicals for the decomposition of biomass to facilitate the use of renewable raw materials. Our crop protection products and plant biotechnology contribute to raising the yields and quality of renewable raw materials.

# WATER

**Worldwide, water is becoming an increasingly scarce resource. The sustainable use of water and worldwide conservation of natural water resources are therefore of concern to us. Our water conservation strategy is built on three pillars: We minimize our water consumption, reduce emissions to water from our production processes, and offer products that save water and improve water quality.**

Ensuring worldwide access to clean water is one of the major global challenges of the future. Through responsible use of water and innovative technologies which help our customers to use water sustainably, we contribute to the implementation of the U.N. Millennium Goal to maintain and improve access to safe drinking water.

BASF uses water in the manufacture of products, for cooling and cleaning, and as a means of transportation. Water conservation is primarily a local responsibility. At our sites, we plan to systematically evaluate the sustainability of our water sources and to identify potential risks regarding future water supply. By 2015, we will also review our water conservation concepts at our large production sites. Our commitment to worldwide partnerships in this field enables us to improve our knowledge and share our expertise with others. In 2008, we became a strategic partner in the European Water Partnership. 🌍

## Water consumption at BASF

We continually reduce our water consumption and reuse as much water as possible in our circuit systems. In 2008, BASF used 2,058 million cubic meters (2007: 2,093 million cubic meters) of water worldwide. Of this amount, 95% was drawn from rivers and lakes. Groundwater accounted for around 4%, and around 1% was drinking water. The vast majority of the water is used for cooling. However, the benefits achieved by recirculating this water are offset by

an increase in energy needed for recooling. The challenge is to achieve both goals simultaneously: to reduce energy consumption, and, at the same time, save the amount of cooling water used.

## Clean water from production

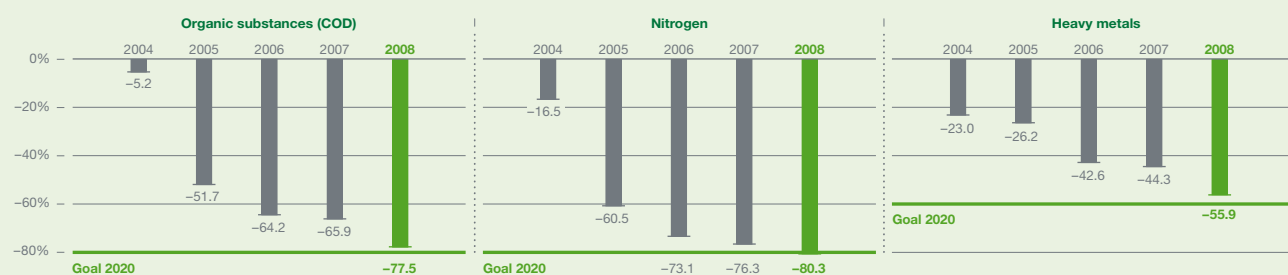
One tenth of the water used by BASF comes into contact with our products. We are continually working on reducing emissions to water from production processes and have set ourselves ambitious goals. At our large production sites, wastewater from production processes and gray-water are treated biologically in our own wastewater treatment plants. At our smaller sites, wastewater and gray-water are discharged to municipal or industrial wastewater treatment plants for cleaning.

### 2020 GOAL Reduce emissions to water

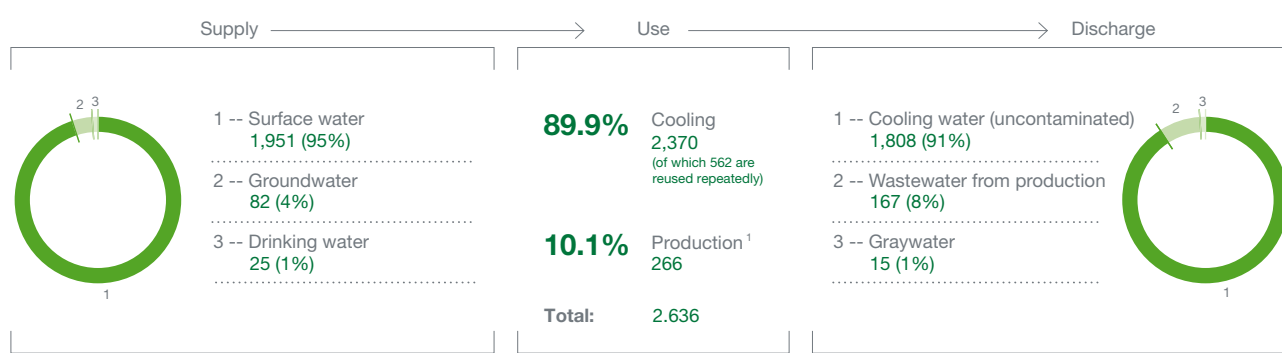
We aim to reduce emissions of both organic substances and nitrogen to water by 80% and of heavy metals by 60%, compared with the baseline year 2002.

In 2008, BASF discharged a total of 183 million cubic meters of wastewater. In 2008, we reduced emissions of organic substances to water by 77.5% compared with 2002. Emissions of organic substances – calculated as chemical oxygen demand (COD) – amounted to around 20,600 metric tons (2007: 31,200 metric tons). Emissions to water of nitrogen (N total) were 4,400 metric tons (2007: 5,300 metric tons). This amounts to a reduction of 80.3% compared with the baseline year 2002. Emissions of phosphorous were 376 metric tons (2007: 437 metric tons). Our wastewater contained 27 metric tons of heavy metals (2007: 34 metric tons). We achieved this reduction through

## Emissions to water (reduction compared with baseline 2002)



### Water balance of the BASF Group in 2008 (million cubic meters per year)



<sup>1</sup> Total from production processes, graywater, rinsing and purification in production

technical improvements to the wastewater treatment plant at our catalysts production site in Nanjing, China. Changes in our product portfolio also contributed to this reduction. We cut heavy metal emissions by 55.9% compared with 2002.

The reduction of emissions to water in 2008 is due to improvements in wastewater treatment, the temporary decline in production volumes, and structural changes.

### Business opportunities through water conservation

Many of our products help to prevent pollution in areas where water is scarce. The engineering plastic Ultrason®, for example, is used in filter membranes for cleaning and treating water. Other products help to save water and conserve resources during their manufacture and their use. During the production of our new detergent surfactant Lutensol M®, for example, fewer emissions are released to wastewater than with other surfactants. The BASF

Color Fast Finish process enables one-step textile dyeing and finishing, thus saving water and energy.

Through our Eco-Efficiency Analysis, we assess the risks and opportunities of selected products and processes with regard to water use and impact. As part of our sustainability service “Success”, we support customers with our expertise in handling contaminated soil and groundwater, water supply, wastewater treatment and water conservation.

### Specific emissions per metric ton of sales product (changes compared with 2007)

Emissions to water	
Nitrogen	(12.9 %)
Organic substances (COD)	(31.2 %)
Heavy metals	(17.5 %)

### WATER CONSERVATION

- Reduce our own water consumption
- Further reduce emissions to water
- Products to improve water quality
- Products to help our customers save water

# ENVIRONMENTAL AND SAFETY MANAGEMENT

**We work continually to improve environmental protection, health and safety at BASF and set ourselves ambitious goals. Our global Responsible Care® Management System and uniform global directives ensure that our standards are the basis of day-to-day work at all sites. We have, for example, established clear directives for plant safety and the transportation of our products. They help us protect our employees and neighbors, and secure our productivity.**

## Responsible Care Management

BASF supports the chemical industry's voluntary commitment to the global Responsible Care initiative, and in 2006, co-initiated the Responsible Care Global Charter of the International Council of Chemical Associations.

Experts from our Responsible Care network coordinate all BASF activities in the areas of environmental protection, health and safety. They develop worldwide standards, for example, directives on the construction of plants. The activities of this global network contribute to the Responsible Care initiative. With success: In 2008, BASF Indonesia received a Responsible Care distinction for excellence in safety management.

We launched our revised, globally valid Responsible Care Management System in the summer of 2007. It supports managers in promoting Responsible Care and sets the framework for the safe production, transportation and handling of chemicals. In 2008, the American Chemistry Council distinguished BASF Corporation with the Responsible Care Leadership Award for its implementation of Responsible Care management in the United States. All BASF sites worldwide report to our Responsible Care database in which information on emissions, energy, occupational safety, health protection and distribution safety is captured. In 2008, we began the introduction of a new incident database to better analyze accidents and near-

accidents. Detailed data on accidents, environmental and transport incidents and damage are centrally recorded. Thus potential sources of mistakes can be identified faster and eliminated systematically. In 2008, BASF had no events with relevant environmental impact of importance to the Consolidated Financial Statements.

→ More information on this topic can be found at [basf.com/responsible-care\\_e](http://basf.com/responsible-care_e)

→ More information on occupational safety can be found on page 95, health protection on page 96, and product stewardship on page 110

## Audits

We audit our internal environment, health and safety performance regularly on the basis of a standard global procedure. BASF's environment, safety and occupational medicine experts audit sites and plants, and monitor the implementation of our global standards using an inspection catalog. Their audit recommendations help us to further improve our environment and safety performance. In addition, the international audit team meets regularly to ensure global consistency of the audit systems and to develop them further. Our internal audit system is in line with the standards and criteria of external auditing procedures. A total of 149 of our production sites are certified in accordance with ISO 14001 or EMAS.


In 2008, 86 environmental and safety audits were carried out at 71 sites in the BASF Group. In addition, there were 34 audits on occupational medicine and health protection at 34 sites.

→ More information on certified sites can be found at [basf.com/certified](http://basf.com/certified)

## Reduction of air pollutants

The examination of the emissions from our plants is an integral part of our environmental management. In addition to measuring greenhouse gas emissions, we also measure emissions of air pollutants. Air pollutants include inorganic compounds such as carbon monoxide (CO), sulfur dioxide

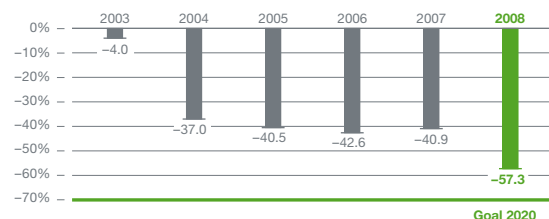
## RESPONSIBLE CARE MANAGEMENT

- Coordinates activities in the areas of environmental protection, health and safety
- Supports management to further promote Responsible Care
- Comprises nine key sectors at BASF: environmental protection, process safety, transport and distribution safety, emergency response, product stewardship, health protection, occupational safety, dialogue and security 

(SO<sub>2</sub>), nitrogen oxides (N<sub>2</sub>O), ammonia and other inorganic compounds, dust, heavy metals and volatile organic compounds (NMVOCs). In 2008, emissions to air from BASF's chemical operations totaled 36,500 metric tons (2007: 50,600 metric tons). Due to process optimization, emissions of ozone-depleting substances as defined by the Montreal Protocol totaled only 63 metric tons (2007: 99 metric tons). In 2008, heavy metals emissions were reduced to a total of 8 metric tons (2007: 22 metric tons) primarily due to the installation of a new dust filter at the catalysts production site in Nanjing, China.

#### Emissions to air

Air pollutants<sup>1</sup> (reduction compared with baseline 2002)



<sup>1</sup> Consist of: CO, NO<sub>x</sub> (Sum of NO<sub>2</sub> + NO, calculated as NO<sub>2</sub>), NMVOC (Non-methane volatile organic compounds, SO<sub>x</sub>, dust and NH<sub>3</sub>/other inorganics)

Our goal is to further reduce the emissions of air pollutants from our chemical plants by 70% by 2020. We remain focused on our goal to reduce absolute emissions even when our portfolio changes. In 2008, structural changes and economic fluctuation led to lower emission levels. We also reduced emissions of air pollutants through technical improvements. Since the end of 2007, the thermoreactor in the phthalic anhydride plant at our Ludwigshafen site has made a significant contribution to this reduction.

#### 2020 GOAL

##### Reduce emissions of air pollutants

**-70%**

We aim to reduce air pollutants from our chemical plants by 70% compared with 2002.

#### Waste management

At BASF, the appropriate disposal of waste is beyond question. Our fundamental principles are "avoid, reduce, recycle." Residual waste is only disposed of when all other possibilities are exhausted. Sewage sludge from the BASF wastewater treatment facility at the Ludwigshafen site, for example, is used to generate electricity and heating. In addition, since the beginning of 2008, the sludge has been enriched by the addition of substitute fuels for thermal recovery. Worldwide, BASF produced around 1.77 million metric tons of waste in 2008 (2007: 1.93 million metric tons). Oil and gas exploration accounted for 0.15 million metric tons. Around 43% of our waste was recycled or subjected to thermal recovery. We aim to further improve this figure. The remainder was disposed of: 16% thereof underground, 44% was incinerated, and 40% in landfills. In line with the customary international categories, 484,800 metric tons of our disposal waste was classified as hazardous and 529,600 metric tons as non-hazardous.

#### Process safety

Safety is of the utmost priority in our plants. This is how we protect the health of our employees and neighbors, and avoid environmental damage and production stoppages. We introduced a five-stage system for the planning of plants, to avoid product spillages, fires and explosions. It covers all important aspects in the areas of environmental

## RESPONSIBLE CARE AUDITS

- 86 audits on environmental protection and occupational safety
- 34 audits on occupational medicine and health protection
- Findings to improve environmental, health and safety performance

## EMERGENCY RESPONSE

- Alarm plan with information on our plants, and on fire and explosion protection
- Regular monitoring of our emergency systems
- Local teams for incident and crisis management



protection, health and safety from the design of a plant to the start-up of production. In order to ensure uniform safety standards, we place particular importance on training and further education for our safety experts worldwide. We hold regular seminars on process safety and protection against explosions. In these seminars, we place emphasis on the exchange of information on instruments to improve process safety, such as the use of new safety concepts or 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 levels and appropriate measures are derived from this matrix.

→ More information on this topic can be found at [basf.com/process\\_safety](http://basf.com/process_safety)

### Emergency response

We prepare carefully for potential incidents. For this, we are continually improving our emergency response. Our emergency response plans include information on each plant, an alarm plan, and information on fire control and explosion protection.

Worldwide, our subsidiaries and joint ventures, suppliers, customers, neighboring companies, municipalities, and communities in which we operate are included in these plans. Prevention is the essential factor in all our environment, health and safety activities. We regularly check our emergency systems, for example in emergency drills with our employees and local authorities. We have local incident and crisis management teams at our sites which we support from our Ludwigshafen site. Our emergency response is available around the clock.

A swift response is also essential if accidents occur while chemicals are being transported. This is why we are actively involved in networks to quickly provide information and assist in emergencies. These include the German Transport, Accident, Information and Emergency Response System (TUIS), and the International Chemical Environ-

mental (ICE) initiative. In addition, we have an international network of emergency assistance and emergency response centers, primarily in Europe and in North and South America, and, since 2008, also at important production sites in Asia.

→ More information on this topic can be found at [basf.com/emergency\\_response](http://basf.com/emergency_response)

### 2020 GOAL

#### Reduce transportation accidents

–70%

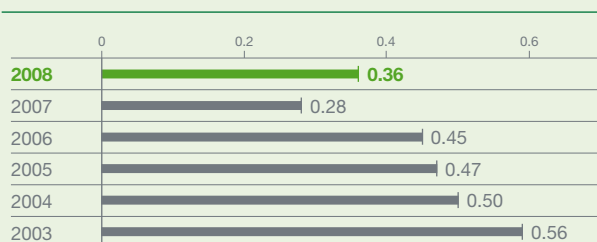
We aim to reduce the rate of transportation accidents worldwide per 10,000 shipments by 70% compared with 2003.

### Improved transportation and distribution safety

Safe transportation and storage of products is part of our social responsibility. Uniform standards for the transportation and storage of chemical products are determined in directives. They define responsibilities, requirements and assessment methods. Our safety advisers are tasked with ensuring that internal, national and international transportation regulations are adhered to during all transports. If an accident occurs, they collect and analyze all the relevant information. Their reports help us to develop strategies and measures in order to avoid similar incidents in the future. We have reduced the number of transportation accidents from 0.56 in 2003 to 0.36 per 10,000 transports in 2008 (2007: 0.28). In spite of the increase in 2008 compared with 2007, the long-term trend toward fewer accidents continues. These figures are based on accidents reported to us by our logistics partners. Product spillages during transport are recorded and assessed separately.

→ More information on this topic can be found at [basf.com/distribution\\_safety](http://basf.com/distribution_safety)

**Transportation accidents per 10,000 shipments**  
(reduction compared with baseline 2003: -35.7%)



## SAFETY DURING TRANSPORTATION

- Evaluation of carriers using the “Safety Quality Assessment System”
- Safety and quality assessment of marine transportation by independent experts
- Global standards
- High performance organization
- Reliable logistics partners

### Safety of our logistics partners

In our supply chain, collaboration with our external logistics providers is also oriented toward safety. We use approved systems such as the Safety Quality Assessment System (SQAS) to evaluate the performance of our carriers. This assessment system was developed under the leadership of the European Chemical Industry Association (CEFIC). It provides information regarding issues such as the training level of carrier employees, accident response times and equipment carried by vehicles.

Safety and quality assessments of tankers are carried out globally by the Chemical Distribution Institute (CDI). Independent specialists assess ship conditions, technical equipment and operations. As a CDI member, BASF evaluates these safety reports and uses the results as a basis to decide which vessels to use for transportation.

### Crime prevention

Our corporate security concept is also based on the principle of prevention. We protect BASF's employees, plants and know-how against crime, terrorism, sabotage and espionage. We ensure this through consistent worldwide standards, measures to protect company knowledge and a network of corporate security and information protection officers. BASF is one of the few companies to integrate security into its worldwide Responsible Care Management System. The protection measures are adapted by our sites to local conditions. In addition, we involve employees by informing them about potential risks and through specific training. We can determine the location of an employee on a business trip at short notice and provide protective measures if needed.

Respecting human rights in our security work is unquestionable. This is why the topic of human rights, for example, is integrated into the basic training of BASF security officers in Germany.

### Safety of suppliers and service providers

Our directives on environmental protection, health and safety also apply to employees of other companies who work at our sites. In addition, BASF companies and joint ventures in which we hold a majority stake, are required to assess the performance of contractors. We expect service providers and suppliers to adhere to our global directives and monitor their compliance. If we detect shortcomings, we support companies in eliminating them.

## ENVIRONMENTAL PROTECTION COSTS

- Overall costs of operating environmental protection facilities throughout the BASF Group: €706 million in 2008 (2007: €640 million)
- Additional investments in new and improved environmental protection plants and facilities: €165 million (2007: €103 million); these investments involved both end-of-pipe measures as well as integrated environmental protection measures

## PRODUCT STEWARDSHIP

**We make sure that our products are safe and pose no danger to people or the environment when they are used responsibly and in the manner intended. The basis for this are risk assessments and safety information for all products which we update continuously. Via our global database, we can provide information on all our products worldwide at any time.**

### Global product stewardship

BASF offers a wide range of products, which are used in all industry sectors. We strive for an equal standard of product safety and product stewardship worldwide – a standard which exceeds mere compliance with legal requirements. Up-to-date safety data sheets on our sales products are available in 34 languages. Via a global network of emergency telephone numbers we provide information on BASF products 24 hours a day, 7 days a week. If desired, we also offer our customers customized training courses and workshops on the safe use of our products.

### Partnership for product safety

Our product safety experts work in scientific expert groups, together with public authorities and partners from science and industry, to analyze and evaluate research studies. The aim is to establish precise and consistent classification and labeling. BASF supports the creation of a globally harmonized system (GHS) for the classification and labeling of chemical substances and mixtures. We are engaged on a voluntary basis in important international programs, such as the United Nations' Strategic Approach for International Chemicals Management (SAICM) and the Global Product Strategy (GPS) of the International Council of Chemical Associations (ICCA). Through GPS, for the first time, global standards and practices are being established to improve the safety of using chemical products worldwide, and in doing so, are contributing to the implementation of the Responsible Care Global Charter.

The aim is to strengthen public confidence in the chemical industry and its products, and to minimize the present differences in chemical safety standards between developing, transition and industrialized countries. Our international Product Safety and Product Stewardship team of experts coordinates our global activities in this field, including the exchange of best practices and trainings. The team analyzes audit results and uses their findings to make proposals for future improvements.

### 2015 GOAL

#### Risk assessments of substances

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.

Our previous 2008 goal was achieved: The data records for substances handled by BASF in quantities of more than 1 metric ton per year were completed as planned. As our product portfolio is constantly changing through, for example, acquisitions and innovations, we continue to update our global database with information on new substances and products. With our new product stewardship goals, we go significantly beyond the previous goals: We want to review all the substances we sell in substantial quantities worldwide based on risk assessments in line with REACH specifications. In addition, we want to conduct similar assessments of those products that we sell in similar annual quantities – regardless of the volume of individual substances they contain. In this way, we go far beyond the statutory requirements.

## GLOBAL PRODUCT STEWARDSHIP DIRECTIVE

Product stewardship is more than just a question of safety: It is an important part of our risk management. Our new global directive includes our voluntary commitment to product stewardship, together with worldwide goals. The directive stipulates that we evaluate the safety of our products throughout the entire value chain. It applies to all our operative decision makers worldwide who are responsible for its implementation. The network of product safety and product stewardship experts supports them in this task.

→ More information can be found at [basf.com/product\\_stewardship](http://basf.com/product_stewardship)

**2020 GOAL**  
**Risk assessment of products**

Based on a risk assessment, we want to review all products sold worldwide in quantities of more than 1 metric ton per year by 2020.

**REACH implementation status**

The European Union's regulation on chemicals, REACH, sets out the terms for the registration, evaluation and authorization of chemicals. We began preparing for REACH as far back as 2004: In a central database, the REACH Tracking System, we can track the status of all substances that have to be registered. During the pre-registration phase, which ended on December 1, 2008, BASF submitted more than 40,000 pre-registrations for several thousand substances. Through this we can now prevent interruptions in the production, delivery and sales of substances. The first registration phase is now starting and must be completed by November 2010. In this phase, all large-volume substances of more than 1,000 tons, environmentally dangerous substances and substances with carcinogenic, mutagenic or reprotoxic effects (CMR substances), will be registered. We anticipate average annual costs of €50 million per year until completion of the REACH implementation in 2018.


**Eco-toxicological and toxicological testing**

Before placing our products on the market, we subject them to extensive eco-toxicological and toxicological testing, and register them with the respective national and international authorities. For many such tests, animal studies are legally required. REACH demands even more information on the properties of chemical substances,

and this will result in an increase in the number of animal tests required by law.

We are committed to the ethical principles of animal welfare and we have set ourselves the goal of developing and using alternative methods to animal testing in addition to intelligent test strategies. To date, very few animal-free alternative methods have been validated by the authorities. BASF uses all of these methods. For more than 20 years, we have been involved in all relevant research initiatives to develop alternative and supplementary methods to animal testing, and we invest considerable resources in these projects. We have been able to substantially reduce the number of animals used in testing through a combination of alternative methods with measures to improve the validity of studies and intelligent testing strategies.

**More knowledge about nanomaterials**

Our standards for product stewardship apply to nanomaterials in the same way as for other products in our portfolio. Because more knowledge means more safety, we have been engaged in research on the safety of nanomaterials for a number of years. Advances in nanotechnology are accompanied by advances in toxicology, which will allow an even more comprehensive assessment of nanomaterials. Therefore we conduct toxicological experiments and participate in national and international research projects. The results are provided promptly to experts at symposia and from scientific journals, as well as to the wider public. For this purpose, we launched a website in 2008 where all the results of our safety research are published. In this way, we contribute to public and political dialogue as laid down in our code of conduct on nanotechnology. 

→ More information on safety research is available at [basf.com/dialogue-nanotechnology/safety-research](http://basf.com/dialogue-nanotechnology/safety-research); more information on our nanotechnology dialogue can be found on page 32

**WHAT IS RISK ASSESSMENT?**

We assess the risk of a substance from the combination of its hazardous properties and the potential impact on people and the environment. We analyze the potential danger of a substance based on its physico-chemical properties as well as its toxicological and eco-toxicological effects. Based on this risk assessment, we determine the expected impact on people and the environment.

**IMPLEMENTING REACH**

- Preparations for REACH since 2004
- Pre-registration ended on December 1, 2008; BASF submitted more than 40,000 pre-registrations
- Start of the first phase of registration for large-volume substances, CMR substances, and environmentally hazardous substances
- Average annual costs of €50 million until 2018

# RISK REPORT

## Identifying, evaluating and minimizing risks

**BASF risk management's goal is to identify and evaluate risks as early as possible and limit business losses by taking suitable measures, thus avoiding risks that pose a threat to the company's continued existence. We understand risk to be any event that could negatively impact the achievement of our short-term operational or long-term strategic goals. We define opportunities as possible successes that exceed our defined goals.**

Risk management is integrated into our planning and controlling processes to ensure its effectiveness and a close relationship to the business. Opportunities and risks are included and quantified within the planning framework; this ranges from short-term business planning to long-term strategic and investment planning.

### Organization, responsibilities and tools

Regular risk analyses are conducted by the following units:

- Compliance
- Corporate Controlling
- Environment, Health & Safety
- Finance
- Global Procurement & Logistics
- Human Resources
- Legal, Taxes & Insurance
- Strategic Planning & Controlling
- Corporate Audit

The Strategic Planning & Controlling and Finance divisions are responsible for centralized risk controlling. The Strategic Planning & Controlling division provides the necessary tools and know-how, further develops the methods and is responsible for global communications. Specific individual risks pertaining to the operating divisions, corporate divi-

sions and competence centers as well as BASF-wide risks, are permanently registered, evaluated and monitored centrally.

### Risk management process

The risk management process comprises the following steps:

#### • Identification of opportunities and risks

The identification of opportunities and risks is a bottom-up process that uses a variety of tools, ranging from expert interviews to team-based approaches. These are complemented by market, competitive and environmental analyses as well as statistical evaluations. The above are based on internal and external risk information sources; macroeconomic scenarios that evaluate important factors, such as industry growth rates; as well as our company-wide risk catalog, which acts as a checklist to manage the identification process.

#### • Assessment and quantification

Where possible, opportunities and risks are quantified as to their probability of occurrence and impact on profitability. The business plan serves as the reference base. In addition, we quantify the dependence of each business sector on macroeconomic factors, such as the development of key customer industries, exchange rates and raw material prices.

#### • Aggregation

Opportunities and risks as well as the dependence on macroeconomic factors are aggregated on the division and group level to determine the spectrum of possible effects on profit and the probability distribution. Correlations between the individual events and factors as well as effects caused by the transfer of products within the Verbund are taken into account.

## RISK MANAGEMENT

### Strategy and goal

- Earliest possible identification of risks
- Taking measures to limit business losses
- Avoid risks that threaten the company's continued existence

### Processes

- Identification of opportunities and risks
- Assessment and quantification
- Aggregation
- Control and measures

### • Control and measures

The management of opportunities and risks, including the necessary countermeasures, takes place on the divisional level. For certain BASF-wide risks these actions are taken at the BASF-Group level. The details are governed by our risk management handbook, upon which divisional specific regulations are based.

The Board of Executive Directors receives regular reports on the risk situation of the BASF Group, and additionally when certain risk thresholds are reached. The divisions, competence centers and regional divisions are responsible for operational risk management. Strategic opportunities and risks are quantitatively assessed in the product and regional strategies and are updated at least once a year as part of the strategic planning and controlling process. The assessments are immediately adjusted following significant changes to the opportunity and risk exposure. Our risk management process is constantly being developed and is reviewed by Corporate Audit and as part of the external audit of the annual financial statements.

### Internal control system over financial reporting

**Significant features:** In the Finance division, the corporate unit Financial Reporting Compliance provides methods for the structured, Group-wide and uniform evaluation of the internal control system for financial reporting.

A risk catalog covers the significant risks to the BASF Group regarding an intact control environment as well as proper financial reporting. The risk catalog is revised and updated annually.

In a central selection process, companies and units are identified that are exposed to particular risks or that have a material impact on the Consolidated Financial Statements of the BASF Group or that provide related service processes. All significant BASF sites, regions and divisions are

covered. The composition is decided on each year. In the companies and units, a responsible person is named who coordinates and monitors the execution of the following steps:

**Yearly evaluation process:** This consists of the following steps:

### • Evaluation of the control environment

The adherence to internal and external guidelines that are relevant to the financial reporting process is checked through a standard questionnaire. Each responsible manager performs an appraisal based on sampling.

### • Identification of control activities

In order to counter the risks to the financial reporting process listed in our central risk catalog, corresponding control activities are conducted. The control activities of the largest companies and those with special risks are documented in a global IT system.

### • Appraisal of the control activities

After the documentation, a test is performed to verify if the described control is capable of adequately counteracting the risk. In the following test phase, samples are taken to test the effectiveness of the controls.

### • Monitoring of control weaknesses

Management receives reports on any control weaknesses and their elimination, and an interdisciplinary committee investigates their relevance to the BASF Group. The Board of Executive Directors is informed once control weaknesses are identified that have a considerable impact on financial reporting.

### • Internal confirmation of the internal control system

The responsible managing director and chief financial officer for each consolidated Group company confirm to the Board of Executive Directors of the BASF Group at

## STRATEGIC PLANNING & CONTROLLING UNIT

- Implementing risk management standards
- Worldwide communication with the operating units, divisions, competence centers and regional divisions
- Coordinating the company-wide collection and evaluation of relevant risks
- Proving know-how and necessary tools

## INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

- Corporate unit Financial Reporting Compliance
- Evaluation of the internal control system for financial reporting, based on a central risk catalog
- Selection of companies/units based on risks, significance for the Consolidated Financial Statements or services processes provided
- Execution and monitoring of the individual steps through the companies/units



the end of the annual cycle the effectiveness of the internal control system over accounting as well as the adequacy of financial reporting.

### Risks from the operating business

**Development of sales markets:** Because BASF is an important partner in many industries, shifts in demand naturally bring with them opportunities and risks.

For 2009, we expect a weaker economic climate as a result of the worldwide financial crisis. Several divisions are directly affected by weaker demand in important customer industries, such as the construction and automotive industries, and stronger competition in sales markets. Other divisions are indirectly affected by a decline in the growth of demand for basic chemical products.

The margins for commodities, such as those in the plastics business, are particularly exposed to product-specific supply and demand cycles.

As a result of a price advantage in raw materials in the Middle East, there is currently a significant increase in the capacity for basic chemicals, such as ethylene and propylene. There is also the risk that demand in target markets will grow more slowly, thus resulting in a decline in margins.

We reduce these risks in the BASF Verbund through diversification. We manage the construction and expansion of facilities for each product according to the expected demand and we schedule maintenance turnarounds accordingly. We divest businesses in which we do not see satisfactory opportunities to distinguish ourselves from our competitors in the long term.

Financial difficulties arising from the financial crisis and customer bankruptcies could contribute to a downturn in customer demand.

→ More information on the identification and assessment of such risks can be found in the section "Default risks"

Our planning takes the economic downturn into consideration. Opportunities and risks from market developments above or below our expectations are evaluated quantitatively. The possible spectrum of positive and negative plan deviations is captured in a probability distribution on division and group levels. The possible deviation from the plan may be significant. From a BASF Group perspective, this is limited by our high degree of diversification.

Where possible, these risks are countered using operating measures: For example, through close cooperation with customers and the optimal management of our production. We limit the effects of the risks stemming from the current overall economic situation by means of a crisis management system focused on the short-term. In this way, we react to the declining global demand by adjusting capacity utilization and by bringing forward maintenance turnarounds. A further aspect of balanced opportunity and risk management is to ensure that we are prepared for a possible recovery in order to optimally serve the needs of our customers.

Additionally, there are long-term strategic measures, such as our international orientation, the continuous development of innovative products and systems, and active portfolio management. Constant research and development takes center stage in this. Furthermore, we shape our portfolio through internal optimization measures, and not least through acquisitions, through which we expand our position in various specialty segments.

## CONTROL ACTIVITIES IN THE FINANCIAL REPORTING PROCESS

- Evaluation of the control environment
- Identification of control activities
- Appraisal of control activities
- Monitoring of control weaknesses
- Internal confirmation of the effectiveness of the internal control system

## RISKS FROM THE OPERATING BUSINESS

- Development of sales markets
- Availability and price volatility of raw materials
- Technical risks



**Raw material availability and price volatility:** The availability and price volatility of feedstock, especially of crude-oil-based chemicals and precious metals, pose opportunities and risks for BASF. Currently, we do not see risks arising from raw material availability. Given the current economic environment, however, the risk of failure of individual suppliers has increased. We minimize these risks through our wide portfolio, our global purchasing activities and optimized procedures for the purchase of additional quantities of raw materials on spot markets. When possible, we avoid procuring particular raw materials from a single supplier. Where this is not possible, we try to foster competition, or if this could not be done, we knowingly enter into these relationships and assess the effects of possible availability problems. We continually monitor the credit risk of important business partners, customers as well as suppliers. We adopt a similar approach regarding the purchasing of services in the field of logistics and technology.

→ More information on the identification and assessment of such risks can be found in the section "Default risks"

We assume that the volatility of raw material prices in the future will be above the historical level. In order to take appropriate action, the effects of raw material price volatility and changing price expectations are mapped, taking the value-adding chains of the BASF Verbund into account. Our dependence on the oil price is reduced through the contribution of our oil and gas business. Furthermore, we minimize cost risks by using commodity derivatives. These measures help to secure margins when strongly rising raw material prices are expected, which can not be, or only to a limited extent, passed on via product prices. This could lead to costs if prices do not move as expected.

**Technical risks:** Guaranteeing the quality and availability of our products can require unforeseen technical measures. Moreover, there is the risk that for safety reasons or due to technical problems, unscheduled plant shutdowns are required. We minimize these risks through the continuous improvement of facilities and processes and our global production Verbund.

#### Financial risks

The management of currency and interest rate risks is conducted in the Treasury department; the management of commodity price risks in the Global Procurement & Logistics competence center or through appropriately authorized Group companies. Detailed guidelines and procedures exist for dealing with financial risks. Among other things, they provide for the segregation of trading and back office functions.

**Exchange rate volatility:** In global markets, risks arise from the movement in exchange rate parities. On the production side, we address exchange rate risks by having our local production sites.

On the market side, there are risks arising from our customer industries.

Financial foreign currency risks result from the translation of receivables, liabilities and other monetary items in terms of IAS 21 at the closing date rate into the functional currency of the respective Group company. In addition, we incorporate planned purchase and sales transactions in foreign currencies in our financial foreign currency risk management. These risks are hedged using derivative instruments.

## DEVELOPMENT OF SALES MARKETS

- Risks for 2009 from the recession in the wake of the financial crisis
- Potential deviations from plans are reduced through a high degree of diversification
- Operating measures include close cooperation with the customers and optimal planning of our production

## RAW MATERIAL AVAILABILITY AND PRICE VOLATILITY

- Our activities in the exploration and production of oil and gas provide a partial offset for the impact on earnings of fluctuations in raw material prices
- Use of commodity derivatives to hedge against rising raw material costs
- Risk reduction through diversification in our portfolio

**Interest rate risks:** Interest rate risk result 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 these risks, interest rate swaps and combined interest rate and currency derivatives are used.

**Risks from metal and raw materials trading:** In the catalysts business, BASF employs commodity derivatives on base and precious metals and trades on behalf of third parties and on its own account. In addition, within predetermined limits and exposure constraints we use our knowledge of the markets for crude oil and oil products to generate earnings in the trade of raw materials. These activities are subject to constant monitoring.

**Liquidity risks:** Risks from cash flow fluctuations are recognized in a timely manner as part of our liquidity planning. The present increased uncertainties are taken into account by means of additional risk scenarios and the short-term updating of our liquidity planning. This means we can promptly take the necessary measures when required.

We issue long-term bonds to reduce refinancing risks. In addition, we also use bank loans to finance the growth of the BASF Group. In the course of the current financial and economic crisis, issuing bonds has become significantly more difficult and costly than in previous years. As a result of our good ratings, the ongoing commercial paper program and committed lines of bank credit, we have access to comprehensive liquid funds. The commercial paper program also constitutes a reliable liquidity source for BASF in the financial crisis.

**Default risks:** 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. Against the background of the current economic crisis, we continuously check the creditworthiness of our partner 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.

→ More information on financial risks can be found in Note 26 to the Consolidated Financial Statements "Financial risks and derivative financial instruments," from page 212 onward

**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. Stress scenarios are simulated as part of the portfolio analyses.

## FINANCIAL RISKS

- Currency and interest rate risks
- Risks from metal and raw materials trading
- Liquidity risks
- Credit and default risks
- Pension obligations

## EXCHANGE RATE VOLATILITY

- Risk of an increasing imbalance in exchange rates
- Management on the production side through local sites
- Management on the market side through derivative instruments

The permanent review of the investment strategy was further intensified in the wake of the financial and economic crisis. Furthermore, we are reducing this risk by increasingly offering employees defined contribution schemes.

### Regulatory and political risks

As of June 1, 2007, the new European chemicals directive REACH came in effect, which set forth terms for the registration, evaluation and authorization of chemicals. With its networked structure and extensive product portfolio, BASF is one of the companies most heavily affected worldwide. BASF is aware of the demands and therefore started preparing for REACH in 2004. Under the terms of REACH, BASF will register several thousand substances. Upon the completion of the pre-registration phase on December 1, 2008, we submitted more than 40,000 pre-registrations to the ECHA (European Chemicals Agency) in Helsinki, Finland. We expect average annual costs of €50 million until completion of its implementation in 2018. Despite good preparation and planning, BASF and our European customers continue to face the risk of being placed at a disadvantage due to the cost intensive test and registration procedures in comparison to our non-European competitors.

Within the framework of E.U. emissions trading, the BASF Group was allocated emission certificates for the second trading period from 2008 to 2012. BASF does not currently expect any shortage of certificates for the European group in this second trading period.

The concrete design of the European emissions trading from 2013 is still unclear. Under the present E.U. resolutions, however, a large portion of the chemical industry will be included in the trading system. It is still largely unclear what proportion of the required certificates for the individual plants will need to be paid for. Chemical plants which are exceptionally efficient will probably receive allocation of

certificates largely free of cost. Depending on the final design of the implementing regulation, BASF will be required to purchase several million certificates annually. The final design will, however, also impact the prices for CO<sub>2</sub> certificates on the exchanges and thus affect our cost and global competitive situation.

In addition, an aggravation of geopolitical tensions and the destabilization of currently politically stable systems pose risks.

### Other significant risks

#### Prospective candidates for specialist and management positions:

It is our goal to form the best team in industry. At the same time, we are aware of the challenges brought through demographic change and international competition for highly qualified specialist and management candidates. BASF is prepared for this global competition through attractive compensation and benefit packages. We have initiated regional projects for the analysis of local labor markets and for mid to long-term recruitment planning. One of these central programs is "Generations@Work." An important element is a sustainable personnel policy which focuses on the recruitment of qualified new talents and their continuous training and development. Programs to help our employees balance career and family life also make a significant contribution.

→ More information on "Generations@Work" can be found in the chapter "Employees" on page 90

## REGULATORY RISKS: REACH

- June 1, 2007: new European chemicals directive REACH; Terms for the registration, evaluation and authorization of chemical substances in the European Union.
- Submission of more than 40,000 pre-registrations with the European Chemicals Agency in Helsinki, Finland, by December 1, 2008
- Average annual costs of €50 million until the completion of implementation in 2018

**Research and Development; Exploration:** Due to 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 sale. 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. A significant contribution to long-term strategic risk management is made by the alignment of strategic goals and the research portfolio as part of both strategic planning and strategic controlling. There are also opportunities and risk in oil and gas exploration. The search for new oil and gas reserves is dependent on geological conditions. We lessen such risks by means of a balanced exploration portfolio.

**Sustainability:** BASF is committed to combining economic success and the protection of the environment with socially responsible business. Contraventions to our voluntary commitment to sustainability or to laws represent a reputational risk and could lead to operational or strategic risks. To promptly recognize risks and opportunities related to sustainability, we have set up a dedicated management system. The results are then used to initiate change processes in the company, in order to be prepared for any risks and to exploit opportunities accordingly. We have established global monitoring systems to ensure the adherence to laws and our voluntary commitments in the areas of environment, health and safety as well as to labor and social standards. These include the supply chain on a company-wide basis. In order to assure society's acceptance of our business activities, we remain in constant exchange with relevant stakeholders.

→ More information on monitoring tools can be found in the chapter "Sustainability management" from page 28 onward

**Acquisition and investment decisions:** Implementing acquisition and investment decisions involves complex risks. The evaluation of risks and opportunities already plays a significant role during the assessment of potential acquisition targets. Opportunities and risks are analyzed and quantified in detail during due diligence. Risks and opportunities are directly connected to acquisitions and their integration, such as increased staff turnover, a better or worse realization of synergies, or the assumption of obligations that were difficult to quantify in advance. Therefore implementation and follow-up take place along defined processes. By nature, the acquired businesses are subject to general market risks and business-specific risks. Therefore, acquired businesses are promptly integrated into the BASF risk management process, while taking business-specific areas of risk into account.

**Information technology:** 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 is conducted through Group-wide regulations for organization and application as well as an internal control system based on this.

**Patent and intellectual property rights:** The Global Intellectual Property department of BASF SE, together with the appropriate units of the U.S.-based BASF Corporation and BASF Coatings, Münster, 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.

## OTHER SIGNIFICANT RISKS

- Prospective candidates for specialist and management positions
- Research and Development; Exploration
- Sustainability
- Acquisition and investment decisions
- Information technology
- Patents and intellectual property rights
- Security
- Legal risks

**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.

### Overall assessment

Our planning takes into account significantly lower economic growth. At present, it is exceptionally difficult to make forecasts. This is primarily due to the increased volatility in raw material prices as well as uncertainty regarding the overall economy and the performance of important customer industries. In 2008, events occurred that we had assessed as having a low probability of occurrence: Globally, the credit markets almost collapsed and the oil price increased considerably before dropping dramatically. The possible knock-on effects of further negative developments would be considerably more serious than in the previous years. Nevertheless, based on our assessment, there are currently no significant individual risks that pose a threat to the continued existence of the BASF Group. That also applies to the sum of the individual risks.

### Significant areas of opportunity and risk

	Measurement
Development in the economic situation and sales markets	High contribution to overall volatility
Availability and price volatility of raw materials	High contribution to overall volatility
Exchange rate volatility	Medium contribution to overall volatility
Remaining financial risks	Low contribution to overall volatility
Regulatory and political risks	Long-term effects, strategic significance
Specific opportunities and risks in the individual divisions	Medium contribution; high diversification
Further risk areas (Human resources, R&D, IT, acquisitions, etc.)	Long-term effects, strategic significance

## OVERALL ASSESSMENT

- Forecasts currently subject to great uncertainty
- Uncertainty regarding economic growth and important customer industries
- 2009: Planning takes lower growth into account

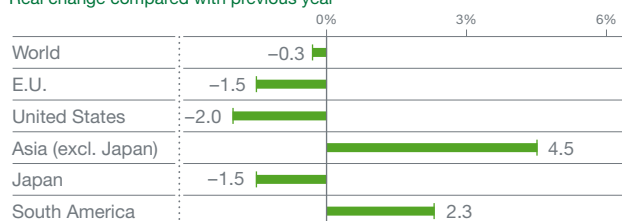
## ECONOMIC ENVIRONMENT

**The world economy is in the worst crisis of the postwar period, whose impact will also shape the year 2009. We expect a recession that involves a decrease in global gross domestic product (–0.3%). In the industrialized countries, economic growth will decline significantly (–1.6%). Early indicators show that the production will decline at least into the second quarter. For the year 2010, we expect a moderate recovery. Not until 2011 is it expected that growth will return to near the normal rate of over +3%. However, any forecast is currently subject to great uncertainty.**

As a result of the crisis in the financial markets and in wide parts of industry, **Europe** can expect a difficult first half of the year. Economic growth in 2009 will decline (–1.5%), despite a slight improvement in the second half of the year. In the United Kingdom and Spain, investments in construction, above all in housing, will decrease in the course of the recession. There will also be considerable declines in the automotive industry across Europe. In Germany, the Benelux and other countries that are highly dependent on exports, a significant downturn in exports is expected. The announced economic stimulus plans will help support growth. We expect slight mid-term economic growth (+0.4%).

### Outlook for Gross Domestic Product 2009

Real change compared with previous year



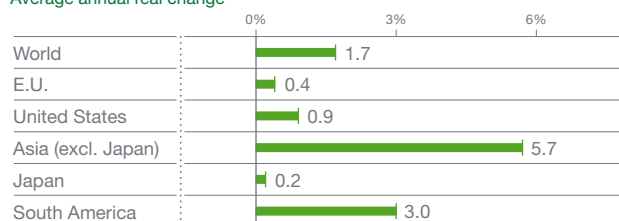
We expect a decrease (–2.0%) in gross domestic product in the **United States** in 2009. This will be caused by the continuing significant decline in domestic demand and lower investment in the construction industry. The growth in private consumption will decrease as a result of negative wealth effects and decreasing employment. The new U.S. government has planned a massive economic stimulus plan of almost \$900 billion over the next two years. We expect that mid-term economic growth will be low (+0.9%), due to the continued difficult market conditions.

Economic growth will be negatively impacted in **Asia (excluding Japan)**, particularly due to the recessions in the most important export markets: the United States, the European Union and Japan. The downturn will primarily affect the ASEAN countries as well as China and Taiwan. Private consumer demand and robust construction activity, however, will support economic growth in 2009 (+4.5%). Robust mid-term growth is expected (+5.7%).

In **Japan**, we anticipate a decrease in gross domestic product in 2009 (–1.5%). The current financial crisis will indirectly affect Japan, particularly due to the strong appreciation of the yen against the U.S. dollar. Japanese domestic demand as well as exports will continue to weaken. Parallel to this development, the willingness of

### Trends 2009–2011

Average annual real change



## FOR THE YEAR 2009 WE EXPECT THE FOLLOWING ECONOMIC CONDITIONS:

- Decline in global gross domestic product (–0.3%)
- Continued critical situation in the first half of year in the United States, in many European countries, and in Japan due to the credit crisis
- Slight improvement of the economic situation in late fall through fiscal stimulus, lower inflation and energy prices as well as stronger confidence
- Crisis-related lower interest rates in the United States and in Europe in the course of 2009
- An average euro/dollar exchange rate of \$1.30 per euro
- Continued low oil price: annual average \$50 per barrel

companies to invest will decrease. Mid-term gross domestic product is not expected to grow.

The growth of the gross domestic product in **South America** will decrease (+2.3%) in 2009. The decline in raw material prices will particularly affect Venezuela and Brazil. Despite the interest rate increase in Brazil and Argentina, we expect the domestic economy to remain strong. The trend to renationalization in several parts of South America makes it more difficult to conduct long-term investments. Mid-term gross domestic product will grow somewhat stronger (+3.0%).

#### Outlook for important customer industries

As a result of the worldwide economic crisis, manufacturing will shrink considerably more than gross domestic product (–2.9%). Production will decline significantly primarily in the industrialized countries, however, lower growth is also expected for Asia.

In the **automotive industry**, the number of units produced will decrease massively. A slump comparable to the decline after the first oil price crisis in 1974 is expected. This will especially affect the United States and Europe.

Global production in the **construction industry** will decrease slightly in 2009. This downturn will be driven in particular by the formerly highly speculative housing markets in the United States, the United Kingdom and Spain. The growth in construction activities outside industrialized countries will weaken.

Global growth in the **electronics industry** in 2009 is anticipated to be negative. Demand for capital goods and consumer demand for household appliances will also decrease.

The strong growth dynamic experienced up until now in the **information and communications industry (ICT)** will decrease significantly. In the United States and Japan, production will decline due to, among other things, the decline of investment in the financial sector and manufacturing.

Production in the **paper industry** will decline worldwide, in the industrialized countries production will drop significantly.

The **textiles industry** will grow only slightly. In developing countries, where the majority of global production takes place, growth will drop off substantially, in the industrialized countries production will continue to slump.

Largely stable growth is expected for the production in the **agricultural industry** as well as the **food industry** in 2009.

## OUTLOOK FOR IMPORTANT CUSTOMER INDUSTRIES IN 2009: WORLDWIDE DROP IN INDUSTRIAL PRODUCTION OF –2.9%

- Automotive industry: massive decline, especially in the United States and Europe
- Construction industry: slight decline following the housing crisis in the United States, the United Kingdom and Spain
- Electronics industry: negative growth due to decline in demand for capital goods and consumer products
- Information and communications industry (ICT): significant decrease in growth, especially in the United States and Japan
- Paper industry: strong decline, above all in industrialized countries
- Textiles industry: only slight growth, slump in industrialized countries
- Agricultural and food industries: stable growth



### Outlook for the chemical industry

As a result of its strong dependence on the crisis-hit automotive and construction industries, the worldwide chemical industry has been significantly impacted by the recession. We expect a decline (–2.0%) in worldwide chemical production (excluding pharmaceuticals) in 2009. We anticipate slight mid-term growth (+1.5%).

In **Europe**, we expect a decline in production (–4.7%) due to the poor economic climate and the partial shut-down of production capacities. This is due to both the downturn in the construction and automotive industries as well as the destocking occurring in many customer industries. Also, net exports overseas will decline. A moderate recovery (+1%) is forecasted for the beginning of 2010.

In the **United States**, chemical production will decline (–5.6%) again in 2009, as a result of lower domestic demand. Sector-specific conditions will improve somewhat in the second half of the year – provided the automotive and construction industries stabilize and customer industries rebuild their stocks. Production will only marginally increase (+1.2%) in 2010 and will normalize only from 2011 onward.

In **Asia (excluding Japan)**, we expect a significant weakening (+2.4%) in the chemical industry. Industrial production will also slow down considerably. China's chemical industry growth will decline significantly, but remain

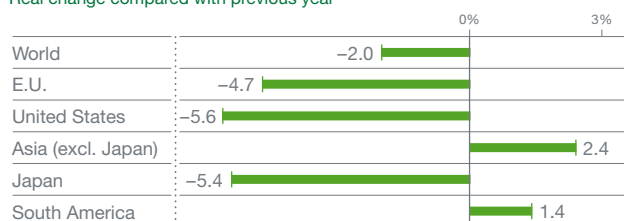
strong (+6.1%) when compared internationally. Significant customer industries for the chemical industry, like the automotive, electronics, household appliance and toy industries, will reduce production. There will be an absence of the formerly strong growth from exports to industrialized countries and trade within Asia. In the mid-term, we expect on average strong growth (+5.2%).

In **Japan**, chemical production will decrease (–5.4%) in 2009. The slowdown will be the result of a weakening domestic market and the slump in exports.

We reduced our forecast for chemical production in **South America** (+1.4%). Here, the global financial crisis will indirectly affect the real economy due to its impact on the exports of significant customer industries. Industrial activity will also weaken as a result of increasing interest rates. We expect a slight mid-term recovery (+2.7%).

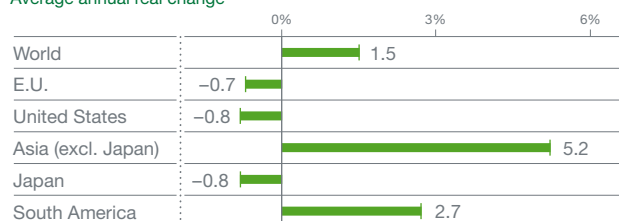
#### Outlook for Chemical Production 2009 (excl. pharma)

Real change compared with previous year



#### Trends 2009–2011 (excl. pharma)

Average annual real change



## OUTLOOK FOR THE CHEMICAL INDUSTRY 2009: WORLDWIDE DECLINE OF –2.0%

- European Union: poorer business environment, shutdown of capacity, decline in production (–4.7%)
- United States: slump in domestic demand, decline in chemical production (–5.6%)
- Japan: weakening of domestic demand and exports, decline in chemical production (–5.4%)
- Asia (excluding Japan): weakening in industrial and export growth, lower growth of trade within the region, increase in chemical production (+2.4%), strong growth in China (+6.1%)
- South America: weaker industrial activity, lower exports, growth in chemical production (+1.4%)

# BASF GROUP OUTLOOK AND OPPORTUNITIES

Shaping the future – especially in difficult times

**In a drastically worsening economic environment, BASF is facing major challenges in 2009. Our global business declined sharply in the fourth quarter of 2008. Since the beginning of 2009, there has been no recovery in the demand for chemical products, and there is currently no sign of a reversal of this trend. Nevertheless, the current economic situation offers opportunities for our business.**

## Opportunities

Even in very difficult times, we want to maintain our leading position in the chemical industry and make a contribution to overcoming the economic crisis. With our innovative products and system solutions, we help companies in almost all industries to increase their innovative strength and thus lay the foundations for future growth. We will therefore continue our research and development efforts in high-growth and innovative areas.

Our corporate research is a strategic instrument in developing growth areas and securing 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. BASF expects additional annual sales of between €2 billion and €4 billion as of 2015 from innovations based on projects in the growth clusters.

Energy efficiency and climate protection are topics that are gaining ever more importance. BASF was the first company in the world to publish a comprehensive global carbon footprint. The results confirm that BASF's innovative products save three times more greenhouse gas emissions than the entire amount released through the production and disposal of all BASF products. In this way, for example, our modern insulating materials can decrease the

energy consumption in residential buildings by more than 70%. Automobiles will become more climate friendly through BASF products such as plastics, fuel additives and catalysts. German and European politicians are responding to the challenges of the economic crisis by significantly promoting investment in the fields of energy efficiency and climate protection. With our innovative products, we are well positioned to make a significant contribution.

In the currently difficult economic environment, we reaffirm our position as global market leader in the chemical industry by shaping our portfolio to be even more robust and competitive. We are expanding our position in specialty chemicals through the purchase of Ciba Holding AG. Through the integration, we are extending our value-adding chains and in this way utilize the growth and earnings potential of Ciba to its full extent. In the Oil & Gas segment, the acquisition of Revus Energy ASA with its highly valuable development and exploration portfolio, strengthens the activities of BASF in the North Sea and creates growth potential.

We are accelerating the implementation of our programs for restructuring and increasing efficiency. In addition to the ongoing cost-cutting activities, we started the operational excellence program NEXT in October 2008, which encompasses a large number of measures for increased efficiency. As of 2012, we expect to increase earnings by more than €1 billion annually, a significant part of which will be realized in 2009 and 2010.

## OUTLOOK

The year 2009 will confront us with major challenges. The continuing global recession will cause the chemical market to shrink. Any forecast is currently subject to great uncertainty. In this environment, despite the acquisitions of Ciba Holding AG and Revus Energy ASA, we expect a decline in sales compared with 2008 and an even greater decline in income from operations. We nevertheless aim to at least earn our cost of capital and keep our dividend stable – all in all, extremely ambitious goals in the current economic climate.

## Risks

Based on currently available information, there are no substantial individual risks at the present time or in the foreseeable future that endanger the continued existence of the BASF Group. The total sum of individual risks also does not pose a threat to the continued existence of the BASF Group.

→ More information can be found in the chapter "Risk Report" on pages 112-119

## Forecast

The impact of the global financial crisis on our sales and procurement markets intensified dramatically in the fourth quarter. We are in the midst of a global recession: Growth rates are dropping significantly in all regions, customers continue to reduce their inventories, and a recovery is currently not in sight. The year 2009 will confront us with major challenges. The continuing global recession will cause the chemical market to shrink. Any forecast is currently subject to great uncertainty.

→ More information can be found on page 27

Despite the acquisitions of Ciba Holding AG and Revus Energy ASA, we expect a decline in sales compared with 2008 and an even greater decline in income from operations, which will be negatively impacted by integration costs. We nevertheless aim to at least earn our cost of capital and keep our dividend stable. These goals are extremely ambitious in the current economic climate. We will maintain strict cost and spending discipline and rigorously implement our global restructuring and efficiency programs.

In the current environment, the improvement of operating cash flows and the reduction of our working capital take priority. For this purpose, we have reduced the capacity utilization rates of our production facilities.

We remain committed to our conservative financing strategy. The planned investment in property, plant and equipment for the years 2009 to 2013 will be approximately €10.3 billion, and will therefore most likely be below the level of depreciation. This figure does not include acquisitions.

## Dividends and share buybacks

We aim to increase our dividend annually or at least maintain the level of the previous year.

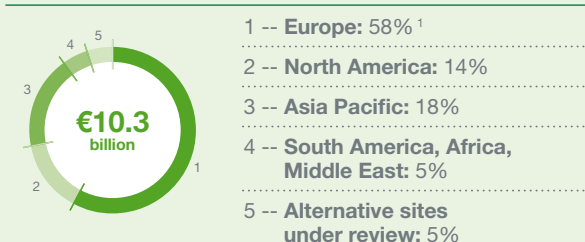
We are currently turning our main focus to the financing of the BASF Group, not least because of the acquisition of Ciba Holding AG. In view of the economic situation, we have stopped our share buyback program.

Planned capital expenditures by segment 2009-2013



<sup>1</sup> Excluding investments in the Nord Stream and Yuzhno Russkoye projects

Planned capital expenditures by segment 2009-2013



<sup>1</sup> Thereof 23 percentage points for Oil & Gas

## SUPPLEMENTARY REPORT

**BASF is pressing ahead with the optimization of its structures. The goal is an even stronger focus on its customer industries. At the same time, BASF is laying the foundation for the rapid and smooth integration of Ciba's activities. In particular, BASF's Performance Products segment is being developed further. The first organizational changes will take effect as of April 1, 2009.**

### Optimization of organizational structures

The Performance Products segment currently consists of the Acrylics & Dispersions, Care Chemicals and Performance Chemicals divisions. The new **Paper Chemicals** division will be assigned to the segment as of April 1, 2009. This division will initially consist of BASF's paper chemicals and binders business as well as the kaolin minerals business, which are currently part of the Acrylics &

Dispersions division. At a later time, Ciba's business with products for paper manufacturing is to be integrated into the Paper Chemicals division.

The current Acrylics & Dispersions division will be renamed **Dispersions & Pigments**. This division will consist of BASF's business with raw materials for the coating and paint industry. In addition, the dispersions business will be supplemented by the pigments and resins business, which is currently part of the Performance Chemicals division. The acrylic monomers business will be assigned to the Petrochemicals division, which will then encompass the key steps in the propylene value-adding chain. The superabsorbents business will be assigned to the Care Chemicals division. Later, the majority of business of Ciba's Coating Effects segment will be integrated into the Dispersions & Pigments division.

Segment structure and divisions of BASF (as of April 1, 2009)

CHEMICALS	PLASTICS	PERFORMANCE PRODUCTS	FUNCTIONAL SOLUTIONS	AGRICULTURAL SOLUTIONS	OIL & GAS
Inorganics	Performance Polymers	Dispersions & Pigments	Catalysts	Crop Protection	Oil & Gas
Petrochemicals	Polyurethanes	Care Chemicals	Construction Chemicals		
Intermediates		Paper Chemicals	Coatings		
		Performance Chemicals			

## BASF PRESSES AHEAD WITH THE OPTIMIZATION OF ITS STRUCTURES

- Performance Products segment sharpens focus on customer industries
- New Paper Chemicals division will be established
- Preparations to integrate Ciba's activities
- BASF reviews strategic options for its leather and textile chemicals business

In the **Care Chemicals** division, BASF is now combining, in addition to the human and animal nutrition units and pharmaceuticals business, all businesses that contribute to cleaning, personal care and hygiene. The assignment of the superabsorbents business to Care Chemicals will strengthen the division's portfolio with consumer-related products for personal care.

In the future, the **Performance Chemicals** division will primarily offer innovative and specific solutions for a broad range of industries. These, for example, include the plastics processing industry, automotive suppliers, refineries, users of oil fields and mining chemicals, as well as leather and textiles processors. Ciba's plastics additives business, among others, will be assigned to this division.

For several years, the business with leather and textile chemicals has been characterized by low market growth and high competitive pressure. In order to improve competitiveness, BASF has implemented a series of restructuring and efficiency programs in the past years. However, these measures have not been sufficient to ensure the long-term profitability of the business. The business unit has therefore introduced an additional program to further optimize efficiency and reduce costs by €25 million by 2011. Besides implementing this package of measures, BASF is reviewing future strategic options. In particular, these include the formation of a joint venture or the complete sale of the business.

As of January 1, 2009, the styrene copolymers business was transferred from the **Performance Polymers** division to Styrenics. Styrenics does not belong to any segment, it is reported under "Other."

### Bond issue

In January 2009, BASF Finance Europe NV issued a bond with a nominal volume of €1.5 billion guaranteed by BASF SE. The coupon of the bond is 5.125% and it matures on June 9, 2015.

### Change of credit ratings

At the beginning of 2009, Standard & Poor's downgraded the rating of BASF to "A+/A-1/outlook negative" and Moody's to "A1/P-1/outlook stable."

## BONDS ISSUED, LOWER CREDIT RATINGS

- Long-term bond with a nominal volume of €1.5 billion and a coupon of 5.125 % issued in January 2009
- Credit ratings downgraded at the beginning of 2009: Standard & Poor's to "A+/A-1/outlook negative," Moody's to "A1/P-1/outlook stable"

A woman with shoulder-length brown hair, wearing a grey blazer over a red collared shirt and black trousers, stands in a modern office with large windows. She is holding a large yellow rectangular sign with both hands. The sign has the text "TRUST IS NOT SOMETHING YOU CAN SEE\*" in white. In the foreground, there is a large, abstract sculpture made of intertwined, light-colored ribbons. The office has a high ceiling with exposed ductwork and a patterned carpet.

## **THERESA EGLER**

**is one of over 80 BASF compliance officers worldwide.**

**\* We believe that good corporate governance fosters trust among employees, investors, financial markets, business partners and the public.**



## VALUE FOR BASF

### Long-term support



Supporting employees in North America as compliance trainers: Theresa Egler, Jonathan Harper, David Stryker and Elizabeth Rodriguez (from right to left).

#### Earning Trust

Trust in our company can be made visible: through motivated employees, who also want to profit from being long-term investors. Or through investors, who build on our sustainable strategy. The aim of our Compliance Program is to prevent legal violations through training and education and thereby avoid them. At the same time, we assess whether our guidelines and voluntary commitments are being implemented. This is just one element of the corporate governance system. Good corporate governance secures the long-term acceptance and support for our corporate conduct.

## VALUE FOR SOCIETY

### Transparent companies



BASF shareholders at the Annual Meeting in 2008.

#### Securing the interests of investors

Investors only invest in companies whose business models and management they trust. Transparent corporate management and control simplify the international comparison of company structures and prevent unwanted developments. Thus, responsible corporate governance protects the interests of investors and strengthens the credibility of companies.



## CORPORATE GOVERNANCE

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# CORPORATE GOVERNANCE OF THE 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 European legal 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 12 members while maintaining the equal representation of shareholders and employees and broadening the European composition of the employee representatives' side, the future direction for a modern and efficient corporate constitution has been set. 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 significant individual measures, and the control of the operational 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. However, the Chairman of the Board does not have the right to veto the decisions of the Board of Executive Directors.

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, risks and risk management. Furthermore, the Board agrees on corporate strategy with the Supervisory Board. 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 the acquisition or disposal price or the amount of the issue 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 or other companies, are listed on pages 133 to 136. The compensation of the Board of Executive Directors is described in detail in the Compensation Report on pages 137 to 143.

### 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.

The change in legal form to an SE has brought about 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 of an Aktiengesellschaft, does not apply to the SE. Together with the SE Council Regulation, the relevant statutory foundations are 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 the 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 [basf.com/en/investor/cg](http://basf.com/en/investor/cg)

While the Supervisory Board of BASF Aktiengesellschaft acting until January 14, 2008, comprised 20 members, 10 of whom elected at the Annual Meeting and 10 of whom elected by employees employed in Germany by the BASF Group Companies, the Supervisory Board of BASF SE comprises 12 members. Six members are elected by the shareholders at the Annual Meeting. The remaining six members are elected by the "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 133 to 136. The compensation of the Supervisory Board is described in detail in the Compensation Report on pages 137 to 143.

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.

BASF SE's Supervisory Board established a total of three Supervisory Board Committees: the Personnel Committee, the Audit Committee and the Nomination Committee.

The **Personnel Committee**, among other things, prepares the appointment of members of the Board of Executive Directors by the Supervisory Board, develops the main features of the Board of Executive Directors' compensation, and, based on the decisions of the Supervisory Board, sets the details of Board of Executive Directors members' remuneration and related contractual issues. It comprises Supervisory Board Chairman Dr. Jürgen Strube (chairman) as well as Supervisory Board members Robert Oswald, Dr. Tessen von Heydebreck and Michael Vassiliadis.

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, considers the Quarterly and First-Half financial reports with the Board of Executive Directors prior to their publication 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 auditor: 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 are Max Dietrich Kley, Ralf-Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis. The chairman of the Audit Committee is Max Dietrich Kley.

Max Dietrich Kley has particular knowledge and experience in the application of accounting principles and internal control procedures, and has been named by the Supervisory Board as Audit Committee Financial Expert.

According to the recommendation of the German Corporate Governance Code, newly introduced in July 2007, BASF's Supervisory Board established a **Nomination Committee** that will prepare the proposals for the election of Supervisory Board members at the Annual Meeting. 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. Francois 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 SE 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 the 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-focused continuing development of corporate governance and control, and advocate responsible corporate governance that focuses on a sustainable increase in the value of the company.

BASF SE follows all recommendations of the German Corporate Governance Code in its revised version of June 2008. This also applies to the new recommendations of the Code regarding the Supervisory Board's dealing with the compensation of Board members, the limits on severance payments to Board members who cease their duties prior to the expiry of their term of office as well as the consideration of the interim reports by the Audit Committee.

You can find the joint Declaration of Conformity 2008 of the Board of Executive Directors and Supervisory Board of BASF SE at the end of this section on page 148. In the same manner, BASF also fulfils most of the non-obligatory suggestions of the German Corporate Governance Code. Sole exceptions are suggestions regarding the Chair of the Audit Committee and the consideration of the compensation components of the Supervisory Board that are based on the long-term success of the company.

→ The Declaration of Conformity 2008, an overview of the implementation of the code's suggestions and the German Corporate Governance Code are available on our website at [basf.com/governance\\_e](http://basf.com/governance_e)

### 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 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 [basf.com/values](http://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

As of December 31, 2008, the subscribed capital of BASF SE amounted to €1,181,604,565.76, divided into 923,128,567 bearer shares with no par value (thereof 4,649,873 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 (issued share certificates). 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, re-appointments being 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 on the Annual Meeting adopted with at least a two-thirds majority of the votes cast, provided that the legal provisions applicable to German public limited liability companies do not stipulate or allow for larger majority requirements (Section 59, paragraph 1 SE Council Regulation). In the case of amendments to the statutes, the German Stock Corporation Act (Section 179, paragraph 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 5, paragraph 8 in the BASF SE statutes. 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 24, 2008, empowered the Board of Executive Directors to buy back up to 10% of the shares until 23 October, 2009. The shares will be purchased at the discretion of the Board of Executive Directors, via the stock exchange or 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 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 140. 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 after 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, paragraph 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 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 2008, there were a total of 37 reportable purchase transactions notified by the members of the Board of Executive Directors and the Supervisory Board and their relatives obliged to report. The transactions involved between 50 and 20,000 BASF shares, with a share price between €21.00 (after stock split) and €97.31 (before stock split). The volume of the individual trades was between €4,520.50 and €514,970.73.

→ All transactions reported in 2008 are published on the Internet at [basf.com/governance/sharedealings\\_e](http://basf.com/governance/sharedealings_e)

# MANAGEMENT AND SUPERVISORY BOARDS

## Board of Executive Directors

As of December 31, 2008, there were eight members on the **Board of Executive Directors of BASF SE**.

### 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

**First appointed:** 1997 (chairman since 2003)

**Term expires:** 2011

#### Supervisory board memberships (excluding internal memberships):

Bilfinger Berger AG (supervisory board member until May 21, 2008)  
Daimler AG (supervisory board member since February 7, 2008)  
Lufthansa AG (supervisory board member since April 29, 2008)

### DR. KURT BOCK

**Responsibilities:** Catalysts; Market & Business Development North America; Regional Functions North America; Finance; Information Services; Corporate Controlling; Corporate Audit

**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 until June 25, 2008)

#### 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:** Performance Polymers; Polyurethanes; Styrenics; Market & Business Development Asia Pacific; Regional Functions & Country Management Asia Pacific

**First appointed:** 2006

**Term expires:** 2013

### DR. HANS-ULRICH ENGEL (since March 4, 2008)

**Responsibilities:** Oil & Gas; Region Europe; Global Procurement & Logistics

**First appointed:** 2008

**Term expires:** 2011

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding AG (supervisory board chairman since March 6, 2008)  
Wintershall AG (supervisory board member since June 25, 2008, supervisory board chairman since July 8, 2008)

### DR. JOHN FELDMANN

**Responsibilities:** Construction Chemicals; Acrylics & Dispersions; Care Chemicals; Performance Chemicals; Polymer Research

**First appointed:** 2000

**Term expires:** 2009

#### Supervisory board memberships (excluding internal memberships):

Bilfinger Berger AG (supervisory board member since May 21, 2008)

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

BASF Coatings AG (supervisory board member)  
Wintershall Holding AG (supervisory board chairman until March 6, 2008, supervisory board member until June 25, 2008)  
Wintershall AG (supervisory board chairman until June 25, 2008)

### DR. ANDREAS KREIMEYER

**Responsibilities:** Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; BASF Future Business

**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 since June 25, 2008)

### DR. STEFAN MARCINOWSKI

**Responsibilities:** Crop Protection; Coatings; Region South America; Specialty Chemicals Research; BASF Plant Science

**First appointed:** 1997

**Term expires:** 2012

#### Supervisory board memberships (excluding internal memberships):

DWS Investment GmbH (supervisory board member since April 3, 2008)

#### 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 until June 25, 2008)  
BASF Coatings AG (supervisory board chairman)



**DR. HARALD SCHWAGER**

**Responsibilities:** Human Resources; Engineering & Maintenance; Environment, Health & Safety; Verbund Site Management Europe; Corporate & Governmental Relations

**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 chairman)

**Comparable German and non-German controlling bodies:**

BASF Antwerp N.V. (chairman of the administrative council)

**Resigned from the Board of Executive Directors of BASF in 2008:**

**PETER OAKLEY (resigned on January 14, 2008)**

**Responsibilities:** Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science

**First appointed:** 1998

**DR. H.C. EGGERT VOSCHERAU (resigned on April 24, 2008)**

**Deputy Chairman of the Board of Executive Directors**

**Responsibilities:** Human Resources; Engineering & Maintenance; Environment, Health & Safety; Verbund Site Management Europe; Corporate & Governmental Relations

**First appointed:** 1996

**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 until December 31, 2008)

Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW)

(supervisory board deputy chairman)

**Comparable German and non-German controlling bodies:**

Nord Stream AG (supervisory board member)

**Supervisory Board**

In accordance with the statutes, the **Supervisory Board of BASF SE** comprises 12 members. Until the entry of the conversion from BASF Aktiengesellschaft into the legal form of a European company (SE) in the commercial register on January 14, 2008, the Supervisory Board of BASF Aktiengesellschaft comprised 20 members. The term of all supervisory board members of BASF Aktiengesellschaft ended with the entry of the conversion in the commercial register. Based on Section 35 (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 deviation from Section 40 (2) of the Council Regulation (EC) No. 2157/2001, the six employee representatives are not elected by the Annual Meeting, but appointed by the representative body of the employees, the BASF Europa Betriebsrat, according to the Agreement Concerning the Involvement of Employees in BASF SE concluded within the conversion procedure based on Section 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, except for Mr. Ralf Sikorski, 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). Mr. Ralf Sikorski was appointed directly by the Agreement Concerning the Involvement of Employees in BASF SE on May 31, 2008 as the substitute member of the Supervisory Board for Mr. Ulrich Küppers, who resigned on May 30, 2008. 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****PROF. DR. JÜRGEN STRUBE, Mannheim, Germany**

**Chairman of the Supervisory Board of BASF SE**

**Former Chairman of the Supervisory Board of BASF Aktiengesellschaft**

**Supervisory board memberships (excluding internal memberships):**

Allianz Deutschland AG (supervisory board member)

Bayerische Motoren Werke AG (supervisory board deputy chairman)

Bertelsmann AG (supervisory board deputy chairman)

Commerzbank AG (supervisory board member until May 15, 2008)

Fuchs Petrolub AG (supervisory board chairman)

Hapag-Lloyd AG (supervisory board member)

Linde AG (supervisory board member until June 3, 2008)

**MICHAEL DIEKMANN, Munich, Germany****Deputy Chairman of the Supervisory Board of BASF SE****Chairman of the Board of Management of Allianz SE****Supervisory board memberships (excluding internal memberships):**

Linde AG (supervisory board deputy chairman)

Lufthansa AG (supervisory board member until April 29, 2008)

Siemens AG (supervisory board member since January 24, 2008)

**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 until January 12, 2009)

**Comparable German and non-German controlling bodies:**

Assurances Générales de France (member of the administrative council)

Allianz S.p.A. (member of the administrative council)

**ROBERT OSWALD, Altrip, Germany****Deputy Chairman of the Supervisory Board of BASF SE****Chairman of the works council of the Ludwigshafen site of BASF SE 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 SE****WOLFGANG DANIEL, Limburgerhof, Germany****Deputy chairman of the works council of the Ludwigshafen site of BASF SE****PROF. DR. FRANÇOIS DIEDERICH, Zurich, Switzerland****Professor at the Swiss Federal Institute of Technology Zurich****FRANZ FEHRENBACH, Stuttgart, Germany****Chairman of the Board of Management of Robert Bosch GmbH****Comparable German and non-German controlling bodies:**

Robert Bosch Corporation (Member of the board of directors)

**DR. TESSEN VON HEYDEBRECK, Berlin, 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)

Vattenfall Europa AG (supervisory board member since June 16, 2008)

Dussmann Verwaltungs AG (supervisory board member since January 1, 2009)

**Comparable German and non-German controlling bodies:**

Deutsche Bank OOO (supervisory board chairman)

Deutsche Bank Polska S.A. (supervisory board chairman)

Deutsche Bank Rt. Budapest (supervisory board chairman until May 28, 2008)

**MAX DIETRICH KLEY, Heidelberg, Germany****Lawyer****Former Deputy Chairman of the Board of Executive Directors of BASF Aktiengesellschaft****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 controlling bodies:**

Unicredito Italiano S.p.A. (member of the Board of Directors)

**DENISE SCHELLEMANS, Kalmthout, Belgium****Full time trade union delegate****RALF SIKORSKI, Wiesbaden, Germany (since May 31, 2008)****Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union****Supervisory board memberships (excluding internal memberships):**

Villeroy &amp; Boch AG (supervisory board member since April 8, 2008)

Villeroy &amp; Boch Fliesen GmbH (supervisory board member since April 8, 2008)

Evonik Power Saar GmbH (supervisory board deputy chairman since May 14, 2008)

Evonik New Energies GmbH (supervisory board deputy chairman since May 14, 2008)

**MICHAEL VASSILIADIS, Hemmingen, Germany****Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union****Supervisory board memberships (excluding internal memberships):**

K+S AG (supervisory board deputy chairman)

K+S Kali GmbH (supervisory board deputy chairman)

Henkel KGaA (supervisory board member)

Evonik Steag GmbH (supervisory board deputy chairman)

**Resigned from the Supervisory Board on May 30, 2008:****ULRICH KÜPPERS, Ludwigshafen, Germany****Member of Management of Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH**

Until the entry of the conversion from BASF Aktiengesellschaft into an SE in the commercial register on January 14, 2008, the Supervisory Board of BASF Aktiengesellschaft comprised 20 members, half of which were elected by the Annual Meeting and the other half by the employees.

**PROF. DR. JÜRGEN STRUBE**, Mannheim, Germany  
Chairman of the Supervisory Board

**ROBERT OSWALD**, Altrip, Germany  
Supervisory board deputy chairman

**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 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

**DR. TESSEN VON HEYDEBRECK**, Berlin, Germany  
Former Member of the Board of Managing Directors of Deutsche Bank AG

**ARTHUR KELLY**, Chicago, Illinois, USA  
Managing Partner of KEL Enterprises L. P.

**ROLF KLEFFMANN**, Wehrbleck, Germany  
Chairman at the Employee Council of Erdölwerke Barnstorf der Wintershall Holding AG

**MAX DIETRICH KLEY**, Heidelberg, Germany  
Lawyer

**PROF. DR. RENATE KÖCHER**, Allensbach, Germany  
Managing Director of the 'Institut für Demoskopie Allensbach', Gesellschaft zum Studium der öffentlichen Meinung mbH

**EVA KRAUT**, Ludwigshafen, Germany  
Chairman of the works council of BASF IT Services GmbH, Betrieb Ludwigshafen

**ULRICH KÜPPERS**, Ludwigshafen, Germany  
Member of Management of Treuhandstelle für Bergmannswohnstätten im rheinisch-westfälischen Steinkohlenbezirk GmbH

**KONRAD MANTEUFFEL**, Bensheim, Germany  
Member of the works council of the Ludwigshafen site of BASF SE

**HANS DIETER PÖTSCH**, Wolfsburg, Germany  
Member of the Board of Management of Volkswagen AG

**PROF. DR. HERMANN SCHOLL**, Stuttgart, Germany  
Chairman of the Supervisory Council of Robert Bosch GmbH and Managing Director of Robert Bosch Industrietreuhand KG

**RALF SIKORSKI**, Ludwigshafen, Germany  
Regional manager of the Ludwigshafen branch Mining, Chemical and Energy Industries Union

**ROBERT STUDER**, Zurich, Switzerland  
Former Chairman of the Supervisory Board at Union Bank of Switzerland

**MICHAEL VASSILIADIS**, Hemmingen, Germany  
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union

**DR. FRIEDRICH WIRSING**, Kaiserslautern, Germany  
Plant manager of the Ludwigshafen site of BASF SE

# COMPENSATION REPORT

**This report outlines the main principles of the compensation system for the Board of Executive Directors and 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. The report also includes information on the compensation of the Supervisory Board members.**

## Compensation of Board members

This report meets the disclosure requirements of the German Commercial Code extended by the additional requirements for the Board of Executive Directors 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.

The compensation of Board members is determined upon the proposal of the Personnel Committee (Personalausschuss, see page 129) and confirmed by the Supervisory Board (see page 134). The amount of compensation is individually determined by the Personnel Committee. 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. A review of the amount and structure of compensation of Board members regularly takes place every three years. The last 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, and
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 return on assets (ROA) is used to determine the variable compensation of all groups of employees and also determines the Board member's annual variable compensation (variable bonus). The variable bonus for the prior fiscal year is payable after the Annual Meeting. 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 210.
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 139.

Based on these principles, individual Board members received the following compensation:

Thousand €

	Year	Non-performance related compensation		Performance related compensation	Total cash compensation	Options granted <sup>2</sup>		Total compensation (cash compensation plus options granted)
		Fixed salary	Non-monetary compensation and other additional compensation	Variable bonus <sup>1</sup>		Number	Market value at option grant date	
Dr. Jürgen Hambrecht Chairman of the Board of Executive Directors	2008	1,100	112	2,220	3,432	74,328	967	4,399
	2007	1,100	140	2,800	4,040	60,168	1,172	5,212
Dr. h.c. Eggert Voscherau Vice Chairman of the Board of Executive Directors (until April 24, 2008)	2008	244	33	492	769	–	–	769
	2007	732	145	1,862	2,739	40,008	779	3,518
Dr. Harald Schwager (since January 1, 2008)	2008	550	337 <sup>3</sup>	1,110	1,997	14,728	192	2,189
	2007	–	–	–	–	–	–	–
Dr. Kurt Bock	2008	555 <sup>4</sup>	855 <sup>5</sup>	1,110	2,520	37,160	483	3,003
	2007	550	106	1,400	2,056	30,080	586	2,642
Dr. John Feldmann	2008	550	71	1,110	1,731	37,160	483	2,214
	2007	550	93	1,400	2,043	30,080	586	2,629
Dr. Hans-Ulrich Engel (since March 4, 2008)	2008	457	325 <sup>3</sup>	925	1,707	11,944	155	1,862
	2007	–	–	–	–	–	–	–
Dr. Andreas Kreimeyer	2008	550	98	1,110	1,758	37,160	483	2,241
	2007	550	96	1,400	2,046	30,080	586	2,632
Dr. Stefan Marcinowski	2008	550	83	1,110	1,743	37,160	483	2,226
	2007	550	102	1,400	2,052	30,080	586	2,638
Dr. Martin Bruder Müller	2008	550	941 <sup>5</sup>	1,110	2,601	37,160	483	3,084
	2007	550	964 <sup>5</sup>	1,400	2,914	30,080	586	3,500
Peter Oakley (until January 14, 2008)	2008	113	22	231	366	–	–	366
	2007	550	123	1,400	2,073	30,080	586	2,659
Klaus Peter Löbbe (until July 31, 2007)	2008	–	–	–	–	–	–	–
	2007	309 <sup>4</sup>	621 <sup>5</sup>	1,072	2,002	30,080	586	2,588
	<b>Total 2008:</b>	<b>5,219</b>	<b>2,877</b>	<b>10,528</b>	<b>18,624</b>	<b>286,800</b>	<b>3,729</b>	<b>22,353</b>
	<b>Total 2007:</b>	<b>5,441</b>	<b>2,390</b>	<b>14,134</b>	<b>21,965</b>	<b>310,736</b>	<b>6,053</b>	<b>28,018</b>

<sup>1</sup> 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.

<sup>2</sup> The 2007 figures have been adjusted for the two-for-one stock split conducted in the second quarter of 2008.

<sup>3</sup> Includes expenses for security measures on residence following appointment to the Board of Executive Directors.

<sup>4</sup> 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).

<sup>5</sup> Includes delegation allowances, such as the assumption of prevailing local rental fees.

In 2007, personnel expenses were allotted to the options issued, however in 2008 the options lead to earnings. These earnings refer to the sum of all options from the programs BOP 2001 to BOP 2008. The figure is derived by the difference in the value of the options on December 31, 2008, compared with the value on December 31, 2007, considering the options exercised and granted in 2008. The value of the options is based primarily on the develop-

ment of the BASF share price and its outperformance compared with the benchmark index chosen for the programs BOP 2001 to BOP 2008. Because the value of the options on December 31, 2008 was lower than the value of the options on December 31, 2007, there were no personnel expenses for 2008, but rather earnings. The main reason for the lower value of the options on December 31, 2008 was the decreased price of BASF shares.

The earnings for the year 2008 relating to the options issued were as follows:

Dr. Jürgen Hambrecht €1,055 thousand (2007: personnel expenses amounting to €6,268 thousand); Dr. h.c. Eggert Voscherau €766 thousand (2007: personnel expenses amounting to €3,226 thousand); Dr. Harald Schwager €151 thousand (2007: –); Dr. Kurt Bock €1,045 thousand (2007: personnel expenses amounting to €2,978 thousand); Dr. John Feldmann €621 thousand (2007: personnel expenses amounting to €3,333 thousand); Dr. Hans-Ulrich Engel €1,458 thousand (2007: –); Dr. Andreas Kreimeyer €416 thousand (2007: personnel expenses amounting to €1,327 thousand); Dr. Stefan Marcinowski €446 thousand (2007: personnel expenses amounting to €3,574 thousand); Dr. Martin Brudermüller €790 thousand (2007: personnel expenses amounting to €1,095 thousand); and Peter Oakley €1,755 thousand (2007: personnel expenses amounting to €3,788 thousand).

The earnings and personnel expenses reported here 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 of the individual years while taking into account the general terms and conditions and ceilings of the BASF option program (BOP) for senior executives.

Considering a deductible the members of the Board are covered by loss liability insurance concluded by the company (D & O insurance).

→ More information on the BASF option program (BOP) can be found from page 210 onward

### 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 accruing to 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% (contribution factor). The resulting amount is converted into a lifelong pension payable upon retirement using actuarial factors based on an interest rate (6%), the probability of death, invalidity and mortality (Heubeck-Richttafel 1998) and an assumed pension increase (1.5% per annum).

The variable component of the pension unit depends on the return on assets (ROA) in the reporting year under consideration. The variable component of the pension unit is based on a ROA of 12% at which point the variable component is equal in value to the fixed component. Based on a ROA of 12%, there is a linear relationship between the variable component and the ROA figures between 10% and 14%. The fixed and the variable components together result in acquired pension unit for the reporting year. The sum of the pension units accumulated over the reporting years determines the respective Board member's pension benefit. The pension benefit takes effect at the end of service upon reaching retirement age of 60 years or disability or death. Pension payments are adjusted on an annual basis, of at least 1% annually, 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 terms and conditions of the BASF Pensionskasse VVaG.

The service cost attributable to the year 2008 are as follows:

Dr. Jürgen Hambrecht €333 thousand (2007: €507 thousand), Dr. h.c. Eggert Voscherau €43 thousand (2007: €108 thousand), Dr. Harald Schwager €556 thousand (2007: –), Dr. Kurt Bock €546 thousand (2007: €633 thousand), Dr. John Feldmann €571 thousand (2007: €658 thousand), Dr. Hans-Ulrich Engel €448 thousand (2007: –), Dr. Andreas Kreimeyer €558 thousand (2007: €652 thousand), Dr. Stefan Marcinowski €559 thousand (2006: €621 thousand), Dr. Martin Brudermüller €555 thousand (2007: €638 thousand), and Peter Oakley €117 thousand (2007: €577 thousand).

These amounts include the costs for the pension claims arising from the deferred contribution program.

As with the pension benefits for senior executives, in 2008 the basis for the future calculation of pension units



for Board members was also adjusted. An updated interest rate of 5% (previously 6%) and an updated probability of death, invalidity and mortality (Heubeck-Richttafeln 2005G, previously Heubeck-Richttafeln 1998), are applied to pension units acquired as of January 1, 2009. For new Board members and mandate extensions beginning on January 1, 2009, a contribution factor of 32% (previously 35%) is applied. The rest of the above mentioned method of calculating pension units remains the same.

#### End of service benefits

##### a) Board members, whose current mandate began before January 1, 2008

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). The sum of the severance payment and 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.

##### b) Contracts as of January 1, 2008

The contracts of new Board members since January 1, 2008 contain the following significant changes:

A Board member who leaves the company before the age of 60 is only entitled to pension benefits, if the Board member served on the Board for at least 10 years or if the time needed to reach the legal retirement age is less than 10 years. The company is entitled to offset compensation received for any other work done against pension benefits.

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 for the remaining contractual term of office as a one-off payment (fixed compensation and the variable bonus based on a ROA of 12%).

As of January 1, 2009, these changes also apply to extensions of current contractual terms, which began before January 1, 2008.

A general limit on severance pay is contained within the contracts for new Board members and term extensions as of January 1, 2009. Accordingly, payments made to a Board member upon premature termination of their contract, without serious cause, may not exceed the value of two years' compensation (severance payment cap) nor compensate more than the remaining term of the contract. The severance payment cap will be calculated on the basis of the total compensation for the past full financial year and if appropriate also the expected total compensation for the current financial year. Payments promised in the event of premature termination of a Management Board member's contract due to a change-of-control should not exceed 150% of the severance payment cap.

##### Previous Board members

Total compensation for previous Board members and their surviving dependents amounted to €6.0 million in 2008 (2007: €7.1 million). 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 €83.4 million (2007: €76.9 million).



### Compensation of Supervisory Board members

The disclosure of remuneration of the Supervisory Board is based on German Commercial Code and is aligned with the recommendations of the German Corporate Governance Code.

The compensation of the Supervisory Board is regulated by the Articles of Association passed by the Annual Meeting. The compensation of the Supervisory Board of BASF Aktiengesellschaft was regulated by Section 12 of the Articles of BASF Aktiengesellschaft. The regulations for the compensation of the Supervisory Board remained unchanged regarding content within the framework of the conversion of BASF Aktiengesellschaft into BASF SE and now are contained within Section 14 of the Articles of BASF SE. 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 2008 is €1.35. The performance-oriented variable remuneration is €800 for each full €0.01 of earnings per share up to an earnings per share of €2.10, €600 for each further €0.01 of earnings per share up to an earnings per share of €2.60, and €400 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 €0.05 for each subsequent financial year. Based on the earnings per share of €3.13 published in the BASF Group Consolidated Statements 2008, the performance-oriented compensation amounted to €111,200 in 2008. 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, except for the Nomination Committee, 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-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).

### Compensation of Supervisory Board members of BASF Aktiengesellschaft

With the conversion of BASF Aktiengesellschaft into BASF SE on January 14, 2008, the mandates for the previous Supervisory Board members ended. Therefore, they receive pro rata one twelfth of the above mentioned compensation according to Section 12 (4) of the Articles of BASF Aktiengesellschaft.

For the individual members of the Supervisory Board of BASF Aktiengesellschaft (until January 14, 2008), the following compensation results:

Thousand €

	Fixed compensation		Performance-oriented variable compensation		Payment for committee membership(s)		Total compensation	
	2008 <sup>1</sup>	2007	2008 <sup>1</sup>	2007	2008 <sup>1</sup>	2007	2008 <sup>1</sup>	2007
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board <sup>2</sup>	12.5	150	23.2	300	2.1	25	37.8	475
Robert Oswald, Vice Chairman of the Supervisory Board <sup>3</sup>	7.5	90	13.9	180	1	12.5	22.4	282.5
Ralf-Gerd Bastian	5	60	9.3	120	–	–	14.3	180
Wolfgang Daniel	5	60	9.3	120	–	–	14.3	180
Prof. Dr. François Diederich	5	60	9.3	120	–	–	14.3	180
Michael Diekmann	5	60	9.3	120	–	–	14.3	180
Dr. Tessen von Heydebreck <sup>3</sup>	5	60	9.3	120	1	12.5	15.3	192.5
Arthur Kelly	5	60	9.3	120	–	–	14.3	180
Rolf Kleffmann	5	60	9.3	120	–	–	14.3	180
Max Dietrich Kley <sup>4</sup>	5	60	9.3	120	4.2	50	18.5	230
Prof. Dr. Renate Köcher	5	60	9.3	120	–	–	14.3	180
Eva Kraut	5	60	9.3	120	–	–	14.3	180
Ulrich Küppers	5	60	9.3	120	–	–	14.3	180
Konrad Manteuffel	5	60	9.3	120	–	–	14.3	180
Hans Dieter Pötsch <sup>5</sup>	5	60	9.3	120	2.1	25	16.4	205
Prof. Dr. Hermann Scholl	5	60	9.3	120	–	–	14.3	180
Ralf Sikorski	5	60	9.3	120	–	–	14.3	180
Robert Studer	5	60	9.3	120	–	–	14.3	180
Michael Vassiliadis <sup>3, 5</sup>	5	60	9.3	120	3.1	37.5	17.4	217.5
Dr. Friedrich Wirsing <sup>5</sup>	5	40	9.3	80	2.1	12.5	16.4	132.5
Dr. Karlheinz Messmer <sup>5</sup> (until April 30, 2007)	–	20	–	40	–	8.3	–	68.3
<b>Total:</b>	<b>110</b>	<b>1,320</b>	<b>204.5</b>	<b>2,640</b>	<b>15.6</b>	<b>183.3</b>	<b>330.1</b>	<b>4,143.3</b>

<sup>1</sup> To compare with the compensation for 2007, the membership of the Supervisory Board of BASF SE (see next table) should be taken into consideration

<sup>2</sup> Chairman of the Personnel Committee

<sup>3</sup> Member of the Personnel Committee

<sup>4</sup> Chairman of the Audit Committee

<sup>5</sup> Member of the Audit Committee

### Compensation of Supervisory Board members of BASF SE

The newly constituted Supervisory Board of BASF SE came into existence with the conversion from BASF Aktiengesellschaft to the legal structure of a European company (SE) on January 14, 2008. Compensation for the tenure of a member of the first Supervisory Board up until the Annual Meeting on April 30, 2009 can only be determined at the Annual Meeting according to Section 113 (2) of the German

Stock Corporation Act. The Board of Directors and the Supervisory Board will propose to bestow compensation according to the regulations of Section 14 of the Articles of BASF SE at the Annual Meeting. To avoid double-counting, compensation for January 2008 is bestowed only for those who first took on Supervisory Board functions in this month. According to this, the following compensation resulted:

Thousand €

	Fixed compensation	Performance-oriented variable compensation	Payment for committee membership(s)	Total compensation
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board <sup>1</sup>	137.5	254.8	22.9	415.2
Michael Diekmann, Vice Chairman of the Supervisory Board	85	157.5	–	242.5
Robert Oswald, Vice Chairman of the Supervisory Board <sup>2</sup>	82.5	152.9	11.5	246.9
Ralf-Gerd Bastian <sup>4</sup>	55	101.9	25	181.9
Wolfgang Daniel	55	101.9	–	156.9
Prof. Dr. François Diederich	55	101.9	–	156.9
Franz Fehrenbach <sup>4</sup>	60	111.2	25	196.2
Dr. Tessen von Heydebreck <sup>2</sup>	55	101.9	11.5	168.4
Max Dietrich Kley <sup>3</sup>	55	101.9	45.8	202.7
Ulrich Küppers (until May 30, 2008)	20	37.1	–	57.1
Denise Schellemans	60	111.2	–	171.2
Ralf Sikorski (since May 31, 2008)	40	74.1	–	114.1
Michael Vassiliadis <sup>2, 4</sup>	55	101.9	34.4	191.3
<b>Total</b>	<b>815</b>	<b>1,510.2</b>	<b>176.1</b>	<b>2,501.3</b>

<sup>1</sup> Chairman of the Personnel Committee

<sup>2</sup> Member of the Personnel Committee

<sup>3</sup> Chairman of the Audit Committee

<sup>4</sup> Member of the Audit Committee

Subject to a resolution at the Annual Meeting on April 30, 2009, total compensation of the Supervisory Board of the company, including the attendance fee for the activity, in 2008 was €2.9 million (2007: €4.2 million).

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 2008, will be paid following the Annual Meeting on April 30, 2009.

In the year 2008, the company paid the Supervisory Board member, Prof. Dr. Diederich, approximately €24,200 (2007: approximately €23,400), 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 2008 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 132

## REPORT OF THE SUPERVISORY BOARD

### **Dear Shareholders,**

The year 2008 marked the start for BASF in its new legal form as a *Societas Europaea* or SE. The conversion was, and is, connected with significant changes to the corporate governance system at BASF. Since January 14, 2008, the Supervisory Board comprises 12 instead of 20 members, consisting in equal parts of shareholder representatives – elected by the Annual Meeting – and employee representatives. In place of the German Codetermination Act, the Employee Participation Agreement concluded between the company's management and employee representatives forms the tailor-made legal basis for employee participation in the Supervisory Board and for the new BASF Europa Betriebsrat. This means that employee participation in fundamental corporate decisions is no longer exclusively limited to employees in Germany, but also includes other European employees. The Supervisory Board is convinced that these structural changes have further improved the quality and efficiency of the Supervisory Board's activities and that the monitoring of and the strategic advice provided to, the Board of Executive Directors has been intensified.

The Supervisory Board attaches the utmost importance to guaranteeing good corporate governance: The Supervisory Board and the Board of Executive Directors therefore decided to comply in the future with all recommendations of the German Corporate Governance Code in the version passed by the Code Commission on June 6, 2008.

From an economic point of view, 2008 was dominated by the existing crisis in the financial markets and the economic crisis that became more apparent over the course of the year, significantly impacting BASF in the last two months of the year. The crisis will continue into 2009, and at the moment it is not possible to forecast a turnaround. The fourth quarter of 2008 shows that great economic success and record results can be quickly followed by a slump in business. Nevertheless, the current situation also makes clear that BASF was right to pursue its strategy, with a broad spectrum of business fields and a forward looking orientation towards strongly growing and innovative markets in the field of chemistry itself and fields closely related to chemistry. BASF aims to continue on this path and further expand next-generation business fields. This includes the acquisition of Ciba, which strengthens BASF's position in very attractive product lines. In the opinion of the Supervisory Board, the response of the company to the developments at the end of 2008 shows: BASF has a determined management team and highly motivated and qualified employees. They will ensure that BASF emerges even

stronger from the current economic crisis. At the first indications of the crisis, the Board of Executive Directors rapidly adopted a balanced set of timely, consistent and highly flexible measures, limiting the negative consequences as far as possible. The Board of Executive Directors enjoyed the full support of the entire Supervisory Board for these measures.

### **Monitoring and consultation in continual dialogue with the Board of Executive Directors**

In 2008, the Supervisory Board of BASF SE exercised its duties required by law and statutes with the utmost care. The Supervisory Board regularly monitored company management and provided advice on the company's strategic development and important individual measures. To this end, the Supervisory Board received detailed information from the Board of Executive Directors at six meetings in written and verbal reports. Topics included business policies, the business situation and business development, profitability, the company's planning including the planning of financing, capital expenditures and personnel resources at BASF SE and its major subsidiaries as well as deviations of the course of business from the planning. The Supervisory Board discussed in detail the reports of the Board of Executive Directors, as well as the company's future prospects as a whole and those of its individual businesses. Also outside of Supervisory Board meetings the Chairman of the Supervisory Board regularly requested information from the Chairman of the Board of Executive Directors with regard to current business developments and important transactions. The Supervisory Board was always involved at an early stage in decisions of major importance. The Supervisory Board voted on all of those individual measures taken by the Board of Executive Directors, which by law or statutes required the approval of the Supervisory Board.

The members of the Supervisory Board elected by shareholders and those elected by employees prepared for the meetings in separate preliminary discussions. With the exception of one meeting, which one member could not attend for important reasons, all members were present at each meeting.

In all meetings, the Supervisory Board dealt with the further development of the business activities of the BASF Group through acquisitions, divestitures and investment projects, and advised the Board of Executive Directors in those significant questions impacting the future of the company. The projects that the Supervisory Board discussed repeatedly included the successful takeover offers for Ciba Holding AG and Revus Energy ASA. The Supervisory Board views both acquisitions as valuable additions to BASF's existing business fields. We also dealt repeatedly with the Styrenics business, which is highly cyclical and close to crude oil and which BASF wants to divest, as well as with the further development of the business with chemicals for textiles and leather, which is characterized by low market growth and fierce competition. At the meeting on July 4, 2008, the emphasis was on the growth clusters identified by the Board of Executive Directors, where we see great opportunities for BASF in the future and which form a focus for research and development in the BASF Group. These clusters encompass: white (industrial) biotechnology; plant biotechnology, which includes the research and development cooperation with Monsanto; raw material change; energy management; and nanotechnology. At several meetings, we were informed on the regulatory environment impacting BASF's business operations, in particular emissions trading in the European Union and the effect of the E.U. chemicals directive REACH. At our meeting on December 3, 2008, we discussed and approved the Board of Executive Directors' operational and financial planning for 2009 and empowered the Board of Executive Directors to procure financial instruments under certain conditions.

### Committees

BASF SE's Supervisory Board established a total of three Committees: the Committee for personnel affairs of the Board of Executive Directors as well as the granting of loans in accordance with Section 4 of the German Stock Corporation Act (Personnel Committee), the Audit Committee and the Nomination Committee. The Supervisory Board received regular reports on the activities of these committees.

The Personnel Committee consists of Supervisory Board Chairman Dr. Jürgen Strube (chairman), Supervisory Board Deputy Chairman Robert Oswald (deputy chairman), Dr. Tessen von Heydebreck and Michael Vassiliadis. The Personnel Committee met five times in 2008. At its meetings, sometimes with the Chairman of the Board of Executive Directors, it discussed, in particular, the long-term succession planning for the Board of Executive Directors as well as the compensation of the Board of Executive Direc-

tors. In addition, the decisions to be made by the Supervisory Board regarding appointments to the Board of Executive Directors were discussed intensively. The resolutions were proposed to the plenary session of the Supervisory Board. These included the appointment of Dr. Hans-Ulrich Engel as a member of the Board of Executive Directors (until March 3, 2011), and the extension of the membership of Dr. Martin Bruder Müller (until the 2013 Annual Meeting). The Supervisory Board adopted the proposed resolutions of the Personnel Committee at its meetings on March 4, and on July 4, 2008.

The Audit Committee consists of Supervisory Board members Max Dietrich Kley, Ralf-Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis. The chairman of the Audit Committee is Max Dietrich Kley, who has also been appointed "Audit Committee Financial Expert." The Audit Committee met four times in 2008. The core duties were to review the Financial Statements 2007 of BASF SE as well as the Consolidated Financial Statements 2007 and to discuss the quarterly and first-half financial reports before their publication with the Board of Executive Directors. Further focal points were advising the Board of Executive Directors on accounting issues, discussing and defining the focus of the audit; regulating business relations with the company's auditor, including the adoption of a resolution regarding the provision of non-audit services by the auditor; agreeing upon the auditing fees; and monitoring the auditor's independence. The Audit Committee also discussed the implications of the new recommendations and provisions on the work of the Audit Committee, in particular of the German Corporate Governance Code in the amended version of June 6, 2008 and the German law "Bilanzrechtsmodernisierungsgesetz" which implements E.U. Directive 2006/43/EC and which is currently in the legislative procedure.

The members of the Nomination Committee are exclusively the members of the Supervisory Board elected by the Annual Meeting. These are Prof. Dr. Jürgen Strube, Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck and Max Dietrich Kley. The duty of the Nomination Committee is the preparation of candidate proposals for those Supervisory Board members who are elected by the Annual Meeting. The members of the Nomination Committee consulted on the selection of candidates for the coming election at the Annual Meeting on April 30, 2009, and on March 2, 2009, decided on a candidate proposal and tabled it for resolution before the Supervisory Board meeting on March 3, 2009. This also included the proposal for the future Chairman of the Supervisory Board. The Supervisory Board confirmed the proposal of the Nomination Committee for the election at the Annual Meeting.

#### **Corporate governance and Declaration of Conformity**

In 2008, the Supervisory Board again addressed in detail the standards of corporate governance applied by BASF as well as the legal framework for corporations and financial markets in Germany. This included in particular the amended German Corporate Governance Code in the version dated June 6, 2008, which was dealt with at the meeting on October 23, 2008. In particular, we discussed the implementation of the new code recommendations on board compensation, and decided to implement these.

At the meeting held December 3, 2008, the compensation system for the Board of Executive Directors was reported on in detail and the material elements of the Board of Executive Directors contracts were explained. On the basis of this and the proposal of the Personnel Committee, the Supervisory Board decided on the compensation system for the Board of Executive Directors and the significant contractual components. The Supervisory Board will review these regularly. In the dutiful opinion of the Supervisory Board, the existing compensation system does not require amendment.

In its meeting on December 3, 2008, the Supervisory Board approved the joint Declaration of Conformity by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act. Furthermore, at this meeting the Supervisory Board carried out an examination of efficiency and an assessment of independence. BASF complies with the recommendations of the German Corporate Governance Code in its version of June 6, 2008, without exception. The complete wording of the Declaration of Conformity is provided on page 148 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, can be found on pages 137 to 143.

#### **Annual Financial Statements of BASF SE and Consolidated Financial Statements**

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 have examined the Financial Statements and Management's Analysis of BASF SE for 2008, the proposal by the Board of Executive Directors for the appropriation of profit, the Consolidated Financial Statements, and Management's Analysis for the BASF Group for 2008. KPMG AG Wirtschaftsprüfungsgesellschaft, the auditors elected by the Annual Meeting for the fiscal year 2008, have audited the Financial Statements of BASF SE and the Consolidated Financial Statements including Management's Analysis under consideration of bookkeeping, and have approved them free of qualification. Furthermore the auditor certified that the Board of Executive Directors had taken the measures incumbent on it under Section 91, paragraph 2 of the German Stock Corporation Act in an appropriate way. In particular, it had instituted a suitable information and monitoring system that 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 25, 2009, as well as the accounts meeting of the Supervisory Board on March 3, 2009, 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 of the Supervisory Board.

We have reviewed the auditors' reports and agree with them. 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 objections to the management and the submitted reports.

At the Supervisory Boards accounts meeting on March 3, 2009, we approved the Financial Statements of BASF SE prepared 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 €1.95 per share.

#### **Composition of the Supervisory Board and Board of Executive Directors**

Since January 14, 2008, the Supervisory Board of BASF SE has been composed of the shareholder representatives who were elected at the Annual Meeting on April 26, 2007: Prof. Dr. Jürgen Strube, Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck and Max Dietrich Kley as well as the employee representatives under the Employee Participation Agreement of November 15, 2007: Ralf-Gerd Bastian, Wolfgang Daniel, Robert Oswald, Denise Schellemans and Michael Vassiliadis. One Supervisory Board member under the Employee Participation Agreement, Ulrich Küppers, resigned as of May 30, 2008. He was replaced by Ralf Sikorski, who was named substitute member under the Employee Participation Agreement. At the meeting on April 24, 2008, Supervisory Board members Michael Diekmann and Robert Oswald were elected as Deputy Chairmen. The term of office of all members of the Supervisory Board terminates on the day of the Annual Meeting 2009.

With effect on March 4, 2008, the Supervisory Board appointed Dr. Hans-Ulrich Engel to the Board of Executive Directors. The long-serving Deputy Chairman Dr. h. c. Eggert Voscherau and Peter Oakley left the Board of Executive Directors in the course of 2008.

#### **Thanks**

The Supervisory Board thanks all employees of the BASF Group worldwide, the management of the company and the retired members of the Board of Executive Directors and the Supervisory Board for the work they performed in 2008.

Ludwigshafen, Germany, March 3, 2009

The Supervisory Board

**Professor Dr. Jürgen Strube**  
Chairman of the Supervisory Board



# DECLARATION OF CONFORMITY 2008

## of the Board of Executive Directors and the Supervisory Board of BASF SE

**The Board of Executive Directors and the Supervisory Board of BASF SE hereby declare pursuant to § 161 AktG (Stock Corporation Act)**

1. The recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on August 8, 2008, in the official section of the electronic Federal Gazette are complied with and will be complied with.

2. The recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on July 20, 2007 in the official section of the electronic Federal Gazette have been complied with since the submission of the last Declaration of Conformity on December 5, 2007, with the following exception:

The structure of the compensation for the Board of Executive Directors was discussed in the Personnel Committee and was regularly reviewed (by way of deviation from Code number 4.2.2, paragraph 1).

Ludwigshafen, December 3, 2008

**The Supervisory Board**  
 of BASF SE

**The Board of Executive Directors**  
 of BASF SE

## FREDY MARISCAL

helped develop the umbrella brand  
AgCelence® for the Latin American  
crop protection market.

\* in particular as a result of active ingredients  
that make plants more resilient

+€272  
MILLION

SALES

WITH CROP PROTECTION  
PRODUCTS 2008\*



## VALUE FOR BASF

### Increased sales with products for strong plants



On-site consultancy: Fredy Mariscal visits customer Edson Cagnin on his farm.

#### High earnings through new market segment

We market our Plant Health concept in Latin America under the umbrella brand AgCelence: We offer farmers products that positively impact plant health as well as providing effective disease and pest control. One of the most important active ingredients with these characteristics is F 500®. It not only protects crops against fungal growth, but also strengthens their metabolism and natural defenses. These additional characteristics open up a new market and opportunities for business success for our Crop Protection division. The Plant Health concept was distinguished with BASF's Business Excellence Award 2008.

## VALUE FOR SOCIETY

### Better yields for farmers



With BASF's Plant Health products, farmers improve the yield and quality of their harvests even during droughts.

#### Good harvests through healthy plants

Our Plant Health products improve the health of crops, thereby increasing yields and improving the quality of harvests, even under extreme conditions such as drought. In this way, we help farmers to be more successful and to contribute to safeguarding sustainable food supplies.

## CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

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# CONSOLIDATED FINANCIAL STATEMENTS BASF GROUP

## 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 AG 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 25, 2009. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

Ludwigshafen, February 25, 2009



**DR. JÜRGEN HAMBRECHT**  
Chairman of the Board of Executive Directors



**DR. KURT BOCK**  
Chief Financial Officer



**DR. MARTIN BRUDERMÜLLER**



**DR. HANS-ULRICH ENGEL**



**DR. JOHN FELDMANN**



**DR. ANDREAS KREIMEYER**



**DR. STEFAN MARCINOWSKI**



**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, Germany, comprising the income statement, the balance sheet, the statement of changes in equity, the statement of recognized income and expense, the cash flow statement and the notes to the Consolidated Financial Statements, together with Management's Analysis for the business year from January 1 to December 31, 2008. The preparation of the Consolidated Financial Statements and Management's Analysis in accordance with IFRSs as adopted by the E.U., and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch „German Commercial Code“] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on Management's Analysis based on our audit. In addition we have been instructed to express an opinion as to whether the Consolidated Financial Statements comply with full IFRS.

We conducted our audit of the Consolidated Financial Statements in accordance with § 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 frame-

work and in Management's Analysis 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 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 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 IFRSs as adopted by the E.U., the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS 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. Management's Analysis is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 25, 2009

KPMG AG  
Wirtschaftsprüfungsgesellschaft

(formerly KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft)

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# CONSOLIDATED STATEMENTS OF INCOME

## BASF GROUP

### Consolidated statements of income (million €)

	Explanations in Note	2008	2007
Sales	(4)	62,304	57,951
Cost of sales		46,455	41,899
<b>Gross profit on sales</b>		<b>15,849</b>	<b>16,052</b>
Selling expenses		5,777	5,586
General and administrative expenses		1,058	1,067
Research and development expenses		1,355	1,380
Other operating income	(5)	1,304	1,053
Other operating expenses	(6)	2,500	1,756
<b>Income from operations</b>	<b>(4)</b>	<b>6,463</b>	<b>7,316</b>
Income from companies accounted for using the equity method		(66)	57
Other income from participations		74	58
Other expenses from participations		82	31
Interest income		174	142
Interest expense		601	614
Other financial income		772	726
Other financial expenses		758	719
<b>Financial result</b>	<b>(7)</b>	<b>(487)</b>	<b>(381)</b>
<b>Income before taxes and minority interests</b>		<b>5,976</b>	<b>6,935</b>
Income taxes	(8)	2,671	2,610
<b>Income before minority interests</b>		<b>3,305</b>	<b>4,325</b>
Minority interests	(9)	393	260
<b>Net income</b>		<b>2,912</b>	<b>4,065</b>
<b>Earnings per share (€) <sup>1</sup></b>	<b>(3)</b>	<b>3.13</b>	<b>4.16</b>
Dilution effect	(3)	–	–
<b>Diluted earnings per share (€) <sup>1</sup></b>	<b>(3)</b>	<b>3.13</b>	<b>4.16</b>

<sup>1</sup> In the second quarter of 2008, we conducted a two-for-one stock split. The earnings per share figure for 2007 has been adjusted accordingly.



# CONSOLIDATED BALANCE SHEETS

## BASF GROUP

### Assets (million €)

	Explanations in Note	December 31, 2008	December 31, 2007
Intangible assets	(11)	9,889	9,559
Property, plant and equipment	(12)	15,032	14,215
Investments accounted for using the equity method	(13)	1,146	834
Other financial assets	(13)	1,947	1,952
Deferred tax assets	(8)	930	679
Other receivables and miscellaneous long-term assets	(15)	642	655
<b>Long-term assets</b>		<b>29,586</b>	<b>27,894</b>
Inventories	(14)	6,763	6,578
Accounts receivable, trade	(15)	7,752	8,561
Other receivables and miscellaneous short-term assets	(15)	3,948	2,337
Marketable securities	(16)	35	51
Cash and cash equivalents	(16)	2,776	767
Assets of disposal groups	(2)	–	614
<b>Short-term assets</b>		<b>21,274</b>	<b>18,908</b>
<b>Total assets</b>		<b>50,860</b>	<b>46,802</b>

### Stockholders' equity and liabilities (million €)

	Explanations in Note	December 31, 2008	December 31, 2007
Subscribed capital	(17)	1,176	1,224
Capital surplus	(17)	3,241	3,173
Retained earnings	(18)	13,250	14,556
Other comprehensive income	(18)	(96)	174
<b>Equity of shareholder of BASF SE</b>		<b>17,571</b>	<b>19,127</b>
Minority interests	(19)	1,151	971
<b>Stockholders' equity</b>		<b>18,722</b>	<b>20,098</b>
Provisions for pensions and similar obligations	(20)	1,712	1,292
Other provisions	(21)	2,757	3,015
Deferred tax liabilities	(8)	2,167	2,060
Financial indebtedness	(22)	8,290	6,954
Other liabilities	(22)	917	901
<b>Long-term liabilities</b>		<b>15,843</b>	<b>14,222</b>
Accounts payable, trade		2,734	3,763
Provisions	(21)	3,043	2,697
Tax liabilities	(8)	860	881
Financial indebtedness	(22)	6,224	3,148
Other liabilities	(22)	3,434	1,976
Liabilities of disposal groups	(2)	–	17
<b>Short-term liabilities</b>		<b>16,295</b>	<b>12,482</b>
<b>Total stockholders' equity and liabilities</b>		<b>50,860</b>	<b>46,802</b>

# CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE BASF GROUP

## Income and expense items (million €)

	2008	2007
Income before minority interests	3,305	4,325
Actuarial gains/losses and asset ceiling for defined benefit assets	(782)	55
Change in foreign currency translation adjustments	(142)	(532)
Fair value changes in available-for-sale securities	(12)	343
Cash flow hedges	(163)	33
Revaluation due to acquisition of majority of shares	(2)	12
Deferred taxes	194	(155)
Minority interests	(12)	(45)
<b>Total income and expense recognized in equity</b>	<b>(919)</b>	<b>(289)</b>
<b>Total income and expense for the period</b>	<b>2,386</b>	<b>4,037</b>
Thereof BASF	2,005	3,822
Thereof minority interests	381	215

## 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 of majority of shares	Total of other comprehensive income	
As of January 1, 2008	(874)	(497)	680	(21)	12	174	(700)
Additions	(782)	(142)	—	(170)	—	(312)	(1,094)
Releases	—	—	(12)	7	(2)	(7)	(7)
Deferred taxes	145	2	—	47	—	49	194
<b>As of December 31, 2008</b>	<b>(1,511)</b>	<b>(637)</b>	<b>668</b>	<b>(137)</b>	<b>10</b>	<b>(96)</b>	<b>(1,607)</b>
As of January 1, 2007	(782)	27	341	(42)	—	326	(456)
Additions	—	(532)	349	(64)	12	(235)	(235)
Releases	55	—	(6)	97	—	91	146
Deferred taxes	(147)	8	(4)	(12)	—	(8)	(155)
<b>As of December 31, 2007</b>	<b>(874)</b>	<b>(497)</b>	<b>680</b>	<b>(21)</b>	<b>12</b>	<b>174</b>	<b>(700)</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

## BASF GROUP

### Consolidated statements of cash flows <sup>1</sup> (million €)

	2008	2007
Net income	2,912	4,065
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,180	2,947
Changes in pension provisions, defined benefit assets and other non-cash items	271	(164)
Net gains from disposal of long-term assets and securities	(1)	(42)
Changes in inventories	136	(335)
Changes in receivables	(739)	(864)
Changes in operating liabilities and other provisions	(736)	200
<b>Cash provided by operating activities</b>	<b>5,023</b>	<b>5,807</b>
Payments related to intangible assets and property, plant and equipment	(2,521)	(2,562)
Payments related to financial assets and securities	(976)	(755)
Payments related to acquisitions	(637)	(635)
Proceeds from divestitures	73	99
Proceeds from the disposal of long-term assets and securities	601	241
<b>Cash used in investing activities</b>	<b>(3,460)</b>	<b>(3,612)</b>
Capital increases/repayments and other equity transactions	45	150
Share repurchases	(1,618)	(1,899)
Proceeds from the addition of financial liabilities	6,271	3,162
Repayment of financial liabilities	(2,082)	(2,025)
Dividends paid		
To shareholders of BASF SE	(1,831)	(1,484)
To minority shareholders	(326)	(140)
<b>Cash provided by (used in) financing activities</b>	<b>459</b>	<b>(2,236)</b>
<b>Net changes in cash and cash equivalents</b>	<b>2,022</b>	<b>(41)</b>
Effects on cash and cash equivalents		
From foreign exchange rates	(31)	(9)
From changes in scope of consolidation <sup>2</sup>	18	(17)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>767</b>	<b>834</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>2,776</b>	<b>767</b>

<sup>1</sup> More information on the Consolidated Statement of Cash Flows can be found in the Notes on pages 45 and 46.  
Other information on cash flow can be found in Note 10 on page 186.

<sup>2</sup> This includes liquid funds of €3 million from the reclassification of the disposal group (2007: minus €3 million).

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY BASF GROUP

## Consolidated statements of stockholders' equity (million €)

	Number of subscribed shares outstanding <sup>1</sup>	Subscribed capital	Capital surplus	Retained earnings	Other com- prehensive income <sup>2</sup>	Equity of share- holders of BASF SE	Minority interest	Total stock- holders' equity
<b>January 1, 2008</b>	<b>956,370,000</b>	<b>1,224</b>	<b>3,173</b>	<b>14,556</b>	<b>174</b>	<b>19,127</b>	<b>971</b>	<b>20,098</b>
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(37,891,306)	(48)	74	(1,644)	—	(1,618)	—	(1,618)
Effects of acquisitions achieved in stages	—	—	—	(105)	—	(105)	27	(78)
Capital withdrawal/contribution	—	—	—	—	—	—	100	100
Dividend paid	—	—	—	(1,831)	—	(1,831)	(326) <sup>3</sup>	(2,157)
Net income	—	—	—	2,912	—	2,912	393	3,305
Income and expense recognized directly in equity	—	—	—	(637)	(270)	(907)	(12)	(919)
Changes in scope of consoli- dation and other changes	—	—	(6) <sup>4</sup>	(1)	—	(7)	(2)	(9)
<b>December 31, 2008</b>	<b>918,478,694</b>	<b>1,176</b>	<b>3,241</b>	<b>13,250</b>	<b>(96)</b>	<b>17,571</b>	<b>1,151</b>	<b>18,722</b>
<b>January 1, 2007</b>	<b>999,360,000</b>	<b>1,279</b>	<b>3,141</b>	<b>13,302</b>	<b>326</b>	<b>18,048</b>	<b>530</b>	<b>18,578</b>
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(42,990,000)	(55)	27	(1,871)	—	(1,899)	—	(1,899)
Capital withdrawal/contribution	—	—	—	—	—	—	150	150
Asset swap <sup>5</sup>	—	—	—	634	—	634	216	850
Dividend paid	—	—	—	(1,484)	—	(1,484)	(140) <sup>3</sup>	(1,624)
Net income	—	—	—	4,065	—	4,065	260	4,325
Income and expense recognized directly in equity	—	—	—	(92)	(152)	(244)	(45)	(289)
Changes in scope of consoli- dation and other changes	—	—	5 <sup>4</sup>	2	—	7	—	7
<b>December 31, 2007</b>	<b>956,370,000</b>	<b>1,224</b>	<b>3,173</b>	<b>14,556</b>	<b>174</b>	<b>19,127</b>	<b>971</b>	<b>20,098</b>

<sup>1</sup> The number of outstanding shares were adjusted retroactively for the two-for-one stock split conducted in the second quarter of 2008.

<sup>2</sup> Details are provided in the Consolidated Statements of Recognized Income and Expense on page 154.

<sup>3</sup> Including profit and loss transfers

<sup>4</sup> Granting of BASF shares under the employee share program "Plus"

<sup>5</sup> More information on the asset swap with Gazprom can be found in Note 2 from page 170 onward.

## 1 -- SUMMARY OF ACCOUNTING POLICIES

### A -- Basis of presentation

The Consolidated Financial Statements of BASF SE as of December 31, 2008, have been prepared in accordance with the International Financial Reporting Standards (IFRS) and Section 315a (1) of the German Commercial Code (HGB). All of the binding IFRS in the reporting year 2008 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 2008.

On February 24, 2009, 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 3, 2009.

### 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 consolidated

	2008	2007
Consolidated companies as of January 1	297	328
Thereof proportionally consolidated	18	19
First-time consolidations	22	20
Thereof proportionally consolidated	1	(1)
Deconsolidations	26	51
Thereof proportionally consolidated	—	—
<b>Consolidated as of December 31</b>	<b>293</b>	<b>297</b>
Thereof proportionally consolidated	19	18

Associated companies are accounted for using the equity method. These are companies in which the Company has an interest 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

	2008	2007
Subsidiaries	8	10
Joint ventures	4	4
Other associated companies	5	6
	<b>17</b>	<b>20</b>

First-time consolidations in 2008 comprised:

- the formation of two new holding companies headquartered in Chile and Canada
- three companies from the Revus Group acquired in December in the Oil & Gas segment
- four companies from the Sorex Group acquired in December in the Agricultural Solutions segment
- an additional 13 companies, which were consolidated due to their increased importance, headquartered in Germany, the Russian Federation, the Netherlands, Norway, Romania, Iran, Vietnam, Kazakhstan and the Dominican Republic

In 2008, 26 companies were deconsolidated due to merger or immateriality.

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
- 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.

## Effects of changes in the scope of consolidation

	2008 million €	2008 %	2007 million €	2007 %
<b>Sales</b>	<b>(43)</b>	<b>(0.1)</b>	<b>18</b>	<b>.</b>
Long-term assets	.	.	1	.
Thereof property, plant and equipment	24	0.2	1	.
Short-term assets	38	0.2	.	.
Thereof cash and cash equivalents	15	0.5	(14)	(1.6)
<b>Total assets</b>	<b>38</b>	<b>0.1</b>	<b>1</b>	<b>.</b>
Stockholders' equity	2	.	18	0.1
Long-term liabilities	5	.	(4)	.
Thereof financial indebtedness	7	0.1	2	.
Short-term liabilities	31	0.2	(13)	(0.1)
Thereof financial indebtedness	(10)	(0.2)	8	0.2
<b>Total stockholders' equity and liabilities</b>	<b>38</b>	<b>0.1</b>	<b>1</b>	<b>.</b>
Contingent liabilities and other financial obligations	.	.	1	.

## Financial information on proportionally consolidated companies (million €)

	2008	2007
<b>Income statement information</b>		
Sales	5,392	4,178
Gross profit on sales	278	368
Income from operations	173	285
Income before taxes and minority interest	169	301
Net income	167	306
<b>Balance sheet information</b>		
Long-term assets	1,282	1,238
Thereof property, plant and equipment	1,178	1,159
Short-term assets	959	960
Thereof marketable securities, cash and cash equivalents	49	31
<b>Total assets</b>	<b>2,241</b>	<b>2,198</b>
Stockholders' equity	783	862
Long-term liabilities	627	538
Thereof financial indebtedness	296	218
Short-term liabilities	831	798
Thereof financial indebtedness	163	39
<b>Total stockholders' equity and liabilities</b>	<b>2,241</b>	<b>2,198</b>
Contingent liabilities and other financial obligations	175	137
<b>Consolidated statements of cash flows</b>		
Cash provided by operating activities	320	280
Cash used in investing activities	(84)	(129)
Cash provided by (used in) financing activities	(223)	(198)
Net changes in cash and cash equivalents	13	(47)

### Proportionally and at equity consolidated companies

Proportionally consolidated companies of major significance are as follows:

- Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany; Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland as well as ZAO Achimgaz, Novy Urengoy, the Russian Federation, joint ventures with Gazprom through which gas trading activities and the production of natural gas and condensate in Siberia are operated
- ELLBA C.V., Rotterdam, the Netherlands and ELLBA Eastern Private Ltd., Singapore, which are operated jointly with Shell and produce propylene oxide and styrene monomer
- BASF DOW HPPO Production B.V.B.A., Antwerp, Belgium, which is operated jointly with Dow to produce propylene oxide (PO)
- 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: Solvin Group (BASF stake: 25%), Heesung Catalysts Corporation, Seoul, South Korea (BASF stake: 49%), N.E. Chemcat Corporation<sup>1</sup>, Tokyo, Japan (BASF stake: 42%), Nord Stream AG, Zug, Switzerland (BASF stake: 20%), OAO Severneftegazprom, Krasnoselskysky, the Russian Federation (BASF stake: 25%, share of economic rewards: 35%), and Shanghai Lianheng Isocyanate Co. Ltd., Shanghai, China (BASF stake: 35%). Consolidated financial information is shown below:

<sup>1</sup> The market capitalization of the 42% stake in N.E. Chemcat Corporation amounts to a total of €106 million as of December 31, 2008.

### Financial information on companies consolidated using the equity method (million €)

	2008	2007
<b>Income statement information</b>		
Sales	3,132	2,736
Gross profit on sales	1,912	475
Income from operations	295	254
Income before taxes and minority interests	(234)	251
Net income	(198)	167
BASF's share of net income	(68)	54
<b>Balance sheet information</b>		
Long-term assets	2,971	2,467
Thereof property, plant and equipment	2,205	2,261
Short-term assets	2,453	1,851
Thereof marketable securities, cash and cash equivalents	1,155	369
<b>Total assets</b>	<b>5,424</b>	<b>4,318</b>
Stockholders' equity	2,590	1,430
Long-term liabilities	425	1,885
Thereof financial indebtedness	233	1,379
Short-term liabilities	2,409	1,003
Thereof financial indebtedness	1,818	116
<b>Total stockholders' equity and liabilities</b>	<b>5,424</b>	<b>4,318</b>
BASF's proportional interest	800	484



## 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. The resulting differences are capitalized as goodwill and are only written down in the case of impairment.

**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 valued at the fair value of the consideration received and are reported 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, where as a rule there is no physical delivery, are recorded on a net basis. Revenues from natural gas trading activities of a project company consolidated by BASF are also recorded on a net basis.

In certain cases, customer acceptance is required on delivery. 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 euro at year-end rates, expenses and income are translated to euro at monthly average rates and accumulated for the year. The translation adjustments due to the use of the closing 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 permanently lower than the carrying amount. The recoverable amount is the higher of fair value less selling costs and value-in-use. Impairment losses are reversed if the reasons behind the impairment 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 directly related to the development of the assets are capitalized to the extent that they are material and related to the period over which the asset is generated.

The average straight-line amortization period for intangible assets was 11 years in 2008 and 10 years in 2007 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. At BASF, cash-generating units are predominantly the business units, in individual cases, the divisions. The recoverable amount is the higher of net sales price and the value-in-use. Value-in-use is generally determined using the discounted cash flow method.

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 primarily attributable to the Catalysts and Construction Chemicals divisions in the Functional Solutions segment and the Crop Protection division in the Agricultural Solutions segment.

In 2008, goodwill of €1,383 million relates to the Crop Protection division (2007: €1,304 million), €1,246 million relates to the Catalysts division (2007: €1,269 million), €620 million relates to the Construction Chemicals division (2007: €612 million) and €381 million relates to the Oil & Gas segment (2007: €64 million). Changes arose in 2008 in particular from foreign currency translation effects and the acquisition of Sorex Holdings Ltd. by the Crop Protection division and Revus SAS by the Oil & Gas segment.

**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 costs, 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:

#### Average depreciation in years

	2008	2007
Buildings and structural installations	24	23
Machinery and technical equipment	11	11
Factory, office equipment and other facilities	7	8

Impairment losses 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 loss 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.

An exploration well is a well located outside of an area with proven oil and gas deposits. A development well is a well which is sunk to the depth of a deposit of oil or gas within an area with proved reserves.

Production costs include all costs incurred to operate, repair and maintain the well and the associated plant. The costs for the operation, repair and maintenance as well as depreciation of ancillary production equipment are also included.

Exploration expenses relate exclusively to the Oil & Gas segment. 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 under construction in progress until its success can be determined. When 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 revenue BASF is entitled to under such contracts is reported as sales. The existing Libyan concessions are currently being renegotiated. They shall be replaced with Exploration and Production Sharing Agreements according to the EPSA-IV standard.

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 on the provision is accrued 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 2008 (2007: 24 years). The intangible asset 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.

**Leases:** According to IAS 17, leasing contracts are classified as either finance or operating leases. Assets which are subject to operating leases are not capitalized. Lease 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 the leased asset. Assets subject to a finance lease are recorded at the present value of the minimum lease payments. A leasing liability is recorded in the same amount. The periodic lease payments are divided into principal and interest components. The principal component reduces the outstanding liability, while the interest component represents an interest expense. Depreciation takes place over the shorter of the useful life of the asset or the period of the lease.

Leases can be embedded within other contracts. If IFRS requires separation, then the embedded lease is recorded separately from its host contract and each component of the contract is carried and valued in accordance with the applicable regulations.

**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. Should there be indications of a permanent reduction in the value of an investment, then an impairment expense is recognized through profit or loss.

**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.

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 internal valuation models using current market parameters or external valuations from banks. These internal valuations predominantly use net present value and option pricing models.

If there is objective evidence of a permanent impairment of an available-for-sale financial instrument, an impairment charge is taken.

If the reason for the impairment of loans and receivables as well as held-to-maturity financial instruments no longer exists, the amortization is reversed up to the amortized cost and recognized as income. Impairment losses on financial instruments are booked separately in an allowance account.

Financial assets and liabilities are divided into the following valuation categories:

- **Financial assets and liabilities that are measured at fair value and recognized through profit or loss** consist of derivatives and other trading instruments. BASF utilized this valuation category only for derivative instruments and does not make use of the fair value option under IAS 39. Derivatives are reported in other short-term assets or other short-term liabilities.
- **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 trade accounts receivable, loans classified under other financial assets as well as other receivables and loans classified under other receivables and miscellaneous 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. If there is objective evidence for an impairment of a receivable or loan, an individual valuation adjustment is done. In addition, an impairment loss occurs when the contractual conditions which form the basis for the receivable or loan need to be changed through renegotiation in such a way that the present value of the future cash flows decreases. Receivables and loans are written off when their uncollectibility is finally determined. Receivables for which no objective indication for an impairment exists may be impaired, if necessary, based on expected default rates. The company applies historic default rates. In addition, valuation adjustments on receivables for transfer risks in certain countries are established.

- **Held-to-maturity financial assets** consist of non-derivative financial assets with fixed or determinable payments and a fixed term, for which there is the ability and intent to hold until maturity, and which do not fall under other valuation categories. Initial valuation is made at fair value, which, in most cases, matches the nominal value. Subsequent valuations are 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 assets** 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 the assets are disposed of or have been impaired. 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. 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 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.
- **Financial liabilities which are not derivatives** are initially valued at fair value. This normally corresponds to the amount received. Subsequent valuation is generally done at amortized cost, under consideration of the effective interest method.

There were no reclassifications between the valuation categories in 2007 and 2008. The option to reclassify certain assets given under the amendment to IAS 39 on October 15, 2008, was not used.

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.

Derivative financial instruments can be embedded within other contracts. If IFRS requires separation, then the embedded derivative is recorded separately from its host contract and shown at fair value.

**Cash flow Hedge Accounting** has been employed for selected deals to hedge future transactions. 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 based on financial assets or debts, the cumulative fair value changes of the hedges are transferred from stockholders' equity to the income statement in the reporting period in which the hedged item is recognized in the income statement. The maturity of the hedging instrument is based upon the effective date of the future transaction.

The derivatives employed by BASF for hedging purposes 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.

**Deferred tax assets:** Deferred tax assets are recorded for 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.

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.

**Inventories:** Inventories are carried at acquisition costs or production costs. If the listed, market, or fair value of the sales product which forms the basis for the net realizable value is lower, then this is applied. 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.

Deductions on inventories result from price declines in sales products, lack of salability and high level of inventory on hand.

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. Should a disposal group cease to be classified as such, then the depreciation and amortization for the period of suspension must be taken.

→ Further information on disposal groups is found in Note 2 from page 170 onward



**Provisions for pensions and similar 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 primarily concern the filling of wells and the removal of production facilities upon the termination of production in the Oil & Gas segment. 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.

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.

→ Information on provisions for the BASF options program in Note 25 from page 210 onward

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.

**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.

Deferred tax liabilities resulted, in particular, from the revaluation of assets at fair value as part of the purchase price allocation of recent years.

**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 in the preparation of the Consolidated Financial Statements:

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 at the balance sheet date and affect the reported amounts of income 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 could differ from these estimates.

In **business combinations**, the acquired assets and liabilities are recognized at fair value on the date the acquirer effectively obtains control. The determination of fair value of the acquired intangible assets, property, plant and equipment and liabilities assumed at the date of exchange as well as the useful lives of the acquired intangible assets and property, plant and equipment is based on assumptions. The measurement is largely based on projected cash flows. The actual cash flows can differ significantly from the cash flows used to determine the fair values. The purchase price allocation of material acquisitions is based on external, independent expert reports. The measurement of business combinations is based on the information available on the acquisition date.



**Impairment tests** on assets are required whenever events or changes in circumstances indicate that an assessment is necessary. 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 cash flows and assumptions used consider all information available on the respective balance sheet date on the future development of the operating business and may deviate from actual future developments. An impairment charge is taken for the difference between the recoverable amount and the carrying amount.

**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. 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 and take appropriate account of the relevant specific risks. For cash flow projections beyond the detailed planning period, growth rates ranging from 0% to 3% were assumed depending on the individual business and cash-generating unit. 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 6.7% to 14.5%.

**Intangible assets and property, plant and equipment:** The estimated useful life and method chosen are based on historical values, plans and estimates. Estimates are made on the period and distribution of future cash inflows.

Impairment charges are taken when circumstances lead to a permanent impairment. These circumstances could include lower profitability of the products concerned, the consequence of restructuring measures or poor economic conditions. Should the reasons for the impairment no longer be valid, then reversals are taken up to, but not exceeding, the value of the amortized cost.

Intangible assets with indefinite useful lives are subject to an annual impairment test. An impairment test is conducted if certain triggering events indicate an impairment. This could include changes in customer industries, in technologies and in the business environment.

**Deferred tax assets/liabilities:** The realization of deferred tax assets 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. The continued valuation of deferred tax assets is based on internal projections, among other things based on the future earnings of the Group company.

→ More information can be found in Note 8 from page 183 onward

**Receivables and loans** are valued at their amortized costs using the effective interest method. Impairments on receivables and loans are recognized in income. Such evidence for an impairment could, for example, be when the financial difficulties of a debtor become known or payment delays occur. 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. 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. Impairments are based on historical values on customer solvency and the age, period overdue, insurance policies and customer-specific risks. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The write-up may not exceed the amortized cost.

**Pension provisions and defined benefit assets** are measured using actuarial methods, applying among others the following valuation parameters: future developments in compensation and pensions, the expected performance of plan assets, employee turnover and the life expectancy of beneficiaries. The resulting obligations are discounted by reference to market yields at the balance sheet date on high quality corporate fixed-rate bonds with a AA rating. Actuarial gains and losses are recognized directly in retained earnings. They result from the variance between the actual development in pension obligations and pension assets and the assumptions made at the beginning of the year as well as the updating of actuarial assumptions.

→ More information on provisions for pensions and similar obligations can be found in Note 20 from page 200 onward

**Other provisions** also 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.

→ More information can be found in Note 24 on page 209

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 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 provision is based on the available technical information on the site, the technology used, legal regulations and processes used as well as current regulations and official obligations.

The estimation of future costs is subject to many uncertainties. This refers in particular to rehabilitation measures that involve several parties and longer time periods.

Assumptions have to be made in determining the discount rate to be used in calculating long-term provisions.

#### **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 2008 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 amended version of IAS 1 applies to all financial years beginning on or after January 1, 2009, and has no noteworthy impact on BASF.
- 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 on or after 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.

- 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. BASF will apply the changes as soon as they come into force, or are endorsed by the European Union.
- **IFRIC 15 “Agreements for the Construction of Real Estate”** governs the recognition of revenue and the corresponding expense on the construction of real estate. IFRIC 15 will not have an effect on BASF.
- **IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”** clarifies which exchange differences resulting from the difference between the functional currency of the group and the functional currency of the foreign operation can be designated as a hedged risk. IFRIC 16 will not have an effect on BASF.
- **IFRIC 17 “Distributions of Non-cash Assets to Owners”** clarifies that the valuation difference between the book value of the asset and the fair value should be recognized in profit or loss, except for common control transactions. It shall be applied to financial years beginning on or after July 1, 2009. IFRIC 17 will not have an effect on BASF.
- **IFRIC 18 “Transfers of Assets from Customers”** governs agreements in which an entity receives from a customer an asset that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation was published by the IASB on January 29, 2009, and shall be applied to agreements concluded on or after July 1, 2009. The impact on BASF is currently being investigated.
- The amendments to **IAS 1 and IAS 32 “Puttable Financial Instruments and Obligations Arising on Liquidation”** clarify that under certain conditions puttable financial instruments and financial instruments with an enforceable claim on proportionate net assets should be classified as equity and not as liabilities. The amendments will have no impact on the BASF Group Consolidated Financial Statements.
- Other amendments of the standards will have no material impact on BASF.

## 2 -- ACQUISITIONS/DIVESTITURES

In 2008, BASF acquired Revus Energy ASA, Stavanger, Norway (Revus), an oil and gas exploration and production company listed on the Oslo Stock Exchange with stakes in 60 licenses in Norway and Great Britain. On December 17, 2008, BASF took over control of Revus on the transfer of the tendered shares to a wholly owned subsidiary of Wintershall Holding AG, Wintershall Norwegen Explorations- und Produktions-GmbH. The shares in Revus were acquired as part of a public tender offer. The remaining shares which were not tendered were acquired on

December 18, 2008, as part of the squeeze out resulting in BASF taking ownership of all shares in Revus. The minority shareholders are entitled to a compensation payment of €12 million. This amount has been accrued. The total purchase price is €558 million. Since December 22, 2008, Revus Energy ASA has been trading as Wintershall Norge ASA. The following provides an overview of the preliminary carrying amounts and fair values of the acquired assets and liabilities on December 17, 2008.

**Preliminary purchase price allocation of the acquisition of Revus Energy ASA in 2008 (million €)**

	Historical book value	Adjustment to fair value	Fair values at the date of acquisition
<b>Long-term assets</b>	<b>296</b>	<b>420</b>	<b>716</b>
Property, plant and equipment	231	119	350
Goodwill	–	–	–
Other intangible assets	2	301	303
Other long-term assets	63	–	63
<b>Short-term assets</b>	<b>106</b>	<b>–</b>	<b>106</b>
Inventories	2	–	2
Other short-term assets	104	–	104
<b>Total assets</b>	<b>402</b>	<b>420</b>	<b>822</b>
<b>Long-term liabilities</b>	<b>193</b>	<b>284</b>	<b>477</b>
Provision for pensions and similar obligations	–	–	–
Deferred tax liabilities	102	285	387
Financial indebtedness	30	(1)	29
Other liabilities	61	–	61
<b>Short-term liabilities</b>	<b>104</b>	<b>–</b>	<b>104</b>
<b>Total liabilities</b>	<b>297</b>	<b>284</b>	<b>581</b>
<b>Net assets</b>	<b>105</b>	<b>136</b>	<b>241</b>
<b>Goodwill</b>			<b>317</b>
<b>Total purchase price</b>			<b>558</b>
Thereof incidental acquisition costs			–

In addition, BASF acquired the following businesses in 2008:

- BASF acquired Attapulgit Mining, Inc., Attapulgit, Georgia on September 26, 2008. The acquired business provides access to attapulgit ore. Attapulgit is a magnesium aluminium phyllosilicate used mainly as a thickener in coatings.
- BASF acquired the concrete admixture business of Kejie Admixture Science & Technology Co. Ltd. (Kejie), on December 15, 2008. Kejie is one of the leading producers of concrete admixtures in Guangzhou, the capital of the Guangdong province in South China, and has a wide range of concrete admixtures and intermediate products.
- BASF concluded the acquisition of Sorex Holdings Ltd., Widnes, Great Britain on December 19, 2008. Sorex is a leading manufacturer of branded chemical and non-chemical products for professional pest management. The transaction includes U.S.-based Whitmire Micro-Gen and U.K.-based Sorex Ltd. It will increase BASF's presence in the two most important pest control markets worldwide, the United States and Europe.
- BASF concluded an agreement with Recticel to acquire the company's worldwide compounds business for polyurethane (PU) systems for glass encapsulation on December 30, 2008. This transaction includes Recticel's patented aliphatic light stable compounds under the brand name Colofast®.

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.

If Revus Energy ASA had been included in BASF Group Consolidated Financial Statements as of January 1, 2008, the proforma sales would have been €62,482 million and net income would have been €3,348 million. This unaudited proforma information are provided for purposes of comparison only and do not necessarily reflect the results had the transaction had taken place on January 1, 2008. The results reported are not guarantees of future performance.

The remaining acquisitions in 2008 have no material impact on the proforma sales and net income of the BASF Group.

The following shows an overview of the purchase price allocation of the remaining acquisitions in 2008.

<b>Other acquisitions (million €)</b>	
	<b>2008</b>
Purchase price	102
Incidental acquisition costs	-
<b>Total purchase price</b>	<b>102</b>
Net assets at their carrying amounts	(4)
<b>Difference</b>	<b>106</b>
<b>Adjustment to fair value</b>	
<b>Long-term assets</b>	<b>51</b>
Property, plant and equipment	(9)
Goodwill	-
Other intangible assets	60
Other long-term assets	-
<b>Short-term assets</b>	<b>1</b>
Inventories	1
Other short-term assets	-
<b>Total assets</b>	<b>52</b>
<b>Long-term liabilities</b>	<b>-</b>
<b>Short-term liabilities</b>	<b>(1)</b>
<b>Total liabilities</b>	<b>(1)</b>
<b>Total adjustments to fair value</b>	<b>51</b>
<b>Deferred tax liabilities on adjustments</b>	<b>(3)</b>
Remaining goodwill/ negative difference	58

In 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. 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 & Co. KG, Kassel, was increased from 35% to 50% minus one share. Both the Libyan activities and WINGAS GmbH & Co. KG continue to be consolidated 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.

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. The assets received comprised a marketing contract for natural gas with a fair value of €1,762 million and shares in SNG with a fair value of €110 million. Measurement at fair value resulted in deferred tax liabilities of €424 million.

In addition, BASF acquired the following companies for a total of €38 million in 2007:

- 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 on July 26, 2007. The company provides services connected with the testing of catalysts.
- On December 31, 2007, BASF acquired SABIC Innovative Plastics' shares in the PBT-Joint Venture – BASF GE Schwarzheide GmbH & Co. KG –, Schwarzheide, Germany.

The following overview shows the preliminary purchase price allocations of the acquisitions conducted in 2008, as well as the impact of the final purchase price allocations conducted in 2007 on the consolidated balance sheet.

#### Effects of acquisitions in the year of acquisition

	2008		2007	
	Million €	%	Million €	%
<b>Long-term assets</b>	<b>1,177</b>	<b>4.0</b>	<b>34</b>	<b>0.1</b>
Property, plant and equipment	363	2.4	17	0.1
Goodwill	380	8.0	11	0.3
Other intangible assets	365	7.1	6	0.1
Other assets	69	4.3	–	–
<b>Short-term assets</b>	<b>138</b>	<b>0.6</b>	<b>7</b>	<b>.</b>
Thereof cash and cash equivalents	11	0.4	1	0.1
<b>Total assets</b>	<b>1,315</b>	<b>2.6</b>	<b>42</b>	<b>0.1</b>
<b>Stockholders' equity</b>	<b>5</b>	<b>.</b>	<b>–</b>	<b>–</b>
<b>Long-term liabilities</b>	<b>489</b>	<b>3.1</b>	<b>2</b>	<b>.</b>
Thereof financial indebtedness	29	0.4	–	–
<b>Short-term liabilities</b>	<b>173</b>	<b>1.1</b>	<b>1</b>	<b>.</b>
Thereof financial indebtedness	31	0.5	–	–
<b>Total stockholders' equity and liabilities</b>	<b>667</b>	<b>1.3</b>	<b>3</b>	<b>.</b>
<b>Payments related to acquisitions</b>	<b>648</b>		<b>38</b>	
Conditional purchase price	12		–	
<b>Purchase price</b>	<b>660</b>		<b>38</b>	
Contingent liabilities and other financial obligations	281	3.2	1	.

In 2008, BASF divested the following activities:

- In the course of 2008, BASF sold further parts of the premix business, including sites in Japan, Taiwan, Chile and Columbia. Premixes are a mixture of vitamins and feed additives for animal nutrition. The activities were allocated to the Care Chemicals division.
- On April 30, 2008, BASF sold the Shreveport, Louisiana, site and the related contract manufacturing business for pharmaceuticals to Dr. Reddy's Laboratories. The activities were allocated to the Care Chemicals division.
- On August 17, 2008, BASF completed the divestiture of Seal Sands site in the north of England to INEOS Nitriles. The Seal Sands site operates production facilities for the intermediates acrylonitrile (AN), adipodinitrile (ADN) and hexamethylenediamine (HMD), as well as for by-products. The site was allocated to the Performance Polymers division.

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 premix business to Nutreco, an animal feed group headquartered in the Netherlands. The divested business had sites in eight countries.

The following shows the effects of the divestitures in 2008 and 2007 on the consolidated balance sheet. The effect on stockholders' equity is reported as the difference between the purchase price payment and the disposed assets. Any expenditures for restructuring measures connected with divestitures are not included.

#### Effects of divestitures in the year of divestiture

	2008		2007	
	Million €	%	Million €	%
Sales	(274)	(0.4)	(146)	(0.3)
Long-term assets	(12)	.	(55)	(0.2)
Thereof Property, plant and equipment	(11)	(0.1)	(43)	(0.3)
Short-term assets	(24)	(0.1)	(60)	(0.3)
Thereof cash and cash equivalents	–	–	(3)	(0.4)
Total assets	(36)	(0.1)	(114)	(0.2)
Stockholders' equity	30	0.2	26	0.1
Long-term liabilities	–	–	(5)	.
Thereof financial indebtedness	–	–	–	–
Short-term liabilities	7	.	(33)	(0.3)
Thereof financial indebtedness	–	–	(1)	.
Total stockholders' equity and liabilities	37	0.1	(13)	(0.1)
Proceeds from divestitures	73		102	
Contingent liabilities and other financial obligations	–	–	(1)	.



### Assets and liabilities of disposal groups

As of December 31, 2007, parts of the Styrenics division were classified as a disposal group. These concerned BASF's styrene monomer (SM), polystyrene (PS), styrene butadiene copolymer (SBC) and acrylonitrile butadiene styrene (ABS) businesses with plants in Antwerp, Belgium; Altamira, Mexico; Sao Jose dos Campos, Brazil; Ulsan, South Korea; and Dahej, India.

In 2008, the planned sale could not be carried out. Due to poor macroeconomic conditions and the changes on the capital market, divestiture in the near future is not highly probable. As of December 31, 2008, the assets and liabilities of the disposal group were reported under continuing operations.

In the fourth quarter of 2008, €73 million in depreciation and amortization had to be recognized for 2008, as the assets were no longer classified as a disposal group. In addition, impairment charges of €121 million were recognized in connection with the restructuring of the business, particularly for the sites in Mexico and South Korea.

All the depreciation and amortization for 2007 were reflected in the earnings for that year. Consequently, due to the reclassification of the disposal group no adjustment had to be made due to depreciation and amortization for 2007.

The values of the disposal group as of December 31, 2007, are shown in the following table.

#### Disposal group of the Styrenics division (million €)

	Dec. 31, 2007
Intangible assets	59
Property, plant and equipment	363
Inventories	175
Accounts receivable, trade	10
Other receivables and miscellaneous short-term assets	4
Cash and cash equivalents	3
<b>Assets of the disposal group</b>	<b>614</b>
Provisions for pensions and similar obligations	15
Accounts payable, trade	1
Other liabilities	1
<b>Liabilities of the disposal group</b>	<b>17</b>

### Planned Acquisitions/Divestitures

On September 15, 2008, BASF announced its intention to acquire Ciba Holding AG (Ciba). On October 1, 2008, a public tender offer of CHF 50.00 per share was made to the shareholders of Ciba.

On November 13, 2008, the Spanish investor group Bestinver sold its stake of approximately 13% in Ciba to BASF at a price of CHF 49.50 per share outside the public tender offer. BASF provided assurance to Ciba that it will not exercise the voting rights attached to these shares before the completion date. In the 2008 Consolidated Financial Statements, the shares already held by BASF before the announcement of the public tender offer, the additional shares acquired in the course of 2008, as well as the shares in Ciba acquired from the Bestinver Group amounted to €351 million and were reported under long-term securities. This corresponds to a stake in Ciba of 15.2%.

The shares tendered as part of the public tender offer, the shares already held by BASF, the shares in Ciba acquired from the Bestinver Group and the Ciba shares held by Ciba would result in a BASF stake of 95.2%. The completion of the transaction is still subject to approval by the relevant antitrust authorities, which is expected in the first quarter of 2009. After payments to minority shareholders on the transfer of control, the total purchase price will amount to €2.2 billion (CHF 3.4 billion).

The expected purchase price payment of €1,797 million to be paid as part of the public tender offer after the approval by the relevant antitrust authorities is reported under other financial obligations.

→ More information can be found in Note 23 from page 208 onward

### 3 -- EARNINGS PER SHARE

#### Earnings per share

	2008	2007
Net income (million €)	2,912	4,065
Number of shares (1,000)		
Weighted-average number of outstanding shares	930,103	977,786
Earnings per share (€)	3.13	4.16

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 2008 and 2007 there were no dilutive effects. All figures for the number of shares and earnings per share have been adjusted to reflect the two-for-one stock split conducted in the second quarter of 2008.

### 4 -- REPORTING BY SEGMENT AND REGION

As of January 1, 2008, we restructured our segments on the basis of similar products, production processes and customer industries. In doing so, we are taking account of changes in our portfolio as a result of acquisitions, divestitures and restructuring measures over the past few years. The previous year's figures for the segments and for Other have been adjusted accordingly.

BASF's worldwide business is conducted by operating divisions that are aggregated into six segments for reporting purposes.

The Chemicals segment consists of the Inorganics, Petrochemicals and Intermediates divisions. The Catalysts division has been transferred to the new Functional Solutions segment.

The Plastics segment is composed of the Performance Polymers and Polyurethanes divisions. The Specialty Plastics and Foams business units of the former Styrenics division have been integrated into the Performance Polymers division.

The Performance Products segment comprises the Acrylics & Dispersions, Care Chemicals and Performance Chemicals divisions. The Functional Polymers division has been renamed Acrylics & Dispersions. The activities of the former Fine Chemicals division and the detergents and formulators business from the Performance Chemicals division have been included in the new Care Chemicals division.

In the Functional Solutions segment, which consists of the Catalysts, Construction Chemicals and Coatings divisions, we bundle the majority of our systems solutions and products for the automotive and construction industries.

The Agricultural Products & Nutrition segment has been renamed Agricultural Solutions and its Agricultural Products division has been renamed Crop Protection.

The Oil & Gas segment is composed of the Oil & Gas division with the Exploration & Production and Natural Gas Trading business sectors.

Activities not assigned to a particular division are reported in Other. In particular, they include the styrene (SM), polystyrene (PS), styrene-butadiene-copolymer (SBS) and acrylonitrile butadiene styrene (ABS) businesses, which are managed under the name Styrenics, as well as fertilizer activities. In addition, the sale of feedstock, engineering and other services, rental income and leases are reported in Other. In 2008, Styrenics accounted for €3,082 million of the sales reported under Other.

With our corporate research, which is also reported in Other, we develop cross-divisional growth clusters and secure BASF's long-term competence with regard to technology and methods.

As of January 1, 2008, Group corporate costs are no longer allocated to the segments but reported in Other. Group corporate costs consist of the expenses for steering the BASF Group.

Foreign currencies results reported in Other relate to the results from the hedging of forecasted sales not allocated to the segments; the hedging of cross-segment net positions of monetary assets and liabilities; and the translation of financial indebtedness.

In 2008, hedging and valuation effects were related to negative earnings resulting from hedging for raw material price risks that are not allocated to the segments, as well as income from the reversal of provisions for BASF's option program.

Earnings in the styrenics business were negative due to lower demand and writedowns on sites in Mexico and Korea. Earnings with fertilizers and other business increased, however.

Intersegmental transfers are predominantly conducted on the basis of market 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.

#### Income from operations (EBIT) of Other (million €)

	2008	2007
Corporate research costs	(325)	(323)
Costs of the corporate center	(243)	(237)
Styrenics, fertilizers, other business	(121)	167
Foreign currency results, hedging and other measurement effects	(209)	90
Miscellaneous income and expenses	(32)	(118)
	<b>(930)</b>	<b>(421)</b>

#### Assets of Other (million €)

	2008	2007
Assets of businesses included under Other	3,081	3,045
Financial assets	3,093	2,786
Deferred tax assets	930	679
Cash and cash equivalents/marketable securities	2,811	818
Defined benefit assets	165	417
Miscellaneous receivables/prepaid expenses	2,512	1,140
	<b>12,592</b>	<b>8,885</b>

The reconciliation Oil & Gas shows the reconciliation of income from operations in the Oil & Gas segment and the contribution of the segment to the net income of the BASF Group.

The miscellaneous earnings relates to income and expenses not included in the income from operations of the segment, the interest result as well as the miscellaneous financial result. The decline in income from operations resulted chiefly from losses on loan commitments denominated in the U.S. dollar and euro at OAO Severneftegazprom due to the depreciation of the Russian Ruble. The increase in the miscellaneous result relates chiefly to results from foreign currency hedging not allocated to the segments that is reported under Other.

Minority interests increased in 2008 compared with the previous year. This resulted chiefly from the increase in the Gazprom's stakes in a German Wintershall subsidiary which holds production and exploration rights to onshore concessions 96 and 97 in Libya and in a natural gas trading company, WINGAS GmbH & Co KG, Kassel, to 50% minus one share.

**Reconciliation Oil & Gas (million €)**

	2008	2007
<b>Income from operations</b>	<b>3,844</b>	<b>3,031</b>
Income from financial assets	(68)	5
Miscellaneous earnings	121	8
<b>Income before taxes and minority interests</b>	<b>3,897</b>	<b>3,044</b>
Income taxes	2,573	2,121
Thereof income taxes on oil-producing operations non-compensable with German corporate income tax	1,851	1,302
<b>Income before minority interests</b>	<b>1,324</b>	<b>923</b>
Minority interests	373	134
<b>Net income</b>	<b>951</b>	<b>789</b>

## Segments

2008 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	10,324	9,675	8,967	9,388	3,409	14,445	5,308	6,096	62,304
Change (%)	10.3	(3.0)	1.2	(1.1)	8.7	37.3	21.6	(7.8)	7.5
Intersegmental transfers	5,503	642	422	147	28	1,235	237	444	8,421
Sales including intersegmental transfers	15,827	10,317	9,389	9,535	3,437	15,680	5,545	6,540	70,725
Income from operations	1,376	530	787	151	705	3,844	3,319	(930)	6,463
Change (%)	(27.7)	(54.8)	15.6	(65.2)	36.6	26.8	33.5	.	(11.7)
Assets	5,455	5,060	6,352	8,693	4,352	8,356	4,740	12,592	50,860
Thereof goodwill	120	119	755	1,898	1,383	381	381	92	4,748
property, plant and equipment	3,313	2,570	2,396	1,562	502	3,638	1,830	1,051	15,032
Debt	1,497	1,044	1,354	2,100	929	3,107	1,487	22,107	32,138
Research and development expenses	125	147	231	186	325	10	10	331	1,355
Additions to property, plant and equipment and intangible assets	528	478	432	234	196	1,651	1,364	115	3,634
Amortization of intangible assets and depreciation of property, plant and equipment	612	432	499	413	200	565	425	378	3,099
Thereof impairments	62	.	38	50	.	.	.	141	291

2007 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	9,358	9,976	8,862	9,491	3,137	10,517	4,365	6,610	57,951
Change (%)	2.2	5.4	4.3	60.7	1.9	(1.6)	(4.2)	13.5	10.2
Intersegmental transfers	4,829	828	361	141	19	1,189	514	336	7,703
Sales including intersegmental transfers	14,187	10,804	9,223	9,632	3,156	11,706	4,879	6,946	65,654
Income from operations	1,903	1,172	681	434	516	3,031	2,486	(421)	7,316
Change (%)	42.3	(0.7)	58.0	28.4	9.3	(7.2)	(6.5)	(54.8)	8.4
Assets	5,971	5,605	6,397	8,730	4,157	7,057	4,037	8,885	46,802
Thereof goodwill	115	114	722	1,914	1,304	64	64	72	4,305
property, plant and equipment	3,220	2,500	2,429	1,530	507	3,125	1,460	904	14,215
Debt	1,804	1,182	1,495	2,193	813	2,624	1,456	16,593	26,704
Research and development expenses	123	142	267	181	328	9	9	330	1,380
Additions to property, plant and equipment and intangible assets	668	510	434	315	83	2,280	2,162	135	4,425
Amortization of intangible assets and depreciation of property, plant and equipment	513	483	462	442	202	561	415	246	2,909
Thereof impairments	.	58	6	90	.	.	.	7	161

## Regions

### 2008 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	<b>BASF Group</b>
<b>Location of customers</b>						
Sales	36,693	13,796	11,932	9,320	4,359	62,304
Change (%)	13.4	15.3	0.0	(2.7)	6.4	7.5
Share (%)	58.8	22.1	19.2	15.0	7.0	100.0
<b>Location of companies</b>						
Sales	38,652	27,497	11,937	8,664	3,051	62,304
Sales including intersegmental transfers	42,874	30,626	13,050	8,911	3,197	68,032
Income from operations	5,822	4,744	73	254	314	6,463
Assets	32,704	19,950	9,991	5,771	2,394	50,860
Thereof property, plant and equipment	8,778	5,485	3,227	2,477	550	15,032
Additions to property, plant and equipment and intangible assets	2,818	1,249	542	172	102	3,634
Amortization of intangible assets and depreciation of property, plant and equipment	1,801	1,011	690	510	98	3,099
Employees as of December 31	61,889	47,364	15,168	13,734	6,133	96,924

### 2007 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	<b>BASF Group</b>
<b>Location of customers</b>						
Sales	32,347	11,967	11,928	9,579	4,097	57,951
Change (%)	9.5	8.2	3.5	18.2	18.5	10.2
Share (%)	55.8	20.7	20.6	16.5	7.1	100.0
<b>Location of companies</b>						
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
Additions to property, plant and equipment and intangible assets	3,513	873	634	184	94	4,425
Amortization of intangible assets and depreciation of property, plant and equipment	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

## 5 -- OTHER OPERATING INCOME

Million €	2008	2007
Reversal and adjustment of provisions	209	152
Revenue from miscellaneous revenue-generating activities	178	150
Income from foreign currency and hedging transactions	433	222
Income from the translation of financial statements in foreign currencies	24	27
Gains from disposal of property, plant and equipment and divestitures	70	105
Gains on the reversal of allowances for doubtful trade receivables	30	39
Other	360	358
	<b>1,304</b>	<b>1,053</b>

The **reversal and adjustment of provisions** primarily related to risks arising from shutdown and restructuring costs, employee obligations, 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 changed.

**Revenue from miscellaneous revenue-generating activities** primarily represents income from rentals and logistics services.

**Income from foreign currency and hedging transactions** related to foreign currency transactions, the measurement of receivables and payables in foreign currencies and currency derivatives as well as other hedging transactions with market values.

**Income from the translation of financial statements in foreign currencies** included gains arising from the use of the temporal method.

In 2008, **gains on the disposal of property, plant and equipment and divestitures** resulted from the sale of the site in Shreveport, Louisiana, and the continuation of the divestiture of the premix business.

**Gains in the reversal of allowances for doubtful trade receivables** resulted chiefly from the repayment of written down receivables in the Agricultural Solutions segment.

**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 €	2008	2007
Restructuring measures	147	119
Environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization	147	173
Amortization of intangible assets and depreciation of property, plant and equipment	384	212
Costs from miscellaneous revenue-generating activities	139	126
Expenses from foreign currency and hedging transactions	751	149
Losses from the translation of the financial statements in foreign currencies	50	40
Losses from the disposal of property, plant and equipment and divestitures	27	98
Oil and gas exploration expenses	227	268
Expenses from additions to allowances for doubtful trade receivables	44	66
Other	584	505
	<b>2,500</b>	<b>1,756</b>

**Restructuring measures** in 2008 related primarily to expenses for shutdowns and restructuring at several sites in Europe, North America and Asia, in particular in the Intermediates and Coatings divisions. In 2007, expenses related chiefly to impairment losses on property, plant and equipment and integration costs.

**Amortization of intangible assets and depreciation of property, plant and equipment** in 2008 related among other things to impairment losses in the Coatings, Care Chemicals divisions and in the Styrenics business.

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.

→ More information can be found in Note 5 on page 180

**Expenses from foreign currency and hedging transactions** related to foreign currency transactions, the measurement of receivables and payables in foreign currencies, currency derivatives as well as other hedging transactions with market values.

**Other expenses** were incurred as a result of write off of obsolete inventory in 2008 of €116 million (2007: €91 million). In addition, there were losses resulting from numerous other items.

## 7 -- FINANCIAL RESULT

Million €	2008	2007
<b>Income from companies accounted for using the equity method</b>	<b>(66)</b>	<b>57</b>
Income from participations in affiliated and associated companies	60	43
Income from the disposal of participations	5	11
Income from profit transfer agreements	7	3
Income from tax allocation to participating interests	2	1
<b>Other income from participations</b>	<b>74</b>	<b>58</b>
Losses from loss transfer agreements	(2)	(23)
Write-down of/losses from the sales of participations	(80)	(8)
<b>Other expenses from participations</b>	<b>(82)</b>	<b>(31)</b>
Interest income from cash and cash equivalents	124	118
Interest and dividend income from securities and loans	50	24
<b>Interest income</b>	<b>174</b>	<b>142</b>
<b>Interest expenses</b>	<b>(601)</b>	<b>(614)</b>
Write-ups/profits from the sale of securities and loans	—	9
Expected income from pension assets and similar assets	677	662
Expected income from plan assets from other long-term employee obligations	27	11
Income from the capitalization of construction interest	43	44
Miscellaneous financial income	25	—
<b>Other financial income</b>	<b>772</b>	<b>726</b>
Write-downs/losses from the disposal of securities and loans	(20)	(13)
Compounding of pension obligations and other similar obligations	(655)	(615)
Expenses from other long-term employee obligations	(48)	(32)
Compounding of other long-term personnel provisions	(35)	(36)
Miscellaneous financial expenses	—	(23)
<b>Other financial expenses</b>	<b>(758)</b>	<b>(719)</b>
<b>Financial result</b>	<b>(487)</b>	<b>(381)</b>

The negative result from companies accounted for using the equity method results primarily from losses on loan commitments in U.S. dollar and euro at OAO Severneftegazprom due to the depreciation of the Russian Ruble.

Interest income and expenses relate to expenses and income from interest-bearing liabilities and financial investments, including dividend income on securities. In addition, these items take into account the ongoing interest expenses and income from interest rate and currency swaps with banks. The interest result increased compared with the previous year primarily due to interest income from loans to finance the natural gas production company in the Yuzhno Russkoye natural gas field. This company is accounted for using the equity method. In addition, the lower interest rate level in the United States led to a decline in interest expenses.

Miscellaneous financial income and miscellaneous financial expenses relate to gains and losses from the translation of individual hedged financing-related receivables and payables and the associated hedging instruments. Furthermore, these items included, among other things, expense and income from the compounding/discounting of long-term liabilities and receivables as required by IFRS.

## 8 -- INCOME TAXES

Million €	2008	2007
German corporate income tax, solidarity surcharge, German trade taxes	377	341
Foreign income tax	2,781	2,355
Taxes for prior years	(208)	(86)
<b>Current taxes</b>	<b>2,950</b>	<b>2,610</b>
Deferred tax expense (+)/income (-)	(279)	.
<b>Income taxes</b>	<b>2,671</b>	<b>2,610</b>
Thereof income taxes on oil-producing operations	2,206	1,768
Other taxes as well as sales and consumption taxes	269	245
<b>Tax expense</b>	<b>2,940</b>	<b>2,855</b>

Income before taxes and minority interests is broken down into domestic and foreign as follows:

Million €	2008	2007
Germany	1,870	1,759
Foreign oil production branches of German companies	2,389	1,895
Foreign	1,717	3,281
	<b>5,976</b>	<b>6,935</b>

In Germany, a uniform corporate tax rate of 15% (until 2007: 25%) 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. In 2008, the weighted average tax rate amounted to 12.7% (2007: 15.4%). The profits of foreign Group companies are assessed using the tax rates applicable in the respective countries.

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.

For German Group companies, deferred taxes were calculated using a uniform 29% rate. The transition to this tax rate as a result of the German Tax Reform 2008 led to non-recurring non-cash income of €229 million in 2007.

For foreign Group companies, deferred taxes were calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 27% in 2008 and 30% in 2007. In 2008, there was €61 million in non-recurring, non-cash income from changes in tax rates, predominantly in the Russian Federation.

Income from deferred taxes of €279 million resulted in particular for tax loss carryforwards.

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 following table. In 2008, non-compensable foreign income taxes for oil production amounted to €1,851 million. This is based on a corporate income tax rate of 15%.

Other taxes include real estate taxes and other comparable taxes in the amount of €80 million in 2008 and €77 million in 2007; they are allocated to the appropriate functional costs.

Changes in valuation allowances on deferred tax assets for tax loss carryforwards resulted in charges of €34 million in 2008 and €23 million in 2007.

#### Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2008		2007	
	Million €	%	Million €	%
Expected German corporate income tax (15%; 2007: 25%)	896	15.0	1,734	25.0
Solidarity surcharge	9	0.1	9	0.1
German trade income tax	202	3.4	107	1.5
Foreign tax-rate differential	200	3.3	158	2.3
Tax exempt income	(142)	(2.4)	(338)	(4.9)
Non-deductible expenses	135	2.3	74	1.1
Income after taxes of companies accounted for using the equity method	10	0.2	(14)	(0.2)
Taxes for prior years	(208)	(3.5)	(86)	(1.2)
Income taxes on oil-producing operations non-compensable with German corporate income tax	1,851	31.0	1,302	18.8
Deferred tax liabilities for planned dividend distributions of Group companies	(50)	(0.8)	31	0.4
Adjustment to deferred tax liabilities due to changes in tax rates	(61) <sup>1</sup>	(1.0)	(229) <sup>2</sup>	(3.3)
Other	(171)	(2.9)	(140)	(2.0)
<b>Income taxes/effective tax rates</b>	<b>2,671</b>	<b>44.7</b>	<b>2,610</b>	<b>37.6</b>

<sup>1</sup> Non-cash income from the reduction in corporate income taxes, primarily in the Russian Federation

<sup>2</sup> Non-cash income from the German Tax Reform 2008

#### Deferred tax assets and liabilities (million €)

	Deferred tax assets		Deferred tax liabilities	
	2008	2007	2008	2007
Intangible assets	37	27	1,448	1,374
Property, plant and equipment	191	146	1,534	1,358
Financial assets	18	9	66	113
Inventories and accounts receivable	276	163	776	271
Provisions for pensions	698	484	258	102
Other provisions and liabilities	541	661	110	54
Tax loss carryforwards	928	637	–	–
Other	499	62	81	216
Netting	(2,106)	(1,428)	(2,106)	(1,428)
Valuation allowances for deferred tax assets	(152)	(82)	–	–
Thereof for tax loss carryforwards	(112)	(78)	–	–
<b>Total</b>	<b>930</b>	<b>679</b>	<b>2,167</b>	<b>2,060</b>
Thereof short term	305	445	247	260

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.

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 €6,305 million in 2008 and €4,986 million in 2007 were not recognized, as they are either not subject to taxation on pay out or they are expected to be reinvested for indefinite periods of time.

The regional distribution of tax loss carryforwards is as follows:

#### Tax loss carryforwards (million €)

	2008	2007
Germany	8	34
Foreign	2,507	1,583
	<b>2,515</b>	<b>1,617</b>

German tax losses may be carried forward indefinitely. Foreign tax loss carryforwards exist primarily in North America. These expire starting in 2022. In 2008, tax loss carryforwards increased. Loss carryforwards in North America were reduced in 2007 and 2006 as a result of high earnings. For tax loss carryforwards of €361 million in 2008 and €196 million in 2007, 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 €)

	2008	2007
Tax provisions	257	347
Tax liabilities	603	534
	<b>860</b>	<b>881</b>

## 9 -- MINORITY INTERESTS

Million €	2008	2007
Minority interests in profits	434	275
Minority interests in losses	41	15
	<b>393</b>	<b>260</b>

Minority interest in profits resulted chiefly from Group companies engaged in natural gas trading and from Gazprom's stake in a German Wintershall subsidiary which holds production and exploration rights in Libya.

Minority interests in losses related primarily to BASF Plant Science GmbH, Ludwigshafen, Germany.

→ More information on minority interests in consolidated companies can be found in Note 19 on page 200

## 10 -- OTHER INFORMATION

### Additional information related to the Consolidated Statements of Cash Flows

Cash provided by operating activities includes the following cash flows:

Million €	2008	2007
Income tax payments	3,322	2,432
Interest payments	466	502
Dividends received	68	57

### 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. It is also published on the internet at:

→ [basf.com/cg\\_reports](http://basf.com/cg_reports)

### Statement of compliance according to Section 161 of the German Stock Corporation Act

The annual 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 on December 3, 2008, and is published on the internet at:

→ [basf.com/governance\\_e](http://basf.com/governance_e)

### Personnel costs and number of employees

On December 31, 2008, the number of employees was 96,924 and on December 31, 2007, 95,175.

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 95,885 in 2008 and 94,893 in 2007.

Personnel costs decreased by 4.3% from €6,648 million in 2007 to €6,364 million in 2008 due to the reversal of provisions for the BASF option program that resulted from decreased obligations under these options. Furthermore, there were lower expenses for variable compensation as the return on assets was below the previous year's level.

#### Personnel costs (million €)

	2008	2007
Wages and salaries	5,158	5,379
Social security contributions and expenses for pensions and assistance	1,206	1,269
Thereof for pension benefits	310	359
	<b>6,364</b>	<b>6,648</b>

#### Average number of employees

	Consolidated companies		Proportionally consolidated companies		BASF Group	
	2008	2007	2008	2007	2008	2007
Europe	61,042	60,754	440	428	61,482	61,182
Thereof Germany	46,902	46,738	22	24	46,924	46,762
North America	14,992	15,088	452	454	15,444	15,542
Asia Pacific	12,446	12,080	1,906	1,814	14,352	13,894
South America, Africa, Middle East	6,006	5,623	–	–	6,006	5,623
<b>BASF Group</b>	<b>94,486</b>	<b>93,545</b>	<b>2,798</b>	<b>2,696</b>	<b>97,284</b>	<b>96,241</b>
Thereof with trainee contracts	1,907	1,936	2	3	1,909	1,939
employees with limited-term contracts	2,337	2,268	31	37	2,368	2,305



## 11 -- INTANGIBLE ASSETS

## Development 2008 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Internally generated intangible assets	Other rights and values <sup>1</sup>	Goodwill	Total
<b>Acquisition costs</b>							
Balance as of January 1, 2008	3,472	1,165	1,651	135	789	4,305	11,517
Changes in scope of consolidation	(1)	.	—	.	1	5	5
Additions	29	327	19	17	53	380	825
Disposals	(17)	(9)	(47)	(22)	(25)	(16)	(136)
Transfers	2	23	(3)	1	177	34	234
Exchange differences	(119)	12	12	2	16	40	(37)
Balance as of December 31, 2008	3,366	1,518	1,632	133	1,011	4,748	12,408
<b>Amortization</b>							
Balance as of January 1, 2008	459	417	545	80	457	—	1,958
Changes in scope of consolidation	.	.	.	.	.	—	.
Additions	214	82	139	22	145	16	618
Disposals	(17)	(7)	(48)	(21)	(24)	(16)	(133)
Transfers	.	20	.	.	21	—	41
Exchange differences	12	7	5	1	10	—	35
Balance as of December 31, 2008	668	519	641	82	609	—	2,519
<b>Net carrying amount as of December 31, 2008</b>	<b>2,698</b>	<b>999</b>	<b>991</b>	<b>51</b>	<b>402</b>	<b>4,748</b>	<b>9,889</b>

<sup>1</sup> Including licenses on such rights and values

Additions of €303 million for exploration licenses for the British and Norwegian North Sea resulted from the acquisition of Revus Energy ASA and its preliminary purchase price allocation in 2008.

In 2008, impairments of €37 were taken. Disposals of goodwill related, among other things, to impairment charges of €9 million as part of the restructuring of the Styrenics business. Impairments are reported under other operating expenses.

Concessions for oil and gas production with a net carrying amount of €362 million in 2008 and €62 million in 2007 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 assets held for sale as intangible assets.

→ More information on the reclassification of the disposal group can be found in Note 2 from page 170 onward

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 2008.

**Development 2007 (million €)**

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Internally generated intangible assets	Other rights and values <sup>1</sup>	Goodwill	<b>Total</b>
<b>Acquisition costs</b>							
Balance as of January 1, 2007	1,835	1,212	1,684	215	964	4,713	10,623
Changes in scope of consolidation	6	–	2	–	2	6	16
Additions	1,773	6	6	20	45	11	1,861
Disposals	(10)	(2)	(28)	(95)	(68)	(91)	(294)
Transfers	1	(25)	34	.	(108)	31	(67)
Exchange differences	(133)	(26)	(47)	(5)	(46)	(365)	(622)
Balance as of December 31, 2007	3,472	1,165	1,651	135	789	4,305	11,517
<b>Amortization</b>							
Balance as of January 1, 2007	297	377	427	150	451	–	1,702
Changes in scope of consolidation	.	.	1	–	1	–	2
Additions	178	83	143	26	120	65	615
Disposals	(7)	(2)	(28)	(94)	(62)	(65)	(258)
Transfers	7	(28)	7	–	(31)	–	(45)
Exchange differences	(16)	(13)	(5)	(2)	(22)	–	(58)
Balance as of December 31, 2007	459	417	545	80	457	–	1,958
<b>Net carrying amount as of December 31, 2007</b>	<b>3,013</b>	<b>748</b>	<b>1,106</b>	<b>55</b>	<b>332</b>	<b>4,305</b>	<b>9,559</b>

<sup>1</sup> Including licenses on such rights and values

Additions in 2007 resulted primarily from the asset swap with Gazprom and the associated intangible assets from the marketing contract for the natural gas from the Yuzhno Russkoye gas field.

Impairment losses of €84 million in 2007 related to goodwill and various intangible assets. These were reported under other operating expenses.

There were no material write-ups.

## 12 -- PROPERTY, PLANT AND EQUIPMENT

## Development 2008 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
<b>Acquisition costs</b>					
Balance as of January 1, 2008	7,212	34,277	2,694	1,574	45,757
Changes in scope of consolidation	4	(8)	4	21	21
Additions	58	986	114	1,651	2,809
Disposals	(106)	(858)	(95)	(60)	(1,119)
Transfers	208	2,228	73	(1,318)	1,191
Exchange differences	94	354	27	13	488
Balance as of December 31, 2008	7,470	36,979	2,817	1,881	49,147
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2008	4,213	25,136	2,177	16	31,542
Changes in scope of consolidation	1	(8)	2	—	(5)
Additions	255	2,064	161	1	2,481
Disposals	(78)	(808)	(88)	(11)	(985)
Transfers	1	787	51	.	839
Exchange differences	35	186	22	—	243
Balance as of December 31, 2008	4,427	27,357	2,325	6	34,115
<b>Net carrying amount as of December 31, 2008</b>	<b>3,043</b>	<b>9,622</b>	<b>492</b>	<b>1,875</b>	<b>15,032</b>

Additions to property, plant and equipment in 2008 arose from a number of investments. The material ones included: the expansion of the synthesis gas plants and the construction of a plant to produce cyclododecanon at the Ludwigshafen site; the construction of a plant to produce resins in Wyandotte, Michigan, the expansion of a polyol plant in Geismar, Louisiana, the construction of the HPPO plant and the plants for acrylic acid and superabsorbents in Antwerp, Belgium; and the construction of the Nord Stream gas pipeline. Furthermore, the acquisition of Revus Energy ASA and its purchase price allocation resulted in additions to property, plant and equipment of €350 million. The amounts recorded under transfers resulted from the reclassification of the property, plant and equipment of the Styrenics business from assets held for sale.

→ More information on the reclassification of the disposal group can be found in Note 2 from page 170 onward

In 2008, impairments of €254 million were taken. Impairment charges of €112 million were recognized in connection with the restructuring of the Styrenics business, primarily at the sites in Mexico and South Korea. Further material impairments related to the butan diol plant at our site in Kuantan, Malaysia, and the continued restructuring of the coatings business in North America, Asia and Europe.

**Development 2007** (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
<b>Acquisition costs</b>					
Balance as of January 1, 2007	7,444	34,827	2,762	1,598	46,631
Changes in scope of consolidation	6	8	2	2	18
Additions	79	962	114	1,409	2,564
Disposals	(115)	(703)	(156)	(32)	(1,006)
Transfers	(11)	144	31	(1,351)	(1,187)
Exchange differences	(191)	(960)	(60)	(51)	(1,263)
Balance as of December 31, 2007	7,212	34,277	2,694	1,574	45,757
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2007	4,222	25,268	2,237	3	31,729
Changes in scope of consolidation	3	2	2	–	6
Additions	208	1,900	170	16	2,294
Disposals	(74)	(673)	(143)	–	(890)
Transfers	(58)	(761)	(38)	(3)	(860)
Exchange differences	(87)	(600)	(50)	–	(737)
Balance as of December 31, 2007	4,213	25,136	2,177	16	31,542
<b>Net carrying amount as of December 31, 2007</b>	<b>2,999</b>	<b>9,141</b>	<b>517</b>	<b>1,558</b>	<b>14,215</b>

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 €78 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 classification of property, plant and equipment to 'assets of disposal groups'.

→ Further information on disposal groups is found in Note 2 from page 170 onward

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.

### 13 -- INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER FINANCIAL ASSETS

#### Development 2008 (million €)

	Investments accounted for using the equity method	Investments in affiliated companies	Investments in associated companies	Shares in other participations	Long-term securities
<b>Acquisition cost</b>					
Balance as of January 1, 2008	890	327	68	904	29
Changes in scope of consolidation	(13)	(10)	-	-	-
Additions	450	58	22	350	2
Disposals	(96)	(51)	(9)	(6)	(2)
Transfers/Changes in market value	(81)	9	2	(9)	(2)
Exchange differences	46	2	1	1	2
Balance as of December 31, 2008	1,196	335	84	1,240	29
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2008	56	92	7	31	1
Changes in scope of consolidation	-	(2)	-	-	-
Additions	50	14	2	2	1
Disposals	(56)	-	(6)	-	-
Transfers	-	-	-	-	-
Exchange differences	-	-	-	-	-
Balance as of December 31, 2008	50	104	3	33	2
<b>Net carrying amount as of December 31, 2008</b>	<b>1,146</b>	<b>231</b>	<b>81</b>	<b>1,207</b>	<b>27</b>

#### Development 2008 (million €)

	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans	Other financial assets	Investments accounted for using the equity method and other financial assets Total Acquisition cost
<b>Acquisition cost</b>					
Balance as of January 1, 2008	135	694	54	2,211	3,101
Changes in scope of consolidation	-	-	-	(10)	(23)
Additions	6	31	4	473	923
Disposals	(3)	(374)	(5)	(450)	(546)
Transfers/Changes in market value	-	-	(2)	(2)	(83)
Exchange differences	-	3	(4)	5	51
Balance as of December 31, 2008	138	354	47	2,227	3,423
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2008	121	3	4	259	315
Changes in scope of consolidation	-	-	-	(2)	(2)
Additions	5	5	2	31	81
Disposals	-	-	-	(6)	(62)
Transfers	-	-	(2)	(2)	(2)
Exchange differences	-	-	-	-	-
Balance as of December 31, 2008	126	8	4	280	330
<b>Net carrying amount as of December 31, 2008</b>	<b>12</b>	<b>346</b>	<b>43</b>	<b>1,947</b>	<b>3,093</b>

**Development 2007 (million €)**

	Investments accounted for using the equity method	Investments in affi- liated companies	Investments in associated companies	Shares in other participations	Long-term securities
<b>Acquisition cost</b>					
Balance as of January 1, 2007	706	361	62	563	43
Changes in scope of consolidation	(5)	6	–	–	–
Additions	174	3	11	5	.
Disposals	(1)	(38)	(1)	(2)	(11)
Transfers/Changes in market value	52	.	(2)	340	.
Exchange differences	(36)	(5)	(2)	(1)	(3)
Balance as of December 31, 2007	890	327	68	904	29
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2007	56	89	9	31	1
Changes in scope of consolidation	–	(1)	–	–	–
Additions	–	6	1	1	.
Disposals	–	(5)	.	(1)	–
Transfers	–	3	(3)	.	–
Exchange differences	–	.	–	–	–
Balance as of December 31, 2007	56	92	7	31	1
<b>Net carrying amount as of December 31, 2007</b>	<b>834</b>	<b>235</b>	<b>61</b>	<b>873</b>	<b>28</b>

**Development 2007 (million €)**

	Loans to affiliated companies	Loans to associ- ated companies and participating interests	Other loans	Other financial assets	Investments accounted for using the equity method and other financial assets Total Acquisition cost
<b>Acquisition cost</b>					
Balance as of January 1, 2007	132	202	59	1,421	2,127
Changes in scope of consolidation	.	–	–	6	1
Additions	11	518	15	562	737
Disposals	(9)	(16)	(9)	(85)	(86)
Transfers/Changes in market value	1	(1)	(8)	330	381
Exchange differences	.	(9)	(2)	(23)	(58)
Balance as of December 31, 2007	135	694	54	2,211	3,101
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2007	92	4	3	231	286
Changes in scope of consolidation	–	–	–	(1)	(1)
Additions	28	1	1	38	38
Disposals	–	(2)	–	(8)	(8)
Transfers	–	–	.	.	.
Exchange differences	–	.	–	(1)	(1)
Balance as of December 31, 2007	121	3	4	259	315
<b>Net carrying amount as of December 31, 2007</b>	<b>14</b>	<b>691</b>	<b>50</b>	<b>1,952</b>	<b>2,786</b>

In 2008, the additions to investments accounted for using the equity method resulted primarily from the capital injections in Nord Stream AG and OAO Severneftegazprom. In 2007, the additions to investments accounted for using the equity method were primarily due to the purchase of a stake in OAO Severneftegazprom and the increase in the share capital of Nord Stream AG.

The shares in other participations and long-term securities are recognized at fair value. Additions in 2008 resulted from the acquisition of the 15.2% stake in Ciba Holding AG for €344 million. The amounts recorded under transfers resulted primarily from the measurement at fair value of our stakes in K+S AG and Ciba Holding AG.

Investments contain impairments of €68 million in 2008, chiefly as a result of our 42% stake in N.E. Chemcat Corporation. Due to impairments of other participations and long-term securities, impairment losses of €8 million

were charged to income in 2007. The disposal of other investments resulted in a loss of €7 million in 2008 and a gain of €11 million in 2007.

The disposals of loans to associated companies and participating interests resulted from the partial repayment of the loan to OAO Severneftegazprom granted in 2007. This company is accounted for using the equity method. 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 on the balance sheet date are summarized below:

#### Market values of available for sale securities (million €)

	2008			2007		
	Original acquisition cost	Book/market value	Recognized in other comprehensive income	Original acquisition cost	Book/market value	Recognized in other comprehensive income
Shares in funds	29	25	(2)	29	26	(2)
Shares in other participations and securities	561	1,209	652	209	874	673
	<b>590</b>	<b>1,234</b>	<b>650</b>	<b>238</b>	<b>901</b>	<b>671</b>

## 14 -- INVENTORIES

Million €	2008	2007
Raw materials and factory supplies	1,769	1,800
Work-in-process, finished goods and merchandise	4,924	4,708
Advance payments and services-in-process	70	70
	<b>6,763</b>	<b>6,578</b>

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.

Price declines in the second half of 2008 led to an increase in the allowances for raw materials, intermediates and end products. Overall, impairment losses on inventory amounted to €159 million in 2008 and €16 million in 2007. Of the total inventory, €1,343 million in 2008 and €1,444 million in 2007 was valued at net realizable value.

Reversals of impairment losses are made if the reasons for the impairment no longer apply. Reversals amounted to €5 million in 2008 and €4 million in 2007.

Inventories were valued using the weighted-average cost method.



## 15 -- RECEIVABLES AND MISCELLANEOUS ASSETS

### Other receivables and miscellaneous assets (million €)

	2008		2007	
		Thereof short-term		Thereof short-term
Receivables from affiliated companies	326	324	284	284
Prepaid expenses	217	195	197	167
Defined benefit assets	165	–	417	–
Receivables from associated companies and other participating interests	215	190	196	191
Tax refund claims	648	536	488	419
Loans and interest receivables	90	90	3	3
Derivatives with positive fair values	1,192	1,172	233	229
Employee receivables	25	16	43	34
Rents and deposits	58	28	51	24
Insurance claims	24	22	25	25
Receivables from joint venture partners	28	28	87	70
Precious metal trading positions	540	540	601	601
Other	1,062	807	367	290
	<b>4,590</b>	<b>3,948</b>	<b>2,992</b>	<b>2,337</b>

Prepaid expenses include prepayments for operating expenses of €31 million in 2008 and €14 million in 2007 as well as prepayments for insurance premiums of €28 million in 2008 and €25 million in 2007.

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, precious metal trading positions contained derivatives with a positive fair value of €188 million in 2008 (2007: €16 million). Forward contracts made up the bulk of these.

On December 31, 2008, market values of derivatives concluded to hedge currency fluctuations and rising raw material prices were higher than the previous year's level. On the other hand, there were derivatives with negative fair values contained in other liabilities. Margin calls for publicly-traded and over the counter commodity derivatives amounting to €486 million and prepayments for precious metal trading transactions are contained in Other.

The prepaid expenses amounted to €5 million in 2008 and €3 million in 2007.

### Valuation allowances for doubtful receivables (million €)

	Balance as of January 1, 2008	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2008
Accounts receivable, trade	364	71	74	15	70	306
Other receivables	31	1	3	–	4	25
	<b>395</b>	<b>72</b>	<b>77</b>	<b>15</b>	<b>74</b>	<b>331</b>

**Valuation allowances for doubtful receivables (million €)**

	Balance 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	58	69	57	35	364
Other receivables	43	8	14	2	8	31
	<b>396</b>	<b>66</b>	<b>83</b>	<b>59</b>	<b>43</b>	<b>395</b>

Reversals affecting income were due primarily to the reversal of allowances for doubtful receivables resulting from the repayment of written down receivables in the Agricultural Solutions segment.

A significant portion of receivables is covered by credit insurance.

The reversals not affecting income related primarily to changes in the scope of consolidation, translation adjustments and write-offs of uncollectible receivables.

Even in the current economic conditions, we did not note any material changes in the credit quality of our receivables. In 2008, after being individually assessed for impairment, valuation allowances of €58 million were established for trade accounts receivable (reversals €68 million) and

€1 million for miscellaneous receivables (reversals €3 million). In 2007, after being individually assessed for impairment, valuation allowances of €51 million were established for trade accounts receivable (reversals €37 million) and €8 million for miscellaneous receivables (reversals €14 million). Receivables did not need to be re-negotiated to any major extent in 2007 and 2008 as contractual conditions did not change.

Overdue trade accounts receivables which have not been individually assessed for impairment, but which were included in credit insurance policies, amounted to €378 million on December 31, 2008 (€659 million on December 31, 2007).

Contingent assets amounted to €216 million in 2008.

**Aged list of trade accounts receivable (million €)**

	<b>2008</b>	2007
Not yet due	<b>6,807</b>	7,658
Less than 30 days	<b>615</b>	593
Between 30 and 89 days	<b>215</b>	176
More than 90 days	<b>115</b>	134
	<b>7,752</b>	<b>8,561</b>

**Aged list of other receivables (million €)**

	<b>2008</b>	2007
Not yet due	<b>1,538</b>	790
Less than 30 days	<b>188</b>	209
Between 30 and 89 days	<b>80</b>	8
More than 90 days	<b>21</b>	49
	<b>1,827</b>	<b>1,056</b>

## 16 -- MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS

Cash and cash equivalents of €2,776 million in 2008 and €767 million in 2007 consisted primarily of cash on hand and bank balances.

In addition, on the balance sheet date marketable securities of €35 million in 2008 (2007: €51 million) were held.

### Marketable short-term securities (million €)

	2008		2007	
	Original acquisition cost	Book/market value	Original acquisition cost	Book/market value
Fixed-term, interest-bearing certificates	5	5	15	16
Shares	27	29	36	33
Other securities	1	1	2	2
	<b>33</b>	<b>35</b>	<b>53</b>	<b>51</b>

The sale of marketable securities in 2008 resulted in proceeds of €13 million and a profit of €0.1 million. In 2007,

the sale of marketable securities resulted in proceeds of €28 million and a profit of €6 million.

### Maturities of fixed-term securities (million €)

	2008		2007	
	Original acquisition cost	Book/market value	Original acquisition cost	Book/market value
Less than 1 year	1	1	7	7
Between 1 and 5 years	–	–	3	4
More than 5 years	5	5	5	5
	<b>6</b>	<b>6</b>	<b>15</b>	<b>16</b>

## 17 -- CAPITAL AND RESERVES

On April 24, 2008, the Annual Meeting of BASF resolved a two-for-one stock split. Shareholders received one additional share for each BASF share held at no additional cost. The adjustment of the securities deposit accounts and the stock exchange listing took place on June 27, 2008. All shares are qualifying for 2008. BASF's shares are no-par-value shares. All figures have been adjusted accordingly.

In 2008, a total of 37,891,306 shares were repurchased for cancellation. Of these 4,649,873 shares had not been cancelled as of December 31, 2008, but were deducted from capital. A total of 57,841,433 shares were cancelled in 2008. Thereof were included 24,600,000 shares that were acquired for the purpose of cancellation in 2007. The subscribed capital of BASF was reduced by the resulting attributable amount of €74 million (57,841,433 shares).

**Subscribed capital** (million €)

	Number of shares	Subscribed capital
Outstanding shares as of December 31, 2007	490,485,000	1,256
Shares cancelled until June 27, 2008	(17,470,000)	(45)
Outstanding shares before the stock split	473,015,000	1,211
Issuance of new shares as part of the stock split	473,015,000	—
<b>Outstanding shares as of June 27, 2008</b>	<b>946,030,000</b>	<b>1,211</b>
Cancelled shares until December 31, 2008	(22,901,433)	(29)
<b>Outstanding shares as of December 31, 2008</b>	<b>923,128,567</b>	<b>1,182</b>
Repurchased shares intended to be cancelled	(4,649,873)	(6)
<b>Outstanding shares as disclosed in the financial statements</b>	<b>918,478,694</b>	<b>1,176</b>

**Share buyback/Own shares**

The Board of Executive Directors received approval at the Annual Meeting on April 24, 2008, to buy back BASF shares to a maximum amount of 10% of subscribed capital by October 23, 2009. 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 validity of the prior authorization to repurchase BASF shares granted by the Annual Meeting on April 26, 2007.

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, unless, 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 2008, a total of 37,891,306 shares, or 3.86% of the issued shares, were acquired under the respective approvals. The average purchase price was €42.70 per share. As of the balance sheet date, 4,649,873 shares of BASF stock were held by BASF. They were purchased for cancellation and are deducted from subscribed capital.

BASF spent a total of €1,618 million on the share buy-back program in 2008. €48 million thereof was expensed through the reduction of subscribed capital and €1,570 million through the reduction of other retained earnings. Retained earnings were also reduced by €74 million due to the reclassification of computed nominal value of the own shares cancelled in 2008 to capital surplus. Of this amount, €31 million related to shares purchased for cancellation in the previous year.

In 2007, 42,990,000 shares, or 4.29% of the issued shares, were acquired. The average purchase price was €44.18 per share.

**Conditional capital**

A residual amount of less than €10,000 is reserved to meet compensation claims of former shareholders of Wintershall. These compensation claims expired in July 2004. BASF SE will therefore issue no more shares from conditional capital nor fulfill compensation claims.

**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 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 shares at par value.

### Capital structure management

The goal of capital structure management is to maintain the financial flexibility needed to continually develop our business portfolio and take advantage of strategic opportunities. The objectives of our financing policy are to ensure liquidity, limit financial risks and optimize capital costs by means of an appropriate capital structure. The capital structure is orientated to the needs of the operational business and the company's strategic direction.

Capital structure management at BASF is in line with the definition of stockholders' equity. We plan and control the capital structure of BASF using selected financial ratios, within the framework of our financial management. The stockholders' equity as reported on the balance sheet amounted to €18,722 million as of December 31, 2008 (December 31, 2007: €20,098 million). The equity ratio amounted to 36.8% on December 31, 2008 (December 31, 2007: 42.9%).

## 18 -- RETAINED EARNINGS AND OTHER COMPREHENSIVE INCOME

Million €	2008	2007
Legal reserves	420	354
Other retained earnings	12,830	14,201
	<b>13,250</b>	<b>14,556</b>

Changes in the scope of consolidation led to no changes in the legal reserves in 2008. In 2007, there was an increase of €3 million. Transfers from other retained earnings increased legal reserves by €66 million in 2008 and €40 million in 2007.

The acquisition of stakes in companies which BASF controls are treated as transactions between shareholders. In 2008, minority interests were acquired in BASF India Ltd., Mumbai, India, BASF Construction Chemicals Central Asia LLP, Almati, Kazakhstan, and OOO BASF Stroitelnye Sistemy, Moscow, the Russian Federation. In addition, a 40% stake in Svalöf Weibull AB, Svalöv, Sweden (which had been accounted for using the equity method), was swapped with Svenska Lantmännen for the 15% stake in BASF Plant Science GmbH, Ludwigshafen. The amount resulting from the difference between the acquisition price/ value of the shares given and the proportionate value of the net assets received of €105 million was netted against retained earnings.

In 2007, the effect of applying the fair value option to the asset swap with Gazprom resulted in an excess of €634 million which was recognized in retained earnings.

The offsetting of actuarial gains and losses resulted in a decrease in retained earnings of €637 million in 2008 and €92 million in 2007.

### 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 on takeover. In 2007, there was an effect from the revaluation following the purchase of the remaining 50% stake in BASF GE Schwarzeide GmbH & Co. KG of €12 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	2008		2007	
		Equity stake (%)	Million €	Equity stake (%)	Million €
WINGAS GmbH & Co. KG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	362	49.98	269
Wintershall AG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.00	177	49.00	152
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochemical Corp. Ltd., Nanjing, China	40.00	41	40.00	44
BASF India Ltd., Mumbai, India	Shares are publicly traded	28.82	25	47.31	32
BASF PETRONAS Chemicals Sdn. Bhd., Subang Jaya, Malaysia	PETRONAS (Petroleum Nasional Bhd.), Kuala Lumpur, Malaysia	40.00	145	40.00	152
BASF Sonatrach PropanChem S.A., Tarragona, Spain	SONATRACH, Algier, Algeria	49.00	60	49.00	57
BASF Fina Petrochemicals L.P., Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.00	161	40.00	147
Shanghai BASF Polyurethane Company, Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China, and Sinopec Shanghai Gao Qiao Petrochemical Corporation, Shanghai, China	30.00	90	30.00	64
Other			90		54
			<b>1,151</b>		<b>971</b>

## 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. BASF SE will ensure the necessary contributions to adequately finance the benefits promised by BASF Pensionskasse VVaG. In mid-2004, the defined benefit plan of BASF Pensionskasse VVaG was closed for new hired

employees and a new defined contribution plan was introduced. Additional occupational pension commitments at German Group companies are financed almost exclusively via pension provisions.

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 in %)

	Germany		Foreign	
	2008	2007	2008	2007
Discount rate	6.00	5.25	5.84	5.82
Projected increase of wages and salaries	2.75	2.75	4.37	4.50
Projected pension increase	2.00	2.00	0.57	0.68

**Assumptions used to determine expenses for pension plans**  
(weighted average in %)

	Germany		Foreign	
	2008	2007	2008	2007
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
Expected return on plan assets	5.18	4.93	7.20	7.35

The assumptions used to ascertain the defined benefit obligation as of December 31, are used in the following year to determine the expenses for pension plans.

Similar obligations refer to commitments by BASF 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 6.0% in 2008 (2007: 6.25%).

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 2008, 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	
	2009	2008	2007
Shares	29	22	30
Bonds	60	66	60
Property	4	4	3
Other	7	8	7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>



**Development of defined benefit obligation (million €)**

	2008	2007
Defined benefit obligation as of January 1	11,914	12,693
Service cost	243	270
Interest cost	630	588
Benefits paid	(637)	(660)
Participants' contributions	40	41
Actuarial gains	(874)	(722)
Settlements and other plan changes	42	.
Exchange differences	12	(296)
<b>Defined benefit obligation as of December 31</b>	<b>11,370</b>	<b>11,914</b>

**Development of plan assets (million €)**

	2008	2007
Plan assets as of January 1	12,012	12,079
Expected return on plan assets	675	660
Actuarial losses	(2,159)	(119)
Employer contributions	119	131
Participants' contributions	40	41
Benefits paid	(443)	(516)
Other changes	58	6
Exchange differences	11	(270)
<b>Plan assets as of December 31</b>	<b>10,313</b>	<b>12,012</b>

On December 31, 2008, plan assets contained securities issued by BASF Group companies with a market value of €10 million (December 31, 2007: €16 million). The market value of the properties of legally independent pension funds rented to BASF Group companies amounted to €51 million both on December 31, 2008 and 2007.

No material transactions took place between the legally independent pension funds and BASF Group companies in 2008.

**Reconciliation of funded status to provisions for pensions and similar obligations (million €)**

	2008	2007
Plan assets as of December 31	10,313	12,012
Less defined benefit obligation as of December 31	11,370	11,914
<b>Funded status of pension plans</b>	<b>(1,057)</b>	<b>98</b>
Unrecognized past service cost	.	.
Asset ceiling in accordance with IAS 19.58	(34)	(538)
Provisions for similar obligations	(456)	(436)
<b>Net obligation recognized on the balance sheet</b>	<b>(1,547)</b>	<b>(876)</b>
Thereof defined benefit assets	165	417
Thereof provisions for pensions	(1,256)	(857)
Thereof provisions for similar obligations	(456)	(436)

The change in the asset ceiling is primarily attributable to the reduction in the funded status at BASF Pensionskasse VVaG. 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. Actuarial losses of €1,285 million in 2008 and actuarial gains of €583 million in 2007 were recognized in retained earnings. Since the introduction of this accounting policy, a total actuarial loss of €1,983 million has been charged against retained earnings, not taking deferred taxes into account.

**Current funding situation of the plans** (million €)

	2008		2007	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Unfunded pension plans	611	—	643	—
Partially funded pension plans	2,803	2,158	2,495	2,340
<b>Total of pension plans that are not fully funded</b>	<b>3,414</b>	<b>2,158</b>	<b>3,138</b>	<b>2,340</b>
Fully funded pension plans	7,956	8,155	8,776	9,672
	<b>11,370</b>	<b>10,313</b>	<b>11,914</b>	<b>12,012</b>

**Deviation between actuarial assumptions and the actual development** (million €)

	2008	2007	2006	2005	2004
Defined benefit obligation	11,370	11,914	12,693	11,908	9,814
Thereof impact of experience adjustments	36	(138)	(59)	20	23
Plan assets	10,313	12,012	12,079	11,015	6,204
Thereof impact of experience adjustments	(2,159)	(119)	159	438	193
<b>Funded status</b>	<b>(1,057)</b>	<b>98</b>	<b>(615)</b>	<b>(892)</b>	<b>(3,610)</b>

**Expected payments resulting from pension obligations existing as of December 31, 2008** (million €)

2009	628
2010	678
2011	689
2012	696
2013	736
2014 through 2018	4,241

**Composition of expenses for pension plans** (million €)

	2008	2007
Service cost	243	270
Amortization of past service cost	.	8
Settlement gains	(23)	(3)
Expenses for similar obligations	4	6
<b>Expenses for defined benefit plans charged to income from operations</b>	<b>224</b>	<b>281</b>
Interest cost	630	588
Expected return on plan assets	(675)	(660)
Expenses for similar obligations	23	25
<b>Income from defined benefit plans in the financial result</b>	<b>(22)</b>	<b>(47)</b>
<b>Expenses for defined contribution plans charged to income from operations</b>	<b>86</b>	<b>78</b>
<b>Expenses for pension plans</b>	<b>310</b>	<b>312</b>

In 2008, contributions to public pension plans were €392 million (2007: €364 million).

The estimated contribution payments for defined benefit plans for 2009 are €126 million.

**21 -- OTHER PROVISIONS**

Million €

	2008		2007	
	Total	Thereof short-term	Total	Thereof short-term
Recultivation obligations	796	1	703	4
Environmental protection and remediation costs	377	132	255	31
Personnel costs	1,369	947	1,756	1,091
Sales and purchase risks	1,282	1,264	1,033	997
Restructuring measures	105	83	79	62
Legal, damage claims, guarantees and related commitments	164	83	156	81
Other	1,707	533	1,730	431
	<b>5,800</b>	<b>3,043</b>	<b>5,712</b>	<b>2,697</b>

**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 increase in short-term provisions for environmental protection resulted chiefly from the allocation of emission certificates from the German Emissions Trading Authority or other similar bodies in the European Union.

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 reduction in the personnel cost provision is primarily due to lower provisions for the BASF option program and variable compensation.

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.

The increase resulted from restructuring measures in 2008, primarily for severance payments.

Provisions for **legal, damage claims, guarantees and related commitments** include the expected costs of litigation, obligations under damage claims, other guarantees and antitrust proceedings.

**Others** include long-term tax provisions. The reversal in 2008 was justified by the reassessment of provisions for previous years.

**Other changes** relate primarily to currency effects and the transfer to liabilities of obligations that have become more concrete as to the amount and timing. In addition, changes in the scope of consolidation led to an increase in provisions.

#### Development of other provisions in 2008 (million €)

	January 1, 2008	Additions	Interest compounding	Utilization	Reversals	Other changes	Dec. 31, 2008
Recultivation obligations	703	58	11	(19)	(20)	63	796
Environmental protection and remediation costs	255	191	2	(61)	(13)	3	377
Personnel costs	1,756	828	25	(979)	(214)	(47)	1,369
Sales and purchase risks	1,033	1,541	1	(1,232)	(117)	56	1,282
Restructuring measures	79	85	–	(25)	(28)	(6)	105
Legal, damage claims, guarantees and related commitments	156	33	5	(10)	(14)	(6)	164
Other	1,730	518	3	(376)	(179)	11	1,707
	<b>5,712</b>	<b>3,254</b>	<b>47</b>	<b>(2,702)</b>	<b>(585)</b>	<b>74</b>	<b>5,800</b>

## 22 -- LIABILITIES

## Financial indebtedness (million €)

	Nominal volume	Effective interest rate	Carrying amounts based on effective interest method	
			2008	2007
3.5% Euro Bond 2003/2010 of BASF SE	1,000	3.63%	998	997
3.375% Euro Bond 2005/2012 of BASF SE	1,400	3.42%	1,398	1,397
4% Euro Bond 2006/2011 of BASF SE	1,000	4.05%	999	999
4.5% Euro Bond 2006/2016 of BASF SE	500	4.62%	496	496
3 Month EURIBOR Bond 2006/2009 of BASF SE	500	variable	500	500
3.25% CHF Bond 2008/2011 of BASF Finance Europe N.V.	300	3.39%	201	—
3.625% CHF Bond 2008/2015 of BASF Finance Europe N.V.	200	3.77%	134	—
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	1,000	5.09%	996	996
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	250	4.83%	252	253
6% Euro Bond 2008/2013 of BASF Finance Europe N.V.	1,250	6.15%	1,242	—
USD Extendible Floating Rate Notes of BASF Finance Europe N.V.		4.51%	330	917
Other bonds			621	548
USD Commercial Papers	6,140		4,406	1,878
<b>Bonds and other liabilities to the capital markets</b>			<b>12,573</b>	<b>8,981</b>
Liabilities to credit institutions			1,941	1,121
			<b>14,514</b>	<b>10,102</b>

## Breakdown of financial liabilities by currency (million €)

	2008	2007
Euro	7,876	5,741
U.S. dollar	5,598	3,855
Chinese renminbi	436	355
Swiss franc	335	—
Brazilian real	67	76
Norwegian krone	54	—
Turkish lira	39	12
Other	109	63
	<b>14,514</b>	<b>10,102</b>

## Maturities of financial liabilities (million €)

	2008	2007
Following year 1	6,224	3,148
Following year 2	1,027	609
Following year 3	1,401	1,334
Following year 4	1,418	1,019
Following year 5	1,999	1,589
Following year 6 and thereafter	2,445	2,403
	<b>14,514</b>	<b>10,102</b>

## Bonds and other liabilities to the capital markets

Other bonds consist primarily of bonds from BASF Catalyst LLC and industrial revenue and pollution control bonds from the BASF Corporation Group that are used to finance investments in the United States. The weighted-average interest rate was 3.1% in 2008 (2007: 3.8%). The weighted-average effective interest rate was 3.1% in 2008 (2007: 3.9%). The average residual term amounted to 189 months as of December 31, 2008, and 205 months as of December 31, 2007.

## 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 renminbi and Turkish lira resulted from the local financing of investments in China and Turkey.

BASF SE had committed and unused credit lines with variable interest rates of €6,668 million as of December 31, 2008, and €4,076 million as of December 31, 2007.

Additional uncommitted credit lines of BASF SE amounted to €90 million as of December 31, 2008, and €227 million as of December 31, 2007 – these are free of any commitment fees. The weighted-average interest rate on borrowings was 5.3% in 2008 (2007: 6.2%).

### Other liabilities

The increase in other liabilities in 2008 related primarily to the negative fair value of derivatives, concluded to hedge currency fluctuations and rising raw material prices. On the other hand, there are derivatives with positive fair values in other receivables.

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 €242 million in 2008 and €173 million in 2007. Further other liabilities relating to associated companies accounted for using the equity or cost method were €224 million in 2008 and €221 million in 2007. In addition, other liabilities contained precious metal derivatives with a negative fair value of €39 million as of the balance sheet date 2008.

→ More information on financial risks and derivative financial instruments is available in Note 26 from page 212 onward

→ More information on finance lease payables is available in Note 27 from page 218 onward

### Other liabilities (million €)

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Advances received on orders	116	–	111	–
Liabilities on bills	11	27	11	5
Liabilities related to social security	151	16	148	17
Non-trade liabilities to joint venture partners	334	344	269	457
Derivative instruments	1,414	1	88	3
Liabilities arising from finance leases	15	65	23	73
Miscellaneous liabilities	1,255	301	1,191	184
Deferred income	138	163	135	162
	<b>3,434</b>	<b>917</b>	<b>1,976</b>	<b>901</b>

### Secured liabilities (million €)

	2008	2007
Liabilities to credit institutions	35	9
Miscellaneous liabilities	504	15
	<b>539</b>	<b>24</b>

On December 31, 2008, material margins had to be provided for derivatives with negative fair values. Derivatives with negative fair values are reported under other liabilities

in the balance sheet. Liabilities to credit institutions are secured primarily with registered land charges. There are no secured contingent liabilities.

## 23 -- CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The contingencies listed below are stated at nominal value:

### Contingent liabilities (million €)

	2008	2007
Bills of exchange	4	13
Thereof to affiliated companies	—	—
Guarantees	788	374
Thereof to affiliated companies	62	60
Warranties	84	68
Granting collateral on behalf of third-party liabilities	18	20
	<b>894</b>	<b>475</b>

The increase in liabilities from guarantees is due to the financial guarantee given in 2008 for the financing of OAO Severneftegazprom.

### Other financial obligations (million €)

	2008	2007
Construction in progress	4,753	4,974
Thereof purchase commitments	803	983
Thereof for the purchase of intangible assets	99	24
Obligation arising from long-term leases (excluding financing leases)	1,449	1,272
Payment and loan commitments and other financial obligations	1,803	7
	<b>8,005</b>	<b>6,253</b>

Payment and loan commitments and other financial obligations in 2008 of €1,797 million are related to the purchase of shares in Ciba Holding AG as part of the public tender for that company.

→ More information is available in Note 2 from page 170 onward

### Property, plant and equipment used under long-term leases

Property, plant and equipment used under long-term leases primarily concern buildings and IT infrastructure.

→ More information can be found in Note 27 from page 218 onward

### Obligations from long-term rental and lease contracts (excluding financing leases) (million €)

2009	280
2010	199
2011	160
2012	136
2013	118
2014 and thereafter	556
	<b>1,449</b>



#### Purchase obligations from long-term natural gas and raw material supply contracts

The Company has entered into long-term purchase contracts for natural gas in the Natural Gas Trading business sector, which are subject to continual price adjustments. These purchase obligations relate to long-term supply contracts with customers with terms between one and twenty years. The increase in purchase commitments compared with 2007 was due primarily to contract extensions and higher expected purchasing costs.

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, 2008, are as follows:

#### Purchase obligations from natural gas and raw material supply contracts (million €)

2009	11,999
2010	8,324
2011	7,780
2012	7,467
2013	6,777
2014 and thereafter	111,385
	153,733

## 24 -- RISKS FROM LITIGATION AND CLAIMS

Since 2005, several class action lawsuits, among others, against BASF SE and BASF Corporation have been filed at U.S. courts. It was alleged that sales of TDI, MDI and polyether polyols had violated antitrust laws on price fixing. BASF is defending itself against these lawsuits. At the end of 2007, the U.S. Department of Justice ceased an inquiry on alleged price fixing.

BASF Corporation, Bayer Corporation and Bayer CropScience 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 US\$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. A decision on the appeal has not been made.

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 2008, 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. 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 €45.21 on April 25, 2008 (base price after the stock split).

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 Index<sup>SM</sup> (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, 2008, and may be exercised following a two-year vesting period, between July 1, 2010, and June 30, 2016. 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 to 2007 were structured in a similar way to BOP 2008.

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 the 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 parameters used <sup>1</sup>

		BASF option program of the year	
		2008	2007
Fair value	€	7.19	20.50
Dividend yield	%	7.03	2.96
Risk-free interest rate	%	2.92	4.33
Volatility BASF shares	%	24.61	21.67
Volatility MSCI Chemicals	%	18.91	15.44
Correlation BASF share price: MSCI Chemicals	%	84.80	83.27

<sup>1</sup> It is assumed that the options will be exercised based upon the potential gains.

The fair values and the valuation parameters relate to the option programs 2008 and 2007. For the option programs from preceding years, corresponding fair values were computed and valuation parameters were used.

The number of options granted amounted to 2,859,472 in 2008 and 3,080,808 <sup>1</sup> in 2007.

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 settle options in cash, options outstanding as of December 31, 2008, from the BOP 2001 to 2008 were valued with the fair value as of the balance sheet date as of December 31, 2008. This amount is accrued as a provision over the respective vesting period. This provision declined due to lower fair values from €239 million as of December 31, 2007, to €80 million as of December 31, 2008. The reversal of the provision led to income of €112 million, which reduces personnel costs. The utilization of provisions amounted to €47 million. In 2007, personnel costs from the BASF option program amounted to €235 million.

The total intrinsic value of exercisable options amounted to €47 million as of December 31, 2008, and €141 million as of December 31, 2007.

<sup>1</sup> The number of options were adjusted retroactively for the two-for-one stock split conducted in the second quarter of 2008.

### 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 ten BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and ten years of holding the BASF shares. The first ten 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		
	2008	2007 <sup>2</sup>
As of January 1	2,899,824	2,846,564
Newly acquired entitlements	681,770	607,300
Bonus shares issued	(429,284)	(403,960)
Lapsed entitlements	(98,206)	(150,080)
<b>As of December 31</b>	<b>3,054,104</b>	<b>2,899,824</b>

<sup>2</sup> The number of free shares to be granted were adjusted retroactively for the two-for-one stock split conducted in the second quarter of 2008.

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 €34.71 for the 2008 program and €36.57 for the 2007 program.

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 to 2002 programs continue to be accrued proportionally on the basis of the BASF closing stock price.

Personnel costs of €9 million were recorded in 2008 for the employee stock program (2007: €19 million).

## 26 -- Financial risks and derivative financial instruments

### Market risks

**Foreign currency risks:** 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. Companies whose functional currency is not the euro can be exposed to foreign currency risks arising from the euro.

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. This sensitivity of these instruments amounted to €(244) million on December 31, 2008 (December 31, 2007: €(29) million).

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 exposure (million €)

	2008	2007
U.S. dollar	(40)	(120)
Swiss franc	1,948	.
Pound sterling	91	39
Euro	158	(3)
Other	85	251
	<b>2,242</b>	<b>167</b>

**Interest rate risks:** 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 to the financing activities of BASF, however, they are not of material significance for BASF's operating activities.

An increase in all relevant interest rates by one percentage point on December 31, 2007 and 2008, would have lowered income before taxes and minority interests by €43 million. The sensitivity of stockholders' equity to changes in interest rates is not material.

#### Carrying amount of non-derivative interest-bearing financial instruments (million €)

	2008		2007	
	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
Loans	98	303	628	127
Securities	6	26	16	4
Financial indebtedness	11,940	2,574	8,055	2,047

**Nominal and fair value of interest rate and combined interest and cross currency swaps (million €)**

	2008		2007	
	Nominal value	Fair value	Nominal value	Fair value
<b>Interest rate swaps</b>	<b>150</b>	<b>(3)</b>	<b>296</b>	<b>(11)</b>
Thereof payer swaps	150	(3)	166	(10)
Thereof receiver swaps	–	–	130	(1)
<b>Combined interest and cross currency swaps</b>	<b>384</b>	<b>31</b>	<b>63</b>	<b>(5)</b>
Thereof fixed rate	326	27	18	–
Thereof variable rate	58	4	45	(5)

**Equity price risks:** 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 €84 million on December 31, 2008 (December 31, 2007: €78 million), before taking income taxes into consideration.

**Commodity price risks:** Some of 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 precious 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 segment 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 precious metal producers. It also buys precious metals on spot markets from a variety of business partners. The price risk from precious 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 precious metals. In addition, the Catalysts division also holds limited

unhedged precious 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 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 precious 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.

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 derivatives (million €)**

	2008		2007	
	Exposure	Value at Risk	Exposure	Value at Risk
Crude oil, oil products and natural gas	230	49	72	5
Precious metals	20	1	40	1
Swaps on CO <sub>2</sub> emissions certificates	10	1	19	1
	<b>260</b>	<b>51</b>	<b>131</b>	<b>7</b>

The exposure 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" from page 112 onward.

Swaps in which various types of CO<sub>2</sub> certificates are swapped are entered into in connection with CO<sub>2</sub> emissions trading. The goal of these transactions is to exploit market price differences. These deals are settled by physical delivery.

**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 carrying amount of all receivables, loans and interest-bearing securities plus the nominal value of contingent liabilities excluding potential warranty obligations represents the maximum default risk.

→ More information on credit risks can be found in Note 15 from page 195 onward

**Liquidity risks**

We promptly recognize any risks from cash flow fluctuations as part of the liquidity planning. We have ready access to sufficient liquid funds from our ongoing commercial paper program and confirmed lines of credit from banks. Despite the current financial crisis, the commercial paper market for BASF continues to be liquid due to our good rating.

**Maturities of contractual cash flows from financial liabilities 2008 (million €)**

	Bonds and other liabilities to the capital markets	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities
2009	5,691	943	1,497	1,012
2010	1,318	186	19	75
2011	1,501	201	2	31
2012	1,631	104	—	33
2013	1,531	619	—	31
2014 and thereafter	2,580	77	—	313
	<b>14,252</b>	<b>2,130</b>	<b>1,518</b>	<b>1,495</b>

#### 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	2,781	689	83	1,411
2009	845	96	7	161
2010	1,560	89	1	39
2011	1,195	88	18	45
2012	1,555	82	—	30
2013 and thereafter	2,696	247	2	370
	<b>10,632</b>	<b>1,291</b>	<b>111</b>	<b>2,056</b>

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 therefore 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 €1,049 million on December 31, 2008 (December 31, 2007: €708 million). They are included in the item 'shares in other participations'.

→ More information can be found in Note 13 from page 192 onward

The carrying amount of financial indebtedness amounted to €14,514 million on December 31, 2008 (December 31, 2007: €10,102 million). The fair value of financial indebtedness amounted to €14,822 million at the end of 2008 (end of 2007: €10,020 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 €)

	2008	2007
Financial assets at fair value through profit or loss	1,380	249
Financial liabilities at fair value through profit or loss	1,333	124
Derivatives designated as hedging instruments under cash flow hedge accounting	(121)	—
Loans and receivables	9,956	10,372
Cash and cash equivalents	2,776	767
Available-for-sale financial assets	1,581	1,248
Liabilities measured at amortized cost	19,600	16,044
Thereof financial indebtedness	14,514	10,102



**Net gains and losses from financial instruments** (million €)

	2008	2007
Receivables and loans	201	(814)
Thereof interest result	138	131
Available-for-sale financial assets	(15)	43
Thereof interest result	1	2
Liabilities measured at amortized cost	(911)	58
Thereof interest result	(523)	(508)
Financial instruments at fair value through profit or loss	746	472

Net gains and losses of financial instruments comprise the results of valuations, the amortization of discounts, the recognition and derecognition of impairment losses, results from the translation of foreign currencies as well as 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 and losses from 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 measured 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 154.

**The use of derivative financial 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 from the underlying transactions and the derivatives are constantly monitored. 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, risk positions are centralized at BASF SE and certain Group companies. Contracting and execution of derivative financial instruments for hedging purposes is conducted according to internal guidelines, and are subject to strict control mechanisms.

**Derivative instruments** (million €)

	2008	2007
Foreign currency forward contracts	183	111
Currency options	133	63
<b>Foreign currency derivatives</b>	<b>316</b>	<b>174</b>
Interest rate swaps	(3)	(11)
Combined interest and cross currency swaps	31	(5)
<b>Interest derivatives</b>	<b>28</b>	<b>(16)</b>
<b>Commodity derivatives</b>	<b>(418)</b>	<b>(33)</b>
Thereof designated hedging instrument as defined by IAS 39 (Hedge Accounting)	(121)	–

**Hedge Accounting**

In 2008 and 2007, some of the planned purchases of naphtha were hedged using swaps and options on oil and oil products. Some of these hedges were shown in the Consolidated Financial Statements of the BASF Group by means of cash flow Hedge Accounting, where gains and losses from hedges were recognized directly in equity. Gains and losses from hedges are included in cost of sales at the point in time in which the hedged item is recognized in the statement of income.

In 2008, cash flow hedge accounting was applied in the Natural Gas Trading business sector for swaps on crude oil concluded to hedge price risks from purchase contracts for natural gas. The purchase contracts have variable prices and the price formula is coupled to the oil price.

The majority of the planned transactions and their effect on earnings occur in the year following the balance sheet date. A small part relates to 2010 and 2011. In 2008, €(183) million (2007: €97 million) in effective changes in the fair value of hedging instruments were recognized in stockholders' equity of the shareholders' of BASF SE. In 2008, €(12) million was derecognized from stockholders' equity of the shareholders of BASF SE and recorded as income in cost of sales (2007: €(15) million). The ineffective part in the change in value of the hedge was €(33) million in 2008 (2007: €7 million). This amount was recorded in the income statement in cost of sales.

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 cash flow 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. Over the maturity of the bond, the changes in fair value of interest rate swaps recognized in stockholders' equity are reclassified proportionally from stockholders' equity to the income statement. In both 2008 and 2007, €(8) million was derecognized from stockholders' equity of the shareholders' of BASF SE and recorded as interest income.

## 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 €)

	2008		2007	
	Acquisition cost	Net book value	Acquisition cost	Net book value
Land, land rights and buildings	20	13	26	18
Machinery and technical equipment	223	96	226	118
Miscellaneous equipment and fixtures	73	18	71	20
Advance payments and construction in progress	—	—	—	—
	<b>316</b>	<b>127</b>	<b>323</b>	<b>156</b>

#### Liabilities from finance leases (million €)

	2008			2007		
	Minimum lease payments	Interest portion	Leasing liability	Minimum lease payments	Interest portion	Leasing liability
Following year 1	20	5	15	29	6	23
Following year 2	20	5	14	19	5	13
Following year 3	22	5	18	18	5	13
Following year 4	11	2	9	21	5	16
Following year 5	7	2	4	10	3	8
Over 5 years	29	10	20	35	12	23
	<b>108</b>	<b>29</b>	<b>80</b>	<b>132</b>	<b>36</b>	<b>96</b>

In the current business year and in 2007, no additional lease payments arising from contractual obligations were recognized in income above the minimum lease payments.

In 2008, leasing liabilities were not offset by any expected minimum lease payments from sub-leases.

In addition, BASF is a lessee under operating lease contracts. The resulting lease obligations totaling €1,449 million in 2008 and €1,272 million in 2007 are due in the following years:

#### Commitments due to operating lease contracts (million €)

	Nominal value of the future minimum payments	
	December 31, 2008	December 31, 2007
Less than 1 year	280	292
1–5 years	613	505
Over 5 years	556	475
	<b>1,449</b>	<b>1,272</b>

In 2008, commitments due to operating lease contracts of less than one year contained leases of precious metals of €35 million (2007: €93 million). These metals were immediately leased to third parties. Offsetting the other leasing commitments are expected minimum lease payments from sub-leases of €11 million in 2008 (2007: €12 million).

Minimum lease payments of €269 million (2007: €242 million), no conditional lease payments (2007: €0.3 million), and payments received from subleases of €4 million (2007: €4 million) were included in income from operations in 2008.

#### BASF as lessor

BASF acts as both a lessee and a lessor under finance leases. BASF acts as a lessor for finance leases in a minor capacity only. Receivables on finance leases were €17 million in 2008 and of €1 million in 2007. In 2008, nominal minimum payments arising from operating leases amount to €42 million within one year, and €19 million within the next five years. For 2007, these figures amounted to €101 million within one year, and €23 million within the next five years.

In 2008, precious metal accounts of €505 million (2007: €598 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 €	2008	2007
Performance-related and fixed payments to the Board of Executive Directors	18.6	22.0
Market value of options granted to the Board of Executive Directors in the fiscal year on date of grant	3.7	6.0
<b>Total compensation for the Board of Executive Directors</b>	<b>22.3</b>	<b>28.0</b>
Service cost of the Board of Executive Directors	4.3	4.5
Compensation for the Supervisory Board	2.9	4.2
Total compensation for former members of the Board of Executive Directors and their surviving dependents	6.0	7.1
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	83.4	76.9
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 the Board of Executive Directors is based on the return on assets, which corresponds to earnings before taxes plus borrowing costs as a percentage of average assets.

Moreover, in 2008, the members of the Board of Executive Directors were granted 286,800 options under the BASF option program (BOP).

Option rights of active and former members of the Board of Executive Directors resulted in income from the reversal of provisions of €9.5 million. In 2007, the option rights resulted in personnel costs of €29.7 million.

→ More information on the compensation of members of the Board of Executive Directors can be found from page 138 onward

→ More information on the members of the Supervisory Board and Board of Executive Directors, including their memberships on other boards can be found from page 133 onward

## 29 -- RELATED PARTY TRANSACTIONS

IAS 24 "Related Party Disclosures" requires the disclosure of transactions with related parties; both with related companies that are not fully consolidated, as well as with related 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 €1,402 million in 2008 (2007: €726 million).

In addition, there are material supply relationships with Ellba C.V., the Netherlands, and Ellba Eastern Private Ltd., Singapore. The unconsolidated portion of these supplies amounted to €493 million in 2008 and €446 million in 2007.

There were no reportable related party transactions with members of the Board of Executive Directors or the Supervisory Board.

BASF has not issued loans to members of the Board of Executive Directors or the Supervisory Board.

→ More information on receivables and payables with companies accounted for proportionally, at acquisition cost or according to the equity method can be found in Note 15 from page 195 onward and Note 22 from page 206 onward

## 30 -- SERVICES PROVIDED BY THE EXTERNAL AUDITOR

BASF Group companies have used the following services from KPMG:

Million €	2008	2007
Annual audit	19.8	19.1
Thereof domestic	6.3	6.2
Audit-related services	0.4	0.4
Thereof domestic	0.2	0.1
Tax consultation services	.	0.1
Thereof domestic	–	–
Other services	0.3	0.4
Thereof domestic	0.3	0.3
	<b>20.5</b>	<b>20.0</b>

Of this amount, €7.8 million in 2008 and €6.6 million in 2007 related to fees for annual audits paid to KPMG AG Wirtschaftsprüfungsgesellschaft (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) and its affiliated companies. As of October 1, 2008, the KPMG companies in Germany, Spain and Great Britain merged. The KPMG

companies in Germany and Great Britain had already merged as of October 1, 2007.

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.

## THEO BERGERS

as a project manager helped to build a radio control system for gas production platforms.

\* through radio control and monitoring of North Sea platforms



**€2.6** MILLION

SAVINGS IN  
GAS PRODUCTION 2008\*



## VALUE FOR BASF

### Economic production of natural gas



In one of the most modern control centers in the world, the BASF subsidiary Wintershall operates gas production platforms in the Dutch North Sea.

#### Natural gas production by satellite

The Center for Remote Controlled Operations (RCO) in Den Helder, the Netherlands, contributes to the economic use of small and medium-sized deposits. The remote controlled operations result in savings of €2.6 million annually, among other things, in helicopter logistics. In this way, the RCO team contributes to the economically effective development of offshore reserves, while at the same time significantly improving BASF's competitiveness as a natural gas operator. The project won BASF's Innovation Award 2008.

## VALUE FOR SOCIETY

### Conserving resources



The F16 is one of 18 offshore platforms that Wintershall monitors by radio.

#### Safeguarding supplies through RCO

The radio monitoring system RCO supports our Gas for Europe strategy, with which we are helping to meet Europe's increasing natural gas needs. Our strategy makes a contribution to ensuring energy supplies for the future. Natural gas is the fossil fuel with the least amount of specific CO<sub>2</sub> emissions.



# 05

## SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

Supplementary Information on  
Oil and Gas Producing Activities \_\_\_\_\_ 222

# SUPPLEMENTARY INFORMATION ON 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 disclosure 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, the stake in the Yuzhno Russkoye project is reported under Russia/Caspian Sea region. 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 or values from the Achimgaz project.

The regions include the following countries with operational activities:

- **Russia/Caspian Sea region:**  
Russia, Turkmenistan
- **Rest of Europe:**  
Denmark, the United Kingdom, the Netherlands, Norway, Romania
- **North Africa/Middle East:**  
Dubai (until 2007), Qatar, Libya, Mauritania, Oman (since 2008)
- **South America:**  
Argentina, Chile (since 2008)

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, 2008 and 2007, 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.

## 2008

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Proved developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)</b>	<b>63</b>	<b>1</b>	<b>11</b>	<b>270</b>	<b>45</b>	<b>390</b>
Revisions und other changes	–	–	2	60	(1)	61
Extensions and discoveries	–	–	–	–	–	–
Purchase/ sale of reserves	–	12	–	–	–	12
Production	8	1	1	44	5	59
<b>Proved reserves as of December 31</b>	<b>55</b>	<b>12</b>	<b>12</b>	<b>286</b>	<b>39</b>	<b>404</b>
Minority interests	–	–	–	133	–	133
<b>Proved reserves after minority interests</b>	<b>55</b>	<b>12</b>	<b>12</b>	<b>153</b>	<b>39</b>	<b>271</b>
Thereof at equity companies	–	–	12	–	–	12
<b>Proved reserves after minority interests and at equity companies</b>	<b>55</b>	<b>12</b>	<b>–</b>	<b>153</b>	<b>39</b>	<b>259</b>
Minority interests in production	–	–	–	21	–	21
Proved developed reserves as of December 31	40	7	12	282	32	373

## 2008

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Proved developed and undeveloped gas reserves as of January 1, Billion Standard Cubic Feet (BSCF) <sup>1</sup></b>	<b>365</b>	<b>170</b>	<b>3,239</b>	<b>194</b>	<b>1,337</b>	<b>5,305</b>
Revisions und other changes	(11)	16	375	25	63	468
Extensions and discoveries	–	24	–	–	–	24
Purchase/ sale of reserves	–	(4)	–	–	–	(4)
Production	41	62	182	27	119	431
<b>Proved reserves as of December 31</b>	<b>313</b>	<b>144</b>	<b>3,432</b>	<b>192</b>	<b>1,281</b>	<b>5,362</b>
Minority interests	–	–	–	94	–	94
<b>Proved reserves after minority interests</b>	<b>313</b>	<b>144</b>	<b>3,432</b>	<b>98</b>	<b>1,281</b>	<b>5,268</b>
Thereof at equity companies	–	–	3,432	–	–	3,432
<b>Proved reserves after minority interests and at equity companies</b>	<b>313</b>	<b>144</b>	<b>–</b>	<b>98</b>	<b>1,281</b>	<b>1,836</b>
Minority interests in production	–	–	–	13	–	13
Proved developed reserves as of December 31	308	126	2,512	190	1,007	4,143

<sup>1</sup> The natural gas volumes can be converted with the factor 6 BSCF per MMBOE (Million Barrel Oil Equivalent).

## 2007

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Proved developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)</b>	<b>68</b>	<b>2</b>	<b>12</b>	<b>306</b>	<b>54</b>	<b>442</b>
Revisions und other changes	4	–	1	8	(4)	9
Extensions and discoveries	–	–	–	3	–	3
Purchase/ sale of reserves	–	–	–	–	–	–
Production	9	1	2	47	5	64
<b>Proved reserves as of December 31</b>	<b>63</b>	<b>1</b>	<b>11</b>	<b>270</b>	<b>45</b>	<b>390</b>
Minority interests	–	–	–	126	–	126
<b>Proved reserves after minority interests</b>	<b>63</b>	<b>1</b>	<b>11</b>	<b>144</b>	<b>45</b>	<b>264</b>
Thereof at equity companies	–	–	11	–	–	11
<b>Proved reserves after minority interests and at equity companies</b>	<b>63</b>	<b>1</b>	<b>–</b>	<b>144</b>	<b>45</b>	<b>253</b>
Minority interests in production	–	–	–	2	–	2
Proved developed reserves as of December 31	44	1	11	265	37	358

## 2007

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Proved developed and undeveloped gas reserves as of January 1, Billion Standard Cubic Feet (BSCF) <sup>1</sup></b>	<b>376</b>	<b>214</b>	<b>–</b>	<b>232</b>	<b>1,408</b>	<b>2,230</b>
Revisions und other changes	34	32	–	(14)	55	107
Extensions and discoveries	–	2	–	4	–	6
Purchase/ sale of reserves	–	(1)	3,254	–	–	3,253
Production	45	77	15	28	126	291
<b>Proved reserves as of December 31</b>	<b>365</b>	<b>170</b>	<b>3,239</b>	<b>194</b>	<b>1,337</b>	<b>5,305</b>
Minority interests	–	–	–	95	–	95
<b>Proved reserves after minority interests</b>	<b>365</b>	<b>170</b>	<b>3,239</b>	<b>99</b>	<b>1,337</b>	<b>5,210</b>
Thereof at equity companies	–	–	3,239	–	–	3,239
<b>Proved reserves after minority interests and at equity companies</b>	<b>365</b>	<b>170</b>	<b>–</b>	<b>99</b>	<b>1,337</b>	<b>1,971</b>
Minority interests in production	–	–	–	1	–	1
Proved developed reserves as of December 31	332	170	1,275	190	956	2,923

<sup>1</sup> 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 financing costs (such as interest expenses) or corporate overheads and do not correspond

to the contributions to the Oil & Gas segment. The differences in sales compared to the segment reporting results from sales for merchandise and services. Estimated income taxes were computed by applying the statutory income tax rates to the pretax income from producing activities.

2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Sales crude oil (incl. condensate and LPG)	460	39	62	2,753	145	3,459
Sales natural gas	300	452	456	8	147	1,363
Local duties (royalties, export etc.)	129	5	53	136	80	403
<b>Total sales (net of duties)</b>	<b>631</b>	<b>486</b>	<b>465</b>	<b>2,625</b>	<b>212</b>	<b>4,419</b>
Production costs	97	82	25	158	63	425
Exploration expenses	12	134	27	44	12	229
Depreciation, amortization and impairment	59	111	55	57	37	319
Other	(4)	9	20	19	4	48
<b>Operating income before taxes</b>	<b>467</b>	<b>150</b>	<b>338</b>	<b>2,347</b>	<b>96</b>	<b>3,398</b>
Income taxes	136	51	92	2,203	23	2,505
<b>Operating income after taxes</b>	<b>331</b>	<b>99</b>	<b>246</b>	<b>144</b>	<b>73</b>	<b>893</b>
Minority interests	–	–	–	87	–	87
<b>Operating income after taxes and minority interests</b>	<b>331</b>	<b>99</b>	<b>246</b>	<b>57</b>	<b>73</b>	<b>806</b>
Thereof at equity companies	–	–	78	–	–	78
<b>Operating income after taxes, minority interests and at equity companies</b>	<b>331</b>	<b>99</b>	<b>168</b>	<b>57</b>	<b>73</b>	<b>728</b>

2007 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Sales crude oil (incl. condensate and LPG)	400	28	60	2,365	142	2,995
Sales natural gas	265	419	26	9	128	847
Local duties (royalties, export etc.)	102	6	27	152	54	341
<b>Total sales (net of duties)</b>	<b>563</b>	<b>441</b>	<b>59</b>	<b>2,222</b>	<b>216</b>	<b>3,501</b>
Production costs	94	88	15	171	65	433
Exploration expenses	13	150	42	62	9	276
Depreciation, amortization and impairment	67	126	5	56	39	293
Other	23	(1)	2	(6)	(33)	(15)
<b>Operating income before taxes</b>	<b>366</b>	<b>78</b>	<b>(5)</b>	<b>1,939</b>	<b>136</b>	<b>2,514</b>
Income taxes	131	15	(3)	1,759	31	1,933
<b>Operating income after taxes</b>	<b>235</b>	<b>63</b>	<b>(2)</b>	<b>180</b>	<b>105</b>	<b>581</b>
Minority interests	–	–	–	6	–	6
<b>Operating income after taxes and minority interests</b>	<b>235</b>	<b>63</b>	<b>(2)</b>	<b>174</b>	<b>105</b>	<b>575</b>
Thereof at equity companies	–	–	12	–	–	12
<b>Operating income after taxes, minority interests and at equity companies</b>	<b>235</b>	<b>63</b>	<b>(14)</b>	<b>174</b>	<b>105</b>	<b>563</b>

### 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.

#### 2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Acquisitions	–	559	–	–	–	559
Exploration	15	113	24	75	12	239
Development	75	33	50	89	40	287
<b>Total net costs</b>	<b>90</b>	<b>705</b>	<b>74</b>	<b>164</b>	<b>52</b>	<b>1,085</b>

#### 2007 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Acquisitions	–	–	1,448	–	–	1,448
Exploration	17	115	22	70	6	230
Development	57	57	532 <sup>1</sup>	73	41	760
<b>Total net costs</b>	<b>74</b>	<b>172</b>	<b>2,002</b>	<b>143</b>	<b>47</b>	<b>2,438</b>

<sup>1</sup> Includes BASF shares in the financing of the investments made by SNG

### 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.

#### 2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proved properties	575	689	2,082	1,247	891	5,484
Unproved properties	19	748	7	5	–	779
Other equipment	602	559	4	39	–	1,204
<b>Total gross costs</b>	<b>1,196</b>	<b>1,996</b>	<b>2,093</b>	<b>1,291</b>	<b>891</b>	<b>7,467</b>
Accumulated depreciation	865	1,087	64	795	573	3,384
<b>Total net costs</b>	<b>331</b>	<b>909</b>	<b>2,029</b>	<b>496</b>	<b>318</b>	<b>4,083</b>

#### 2007 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proved properties	534	430	1,993	1,120	849	4,926
Unproved properties	10	288	5	3	–	306
Other equipment	582	547	11	49	–	1,189
<b>Total gross costs</b>	<b>1,126</b>	<b>1,265</b>	<b>2,009</b>	<b>1,172</b>	<b>849</b>	<b>6,421</b>
Accumulated depreciation	817	928	74	744	534	3,097
<b>Total net costs</b>	<b>309</b>	<b>337</b>	<b>1,935</b>	<b>428</b>	<b>315</b>	<b>3,324</b>



### 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. Unsuccessful exploration wells are impaired in exploration expenses.

The following table indicates the changes to the company's capitalized exploration well-drilling costs.

#### Capitalized exploration well-drilling costs (million €) <sup>1</sup>

	2008	2007
At January 1	75.3	86.3
Additions pending determination of proved reserves	118.4	71.6
Capitalized exploratory well costs charged to expense	(60.1)	(51.0)
Reclassifications to wells, facilities and equipment	(42.5)	(31.6)
Ending balance at December 31	91.1	75.3

<sup>1</sup> 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 €) <sup>1</sup>

	2008	2007
Wells for which drilling is not complete	25.8	13.8
Wells capitalized less than one year	30.6	36.8
Wells capitalized more than one year	34.7	24.8
Total	91.1	75.3
Number of wells	13	15

<sup>1</sup> Only consolidated companies

### Standardized measure of discounted future net cash flows relating to proved oil and gas reserves (SMOG)

The following information 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.

## 2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Future revenues	2,919	1,480	8,594	6,394	2,539	21,926
Future production/development costs	1,649	762	862	2,441	1,254	6,968
Future income taxes	273	379	1,489	3,161	166	5,468
Future net cash flows	997	339	6,243	792	1,119	9,490
Discounted to present value at a 10 % annual rate	371	22	2,449	290	505	3,637
<b>Standardized measures of discounted future cash flows</b>	<b>626</b>	<b>317</b>	<b>3,794</b>	<b>502</b>	<b>614</b>	<b>5,853</b>
Minority interests	–	–	–	193	–	193
<b>Standardized measures of discounted future cash flows after minority interests</b>	<b>626</b>	<b>317</b>	<b>3,794</b>	<b>309</b>	<b>614</b>	<b>5,660</b>
Thereof at equity companies	–	–	652	–	–	652
<b>Standardized measures of discounted future cash flows after minority interests and at equity companies</b>	<b>626</b>	<b>317</b>	<b>3,142</b>	<b>309</b>	<b>614</b>	<b>5,008</b>

## 2007 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Future revenues	4,776	1,062	8,120	16,547	2,629	33,134
Future production/development costs	1,577	496	913	2,204	936	6,126
Future income taxes	850	263	1,644	12,445	222	15,424
Future net cash flows	2,349	303	5,563	1,898	1,471	11,584
Discounted to present value at a 10 % annual rate	960	8	2,248	663	655	4,534
<b>Standardized measures of discounted future cash flows</b>	<b>1,389</b>	<b>295</b>	<b>3,315</b>	<b>1,235</b>	<b>816</b>	<b>7,050</b>
Minority interests	–	–	–	410	–	410
<b>Standardized measures of discounted future cash flows after minority interests</b>	<b>1,389</b>	<b>295</b>	<b>3,315</b>	<b>825</b>	<b>816</b>	<b>6,640</b>
Thereof at equity companies	–	–	531	–	–	531
<b>Standardized measures of discounted future cash flows after minority interests and at equity companies</b>	<b>1,389</b>	<b>295</b>	<b>2,784</b>	<b>825</b>	<b>816</b>	<b>6,109</b>

## Summary of changes in standardized measure of discounted future net cash flows 2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Balance as of January 1</b>	<b>1,389</b>	<b>295</b>	<b>3,315</b>	<b>1,235</b>	<b>816</b>	<b>7,050</b>
Sales and transfers of oil and gas produced, net of production costs	(534)	(404)	(440)	(2,467)	(149)	(3,994)
Net changes in price and in development and production costs	(746)	268	162	(5,669)	(306)	(6,291)
Extension, discoveries and improved recovery, less related costs	–	105	–	–	–	105
Revisions of previous quantity estimates	50	91	98	625	131	995
Development costs incurred during the period	75	23	170	80	32	380
Changes in estimated future development costs	(96)	(7)	(3)	(254)	(63)	(423)
Purchase/sale reserves	–	6	–	–	–	6
Net change in income taxes	320	(86)	76	6,118	64	6,492
Accretion of discounts	170	26	416	832	91	1,535
Other	(2)	–	–	2	(2)	(2)
<b>Balance as of December 31</b>	<b>626</b>	<b>317</b>	<b>3,794</b>	<b>502</b>	<b>614</b>	<b>5,853</b>
Minority interests	–	–	–	193	–	193
<b>Standardized measures of discounted future cash flows (SMOG) after minority interests</b>	<b>626</b>	<b>317</b>	<b>3,794</b>	<b>309</b>	<b>614</b>	<b>5,660</b>
Thereof at equity companies	–	–	652	–	–	652
<b>Standardized measure of discounted future cash flows after minority interests and at equity companies</b>	<b>626</b>	<b>317</b>	<b>3,142</b>	<b>309</b>	<b>614</b>	<b>5,008</b>

## Summary of changes in standardized measure of discounted future net cash flows 2007 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Balance as of January 1</b>	<b>1,011</b>	<b>400</b>	<b>59</b>	<b>866</b>	<b>697</b>	<b>3,033</b>
Sales and transfers of oil and gas produced, net of production costs	(470)	(354)	(44)	(2,050)	(151)	(3,069)
Net changes in price and in development and production costs	547	(39)	95	3,890	122	4,615
Extension, discoveries and improved recovery, less related costs	–	10	–	94	–	104
Revisions of previous quantity estimates	113	145	18	172	(3)	445
Development costs incurred during the period	47	21	–	68	40	176
Changes in estimated future development costs	(21)	(3)	(2)	(39)	22	(43)
Purchase/sale reserves	–	–	3,196	–	–	3,196
Net change in income taxes	27	54	(20)	(2,375)	7	(2,307)
Accretion of discounts	136	79	8	591	80	894
Other	(1)	(18)	5	18	2	6
<b>Balance as of December 31</b>	<b>1,389</b>	<b>295</b>	<b>3,315</b>	<b>1,235</b>	<b>816</b>	<b>7,050</b>
Minority interests	–	–	–	410	–	410
<b>Standardized measures of discounted future cash flows (SMOG) after minority interests</b>	<b>1,389</b>	<b>295</b>	<b>3,315</b>	<b>825</b>	<b>816</b>	<b>6,640</b>
Thereof at equity companies	–	–	531	–	–	531
<b>Standardized measure of discounted future cash flows after minority interests and at equity companies</b>	<b>1,389</b>	<b>295</b>	<b>2,784</b>	<b>825</b>	<b>816</b>	<b>6,109</b>

# 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.

## Audits for Environment, Health and Safety

Audits are a strategic tool for managing safety and environmental protection standards. During a site or plant audit, a profile is created using clearly defined environmental, safety or health criteria.

## 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).

-- B

## Barrels of Oil Equivalent (BOE)

International standard for comparing the thermal energy of different fuels.

## BASF Plant Science

Founded in 1998, the goal of the Research and Technology Verbund with over 700 employees is to create more efficient farming, renewable resources and better nutrition. Crop design and metanomics are units in this Verbund.

## 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

## Carbon Disclosure Project

The Carbon Disclosure Project represents 385 institutional investors worldwide. The organization collects information on addressing the challenges of climate change and the strategies on climate change of the 1,550 largest corporations worldwide.

## Clean Development Mechanism

The Clean Development Mechanism (CDM) is one the flexible mechanisms for the reduction of greenhouse gas emissions as laid down in the Kyoto Protocol. In CDM, companies from industrialized or transitional countries participate in emission reducing and quality examining projects in developing and transitional countries, and in doing so acquire tradable emission vouchers.

## CMR Substances

Substances with carcinogenic (cancer causing), mutagenic (genetically altering) and reprotoxic (reproduction toxic) effects.

## CO<sub>2</sub> 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 CO<sub>2</sub> (reference value).

## CO<sub>2</sub> Scrubbing

CO<sub>2</sub> scrubbing is another name for CO<sub>2</sub> capture. After being compressed the captured, CO<sub>2</sub> is transported and stored in underground repositories.

## Compliance

Compliance is an important element of corporate governance. It refers to the company's behavior in accordance with laws, guidelines and voluntary codices.

## Concrete Additives

Concrete additives accelerate or slow the hardening of concrete in order for it to be used optimally in warm and cold climates. The additives further increase the strength of concrete and thus add to the durability of construction work.

## 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.

## 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.

## 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.

**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.

**Epoxy Resin**

Epoxy resin is a thermosetting plastic of high cohesiveness and chemical durability. Depending on temperature and amount of the hardener, the hardening of this plastic can take from a few minutes to up to several hours. A further characteristic is the high amount of cohesiveness compared to its low weight.

**EPSA**

An Exploration and Production Sharing Agreement is the prevalent type of contract between a national oil company and an international oil company in the exploration and production of hydrocarbons.

**European Water Partnership**

The European Water Partnership was founded in 2006 as an independent non-profit organization to promote sustainable water management. It serves as a discussion forum, promotes partnerships as well as the exchange of information among relevant stakeholders, and initiates and coordinates initiatives.

**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.

**Free Cash Flow**

Cash provided by operating activities less payments related to property, plant and equipment and intangible assets.

**Fungicide**

An active ingredient that kills fungi or inhibits their growth (for example in plants).

-- G

**Growth Cluster**

BASF combines the important technology-driven issues of the future in five growth clusters: energy management, raw material change, nano-technology, plant biotechnology and white biotechnology.

-- H

**Herbicide**

An active ingredient used to destroy weeds.

**HPPO**

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.

**Insecticide**

An active ingredient used to destroy harmful insects.

**International Standard in Assurance Engagements 3000 (ISAE 3000)**

ISAE 3000 is published by the International Audit and Assurance Standards Board (IAASB). It provides guidelines for comprehensive audits, which contain non-financial data, for example for the audits of sustainability reports.

**ISO 14001**

ISO 14001 is an international standard that determines the general requirements for an environmental management system for voluntary certification.

**ISO 19011**

ISO 19011 is an international standard that determines requirements for audits of quality management and environmental management systems.

-- K

**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****Materiality Matrix**

The materiality matrix identifies and evaluates societal interest as well as the potential impact of sustainability topics for BASF. The aim is to develop strategies for addressing potential new risks and opportunities at an early stage. A detailed examination of stakeholder expectations forms the basis of this analysis.

**Monitoring**

Monitoring systems and tools serve to measure and ensure the adherence to standards. The objective of monitoring is, among other things, voluntary commitments such as the adherence to human rights and internationally recognized labor standards.

**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.

**OHSAS 18001**

The Occupational Health and Safety Assessment Series (OHSAS) comprises, among other things, the standard OHSAS 18001 which includes a management system for occupational safety. This system can be integrated into an existing quality and environmental protection management system and certified accordingly.

**-- P****Payout Ratio**

The payout 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.

**Perspectives**

BASF aims to optimally align business models with customer needs and the market situation. The company initiative "perspectives" supports the BASF business units through, among other things, specific coaching and the exchange of experiences in the areas of marketing and sales.

**Photovoltaics**

Photovoltaics convert sunlight directly into electricity via solar cells. Organic photovoltaics are solar cells made of organic materials.

**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**

The Plant Health concept involves crop protection products that increase crop yield and improve quality beyond just disease and insect control.

**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.

**Responsible Care®**

A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, health and safety.

**Retention**

There are two applications for generated profits: distribution to shareholders or continuance in the company. The latter is referred to as retention.

**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****SCR Catalysts**

SCR (Selective Catalytic Reduction) is one of BASF's many solutions to meet the increasing demand of emission technologies which have arisen due the increasingly stricter regulations of diesel vehicles. The SCR catalysts are comprised of ceramic combs with an active catalyst component.

**Seed Treatment Products**

These 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.

**Stakeholder**

The term refers to 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.

**Steamcracker**

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**

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.

**Substances and Products**

BASF sells a wide range of products from its own production as well as merchandise. Products can be made of a single substance or a mixture of different substances.

**Sustainability**

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 parties 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.

**Tetrahydrofuran (THF)**

Tetrahydrofuran is a starting compound for Polytetrahydrofuran (PolyTHF®), a component for the production of elastic fibers.

**Training Verbund**

The Training Verbund is a cooperation between BASF and small to mid-size companies. The goal is to secure additional apprenticeships with partner companies in the Rhine Neckar Region.

**-- U****U.N. Millennium Development Goals**

In 2000, the member states of the United Nations adopted eight global development goals. The goals are measured by means of indicators and are to be reached by 2015. These include the fight against extreme poverty and hunger, the reduction of child mortality and environmental sustainability.

**-- V****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.

**Value-adding Chain**

Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

**-- 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 & Co. KG**

WINGAS GmbH & Co.KG is a joint venture company with our Russian partner Gazprom. At the end of 2008, 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, storage and distribution. Its customers include regional and communal gas suppliers, industrial companies and power plant operators.



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## Registered Trademarks <sup>1</sup>

**Adblue:** ...reg. trademark of the Association of the Automotive Industry  
**AgCelence:** .....reg. trademark of BASF Group  
**Amflora:** .....reg. trademark of BASF Group  
**Arashi:** .....reg. trademark of BASF Group  
**Basotect:** .....reg. trademark of BASF Group  
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**Smart Dynamic**  
**Construction:** ..... non-reg. trademark of BASF Group  
**Styropor:** .....reg. trademark of BASF Group  
**Suvinil:** .....reg. trademark of BASF Group  
**Termidor:** .....reg. trademark of BASF Group  
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**Ultramid:** .....reg. trademark of BASF Group  
**Ultrason:** .....reg. trademark of BASF Group

<sup>1</sup> Trademarks are not necessarily internationally registered.

## TEN-YEAR SUMMARY

Million €

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Sales and Earnings <sup>1</sup></b>										
Sales	29,473	35,946	32,500	32,216	33,361	37,537	42,745	52,610	57,951	62,304
Income from operations before depreciation and amortization (EBITDA)	4,671	5,986	4,142	5,105	5,110	7,685	8,233	9,723	10,225	9,562
Income from operations (EBIT)	2,009	3,070	1,217	2,641	2,658	5,193	5,830	6,750	7,316	6,463
Income from ordinary activities	2,606	2,827	609	2,641	2,168	4,347	5,926	6,527	6,935	5,976
Extraordinary income	—	—	6,121	—	—	—	—	—	—	—
Income before taxes and minority interests	2,606	2,827	6,730	2,641	2,168	4,347	5,926	6,527	6,935	5,976
Income before minority interests	1,245	1,282	5,826	1,599	976	2,133	3,168	3,466	4,325	3,305
Net income	1,237	1,240	5,858	1,504	910	2,004	3,007	3,215	4,065	2,912
<b>Capital expenditures and depreciation <sup>1</sup></b>										
Additions to property, plant and equipment and intangible assets	3,253	6,931	3,313	3,055	3,415	2,163	2,523	10,039	4,425	3,634
Thereof property, plant and equipment	2,764	3,631	3,037	2,677	2,293	2,022	2,188	4,068	2,564	2,809
Depreciation and amortization of property, plant and equipment and intangible assets	2,662	2,916	2,925	2,464	2,452	2,492	2,403	2,973	2,909	3,099
Thereof property, plant and equipment	2,018	2,245	2,307	2,012	1,951	2,053	2,035	2,482	2,294	2,481
<b>Number of employees</b>										
At year-end	104,628	103,273	92,545	89,389	87,159	81,955	80,945	95,247	95,175	96,924
Annual average	107,163	105,784	94,744	90,899	88,167	85,022	80,992	88,160	94,893	95,885
<b>Personnel costs <sup>1</sup></b>	<b>6,180</b>	<b>6,596</b>	<b>6,028</b>	<b>5,975</b>	<b>5,891</b>	<b>5,615</b>	<b>5,574</b>	<b>6,210</b>	<b>6,648</b>	<b>6,364</b>
<b>Key data <sup>1</sup></b>										
Earnings per share (€) <sup>8</sup>	1.00	1.01	4.86 <sup>2</sup>	1.30	0.81	1.83	2.87	3.19	4.16	3.13
Cash provided by operating activities	3,255	2,992	2,319	2,313	4,878	4,634	5,250 <sup>3</sup>	5,940	5,807	5,023
EBITDA in percent of sales	15.8	16.7	12.7	15.8	15.3	20.5	19.3	18.5	17.6	15.3
Return on assets (%)	10.2	9.9	3.1	8.4	7.4	13.2	17.7	17.5	16.4	13.5
Return on equity after tax (%)	9.1	9.0	36.6 <sup>2</sup>	9.3	6.0	12.9	18.6	19.2	22.4	17.0
<b>Appropriation of profits</b>										
Net income of BASF SE <sup>4</sup>	1,007	1,265	5,904	1,045	1,103	1,363	1,273	1,951	2,267	2,982
Transfer to retained earnings <sup>4</sup>	304	50	5,153	247	334	449	—	—	—	—
Dividend	695	1,214	758	789	774	904	1,015	1,484	1,831	1,791 <sup>5</sup>
Dividend per share (€) <sup>8</sup>	0.57	0.65	0.65	0.70	0.70	0.85	1.00	1.50	1.95	1.95
		+0.35 <sup>6</sup>								
<b>Number of shares as of December 31</b> (million) <sup>7,8</sup>	<b>1,242.0</b>	<b>1,214.8</b>	<b>1,166.8</b>	<b>1,140.6</b>	<b>1,113.3</b>	<b>1,080.9</b>	<b>1,028.8</b>	<b>999.4</b>	<b>956.4</b>	<b>918.5</b>

<sup>1</sup> Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated in accordance with IFRS. The figures for the years up to and including 2003 were prepared according to German GAAP.

<sup>2</sup> Including extraordinary income

<sup>3</sup> Before external financing of pension obligations

<sup>4</sup> Calculated in accordance with German GAAP

<sup>5</sup> With regard to the number of qualifying shares on December 31, 2008

<sup>6</sup> Special dividend of stockholders' equity charged with 45% corporate income tax

<sup>7</sup> After deduction of repurchased shares earmarked for cancellation

<sup>8</sup> In the second quarter of 2008, we conducted a two-for-one stock split. The previous years' figures for earnings per share, dividend per share and number of shares have been adjusted accordingly.

## Consolidated Balance Sheets (German GAAP) (million €)


	1999	2000	2001	2002	2003
Intangible assets	2,147	4,538	3,943	3,464	3,793
Property, plant and equipment	12,416	13,641	14,190	13,745	13,070
Financial assets	1,507	3,590	3,360	3,249	2,600
<b>Fixed assets</b>	<b>16,070</b>	<b>21,769</b>	<b>21,493</b>	<b>20,458</b>	<b>19,463</b>
Inventories	4,028	5,211	5,007	4,798	4,151
Accounts receivable, trade	4,967	6,068	5,875	5,316	4,954
Other receivables	2,211	3,369	2,384	2,947	3,159
Deferred taxes	1,225	1,270	1,373	1,204	1,247
Marketable securities	518	364	383	132	147
Cash and cash equivalents	990	506	360	231	481
<b>Current assets</b>	<b>13,939</b>	<b>16,788</b>	<b>15,382</b>	<b>14,628</b>	<b>14,139</b>
<b>Total assets</b>	<b>30,009</b>	<b>38,557</b>	<b>36,875</b>	<b>35,086</b>	<b>33,602</b>
Subscribed capital	1,590	1,555	1,494	1,460	1,425
Capital surplus	2,675	2,746	2,914	2,948	2,983
Paid-in capital	4,265	4,301	4,408	4,408	4,408
Retained earnings	9,002	8,851	12,222	12,468	12,055
Currency translation adjustment	549	662	532	(330)	(972)
Minority interests	329	481	360	396	388
<b>Stockholders' equity</b>	<b>14,145</b>	<b>14,295</b>	<b>17,522</b>	<b>16,942</b>	<b>15,879</b>
Pensions and other long-term provisions	5,812	6,209	6,809	6,233	6,205
Tax and other short-term provisions	2,826	3,334	3,332	2,764	2,982
<b>Provisions</b>	<b>8,638</b>	<b>9,543</b>	<b>10,141</b>	<b>8,997</b>	<b>9,187</b>
Financial indebtedness	1,294	7,892	2,835	3,610	3,507
Accounts payable, trade	2,316	2,848	2,467	2,344	2,056
Other liabilities	3,616	3,979	3,910	3,193	2,973
<b>Liabilities</b>	<b>7,226</b>	<b>14,719</b>	<b>9,212</b>	<b>9,147</b>	<b>8,536</b>
<b>Provisions and liabilities</b>	<b>15,864</b>	<b>24,262</b>	<b>19,353</b>	<b>18,144</b>	<b>17,723</b>
Thereof long-term liabilities	7,529	9,059	9,955	9,211	10,285
<b>Total stockholders' equity and liabilities</b>	<b>30,009</b>	<b>38,557</b>	<b>36,875</b>	<b>35,086</b>	<b>33,602</b>

**Consolidated Balance Sheets (IFRS) (million €)**

	2004	2005	2006	2007	2008
Intangible assets	3,607	3,720	8,922	9,559	9,889
Property, plant and equipment	13,063	13,987	14,902	14,215	15,032
Investments accounted for using the equity method	1,100	244	651	834	1,146
Other financial assets	938	813	1,190	1,952	1,947
Deferred taxes	1,337	1,255	622	679	930
Other receivables and miscellaneous long-term assets	473	524	612	655	642
<b>Long-term assets</b>	<b>20,518</b>	<b>20,543</b>	<b>26,899</b>	<b>27,894</b>	<b>29,586</b>
Inventories	4,645	5,430	6,672	6,578	6,763
Accounts receivable, trade	5,861	7,020	8,223	8,561	7,752
Other receivables and miscellaneous short-term assets	2,133	1,586	2,607	2,337	3,948
Marketable securities	205	183	56	51	35
Cash and cash equivalents	2,086	908	834	767	2,776
Assets of disposal groups	–	–	–	614	–
<b>Short-term assets</b>	<b>14,930</b>	<b>15,127</b>	<b>18,392</b>	<b>18,908</b>	<b>21,274</b>
<b>Total assets</b>	<b>35,448</b>	<b>35,670</b>	<b>45,291</b>	<b>46,802</b>	<b>50,860</b>
Subscribed capital	1,383	1,317	1,279	1,224	1,176
Capital surplus	3,028	3,100	3,141	3,173	3,241
Retained earnings	11,923	11,928	13,302	14,556	13,250
Other comprehensive income	(60)	696	325	174	(96)
Minority interests	328	482	531	971	1,151
<b>Stockholders' equity</b>	<b>16,602</b>	<b>17,523</b>	<b>18,578</b>	<b>20,098</b>	<b>18,722</b>
Provisions for pensions and similar obligations	4,124	1,547	1,452	1,292	1,712
Other provisions	2,376	2,791	3,080	3,015	2,757
Deferred taxes	948	699	1,441	2,060	2,167
Financial indebtedness	1,845	3,682	5,788	6,954	8,290
Other liabilities	1,079	1,043	972	901	917
<b>Long-term liabilities</b>	<b>10,372</b>	<b>9,762</b>	<b>12,733</b>	<b>14,222</b>	<b>15,843</b>
Accounts payable, trade	2,372	2,777	4,755	3,763	2,734
Provisions	2,364	2,763	2,848	2,697	3,043
Tax liabilities	644	887	858	881	860
Financial indebtedness	1,453	259	3,695	3,148	6,224
Other liabilities	1,641	1,699	1,824	1,976	3,434
Liabilities of disposal groups	–	–	–	17	–
<b>Short-term liabilities</b>	<b>8,474</b>	<b>8,385</b>	<b>13,980</b>	<b>12,482</b>	<b>16,295</b>
<b>Total stockholders' equity and liabilities</b>	<b>35,448</b>	<b>35,670</b>	<b>45,291</b>	<b>46,802</b>	<b>50,860</b>

# GRI AND GLOBAL COMPACT INDEX

An extended overview with information on the GRI core and additional indicators as well as the principles of the United Nations Global Compact can be found at → [basf.com/gri\\_gc\\_e](http://basf.com/gri_gc_e)

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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, non-governmental 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. The BASF Report 2008 has been aligned with the indicators of the current GRI-guideline G3.

This short index shows where to find information on the GRI core and additional indicators, as well as topics relevant to the Principles of the United Nations Global Compact, in this report. An extended overview is available on the Internet at [basf.com/gri\\_gc\\_e](http://basf.com/gri_gc_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 printed and online reporting. We also give a brief explanation if no data is available for a given indicator.

→ More information on the GRI can be found at [www.globalreporting.org](http://www.globalreporting.org)

# PRIZES AND AWARDS



## DOW JONES SUSTAINABILITY INDEX Best Chemical Company

In 2008, BASF was named as the chemical sector leader in the Dow Jones Sustainability Index (DJSI World). For the eighth year in succession, BASF shares were included in the most important sustainability index worldwide.

CARBON DISCLOSURE PROJECT

## CARBON DISCLOSURE LEADERSHIP INDEX Top Ranking

In 2008, BASF achieved top ranking in the Carbon Disclosure Leadership Index (carbon intensive industries). The index contains companies who distinguish themselves in addressing the challenges of climate change.



## GERMAN SUSTAINABILITY AWARD 2008 Most Sustainable Company

BASF SE took second place in the category of "Most Sustainable Company" – as a role model in integrating economic success with sustainable business.



## BEST EMPLOYER Brazil 2008

For the third year in a row, BASF in Brazil was ranked as one of the best employers in the country by the business newspaper Guia Você S. A. – Exame.



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## 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 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 112 to 119. We do not assume any obligation to update the forward-looking statements contained in this report.



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