

# BASF Report 2010



Economic, environmental and  
social performance

 **BASF**  
The Chemical Company

# BASF Group 2010\*

## Economic data (million €)

	2010	2009	Change in %
Sales	63,873	50,693	26.0
Income from operations before depreciation and amortization (EBITDA)	11,131	7,388	50.7
Income from operations (EBIT) before special items	8,138	4,852	67.7
Income from operations (EBIT)	7,761	3,677	111.1
Income before taxes and minority interests	7,373	3,079	139.5
Net income	4,557	1,410	223.2
Earnings per share (€)	4.96	1.54	223.2
Adjusted earnings per share (€) <sup>1</sup>	5.73	3.01	90.4
Dividend per share (€)	2.20	1.70	29.4
Cash provided by operating activities	6,460	5,693	13.5
Additions to long-term assets <sup>2</sup>	5,304	5,972	(11.2)
Depreciation and amortization	3,370	3,711	(9.2)
Return on assets (%)	14.7	7.5	96.0
Return on equity after tax (%)	24.6	8.9	176.4
Research and development expenses	1,492	1,398	6.7

## Environment and safety

	2010	2009	Change in %
Operating costs for environmental protection facilities million €	729	669	9.0
Investments in environmental protection million €	122	141	(13.5)
Emissions of greenhouse gases (CO <sub>2</sub> equivalent) million metric tons/year	25.2	31.1	(19.0)
Emissions to air (air pollutants) <sup>3</sup> thousand metric tons/year	33.9	31.3	8.3
Emissions to water <sup>3</sup> of:			
– Organic substances thousand metric tons/year	26.1	18.6	40.3
– Nitrogen thousand metric tons/year	4.0	3.6	11.1
– Heavy metals metric tons/year	25	24	4.2
Transportation accidents per 10,000 shipments	0.28	0.24	16.7
Number of environmental and safety audits	97	99	(2.0)

## Employees and society

	2010	2009	Change in %
Employees as of December 31 <sup>4</sup>	109,140	104,779	4.2
Apprentices/trainees as of December 31 <sup>4</sup>	2,442	2,401	1.7
Personnel expenses million €	8,228	7,107	15.8
Donations and sponsoring million €	49.8	48.1	3.5
Annual bonus % of Group companies	92.9	74.9	18.0
Lost time injury rate per million working hours	2.0	1.8	11.1
Occupational diseases per million working hours	0.5	0.4	25.0

<sup>1</sup> For further information, see page 38

<sup>2</sup> Including acquisitions

<sup>3</sup> Excluding emissions from oil and gas production

<sup>4</sup> Including employees of the Cognis group

\* The financial performance indicators include effects of the acquisition of the Cognis group on December 9, 2010. The effects on non-financial performance indicators will be included in the 2011 reporting, unless stated otherwise.

# BASF's segments

## Chemicals

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In the Chemicals segment, we supply products to customers in the chemical, electronics, construction, textile, automotive, pharmaceutical and agricultural industries as well as many others. Furthermore, we ensure that other BASF segments are supplied with chemicals for the production of downstream products. Our portfolio ranges from basic chemicals, glues and electronic chemicals for the semiconductor and solar cell industries, to solvents and plasticizers, as well as starting materials for products such as detergents, plastics, textile fibers, paints and coatings and pharmaceuticals.

### Key data Chemicals (million €)

	2010	2009	Change in %
Sales	11,377	7,515	51.4
EBITDA	3,000	1,571	91.0
Income from operations before special items	2,302	1,021	125.5
Income from operations (EBIT)	2,310	735	214.3

### Sales (%)

1	Inorganics	11
2	Petrochemicals	67
3	Intermediates	22



## Plastics

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The Plastics segment includes a broad range of products, system solutions and services. We offer a number of engineering plastics for the automotive and electrical industries as well as for use in household appliances and sports and leisure products. Our styrenic foams are used as insulating materials in the construction industry and in packaging. Our polyurethanes are extremely versatile: As soft foams, for example, they improve car seats and mattresses, and as rigid foams they increase the energy efficiency of refrigerators.

### Key data Plastics (million €)

	2010	2009	Change in %
Sales	9,830	7,128	37.9
EBITDA	1,721	994	73.1
Income from operations before special items	1,284	576	122.9
Income from operations (EBIT)	1,273	554	129.8

### Sales (%)

1	Performance Polymers	45
2	Polyurethanes	55



## Performance Products

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Performance Products lend stability and color to countless everyday items and help to improve their application profile. Our product portfolio includes vitamins and food additives as well as ingredients for pharmaceuticals and for hygiene, home and personal care items. Other Performance Products improve processes in the paper industry, oil and gas production, mining and water treatment. They can also enhance the efficiency of fuels and lubricants, the effectiveness of adhesives and coatings, and the stability of plastics.

### Key data Performance Products (million €)

	2010	2009	Change in %
Sales	12,288	9,356	31.3
EBITDA	2,162	926	133.5
Income from operations before special items	1,554	698	122.6
Income from operations (EBIT)	1,345	(150)	.

### Sales (%)

1	Dispersions & Pigments	26
2	Care Chemicals	22
3	Nutrition & Health	12
4	Paper Chemicals	14
5	Performance Chemicals	26



## Functional Solutions

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

### Key data Functional Solutions (million €)

	2010	2009	Change in %
Sales	9,703	7,115	36.4
EBITDA	861	511	68.5
Income from operations before special items	467	209	123.4
Income from operations (EBIT)	457	107	327.1

### Sales (%)

1	Catalysts	52
2	Construction Chemicals	22
3	Coatings	26



## Agricultural Solutions

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Our crop protection products guard against fungal diseases, insects and weeds and they 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. Research and development expenses, sales, earnings and all other data of BASF Plant Science are not included in the Agricultural Solutions segment; they are reported in Other.

### Key data Agricultural Solutions (million €)

	2010	2009	Change in %
Sales	4,033	3,646	10.6
EBITDA	938	973	(3.6)
Income from operations before special items	749	776	(3.5)
Income from operations (EBIT)	749	769	(2.6)

### Sales (%)

1	Crop Protection	100
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## Oil & Gas

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

### Key data Oil & Gas (million €)

	2010	2009	Change in %
Sales	10,791	11,356	(5.0)
EBITDA	2,977	2,830	5.2
Income from operations before special items	2,430	2,289	6.2
Income from operations (EBIT)	2,334	2,289	2.0
Net income	923	712	29.6

### Sales (%)

1	Exploration & Production	35
2	Natural Gas Trading	65





## Prizes and awards



### Dow Jones Sustainability World Index

BASF shares listed in the most important sustainability index for ten years in a row

BASF shares were again included in the Dow Jones Sustainability World Index (DJSI World) in 2010. BASF received particular recognition for its risk and crisis management, its environmental reporting and its climate strategy.



### World's Most Admired Companies 2010

BASF named as the most admired chemical company

The U.S. business magazine Fortune again ranked BASF as the most admired chemical company in the world. BASF took first place in the following categories: product and service quality, global competitiveness and quality of management.

### CARBON DISCLOSURE PROJECT

### Carbon Disclosure Project

Carbon Disclosure Leadership Index and Carbon Performance Leadership Index

In 2010, BASF again achieved the top ranking in the materials sector in the Carbon Disclosure Leadership Index. BASF was also named to the new Carbon Performance Leadership Index, which assesses the performance of companies in managing climate change.



### China Green Companies Top 100

BASF honored for its efforts

For the third time in succession, BASF was named to the China Green Companies Top 100. This award recognizes companies that strengthen their competitiveness through long-term commitment to environmental protection, society, innovation and corporate culture.



This report is printed on FSC® certified real art paper.

→ **More information on the production process, selection of paper and printing of this report can be found at [basf.com/report\\_production](http://basf.com/report_production)**

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## Forward-looking statements

This report contains forward-looking statements. These statements are based on current 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 103 to 111. We do not assume any obligation to update the forward-looking statements contained in this report.

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Annual Meeting 2011 / Interim report first quarter 2011

# May 6, 2011

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Interim report first half 2011

# July 28, 2011

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Interim report third quarter 2011

# Oct. 27, 2011

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Full year results 2011

# Feb. 24, 2012

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Annual Meeting 2012 / Interim report first quarter 2012

# April 27, 2012

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BASF supports the chemical industry's global initiative Responsible Care®.



BASF is a sponsor of the International Year of Chemistry 2011.  
→ For more, see [basf.com/iyc](http://basf.com/iyc)

## Further information

You can find this and other publications from BASF on the internet at [www.basf.com](http://www.basf.com)

You can also order the reports:

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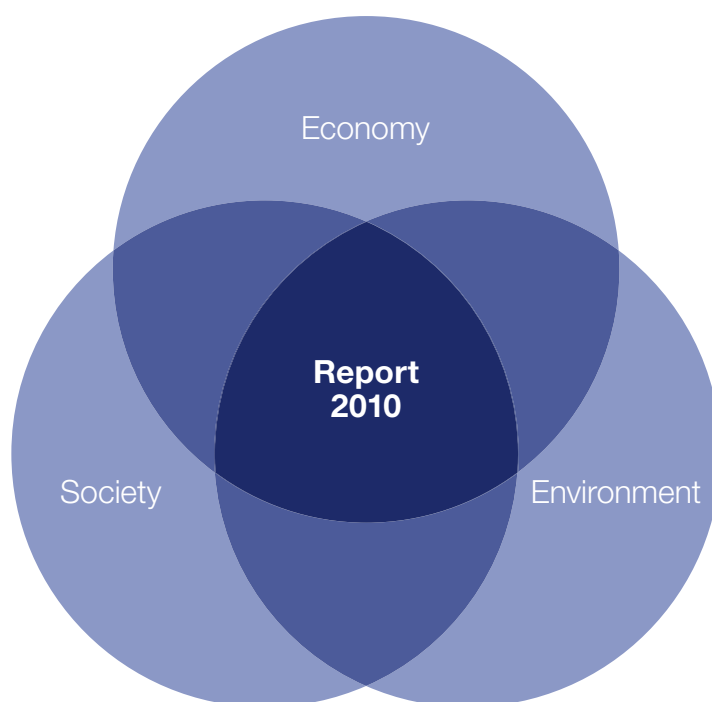
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[www.basf.com](http://www.basf.com)

# We create chemistry

As the world's leading chemical company we combine economic success with social responsibility and environmental protection. This integrated report documents our economic, environmental and social performance in 2010.



## Value for BASF

Sustainability is an integral part of our strategy. That is why this report combines both our financial and sustainability reporting in one publication. We document our economic performance and provide specific examples to show how sustainability contributes to the success of the company.

## Value for society


This report shows how we create value – for our employees, shareholders, business partners, neighbors and the public. With sustainable and innovative products, technologies and services, we contribute to finding solutions for global challenges such as climate protection, resource conservation, nutrition and demographic change.

## About this report

### Content and structure

This report combines our financial and sustainability reporting and is addressed to readers interested in both areas. The reporting of the BASF Group is complemented by our short report BASF in Brief 2010.

In addition to the publication of this integrated report, we publish information on sustainability topics online. To find out more about these topics on our website, follow the links listed in the different chapters of this report.

The information in the BASF Report 2010 also serves as a progress report on the implementation of the ten principles of the United Nations Global Compact. The  symbol indicates information that is relevant to the principles of the Global Compact. These topics are listed in the Global Compact Index on page 213.

In addition to the traditional table of contents, "Topics at a glance" provides an overview of key topics such as business development, global megatrends, innovations and other topics of central importance for our business.

- The 2010 online report can be found at [basf.com/report](http://basf.com/report)
- BASF in Brief 2010 can be found at [basf.com/basf\\_in\\_brief](http://basf.com/basf_in_brief)
- For more on sustainability, see [basf.com/sustainability](http://basf.com/sustainability)
- For more on the implementation of the Global Compact principles, see [basf.com/globalcompact\\_e](http://basf.com/globalcompact_e)
- For more on the United Nations Global Compact, see [www.globalcompact.org](http://www.globalcompact.org); for more on BASF's participation in the Global Compact Lead, see [basf.com/gclead\\_e](http://basf.com/gclead_e)



### Topics

The information on the financial position and performance of the BASF Group is based on the requirements of International Financial Reporting Standards (IFRS), and, where applicable, the German Commercial Code as well as the German Accounting Standards (GAS). After delisting from the NYSE, we have retained a modified form of the control system for financial reporting based on the guidelines of the Sarbanes-Oxley Act. Internal control mechanisms ensure the reliability of the information presented in this report. BASF's management confirmed the effectiveness of the internal control measures and compliance with the regulations for financial reporting.

Our sustainability reporting is aligned with the international guidelines (G3) of the Global Reporting Initiative (GRI). We want to identify and evaluate sustainability issues relevant for BASF at an early stage. To do so, we work with experts and use our materiality analysis to analyze sustainability issues. Our aim is to develop strategies well in advance for dealing with potential opportunities and risks. In 2010, we updated the analysis again and portrayed the results in a materiality matrix which considers the degree of societal interest as well as the significance of these issues for BASF. We used this analysis as the basis for identifying key topics for the report.

- For more on the Global Reporting Initiative, see [www.globalreporting.org](http://www.globalreporting.org)
- For more on the selection of sustainability topics, see page 25 and [basf.com/materiality](http://basf.com/materiality)
- A short GRI and Global Compact index can be found on page 213; for a more comprehensive version, see [basf.com/gri\\_gc\\_e](http://basf.com/gri_gc_e)



### Overview

- BASF Report 2010 integrates our financial and sustainability reporting
- HTML version of the report online contains additional information and service features
- More extensive sustainability information online
- Report serves as a progress report for the United Nations Global Compact

- Financial reporting is based on requirements of International Financial Reporting Standards, German Commercial Code and German Accounting Standards
- Sustainability reporting follows guidelines of the Global Reporting Initiative
- Dialogue with sustainability experts and stakeholders regarding relevant topics



## Data

All information and bases for calculation in this report are based on national and international standards for financial and sustainability reporting. All of the data and information for the reporting period were sourced from the responsible units using representative methods. The reporting period was the financial year 2010. BASF Group's reporting includes BASF SE, the parent company, with its headquarters in Ludwigshafen, Germany, as well as all of its material subsidiaries. All financial performance indicators include the effects of the acquisition of the Cognis group from the closing date on December 9, 2010. The effects of Cognis on non-financial performance indicators will be included in our reporting for 2011. All employees of the BASF Group as of December 31, 2010, including the employees of the Cognis group, are represented in the information contained in the chapter Employees unless otherwise indicated.

Our data collection methods for environmental protection and occupational safety are based on the recommendations of the European Chemical Industry Council (CEFIC). In the area of emissions and energy, we report on approximately 98% of all emissions from our production sites worldwide. The emissions of joint venture companies are included pro rata, based on our stake. We compile information on work-related accidents at all our sites worldwide. Accidents at joint venture sites are compiled and reported in full. Further data on social responsibility apply to all consolidated group companies, unless otherwise indicated.

To make this report as current as possible, we have included relevant information available up to the editorial deadline of February 23, 2011. The report is published each year in English and in German.

- **For more on emissions, see the chapters Our goals, Climate protection, Energy and raw materials, Water, and Environmental, safety and security management**
- **The Consolidated Financial Statements can be found on page 135**

## External audit and evaluation

Our reporting is audited by a third party. KPMG AG Wirtschaftsprüfungsgesellschaft has audited the BASF Group Consolidated Financial Statements and the Management's Analysis and has approved them free of qualification. The audit of the Consolidated Financial Statements including the Notes is based on the audited financial statements of the BASF Group companies.

The audit covers financial and non-financial information and was also conducted in accordance with the International Standard on Assurance Engagements 3000, a standard for the auditing of sustainability reporting.

In 2010, BASF Group's sustainability reporting was again recognized by the Global Reporting Initiative (GRI) with the highest application level A+ of the GRI Standard.

- **The Auditor's report can be found on page 136**
- **The GRI Application Level Check Statement can be found on page 214**

- Our information and bases for calculation are in accordance with international standards for financial and sustainability reporting
- Data collection on environmental protection and safety follows the recommendations of the European Chemical Industry Council (CEFIC)
- Report includes relevant information available up to the editorial deadline of February 23, 2011

- Financial and non-financial information audited by KPMG AG Wirtschaftsprüfungsgesellschaft
- Verification also in accordance with assurance standards for sustainability reporting
- Application level A+ for sustainability reporting confirmed by Global Reporting Initiative

# BASF Report 2010

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### GRI and Global Compact Index 213



### Global Compact relevance

**WWW.BASF.COM**

Report 2010 online

This report is also available in HTML format and as a PDF download on our website. Interactive tools enable individual compilation of texts, tables and diagrams, and quick selection according to subject. The direct link to the previous year's report makes it easier to compare statements. Examples from this report and further information demonstrate how we create value – for BASF and for society.

## We create chemistry

BASF combines economic success with advantages for customers, employees, shareholders and the environment. Six examples demonstrate how we create value – for BASF and for society.

**1****Beauty at any age**

With the acquisition of Cognis, we are becoming the leading supplier of ingredients to the cosmetics industry.

**2****Eco-efficient diapers**

BASF's Eco-Efficiency Analysis evaluates the sustainability of products and helps customers choose optimal solutions.

**3****Sustainable coastal protection**

Elastocoast®, a composite of BASF specialty plastics and stone ballast, offers long-lasting erosion protection for coastlines and dikes.

**4****The fun of learning**

In our host communities worldwide, BASF supports projects that aim to improve access to education and make learning fun.

**5****Increasing crop yields**

BASF develops crops that are more resistant to drought.

**6****The future of energy storage**

Together with partners from the fields of business and science, BASF is researching efficient battery materials for use in electric cars.

# 1

## Beauty at any age

When it comes to cosmetics, every age has specific product requirements. This will lead to greater demand for new ingredients in the future. With the acquisition of Cognis, BASF is becoming the leading supplier of ingredients to the cosmetics industry. Our portfolio is not only now more diverse, it is also more cyclically robust.

→ For more on the acquisition of Cognis, see page 57 onward



# To our shareholders

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

## *Dear shareholders, dear friends of BASF,*

The year 2010 was both eventful and successful. We took advantage of the strong economic upturn and put BASF on the right track for future success. We achieved record sales and earnings, but even more importantly, we once again earned a high premium on our cost of capital. And we are becoming even stronger thanks to our acquisitions of Ciba and Cognis as well as our innovations in future markets. The BASF team is continuing to write BASF's success story – we can all be proud. I would like to thank all employees for their exceptional performance.

The BASF share was also a winner in 2010: our shares reached a new all-time high in December. With an increase of 37.4% over the year, the BASF share significantly outperformed the key benchmark and industry indices. We are adhering to our ambitious dividend policy and will propose a dividend of €2.20 per share at the Annual Meeting – an increase of 29% compared with the previous year.

Overall, we have emerged from the economic crisis stronger, demonstrating that in recent years we have successfully implemented our long-term strategy for profitable growth and made our business more cyclically robust.

**Strengthening our portfolio**

In 2010, we made our portfolio even more oriented to our customers so that we can create sustainable value together. Our two major acquisitions have been crucial steps related to this: We rapidly and successfully integrated the former Ciba businesses and completed the purchase of Cognis at the end of 2010. This broadens our business with innovative activities that are growing faster than the industry average. At the end of 2010, we began the divestiture process with the carve-out of a large part of our styrenics activities. We plan to combine our business with that of INEOS in a 50-50 joint venture called Styrolution, thus creating a leading global styrenics company.

**“Over the long term, companies that conduct business sustainably and act responsibly will be more successful than the competition. That is why sustainability has long been an integral part of BASF’s strategy.”**

**Securing future growth**

In order to continue to grow profitably, we are active in growth markets. Between 2011 and 2015, we are planning investments of €12.6 billion, including projects with our strong partners. These include the expansion of our Verbund site in Nanjing, China, with Sinopec and investments in world-scale production plants for specialty chemicals in Malaysia with PETRONAS. Furthermore, we are also active in exploration and pipeline projects in the Oil & Gas segment, some with our partner Gazprom.

In recent years, we have renewed our regional strategies and set ourselves ambitious goals: In Europe, Asia and North and South America, we want to grow faster than the market average and achieve sales of over €90 billion by 2020.

**Opening up future markets**

Through innovation, we open up new markets to help people deal with important future issues and pressing challenges: significant global population growth, rising demand for food, increasing urbanization and the growing consumption of raw materials and energy. We have therefore further increased our investments in research and development to nearly €1.5 billion.

Our research and development is mainly concentrated on these challenges, with a focus on five growth clusters: plant biotechnology, white biotechnology, nanotechnology, energy management and raw material change.

For example, we are working with partners from science and business to conduct research on materials and components for innovative battery systems for electromobility and electricity storage. Other areas include higher-yielding crops, new catalysts and processes to manufacture petrochemicals from alternative raw materials as well as processes to capture and use carbon dioxide as a synthesis building block. Overall, we are investing up to €350 million annually in research projects related to these growth clusters, amounting to 25% of our research and development expenditures.

In 2015, we aim to generate sales of up to €8 billion with product innovations – new or improved products or applications that have been on the market for less than five years.

### **Conducting business sustainably**

Over the long term, companies that conduct business sustainably and act responsibly will be more successful than the competition. That is why sustainability has long been an integral part of BASF's strategy.

We consider it our ongoing responsibility to continuously improve our business and we are committed to the implementation of the principles of the Global Compact. Our strategy to reduce greenhouse gas emissions and our transparent reporting are recognized by investors: For the tenth year in succession, BASF has been included in the world's most important sustainability index, the Dow Jones Sustainability World Index (DJSI World). We were also once again represented in the prestigious Carbon Disclosure Leadership Index (CDLI) and are now included in the new Carbon Performance Leadership Index (CPLI).

We are very confident for 2011. Despite continuing risks, the global economy will grow moderately. At the same time, we are prepared for increasingly volatile markets and intensifying competition. This means: the winners will be those who are faster, more flexible and more successful than their competitors. We are convinced of our ability to master this challenge. The global BASF team will actively take advantage of opportunities and work hard to shape BASF's future. We look forward to your support in achieving this.

Sincerely yours,

A handwritten signature in black ink, reading 'Jürgen Hambrecht'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**Dr. Jürgen Hambrecht**

Chairman of the Board of Executive Directors of BASF SE



## The Board of Executive Directors of BASF SE after a strategy meeting

**Dr. Stefan Marcinowski**  
58, with BASF for 32 years

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

**Dr. Kurt Bock**  
Chief Financial Officer  
52, with BASF for 20 years

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

**Dr. Harald Schwager**  
Industrial Relations Director  
50, with BASF for 23 years

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

**Dr. Hans-Ulrich Engel**  
51, with BASF for 23 years

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





**Dr. Jürgen Hambrecht**  
Chairman of the Board of  
Executive Directors  
64, with BASF for 35 years

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

**Dr. John Feldmann**  
61, with BASF for 23 years

- Construction Chemicals
- Dispersions & Pigments
- Care Chemicals
- Nutrition & Health
- Paper Chemicals
- Performance Chemicals
- Polymer Research

**Dr. Andreas Kreimeyer**  
Research Executive Director  
55, with BASF for 25 years

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

**Dr. Martin Brudermüller**  
49, with BASF for 23 years

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



## BASF on the capital market

### Dividend increase, above-average share performance

**At the end of 2010, the BASF share traded at €59.70, a 37.4% increase over the closing price of the previous year. As a result, BASF shares significantly outperformed the most important benchmark and industry indices, such as the DAX 30 and DJ Chemicals. We stand by our ambitious dividend policy and will propose a dividend of €2.20 per share at the Annual Meeting – an increase of 29% compared with the previous year. BASF has solid financing and good credit ratings, especially compared with competitors in the chemical industry.**

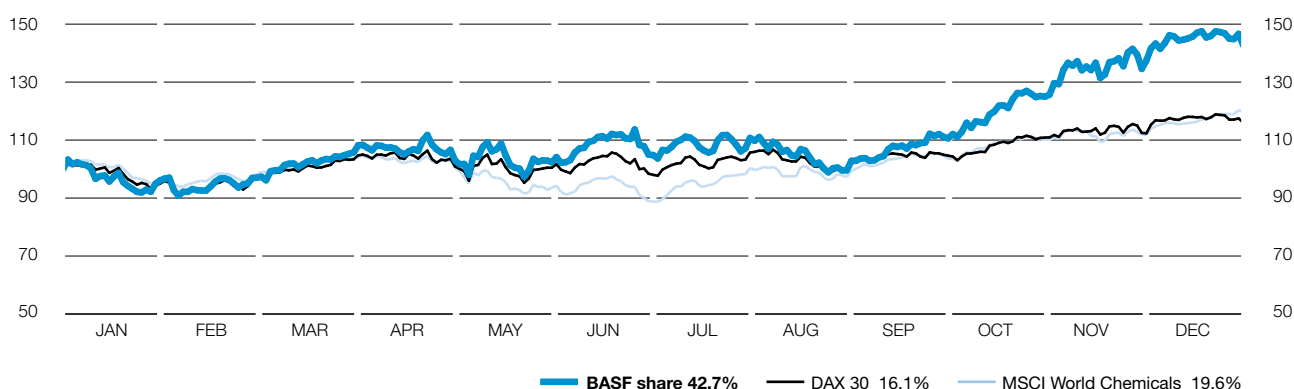
#### Strong performance of BASF shares

Uncertainty characterized the stock markets in the first half of 2010. In the second half, strong company results and the ongoing expansionary monetary policies of economically important nations created a positive market climate with rising share prices. A clear upward trend was observed in particular for German shares and chemical stocks from September onward. The BASF share price reached a new all-time high in December and rose by 37.4% over the course of the year. At the

end of 2010, the share traded at €59.70. Assuming that dividends were reinvested, a holding in BASF shares increased in value by 42.7% in 2010. The BASF stock thus outperformed the German and European stock markets: Over the same period, the DAX 30 index rose by 16.1% while the DJ EURO STOXX 50 index lost 2.4% of its value. In 2010, BASF shares also outperformed the global industry indices DJ Chemicals and MSCI World Chemicals, which increased by 28.4% and 19.6%, respectively.

The assets of an investor who invested the equivalent of €1,000 in BASF shares at the end of 2000 and reinvested the dividends in additional BASF shares would have increased to €3,663 by the end of 2010. This average annual return of 13.9% places BASF shares substantially above the returns for the benchmark indices EURO STOXX 50 (–2.7%), DAX 30 (+0.7%) and MSCI World Chemicals (+7.1%).

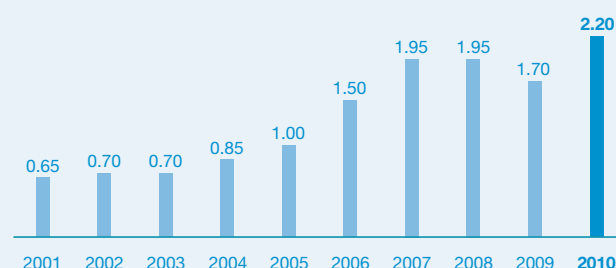
**Change in value of an investment in BASF shares 2010**  
(with dividends reinvested, indexed)



#### BASF on the capital market

- BASF's shares significantly outperform the most important benchmark and industry indices
- After uncertainty in first half of 2010, stock markets experience a clear upward trend from September onward
- BASF share price reaches a new all-time high in December; increase of 37.4% over the year
- Proposed dividend of €2.20 per share; increase of 29% compared with previous year

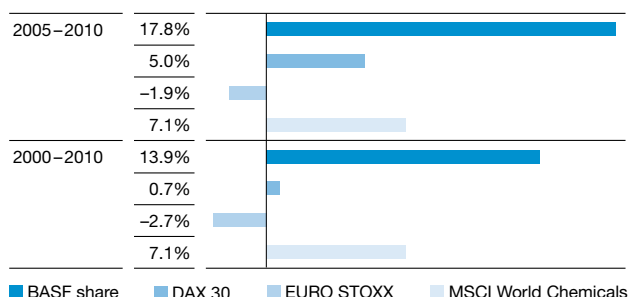
**Dividend per share<sup>1</sup> (€ per share)**



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



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



#### Dividend increase to €2.20 per share

At the Annual Meeting, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €2.20 per share. We stand by our ambitious dividend policy and plan to pay out around €2 billion to our shareholders (based on the number of qualifying shares on December 31, 2010). Based on the year-end share price for 2010, BASF shares offer a high dividend yield of 3.69%. BASF belongs to the DivDAX share index, which contains the 15 companies with the highest dividend yield in the DAX 30. We continue to aim to increase our dividend each year, or at least maintain it at the previous year's level.

#### Conversion to registered shares completed

At the beginning of August 2010, BASF shares were converted from bearer shares to registered shares, enabling better and more direct communication with shareholders. This will also simplify the registration process and issuing of proxies for the Annual Meeting.

#### Broad base of international shareholders

With over 400,000 shareholders, BASF is one of the largest publicly owned companies with a high free float. An analysis of the shareholder structure carried out in September 2010 showed that, at 15% of share capital, the United States and Canada make up the largest regional group of institutional investors. Institutional investors from Germany account for 12%. Shareholders from the United Kingdom and Ireland also hold 12% of BASF shares, while institutional investors from the rest of Europe hold a further 16%. Approximately 26% of the company's share capital is held by private investors, most of whom reside in Germany. Around 6% of all investors live in the greater Ludwigshafen area. With around one quarter of its shares held by private investors, BASF has the second-largest percentage of private shareholders among the DAX 30 companies.

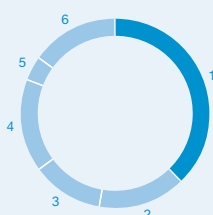
#### Employees becoming shareholders

In many countries, we offer share purchase programs to encourage our employees to become BASF shareholders. In 2010, more than 18,900 employees (2009: 20,800) purchased employee shares, worth a total of around €28 million (2009: €33 million).

→ For more on investment programs for employees, see page 87

#### Shareholder structure (by region)

1	Germany	38%
2	United States/Canada	15%
3	United Kingdom/Ireland	12%
4	Rest of Europe	16%
5	Rest of the world	4%
6	Unidentified	15%



#### Percentage of BASF shares in important indices as of December 31, 2010

	%
DAX 30	9.2
DJ Chemicals	7.4
MSCI World Index	0.3

### BASF in key sustainability indices

For the tenth year in succession, BASF was included in the world's most important sustainability index, the Dow Jones Sustainability World Index (DJSI World). We received particular recognition for our risk and crisis management, environmental reporting and our climate strategy.

BASF is also once again represented in the prestigious Carbon Disclosure Leadership Index (CDLI), scoring top marks in the materials sector for the second year in a row. The CDLI is used by investors to evaluate companies that excel in addressing climate change and in the transparency of their reporting in this area. The Carbon Disclosure Project represents more than 500 institutional investors, with over \$60 trillion in assets under management.

BASF was also named to the new Carbon Performance Leadership Index (CPLI) in 2010. The CPLI also evaluates how companies deal with the opportunities and risks of climate change.

→ For more on the key sustainability indices, see [basf.com/sustainabilityindices](http://basf.com/sustainabilityindices)

### Good credit ratings and solid financing

With "A/A-1/outlook stable" from rating agency Standard & Poor's and "A1/P-1/outlook negative" from Moody's, BASF continues to have good credit ratings, especially when compared with competitors in the chemical industry.

At year-end 2010, the financial indebtedness of the BASF Group was €15 billion with liquid funds of €1.5 billion. The average time to maturity of our financial indebtedness was 3.4 years. Our medium to long-term debt financing is based on corporate bonds with a balanced maturity profile. For short-term debt financing, BASF has a commercial paper program which has an issuing volume of up to \$12.5 billion. As back-up for the program, committed and unused credit lines of \$6 billion are available.

→ For more on financial indebtedness and maturities, see the Notes on page 181

### Analysts' recommendations

Around thirty financial analysts regularly publish reports on BASF. At the end of 2010, 73% of these analysts had a buy rating for our shares (end of 2009: 65%) while 21% of analysts recommended holding our shares (end of 2009: 19%), and 6% had a sell rating (end of 2009: 16%). On December 31, 2010, the average target share price according to analyst consensus estimates was €63.26.

→ Continuously updated consensus estimates on BASF are available online at [basf.com/share](http://basf.com/share)

### BASF in sustainability indices

- Again included in the most important sustainability indices
- DJSI World: particular recognition for risk and crisis management, environmental reporting and climate strategy
- CDLI: top rank in the materials sector
- CPLI: included in the new index that evaluates how companies deal with the opportunities and risks of climate change

### Solid financing

- Financial indebtedness of the BASF Group at year-end 2010 was €15 billion; average time to maturity of 3.4 years
- Commercial paper program with an issuing volume of up to \$12.5 billion
- Committed credit lines of \$6 billion

### Close dialogue with the capital market

Our corporate strategy aims to create sustainable value. We support this strategy through regular and open communication with all capital market participants. To keep institutional investors and rating agencies informed, we host numerous one-on-one meetings and roadshows worldwide. We also hold events to provide private investors with an insight into the world of BASF.

To delve more deeply into specific topics, we also held roundtable talks and an Investor Day in 2010. These talks were aimed at giving our investors in important financial centers information about certain key areas of our business. At the Performance Products Investor Day that took place in London and New York at the beginning of June, BASF's management presented the new organization and goals of the restructured Performance Products segment following the Ciba integration. It is very important to us that analysts and investors have direct contact with BASF management as we feel that investors should get to know the people who lead our businesses.

We also held special roadshows for investors who base their investment decisions on sustainability criteria, where we provided information about our measures relating to climate protection and energy efficiency, in particular.

Investors can find extensive information about BASF and BASF shares on our web page. In response to the increased popularity of social media, we have expanded our communication to include social media channels such as Twitter and Facebook. Interested users can always get the most up-to-date information about BASF in web 2.0.

Analysts and investors have confirmed the quality of our communication work – and have given BASF Investor Relations top ranks on multiple occasions. In June, BASF won the Investor Relations Award from the business magazine Capital for the fourth time in a row. Furthermore, in the Thomson Extel Pan-European Survey 2010, BASF's Investor Relations team was honored as "Best IR Team in Europe" and "Best IR Team in the Chemicals Sector." At the IR Magazine Europe Awards 2010, BASF also picked up three top honors: Our Investor Relations team won the "Grand prix" for best overall investor relations at large cap companies, first prize in the chemical sector and the top spot for investor relations in Germany.

### Dialogue with the capital market

- Global roadshows and one-on-one meetings to inform institutional investors and rating agencies
- Information events for private investors
- Roundtable talks and investor days to provide in-depth information about certain topics
- Numerous honors for BASF Investor Relations

### Investor Relations

- can be contacted at
- Phone: +49 621 60-48230
  - E-mail: [ir@basf.com](mailto:ir@basf.com)
  - Internet: [basf.com/share](http://basf.com/share)

The Investor Relations team's newsletter keeps you informed about current BASF topics and acts as a useful reminder for important BASF dates.  
Subscribe at: [basf.com/share/newsletter](http://basf.com/share/newsletter)

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

		2006	2007	2008	2009	2010
Year-end price	€	36.93	50.71	27.73	43.46	59.70
Year high	€	37.12	50.81	52.41	43.95	61.73
Year low	€	29.49	35.98	19.95	20.71	39.43
Year average	€	32.41	44.50	38.88	31.62	46.97
Daily trade in shares <sup>2</sup>						
– million €		198.6	298.3	282.1	157.4	197.5
– million shares		6.2	6.7	7.3	5.0	4.2
Number of shares December 31 <sup>3</sup>	million shares	999.4	956.4	918.5	918.5	918.5
Market capitalization December 31	billion €	36.9	48.5	25.5	39.9	54.8
Earnings per share <sup>4</sup>	€	3.19	4.16	3.13	1.54	4.96
Dividend per share	€	1.50	1.95	1.95	1.70	2.20
Dividend yield <sup>5</sup>	%	4.06	3.85	7.03	3.91	3.69
Payout ratio	%	46	45	62	111	44
Price-earnings ratio (P/E ratio) <sup>5</sup>		11.6	12.2	8.9	28.2	8.3

<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> Adjusted for special items and the amortization of intangible assets, earnings per share amounted to €5.73 in 2010 (2009: €3.01).

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

## Further information

## Securities code numbers

Germany	BASF11
Great Britain	0083142
Switzerland	323600
United States (CUSIP-Number)	055262505
ISIN International Stock Identification Number	DE000BASF111

## International ticker symbol

Deutsche Börse	BAS
London Stock Exchange	BFA
Swiss Exchange	AN



# 2

## Eco-efficient diapers

Resource conservation is a global challenge. BASF has developed an Eco-Efficiency Analysis to evaluate the sustainability of a product throughout its entire life cycle. Optimized products are awarded a label to show they have been evaluated by an Eco-Efficiency Analysis. Baby diapers are the first consumer product to carry this label. Customers and consumers can thus identify products that are more sustainable and take this into consideration when making their purchasing decisions.

→ For more on Eco-Efficiency Analysis, see page 27



# Management's Analysis

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## Strategy and values

**As the world's leading chemical company, we aim for long-term, profitable growth. To achieve this, we are committed to operational excellence, innovation and investment in growth markets. Our actions are guided by sustainable development. Our guidelines and principles summarize how we intend to achieve our corporate goals and to establish and implement our values within the company.**

We want to remain the world's leading chemical company. We benefit from our broad portfolio, operational excellence and solid financing. At BASF, economic considerations do not take priority over safety, health and environmental protection. Through innovations, we distinguish ourselves from our competitors and shape the future. We concentrate our research and commercial focus on innovative business areas and invest in growth markets at an early stage, helped by our strategic partnerships with partners who are leaders in their fields. Our most important cooperation partners include Gazprom in Russia as well as Monsanto, Shell and Total in the United States, Sinopec in China and PETRONAS in Malaysia.

We constantly work on improving our sites, plants and processes and are continuing with our restructuring and cost-cutting measures. From 2012, we anticipate that the excellence program NEXT we started in 2008 will contribute more than €1 billion to earnings per year.

→ **For more on strategic partnerships, see pages 31, 72 and 115; for more on regional strategies, see page 81 onward; for more on efficiency projects, see pages 56 and 82**

### Active portfolio management

We make acquisitions to build on our strengths and make BASF even more competitive. We successfully concluded the acquisition of the Cognis group in 2010, which expanded our high-growth portfolio of specialty chemicals. With the acquisition of Cognis, BASF is becoming a leading global supplier of ingredients to the cosmetics industry. We are further solidifying our leading role in the detergents and cleaners market and taking a strong position in the field of human nutrition. Furthermore, BASF can offer its customers an even more attractive portfolio for lubricants and coatings additives. The acquisition particularly expands our range of products based on renewable raw materials.

Another important step in our active portfolio management is Styrolution – a 50-50 joint venture we are planning with INEOS. From 2011, the combined styrenics activities will be operated in this independent company.

→ **For more on the Cognis acquisition, see page 57 onward**

### Innovative strength as a success factor

We are increasing investments in research and development because we consider innovations to be the key to profitable growth. Our focus is on developing solutions for global challenges, with a particular emphasis on future markets and technologies with high growth potential. These include energy management, raw material change, nanotechnology, plant biotechnology and white biotechnology. Our research activities are grouped according to these growth clusters. We acquire knowledge and new technologies in numerous cooperative partnerships worldwide with universities, research institutes, customers and industrial partners.

→ **For more on research and development, see page 30 onward**

### Strategies for value-adding growth

- Innovation strengthens our business areas
- Increased investments in research and development
- Investments in growth markets
- Strategic partnerships
- Restructuring and cost cutting
- Economic considerations do not take priority over safety, health and environmental protection

### Active portfolio management

- Strengthening competitiveness with acquisitions
- Expansion of specialty chemicals portfolio
- Completion of the Cognis acquisition
- Planned joint venture for styrenics activities (Styrolution)

## Our four strategic guidelines

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

The prerequisite for long-term success is earning a premium on our cost of capital. Earnings before interest and taxes (EBIT) after cost of capital is our key performance and management indicator.

→ For more on the implementation of this guideline, see page 24

### We help our customers to be more successful

We want to recognize what our customers will need tomorrow. As a reliable partner, we work with customers to develop solutions that will meet their individual needs and strengthen their competitiveness. To do this, we operate where our customers are – in all the world's important markets.

→ For more on the implementation of this guideline, see pages 28, 47 and 59



### We form the best team in industry

We want to recruit, support and retain the best employees. That is why we invest in our employees' development and help them balance work and family life. With our Diversity + Inclusion initiative, we promote teams that create value with their different backgrounds and experiences.

→ For more on the implementation of this guideline, see page 84 onward

### We ensure sustainable development

For us, sustainable development means combining economic success with environmental and social responsibility. We have anchored sustainability in our corporate strategy and organization: With sustainable products and services, we create competitive advantages for both BASF and our customers.

→ For more on the implementation of this guideline, see page 25 onward

## Strategic guidelines


Our four strategic guidelines form the basis of our activities:

- 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 values and global standards

We act according to clearly defined values and standards of conduct that go beyond laws and regulations. As a global company, we strive to ensure that our actions meet or exceed internationally recognized standards. We observe and advocate:

- the Universal Declaration of Human Rights and both United Nations covenants on human rights,
- the ten principles of the UN Global Compact,
- the ILO's core labor standards and Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration),
- the OECD Guidelines for Multinational Enterprises,
- the Responsible Care® Global Charter, and
- the German Corporate Governance Code.

We have created Group-wide Values and Principles to apply these international guidelines to our business environment. Our actions are based on six basic values: sustainable profitable performance; innovation for the success of our customers; environmental protection, health and safety; personal and professional competence; mutual respect and open dialogue; and integrity. Each of these values is complemented by binding principles, which explain how they are implemented in our day-to-day business. Observance of our basic values and principles is an integral element in the annual target agreements of all senior executives in the BASF Group. With globally applicable standards, we set out clear rules. We set ourselves ambitious environmental, health and safety goals and monitor our performance in these areas with regular audits. In this way, we also support the chemical industry's global Responsible Care initiative. We have a monitoring system to assess our performance in terms of labor and social standards. 

→ For more on values, see [basf.com/value\\_system](http://basf.com/value_system)


→ For more on how our values are anchored in our day-to-day business, see the chapters Sustainability management from page 25 onward, Employees from page 87 onward, and Environmental and safety management from page 91 onward

→ For more on environmental, health and safety management and audits, see page 89 onward

→ For more on our monitoring system for labor and social standards, see page 26

## Code of Conduct and compliance

Binding standards of conduct ensure that our values are permanently established in day-to-day business activities. The framework for this is our corporate governance system, which encompasses the management and monitoring of the company. The system includes organizations, commercial principles and guidelines, as well as internal and external control and monitoring mechanisms. Integrity is one of our basic values and the foundation of our Compliance Program. For us, compliance means the duty to comply with laws and internal corporate directives.

Based on our Group-wide basic values and principles, our Group companies have also created codes of conduct for individual countries, taking into account the local laws and customs. These codes of conduct are binding for all employees in the relevant countries and must be explained and incorporated in daily business operations. Compliance training for all employees worldwide is an important prerequisite for successful implementation of the codes of conduct. Furthermore, employees have a number of options if they want to ask questions or seek advice and help: They can contact their supervisors, our legal and human resources departments and our compliance hotline. 

→ For more on the Compliance Program, see page 120

## Our basic values

- Sustainable profitable performance
- Innovation for the success of our customers
- Environmental protection, health and safety
- Personal and professional competence
- Mutual respect and open dialogue
- Integrity

## Global standards










- Regular audits on environment, health and safety
- Support of the Responsible Care initiative
- Global monitoring system for labor and social standards

## Our goals

### Economic goals

	2010 Goals	Status at year-end 2010	More on
Earn an EBIT of at least 9% based on the assets of the operating divisions	At least €4,261 million	We achieved an EBIT of €7,761 million.	page 24
Dividend per share to be increased annually or at least to remain at the previous year's level	At least €1.70	The Board of Executive Directors and the Supervisory Board will propose a dividend payment of €2.20 per share at the Annual Meeting.	page 13
EBITDA margin of 18% by 2012		17.4%	page 35

### Environment, safety and product stewardship

	2020 Goals	Goals	Status at year-end 2010 <sup>1</sup>	More on
<b>Energy and climate protection</b>				
Emissions of greenhouse gases per metric ton of sales product <sup>2</sup> (baseline 2002)	-25%		-28.9%	page 95
Improvement of energy efficiency in production processes <sup>2</sup> (baseline 2002)	+25%		+23.7%	page 97
Stop the flaring of associated gas that is released during crude oil production by Wintershall (2012 goal)	100%		> 95%	page 96
<b>Reduction in emissions from chemical operations</b> (baseline 2002)				
Emissions of air pollutants <sup>2</sup>	-70%		-60.4%	page 93
Emissions to water <sup>3</sup> of				page 99
Organic substances	-80%		-71.5%	page 99
Nitrogen	-80%		-82.3%	page 99
Heavy metals	-60%		-58.4%	page 99
<b>Distribution safety</b> (baseline 2003)				
Reduction in transport accidents	-70%		-50%	page 93
<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	> 99%		25%	page 101

<sup>1</sup> Not including contributions from the Cognis group acquired on December 9, 2010

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

<sup>3</sup> Assuming comparable product portfolio

### EBITDA margin

2012 Goal: 18%

17.4%

### Energy efficiency

Improve energy efficiency in production processes  
Baseline 2002 (2020 Goal: +25%)

+24%

## Employees and society

	2020 Goals	Goals	Status at year-end 2010 <sup>1</sup>	More on
Occupational safety (baseline 2002)				
Reduction in lost time injury rate per million working hours	-80%	<div><div></div></div>	-39%	page 89
Health protection (baseline 2004)				
Reduction in cases of occupational diseases	-80%		+25%	page 89
Senior executives	Long-term Goals		Status at year-end 2010	More on
International proportion of senior executives	Increase in the proportion of non-German senior executives (baseline 2003: 30%)		33.4%	page 85
Women in senior executive positions	Increase in the proportion of female senior executives (baseline 2003: 5.2%)		7.6%	page 85
Senior executives with international experience	Proportion of senior executives with international experience over 70%		77.7%	page 85
Employees	Long-term Goal			
Personnel development	Establish a common understanding that personnel development is a responsibility shared by employees and managers and develop related processes and tools		Plan drafted	page 86

<sup>1</sup> Not including contributions from the Cognis group, acquired December 9, 2010

## Occupational safety

Lost time injury rate per million working hours  
Baseline 2002 (2020 Goal: -80%)

-39%

## Senior executives

Senior executives with international experience  
(Goal: >70%)

78%

## Markets, structures and organization

### The world's leading chemical company – The Chemical Company

**Around 109,000 employees of the BASF Group work to make customers from nearly all sectors and almost every country in the world become more successful. Our portfolio ranges from oil and gas to chemicals, plastics and specialties such as crop protection products.**

#### Markets and sites

BASF has subsidiaries in more than eighty countries and supplies products to a large number of business partners in nearly every part of the world. In 2010, we achieved 52% of our sales with customers in Europe, of which 30 percentage points were in the Oil & Gas segment. In addition, 20% of sales were generated in North America; 20% in Asia Pacific; and 8% in South America, Africa, Middle East. We operate six Verbund sites as well as approximately 390 additional production sites worldwide. Our Verbund site in Ludwigshafen is the largest integrated chemical complex in the world. This was where the Verbund concept was developed and continuously optimized before it was applied to other sites around the world. The Energy Verbund, for example, intelligently links production and energy demands so that heat from production processes can be used as energy in other plants, saving both primary resources and costs. Another important part of the Verbund concept is the Know-How Verbund. Expert knowledge is pooled in our technology platforms and Competence Centers.

→ For more on the Verbund concept, see [basf.com/verbund\\_e](http://basf.com/verbund_e)

#### Organization of the BASF Group

BASF's six business segments contain 15 divisions which bear the operational responsibility and manage our 73 global and regional business units. The divisions develop strategies for our 86 strategic business units and are organized according to sectors or products.

The operating division Care Chemicals in the Performance Products segment was split into two divisions in August 2010 in preparation for the integration of the Cognis businesses. The new division Nutrition & Health comprises products and system solutions for the nutrition and health market as well as for the fragrances and flavors industry. The Care Chemicals division comprises products and system solutions for cleaning, care, cosmetics and hygiene.

→ For more on the Cognis acquisition, see page 57 onward and page 153 onward

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

Three central divisions, five corporate departments and nine Competence Centers provide Group-wide services such as finance, investor relations, communications, human resources, research, engineering and site management.

#### Structure of BASF

Segments					
Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas
Divisions					
<ul style="list-style-type: none"> <li>– Inorganics</li> <li>– Petrochemicals</li> <li>– Intermediates</li> </ul>	<ul style="list-style-type: none"> <li>– Performance Polymers</li> <li>– Polyurethanes</li> </ul>	<ul style="list-style-type: none"> <li>– Dispersions &amp; Pigments</li> <li>– Care Chemicals</li> <li>– Nutrition &amp; Health</li> <li>– Paper Chemicals</li> <li>– Performance Chemicals</li> </ul>	<ul style="list-style-type: none"> <li>– Catalysts</li> <li>– Construction Chemicals</li> <li>– Coatings</li> </ul>	<ul style="list-style-type: none"> <li>– Crop Protection</li> </ul>	<ul style="list-style-type: none"> <li>– Oil &amp; Gas (Exploration &amp; Production, Natural Gas Trading)</li> </ul>

#### The BASF Group

- Six Verbund sites and approximately 390 other production sites worldwide; around 109,000 employees
- Ludwigshafen is the largest BASF Verbund site and where the Verbund concept was created
- Verbund: production plants linked intelligently to save resources and energy; Know-How and Research Verbund

#### Organization of the BASF Group

- Segments contain 15 divisions that manage our global and regional business units
- Regional divisions optimize the infrastructure and support operations
- Corporate divisions and departments as well as Competence Centers provide Group-wide services



## Corporate legal structure

BASF SE is headquartered in Ludwigshafen, Germany, and 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 concentrate on specific business areas, such as BASF's subsidiary Wintershall. In the BASF Group Consolidated Financial Statements, 318 companies including BASF SE are fully consolidated. We consolidate 21 joint ventures with one or more partners on

a proportional basis. We also include 14 companies using the equity method.

→ For more, see the Notes to the Consolidated Financial Statements from page 150 onward

## Compensation report and disclosures in accordance with section 315 (4) German Commercial Code

→ The compensation report can be found from page 125 onward, and the disclosures required by takeover law from page 120 onward. They form part of the Management's Analysis audited by the external auditor.

### BASF sites



## Corporate legal structure

- BASF SE, headquartered in Ludwigshafen, is the largest operating company
- 318 companies consolidated in the Consolidated Financial Statements
- 21 joint ventures included on a proportional basis
- 14 additional companies included using the equity method

## Most important research sites

- Europe: Ludwigshafen, Basel, Münster, Trostberg, Lemförde
- North America: Research Triangle Park, Iselin, Wyandotte, Tarrytown
- Asia Pacific: Shanghai, Singapore, Chandivali
- South America, Africa, Middle East: Guaratinguetá

## Value-based management

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

**“We earn a premium on our cost of capital” is one of the four pillars of our strategy. To create value and survive in the long term, a company’s earnings must exceed the costs of stockholders’ equity and debt capital. To secure BASF’s sustainable success, we encourage all employees to think and act entrepreneurially within the framework of our value-based management concept. Our goal: to create awareness about how every employee can find value-oriented solutions and implement these in an efficient and effective manner in day-to-day business.**

#### 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. This figure takes into account that BASF’s shareholders and creditors expect a return on the capital they provide. The BASF Group creates added value only when EBIT at least covers the cost of capital.

#### 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.

Borrowing costs comprise interest payments for bank loans and liabilities to the capital markets. The cost of equity corresponds to the returns expected by providers of equity. This is determined by the market value of BASF shares and with the help of the Capital Asset Pricing Model (CAPM).

An EBIT threshold is determined based on the cost of capital and income taxes. The BASF Group’s operating units need to reach this threshold in order to earn the cost of capital. The cost of capital percentage is the relationship between this minimum EBIT level and the BASF Group’s operating assets. In 2010, the cost of capital percentage was 9%. For 2011, it has been raised to 11% due to the increase in the market capitalization of BASF shares.

#### Value-based management throughout the company

Value-based management is only successful if it is firmly rooted in the company and rigorously applied. For us, value-based management is therefore the daily value-based actions of all our employees. In accordance with our four strategic guidelines, we have identified value drivers – factors that show how each individual business unit can create value. We develop key figures for the individual value drivers that help us to plan and pursue changes.

An important factor in ensuring the successful implementation of value-based management is achieved by linking the goals of BASF to the individual target agreements of employees. In the operating units, achievement of positive EBIT after cost of capital is the most important performance indicator. In contrast, the highest priority in the functional units is placed on value contribution, evaluated on the basis of effectiveness and efficiency.

On the basis of our value-based management concept, all employees can make a contribution in their business to help ensure that we earn a premium on our cost of capital. Around the world, we raise awareness of this topic among our team through numerous training programs, thereby promoting more entrepreneurial thinking at all levels within BASF.

**EBIT after cost of capital** (million €)  
Five-year-summary<sup>1</sup>

2010	3,500	
2009	(226)	
2008	1,621	
2007	2,895	
2006	2,126	

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

	2010	2009
EBIT BASF Group	7,761	3,677
less EBIT for activities not assigned to the segments <sup>1</sup>	(707)	(627)
less non-compensable foreign income taxes for oil production	983	870
less cost of capital <sup>2</sup>	3,985	3,660
EBIT after cost of capital	3,500	(226)

<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.

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

<sup>2</sup> In 2009 and 2010, the cost of capital percentage was 9%.

## Sustainability management

### Creating new business opportunities and minimizing risks

**BASF's sustainability management allows us to implement our strategic guideline "We ensure sustainable development." It anchors sustainability in our company, both strategically and organizationally, and regulates how this is implemented in day-to-day business. Sustainable development helps us enhance our existing business, create new business opportunities and minimize risks.**

#### Strategy

Sustainability is a responsibility that cuts across the entire structure of BASF. As part of this, we foster open dialogue with our stakeholders, identify important topics early on, and implement and monitor our voluntary commitments worldwide. We take advantage of business opportunities with products and services that have economic and environmental benefits for our customers. To identify these, in 2010, we started taking sustainability aspects into account more systematically in the development of strategies for our strategic business units.

When we acquire companies, we integrate them as quickly as possible in our management systems and organization for sustainability. We ensure that new employees are familiar and act in accordance with our global requirements for environmental protection, health protection and safety as well as labor and social standards. We have expert teams who act as advisers on sustainability during the integration of acquired companies.

→ **For more on the implementation of requirements related to environment, health, safety and security, see page 91 onward**

#### Sustainability organization

Our global Sustainability Council is the central decision-making body for all relevant sustainability topics. It advises the Board of Executive Directors on decisions concerning sustainability. With global directives, the Council ensures that the BASF Group acts in accordance with the principles of sustainable development. The Council comprises nine heads of functional, operating and

regional divisions. The Chairman of the Council is Board member Dr. Harald Schwager. The Sustainability Council is supported by regional steering committees that identify key regional topics, initiate the corresponding projects, and implement global decisions locally. Our Sustainability Center coordinates the implementation of the sustainability strategy in our core business, liaising between the Sustainability Council, regional networks and operating units.

→ **For more, see [basf.com/sustainability](http://basf.com/sustainability)**

#### Identifying relevant topics

We want to recognize topics at an early stage that could represent opportunities or risks for our business now or in the future. Therefore we regularly analyze the relevance of sustainability issues for BASF and for society. In 2010, we carried out a new materiality analysis. Together with external partners, we surveyed several hundred external experts and stakeholders as well as BASF managers about key sustainability topics. Subsequently, BASF's experts from several divisions identified the strategic importance of these issues for BASF. We are using the results to develop strategies for these topics, paying special attention to topics that have come increasingly into focus, such as water, biodiversity and renewable raw materials. In 2010, the Sustainability Council decided that the sustainability strategy should be refined with regard to these topics. To do so, we will develop strategic positions and define goals. The first results will be presented to the Sustainability Council in 2011.

→ **For more on our process for identifying sustainability topics and the new results, see [basf.com/materiality](http://basf.com/materiality)**

→ **For more on materiality analysis, see page 2**

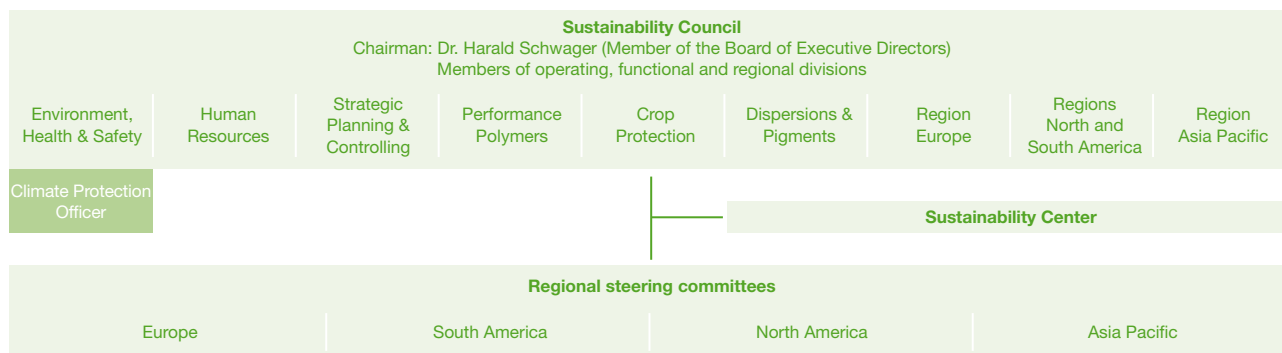
#### Strategy

- Responsibility throughout entire company
- Implementation of the strategic guideline "We ensure sustainable development"
- Goal: create business opportunities, minimize risks
- Sustainability is an important aspect in integrating acquired companies

#### Organization

- Global Sustainability Council is the central decision-making body
- Regional steering committees for sustainability
- Sustainability Center coordinates the implementation in our core business

### Sustainability management structures



### Minimizing risks

We have set global standards for our sites. We use various systems to monitor whether BASF sites adhere to these environmental and safety standards as well as commitments to labor and social standards and compliance. We conduct internal audits on process safety, occupational health and safety, and environmental protection. To evaluate labor and social standards, we use a three-part monitoring system that includes an anonymous compliance hotline, an annual global survey in our Group companies and close dialogue with employee representatives and international organizations.

Our selection of suppliers is not based exclusively on economic criteria. Our procurement policies also incorporate environmental protection, occupational safety and social standards. These are included in the evaluation of new and existing suppliers. We conduct risk-based assessments of our suppliers worldwide through on-site visits. We rely on risk matrices to identify potential high-risk suppliers, based on country, product and sector risks. In response to a country and product risk analysis, we paid on-site visits to around 230 raw materials suppliers in 2010 to assess environmental, health and safety aspects. If our

audits find need for improvement, we agree on corrective measures and offer our assistance. We perform a follow-up audit a few months later. If we do not see any improvement, we stop our procurement from this supplier. In 2010, there were five cases in which we decided to move our business to another supplier. Around 690 suppliers took part in the monitoring process for labor and social standards in 2010. They recognized our Code of Conduct for suppliers and filled out a questionnaire on labor and social standards. One of the most important measures to minimize risks in our supply chain is our Supplier Days. At these events, we illustrate to suppliers the importance of internationally recognized labor and social standards for BASF and show how meeting these standards can be a competitive advantage for them. In India, more than 150 companies participated in our Supplier Days on labor and social standards in 2010 – including many important suppliers of raw materials and technical equipment. In 2010, BASF purchased approximately 500,000 different raw materials and technical goods as well as plant construction and maintenance services and logistics services. We procured raw materials from more than 6,000 suppliers.

### Minimizing risks

- Monitoring systems help to assess adherence to global standards
- Audits on process safety, occupational health and safety, and environmental protection; three-part monitoring system for labor and social standards
- 2010: 690 suppliers assessed with regard to labor and social standards; 230 audits on environment, health and safety at raw materials suppliers
- More than 150 suppliers in India took part in Supplier Days related to labor and social standards

BASF Group's purchasing volume in 2010 amounted to €30.1 billion, excluding merchandise. 

- **Information on compliance can be found from page 120 onward; for more on the monitoring system to evaluate labor and social standards, see [basf.com/monitoring\\_e](http://basf.com/monitoring_e)**
- **For more on supply chain management, see [basf.com/supplychain](http://basf.com/supplychain)**

### Milestones 2010

#### Sustainability management

- Materiality analysis revised
- 450th Eco-Efficiency Analysis carried out since 1996
- Supplier Days on labor and social standards

### Business opportunities with sustainability

With sustainability, we want to set ourselves apart from our competitors. We bring our expertise into customer relationships through the initiative "Success – Added Value through Sustainability." Here, our business units investigate how they can broaden and strengthen relationships to customers and suppliers with sustainability. One example is our S.E.T. (Sustainability, Eco-efficiency, Traceability) initiative, which helps food and feed producers to develop sustainable products.

BASF developed the Eco-Efficiency Analysis as a strategic tool for the evaluation of products and processes. It compares the economic benefits of a product to its impact on the environment throughout its entire life cycle - from raw materials extraction, to its use, and finally, to its recycling or disposal. The categories examined include resource and energy consumption as well as emissions. Since 1996, the Eco-Efficiency Analysis has been helping us and our customers to identify areas of potential economic or environmental improvement for products and processes. We performed the 450th Eco-Efficiency Analysis in 2010. In the Socio-Eco-Efficiency Analysis SEEBALANCE®, we expanded the Eco-Efficiency Analysis to include social impacts.

It incorporates additional social criteria such as the number of jobs and spending on research and development. In 2010, we started a new project that includes elements that will be particularly important for agriculture in the future, for example, biodiversity and soil protection issues such as erosion prevention; a special focus can also be on emerging markets. In order to develop a comprehensive assessment of the key criteria for sustainable agriculture, we are in dialogue around the world with various stakeholders such as environmental organizations and farmers' representatives.

Together with the GTZ (German governmental agency for international cooperation) and local partners, BASF has been sharing its sustainability expertise through the Espaço ECO foundation in Brazil for the past five years. Espaço ECO promotes sustainable development by transferring knowledge and technology, with a focus on Eco-Efficiency Analysis, environmental education and reforestation projects. The foundation helps organizations in South America use sustainability to be globally competitive. The initiative has reached over 94,000 people since 2005. 

- **For more on the S.E.T. initiative, see [www.set-initiative.com](http://www.set-initiative.com)**
- **For more on Espaço ECO, see [www.espacoeco.org](http://www.espacoeco.org)**
- **For more on Eco-Efficiency Analysis and SEEBALANCE, see [basf.com/eco-efficiency](http://basf.com/eco-efficiency) and page 96**
- **For more on Responsible Care, see page 91**
- **For more on product stewardship, see page 101 onward**
- **For more on opportunities with climate protection products, see page 96**

### Stakeholder engagement

Our most important stakeholders include customers, employees, shareholders, neighbors, employee representatives, policy makers, media, non-governmental organizations and business partners. Our exchange with these stakeholder groups helps us to identify important issues and the ensuing opportunities and risks for BASF. The results of our dialogue with stakeholders feed into our issue management for sustainability.

### Business opportunities with sustainability

- Differentiation through the initiative "Success – Added Value through Sustainability"
- Eco-Efficiency Analysis and SEEBALANCE as strategic tools for evaluating the sustainability of products and processes
- Sustainability is a component of innovative business strategies
- **For more on Success, see [basf.com/success\\_e](http://basf.com/success_e)**



We have a particular responsibility to our neighbors. We discuss current issues with them in 73 Community Advisory Panels (CAPs). The CAP at our site in Tarragona, Spain, for example, was established 15 years ago. The agenda here in 2010 included product safety, the implementation of the European chemical regulation and plant biotechnology.


BASF also uses social media to intensify direct contact with its stakeholders. One example is the German-language dialogue platform [www.amf.ora.de](http://www.amf.ora.de), where we respond to critical questions about plant biotechnology.

We aim to address skepticism in the public debate by providing transparency about our activities. The trust of consumers, non-governmental organizations, policy makers and the general public is especially important for the successful introduction of products based on new technologies. We enter the political and public debate at an early stage of technological development, for example, with regard to nanotechnology. Since 2004, we have been involved in national and international dialogues on nanotechnology. In our Dialogue Forum Nano in 2010, we met with representatives from environmental associations, consumer protection organizations and churches to discuss how to make communication transparent throughout the entire life cycle of a product.

We also support the implementation of the Global Product Strategy (GPS) of the International Council of Chemical Associations (ICCA). GPS aims to establish global standards and practices to improve the safe management of chemical substances, especially in developing countries, and contributes to implementing the Responsible Care Global Charter. GPS offers capacity-building workshops for small and medium-sized enterprises that are currently being carried out in Europe in cooperation with the European Commission as well as in developing countries in Asia and North Africa. BASF experts are participating as trainers in these locations.

Good relationships with our customers and their satisfaction with our performance are key to our long-term business success. We measure customer satisfaction with our Non Conformance Management (NCM) system. In this centralized system for all units, we record and investigate problems with our products and processes that arise for our customers. This helps us to learn from mistakes, reduce costs and continuously improve our performance. In 2010, we linked our NCM system more closely with our supply chain and finance processes.

In our *perspectives* initiative, customers and BASF employees analyze existing business relationships and new business opportunities, with the aim of further strengthening customer relationships. In a cross-divisional workshop in 2010, for example, we explored new potential for cooperation with Trelleborg Offshore, a manufacturer of insulating material for deepwater oil pipelines. Our focus was on improved production techniques and the use of innovative technologies to increase the efficiency of processes and generate more sales and earnings. In 2010, 2,800 employees took part in special training and workshops on topics related to marketing and sales.

Our customers also honored our performance in 2010: In India, for example, BASF received awards from Tata Motors, Mahindra & Mahindra, and Honda Motorcycle and Scooter India (HMSI). 

→ For more on the dialogue on plant biotechnology, see [www.amf.ora.de](http://www.amf.ora.de) (only available in German) and [basf.com/dialogue\\_plantbiotechnology](http://basf.com/dialogue_plantbiotechnology)

→ For more on nanotechnology, see [basf.com/dialogue-nanotechnology](http://basf.com/dialogue-nanotechnology)

## Stakeholder engagement

- BASF's most important stakeholders include customers, employees, shareholders, neighbors, employee representatives, policy makers, media, non-governmental organizations and business partners
- Dialogue with stakeholders helps us identify important issues and the ensuing opportunities and risks
- 73 Community Advisory Panels around the world
- Dialogue relating to new technologies provides information and creates trust
- For more on the stakeholder dialogue, see [basf.com/dialogue](http://basf.com/dialogue)

## Value added statement

**The value added statement explains the BASF Group's contribution to private and public income and shows how BASF's economic activities provide value to society.**

Value added results from the company's business performance minus goods and services purchased as well as depreciation and amortization. In contrast to the income statement, which is based on the owner's perspective, the distribution statement takes into account the stakeholders in this value-adding process, such as employees, shareholders or the state.

BASF Group's value added amounted to €16,658 million in 2010. This was an increase of 49.3% in comparison with the previous year. The rise was primarily attributable to the increase in the business performance.

The greatest share of value added was distributed to our employees, who received €8,228 million 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 €2,583 million in 2010 compared with €1,662 million in the previous year.

In 2010, BASF spent a total of €50 million on donations, sponsoring and funding for our own projects, compared with €48 million in 2009. This amount is reported in "other expenses."

The remaining value added of €4,557 million was available to be paid out as a dividend to BASF SE shareholders or retained.

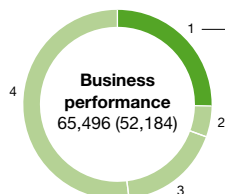
→ For more on wages and salaries, see page 84 and page 165 onward; for more on taxes, see page 163 onward; and for more on donations and sponsoring, see page 90

### Value added statement BASF Group 2010

#### Creation of value added

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

1	Value added	16,658 (11,158)
2	Amortization and depreciation	3,370 (3,746)
3	Services purchased, energy costs and other expenses	11,459 (10,867)
4	Cost of raw materials and merchandise	34,009 (26,413)



#### Use of value added (previous year's figures in parentheses)

49.4%	<b>Employees</b> (63.7%)
15.5%	<b>Taxes</b> (14.9%)
3.1%	<b>Minority interests</b> (2.2%)
4.6%	<b>Creditors</b> (6.5%)
27.4%	<b>Remaining value added</b> (dividend and retention) (12.7%)

### Value added statement

- BASF Group's financial contribution to private and public income
- Increase of 49.3% compared with 2009 to €16.7 billion
- Largest share distributed to employees

### Use of value added

- €8,228 million for employees
- €2,583 million for taxes
- €50 million for social commitment
- €4,557 million available to be paid as a dividend to BASF SE shareholders or retained

## Research and development

Meeting challenges, developing solutions, shaping the future

**Research and development is one of the foundations of BASF's strategy. In international and interdisciplinary teams, our researchers work on solutions for the challenges of the future and ensure BASF's sustainable, organic growth. With our new products and processes, we drive innovation in nearly all industrial sectors. In this way, we help our customers to be more successful in the long term.**

The objectives of our future-oriented projects are determined by global megatrends such as population growth, increasing urbanization and rising demand for resources and energy. BASF has further strengthened its research performance, which supports the economic upturn and drives our growth.

Our global team of highly qualified employees with various specializations is the cornerstone of our innovative strength. In 2010, the number of employees involved in research and development increased to around 9,600. Our knowledge and competence centers are our four central technology platforms: Polymer Research, Specialty Chemicals Research, Chemicals Research and Engineering, and Plant Biotechnology Research. These are supplemented by the decentralized development units in our operating divisions.

Our project portfolio included around 3,000 projects in 2010. Expenditures on research and development increased by €94 million to €1,492 million. The segments' operating divisions are responsible for the majority of research, with expenditures accounting for 78% of the total. The remaining 22% was allocated to cross-divisional, strategic corporate research, which concentrates on BASF's growth clusters. We continue to invest around one third of our research and development expenditures in products and technologies for increased energy efficiency, as well as in climate protection, resource conservation and alternative raw materials.

→ For more on research and development in the segments, see page 46 onward

Thanks to our close cooperation with numerous partners from science and business worldwide, we have created an international and interdisciplinary Know-how Verbund – an important factor in the success of efficient and future-oriented research and development. Our network includes around 1,900 collaborative partnerships with universities, research institutes, startup companies and industry partners.

→ For more, see [basf.com/research-organization](http://basf.com/research-organization)

One example of this type of cooperation is the international competence network for electrochemistry and batteries established by BASF in 2010. It aims to address fundamental questions relating to materials and components of battery systems for electromobility and stationary electricity storage. This also builds on the HE-Lion project, a consortium sponsored by the German Ministry of Education and Research in which BASF and 17 partners from industry and science are developing higher-performing, safe and more affordable lithium-ion batteries for future propulsion systems.

With our project portfolio, we make a considerable contribution to BASF's economic success. We clearly surpassed our 2010 goal of generating sales of €6 billion with product innovations – new and improved products or applications that have been on the market for a maximum of five years. In 2015, we aim for sales of up to €8 billion from product innovations.

We published the net present value of our research pipeline for the first time in 2010. To determine this value, business plans are created for each project that take into account the expected expenditures for the product's research, development and production as well as anticipated sales. With the help of these business plans, we calculate the net present value of our projects if they are successful. Overall, our research pipeline is worth nearly €21 billion, demonstrating how important research and development is for BASF's sustainable growth.

→ For a multi-year overview of research and development expenditures, see the ten-year summary on page 210

### Research and development

- Around 9,600 employees working in research and development
- Project portfolio with around 3,000 projects
- Clearly surpassed 2010 aim of generating €6 billion in sales from product innovations
- Expected sales of up to €8 billion from product innovations in 2015
- Value of BASF's research pipeline: nearly €21 billion

### Expenditure on research and development by segment

1	Chemicals	9%
2	Plastics	10%
3	Performance Products	19%
4	Functional Solutions	12%
5	Agricultural Solutions	26%
6	Oil & Gas	1%
7	Other	1%
8	Corporate research	22%



Patents are an important measure of research performance. They serve as indicators of long-term competitiveness and are a sign of a company's innovative strength. The Patent Asset Index™ developed at the Otto Beisheim School of Management (WHU) near Koblenz, Germany, enabled us to compare our patent portfolio with those of other companies across the industry in 2009 for the first time. As in the previous year, we took first place in this ranking in 2010. This makes us one of the most innovative companies in the global chemical industry. In 2010, BASF filed around 1,100 patents worldwide.

### BASF's growth clusters

Chemistry is a cross-sectional technology that helps us find solutions for the challenges arising from global megatrends. We group our research projects in the growth clusters plant biotechnology, white biotechnology, raw material change, energy management, and nanotechnology. In these clusters, the focus is on technologies and markets of the future.

One of the core activities of the **plant biotechnology growth cluster** is to develop crops that offer farmers better and more reliable harvests – in order to allow the available farmland to produce food for a growing population. Our activities include a partnership with Monsanto to develop genetically modified plants that are more stress-tolerant and higher-yielding. The first product of this cooperation is a drought-tolerant corn (maize), which is scheduled to be introduced on the U.S. market in 2012. Our other partners in the development of important crops include Bayer CropScience (rice), the research center Centro de Tecnologia Canavieira (sugarcane) and KWS Saat AG (sugar beet).

In the **white biotechnology growth cluster**, we use innovative technologies for biocatalysis and fermentation. For example, we are cooperating with our partner Solix Biofuels to research the production of specialty chemicals using algae.

Solix is using its own technology to test various kinds of algae for BASF. Algae are able to absorb carbon dioxide (CO<sub>2</sub>) during their life cycle and integrate it into their products of metabolism. This type of project enhances our technology portfolio in the field of industrial biotechnology.

In the **raw material change growth cluster**, we are looking for alternatives to crude oil as a raw material for the chemical industry. In addition to crude oil, in the long term, natural gas, renewable raw materials, and even CO<sub>2</sub> could become starting materials for our value-adding chains, thus diversifying our raw materials sources. We are developing new technologies to use CO<sub>2</sub> in the production of plastics, plastic precursors and important intermediates.

The growing demand for energy is a driving factor behind our **energy management growth cluster**. Around 20% of global electricity consumption is used to generate light. We are working on the development of new materials for energy-saving light solutions based on organic light-emitting diodes (OLEDs). In a joint project funded by the German Federal Ministry of Education and Research, we are developing a highly efficient and stable blue emitter system – a key element for new OLED light sources.

Sustainable system solutions for the automotive and construction industries are one focus for our **nanotechnology growth cluster**. Examples include heat management systems with intelligent infrared pigments as well as new foams that regulate the heat absorption and release in cars or buildings. As a result, heating and cooling technology requires less energy.

The success of our projects encourages us to continue to address global megatrends with our research activities. Research and development are essential for BASF's long-term growth and they make an important contribution to sustainable development. 🌐

### BASF's growth clusters

- In five growth clusters, we look for solutions to challenges arising from global megatrends
- Growth clusters: plant biotechnology, white biotechnology, raw materials change, energy management, and nanotechnology
- Growth clusters concentrate on future technologies and markets

### BASF the leader in Patent Asset Index

**Patent Asset Index** (standardized, as of December 31, 2010)  
An indicator of companies' innovative strength<sup>1</sup>

<b>BASF</b>	<b>100</b>	
Bayer	74	
DuPont	66	
Dow Chemical	64	
Evonik	29	

Source: PatentSight; methodology: Prof. Ernst, WHU

<sup>1</sup> Based on the portfolio size (number of patent families) and the competitive impact (number of citations in other patents and market coverage)

## Trends in the global economy

**There was a dynamic recovery in the global economy in all regions in 2010 following the severe recession in the previous year. The strong upturn in the first half of the year was followed by weaker growth in the second half. Global gross domestic product rose significantly overall in comparison with the previous year (+3.9%) and was higher than our original 2010 forecast (+2.7%).**

In 2010, the strong growth in global gross domestic product (+3.9%) was mainly a result of the dynamic economic development in emerging markets in Asia and South America, the positive effects of government economic stimulus programs and the restocking of industrial inventories. Other growth impetus resulted from the worldwide rise in demand for capital goods and the marked revival of international trade, which particularly allowed export-oriented economies such as Germany and Japan to recover quickly.

### Development by region

Given the fiscal problems of some European countries, there were major discrepancies in the growth rates in **Europe** in 2010. Overall, gross domestic product increased sharply in the first half of the year, but growth weakened in the second half. Private consumption, in particular, slowed following the end of the fiscal stimulus programs. In contrast to the previous year, growth in gross domestic product in the European Union recovered (2009: -4.2%; 2010: +1.9%). There was a significant increase in industrial capacity utilization, which had fallen as a result of the economic crisis. Germany especially benefited from the global economic recovery: Strong foreign demand for capital goods led to a sharp increase in net exports and therefore to above-average growth (+3.6%).

In the **United States**, the average economic output in 2010 increased again markedly (+3.0%). Strong impetus was generated by expansive fiscal and monetary policies. Relatively high unemployment hindered a recovery in private consumption. The continued low level of construction investment slowed overall economic growth. Uncertainties on the international capital and currency markets led over the course of the year to significant fluctuations in the value of the U.S. dollar versus other currencies.

Economic output in **Asia (excluding Japan)** rose sharply in 2010 (+9.2%), driven in particular by China's dynamic economic growth (+10.3%). The Chinese government's massive economic stimulus and infrastructure programs strengthened the country's economic development. Demand for consumer and capital goods in China acted as stimulus for the other economies in Eastern and South East Asia. India had been relatively unaffected by the economic crisis and also experienced strong growth in 2010 (+10.6%).

While the growth rate in **Japan** was strong in the first quarter of 2010, the economy stagnated toward the end of the year. The significant rise in the value of the yen had a negative impact on foreign demand in the second half of the year. The end of fiscal stimulus programs also had a detrimental effect on economic growth. Japan's export sector benefited from Chinese demand. Gross domestic product rose noticeably in comparison with the previous year (+3.5%).

Growth in **South America** was considerable in 2010 (+6.1%). Economic recovery was powered by a renewed increase in raw materials exports, ongoing solid consumer demand and increasing foreign direct investment. Regional growth drivers were primarily increasing domestic demand and investing activity in Brazil.

→ For the forecast for the economic environment in 2011, see page 112 onward

### Trends in the global economy in 2010

- Significant year-on-year increase in global gross domestic product (+3.9%), surpassing our original forecast (+2.7%)
- Slight growth slowdown in the second half of the year
- Economic growth supported by the dynamic development of emerging markets in Asia and South America, economic stimulus programs and inventory restocking

#### Gross domestic product 2010

Real change compared with the previous year

World	3.9%	<div></div>
E.U.	1.9%	<div></div>
United States	3.0%	<div></div>
Asia (excl. Japan)	9.2%	<div></div>
Japan	3.5%	<div></div>
South America	6.1%	<div></div>



## Trends in key customer industries

Following a sharp drop in the previous year (–8.1%), global industrial production grew considerably in 2010 (+8.9%). The recovery was more pronounced than we had forecast (+4.9%). The main reasons for the economic upturn included the strong growth in Asia as well as the fiscal and monetary stimulus programs around the world. In Asia's emerging markets, industrial production (+14.5%) grew twice as fast as in the OECD industrialized countries (+7.2%).

The **automotive industry** benefited from government stimulus programs until mid-2010. Thanks to robust economic growth in Asia, the industry also experienced a strong increase in demand. The number of automobiles produced worldwide rose significantly (+21.5%). Following two weak years, U.S. automotive production grew very sharply (+35.0%). In Europe, the market also posted a considerable increase over the previous year (+8.4%).

The **construction industry** declined worldwide (–1.3%). It decreased again compared with the previous year, in particular in the United States (–11.0%), Japan (–8.0%) and the European Union (–3.6%). Government infrastructure projects were not able to offset the declines in housing and commercial building activity. In the emerging markets of Asia, on the other hand, construction activity continued to grow strongly (+8.2%).

Thanks to catch-up effects worldwide, the **electrical industry** recovered markedly (+12.0%). Compared with the previous year, there was a significant increase in production in the industrialized countries (+10.1%), in Japan (+22.1%) and in the emerging markets of Asia (+19.0%).

The **information and communication technology industry (ICT)** also experienced a major recovery, in particular as a result of high demand for entertainment electronics. On account of the strong growth (+16.6%), production returned to the level seen before the economic crisis after just one year.

In the **textiles industry**, the global trend to relocate production to Asia continued. Starting from a low production level, the industrialized countries posted positive growth (+6.4%) for

the first time in seven years. In Asia (excluding Japan), production grew considerably (+10.5%). Globally, it increased sharply (+8.8%).

The **paper industry** grew worldwide by 7.9%. This was primarily attributable to the demand for packaging paper. Regionally, growth was driven by the emerging markets of Asia (+13.4%). Production in industrialized countries was also significantly higher (+4.4%).

There was above-average growth in the **food industry** (+3.9%). Production rose measurably in both industrialized countries (+2.5%) and emerging markets (+6.9%).

**Agriculture** grew considerably worldwide (+4.2%). In industrialized countries, production increased slightly (+1.7%). In emerging markets, favorable weather conditions in China and India led to significant overall growth (+5.5%).

→ For the forecast for the economic environment in 2011, see page 112 onward

**Growth in key customer industries in 2010**  
Real change compared with the previous year

<b>Industries total</b>	<b>OECD</b>	<b>7.2%</b>	
	<b>World</b>	<b>8.9%</b>	
Automotive (per-unit basis)	OECD	19.6%	
	World	21.5%	
Construction	OECD	–5.4%	
	World	–1.3%	
Electrical industry	OECD	10.1%	
	World	12.0%	
Information and communication	OECD	16.6%	
	World	16.6%	
Textiles	OECD	6.4%	
	World	8.8%	
Paper	OECD	4.4%	
	World	7.9%	
Food	OECD	2.5%	
	World	3.9%	
Agriculture	OECD	1.7%	
	World	4.2%	

### Development of industrial production in 2010

- Sharp increase in global industrial production (+8.9%); impetus from global economic stimulus programs
- Major increase in automotive production (+21.5%) owing to higher demand; construction industry declines globally (–1.3%)
- Significant increases in production in electrical, ICT, textiles, paper and food industries as well as in agriculture

### BASF sales by industry

#### Direct customers

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

## Trends in the chemical industry

**There was a strong upturn in the chemical industry in 2010: Following negative growth rates in the previous two years, global chemical production in 2010 again reached the pre-crisis level. The first half of the year was particularly characterized by an exceptionally strong recovery. Growth became less dynamic in the second half. Global chemical production (excluding pharmaceuticals) grew by 9.3%.**

Due to high demand and inventory restocking in key customer industries, **global chemical production** (excluding pharmaceuticals) in 2010 reached the level seen before the economic crisis. In industrialized countries such as Germany and Japan, production was boosted by dynamic export growth, which was better than expected. At the beginning of the upturn, there were worldwide production shortages in the chemical industry because plants had to be put back into operation again.

Compared with other industrialized countries, chemical production in the European Union grew particularly fast (+10.1%). As a result of the close interconnectedness of the chemical industry with dynamically-growing, export-oriented customer industries, chemical production growth was particularly substantial in Germany (+17.7%). Japan also experienced exceptionally high growth (+8.8%). In the United States, the strength of the U.S. dollar at times had a damping effect on the growth dynamic (+5.0%). In contrast, chemical production grew strongly in South America (+6.4%) and Asia (excluding Japan) (+13.0%).

**Chemical production (excluding pharmaceuticals) in 2010**  
Real change compared with the previous year

World	9.3%	<div></div>
E.U.	10.1%	<div></div>
United States	5.0%	<div></div>
Asia (excl. Japan)	13.0%	<div></div>
Japan	8.8%	<div></div>
South America	6.4%	<div></div>

The **crude oil price** for Brent blend increased in 2010; the fluctuations over the course of the year were relatively moderate. The average monthly prices ranged from \$73 per barrel to \$92 per barrel. The economic recovery and stronger demand led to rising prices over the course of the year. The average annual oil price was around \$80 per barrel, an increase of around 30% over the previous year's level and higher than the average price in the pre-crisis year 2007.

Average monthly prices for the chemical raw material **naphtha** ranged over the course of the year from a low of \$620 per metric ton in July to a high of more than \$840 per metric ton in December. The average annual price of naphtha was \$710 per metric ton, an increase of around 35% over the previous year's level.

In 2010, the average price of natural gas in the United States ranged between \$3/mbtu and \$6/mbtu. The average annual price was around \$4/mbtu, slightly higher than the 2009 average. In Europe, the average gas price fell slightly compared with the previous year and amounted to around \$8/mbtu.

→ For the forecast for the economic environment in 2011, see page 112 onward

### Trends in the chemical industry in 2010

- Global chemical production (excluding pharmaceuticals) grows by 9.3%; reaching pre-crisis level again
- Compared with other industrialized countries, very strong increase in chemical production in the European Union (+10.1%)
- Price of Brent blend crude oil increased in 2010; relatively moderate fluctuations

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



— Oil spot price (Brent blend) in US\$/barrel  
— Naphtha spot price in US\$/metric ton

## Business review BASF Group

### Sales and earnings (million €)

	2010	2009	Change in %
Sales	63,873	50,693	26.0
Income from operations before depreciation and amortization (EBITDA)	11,131	7,388	50.7
EBITDA margin (%)	17.4	14.6	–
Income from operations (EBIT) before special items	8,138	4,852	67.7
Income from operations (EBIT)	7,761	3,677	111.1
Financial result	(388)	(598)	35.1
Income before taxes and minority interests	7,373	3,079	139.5
Income before minority interests	5,074	1,655	206.6
Net income	4,557	1,410	223.2
Earnings per share (€)	4.96	1.54	223.2
Adjusted earnings per share (€)	5.73	3.01	90.4

### Sales and earnings by quarter 2010 (million €)

	1st quarter	2nd quarter	3rd quarter	4th quarter	2010
Sales	15,454	16,214	15,781	16,424	63,873
Income from operations before depreciation and amortization (EBITDA)	2,627	2,867	2,934	2,703	11,131
Income from operations (EBIT) before special items	1,954	2,206	2,213	1,765	8,138
Income from operations (EBIT)	1,840	2,079	2,155	1,687	7,761
Financial result	(80)	(93)	(105)	(110)	(388)
Income before taxes and minority interests	1,760	1,986	2,050	1,577	7,373
Net income	1,029	1,183	1,245	1,100	4,557
Earnings per share (€)	1.12	1.29	1.35	1.20	4.96
Adjusted earnings per share (€)	1.32	1.50	1.52	1.39	5.73

### Sales and earnings by quarter 2009 (million €)

	1st quarter	2nd quarter	3rd quarter	4th quarter	2009
Sales	12,219	12,502	12,798	13,174	50,693
Income from operations before depreciation and amortization (EBITDA)	1,587	1,576	1,993	2,232	7,388
Income from operations (EBIT) before special items	985	1,140	1,248	1,479	4,852
Income from operations (EBIT)	928	772	971	1,006	3,677
Financial result	(202)	(59)	(173)	(164)	(598)
Income before taxes and minority interests	726	713	798	842	3,079
Net income	375	343	237	455	1,410
Earnings per share (€)	0.41	0.37	0.26	0.50	1.54
Adjusted earnings per share (€)	0.55	0.79	0.61	1.06	3.01

### Sales

Record level achieved; considerable increase in volumes as a result of economic recovery in key customer industries; higher prices for many products

+26%

### Sales (million €)

2010	63,873	
2009	50,693	
2008	62,304	
2007	57,951	
2006	52,610	

**BASF achieved record sales and earnings in 2010. The chemicals business<sup>1</sup> in particular benefited from the strong economic recovery in 2010, which was more dynamic than we had initially anticipated. In the first half of the year, demand was additionally driven by inventory restocking in key customer industries. There were temporary supply bottlenecks for some chemical products. Higher raw materials costs could largely be passed on to customers. In this favorable market environment, margins improved for numerous products.**

**Compared with 2009, sales increased by 26% to €63,873 million. Income from operations improved by 111% and amounted to €7,761 million.**

→ For more on the economic environment in 2011, see pages 112 – 114

### Sales and earnings

As a result of the economic recovery, demand from our key customer sectors increased and sales volumes rose significantly. Business developed positively in all regions, with growth impetus coming particularly from Asia. Prices of many products were higher than the year before. In the Petrochemicals and Catalysts divisions in particular there were substantial price increases. The appreciation of numerous currencies against the euro also helped to boost the already good sales. In addition, the full-year inclusion of the former Ciba businesses had a positive impact on sales growth. Other company purchases and divestitures only had a small influence on sales; the acquisition of Cognis took effect on December 9, 2010.

### Factors influencing sales (million €)

	2010	Change compared with 2009 (%)
Volumes	5,718	11.3
Prices	3,923	7.7
Currencies	2,364	4.7
Acquisitions and changes in the scope of consolidation	1,233	2.4
Divestitures	(58)	(0.1)
	<b>13,180</b>	<b>26.0</b>

In the **Chemicals** segment, sales were far above the 2009 level thanks to higher prices and volumes. For some products, there were temporary supply shortages. Higher raw materials costs could largely be passed on in our sales prices. The Petrochemicals division benefited particularly from this development. There was a strong improvement in income from operations in the segment thanks to increased margins, especially for basic products, and higher volumes.

The **Plastics** segment also posted a strong rise in sales compared with the previous year. The economic upswing in key customer industries led to a noticeable revival of demand. The automotive industry in particular recovered more quickly than we had expected. Capacity utilization rates at our plants were good. While prices in the Polyurethanes business remained broadly stable, they rose in the Performance Polymers division mainly as a result of higher raw materials costs. With margins generally stable, there was a strong improvement in income from operations.

The **Performance Products** segment benefited from the economic recovery as well as the quick and successful integration of Ciba and the restructuring of the combined businesses. Demand and sales grew in all divisions, due in part to

### Income from operations

Earnings more than doubled compared with previous year; increase in chemicals business in particular thanks to high capacity utilization and good margins, especially for basic products

**+111%**

### Income from operations (million €)

2010	7,761	
2009	3,677	
2008	6,463	
2007	7,316	
2006	6,750	

<sup>1</sup> Our chemicals business includes the Chemicals, Plastics, Performance Products and Functional Solutions segments.

inventory restocking along the entire value-adding chain, especially in the first half of the year. While special items resulting from the integration of Ciba had a negative impact on the segment's earnings in 2009, in 2010 measures to reduce fixed costs and the realization of synergies led to a strong improvement in earnings.

In the **Functional Solutions** segment, sales were far above the 2009 level thanks to higher volumes and prices. In the Catalysts and Coatings divisions, an increase in volumes and sales was mainly attributable to improved demand from the automotive industry. In the Construction Chemicals division, however, sales growth was not as strong. Thanks to our strict cost discipline and our measures to increase efficiency, all three divisions made a considerable contribution to the segment's strong improvement in income from operations.

**Agricultural Solutions** significantly exceeded the very good sales level of the previous year. Sales volumes of insecticides, herbicides and fungicides were higher than in the previous year. Lower prices were offset by the increase in business volume and positive currency effects. Income from operations remained nearly stable despite increases in selling expenses as well as research and development expenses.

Sales declined in the **Oil & Gas** segment. The reasons for this were different for each business sector: In Exploration & Production, volumes declined due largely to the OPEC production restrictions in Libya. However, this was almost entirely offset by higher crude oil prices and a stronger U.S. dollar. In Natural Gas Trading, sales volumes increased but sales declined due to lower gas prices. Despite the decline in sales, income from operations in the segment improved slightly.

Sales in **Other** rose to €5,851 million from €4,577 million in the previous year, primarily as a result of higher prices and sales volumes in the Styrenics business. Income from operations in Other, however, declined from minus €627 million to minus €707 million, attributable primarily to higher expenses for the long-term incentive program. This was partially offset by better foreign currency results and a higher earnings contribution from Styrenics.

Earnings after cost of capital amounted to €3,500 million, a new record for BASF. This means we earned a high premium on our cost of capital.

### Special items

In 2010, the negative impact on income from operations from special items was considerably less than in the previous year: €377 million, compared with €1,175 million in 2009. The decline in special items was mainly a result of lower costs for the integration of Ciba, which amounted to just €79 million in 2010 compared with €718 million in 2009. In 2010, the Cognis integration resulted in special charges of €77 million.

At €100 million, special charges related to restructuring measures were also considerably lower than in the previous year (2009: €366 million).

The divestiture of various businesses resulted in special income of €31 million (2009: charge of €1 million).

Other items resulted in special charges of €146 million. These include valuation adjustments of €96 million on oil and gas concessions in the British and Norwegian North Sea.

### Net income

The financial result improved from minus €598 million in 2009 to minus €388 million. While the interest result declined slightly to minus €623 million, income from participations rose from €133 million to €299 million. This development is mainly attributable to higher equity income from OAO Severneftegazprom.

Other financial expenses and income improved by €67 million, primarily due to lower expenses for pension obligations.

### Income from operations

- Considerably lower special charges from integration costs and restructuring measures
- Realization of the expected synergies from the integration of Ciba
- High premium earned on cost of capital

### Special items (million €)

	2010	2009
Integration costs	(162)	(723)
Restructuring measures	(100)	(366)
Divestitures	31	(1)
Other charges and income	(146)	(85)
	<b>(377)</b>	<b>(1,175)</b>



Income before taxes and minority interests increased sharply from €3,079 million to €7,373 million. The return on assets thus rose to 14.7% compared with 7.5% in the previous year.

Income taxes increased in line with the rise in income before taxes and minority interests, and grew from €1,424 million to €2,299 million. However, the tax rate dropped considerably from 46.2% to 31.2%, mainly because of the lower share of earnings from the highly-taxed Oil & Gas segment.

→ For more on the tax rate, see the Notes on page 163

Minority interests increased from €245 million to €517 million. The greatest increases occurred at BASF FINA Petrochemicals Limited Partnership in Texas and BASF PETRONAS Chemicals Sdn. Bhd. in Malaysia.

Net income more than tripled, rising from €1,410 million to €4,557 million. Earnings per share thus rose from €1.54 to €4.96.

→ For more on the accounting methods, see the Notes on page 143

## Cash flow

We increased cash provided by operating activities from the good level of €5,693 million in 2009 to €6,460 million in 2010. This was largely a result of high after-tax earnings. Furthermore, the rise in net working capital was relatively small compared to the increase in business volume.

Payments related to property, plant and equipment and intangible assets were slightly above the previous year's level. This resulted in a substantial increase overall in free cash flow, which rose to €3,912 million in 2010 from €3,186 million in 2009.

## Adjusted earnings per share

Earnings per share adjusted for special items and the amortization and impairment of intangible assets is a key ratio that offers long-term comparability and is more suitable for predicting the company's future profitability.

### Adjusted earnings per share

Million €	2010	2009
Income before taxes and minority interests	7,373	3,079
Special items	377	1,175
Amortization of intangible assets	703	1,097
Amortization of intangible assets contained in the special items	(73)	(500)
<b>Adjusted income before taxes and minority interests</b>	<b>8,380</b>	<b>4,851</b>
Adjusted income taxes	2,596	1,837
<b>Adjusted income before minority interests</b>	<b>5,784</b>	<b>3,014</b>
Adjusted minority interests	523	253
<b>Adjusted net income</b>	<b>5,261</b>	<b>2,761</b>
Weighted average number of of outstanding shares (in thousands)	918,479	918,479
<b>Adjusted earnings per share (€)</b>	<b>5.73</b>	<b>3.01</b>

Adjusted income before taxes and minority interests, adjusted net income and adjusted earnings per share are key ratios that are not defined under International Financial Reporting Standards (IFRS). They should therefore be viewed as supplementary information.

In 2010, adjusted earnings per share amounted to €5.73 compared with €3.01 in the previous year.

→ For more information on the earnings per share under IFRS, see the Notes on page 157

## Net income

- Financial result improves compared with 2009 largely due to income from participations
- Lower expenses for pension obligations
- Income taxes rise due to higher pre-tax earnings
- Tax rate declines because of lower share of earnings from Oil & Gas segment

## Earnings per share/cash flow

- Earnings per share at €4.96 more than tripled compared with previous year
- Adjusted earnings per share rise sharply to €5.73
- Record level of cash provided by operating activities

## Consolidated balance sheets

### Assets

	December 31, 2010		December 31, 2009	
	Million €	%	Million €	%
Intangible assets	12,245	20.6	10,449	20.4
Property, plant and equipment	17,241	29.0	16,285	31.8
Investments accounted for using the equity method	1,328	2.2	1,340	2.6
Other financial assets	1,953	3.3	1,619	3.2
Deferred taxes	1,112	1.9	1,042	2.0
Other receivables and miscellaneous long-term assets	653	1.1	946	1.8
<b>Long-term assets</b>	<b>34,532</b>	<b>58.1</b>	<b>31,681</b>	<b>61.8</b>
Inventories	8,688	14.7	6,776	13.2
Accounts receivable, trade	10,167	17.1	7,738	15.1
Other receivables and miscellaneous short-term assets	3,883	6.6	3,223	6.3
Marketable securities	16	.	15	.
Cash and cash equivalents	1,493	2.5	1,835	3.6
Assets of disposal groups	614	1.0	–	–
<b>Short-term assets</b>	<b>24,861</b>	<b>41.9</b>	<b>19,587</b>	<b>38.2</b>
<b>Total assets</b>	<b>59,393</b>	<b>100.0</b>	<b>51,268</b>	<b>100.0</b>

### Stockholders' equity and liabilities

	December 31, 2010		December 31, 2009	
	Million €	%	Million €	%
Subscribed capital	4,392	7.4	4,405	8.6
Retained earnings	15,817	26.6	12,916	25.2
Other comprehensive income	1,195	2.0	156	0.3
Minority interests	1,253	2.1	1,132	2.2
<b>Stockholders' equity</b>	<b>22,657</b>	<b>38.1</b>	<b>18,609</b>	<b>36.3</b>
Provisions for pensions and similar obligations	2,778	4.7	2,255	4.4
Other provisions	3,352	5.6	3,289	6.4
Deferred taxes	2,467	4.2	2,093	4.1
Financial indebtedness	11,670	19.6	12,444	24.3
Other liabilities	901	1.6	898	1.7
<b>Long-term liabilities</b>	<b>21,168</b>	<b>35.7</b>	<b>20,979</b>	<b>40.9</b>
Accounts payable, trade	4,738	8.0	2,786	5.4
Provisions	3,324	5.6	3,276	6.4
Tax liabilities	1,140	1.9	1,003	2.0
Financial indebtedness	3,369	5.7	2,375	4.6
Other liabilities	2,802	4.7	2,240	4.4
Liabilities of disposal groups	195	0.3	–	–
<b>Short-term liabilities</b>	<b>15,568</b>	<b>26.2</b>	<b>11,680</b>	<b>22.8</b>
<b>Total stockholders' equity and liabilities</b>	<b>59,393</b>	<b>100.0</b>	<b>51,268</b>	<b>100.0</b>

**Compared with the previous year, total assets rose by €8,125 million to €59,393 million. This increase was mainly due to the acquisition of Cognis, which was completed on December 9, 2010. Furthermore, currency effects contributed €2,231 million to the increase in total assets.**

### Assets

Long-term assets grew by €2,851 million to €34,532 million. This increase is largely attributable to the purchase price allocation for the Cognis acquisition. The acquisition resulted in an increase in goodwill of €589 million, in other intangible assets of €1,301 million and in tangible fixed assets of €833 million.

Intangible assets have risen due to the acquisitions in the past two years and now comprise 20.6% of total assets (2009: 20.4%). As a percentage of total assets, property, plant and equipment decreased slightly from 31.8% of total assets in 2009 to 29.0% in 2010.

The value of investments accounted for using the equity method declined slightly in 2010. This was primarily due to the fact that we raised our stake in N.E. Chemcat Corporation to 50%, with the result that the company is now proportionally consolidated instead of accounted for using the equity method. Deferred tax assets increased mainly due to the increase in underlying pension provisions, but this was partially offset by the use of tax loss carryforwards of €133 million.

The rise in short-term assets, in particular inventories and trade accounts receivable, is attributable to the significant expansion in business volume as well as the inclusion of Cognis. Furthermore, there was an increase in the positive fair values of derivatives, which are reported under miscellaneous short-term assets. A disposal group was created in view of our plan to divest the styrenics business area.

### Stockholders' equity and liabilities

Stockholders' equity rose sharply compared with the previous year. The largest contributor was the net income of €4,557 million, which was significantly higher than the dividend payments. An additional increase resulted from effects recognized directly in equity: The currency translation of the financial statements of foreign subsidiaries resulted in a rise in equity of €745 million, while the market valuation of securities resulted in a rise of €311 million. The equity ratio improved slightly to 38%.

Long-term liabilities rose by €189 million. While long-term financial indebtedness was reduced by €774 million, provisions for pension obligations as well as deferred taxes increased mainly as a result of the inclusion of Cognis.

#### Net debt (million €)

	Dec. 31, 2010	Dec. 31, 2009
Cash and cash equivalents	1,493	1,835
Financial indebtedness	15,039	14,819
<b>Net debt</b>	<b>13,546</b>	<b>12,984</b>

The Cognis acquisition also resulted in the increase in short-term liabilities; in particular the financing of the purchase price led to a rise in short-term financial indebtedness of €994 million. Trade accounts payable grew by a total of €1,952 million as a result of business operations as well as the inclusion of Cognis.

- For more on the composition and development of individual balance sheet items, see the Notes from page 167 onward
- For more on the development of the balance sheet, see the ten-year summary on page 210
- For more on the styrenics disposal group, see the Notes on page 156

### Assets

- Total assets rise by €8,125 million
- Increase in long-term assets largely due to the acquisition of Cognis
- Increase in inventories and trade accounts receivable attributable to significant expansion of the business and inclusion of Cognis

### Stockholders' equity and liabilities

- Stockholders' equity grows significantly due to high net income
- Equity ratio increases despite Cognis acquisition
- Liabilities rise mainly as a result of Cognis acquisition

## Liquidity and capital resources

### Value-based financial management, high cash flow

**Our value-based financing principles are aimed at securing liquidity at all times, limiting financial risks and optimizing our cost of capital. We preferably meet our financing needs on the capital markets. We continue to aim for a solid A rating, which allows us unrestricted access to capital markets. Our financing measures are aligned with our operative business planning as well as the company's strategic direction and also ensure the financial flexibility to take advantage of strategic options.**

#### Financing policy and credit ratings

Corporate bonds form the basis of our mid- to long-term debt financing. These are issued in euro and other currencies with different maturities to ensure a balanced maturity profile and a diverse range of investors.

For short-term financing we use our commercial paper program, which has an issuing volume of up to \$12.5 billion. As back-up for the commercial paper program, there are committed, broadly syndicated credit lines of \$6 billion available. BASF's external financing is therefore largely independent of short-term fluctuations in the credit markets. In December, 2010, thanks to good cash flow over the course of the year, we were able to cancel a €3 billion credit line, which we had arranged in

June 2010 in conjunction with the Cognis acquisition, ahead of schedule. None of the credit lines were, or are currently being tapped.

Following the June 2010 announcement of the acquisition of Cognis, Standard & Poor's lowered its long-term rating for BASF by one notch to "A." In November, Moody's confirmed BASF's A1 long-term rating, however, with a negative outlook. BASF's short-term ratings were confirmed by both agencies. With "A/A-1 outlook stable" from rating agency Standard & Poor's and "A1/P-1 outlook negative" from Moody's, BASF continues to have good credit ratings, also compared with its competitors in the chemical industry.

→ **For more on the financing tools used, see the Notes from page 187 onward**

Financial management in the BASF Group is centralized and is supported by regional treasury units. To minimize risks and exploit internal optimization potential within the Group, we bundle the financing, financial investments and foreign currency hedging of BASF SE's subsidiaries. When possible, this occurs within the BASF Group. Foreign currency risks are primarily hedged in the market by means of derivative financial instruments.

Off-balance-sheet financing tools play no material role for the BASF Group.

#### Maturities of financial indebtedness (million €)

>2016	2,598	
2015	2,539	
2014	1,321	
2013	2,100	
2012	3,112	
2011	3,369	

#### Financing instruments

1	Bank loans <sup>1</sup>	14.2%
2	Eurobonds	65.1%
3	Commercial paper	9.2%
4	Other bonds	11.5%

<sup>1</sup> Including promissory notes



#### Financing principles

- Value-based financing principles to secure liquidity at all times, limit financial risks and optimize our cost of capital
- Balanced maturity profile and diverse range of investors
- BASF's external financing is largely independent of short-term fluctuations in the credit markets thanks to good credit ratings

#### Consolidated statements of cash flows

- High level of cash provided by operating activities
- Net working capital increases by €1,680 million compared with 2009 due to business operations
- Free cash flow of €3,912 million
- Payments related to property, plant and equipment and intangible assets of €2,548 million
- Net debt rises by €562 million compared with 2009 due to Cognis acquisition

### Cash provided by operating activities

At €6,460 million, operating cash flow reached a record high in 2010. The very good after-tax earnings more than offset the additional capital tied up in current assets due to the expansion of business volume. Adjusted for the influence of the Cognis acquisition and currency effects, inventories rose by around €1.3 billion and receivables by approximately €1.8 billion. Depreciation and amortization amounted to €3,393 million, a decrease of €347 million compared with 2009, which had been adversely affected by valuation adjustments as a result of the Ciba acquisition. The improvement in other items resulted in particular from the fact that the cash flow in 2009 was negatively impacted by a payment of €220 million to the German BASF Pensionskasse (pension fund).

### Cash used in investing activities

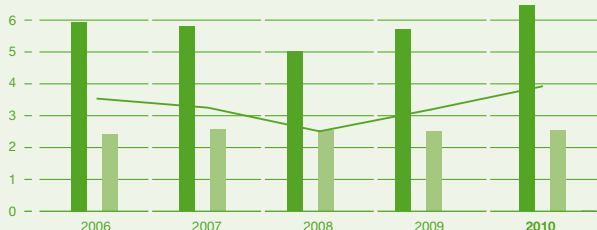
In 2010, cash used in investing activities decreased by €1,366 million compared with 2009 to €2,716 million. The acquisition of Cognis, taking into consideration the acquired cash and cash equivalents of €116 million, resulted in a total cash outflow of €588 million. In the previous year, the effective cash outflow for the acquisition of Ciba was €1,505 million.

Payments related to property, plant and equipment and intangible assets amounted to €2,548 million; this was at the level of 2009 and below the level of depreciation and amortization. In 2010, financial assets and other items led to net cash inflows of around €394 million. Significant cash inflows resulted from the sale of a stake of 4.5% in Nord Stream AG as well as

#### Consolidated statements of cash flows (million €)

	2010	2009
Net income	4,557	1,410
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,393	3,740
Changes in working capital	(1,680)	990
Miscellaneous items	190	(447)
<b>Cash provided by operating activities</b>	<b>6,460</b>	<b>5,693</b>
Payments related to property, plant and equipment and intangible assets	(2,548)	(2,507)
Acquisitions/divestitures	(562)	(1,447)
Financial investments and other items	394	(128)
<b>Cash used in investing activities</b>	<b>(2,716)</b>	<b>(4,082)</b>
Capital increases/repayments, share repurchases	(18)	(134)
Changes in financial liabilities	(2,295)	(333)
Dividends	(1,931)	(2,089)
<b>Cash provided by (used in) financing activities</b>	<b>(4,244)</b>	<b>(2,556)</b>
Net changes in cash and cash equivalents	(500)	(945)
Cash and cash equivalents as of beginning of year and other changes	1,993	2,780
<b>Cash and cash equivalents as of end of year</b>	<b>1,493</b>	<b>1,835</b>

#### Cash flow (billion €)



- Cash provided by operating activities<sup>1</sup>
- Payments related to property, plant and equipment and intangible assets
- Free cash flow<sup>2</sup>

<sup>1</sup> The figures for 2009 and 2010 take into account the change in presentation with regard to the effects of the regular renewal of U.S. dollar hedging transactions

<sup>2</sup> Cash provided by operating activities minus payments related to property, plant and equipment and intangible assets



the repayment of loans (especially by Severneftegazprom). On the other hand, these were offset by cash outflows for a capital increase at Nord Stream AG and various new loans.

→ For more information on additions to property, plant and equipment, see the Notes from page 170 onward

### Cash used in financing activities

In 2010, cash used in financing activities amounted to €4,244 million. The material cash outflows comprised dividends of €1,561 million paid to shareholders of BASF SE and €370 million paid to minority shareholders in Group companies. In addition, principal payments on bonds due amounted to €1 billion. No new long-term capital market liabilities were taken up in 2010. To finance the investment in gas pipelines in Germany, WINGAS GmbH & Co. KG took out long-term bank debt of €1 billion, of which €350 million had been tapped as of December 31, 2010. For most of 2010, short-term financial indebtedness was reduced significantly. However, it rose again at the end of the year as a result of the acquisition and repayment of Cognis' debt as well as the issuance of commercial paper to finance the purchase price for Cognis in December 2010. Overall, net debt increased slightly by €562 million compared with the previous year and amounted to €13,546 million as of December 31, 2010.

In 2010, we made a change to the presentation of cash flows from financing and operating activities in connection with the regular renewal of U.S. dollar hedging transactions. The figures from the previous year have been adjusted accordingly.

Overall, cash and cash equivalents declined by €342 million compared with the previous year and amounted to €1,493 million as of December 31, 2010.

→ For more information on the change in presentation of cash flow, see the Notes from page 166 onward

### Financing goals 2011

We will continue to adhere to our financing principles in 2011. We want to maintain our solid A rating. In addition, we aim to reduce indebtedness following the acquisition of Cognis. We want to maintain our level of cash and cash equivalents at the level of year-end 2010.

Cash outflows will primarily result from the scheduled payment of principal for bonds with a total volume equivalent to €1,253 million. In addition, dividend payments are expected to result in cash outflows of €2,021 million. Payments related to property, plant and equipment and intangible assets will rise compared with the level in 2010. Due to our strong operating cash flow, we currently see no need for additional medium- and long-term financing. However, our unrestricted access to the capital market allows us to benefit from attractive conditions to finance the BASF Group flexibly at all times.

#### Capital expenditures by region (%)

	2010	2009
Europe	63	70
North America	19	19
Asia Pacific	15	9
South America, Africa, Middle East	3	2
	100	100

#### Financing goals 2011

- Continue to aim for solid A rating; reduction in debt level planned
- Currently no need for medium- to long-term financing thanks to good cash flow
- Unrestricted access to capital markets allows flexible use of attractive financing conditions

## Business review by segment

### Segment overview (million €)

	Sales		Income from operations before depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
	2010	2009	2010	2009	2010	2009
Chemicals	11,377	7,515	3,000	1,571	2,302	1,021
Plastics	9,830	7,128	1,721	994	1,284	576
Performance Products	12,288	9,356	2,162	926	1,554	698
Functional Solutions	9,703	7,115	861	511	467	209
Agricultural Solutions	4,033	3,646	938	973	749	776
Oil & Gas	10,791	11,356	2,977	2,830	2,430	2,289
Other <sup>1</sup>	5,851	4,577	(528)	(417)	(648)	(717)
	<b>63,873</b>	<b>50,693</b>	<b>11,131</b>	<b>7,388</b>	<b>8,138</b>	<b>4,852</b>

### Segment overview (million €)

	Income from operations (EBIT)		Assets		Capital expenditures <sup>2</sup>	
	2010	2009	2010	2009	2010	2009
Chemicals	2,310	735	6,526	5,688	535	482
Plastics	1,273	554	5,114	4,530	250	249
Performance Products	1,345	(150)	13,409	9,242	3,000	3,753
Functional Solutions	457	107	9,364	8,265	208	174
Agricultural Solutions	749	769	5,063	4,681	145	183
Oil & Gas	2,334	2,289	9,150	8,301	996	1,012
Other <sup>1</sup>	(707)	(627)	10,767	10,561	170	119
	<b>7,761</b>	<b>3,677</b>	<b>59,393</b>	<b>51,268</b>	<b>5,304</b>	<b>5,972</b>

<sup>1</sup> Information on the composition of "Other" can be found in the Notes to the Consolidated Financial Statements from page 157 onward.

<sup>2</sup> Additions to property, plant and equipment (thereof from acquisitions: €833 million in 2010 and €1,766 million in 2009) and intangible assets (thereof from acquisitions: €1,906 million in 2010 and €1,670 million in 2009)

### Sales by segment

1	Chemicals	18%
2	Plastics	16%
3	Performance Products	19%
4	Functional Solutions	15%
5	Agricultural Solutions	6%
6	Oil & Gas	17%
7	Other	9%



### Contributions to EBITDA by segment

1	Chemicals	27%	
2	Plastics	16%	
3	Performance Products	19%	
4	Functional Solutions	8%	
5	Agricultural Solutions	8%	
6	Oil & Gas	27%	
7	Other	(5%)	

## Sales (million €)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2010	2009	2010	2009	2010	2009	2010	2009
Chemicals	2,588	1,556	2,970	1,809	2,874	2,000	2,945	2,150
Plastics	2,197	1,463	2,584	1,750	2,598	1,967	2,451	1,948
Performance Products	2,871	1,677	3,151	2,443	3,206	2,651	3,060	2,585
Functional Solutions	2,090	1,568	2,453	1,755	2,591	1,888	2,569	1,904
Agricultural Solutions	1,145	1,145	1,211	1,175	832	623	845	703
Oil & Gas	3,225	3,894	2,374	2,452	2,228	2,389	2,964	2,621
Other <sup>1</sup>	1,338	916	1,471	1,118	1,452	1,280	1,590	1,263
	<b>15,454</b>	<b>12,219</b>	<b>16,214</b>	<b>12,502</b>	<b>15,781</b>	<b>12,798</b>	<b>16,424</b>	<b>13,174</b>

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

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2010	2009	2010	2009	2010	2009	2010	2009
Chemicals	461	84	687	258	617	364	537	315
Plastics	279	(29)	349	138	371	216	285	251
Performance Products	419	123	471	80	370	286	294	209
Functional Solutions	111	(46)	165	48	158	106	33	101
Agricultural Solutions	321	344	320	367	66	21	42	44
Oil & Gas	629	725	515	506	573	550	713	508
Other <sup>1</sup>	(266)	(216)	(301)	(257)	58	(295)	(139)	51
	<b>1,954</b>	<b>985</b>	<b>2,206</b>	<b>1,140</b>	<b>2,213</b>	<b>1,248</b>	<b>1,765</b>	<b>1,479</b>

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

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2010	2009	2010	2009	2010	2009	2010	2009
Chemicals	461	83	687	258	619	364	543	30
Plastics	277	(30)	350	139	371	216	275	229
Performance Products	341	123	450	(214)	377	125	177	(184)
Functional Solutions	111	(45)	164	29	159	86	23	37
Agricultural Solutions	321	340	320	366	66	21	42	42
Oil & Gas	629	725	515	506	573	550	617	508
Other <sup>1</sup>	(300)	(268)	(407)	(312)	(10)	(391)	10	344
	<b>1,840</b>	<b>928</b>	<b>2,079</b>	<b>772</b>	<b>2,155</b>	<b>971</b>	<b>1,687</b>	<b>1,006</b>

<sup>1</sup> Information on the composition of "Other" can be found in the Notes to the Consolidated Financial Statements from page 157 onward.

## Contributions to EBIT by segment (million €)

Chemicals	2,310		
Plastics	1,273		
Performance Products	1,345		
Functional Solutions	457		
Agricultural Solutions	749		
Oil & Gas	2,334		
Other	(707)		

## EBIT BASF Group by quarter (million €)

1st quarter 2010	1,840	
1st quarter 2009	928	
2nd quarter 2010	2,079	
2nd quarter 2009	772	
3rd quarter 2010	2,155	
3rd quarter 2009	971	
4th quarter 2010	1,687	
4th quarter 2009	1,006	

## Chemicals

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

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

#### Segment strategy

We create value by driving growth with an attractive portfolio, investments in future markets and process and product innovations as well as by the competitive and flexible integration of our production into the BASF Verbund structures. We supply the BASF segments with basic chemicals for the production of downstream 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 with innovations, capital expenditures and acquisitions in future markets. Technology and cost leadership are among our most important success factors. We achieve them by improving processes, implementing market-oriented business models, and efficiently using the synergy potentials of our Verbund. We constantly optimize our portfolio and production structures and align them with regional market requirements.

#### Our products

The success of the **Inorganics** division is based on a product range comprising basic products and specialties for use in our Verbund and our business with third parties. Our most important basic products are ammonia, methanol, caustic soda, chlorine as well as sulfuric and nitric acid. Our specialties are particularly geared toward the electronics and pharmaceutical industries. We benefit from knowledge of our customers' technological requirements and demands. For the solar industry, for example, we develop special process chemicals that can be used in the manufacture of solar cells. We expanded our portfolio in 2010 with the addition of Seluris® Clean, a new environ-

mentally friendly cleaning solution. During key steps in the manufacturing process, this solution cleans the solar cell wafers, which prevents electrical interference when the cells are in operation.

The **Petrochemicals** division, with its broad range of basic chemicals, is the foundation of BASF's value-adding chains. Products such as ethylene, propylene, butadiene and benzene are produced in steam crackers from naphtha or natural gas to supply BASF's own production. Using these, we produce alcohols, solvents and plasticizers for the chemical and plastics industries. Alkylene oxides and glycols are starting materials for the detergents, automotive, packaging and textile industries. Our acrylic monomers are used in the production of paints, coatings and cosmetics as well as oilfield, construction and paper chemicals. To meet specific customer demands, we have a number of specialty monomers that can be ideally incorporated into the value-adding chain for acrylates and methacrylates.

With more than 600 products, our **Intermediates** division develops, produces and markets the world's most comprehensive range of intermediates. Our product lines include amines, diols, polyalcohols, acids and specialties. They serve as starting material for applications such as coatings, plastics, pharmaceuticals, textile fibers, crop protection products as well as detergents and cleaners. Our product lines also help to improve the properties of the products they are used in and the efficiency of production processes. Worldwide, BASF is among the three largest suppliers of all significant intermediates.

#### Research and development

Our research activities are focused on the development of innovative production processes that will make us even more competitive. We continuously improve existing products and applications. In developing new products, we look at the needs of our internal and external customers as well as the opportunities offered by value-adding chains in the Verbund and in the markets. For example, we launched the new CypoSol® product line, which is used in the metallization of solar cell wafers. Solar cells are metallized to enable them to conduct the electricity

#### Strategy

- Supplying the value-adding chains in the BASF Verbund and marketing our products to external customers
- Most important success factors are technology and cost leadership
- Product portfolio and regional production structures are continuously optimized

#### Products

- **Inorganics:** basic products for our Verbund and specialties for the electronics industry and other industries
- **Petrochemicals:** broad range of basic chemicals for BASF's own production as well as for external customers
- **Intermediates:** with more than 600 products, the most comprehensive range of intermediates worldwide; market leader for many intermediates

**Laser transfer printing (LTP) process**

More efficient metallization of solar cells with contact-free printing technology

**Value for BASF**  
within the next six years,  
up to

**20%**

market share in the  
growing solar cell  
metallization market

**Value for our customers**  
up to

**80%**

less breakage of solar  
cells in the metallization  
process


**Value for BASF** Together with aurentum Innovations-technologien and the machine manufacturer Schmid, we developed the new contact-free LTP process. With this innovative technology and our CypoSol inks especially designed for use in the LTP process, we are strengthening our position as a supplier of materials and technologies to the photovoltaic industry.

**Value for our customers** Increasing cost pressure in solar cell production requires process optimization: Tests conducted in Schmid's development center show that the contact-free LTP process reduces breakage by up to 80% compared with the method commonly used for metallization today.

generated. The new silver and aluminum inks can be used in today's conventional screen printing process, but they are also tailor-made for the innovative laser transfer printing (LTP) process that is currently being launched on the market.

Solar thermal power plants can play a major role in providing energy in the future, for example, by harnessing the sun's energy in desert areas to produce electricity. Thermal storage media, primarily salt mixtures, allow the sun's energy to be used at any time – even at night. We already supply sodium nitrate,

an important component of these storage media. Furthermore, we are researching new storage media to make solar thermal power plants even more efficient.

Gas is also an important source of energy. Together with Bilfinger Berger Industrial Service E.M.S. GmbH, we have developed a new process for efficient biogas treatment. Biogas contains just 50% to 70% usable methane. It also contains carbon dioxide (CO<sub>2</sub>) and hydrogen sulfide (H<sub>2</sub>S), which can cause corrosion in biogas treatment plants. The new process removes the CO<sub>2</sub> and H<sub>2</sub>S without any significant loss of methane. In addition, it simplifies plant construction and thereby helps reduce costs. A sign of our success: Two of Europe's largest waste fermentation plants, located near Bitterfeld, Germany, are already using the process. 

**Marketing and customer relations**

For standard products, it is our primary objective to supply customers reliably and cost-efficiently. Internally, we supply nearly all BASF divisions with our products. Marketing to external customers is mainly carried out via e-commerce. We offer organic and inorganic specialties with the corresponding technical applications know-how. In these areas, our development laboratories work particularly closely with our customers and partners.

For example, we are cooperating very successfully with our Austrian customer Getzner Werkstoffe GmbH: Getzner is supplying vibration-damping elastic supports for the high-speed railway being built between Beijing and Shanghai. Getzner uses special damping elements based on our intermediate PolyTHF®, which we supply from our plant in Caojing, China.

**Research and development**

- Focus on innovative production processes to strengthen our competitiveness
- Launch of new CypoSol product range
- Research on storage media for energy from solar thermal power plants
- New process for efficient biogas treatment

**Marketing and customer relations**

- Reliable and cost-efficient marketing of standard products, mainly via e-commerce
- Marketing of organic and inorganic specialties with the corresponding technical applications know-how
- Our development laboratories collaborate closely with customers and partners



## Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Antwerp, Belgium	Construction oleum plant		420,000	2011
Geismar, Louisiana	Construction methylamine plant		n/a	2011
Guaratinguetá, Brazil	Construction sodium methylate plant		60,000	2011
Ludwigshafen, Germany	Construction ethylene pipeline <sup>1</sup>		n/a	2011
Nanjing, China <sup>2</sup>	Expansion steam cracker	140,000	740,000	2011
	Construction 2-propylheptanol		80,000	2011
	Expansion ethylene oxide	80,000	330,000	2011
	Construction butadiene		130,000	2011
	Construction isobutene		60,000	2011
	Construction amines complex		130,000	2011/2012

<sup>1</sup> Participation through investment in Etylen-Pipeline-Süd GmbH & Co. KG

<sup>2</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

Production capacities of significant products<sup>1</sup>

Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Acrylic acid	X	X	X		1,175,000
Alkyl amines	X		X	X	220,000
Formic and propionic acid	X		X		255,000 150,000
Ammonia	X				1,525,000
Benzene	X	X	X		820,000
Butadiene	X	X			515,000
Butanediol equivalents	X	X	X		535,000
Chlorine	X				385,000
Ethanolamines and derivatives	X				285,000
Ethylene	X	X	X		3,235,000
Ethylene oxide	X	X	X		1,315,000
Formaldehyde condensates	X				750,000
Neopentyl glycol	X	X	X		165,000
Oxo-C <sub>4</sub> -alcohols (calculated as butyraldehyde)	X	X	X		1,415,000
PolyTHF	X	X	X		185,000
Propylene	X	X	X		2,480,000
Plasticizers	X	X	X		660,000

<sup>1</sup> All capacities included at 100%, including plants belonging to joint ventures

Sales – Chemicals  
(million €)

2010	11,377	
2009	7,515	
2008	11,171	

## Sales by division

1	Inorganics	11%
2	Petrochemicals	67%
3	Intermediates	22%



## Segment data Chemicals (million €)

	2010	2009	Change in %
Sales to third parties	11,377	7,515	51.4
Thereof Inorganics	1,255	983	27.7
Petrochemicals	7,593	4,664	62.8
Intermediates	2,529	1,868	35.4
Intersegmental transfers	5,476	3,564	53.6
Sales including intersegmental transfers	16,853	11,079	52.1
Income from operations before depreciation and amortization (EBITDA)	3,000	1,571	91.0
EBITDA margin (%)	26.4	20.9	—
Income from operations (EBIT) before special items	2,302	1,021	125.5
Income from operations (EBIT)	2,310	735	214.3
Income from operations (EBIT) after cost of capital	1,722	185	—
Assets	6,526	5,688	14.7
Research and development expenses	130	129	0.8
Additions to property, plant and equipment and intangible assets	535	482	11.0

In the Chemicals segment, sales to third parties rose by €3,862 million to reach €11,377 million. This high growth can be attributed to both greater demand resulting from the economic upturn as well as higher prices (volumes 18%, prices 28%, currencies 5%). Income from operations grew by €1,575 million to €2,310 million – a strong increase in comparison with the previous year. Our programs to reduce costs and increase efficiency made a significant contribution to this earnings growth.

We expect sales in 2011 to be slightly above the level of 2010. Additional capacities will increase pressure on margins, especially for cracker products. Earnings are expected to be slightly below the level of 2010.

## Inorganics

Our sales to third parties in 2010 rose by €272 million to €1,255 million (volumes 17%, prices 7%, currencies 4%). All business areas and regions contributed to this rise thanks to higher demand from our customer industries. Sales growth was particularly strong in Asia, due mainly to the positive development for electronic chemicals and metal systems. From the second quarter onward, our business recovery quickened and sales reached pre-crisis levels by the end of 2010.

Income from operations was sharply higher than the 2009 level. This was due in part to rising volumes – also driven by greater internal demand for basic products – as well as higher margins for basic products, particularly ammonia.

## Factors influencing sales – Chemicals

Volumes	18%	<div></div>
Prices	28%	<div></div>
Portfolio	0%	<div></div>
Currencies	5%	<div></div>
<b>Sales</b>	<b>51%</b>	<div></div>

Income from operations – Chemicals  
(million €)

2010	2,310	<div></div>
2009	735	<div></div>
2008	1,369	<div></div>

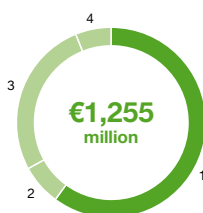
After operational activities were discontinued, the BASF Fuel Cell GmbH site in Frankfurt, Germany, was closed as of September 30, 2010. We are now concentrating our competencies for the production of high-temperature membrane electrode assembly (MEA) units at our site in Somerset, New Jersey.

In 2011, we will start up operations at a sodium methylate plant with an annual capacity of 60,000 metric tons in Guaratininguetá, Brazil. Sodium methylate is a key chemical for the efficient production of biodiesel.

We expect the business environment in 2011 to remain positive. Therefore, we anticipate a slight increase in sales. With higher volumes and somewhat smaller margins, income from operations should match the 2010 level.

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

1	Europe	60%
2	North America	7%
3	Asia Pacific	27%
4	South America, Africa, Middle East	6%



#### Petrochemicals

Our sales to third parties in 2010 rose sharply compared with the previous year by €2,929 million to reach €7,593 million (volumes 16%, prices 41%, currencies 6%). All business areas in the division benefited from strong demand around the world. Owing to limited supplies on the market, we were able to pass on higher raw materials costs to customers. We were able to raise prices compared with the previous year in all product lines.

Our plants were operating at very high capacity utilization rates. As a result of strong demand, there were temporary delivery bottlenecks for some products, in particular acrylates and solvents. Product shortages were further intensified by the delays in starting up new plants in Asia and the Middle East as

well as a number of unscheduled plant shutdowns at our competitors. Margins developed positively as a result. Product availability on the market improved again at the beginning of the second half of 2010. This resulted in a decline in margins for cracker products in Asia and North America despite continued good demand. Income from operations in 2010 was far above the level of the previous year.

In the second quarter of 2010, we temporarily shut down the entire Nanjing Verbund site for its first scheduled maintenance after five years of operation. The inspections were successful and all plants were able to resume operations on schedule. In 2011, a number of new and expanded plants will also start operating at the Nanjing site.

We expect that the positive business development will continue in 2011 and our sales will match the previous year's level. Additional capacities in the Middle East and Asia will lead to a further increase in product availability. With ongoing high raw materials costs, pressure on margins will rise; we anticipate earnings will be slightly below the exceptionally good level of the previous year.

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

1	Europe	39%
2	North America	42%
3	Asia Pacific	17%
4	South America, Africa, Middle East	2%



#### Inorganics

- Substantial sales growth in all business areas and regions; reaching pre-crisis level again at the end of 2010
- Strong improvement in earnings due to greater volumes and higher margins for basic products
- Closure of BASF Fuel Cell site in Frankfurt
- Outlook 2011: slight sales growth; earnings to match previous year's level

#### Petrochemicals

- Strong improvement in sales; high demand worldwide has positive impact on all business areas
- Temporary delivery bottlenecks for some products, particularly acrylates and solvents
- Earnings far above previous year's level
- Outlook 2011: relatively stable sales; earnings slightly below previous year's level due mainly to growing pressure on margins

## Intermediates

In the Intermediates division, our sales to third parties in 2010 were €2,529 million. Compared with the difficult year in 2009, sales rose by 35% (volumes 24%, prices 7%, currencies 4%), representing a return to the level reached before the economic crisis.

The good performance in this division was mainly attributable to the strong recovery in key customer industries worldwide, such as the plastics, coatings and textiles industries. The available supply could not fully meet the demand of our customers in 2010. This mainly affected our product line butanediol and derivatives, but also applied to numerous amines and polyalcohols. While raw materials prices remained generally stable, we were able to increase our sales prices.

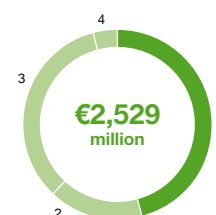
Income from operations was far above the previous year's level thanks to higher sales volumes, improved margins in several product lines and good capacity utilization in our plants.

With the start-up of a methylamines production plant at our Verbund site in Geismar, Louisiana, in 2011, we are strengthening our leading position as a global supplier of standard and specialty amines.

We expect demand in 2011 to build on the level seen in the previous year. We aim for a slight increase in sales compared with 2010. Despite the negative impact of additional costs arising from the modernization and expansion of our production plants, we aim to match the very good earnings level of 2010.

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

1	Europe	46%
2	North America	16%
3	Asia Pacific	34%
4	South America, Africa, Middle East	4%



## Intermediates

- Sales rise sharply in 2010 and return to pre-crisis level
- Available supply cannot fully meet customer demand, particularly for butanediol and derivatives as well as for numerous amines and polyalcohols
- Earnings far above 2009 level owing to higher volumes, improved margins and good capacity utilization rates


- Outlook 2011: slight sales growth with continued strong demand; earnings to match 2010 level despite additional costs arising from expansion and modernization of production plants

## Plastics

### Energy-efficient products and system solutions for our customers

**BASF is one of the world's leading producers of high-quality plastics. In the Performance Polymers and Polyurethanes divisions, we offer energy-efficient products and customer-oriented system solutions.**

#### Segment strategy

We concentrate on activities which allow us to distinguish ourselves from our market competitors and offer us profitable growth opportunities. Our customers are primarily in the construction, automotive, electrical and electronics, textile, packaging and furniture industries. The versatility of our products enables us to offer sustainable solutions that substitute conventional materials in a wide variety of applications, thus broadening our portfolio to many customer industries. Furthermore, we are positioning ourselves to grow faster than the market and become less dependent on the cyclicity of individual industries. We work closely with our customers – always with the aim of offering the best solutions in terms of cost-effective raw materials, energy efficiency and functionality. 

#### Our products

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

We offer our customers a broad portfolio of engineering plastics based on polyamide 6 and polyamide 6,6 (Ultramid®). This is complemented by our products Ultradur®, Ultraform® and Ultrason®. Due to their special mechanical properties and the combination of low weight with high temperature and chemical resistance, our engineering plastics are widely used in the automotive, electrical and electronics industries. They are also used in the manufacture of household and leisure goods, and increasingly for design-oriented consumer products.

For the packaging, textile and food industries, we offer polyamide polymers as important base products for the manufacturing of fibers and films. 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 as insulating material for construction and packaging. Our foams contribute not only to energy efficiency: The melamine-based foam Basotect® also provides excellent sound absorption in buildings, cars and airplanes.

The **Polyurethanes** division is one of the leading suppliers of basic products, systems and specialties. With our comprehensive product and service portfolio, we are the preferred partner of our customers in many industries.

Our polyurethane solutions help to save energy and are very often used in insulating materials. Polyurethane rigid foam products are the preferred material for many cooling systems for food or pharmaceutical products. Furthermore, nearly all refrigerators and freezers produced worldwide are insulated with polyurethane. The use of polyurethane insulation in all the steps of a cold chain – from production to transport and storage – saves up to 16 times more energy than is required to manufacture the polyurethane. Our products Elastopor®, Elastopir® and Elastocool® combine greater insulation capacity with innovative technology to guarantee superior refrigeration. Furthermore, polyurethane solutions are used in applications to effectively prevent heat loss, such as to insulate hot water tanks and district heating pipelines.

→ For more on energy efficiency, see page 97

#### 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
- Our goal: to offer the best solution in terms of cost-effective raw materials, energy efficiency and functionality

#### Products

- Performance Polymers: engineering plastics, polyamide and polyamide intermediates as well as foams and specialty plastics for diverse applications
- Polyurethanes: basic products, tailor-made systems and specialties for the construction and automotive industries, household appliances and sports equipment

In the automotive industry, polyurethanes help make vehicle designs lighter and more attractive and – for example, with our Cellasto® top mounts – improve their functionality. Manufacturers of shoe soles, mattresses, household appliances and sports equipment also use the manifold opportunities and advantages of this specialty plastic and benefit from the knowledge and expertise of our polyurethane experts worldwide. 🌐

### Research and development

In 2010, we developed numerous innovative products and applications for our customers in the automotive, electric and electronics, and packaging industries.

For example, with Ultramid® Structure, we are meeting the automotive industry's request for even higher performance materials. The long glass-fiber-reinforced polyamide can replace metal even in the most challenging applications. We have also developed the new Ultramid® Endure grades which contain stabilizing systems that allow the materials to withstand higher temperatures over long periods of time. With the help of our Ultrasim® simulation technology, we expanded the range of applications for our Ultramid® grades: They can now be used in mechanically highly-loaded automotive parts such as torque rod supports and transmission cross beams.

Ecovio® FS Paper, our new plastic coating for the inside of paper cups shows that know-how related to biodegradable plastics can be used to develop environmentally friendly solutions: it biodegrades even more rapidly than its predecessors. 🌐

Furthermore – as a supplement to our classic Styropor packaging solutions – we have developed E-por®, a new highly elastic and crack-resistant packaging material well suited for the transportation of valuable electronic goods.

In 2010, the Center for the Polyurethanes Industry named BASF the winner of the Innovation Award for the environmentally friendly and cost-effective product FilterPave®. FilterPave is a highly porous pavement developed by BASF and Presto Geo-systems, a supplier of eco-friendly construction solutions. The

### Cellasto top mounts business model

Polyurethane top mounts for use in automotive applications

#### Value for BASF

20%

annual growth in sales volumes of Cellasto products from 2005 to 2010

#### Value for our customers two times

15%

15% space savings in the car's body and 15% weight savings per component

**Value for BASF** Worldwide, the automotive industry only posted average annual growth of 2.3% over the last five years. Over the same period, BASF increased the sales volumes of Cellasto top mount applications by 20% each year. Almost all automobile manufacturers use BASF automotive spring aids made of microcellular special polyurethane.

**Value for our customers** Cellasto top mounts have better damping properties and are lighter than competing materials, such as rubber: They take up around 15% less space in the car body and weigh on average 15% less than comparable rubber components.

pavement combines specially treated post-consumer recycled glass with a polyurethane binder to create a porous but firm surface that nearly eliminates runoff, even in heavy rainstorms, by letting water quickly filter through.

Another innovative polyurethane product that helps protect the environment is Pursorb. When mixed, two polyurethane components create a hydrophobic/lipophilic sponge, which can absorb oil in an aqueous environment. Pursorb can be used in an aquatic environment that is threatened by oil. 🌐

### Research and development

- Ultramid Structure: long glass-fiber-reinforced polyamide replaces metal even in the most challenging applications
- Ecovio FS Paper for coating the inside of paper cups is rapidly biodegradable
- Innovation prize for porous pavement FilterPave
- Pursorb: a sponge that can absorb oil in an aqueous environment

### Marketing and customer relations

- Quality and efficiency in the marketing of standard products
- Tailor-made technical marketing for specialties and customer-specific products
- Intensive cooperation with customers for optimal solutions and long-term success



### Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Ansan, South Korea	Expansion compounding plant for engineering plastics	13,000	30,000	2011
Ludwigshafen, Germany	Expansion Ecoflex	60,000	74,000	2010

### 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			1,070,000
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 Singapore, in which BASF has a 50% stake in each and which are proportionally consolidated in the Group Consolidated Financial Statements.

### Marketing and customer relations

In the Plastics segment, we develop, produce and market standard products and specialties as well as system solutions and compounded polymers. For standard products, which we sell in large quantities, the priority lies on quality and efficiency. For specialties and customer-specific products, we focus on tailor-made technical marketing that allows us to implement value-based pricing.

Regional development laboratories allow us to quickly adapt our products to local needs. In the highly service-oriented business with polyurethane systems and specialties, experience, expertise and close collaboration with customers are very important. Through our network of 38 system houses worldwide, we provide fast local support – from technical service and sales to marketing – in the development of customized solutions.

We work intensively with our customers from an early stage of development in order to find optimal solutions and thus help them to achieve long-term success.

### Sales – Plastics (million €)

2010	9,830	<div></div>
2009	7,128	<div></div>
2008	9,116	<div></div>

### Sales by division

1	Performance Polymers	45%
2	Polyurethanes	55%



## Segment data Plastics (million €)

	2010	2009	Change in %
Sales to third parties	9,830	7,128	37.9
Thereof Performance Polymers	4,389	3,005	46.1
Polyurethanes	5,441	4,123	32.0
Intersegmental transfers	546	363	50.4
Sales including intersegmental transfers	10,376	7,491	38.5
Income from operations before depreciation and amortization (EBITDA)	1,721	994	73.1
EBITDA margin (%)	17.5	13.9	–
Income from operations (EBIT) before special items	1,284	576	122.9
Income from operations (EBIT)	1,273	554	129.8
Income from operations (EBIT) after cost of capital	816	139	487.1
Assets	5,114	4,530	12.9
Research and development expenses	141	126	11.9
Additions to property, plant and equipment and intangible assets	250	249	0.4

In the Plastics segment, sales to third parties grew sharply compared with the previous year, rising by €2,702 million to €9,830 million (volumes 22%, prices 10%, currencies 6%). At €1,273 million, income from operations was also far above the 2009 level. This positive development was due to the unexpectedly high demand from nearly all customer industries as well as supply shortages for certain products, especially polyamide intermediates. Our measures to increase efficiency also contributed to the rise in earnings.

We expect sales and earnings in 2011 to slightly exceed the level of the previous year. We anticipate that demand for our products will remain volatile and that increasing product availability will have a negative impact on margins.

## Performance Polymers

Our sales to third parties were €4,389 million, a strong increase over the previous year (volumes 20%, prices 21%, currencies 5%). The pace of global economic recovery quickened in 2010;

there was a substantial revival in demand from our key customer industries – the automotive, construction, and electrical industries as well as the Asian textiles industry. Capacity utilization rates at our plants were very high.

While the division had already experienced rising volumes in Asia in 2009, it was not until 2010 that these began to increase considerably in Europe and North America. The engineering plastics business, which had been hardest hit by the economic crisis, benefited from government stimulus programs for the automotive and household appliance industries and posted a 40% increase in sales volumes compared with the previous year. Growing interest in thermal insulation for buildings helped lift sales volumes of foams despite the difficult economic situation in the construction sector.

Increasing volumes and higher prices contributed to sales growth. In particular for standard products such as polyamides and foams, sales prices rose as a result of sharply higher raw materials costs. Thanks to good demand and tight product supplies, we were able to raise prices for engineering plastics.

## Factors influencing sales – Plastics

Volumes	22%	<div></div>
Prices	10%	<div></div>
Portfolio	0%	<div></div>
Currencies	6%	<div></div>
<b>Sales</b>	<b>38%</b>	<div></div>

Income from operations – Plastics  
(million €)

2010	1,273	<div></div>
2009	554	<div></div>
2008	539	<div></div>

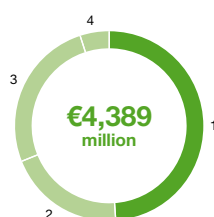
Income from operations increased sharply, owing to the unexpectedly robust economic recovery – especially in the automotive sector – as well as some supply shortages and considerable price increases.

We continued to carry out our projects to increase efficiency around the world. These included, in particular, the restructuring of the polyamide 6 activities in Germany and the closure of unprofitable production plants in Pakistan and Brazil. Moreover, we introduced measures to increase the transparency and efficiency of complex business processes and optimized sales structures.

In 2011, we aim to grow faster than our most important markets, particularly with engineering plastics and specialties. Despite better product supply on the market, we aim for a slight increase in sales. We expect earnings to match the previous year's level.

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

1	Europe	49%
2	North America	20%
3	Asia Pacific	26%
4	South America, Africa, Middle East	5%



#### Polyurethanes

Our sales to third parties were €5,441 million, exceeding the previous year's level by €1,318 million (volumes 24%, prices 1%, currencies 7%). We posted strong sales growth in all product lines and all regions in 2010 due to higher sales volumes as well as positive currency effects.

Demand from key customer industries, such as automotive and construction, recovered faster than expected, especially in Asia and Europe. Thanks to the strong economic upturn in China, demand for polyurethanes increased considerably compared with the previous year, particularly in Asia.

However, we only marginally increased our sales prices in 2010. It was not until the middle of the year that we were able to gradually raise MDI prices as a result of supply shortages.

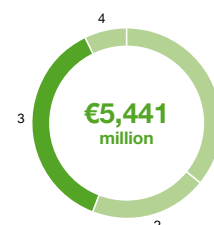
Our margins – in particular for MDI and TDI – did not match the 2009 level as a result of the sharp rise in raw materials prices at the beginning of the year. Nevertheless, income from operations was far above the 2009 level due to higher volumes. In particular, earnings in our specialties business developed positively, as a result of high demand from the automotive sector.

As a leading supplier of polyurethane solutions, we are continuously expanding our global network of system houses. We now have 38 system houses that offer fast local support in the development of individual solutions as well as technical service for our customers in numerous major industries. Our location in Śrem, Poland, started operations in October 2010. Another system house will open in Dubai in 2011. Furthermore, we are planning to construct two polyurethane system houses in Chongqing in Western China and Tianjin in Northern China.

In 2011, we expect the market environment to remain unchanged. We anticipate that our sales and earnings will slightly exceed the level of the previous year.

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

1	Europe	36%
2	North America	20%
3	Asia Pacific	37%
4	South America, Africa, Middle East	7%



#### Performance Polymers

- Strong growth in sales due to higher volumes
- Earnings far above 2009 level in part due to some supply shortages and considerable price increases
- Projects to increase efficiency successfully continued worldwide
- Outlook 2011: slight increase in sales; earnings at previous year's level

#### Polyurethanes

- Sales in all regions and product lines sharply increase due to higher sales volumes and positive currency effects
- Earnings far above the level of the previous year
- Continuous expansion of our system house network
- Outlook 2011: slight sales and earnings growth

## Performance Products

Innovative, fast-growing and cyclically resilient

**The Performance Products segment consists of the Dispersions & Pigments, Care Chemicals, Nutrition & Health, Paper Chemicals and Performance Chemicals divisions. Our customers use our products and services to make their production processes more efficient as well as to give their products an improved application profile and special characteristics to design, protect and maintain surfaces. Care Chemicals and Nutrition & Health offer high-performance products for cleaning, for cosmetics and for better nutrition.**

### Segment strategy

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

We have a different business model for standard products, such as dispersions for paper coatings or vitamins. Here, efficient production structures within the BASF Verbund, capacity management as well as technology and cost leadership are crucial. We support our customers by being a reliable supplier with lean processes, consistent product quality and a good price/performance ratio.

A central element of the value-adding strategy is the active management of our business and product portfolio. We expand the share of innovative, cyclically resilient and fast-growing businesses through acquisitions and divestitures. In April 2010, we completed the structural integration of the businesses acquired from Ciba as planned. At the end of 2010, the synergies from the combined businesses had already reached more than €350 million. By the end of 2012, they will rise to more than €450 million annually. With the acquisition of Cognis on Decem-

ber 9, 2010, we have further strengthened the Performance Products segment and added products to the portfolio that are based on renewable raw materials. This deal has significantly strengthened our position in some markets, particularly for personal care ingredients where we are now the market leader.

In the Performance Products segment, we aim for long-term profitable growth. While we are actively expanding some business activities, in other areas we are focusing on the implementation of restructuring and repositioning plans. To this end, we are defining and implementing new strategies and appropriate business models.

### Cognis acquisition

BASF acquired the specialty chemicals company Cognis on December 9, 2010. The equity purchase price was €704 million; on the acquisition date, net financial debt of €1,806 million and pension obligations of €551 million were assumed.

Almost all of the Cognis businesses have been integrated into the Performance Products segment. To prepare for the realization of the integration, the divisional structure of the segment was modified as of August 1, 2010: The existing Care Chemicals division was split in two. The new division Nutrition & Health comprises products and system solutions for the nutrition and health market as well as for the fragrances and favors industry. It combines BASF's businesses with Human and Animal Nutrition, Pharma Ingredients & Services, and Aroma Chemicals with the former Cognis segment Nutrition & Health. The Care Chemicals division now comprises products and system solutions for cleaning, cosmetics and hygiene. It merges BASF's businesses Personal Care, Hygiene, Home Care and Formulation Technologies with the former Cognis segment Care Chemicals, which contained the businesses Personal Care and Home Care.

Thanks to the integration of Cognis, we are also now able to offer our customers in the Performance Chemicals and Dispersions & Pigments divisions an even more attractive product portfolio: Formulation additives and resins from Cognis have

### Strategy

- Specialties: innovation, close relationships to leading customer companies, expertise in applications and development
- Standard products: efficient production structures in the Verbund, technology and cost leadership
- Significantly strengthened market position with Cognis acquisition; now market leader in personal care ingredients

### Acquisition of Cognis

- December 9, 2010: acquisition of specialty chemicals company Cognis
- Equity purchase price of €704 million, net financial debt of €1,806 million, pension obligations of €551 million
- Cognis businesses nearly entirely integrated into the Performance Products segment

expanded our product range in the Dispersions & Pigments division. New additions to the Performance Chemicals division's portfolio include Cognis' mining chemicals and synthetic lubricants businesses.

Detailed integration plans will be developed by the end of March 2011 and the structural integration should be completed by the end of 2011.

### Our products

The **Dispersions & Pigments** division mainly comprises products for the coatings and paints industry in particular. Our portfolio includes pigments, resins, dispersions and additives such as photoinitiators, light stabilizers and formulation additives. Other customer industries include the adhesive as well as the printing and packaging industries. Our product range for these customers includes everything from dispersions for labels, protective film and adhesive tape to color and effect pigments as well as resins for water-based printing systems. Our dispersions and additives are also used in the production of nonwoven materials, natural fiber composites and construction chemicals.

The **Care Chemicals** portfolio comprises products for cosmetics, detergents & cleaners, and hygiene. Through the acquisition of Cognis, we have become the leading supplier of ingredients to the cosmetics industry. With our broad range of products we are represented in all personal care applications, such as sun protection, skin and body care, oral hygiene, hair care and decorative cosmetics. The Cognis activities will also expand our wide variety of products for the detergents and cleaners industry which serve as the basis for our customers' formulations. Our portfolio mainly comprises surfactants, polymers, emollients, chelating agents, UV filters and other specialties that are also used in technical applications. Superabsorbents round out our portfolio; we offer our customers tailor-made products, developed to their specific requirements in all fields of hygiene applications.

Human and animal nutrition, pharma and aroma chemicals are the core business areas of the **Nutrition & Health** division. The main animal nutrition products are vitamins, carotenoids and enzymes. In human nutrition, in addition to vitamins, carotenoids and omega-3 fatty acids, an increasingly important role is played by products based on renewable raw materials such as sterols and conjugated linoleic acids. Food additives such as emulsifiers and enzymes are also becoming more significant. With the acquisition of Cognis, we have considerably strengthened our market position in these areas. We provide the pharmaceutical industry with active ingredients such as caffeine and ibuprofen, as well as excipients and customized synthesis services. In addition, we produce aroma chemicals for the fragrances and flavors industry.

**Paper Chemicals** supplies products for the paper industry. Our portfolio comprises binders, functional chemicals, process chemicals and kaolin minerals. By using our products to improve efficiency in the paper manufacturing process, our customers are able to reduce costs. Furthermore, our products give paper certain attributes and enhance the aesthetics and performance of printed paper and board.

**Performance Chemicals** is an innovative partner for various industrial customer sectors and offers specific system solutions. The plastic additives business comprises a product portfolio of antioxidants, pigments and light stabilizers. We want to continue to grow through innovation and targeted market development in the business areas mining and oilfield chemicals as well as water treatment chemicals. For the automotive and refinery industries, we develop, produce and market brake fluids, engine coolants, fuel and lubricant additives as well as process and refinery chemicals. The division also manufactures chemicals for the production and finishing of leather and textiles.

### Care Chemicals division split into two divisions

- Existing Care Chemicals division split into the divisions Care Chemicals and Nutrition & Health
- Nutrition & Health comprises products and system solutions for the nutrition and health market as well as for the fragrances and flavors industry
- The Care Chemicals division comprises products and system solutions for cleaning, cosmetics and hygiene

### Products

- Dispersions & Pigments: products for coatings and paints
- Care Chemicals: ingredients for cosmetics, detergents & cleaners as well as hygiene
- Nutrition & Health: products for human and animal nutrition, pharma and aroma chemicals
- Paper Chemicals: products for the paper industry
- Performance Chemicals: system solutions for industrial applications

## Research and development

The success of the Performance Products segment is driven by product innovations. We focus on the needs of our customers and market trends. One of the most recent additions to our portfolio, Cetiol® C5, is 100% derived from renewable feedstocks. The emollient developed by Cognis gives skin a pleasant feel and is ideal for facial, body, sun and hair care products as well as decorative cosmetics.

Our innovations can make life easier – as demonstrated by our new heat-shielding plastic additive. Hot car interiors in the summer are not only uncomfortable for the driver, they also get the air conditioner running at full blast, leading to higher energy consumption. Lumogen® IR helps prevent this: Lumogen is a technology for transparent plastic applications that absorbs near-infrared radiation and therefore reduces heat build-up inside cars.

Soluplus® helps our customers in the pharmaceutical industry develop and produce innovative drug products containing active substances that previously could not be formulated. As a polymer matrix, Soluplus forms solid solutions with poorly soluble drug substances which can be made into tablets, for example. This improves the bioavailability of the active substances.

## 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 offer our customers direct and individual service – and have had long-standing business relationships with many of them. In addition to innovative products, we often offer application services as well. Regional development laboratories allow us to quickly adapt our products to local needs. We follow a value-based pricing strategy that is oriented on the overall added benefit that customers gain from our solutions.

### Superabsorbents for diapers

For modern diapers with less pulp content

**Value for BASF**  
around

**30%**

**growth in volumes in 2010 for superabsorbents used in premium modern diapers**

**Value for the environment**  
up to

**14%**

**less energy consumption over the entire life cycle of the diapers**

**Value for BASF** In recent years, there has been a clear global trend toward ever thinner premium diapers for babies. We have helped shape this trend by collaborating closely with our customers to develop tailor-made superabsorbents for the manufacture of these diapers. This enabled us to increase sales volumes of our superabsorbents for premium diapers by around 30% in 2010.

**Value for the environment** Throughout the entire life cycle of a new premium diaper, energy consumption is reduced by up to 14% compared with older models, depending on the size of the diaper. This is mainly due to the reduction of energy-intensive components. In addition, our products help to simplify the manufacturing process of diapers – thus saving even more energy.

We work with specialized distributors for the servicing of smaller customers and for certain products and applications. We also supply internal customers, for example BASF's Coatings and Construction Chemicals divisions, which receive important raw materials from the divisions in the Performance Products segment.

## Research and development

- Product innovations: focused on customers' needs and market trends
- Cetiol C5: new emollient, 100% derived from renewable feedstocks
- Lumogen IR: technology for transparent plastic applications that absorbs near-infrared radiation
- Soluplus: helps in the development and production of innovative drug products

## Marketing and customer relations

- Broad customer portfolio: large and medium-sized global and regional customers from almost all areas of the consumer and capital goods industries
- Development laboratories close to our customers in all regions to enable quick problem solving
- 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 superabsorbent	25,000		2011/2012
Bahrain	Construction plastic additives		n/a	2012
Freeport, Louisiana	Expansion superabsorbent	35,000		2011/2012
Huizhou, China	Construction dispersions (XSB and acrylate)		100,000	2012
Ludwigshafen, Germany	Construction chelating agent		n/a	2010
	Expansion methane sulfonic acid	20,000	30,000	2012
	Expansion polyisobutene	25,000	40,000	2010
	Construction L-menthol	n/a	n/a	2012
Nanjing, China	Construction cationic polyacrylamides		20,000	2012
	Construction quaternized cationic monomers (DMA3/DMA3Q)		40,000	2012
	Construction nonionic surfactants		60,000	2011
	Construction superabsorbent		to be determined	to be determined
<b>Capital expenditures at Cognis</b>				
Jinshan, China	Alkyl polyglucoside surfactants (APG surfactants)	n/a	n/a	2010
Kuala Lumpur, Malaysia	Application laboratory for food supplements			2010

## Production capacities of significant products

Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Anionic surfactants	X	X	X	X	550,000
Citral	X				40,000
HDI (hexamethylenediisocyanate)	X				10,000
Chelating agent	X	X		X	120,000
Methane sulfonic acid	X				10,000
Nonionic surfactants	X	X	X		570,000
Organic pigments	X	X	X	X	n/a
Polyisobutene	X		X		165,000
Superabsorbents	X	X	X		410,000

Sales – Performance Products  
(million €)

2010	12,288	
2009	9,356	
2008	8,125	

## Sales by division

1	Dispersions & Pigments	26%
2	Care Chemicals	22%
3	Nutrition & Health	12%
3	Paper Chemicals	14%
4	Performance Chemicals	26%



## Segment data Performance Products (million €)

	2010	2009	Change in %
Sales to third parties	12,288	9,356	31.3
Thereof Dispersions & Pigments	3,197	2,445	30.8
Care Chemicals	2,755	2,067	33.3
Nutrition & Health	1,482	1,338	10.8
Paper Chemicals	1,713	1,326	29.2
Performance Chemicals	3,141	2,180	44.1
Intersegmental transfers	438	319	37.3
Sales including intersegmental transfers	12,726	9,675	31.5
Income from operations before depreciation and amortization (EBITDA)	2,162	926	133.5
EBITDA margin (%)	17.6	9.9	—
Income from operations (EBIT) before special items	1,554	698	122.6
Income from operations (EBIT)	1,345	(150)	.
Income from operations (EBIT) after cost of capital	441	(930)	.
Assets	13,409	9,242	45.1
Research and development expenses	289	285	1.4
Additions to property, plant and equipment and intangible assets	3,000	3,753	(20.1)

**Sales to third parties increased by €2,932 million to €12,288 million (volumes 12%, prices 4%, portfolio 11%, currencies 4%). This positive business development can be attributed to strong demand and the full-year inclusion of the integrated Ciba businesses as well as the acquisition of Cognis on December 9, 2010. Income from operations rose by €1,495 million to €1,345 million – despite the negative impact of one-time costs at year-end. This was due to our successful measures to integrate Ciba and restructure the combined businesses as well as the considerable increase in volumes.**

**In 2011, we expect stable demand and – boosted by the Cognis acquisition – substantial sales growth. We aim for a strong increase in earnings.**

## Dispersions &amp; Pigments

In 2010, our sales to third parties were €3,197 million, an increase of €752 million over the previous year (volumes 13%, prices 4%, portfolio 8%, currencies 6%). The strong growth in sales resulted from the general economic upturn as well as inventory restocking along the entire value-adding chain and was also boosted by the full-year inclusion of the integrated Ciba businesses.

As a result of the global economic recovery, demand rose considerably in all business areas. Owing to the temporary shortages of raw materials and the high capacity utilization rates at our plants, we could not always fully meet additional demand. In our business with dispersions, volumes in all regions increased significantly. We also posted substantial growth in sales and sales volumes of pigments. Our sales of resins exceeded the previous year's level; only our business with

## Factors influencing sales – Performance Products

Volumes	12%	
Prices	4%	
Portfolio	11%	
Currencies	4%	
<b>Sales</b>	<b>31%</b>	

## Income from operations – Performance Products (million €)

2010	1,345	
2009	(150)	
2008	768	

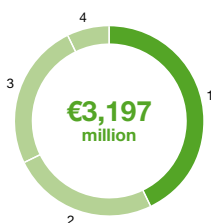
products for the printing industry stagnated. In our additives business, higher sales were due in part to the success of our business with specialties for the manufacture of liquid crystal displays, which were in high demand in Asia.

Margins for dispersions, pigments and resins were maintained, and even improved in some cases, despite increasing raw materials costs. In the additives business, margins declined slightly. Fixed costs were higher than in 2009, mainly owing to structural effects from the Ciba integration. Thanks to strong business performance, income from operations was far above the previous year's level.

In 2011, we expect a minor increase in overall demand. Our key customer industries – automotive, construction and packaging – will continue to grow in the coming year. We therefore expect our sales to rise slightly compared with 2010. However, the increasing availability of raw materials will put more pressure on margins. Earnings should climb substantially as we maintain our cost discipline and realize further synergies from the integration of Ciba. In coming years, we will continue the restructuring of our pigments business and expand our production capacities in Asia.

#### Dispersions & Pigments – Sales by region (location of customer)

1	Europe	43%
2	North America	25%
3	Asia Pacific	25%
4	South America, Africa, Middle East	7%



#### Dispersions & Pigments

- Sharp sales increase due mainly to economic upturn and inventory restocking
- Margins for dispersions, pigments and resins maintained, and even improved in some cases, despite increasing raw materials costs
- Earnings far above previous year's level
- Outlook 2011: slight sales growth; substantial earnings increase despite rising pressure on margins

#### Care Chemicals

At the beginning of August 2010, the business areas Nutrition Ingredients, Pharma Ingredients & Services and Aroma Chemicals were shifted from the Care Chemicals division to the newly established Nutrition & Health division. The Care Chemicals division now comprises the businesses with Personal Care, Hygiene, Home Care and Formulation Technologies. The division was reorganized to prepare for the integration of the Cognis businesses.

The Care Chemicals division posted very high sales to third parties of €2,755 million, a rise of €688 million over the previous year (volumes 14%, prices 5%, portfolio 11%, currencies 3%). Due to the sharp rise in demand, we were able to appreciably increase our sales volumes. In some product lines, we were unable to keep up with demand because of a shortage of important raw materials or because our capacities were already fully utilized. Thanks to the growth in volumes, our sales improved sharply in all business areas and regions. The greatest growth was posted by the Home Care and Formulation Technologies business areas.

Due to high demand and increased raw materials prices, we were able to raise our sales prices. Sales growth was boosted by the stronger U.S. dollar and the full-year inclusion of the integrated Ciba businesses.

In this favorable market environment, income from operations increased sharply to reach a high level. This was mainly attributable to the sales growth, improved capacity utilization and the quick and successful integration of the Ciba businesses. Special charges declined overall; these resulted from the Ciba integration and the use of inventory revalued at market prices in the course of the Cognis acquisition.

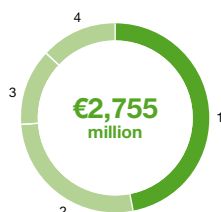
In 2011, we want to continue this successful performance. In Nanjing, China, we will start operations at our first nonionic surfactant factory in Asia. We expect a slight increase in sales volumes and a sharp rise in sales, boosted by the Cognis acquisition. Although the Cognis integration will result in special charges, we anticipate a significant increase in earnings with stable margins.

#### Care Chemicals

- Sales grow sharply in all business areas and regions thanks to higher sales volumes
- Earnings in a favorable market environment far above previous year's level
- Overall decline in special charges
- Outlook 2011: strong sales growth, boosted by Cognis acquisition; significant improvement in earnings

**Care Chemicals – Sales by region** (location of customer)

1	Europe	47%
2	North America	27%
3	Asia Pacific	13%
4	South America, Africa, Middle East	13%

**Nutrition & Health**

The Nutrition & Health division was established at the beginning of August 2010 to prepare for the integration of the Cognis activities. It includes the business areas Human and Animal Nutrition, Pharma Ingredients & Services and Aroma Chemicals, which all previously belonged to the Care Chemicals division.

The Nutrition & Health division posted sales to third parties of €1,482 million, an increase of €144 million over 2009 (volumes 8%, prices –2%, portfolio 1%, currencies 4%). As a result of the general recovery in demand, we were able to increase sales volumes substantially. The volume growth led to a significant improvement in sales in all business areas and all regions. The Aroma Chemicals business posted the greatest growth. The stronger U.S. dollar boosted our sales performance and more than compensated for lower price levels.

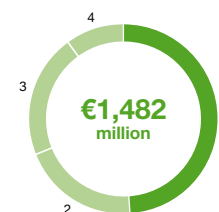
As the market environment improved compared with the previous year, we were able to substantially increase our income from operations. This was primarily a result of robust demand, higher capacity utilization rates and – despite intense competition in the vitamins business – solid margins. All business areas contributed to earnings growth. Special charges arose from the use of inventory revalued at market prices in the course of the Cognis acquisition.

We expect the positive business development to continue in 2011. We aim to increase sales volumes and expect the Cognis acquisition to contribute to substantial sales growth. The expansion of the nutrition business area and the integration of

Cognis will result in additional charges in 2011. Nevertheless, we aim to maintain earnings at the high level of the previous year.

**Nutrition & Health – Sales by region** (location of customer)

1	Europe	49%
2	North America	20%
3	Asia Pacific	21%
4	South America, Africa, Middle East	10%

**Paper Chemicals**

In 2010, we posted sales to third parties of €1,713 million, an increase of €387 million compared with the previous year (volumes 5%, prices 8%, portfolio 11%, currencies 5%). Demand rose noticeably in all regional business units.

In Europe and North America, we benefited from the general economic upturn. Sales improved due to higher volumes and prices. In Asia, our product sales volumes increased considerably, particularly in the growth markets China, India and Indonesia. Demand for our products also grew in South America and positive currency effects there helped to boost sales growth.

Sales volumes and sales of kaolin minerals, particularly for industrial applications, increased thanks to a good market situation.

We were able to considerably reduce our fixed costs thanks to restructuring measures, such as adapting European production structures for paper dispersions to market conditions and exiting the starch business. Our strict cost management also helped us further reduce fixed costs. Income from operations was sharply higher than the previous year's level and was positive. Compared with 2009, there was less of a negative impact on earnings from special items.

**Nutrition & Health**

- Sales improve significantly in all business areas and regions as a result of strong demand
- Substantial increase in earnings compared with previous year
- Solid margins despite intense competition in the vitamins business
- Outlook 2011: substantial sales growth, supported by the Cognis acquisition; earnings at the high level of 2010

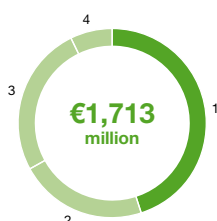
**Paper Chemicals**

- Substantial sales growth; higher demand in all regional business units
- Considerable reduction in fixed costs thanks to restructuring measures and strict cost management
- Earnings far above previous year's level and positive
- Outlook 2011: sales in continuing operations higher than previous year's level; strong increase in earnings

Despite the positive business development in 2010, the paper industry, particularly in Europe and North America, continues to operate in a difficult economic environment. In addition to long-standing overcapacities, changing consumer behavior is also having a negative effect on the paper business. This is exacerbating structural problems along the entire value-adding chain. We expect that paper production in Europe and North America will not reach pre-crisis levels again. In contrast, growth opportunities are mainly concentrated in the Asian market. Therefore we are planning to construct two plants in China, which will start operations in 2012. We anticipate that sales in our continuing operations will increase in 2011. Thanks to the realization of synergies from the Ciba integration and as a result of ongoing restructuring measures, we expect a strong increase in earnings in 2011.

#### Paper Chemicals – Sales by region (location of customer)

1	Europe	46%
2	North America	21%
3	Asia Pacific	26%
4	South America, Africa, Middle East	7%



#### Performance Chemicals

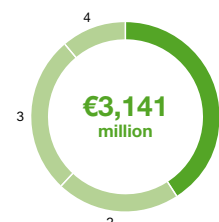
Sales to third parties in 2010 rose sharply compared with the previous year by €961 million to reach €3,141 million (volumes 16%, prices 2%, portfolio 21%, currencies 5%). Following a difficult year in 2009, demand for our products developed positively in all of our customer industries. Owing to the shortage of raw materials and high rates of capacity utilization, we could not always fully meet the high demand. Sales in the business with automotive and refinery chemicals were far above the level of the previous year, thanks to higher sales volumes and prices. Sales were further boosted by the full-year inclusion of the integrated Ciba businesses: In our businesses with plastic additives, lubricant additives, water treatment chemicals and oilfield chemicals, we posted a substantial increase in sales volumes. Thanks to our strict price management, we were able to pass on higher raw materials costs to the market in many business areas.

As a result of higher volumes, income from operations was far above the level of the previous year. The new business areas resulting from the Ciba acquisition had a positive impact on earnings growth, but were offset by one-time expenses for valuation adjustments on receivables related to long-term supply agreements.

In 2011, we expect sales to grow slightly. We will maintain our strict price and cost management. We will continue to grow profitably thanks to innovations and investments, such as our new production plant for polyisobutene in Ludwigshafen, Germany. We expect strong earnings improvement as a result of further synergies from the Ciba integration and our measures introduced to improve efficiency.

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

1	Europe	41%
2	North America	21%
3	Asia Pacific	27%
4	South America, Africa, Middle East	11%



#### Performance Chemicals

- Strong sales improvement in 2010 thanks to higher demand; full-year inclusion of Ciba businesses further boosts sales growth
- Earnings far above 2009 level despite one-time expenses for valuation adjustments on receivables related to long-term supply agreements

- Outlook 2011: slight sales growth; strong earnings improvement due to the realization of further synergies from the Ciba integration and measures implemented to increase efficiency

## Functional Solutions

### Customer-specific products and system solutions

The Functional Solutions segment comprises the Catalysts, Construction Chemicals and Coatings divisions. These divisions develop innovative, customer-specific products and system solutions, in particular for the automotive, chemical 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 developed in collaboration with our customers. One focus of our strategy is the ongoing optimization of our product portfolio and structures in accordance with different regional market requirements as well as trends in our customer industries. We aim to strengthen our leading market position in Europe, to profitably expand our position in the North American market and to selectively extend our activities in the growth regions Asia, South America, Eastern Europe and the Middle East.

#### Our products

The Catalysts division is the world's leading producer of mobile emissions catalysts and process catalysts that help to protect the air, to improve fuel production and to efficiently manufacture numerous chemicals and plastics. For example, we produce catalysts that transform pollutants in the exhaust flows of cars and commercial vehicles into harmless compounds. These systems have helped prevent more than one billion metric tons of emissions since 1974. Furthermore, we produce process catalysts which increase the raw material and energy efficiency of chemical plants and refineries. In addition, we offer precious and base metals services.

The Construction Chemicals division is a global leader in the development of concrete admixtures such as concrete plasticizers, retarders and curing agents. These facilitate simple and efficient processing of concrete and increase the stability and durability of concrete structures. We also produce and sell construction systems for residential, public and commercial buildings. Under the brand name Ucrete®, we offer heavy-duty

#### Coatings for wind turbine rotor blades

Improved erosion resistance

Value for BASF  
annual

20%

global growth in sales  
volumes of top coats  
expected in the next three  
years

Value for the customer  
up to

5×

better protection against  
extreme environmental  
conditions compared  
with conventional coating  
systems

**Value for BASF** Our special coatings for wind turbine rotor blade are sold in all important markets – in South America, we are the market leader. Worldwide, we aim to increase sales volumes by 20% each year over the next three years.

**Value for the customer** The newly developed high-solid coating is extremely resistant to rain erosion: It provides up to five times better protection against extreme environmental conditions than conventional coating systems.

industrial flooring systems. Our construction systems portfolio also includes sports flooring, tile adhesives, waterproofing and insulating systems as well as solutions for concrete maintenance. Key construction chemicals brands include Masterbuilders® and PCI®.

The Coatings division is one of the world's largest suppliers of innovative and environmentally friendly coatings solutions for automotive and industrial applications. With our brands Glasurit® and R-M® for the car refinish business, we are successful in the premium segment worldwide. In Brazil, we are the leading manufacturer of architectural coatings and our brand Suvinil® has an excellent market position. In China, we successfully introduced the new architectural coatings brand Norbin®. 🌐

#### Strategy

- Focus on innovative products and technologies that allow customers to stand out from the competition
- Development of specialties and system solutions in close collaboration with our customers
- Continuous optimization of our product portfolio in accordance with regional market requirements and trends in the customer industries

#### Products

- Catalysts: automotive and process catalysts
- Construction Chemicals: concrete admixtures and construction systems for the building sector
- Coatings: coatings solutions for automotive and industrial applications as well as architectural coatings



### Capital expenditures


Location	Project	Startup
Various locations, Asia	Expansion construction chemicals	2010
Gebze, Turkey	Construction construction chemicals	2010
Mangalore, India	Construction regional laboratory activities, expansion construction chemicals	2011
Nienburg, Germany	Expansion commercial vehicle catalysts	2010
Shanghai, China	Expansion commercial vehicle catalysts	2010
Sinzheim, Germany	Construction construction chemicals	2010
Tultitlán, Mexico	Construction regional laboratory activities	2012
Windsor, Canada	Expansion/concentration automotive coatings production	2010

### Research and development

The Catalysts division's research and development platform is unique in the industry. We continuously extend our technological leadership through process and product innovations. Our focus is on constantly improving the performance of our catalysts to conserve resources and meet tightening emission standards. Our innovations include the advanced zeolite SCR (Selective Catalytic Reduction) technology, which can remove over 90% of the harmful nitrogen oxide emissions from the exhaust flow of diesel engines.

Construction Chemicals aligns its research activities with local customers' needs and construction industry trends. Sustainability as well as cost and resource efficiency are the focus of the division's research. As one example, we have successfully launched our X-Seed® hardening accelerator that improves the energy efficiency and lowers the cost of concrete processing. Other key research topics are organic binders for applications in flooring and waterproofing, new formulations for dry mortar system solutions as well as mineralogy and nanotechnology.

The Coatings division works closely with our customers from the automotive industry to develop new solutions for integrated processes, eco-efficient coatings, scratch-resistant


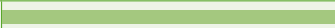

clearcoats and more effective corrosion protection technologies. Another area of research includes improved coatings products that can be used in increasingly important fields of application such as wind turbines. Our innovations also include coatings for steel or aluminum strips that are used in the construction sector, for example. These coatings contain pigments that reflect heat, thus helping to keep rooftops cooler. 

### Marketing and customer relations

Our customer portfolio ranges from major customers to medium-sized regional businesses to small local 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 offer our major customers individual service, custom-tailored research and development activities and technical services. Regional development laboratories allow us to quickly adapt our products to local needs.

Our close cooperation with our customers is demonstrated by the construction of the new Gotthard Base Tunnel through the Swiss Alps: As a partner for construction chemicals solutions, BASF's contribution to the construction of the world's longest railway tunnel includes concrete admixtures, fire protection mortar and on-site technical support.

### Sales – Functional Solutions (million €)

2010	9,703	
2009	7,115	
2008	9,388	

### Sales by division

1	Catalysts	52%
2	Construction Chemicals	22%
3	Coatings	26%



## Segment data Functional Solutions (million €)

	2010	2009	Change in %
Sales to third parties	9,703	7,115	36.4
Thereof Catalysts	5,005	2,961	69.0
Construction Chemicals	2,121	1,991	6.5
Coatings	2,577	2,163	19.1
Intersegmental transfers	159	147	8.2
Sales including intersegmental transfers	9,862	7,262	35.8
Income from operations before depreciation and amortization (EBITDA)	861	511	68.5
EBITDA margin (%)	8.9	7.2	—
Income from operations (EBIT) before special items	467	209	123.4
Income from operations (EBIT)	457	107	327.1
Income from operations (EBIT) after cost of capital	(356)	(644)	44.7
Assets	9,364	8,265	13.3
Research and development expenses	179	163	9.8
Additions to property, plant and equipment and intangible assets	208	174	19.5

**Sales to third parties grew by €2,588 million to €9,703 million, a strong increase over the previous year's level (volumes 17%, prices 10%, portfolio 1%, currencies 8%). Despite one-time costs at the end of 2010, income from operations at €457 million was far above the weak level of the previous year. The main reasons for this improvement were the strong recovery in global automotive production and our measures to increase efficiency.**

**In 2011, we expect rising demand from our key customer industries – the construction and automotive industries. We aim for a significant increase in sales and a substantial improvement in earnings.**

## Catalysts

Our business benefited in 2010 from the rapid and considerable recovery in the automotive industry. Sales to third parties increased by €2,044 million to €5,005 million (volumes 31%, prices 27%, portfolio 2%, currencies 9%). This strong increase

was partly attributable to higher average annual prices for precious metals. In addition, increased volumes in our business with mobile emissions catalysts contributed considerably to sales growth. Our sales of process catalysts surpassed the level of the previous year.

In North America, the mobile emissions catalysts business developed positively as a result of the general increase in demand for cars, while in Europe growth was primarily attributable to the strong upturn in the market for premium vehicles. Furthermore, demand for heavy duty diesel engines rose considerably in both regions.

The upswing in the automotive industry positively impacted the performance of our unit Precious and Base Metal Services: As a result of higher precious metal prices and increased volumes, sales doubled to reach €2,482 million (2009: €1,229 million).

In this improved market environment, we posted a strong increase in our income from operations.

## Factors influencing sales – Functional Solutions

Volumes	17%	<div></div>
Prices	10%	<div></div>
Portfolio	1%	<div></div>
Currencies	8%	<div></div>
<b>Sales</b>	<b>36%</b>	<div></div>

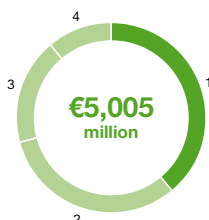
## Income from operations – Functional Solutions (million €)

2010	457	<div></div>
2009	107	<div></div>
2008	151	<div></div>

We expect sales to increase significantly in 2011 as a result of higher precious metal prices as well as increasing volumes, particularly for mobile emissions and chemical catalysts. We anticipate that sales volumes of mobile emissions catalysts will rise due to increasing demand and new emissions standards coming into effect. Earnings in 2011 are expected to be far above the level of the previous year, driven by higher sales and continued cost-cutting measures.

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

1	Europe	39%
2	North America	32%
3	Asia Pacific	18%
4	South America, Africa, Middle East	11%



#### Construction Chemicals

While raw materials costs declined, sales to third parties increased by €130 million to €2,121 million owing to higher volumes and currency effects (volumes 3%, prices –2%, currencies 6%). Thanks to strong demand, sales grew substantially in China, India, Russia, Egypt and Saudi Arabia. After a considerable decline in sales in 2009, our business in North America and Northern Europe stabilized again in 2010. Our business was robust in the key European markets Germany and France, but sales in Spain fell further.

Income from operations was far above the level of the previous year. In particular, our ongoing measures to increase competitiveness had a positive effect on earnings: In all regions, we have adapted our business models and organizations to market developments, reduced the complexity of our services offered and increased the efficiency of our processes throughout the entire supply chain. These measures resulted in special items, but these had a smaller negative impact on earnings than in the previous year.

We expect the following developments in our important markets in 2011: In North America, Europe and Japan, the construction industry will grow slightly. In contrast, there will be continued strong growth in China's construction activity. We will make investments accordingly. Overall, we also expect substantial growth in the Middle East, India and South America. For 2011, we aim for slight sales growth in the Construction Chemicals division and a strong improvement in earnings.

#### Construction Chemicals – Sales by region (location of customer)

1	Europe	45%
2	North America	23%
3	Asia Pacific	20%
4	South America, Africa, Middle East	12%



#### Catalysts

- Sales far above 2009 level thanks to higher precious metal prices and rising volumes
- Strong improvement in earnings in a favorable market environment
- Outlook 2011: significant sales growth resulting from higher precious metal prices and increasing volumes; earnings far above the previous year's level

#### Construction Chemicals

- Sales rise slightly due to higher volumes and currency effects
- Earnings far above previous year's level
- Measures to increase competitiveness successfully implemented
- Outlook 2011: slight sales growth and strong improvement in earnings

## Coatings

In 2010, sales to third parties at €2,577 million were €414 million higher than in the previous year (volumes 12%, prices 0%, currencies 7%). All product areas worldwide benefited from the overall recovery in demand. The improved market environment for the global automotive industry and rising consumption in South America were key drivers for the significant growth in sales. These developments more than offset the slight decline in sales resulting from the divestitures of industrial coatings businesses in Japan and North America.

Our business with automotive coatings was very successful thanks to the quick recovery of the automotive industry in Asia, especially in China. Sales in the automotive refinish coatings business also grew; the business environment, however, remained competitive. Demand for coatings for transport and agricultural machinery only began to slowly recover in the second half of 2010. In Europe, we benefited from strong demand for coil coatings from the Eastern European steel industry. Sales volumes of coatings for wind turbines stabilized at a high level. Sales of our architectural coatings were higher than in the previous year, particularly in South America. Not only did general consumer demand increase in South America, we also gained additional market share with our product innovations.

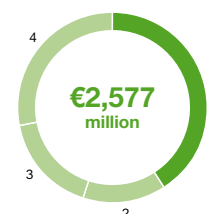
Income from operations was far above the 2009 level. Although we expanded our operations, we managed to limit the increase in fixed costs with restructuring projects and to offset the sharp rise in raw materials costs.

After recognizing special charges in 2009, in 2010 we recorded a small amount of positive special income resulting from the sale of our production site in Burago, Italy. This divestiture was part of our portfolio streamlining. In addition, we optimized internal processes.

In 2011, we expect demand from the global automotive industry to grow further and private consumption to increase. Emerging markets will be driving these trends. We therefore expect that sales will increase slightly compared with the 2010 level. We also aim for a slight improvement in income from operations despite expected higher raw materials costs. We will strengthen our presence in the growth regions of Asia and Eastern Europe – particularly in China, India and Russia – and together with our customers, continue to grow in these markets.

### Coatings – Sales by region (location of customer)

1	Europe	41%
2	North America	14%
3	Asia Pacific	17%
4	South America, Africa, Middle East	28%



## Coatings

- Significant improvement in 2010 sales, due mainly to the favorable market environment in the global automotive industry and rising consumption in South America
- Earnings far above previous year's level
- Sale of our production site in Burago, Italy

- Outlook 2011: slight increase in sales; slight improvement in earnings despite higher raw materials costs

## Agricultural Solutions

### Innovations for the health of crops

**The Agricultural Solutions segment consists of the Crop Protection division. We develop and produce innovative active ingredients and formulations for the improvement of crop health and yields, and market them worldwide. BASF Plant Science conducts research in the field of plant biotechnology.**

#### Crop Protection – Strategy

Our growth is based on innovation, with a focus on continuous development of new products and system solutions to proactively address the needs of our customers. We concentrate on markets for high-quality applications and constantly optimize our portfolio, while the health of crops remains our central focus.

Innovations are crucial to our success. Therefore we continuously invest in our active ingredients pipeline and develop improved formulations. Successful growth also means using the potential of new business models and developing new market segments, through in-licensing or acquisitions when appropriate.

#### Our products

With our products and services, we are a reliable partner to farmers. Our products contribute to improving crop health and yields. We also offer solutions for non-crop applications: For example, our product Termidor® protects buildings from termites and our Interceptor® mosquito nets combat the spread of malaria. With a portfolio of fungicides, insecticides, herbicides and seed treatments, we are one of the leading suppliers in the sector.

We develop new markets: One goal of our Plant Health market segment is to increase yields through improved plant health. Thanks to our products from the umbrella brand AgCelence®, plants are more resistant to stress factors such as heat or drought. Farmers make higher profits thanks to greater yield security and improved harvests.

Our new herbicide Kixor®, used to combat broadleaf and difficult-to-control weeds, is very promising. In particular, it is effective in combating the increasingly common weeds that are resistant to the herbicide glyphosate. We successfully introduced Kixor on the market in North America and some Latin

#### Crop protection pipeline

Product	Market segments	Phase 1 (In development 2011–2016)	Phase 2 (Being launched on the market 2006–2010)	Phase 3 (Already launched on the market 2002–2005)
F 500 (F), boscalid (F), Metrafenone (F), dimoxystrobin (F) Tritosulfuron (H), chlorfenapyr (I)	crops, specialty crops, pest control			
Orysastrobin (F), F 500 fungicide seed treatment (F) Topramezone (H), saf ufenacil (Kixor) (H) Metaf umizone (I)	crops, specialty crops, seed treatment			
Initium (F) Xemium (F)				
HT Project Cultivance <sup>1</sup> HT Project Dicamba 1 insecticide	crops, specialty crops, seed treatment			
<b>Total peak sales potential</b>		<b>€700 million</b>	<b>€1,700 million</b>	

Abbreviations: F = Fungicides, H = Herbicides, I = Insecticides, HT = Herbicide Tolerance

<sup>1</sup> Herbicide tolerance project Cultivance is also reported in the BASF biotech pipeline.

#### Sales – Agricultural Solutions (million €)

2010	4,033	
2009	3,646	
2008	3,409	

#### Strategy and products

- Top position through our innovative portfolio for the health of crops
- Our products: fungicides, insecticides, herbicides, seed treatments, plant health products and applications in the non-crop sector
- Successful launch of our new herbicide Kixor in North America and some Latin American countries

American countries in 2010. In the year of its launch, more than four million hectares of land were treated with Kixor – more than with any other herbicide newly-introduced on the U.S. market in the last ten years. We will further advance the introduction of the Kixor product family in 2011. We expect Kixor to reach a peak sales potential of more than €200 million.

Our SeedSolutions business also focuses on disease and insect control as well as yield and quality advantages. Seed treatment is a business area with growth potential: Genetically modified crops are playing an increasingly important role worldwide. This increases the value of the seeds and farmers therefore have a greater incentive to effectively protect them from disease and pests. In the SeedSolutions business area, we transfer the strengths of our plant health products to our seed treatments. One sign of our success was the strong demand for Standak® Top, a product we introduced in the Brazilian market in 2010. Standak Top protects soybean seeds from insects and diseases while improving plant health.

### Research and development

In 2010, we increased our research and development expenditures to €393 million. This correlates to around 10% of sales. We make targeted investments to identify novel active ingredients at an early stage and to quickly bring to market the results of our research and development projects. Our pipeline currently has a peak sales potential of €2,400 million. Of this, €700 million relates to products in a development phase while €1,700 million comes from active ingredients introduced on the market since 2002. With these, we reached about 70% of their expected sales potential in 2010.

We are working on developing three new active ingredients and two herbicide tolerance projects. Initium®, a new fungicide from our innovative product pipeline is an ideal addition to our portfolio for the dynamically growing business with specialty crops. It has already been successfully tested in field trials and is expected to be launched in 2011. Xemium® is a particularly

### Blockbuster herbicide Kixor

A key component of BASF's herbicide portfolio

#### Value for BASF

>€200 million

peak sales potential  
(expected maximum  
annual sales)

#### Value for our customers

3–5×

faster weed control  
compared with conven-  
tional herbicides

**Value for BASF** We successfully launched Kixor in 2010 and demand for our herbicide is high. We aim to achieve a peak sales potential of more than €200 million with Kixor.

**Value for our customers** Kixor is effective in combating more than 80 broadleaf weeds, including weeds that are resistant to the herbicide glyphosate. In comparison with conventional herbicides, it acts up to five times faster – thus enabling our customers to control weeds efficiently and increase their yields.

powerful and widely applicable fungicide for field and specialty crops. Thanks to its special molecular structure, Xemium is very effective and enables higher yields and improved quality at the same time. The global market launch is planned for 2012.

### Marketing and customer relations

Innovative, high-value products and services as well as strong local expertise are key to making our collaboration with customers successful. We see major growth potential in Asia, particularly in China and India. We also want to support farmers in these countries with our wide-ranging expertise in agronomic practices and technological solutions.

### Income from operations – Agricultural Solutions (million €)

2010	749	
2009	769	
2008	705	

### Research and development

- 2010: research and development expenditures of €393 million, equivalent to 10% of sales
- Pipeline with peak sales potential of €2,400 million
- New fungicide Initium for specialty crops successfully tested; market launch planned for 2011
- Global launch of widely applicable fungicide Xemium planned for 2012



## Investments

In 2010, we invested €145 million. A large part of this amount was directly related to the capacity expansion for our fungicide F 500®. Furthermore, we are in the process of building new production capacities for our fungicide Xemium. To be able to meet the ongoing high demand for our innovative crop protection products in the future, we will continue to invest in our production capacities. To do this, we plan an average investment volume of €100 million to €150 million annually in the next few years.

## BASF Plant Science

### Plant biotechnology at BASF

At eight sites in Europe and North America, BASF Plant Science has around 700 employees developing crops with clear advantages for farmers, consumers and the environment. Plant biotechnology enables us to give crops desired characteristics through the targeted transfer of genes. In comparison to conventional breeding methods, this makes available a much larger repertoire of genetic traits from a variety of organisms. Research expenditures for BASF Plant Science amount to around €150 million annually.

In 2010, we received approval in Europe for the first product in our pipeline: Amf ora®. Amf ora is a potato with an optimized starch composition for use in various industrial applications. In Amf ora fields in Sweden in 2010, we found some plants of another genetically modified potato variety. We quickly identified the cause of the comingling and took measures to prevent it from occurring again. → **For more on Amf ora, see page 102**

## Strategy

As a partner to leading seed companies, we research and develop traits such as higher yield, drought tolerance or disease resistance. We offer seed companies solutions ranging from development to end product, depending on the characteristics and the crop. Together with our partners, we bring the seeds to market. In addition to crops that offer farmers higher and more secure yields, we develop plants that can improve nutrition or be used as renewable raw materials.

There is a controversial discussion about plant biotechnology, particularly in Europe. We take our social responsibility seriously: We enter into close dialogue with farmers, politicians and consumers to explain the benefits of the processes used as well as our products, and we strive for greater acceptance of plant biotechnology.

## Research and development

BASF Plant Science cooperates with a number of research institutes, universities and biotechnology companies worldwide. Since 2007, we have been working with Monsanto to develop higher-yielding and more tolerant corn (maize), soybean, canola (oil-seed rape) and cotton plants. In 2010, we expanded this cooperation further and are now also working on the development of higher-yielding and stress-tolerant wheat. The launch of the world's first corn that can survive drought periods without reduced yields is expected in North America in 2012. At the end of 2010, we started a cooperation with Bayer CropScience. This long-term collaboration aims to develop and commercialize hybrid rice seeds that enable yield gains of 10% or more over conventional seeds. The first product from this project is expected to be launched by 2020. Our other cooperation partners include KWS Saat AG and the Brazilian research center CTC (Centro de Tecnologia Canavieira). We are working with them on the development of sugar beet (KWS) and sugarcane (CTC) with higher yields and better drought tolerance.

## BASF Plant Science

- BASF's plant biotechnology company with around 700 employees worldwide
- Development of crops with clear advantages for farmers, consumers and the environment
- Approval for starch potato Amf ora

## Research and development

- Expanding our cooperation with Monsanto: development of higher-yielding and stress-tolerant wheat
- Cooperation with Bayer CropScience: development and commercialization of hybrid rice seed
- Cooperative partnerships with KWS Saat AG (sugar beet) and CTC (sugarcane) to develop plants with higher yields and better drought tolerance

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

	2010	2009	Change in %
Sales to third parties	4,033	3,646	10.6
Intersegmental transfers	25	33	(24.2)
Sales including intersegmental transfers	4,058	3,679	10.3
Income from operations before depreciation and amortization (EBITDA)	938	973	(3.6)
EBITDA margin (%)	23.3	26.7	–
Income from operations (EBIT) before special items	749	776	(3.5)
Income from operations (EBIT)	749	769	(2.6)
Income from operations (EBIT) after cost of capital	289	329	(12.2)
Assets	5,063	4,681	8.2
Research and development expenses	393	355	10.7
Additions to property, plant and equipment and intangible assets	145	183	(20.8)

<sup>1</sup> Research and development expenses, sales, earnings and all other data of BASF Plant Science are not included in the Agricultural Solutions segment; they are reported in Other.

**Compared with the previous year, our sales to third parties grew by €387 million to €4,033 million. Despite increased investments in research and development as well as in growth markets, income from operations reached €749 million, nearly matching the high level of 2009.**

**We will continue our successful innovation strategy in 2011. We aim for slight growth in sales and earnings.**

### Crop Protection

The Crop Protection division significantly increased sales to third parties in 2010. At €4,033 million, sales were €387 million higher than in the previous year (volumes 9%, prices –3%, currencies 5%). Sales growth was mainly a result of substantially higher sales volumes. Furthermore, we benefited from positive currency effects. In the first half of the year, lower agricultural commodity prices and inventory reduction by distributors put pressure on our sales prices; in the second half, intense competition led to price declines.

At €1,566 million, sales to customers in **Europe** were slightly above the previous year's level. After unfavorable weather conditions initially led to a late season start and therefore to lower demand for crop protection products, the fall season turned out to be very successful. There was high demand for herbicides for important field crops, especially in the growth markets of Eastern Europe. Positive currency effects supported sales growth.

In **North America**, sales increased slightly to €999 million. Growth was driven mainly by the successful market launch of our herbicide Kixor® and a stronger U.S. dollar on average in 2010. Our Headline Advantage program – a bonus system for our customers – led to a considerable increase in demand, which allowed distributors to reduce their high inventory levels of fungicides.

#### Factors influencing sales – Agricultural Solutions

Volumes	9%	
Prices	–3%	
Portfolio	0%	
Currencies	5%	
<b>Sales</b>	<b>11%</b>	

#### Factors influencing sales

- Europe: slight sales growth thanks to a good fall season
- North America: sales rise slightly, primarily as a result of the successful market launch of our herbicide Kixor and positive currency effects
- Asia: sales improve significantly due to higher volumes and currency effects
- South America: substantial sales increase owing to strong volume growth

In **Asia**, sales improved significantly to €438 million thanks to higher sales volumes and positive currency effects. In addition, sales were bolstered by high demand for soybean herbicides and fungicides for specialty crops in India. We benefited from our very successful Samruddhi business model in India, which involves the training of farmers in the proper use of crop protection products and fertilizers.

Sales in **South America** increased substantially to €1,030 million as a result of strong volume growth. The recovery of the sugarcane market led to higher demand for insecticides. Strong demand for soybean fungicides could be met by the expansion of our F 500® capacities. We successfully launched our innovative soybean seed treatment Standak® Top. Standak Top offers protection against both insects and fungal diseases. In the second half of the year, we selectively lowered prices in response to intense competition.

At €749 million, income from operations nearly matched the high level of the previous year – despite a planned increase of around €100 million in research and development investments as well as the expansion of our sales team in growth regions.

Assets climbed by €382 million to €5,063 million, primarily attributable to the rise in current assets. Both inventories and the level of receivables increased from the second half of the year onward in line with the substantial sales growth. Our strict credit and risk management, particularly in the Latin American and Eastern European growth markets, continued to be successful.

In 2011, we expect the market environment to remain positive. We anticipate that prices for agricultural products will continue to be above historical averages, but highly volatile. In addition to agricultural commodity prices, the exchange rates of important currencies will play a decisive role in our business. In 2011, we want our volumes to grow faster than the market thanks to our capacity expansions and recently introduced products. We aim for a slight improvement in sales and earnings.

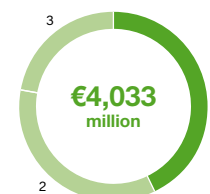
#### Crop Protection – Sales by region (location of customer)

1	Europe	38%
2	North America	25%
3	Asia Pacific	11%
4	South America, Africa, Middle East	26%



#### Crop Protection – Sales by indication

1	Fungicides	43%
2	Herbicides	35%
3	Insecticides and other	22%



### Crop Protection

- Sales in 2010 grow significantly as a result of substantially increased sales volumes and positive currency effects
- Earnings nearly match the high 2009 level despite increased investments in research and development as well as in sales

- Outlook 2011: market environment expected to remain positive with prices for agricultural products generally higher, but volatile; slight sales and earnings improvement

## 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 crude oil and natural gas, we concentrate on selected oil- and gas-rich regions in Europe, North Africa and the Middle East, South America as well as in Russia and the Caspian Sea region. In addition to investments in the exploration, development and production of hydrocarbons, we also secure our lasting success by broadening our technological expertise.

The growth in long-term demand for natural gas in Western Europe, coupled with the decline in regional production, means that ever-increasing amounts of natural gas will have to be imported. This creates opportunities for our business sectors, which we utilize in our strategy "Gas for Europe." We explore for and produce natural gas in and around Europe and establish the necessary infrastructure to deliver the gas to customers. With our pipeline network and strategically positioned natural gas storage facilities, we make an important contribution to securing gas supplies in Germany and Europe.

We continuously advance our technological expertise. Our focus is on increasing the yield from producing deposits as well as the development of technologies for reservoirs with difficult production conditions. In doing so, we tap synergies with BASF Group's existing research competencies, so we can increasingly establish ourselves as a partner with exceptional technological expertise.

We operate in ecologically sensitive areas. Therefore, before our activities start, we carefully examine potential effects on the environment, such as on water and biodiversity. Together with experts, our contractors and relevant stakeholders, we establish measures to minimize the impact on humans and the environment. In so doing, we are committed to the adherence to international conventions, local regulations and our own standards. 

### Exploration & Production

**Europe:** The Mittelplate oil field in the North Sea tidal flats is the cornerstone of our oil production in Germany. Wintershall and RWE-DEA each own a 50% stake in this field, the largest known oil deposit in the country. In 2010, the production license was renewed until 2041. Wintershall is one of the largest producers of natural gas in the southern sector of the North Sea, producing approximately 1.3 billion cubic meters annually. We operate 26 offshore production facilities in this region, of which 19 are centrally controlled by one of the most modern radio control systems in the world. This automation is an essential prerequisite for the continued economic production of small and medium-sized deposits.

Our activities in Norway play an important role in our portfolio. Thanks to Norway's large oil and gas reserves and its good pipeline connections to the Western European markets, the country is – next to Russia – one of Europe's most important suppliers. We were able to further expand our resource base in Norway in 2010 as a result of successful exploration projects.

**Russia and the Caspian Sea region:** The Yuzhno Russkoye natural gas field in Western Siberia has been operating at plateau production since mid-2009. We participate with a 35% interest in the economic rewards of this field. Wintershall holds a stake of 50% in the development of a section of the Achimov formation in the Urengoy field. Currently, a gas treatment plant and six gas and condensate wells are operating here in a pilot phase. In the Caspian Sea region, we are pursuing exploration projects in Turkmenistan and Azerbaijan.

**North Africa/Middle East:** In Libya, we operate eight onshore oil fields in the concessions 96 and 97. The associated gas obtained during crude oil production is treated so it can be utilized to meet local demand.

Negotiations, which began in early 2008, are still ongoing with the Libyan state oil company on converting the existing concession agreements into production sharing agreements according to the EPSC-IV standard. We aim to conclude these negotiations in 2011.

### Oil & Gas segment

- Two business sectors, Exploration & Production and Natural Gas Trading, are bundled in the Wintershall Group
- Success is driven by investments in exploration and production, and expansion of technological expertise
- We make an important contribution to Europe's supply security with our Gas for Europe strategy
- We strengthen our competitive position with our own research and development activities

### Exploration & Production

- Norway and Russia have a central role in our portfolio; successful exploration projects
- Full-year plateau production at Yuzhno Russkoye natural gas field
- First well drilling in exploration Block 4N in Qatar

In the Kufra Basin in southern Libya, we are participating in Blocks 1 to 4 in an area that has not yet been extensively explored. We continued our exploration activities by drilling a well. In Mauritania, we operate two onshore exploration blocks where we conducted seismic surveys in 2010. We started drilling a well in the western part of exploration Block 4N in Qatar. We also have a stake in Block 3; we did not extend the contract for Block 11 after the end of the second exploration phase. In Oman, the consortium returned the license for Block 51 to the state after a well was found to be unsuccessful.

**South America:** In Argentina, we have a stake in 15 fields; we are the operator for two exploration licenses in the Cañadón-Asfalto Basin. In the Neuquén Basin, we continued the development of the tight gas deposit in the Central-West field of the Aguada Pichana concession. In Chile, we hold stakes in two blocks near our existing facilities in Tierra del Fuego. We continued our exploration activities here by conducting seismic surveys.

→ For more on current reserves, see pages 79 and 197

### Natural Gas Trading

The WINGAS Group, operated jointly with Gazprom, combines our main activities in natural gas trading, transport and storage.

**Natural gas trading:** We market natural gas from various sources to Germany and other European countries. We meet our gas needs primarily through long-term supply contracts. We are increasingly active in international spot trading markets due to their growing importance.

**Gas transport:** The European Commission's third energy market liberalization package took effect on September 3, 2009. It contained the Gas Directive, whose key objective is to ensure the greater independence of network and storage operations. To implement the Gas Directive, WINGAS transferred ownership of its gas pipeline network to WINGAS TRANSPORT in 2010. The pipeline network is over 2,000 kilometers long and connects Western European markets with an infrastructure that extends to the gas fields of Siberia.

### Wintershall's German production facilities generate their own electricity and steam

Technical conversion reduces CO<sub>2</sub> emissions

#### Value for BASF

5%

reduction in operating costs

#### Value for the environment

25%

reduction in CO<sub>2</sub> emissions

**Value for BASF** Following technical conversion (CHP technology), Wintershall will from now on use residual gas from oil production to generate electricity for its own needs. This enables Wintershall to meet the electricity demand of all its production facilities in Germany from 2011, saving 5% of the annual operating costs.

**Value for the environment** Thanks to CHP technology, Wintershall is able to use the waste heat from electricity generation to produce more than 100,000 metric tons of steam per year at its site in Emlichheim, Germany. The steam can then be used in oil production. By using the same energy twice, Wintershall significantly reduces its electricity consumption. The reduction in CO<sub>2</sub> emissions amounts to around 25% of the total emissions of Wintershall's German production facilities – a gain for the environment.

### Natural Gas Trading

- Expansion of natural gas infrastructure in Germany and Europe together with Gazprom
- Strengthening of market position in Germany and continued growth in the rest of Europe

### Important developments in 2010

- Implementation of the Gas Directive of the European Commission's third energy market liberalization package
- Construction progressing as planned on the Nord Stream pipeline and OPAL pipeline link
- Rapid progress on construction at the Jemgum natural gas storage facility in Northern Germany

## Capital expenditures

Location	Project	Total capacity	Completion
Haidach, Austria	Startup and expansion of the natural gas storage facility	>2 billion m <sup>3</sup>	2007 <sup>2</sup> /2011
Haiming, Germany	Startup and expansion of the compressor station	32 MW	2007 <sup>2</sup> /2011
	Construction of the onshore pipeline links OPAL and NEL to the Nord Stream natural gas pipeline	55 billion m <sup>3</sup>	2011/2012
Jemgum, Germany	Startup and expansion of the natural gas storage facility	>1 billion m <sup>3</sup>	2013 <sup>2</sup> /2016
Siberia, Russia	Achimgaz, development of the Achimov formation in the Urengoy gas and condensate field	70 million BOE <sup>1</sup>	2008 <sup>2</sup> /2015

<sup>1</sup> BOE = Barrel oil equivalent<sup>2</sup> Startup year

Since 2010, WINGAS TRANSPORT has been subject to the terms of the 'incentive regulation.' Under this legislation, the German Federal Network Agency sets a cost-based cap for revenues from natural gas transportation.

The construction of the Nord Stream pipeline from Russia through the Baltic Sea to the German coast and its associated onshore projects for onward transport to the European network will significantly strengthen Europe's natural gas infrastructure. Nord Stream AG, builder and operator of the offshore pipeline, is consolidated in the BASF Group Consolidated Financial Statements according to the equity method. The shareholders in Nord Stream are: Gazprom (51%), E.ON Ruhrgas and Wintershall (15.5% each) as well as N.V. Nederlandse Gasunie and GDF Suez (9% each).

Construction work is progressing as planned on the OPAL pipeline (Baltic Sea Pipeline Link), which starts near Greifswald, Germany. The 470 kilometer natural gas transit pipeline will reach a capacity of more than 35 billion cubic meters and will start operations together with the first Nord Stream pipeline in fall 2011.

Approval processes are still underway for the second transit pipeline North European Gas Pipeline (NEL), which should begin operations, together with the second line of the Nord Stream pipeline, in 2012. The involvement of N.V. Nederlandse Gasunie with a stake of 20% and the planned acquisition of a 19% stake by Belgium's Fluxys SA strengthens the European nature of this infrastructure project.

**Gas storage:** Important components of the portfolio of our Natural Gas Trading business sector include the largest natural gas storage facility in Western Europe, in Rehden, Germany, and the natural gas storage facility in Haidach, Austria. Our growth strategy is supported by the further expansion of our storage capacities. Construction is progressing rapidly on the Jemgum natural gas storage facility in Northern Germany. In 2010, VNG-Verbundnetz Gas AG took a stake of almost 17% in this project. At the Haidach natural gas storage facility, the second expansion phase has nearly been completed – the additional capacities are scheduled to be marketed from April 2011.

In 2011, we plan to establish a new storage company to comply with the provision of the third energy market liberalization package's Gas Directive.

Sales – Oil & Gas  
(million €)

2010	10,791	
2009	11,356	
2008	14,445	

## Sales by business sector

1	Exploration & Production	35%
2	Natural Gas Trading	65%





Segment data Oil & Gas<sup>1</sup> (million €)

	2010	2009	Change in %
Sales to third parties	10,791	11,356	(5.0)
Thereof Exploration & Production	3,819	3,847	(0.7)
Natural Gas Trading	6,972	7,509	(7.2)
Intersegmental transfers	852	702	21.4
Sales including intersegmental transfers	11,643	12,058	(3.4)
Income from operations before depreciation and amortization (EBITDA)	2,977	2,830	5.2
Thereof Exploration & Production	2,428	2,188	11.0
Natural Gas Trading	549	642	(14.5)
EBITDA margin (%)	27.6	24.9	—
Income from operations (EBIT) before special items	2,430	2,289	6.2
Thereof Exploration & Production	2,014	1,781	13.1
Natural Gas Trading	416	508	(18.1)
Income from operations (EBIT)	2,334	2,289	2.0
Thereof Exploration & Production	1,918	1,781	7.7
Natural Gas Trading	416	508	(18.1)
Income from operations (EBIT) after cost of capital <sup>2</sup>	588	695	(15.4)
Assets	9,150	8,301	10.2
Thereof Exploration & Production	5,158	4,997	3.2
Natural Gas Trading	3,992	3,304	20.8
Exploration expenses	190	143	32.9
Additions to property, plant and equipment and intangible assets	996	1,012	(1.6)
Income taxes on oil-producing operations non-compensable with German corporate income tax	983	870	13.0
Net income <sup>3</sup>	923	712	29.6

<sup>1</sup> Supplementary information on oil and gas producing activities from page 195 onward

<sup>2</sup> In the Oil & Gas segment, non-compensable foreign income taxes for oil production are deducted.

<sup>3</sup> Information on the net income of the Oil & Gas segment can be found in the reconciliation reporting Oil & Gas in the Notes to the Consolidated Financial Statements on page 158.

## Factors influencing sales – Oil &amp; Gas

Volumes	–2%	
Prices/currencies	–3%	
Portfolio	0%	
Sales	–5%	

Income from operations – Oil & Gas  
(million €)

2010	2,334	
2009	2,289	
2008	3,844	

**Sales to third parties in the Oil & Gas segment in 2010 decreased by €565 million to €10,791 million (volumes –2%, prices/currencies –3%). In contrast, income from operations improved by €45 million to €2,334 million. Net income increased by €211 million to €923 million.**

**We expect the oil price in 2011 to be higher than the average price seen in 2010. Our planning is based on an oil price of \$90 per barrel and an average euro/dollar exchange rate of \$1.35 per euro in 2011. Based on these assumptions, we aim for a significant increase in sales and a substantial improvement in earnings.**

→ For more on the segment's net income, see Notes to the Consolidated Financial Statements on page 158

## Exploration & Production

Sales to third parties of €3,819 million matched the previous year's level (2009: €3,847 million). The average price of Brent crude in 2010 rose by around \$18 per barrel compared with the previous year to reach about \$80 per barrel. As the U.S. dollar also strengthened against the euro, the price of crude oil in euro rose by approximately €16 per barrel to around €60 per barrel. At 133 million barrels of oil equivalent (BOE), crude oil and natural gas production was slightly below the previous year's level, due primarily to production restrictions in our Libyan onshore concessions. This figure includes minority interests from Gazprom's stake in a German Wintershall subsidiary that holds the Libyan concessions 96 and 97. Volumes from the Western Siberian Achimgaz project are not included due to legal and contractual stipulations.

Income from operations improved by €137 million to €1,918 million, as a result of higher prices. Earnings include income taxes on oil production in Libya of €983 million that are non-compensable with German corporate income tax (2009: €870 million). These taxes are reported as income taxes. Valuation adjustments on oil and gas licenses in the North Sea were recognized as special charges.

In 2010, we completed the drilling of 23 exploration and appraisal wells in the search for new oil and natural gas deposits, of which 12 were successful. Exploration expenses rose by €47 million to €190 million.

Proven crude oil and natural gas reserves decreased by 1% compared with the end of 2009 to 1,123 million BOE. The reserve-to-production ratio of these reserves is 10 years (2009: 10 years). This is based on Wintershall's share of production in 2010 and refers to the reserves at year-end. We replenished 89% of the volumes produced in 2010. These figures do not include the volumes from the Achimgaz project due to the underlying service agreement.

For 2011, we expect sales to grow significantly and earnings to improve substantially in the Exploration & Production business sector owing to higher prices and increasing production volumes.

## Oil & Gas segment

- Sales in 2010 decline; earnings improve slightly primarily due to high contribution from Exploration & Production
- Construction starts on Nord Stream pipeline; delivery of first gas volumes expected in October 2011
- Work continues on Jemgum natural gas storage facility and OPAL pipeline (Baltic Sea Pipeline Link)

- The oil price in 2011 is expected to be higher than the 2010 average price; our planning is based on the following annual average assumptions: oil price of \$90 per barrel, euro/dollar exchange rate of \$1.35 per euro
- Outlook 2011: significant increase in sales; substantial improvement in earnings

## Natural Gas Trading

Sales to third parties declined by €537 million to €6,972 million as a result of lower prices. However, the economic recovery and cold winter weather led to an increase of 6% in sales volumes to 413 billion kilowatt hours. In particular, sales volumes within Germany grew by 8% to 247 billion kilowatt hours. WINGAS sold around 11% of its volumes to BASF Group companies.

At €416 million, income from operations was €92 million below the level of the previous year. Sales prices for natural gas generally followed those of oil with a time lag of several months. The moderate but steady increase in oil prices over the course of the year therefore had a negative effect on earnings. In addition, trading margins came under strong pressure as a result of the ongoing low price level on the spot markets. Increased competition in our sales markets could be partially offset by supply-side optimization measures.

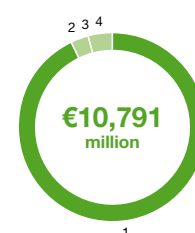
A key part of our growth strategy in natural gas trading is our stake in Nord Stream AG. In 2010, this company began constructing a pipeline that will run from Vyborg, Russia, through the Baltic Sea to the German coast near Greifswald. Construction is proceeding as planned. Around 900 kilometers of pipeline had been laid by December 31, 2010. We expect the first gas volumes to be delivered in October 2011.

In connection with the Nord Stream project, construction continued in Germany on the Jemgum natural gas storage facility as well as the OPAL pipeline (Baltic Sea Pipeline Link). By the end of 2010, around 400 kilometers of the OPAL pipeline had been laid. Planning activities for the NEL pipeline (Northern European Gas Link) continued.

For 2011, we expect a minor decline in sales volumes as a result of ongoing intense competition and the exceptionally cold winter weather in 2010. However, we anticipate sales will increase slightly as gas prices rise as a result of higher oil prices. Due to ongoing margin pressure, we anticipate a slight decline in earnings.

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

1	Europe	93%
2	North America	3%
3	Asia Pacific	0%
4	South America, Africa, Middle East	4%



## Exploration & Production

- Sales at previous year's level
- Slight decline in crude oil and natural gas production due to OPEC production restrictions in Libya
- Significant earnings growth as a result of higher prices
- Outlook 2011: significant sales growth and substantial earnings improvement owing to higher prices and increasing production volumes

## Natural Gas Trading

- Sales decline due to lower gas prices
- Sales volumes increase as a result of the global economic recovery and cold winter weather
- Earnings below the level of the previous year
- Outlook 2011: slight increase in sales; slight decline in earnings due to ongoing margin pressure

## Regional results

### Regions<sup>1</sup> (million €)

	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
	2010	2009	Change in %	2010	2009	Change in %	2010	2009	Change in %
Europe	35,156	30,375	15.7	33,201	28,532	16.4	5,206	2,390	117.8
Thereof Germany	25,426	21,543	18.0	12,225	10,666	14.6	3,769	1,855	103.2
North America	13,246	9,404	40.9	12,886	9,480	35.9	1,107	503	120.1
Asia Pacific	11,642	7,997	45.6	12,510	8,706	43.7	1,271	503	152.7
South America, Africa, Middle East	3,829	2,917	31.3	5,276	3,975	32.7	177	281	(37.0)
	<b>63,873</b>	<b>50,693</b>	<b>26.0</b>	<b>63,873</b>	<b>50,693</b>	<b>26.0</b>	<b>7,761</b>	<b>3,677</b>	<b>111.1</b>

<sup>1</sup> The regional classification of some Central American countries has been changed, the previous year's figures have been adjusted.

### Europe

In 2010, sales of companies headquartered in Europe grew by 16% compared with the previous year to reach €35,156 million. In the chemicals business, sales at €19,363 million reached the pre-crisis level. Compared with 2009, this was an increase of 32%. This development shows that BASF has emerged from the economic crisis even stronger than before in Europe.

In the Chemicals and Plastics segments, sales were far above the 2009 level thanks to increased volumes and prices in all divisions. In the Performance Products segment, sales grew substantially due in part to the strong demand for our products as well as the full-year inclusion of the former Ciba businesses. In the Functional Solutions segment, there was a strong improvement in sales, especially in the Catalysts division. The Agricultural Solutions segment exceeded its 2009 sales level thanks to higher volumes while the Oil & Gas segment posted a decline in sales owing to lower natural gas prices.

At €5,206 million, income from operations was more than twice as high as in the previous year. This was mainly due to the excellent earnings in the chemicals business, which rose by €2,579 million year-on-year to €3,212 million, thereby also significantly surpassing the pre-crisis level.

In order to take advantage of opportunities in the region and master future challenges, we developed the Strategy 2020 for the region Europe called "More Market – More Value." This will see the expansion of existing successful approaches based on countries, customers and particularly industries. Our new industry-based initiatives include: agro/food/feed/fuel, clean tech energy and furniture/wood. All these cross-segment initiatives will help us to reach our growth targets in the Europe region in 2020.

### Sales by region (location of company)

1	Germany	40%
2	Europe (excl. Germany)	15%
3	North America	21%
4	Asia Pacific	18%
5	South America, Africa, Middle East	6%



### Income from operations by region

1	Germany	49%
2	Europe (excl. Germany)	19%
3	North America	14%
4	Asia Pacific	16%
5	South America, Africa, Middle East	2%



## North America

Industrial production recovered markedly in the region at the beginning of the year, but the economic upturn generally weakened over the course of the year. The business environment in the construction industry remained difficult.

Sales of companies based in North America rose by 41% to €13,246 million, or 34% in local currency terms. Nearly all segments posted considerable gains in sales volumes and sales compared with the previous year. The Agricultural Solutions segment exceeded the high sales level of 2009 thanks to the successful market launch of our innovative herbicide Kixor®. In the Chemicals, Plastics and Functional Solutions segments in particular, good demand and higher prices led to sales growth.

Income from operations in 2010 reached a new record of €1,107 million, representing an increase of €604 million over the previous year. Only the Agricultural Solutions segment posted a decline in earnings, owing to lower prices. The strong increase in earnings in the other segments was mainly due to good demand and better capacity utilization at our plants. Furthermore, supply bottlenecks led to better margins for some basic products in the Petrochemicals and Performance Polymers divisions. While the Performance Products segment had incurred high costs for the integration of Ciba in 2009, in 2010 the division's earning power was boosted by synergy effects and the successful restructuring of the combined businesses.

At our site in Elyria, Ohio, we are building a plant to produce innovative cathode materials. These will be used from 2012 in lithium-ion batteries in hybrid vehicles and electric cars for the North American market. The new plant is being built with the help of a grant from the U.S. Department of Energy. Together with the research facility in Beachwood, Ohio, the new plant is part of our long-term strategy to enter the future market for electromobility.

In 2011, we will also start up operations of a methylamines plant at our Verbund site in Geismar, Louisiana.

We continue to successfully implement our regional strategy for North America that was developed in 2008. The central part of this strategy is an even stronger market and customer focus. We are concentrating on innovation, cross-divisional cooperation and attractive customer and market segments. At the same time, we are increasing our operative excellence through ongoing improvements while we continue to harmonize and improve the efficiency of our business processes.

## Asia Pacific

In 2010, our business in Asia Pacific rapidly recovered from the economic crisis, with good performance in all sectors. Thanks to strong recovery in demand, the full-year inclusion of Ciba and our strategic focus on attractive market and customer segments, sales of companies based in this region grew by 46% to €11,642 million. In local currency terms, sales rose by 35%. Sales increased in all segments, particularly in our chemicals business.

We posted record income from operations, which rose by €768 million to €1,271 million thanks mainly to higher volumes. Our cost discipline as well as progress with our Site Optimization Asia Pacific project also contributed to this growth. By 2012 we want to improve earnings by €150 million annually in the Asia Pacific region under the NEXT global excellence program. The savings potential is thus far higher than we had expected.

We also made significant progress in 2010 with the implementation of our Strategy 2020 for Asia Pacific. The main aim of this strategy is to grow on average two percentage points faster than the Asia Pacific chemical market each year while earning a premium on our cost of capital in this region as well.

## Regional trends

- Europe: development of Strategy 2020; expansion of existing successful approaches based on countries, customers and industries
- North America: concentration on innovation, cross-divisional cooperation and attractive customer and market segments; construction of a plant in Elyria, Ohio, to produce innovative cathode materials
- Asia Pacific: agreement to expand cooperation with partners PETRONAS in Malaysia and Sinopec in China; significant progress in implementing Strategy 2020 for Asia Pacific
- South America, Africa, Middle East: construction of a plant for sodium methylate – a key chemical for the efficient production of biodiesel – in Guaratinguetá, Brazil

We also continued to develop our investments in the region in line with our 2020 strategic goal of generating 70% of sales from local production. In China, we are planning to construct a world-scale plant for the production of water treatment and paper chemicals in Nanjing as well as a plant to produce the polyurethane specialty Cellasto® in Shanghai. Furthermore, we are building polyurethane system houses in Tianjin and Chongqing. We also continued to optimize our portfolio, divesting our shares in the Wenzhou effect pigment site to our local partner.

To enhance our successful partnership approach in Asia Pacific, we signed two important memoranda of understanding with our partners PETRONAS in Malaysia and Sinopec in China to expand our specialty chemicals activities.

In Chongqing, China, we are planning a production plant for MDI, a precursor for polyurethanes, thus expanding our activities into China's fast-growing inland provinces.

As part of our global research and development network, we broke ground on our Asia Pacific Innovation Campus at our Shanghai site, where we will provide our customers with local research and development capabilities. In addition, we launched a new technical center for dispersions in Jakarta, Indonesia, for intermediates in Shanghai as well as for environmentally friendly automotive coatings in Seoul, South Korea.

### South America, Africa, Middle East

Thanks to the strong economic recovery, sales by companies in the region were sharply higher than the 2009 level, increasing by 31% to €3,829 million. In local currency terms, sales were 19% higher than 2009.

In South America, our sales rose in all segments. In the Agricultural Solutions segment, demand for our innovative crop protection products increased in all indications. Sales volumes in our business with architectural coatings also improved considerably.

In Africa and the Middle East, sales increased in all segments and nearly all divisions. Only the Petrochemicals division experienced a slight decline in sales.

Compared with 2009, income from operations declined by €104 million to €177 million. This was due to one-time expenses for valuation adjustments on receivables related to long-term supply agreements.

In February 2010, we started construction of a sodium methylate plant in Guaratinguetá, Brazil, the largest BASF site in South America. The plant, which will have an annual capacity of 60,000 metric tons, will primarily serve the regional market. Sodium methylate is a key chemical for the efficient production of biodiesel, an increasingly important alternative to diesel fuels.

Furthermore, we will also be putting a special focus on our business with solutions for the construction sector in Brazil. We expect the industry to pick up sharply as a result of infrastructure investments in advance of major sporting events such as the Soccer World Cup in 2014 and the Olympic Games in 2016 as well as government growth programs.

New strategies are helping us to take advantage of opportunities in the Africa and Middle East regions, thus tapping further business potential.

#### Assets by region (share in %)

	Property, plant and equipment		Inventories		Accounts receivable, trade	
	2010	2009	2010	2009	2010	2009
Europe	59	60	53	56	54	56
North America	21	21	26	25	16	16
Asia Pacific	16	15	15	13	20	19
South America, Africa, Middle East	4	4	6	6	10	9
	100	100	100	100	100	100



## Employees

**The best team in industry needs committed, performance-driven employees. We want to recruit and retain the best talent. That is why we invest in our attractiveness as an employer, offer our employees further training opportunities and support them in achieving work-life balance. We value diversity in our teams.**

### Employees worldwide

Including the acquired Cognis companies, BASF had 109,140 employees at the end of 2010, of whom 2,442 were apprentices and trainees. In addition, around 23,000 employees from external companies were contracted to provide technical and other services at our sites. Worldwide, the percentage of employees who left the company voluntarily during their first three years of employment was on average 1.1%. The rate of employee turnover was 3.3% in Asia, 0.4% in Europe, 1.0% in North America and 4.4% in South America.

#### Number of employees by region (as of December 31, 2010)

	2010	% 2010	% 2009
Europe	69,809	64.0	64.5
Thereof Germany	50,801	46.5	46.4
Thereof BASF SE	32,910	30.2	31.4
North America	16,487	15.1	15.2
Asia Pacific	15,965	14.6	14.2
South America, Africa, Middle East	6,879	6.3	6.1
	<b>109,140</b>	<b>100.0</b>	<b>100.0</b>

### Personnel expenses and social benefits

In 2010, the BASF Group spent €8,228 million on wages and salaries, social security contributions, pension contributions and assistance (2009: €7,107 million). Personnel expenses increased by 15.8%, particularly as a result of higher expenses for salary components related to the success of the BASF Group and the long-term incentive program as well as the Ciba acquisition. Compensation for our employees comprises remuneration with

fixed and variable components as well as social benefits that go beyond the legal obligations. These benefits include a company pension plan, supplementary health insurance and share programs.

#### BASF Group personnel expenses 2010 (million €)

	2010	2009	Change in %
Wages and salaries	6,731	5,942	13.3
Social security contributions and expenses for pensions and assistance	1,497	1,165	28.5
Thereof for pension benefits	408	178	129.2
Personnel expenses	<b>8,228</b>	<b>7,107</b>	<b>15.8</b>

### Competition for talent

Competition for the best qualified employees and managers is intensifying around the world. We are addressing this trend by improving our profile as a global employer: Worldwide, we are communicating our advantages as an international and socially-responsible employer that offers a wide variety of job opportunities. BASF was named one of the best companies to work for in Brazil for the fifth time in a row in the 2010 ranking by business magazine Guia Você S/A – Exame. In Europe, we implemented a standardized recruitment process in Germany, Spain, France and the United Kingdom in 2010. Its objectives include providing transparent information to applicants about job opportunities in all of Europe and helping managers find talented employees throughout the European market. We increase awareness about the competition for talent among our managers and employees and we integrate them in recruiting events. We want to retain and develop good employees: In China and India, for example, we are offering a three-month introduction program, which offers support to new employees joining the company. We encourage networking within BASF through a series of seminars and other events.





### Overview 2010

- 109,140 employees worldwide
- €8,228 million in personnel expenses
- Improved profile as an attractive employer

#### BASF Group employee structure 2010 (2009 in parentheses)

	Women	Men
Total number of employees	22.9% (22.5%)	77.1% (77.5%)
Management and professionals	24.4% (24.1%)	75.6% (75.9%)
Senior executives	7.6% (6.5%)	92.4% (93.5%)

**BASF Group employee age structure** (proportion of employees)

Up to and including 25 years	6.8%	
Between 26 and 39 years	33.4%	
Between 40 and 54 years	48.3%	
55 years and older	11.5%	

**The challenge of demographic change**


We are preparing for the impacts of demographic change. Our focus in this regard is mainly on Europe and the United States. We have analyzed the age structure of our workforces worldwide and demographic developments in our host communities to determine site-specific risks. In Italy, for example, we use the results of this analysis to improve knowledge transfer and personnel development. In the United States, we are analyzing models that enable older employees to ease into retirement while at the same time better integrating their successors through mentoring. To keep BASF innovative and ahead of the competition, we launched the “Generations@Work” program in 2006. In BASF SE, we worked together with local employees to develop specific measures within their units that focus on health promotion, ergonomics and further training. We are also intensifying our talent recruitment efforts worldwide to meet our long-term human resource needs.

In 2010, BASF SE and all German Group companies participating in collective bargaining agreements began to contribute €300 annually per non-exempt employee into a company “demography fund” according to the German chemical industry’s collective agreement on working life and demography. The demography fund is being used in nearly all Group companies to finance long-term savings accounts for non-exempt employees, which allow the employees to retire earlier. Since October 2010, 98% of the qualifying non-exempt employees at BASF SE and 93% at the Group companies (data does not include Cognis) have set up their individual long-term savings account.

Together with partners, we are active in CSR Europe, a business network for corporate social responsibility, and, as part of the initiative Enterprise 2020, carry out dialogue events relating to the opportunities and risks of demographic changes in various European countries.

**Competitive advantages through diversity**

The diversity of our employees helps us to react worldwide to varying customer needs. The aim of our global initiative Diversity + Inclusion (D+I) is to strengthen the culture of cooperation and appreciation in the company and take advantage of business opportunities offered by diversity. This helps us to recruit, develop and retain the best employees with exceptional professional expertise and social skills. BASF’s units carry out “D+I engagements” to develop their own D+I strategies and goals based on their own situation. Since the initiative began, around 4,000 employees have taken part in more than 50 of these implementation projects. For 2011, we are planning more than 40 new D+I engagements. Around 2,000 employees have participated in D+I training sessions since 2008. At the end of 2010, we added “inclusion of diversity” as a competence in our global evaluation system for the assessment and development of employees and managers. In 2011, we are planning new training sessions on this topic for managers worldwide.

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 men and women when it comes to setting salaries. At the end of 2010, the percentage of women in senior executive positions in the BASF Group was 7.6% (2009: 6.5%). The percentage of non-Germans in senior executive positions in 2010 was 33.4% (2009: 32.7%), while 77.7% of senior executives had international experience (2009: 76.8%). In 2010, women made up 19% of the candidates for senior executive positions while the proportion of non-German candidates was 36%.  → For more, see [basf.com/diversity](http://basf.com/diversity)

**Demographic change**

- Focus on Europe and the United States
- Specific measures in each unit for health promotion, ergonomics and further training
- Active engagement with external partners in business network CSR Europe
- For more, see [basf.com/demographic\\_change](http://basf.com/demographic_change)

**Employee diversity**

- More than 50 implementation projects with around 4,000 employees
- Around 2,000 employees have taken part in D+I training since 2008
- Percentage of women in senior executive positions: 7.6%; as candidates for senior executive positions: 19%
- Percentage of non-Germans in senior executive positions: 33.4%; as candidates for senior executive positions: 36%

### Vocational training

BASF is currently training 2,442 young people in more than 60 occupations in 16 countries. In 2010, 1,115 young people started apprenticeships and traineeships at German Group companies and in the BASF Training Verbund. Since 2004, the BASF Training Verbund, which today has around 700 partner companies, has been creating additional apprenticeship positions in Germany and is currently training 3,572 young people. After passing their final examination, 96% of the apprentices and trainees at BASF SE received a job offer in 2010, as did 77% of the trainees in the BASF Training Verbund. Worldwide, we invested around €71.9 million in our apprentices and trainees in 2010. In addition, as part of our social commitment, we invested approximately €23.7 million in the Training Verbund.

Our exchange programs, for example, between Germany, France, Norway and Spain, offer apprentices the opportunity to strengthen their intercultural skills. In 2010, 50 apprentices from BASF SE and BASF Schwarzheide took part in the program.

### Further training and personnel development

The further training of our employees is an investment in BASF's future success. In annual performance reviews, we determine every employee's need for professional development and further training. In addition to individual seminars and workshops, we also offer a wide range of opportunities for independent learning via electronic media worldwide. To promote the systematic transfer of experience in BASF SE, we use the "knowledge relay," in which employees leaving a position meet with their successor and external experts to identify and document their experience.

In 2010, BASF invested around €155 million (2009: €134 million) in vocational training and further training (data does not include Cognis). More than 87,000 employees worldwide participated in training programs. On average, each employee spent 4.1 days at further training events (2009: 3.5 days). With our initiative "Employee Development BASF Group," we want to

ensure that employees and managers share responsibility for personnel development. The objective is to make career paths transparent and to establish corresponding instruments and processes that allow employees to actively plan their career.

### Work-life balance

Around the world, we are expanding and enhancing our diverse range of programs to improve work-life balance. To compete for the best employees, we are responding to the differing needs and life stages of our employees. Our programs include flexible working-time models, such as telecommuting, flexitime, part-time and leaves of absence. We have regional initiatives to meet the individual needs of our employees at a local level. In Asia, for example, we started a new work-life balance program in 2010, which includes flexible working-time models as well as health programs and calls on managers to act as role models. At our Ludwigshafen site, we enlarged our daycare center LuKids in 2010. In addition, we meet with employees before they go on parental leave to develop a plan for their return to work, which we support with special seminars. At the end of 2010, 520 BASF SE employees were on parental leave, of whom 45 (8.7%) were fathers. The percentage of employees working part-time for BASF SE is 10.4%. We offer special training opportunities for employees working part-time.

Employees caring for their relatives benefit from the opportunity to share experiences, receive caregiver counseling and access an expanded array of media resources. BASF Sozialberatung (BASF social assistance) supports employees, particularly at BASF SE, who find themselves in difficult personal situations and it helps them to continue performing their jobs.

In North America, our efforts were honored in 2009 with the Alfred P. Sloan Award for Business Excellence in Workplace Flexibility, mainly in recognition of our regional "Designed to Fit" initiative for flexible working hours introduced in 2008.

→ For more, see [basf.com/worklife\\_balance](http://basf.com/worklife_balance)

### Vocational and further training

- Worldwide, 2,442 apprentices and trainees in over 60 occupations
- Around €155 million invested in vocational and further training
- More than 87,000 employees participate in training programs worldwide
- Knowledge transfer programs
- Start of new global initiative for personnel development

### Promoting work-life balance

- Flexible working models
- Regional initiatives to meet the needs of our employees at a local level
- Services for employees who are caring for relatives
- BASF Sozialberatung offers support to employees in difficult personal situations

### Employee participation in the company's success

We want to foster our employees' interest in the company's success and business performance.

With variable remuneration systems, we allow employees to share in the company's success and be rewarded for their individual performance. The same basic principles apply to all employees. The variable component is determined by the economic success of the BASF Group – measured by the return on assets – and the employee's individual performance. Despite the difficult economic environment in 2009, BASF was able to give employees a bonus in 2010 and announced it would reward its employees for their performance during the crisis with a special payment. The bonus payment for 2010 will be significantly higher than the year before.

The “*plus*” share program promotes the long-term participation of our employees through incentive shares, allowing them to invest part of their remuneration in BASF shares. In 2010, 18,932 employees purchased 632,560 shares under the “*plus*” program. Since 1999, BASF has offered its senior executives the opportunity to participate in a stock price-based compensation program. This long-term incentive (LTI) program ties a proportion of their compensation to the long-term performance of BASF shares. In 2010, 91% of the approximately 1,100 senior executives eligible participated in the LTI program worldwide, investing up to 30% of their variable compensation.

→ For more, see the Notes on page 185


### Feedback from our employees

In the process of evaluating the results of our first global employee survey in 2008, we introduced over 1,500 measures worldwide to improve the working environment. In the follow-up survey in spring 2010, employees from 72 countries had the opportunity to assess the implementation of the measures, 62% of the employees surveyed responded. After the completion of the survey, employees and managers discuss the results and identify potential areas for improvement. There is particular focus on areas that have been evaluated critically, such as communication

and how managers show involvement. We also measure the implementation of our strategic guideline “We form the best team in industry.” We will establish the global employee survey, including the follow-up process, in the entire BASF Group on a permanent basis.

In 2011, BASF SE will introduce a mandatory training program for all new managers, which will be extended to include experienced managers from 2012. Managers in exempt positions will be required to obtain systematic feedback.

### Dialogue with employee representatives

Using established procedures, we involve employee representatives in decision-making processes and procedures in our Group companies. If restructuring leads to staff downsizing, as it did in the course of the Ciba integration, we work with employee representatives to develop socially responsible implementation measures. This is done in accordance with the respective legal regulations and mutual agreements. In addition to the local structures for cooperation, a national body for employee representation was established in France in 2010. For cross-border matters, the BASF Europa Betriebsrat (Europe Works Council) has been responsible for employees in Europe since 2008. As a result of the higher number of employees in 2009, it was expanded to include two more representatives in 2010. BASF SE management and employee representatives at the Ludwigshafen site signed a new agreement in 2010, which includes a package of measures to increase flexibility regarding the allocation of personnel resources as well as a pledge that there will be no enforced redundancies through the end of 2015.  → For more, see [basf.com/employeerepresentation](http://basf.com/employeerepresentation)

### Responsibility for employees – global standards

Compliance with national law and the core labor standards of the International Labor Organization (ILO) is the foundation of our social responsibility. Moreover, we aim to harmonize our working conditions with our voluntary commitments and relevant ILO conventions. We evaluate our adherence to our

### Participation in the company's success

- “*plus*” share program encourages employees to make long-term investments through incentive shares; 18,932 employees purchased 632,560 BASF shares in 2010
- Long-term incentive (LTI) program ties a proportion of senior executives' compensation to the long-term performance of BASF shares; in 2010, 91% of the senior executives eligible participated worldwide

### Feedback from our employees

- Over 1,500 measures introduced following the global employee survey in 2008
- Employees evaluated implementation of the measures in a follow-up survey in spring 2010
- Systematic feedback for managers in exempt positions will become mandatory

voluntary commitments using a global monitoring system. It contains three central instruments:


- compliance hotlines,
- the annual survey in our Group companies to inspect the prevailing working conditions, and
- close dialogue with our stakeholders, such as employee representatives and international organizations.

In 2010, our compliance hotline received 59 calls relating to labor and social standards, of which 11 related to verifiable grievances. The results of the survey covered 100% of our employees in 2010 (data does not include Cognis). If the survey evaluation indicates that our voluntary commitments are being insufficiently implemented, we investigate this information and introduce remedial measures.

In a pilot project in Europe, we are examining the relationship between competitive factors, internationally recognized standards and cultural conditions.

In Brazil, a complaint was filed against BASF at the OECD contact point containing accusations of violating freedom of association and collective bargaining. Internal investigations did not find a violation of the OECD Guidelines. The contact point has not yet released an assessment of our reply.

We started a “virtual sustainability team” in South America in order to raise awareness about sustainability among young managers at an early stage. Currently, 39 members are investing 10% of their working time for two years to implement our sustainability strategy.

In the “Wittenberg Dialogues” with our German employee representatives, we discuss the code of conduct to strengthen the social market economy and responsible action. BASF was one of the co-initiators and signatories of the “Code of Responsible Conduct for Business.” We are committed to both success-oriented and values-oriented leadership in accordance with the social market economy. 

#### Survey of ILO Core Labor Standards 2010<sup>1</sup>

	Process implemented		Effectiveness of the process	
Prevention of child labor	100%	Verification of age of employee when hired	100%	Employees are over 15 years of age when hired
Prevention of forced labor	100%	Employment contract based on employee's voluntary agreement	100%	Employees have a right to unilateral termination of employment contract
Prevention of discrimination	100%	Personnel policies based on objective criteria		In 2010, we received 43 calls relating to discrimination; there was evidence of misconduct in 11 cases.
Employees' right to freedom of association	100% <sup>2</sup>	No company measures to fundamentally restrict freedom of association	92%	Employees are working at a company in which employee representation exists
Employees' right to collective bargaining	100% <sup>2</sup>	No company measures to fundamentally restrict freedom of collective bargaining	89%	Employees are working at a company in which working conditions are based on a collective contract and employee representation exists

<sup>1</sup> Data does not include Cognis

<sup>2</sup> Fewer than 1% of our employees are working for companies in countries that have legal restrictions with respect to freedom of association and organization as well as collective bargaining.

## Labor and social standards

- National law and International Labor Organization's core labor standards as minimum standard
- Adherence to voluntary commitments evaluated with a global monitoring system
- Working conditions in compliance with ILO conventions and declarations, OECD Guidelines for multinational companies as well as local conditions such as industry standards
- For more on labor and social standards, see page 19

## Occupational safety and health protection

**With our management systems for occupational safety and medicine, we want to ensure the best possible protection for the safety and health of our employees. To do so, we rely on comprehensive precautionary measures and promote the active participation of our employees.**

### Global goals

In order to continue to improve our performance in terms of occupational safety and health protection, we have set ourselves ambitious global goals. By 2020, we want to reduce our lost-time injury rate per million working hours by 80% worldwide compared with 2002. We want to reduce cases of occupational diseases in the BASF Group by 80% compared with 2004.



### Occupational safety focus areas

In 2010, we adopted our new global Group Directive Occupational Safety. Standardized requirement profiles make it easier to integrate newly acquired sites. We promote and monitor safety at work through risk assessments, safety rules, seminars, training courses and audits. Based on a global initiative, we improve our employees' safety awareness relating to both themselves and others. As part of the "Safety Champions" initiative, we have held centralized events at which more than 16,000 employees and contractors at over 50 sites around the world developed specific proposals for improvement of the safety culture.

In 2010, a total of 2.0 work-related accidents per million working hours occurred at BASF sites, representing a slight increase from the previous year (2009: 1.8). Compared with 2002, the lost-time injury rate declined by 39%. Unfortunately, there were a total of four fatal accidents among BASF employees and employees of our contractors in 2010. In Spain, one BASF employee died after falling from a roof. The further safety precautions necessary for this particular type of work are being communicated throughout the Group. There were three fatal accidents involving contractors doing work preparation on the construction sites for the OPAL pipeline (Baltic Sea Pipeline Link). For contractors, the number of occupational accidents decreased to 2.6 per million working hours in 2010 (2009: 2.7). Throughout the Group, we introduced new minimum requirements for occupational safety for contractors and improved the auditing process.

→ For more on occupational safety, see [basf.com/occupational\\_safety](http://basf.com/occupational_safety)

### Health protection focus areas

We promote and protect the health and performance of our employees with our global health management. Uniform standards for occupational medicine and health protection within BASF worldwide are laid out in a Group Directive, which is implemented by a global network of health experts. We regularly conduct occupational health audits to monitor our performance.

In 2010, there were 0.5 suspected new cases of occupational diseases per million working hours at BASF (2009: 0.4). Even though this represented an increase over the previous years, the number of confirmed occupational diseases declined. In order to illustrate health management in the BASF Group even more accurately, a new indicator was developed in 2010 to supplement the existing sole parameter. The Health Performance Index (HPI) includes four other areas: proactive medical emergency planning, the proportion of first aid responders at the sites, occupational health surveillance examinations and health promotion activities. In 2011, our fourth global health campaign will focus on skin protection. 🌐

→ For more on occupational health audits, see page 91 onward

**Lost time injury rate per million working hours**  
(reduction compared with baseline 2002: –39%)

2010	2.0	<div></div>
2009	1.8 <sup>2</sup>	<div></div>
2008	1.8	<div></div>
2007	2.2	<div></div>
2006	1.7	<div></div>
2002 <sup>1</sup>	3.3	<div></div>

<sup>1</sup> Baseline

<sup>2</sup> Figure differs from Report 2009 (1.7) as a result of intra-year correction due, for example, to changes in categorization.

### Occurrences in 2010

- More than 16,000 employees at about 50 sites attend events relating to the Safety Champions initiative
- Unfortunately, four fatal accidents among BASF employees and employees of contractors
- New Health Performance Index (HPI) illustrates health management more accurately



## Social commitment

**We take on social responsibility: We are involved in diverse projects worldwide, primarily in the communities in which our sites are located. Our main focus is on access to education and on science. In this way, we promote innovative capacity and sustainability.**

### Strategy

In 2010, the BASF Group spent a total of €49.8 million on supporting projects (2009: €48.1 million), of which we donated 29.4% (2009: 27.7%). We increased the foundation assets of the BASF Sozialstiftung ("BASF Social Foundation") by €5 million in 2010. We also follow the principle of sustainable development in relation to our social commitment: We support initiatives that impact many people and have long-lasting effects. To do so, we work with experienced partners, such as U.N. organizations. We primarily support projects that improve access to education. Furthermore, we actively promote science as well as social, sports and cultural activities. BASF does not support political parties. In the United States, our employees have established the "BASF Corporation Employees' Political Action Committee" (PAC). It is an independent, federally registered association of employees which pools donations from BASF employees to political candidates and independently decides how these are used. BASF operates a social business with Grameen Healthcare Trust.

→ For more on our social business, see [basf.com/socialbusiness\\_e](http://basf.com/socialbusiness_e)

### Focus on education and science

We offer Kids' Labs at our sites in 17 countries, which were visited by a total of 38,996 children and young people in 2010. We opened new Kids' Labs in the United States and England in 2010. Our program ReAção in Brazil aims to help improve school science lessons. More than 800 teachers have attended training courses, reaching around 12,000 pupils. In Germany, BASF is a founding member of the Knowledge Factory, and together with more than 70 other companies, supports education projects, startup companies and young entrepreneurs. Since it was founded in 2005, the Knowledge Factory has entered into more than 2,000 educational partnerships with schools, reaching

around 8,500 teachers and more than 440,000 children. In 2010, BASF started "Education Initiative Plus" to continue the work of the successful Education Initiative started in the Rhine-Neckar Metropolitan region in 2005. It aims to provide increased support to early childhood education. Overall, we now support 230 daycare centers, reaching around 18,000 children in the region.

**BASF Group donations, sponsoring and own projects in 2010**  
(million €)

1	Science	4.1	(8.3%)
2	Society	8.3	(16.6%)
3	Culture	5.4	(10.9%)
4	Sports	2.1	(4.2%)
5	Education	28.0	(56.2%)
6	Other	1.9	(3.8%)



### International donation projects

The BASF team repeatedly helped victims of natural disasters in 2010. BASF and its employees worldwide donated €785,000 for the flood victims in Pakistan. For the first time, BASF Social Foundation worked together with the United Nations Central Emergency Response Fund (CERF). CERF distributes money to U.N. organizations helping in Pakistan. After the earthquake in Haiti, BASF provided assistance, including a €200,000 donation to UN-HABITAT to rebuild a training facility in Port-au-Prince. In the 2010 Christmas donation campaign, BASF employees in Germany donated more than €88,000 to be given to UN-HABITAT to improve water supplies at schools in Chalco, Mexico. BASF SE made a donation of €100,000 to the project as starting capital. In addition, BASF Social Foundation supports UNICEF in supplying children with essential vitamins: "Health weeks" take place in South Africa. In Uzbekistan, food producers are instructed how to supplement staple foods with vitamins. 🌐

→ For more, see [basf.com/international\\_donations](http://basf.com/international_donations)

### Principles and criteria for support

- Support for projects that bring long-term benefits
- Focus on education and science
- Activities primarily in BASF host communities
- Cooperation with selected partners such as the United Nations

### Highlights 2010

- New Kids' Labs opened in the United States and England
- With more than 2,000 educational partnerships, the Knowledge Factory has reached around 440,000 children and 8,500 teachers
- BASF Social Foundation supports UNICEF in supplying children with essential vitamins

## Environmental, safety and security management


**Environmental protection, safety and security are defined in our corporate guidelines – and are therefore important management responsibilities of BASF. With our Responsible Care Management System, we set out how we implement our voluntary commitments. Our top priority is to protect our employees and neighbors and to safeguard our productivity.**

### Strategy and management systems

Our Responsible Care Management System (RCMS) forms the framework for environmental protection, safety and security at BASF. It sets out globally applicable standards with clear rules in these subject areas. Binding global directives define the requirements, responsibilities and assessment methods for the implementation of these standards. We regularly conduct audits to monitor our performance. In order to further improve our performance, we set ourselves ambitious environmental protection, safety and security goals and regularly report on our progress. The RCMS defines the processes that we use to measure our progress toward these goals. In 2010, we introduced our Group Directive Occupational Safety. In addition, we also defined global minimum requirements for occupational and site safety.

We continuously work on improving our environmental, safety and security management system. To this end, we rely on preventive measures and analyze weak points in everything from production to logistics that could have potential effects on our employees' safety and security, the environment or our communities. Collecting and evaluating data on a global basis helps us to systematically learn from our mistakes. Databases record all accidents, near-misses and other incidents at the sites or on transportation routes. We also include incidents involving employees of personnel leasing companies and contractors.

We raise our employees' awareness of environmental protection and occupational safety in the workplace. To do this, we must communicate openly about mistakes and challenges, which we support through activities such as our global safety initiative. To further improve our environmental and safety systems, we also incorporate information from dialogue with stakeholders, for example, from our materiality analysis.

We received several external honors for our safety work in 2010. At the National Safety Awards in Sri Lanka, BASF Lanka (Pvt) Ltd. was honored as the safest workplace in the small-scale category of "All Sectors." In 2010, German customs authorities certified BASF SE's sites in Ludwigshafen and Limburgerhof as a trusted supplier with regards to product deliveries to the consumer. This certification allows customs procedures to be simplified, making it easier for our divisions to supply customers quickly and on time. 

→ For more on our strategic guidelines, see page 18; for more on our standards for occupational safety and health protection, see pages 19 and 87 onward; for more on Responsible Care, see [basf.com/responsible-care\\_e](http://basf.com/responsible-care_e)

### Audits

Regular audits help us to ensure consistently high standards within the BASF Group in all areas of environmental protection, safety, security and health protection. The requirements for the inspections are set out in our BASF Group Directive Responsible Care Audits. These also include a defined procedure to be followed if standards are not adhered to. When a site or plant is audited, an environmental, safety and security profile is created on the basis of clearly defined criteria. We use a matrix to show if our safety, security and environmental performance is sufficient to address the existing risk potential. If this is not the case, we stipulate measures and conduct follow-up audits on their implementation soon afterward. We carry out audits at BASF sites and companies in which BASF is a majority shareholder.

In 2010, 97 safety, security and environment audits were carried out in the BASF Group at 66 sites. BASF carried out audits relating to occupational medicine and health protection at 34 sites.

### Responsible Care Management

- RCMS is the framework for safe production and transport of products and regulates the conditions for the implementation of our voluntary commitments
- New Group directive on occupational safety introduced in 2010
- Recording and evaluating events helps us learn from mistakes

### Audits

- Regular audits help ensure uniformly high standards for environmental protection, safety, security and health
- Global directive specifies requirements and implementation of audits
- 97 audits on safety, security and environment, 34 audits on occupational medicine and health protection in 2010

Our internal audit system complies with the standards for external auditing procedures ISO 19011 and OHSAS 18001. Worldwide, 153 BASF production sites are certified in accordance with ISO 14001. In 2010, we received an ISO 14001 certificate for the Ludwigshafen site.

→ For more on certified sites, see [basf.com/certified](http://basf.com/certified)

### Global safety concepts

Global safety and security concepts serve to protect our employees and neighbors as well as our property, products, processes and information. At the same time, we prevent production stoppages and environmental damage. For the planning of plants we use a five-step system of safety reviews to prevent the release of products, explosions and fires. It includes the most important aspects for environmental protection, safety, security and health protection – from design through to production. With the help of a risk matrix, we assess possible risks in BASF's plants according to estimated probability and potential impact, using the information gained to develop appropriate protective measures. In 2010, more than 10,000 employees received additional training in occupational safety and process safety.

We investigate and compare incidents at all sites around the world in cases of fire, explosions or the release of substances. We aim to analyze common causes and improve processes in order to increase process safety.

With our emergency response concepts, we are prepared for potential incidents. In these, we create specific emergency response plans for our production facilities. Depending on the situation, we include joint venture companies, partners, suppliers, neighboring companies, as well as cities and communities in this process. BASF's central emergency response center supports local emergency response units worldwide 24 hours a day. Our emergency systems are checked regularly, for example, in drills with our employees and local authorities. In 2010, we developed the concept for a new Group directive on emergency response. It standardizes regional management plans that spec-

ify how to act when incidents occur. The directive sets out basic requirements for emergency response and prevention – such as fire prevention – and how these are to be organized.

As a preventive measure to protect sites worldwide, we introduced new minimum requirements in 2010, which also include information protection. These measures aim to protect employees and the company, and to prevent damages that could occur from the loss of know-how, criminal behavior or international terrorism, for example. We have added relevant security-related human rights aspects in the training of our security personnel. This includes, for example, the concept of appropriate use of measures during security assignments. These were made part of the training in Germany in 2009 and by 2011 we want to make these training requirements globally binding. The observance of human rights will be included as an obligatory condition in new contracts with the BASF Group's contractors. → For more, see [basf.com/emergency\\_response](http://basf.com/emergency_response)

### Transportation, distribution and warehouse safety

In our directives, we have set out consistent standards for the transportation and storage of chemical products in rented warehouse facilities. Our rules and measures for transportation safety include the delivery, storage and distribution of chemicals between all BASF sites, suppliers and customers. We expanded our global network for transportation, distribution and warehouse safety in Russia and South Africa in 2010, and offered new training sessions around the world. In addition to the Group-wide routine transportation safety training, around 300 employees from production and logistics in Ludwigshafen took part in special, practice-oriented training related to dangerous goods. Furthermore, in 2010 we introduced a new Global Guideline for Transportation of Liquids in Flexitanks; flexitanks are used to transport liquid cargo in bulk containers.

If an incident occurs despite all of our preventive measures, we provide swift assistance and our transportation safety advisers subsequently evaluate all of the information. More than 100 of our employees are trained as transportation safety advisers

**Transportation accidents per 10,000 shipments**  
(reduction compared with baseline 2003: –50%)

2010	0.28	<div></div>
2009	0.24	<div></div>
2008	0.36	<div></div>
2007	0.28	<div></div>
2006	0.45	<div></div>
2003 <sup>1</sup>	0.56	<div></div>

<sup>1</sup> Baseline

### Safety and security concepts

- Protection of employees, neighbors, property, products, processes and information
- More than 10,000 employees trained in occupational safety and process safety
- New minimum requirements for site safety concepts introduced

and are organized in a global network. Based on their reports, we develop measures so we can prevent similar incidents in the future.

#### 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.

We have reduced the number of transportation accidents from 0.56 per 10,000 shipments in 2003 to 0.28 in 2010. This represented a slight increase over the previous year (2009: 0.24). Product spillages during transportation are recorded and assessed separately, so we can develop new measures based on this data.

We also regularly assess our logistics suppliers with regard to safety and quality. In 2010, we assessed around 480 companies around the world. We conduct on-site inspections or use recognized instruments such as the Safety Quality Assessment System (SQAS) in Europe. If we determine that our standards are not being met, we discuss this with logistics companies in quality and safety briefings and the necessary measures are immediately introduced.

We actively support external networks that quickly provide information and assistance in emergencies. These include the International Chemical Environmental (ICE) initiative and the German Transport Accident Information and Emergency Response System (TUIS), which is coordinated by BASF. We extended TUIS to Asia in 2010 and introduced a new regional risk matrix that will be implemented from 2011. This sets out the requirements for emergency assistance and accident information for the Asian countries where BASF operates. Including assistance to third parties, BASF provided assistance in around 250 cases in 2010.

#### Distribution safety

- Consistent standards for the transportation and storage of chemical products
- More than 100 transportation safety advisers
- Assessment of logistics suppliers
- Transport Accident Information and Emergency Response System (TUIS) extended to Asia

At the beginning of 2011, a tanker capsized on the Rhine, disrupting shipping on the river for weeks. Taking part in a TUIS operation, BASF's experts helped to salvage the capsized cargo ship. → For more, see [basf.com/distribution\\_safety](http://basf.com/distribution_safety)

#### Reducing emissions

It is part of our environmental management to regularly monitor our emissions to air. 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 (SO<sub>2</sub>), nitrogen oxide, ammonia and other inorganic compounds, dust, heavy metals and volatile organic compounds (NMVOCs).

#### 2020 Goal

Reduce emissions of air pollutants

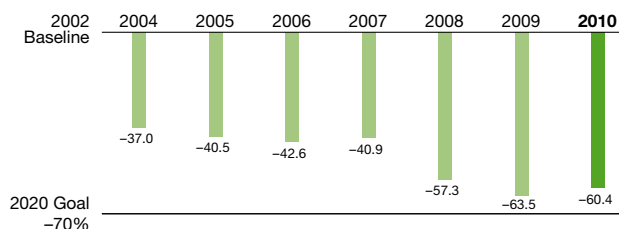
–70%

We aim to reduce air pollutants from our chemical plants by 70% compared with 2002.

We will remain committed to our goal of reducing absolute emissions, even when the size of our portfolio grows: By 2020, we aim to further reduce air pollutants from our chemical plants by 70%. This target does not include emissions from oil and gas production as these are subject to substantial fluctuations during exploration phases. In 2010, emissions of air pollutants in BASF's chemical operations worldwide grew slightly to 33,940 metric tons (2009: 31,300 metric tons). Emissions of ozone-depleting substances, as defined by the Montreal Protocol, declined in 2010 thanks to the use of alternative blowing agents to 93 metric tons (2009: 108 metric tons) while emissions of heavy metals totaled 4 metric tons (2009: 4 metric tons).

#### Emissions of air pollutants

- Absolute goal for reducing emissions independent of growth in the product portfolio and greater production volumes
- Emissions of air pollutants in 2010 totaled 33,940 metric tons, a reduction of 60.4% since 2002

**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

**Waste management**

Wherever possible, we try to prevent or reduce waste. After all recovery options have been exhausted, we dispose of waste in a correct and environmentally compatible manner. BASF's own landfill sites are continuously monitored and the findings are reported to the responsible specialist and approval authorities. We regularly carry out audits of external waste management companies. When we make acquisitions, we apply the same standards for responsible management of landfill sites and contaminated sites in accordance with our legal obligations. For example, after extensive planning, remediation began in 2010 at the former hazardous waste landfill Le Letten in eastern France, a contaminated site of a former Ciba location.

Worldwide, BASF produced around 1.86 million metric tons of waste in 2010 (2009: 1.69 million metric tons). Oil and gas exploration accounted for 0.06 million metric tons. Around 48.5% of our waste was recycled or subjected to thermal recovery (2009: 42%); we aim to further increase this rate. The residual waste was disposed of by underground storage (15.8%), through incineration (50.5%) and by landfilling (33.7%). According to the customary international categories, around 464,500 metric tons of the waste we disposed of was classified as hazardous and approximately 492,700 metric tons as non-hazardous.

At the Ludwigshafen site, changes in legal requirements and greater demolition and construction activity led to a larger percentage of our waste being classified as hazardous in 2010. This reclassification of previously non-hazardous waste did not result in an increased release of pollutants into the environment.

**Costs and provisions for environmental protection**

The overall costs of operating environmental protection facilities throughout the BASF Group amounted to €729 million in 2010 (2009: €669 million). BASF invested an additional €122 million in new and improved environmental protection plants and facilities (2009: €141 million). These capital expenditures involved both end-of-pipe measures as well as integrated environmental protection measures.

Provisions established for environmental protection measures and remediation amounted to €665 million as of December 31, 2010 (December 31, 2009: €598 million).

**Waste management**

- Audits at external waste management companies
- Start of remediation of a contaminated site at a former Ciba location
- 1.86 million metric tons of waste from production in 2010

**Costs and provisions for environmental protection**

- €729 million in overall costs for operating environmental protection facilities
- €122 million additional investment in new and improved environmental protection plants and facilities
- €665 million in provisions for environmental protection measures and remediation costs

## Climate protection

**We are committed to ambitious global climate protection. We make an important contribution with our products for climate protection and resource conservation as well as our efforts to further reduce emissions along our value-adding chain. The focus of our research and development is on continuously improving the efficiency and cost-effectiveness of climate protection solutions. We measure our performance with a transparent corporate carbon footprint.**

### Strategy

Resource conservation and climate protection are part of our sustainability strategy. Worldwide, we have made voluntary commitments to global climate goals. We identify measures to implement our goals and we constantly monitor their success.

We spend around one third of our research expenditures on developing new resource efficiency and climate protection solutions. We offer our customers products that help reduce emissions. As an associated partner in the Desertec Industrial Initiative, we are committed to generating solar and wind power in the desert regions of North Africa and the Middle East.

Our Climate Protection Officer coordinates all of our activities in this area and reports directly to the Board of Executive Directors. To further raise our employees' awareness of these issues, in 2010, we held events relating to climate protection and energy efficiency. In Ludwigshafen, BASF's climate protection experts discussed the company's climate protection strategy and shared best practice examples with around 800 employees. On Earth Day, climate protection was a focus for our 16,000 employees in the United States.

Our climate protection strategy has received external recognition. BASF was also included in the new Carbon Performance Leadership Index (CPLI) in 2010. As in the previous year, BASF scored top marks in the materials sector in the prestigious Carbon Disclosure Leadership Index (CDLI) in 2010.

→ For more on emissions certificates, see page 107; for more on research and development, see page 30 onward; for more on climate protection products, see page 96

### Strategy and goals

- Goal of reducing specific greenhouse gas emissions in chemical operations by 25% reached for the first time
  - Sales of climate protection products increase
  - Around one third of research expenditures directed to developing new resource efficiency and climate protection solutions
  - New calculation of transparent carbon footprint in 2010
- For more on climate protection, see [basf.com/climate\\_protection](http://basf.com/climate_protection)

### 2020 Goal

Reduce greenhouse gas emissions

–25%

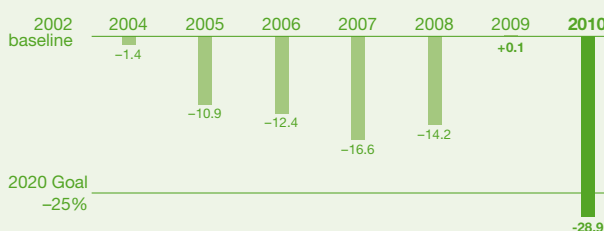
By 2020, we aim to reduce our specific greenhouse gas emissions per metric ton of sales product by 25% compared with 2002.

### Global climate protection goals

We are constantly working to reduce greenhouse gas emissions in our production. In 2010, BASF emitted 25.2 million metric tons of greenhouse gases worldwide (2009: 31.1 million metric tons), of which 23.8 million metric tons were from chemical operations. As a result, we reached our goal for the reduction of specific greenhouse gas emissions for the first time. A major contribution to reducing emissions was made by BASF's proprietary catalysts that we installed in 2009 at the Ludwigshafen site: At several plants, these catalysts make the decomposition of the greenhouse gas nitrous oxide more efficient. We installed these and other nitrous oxide decomposition catalysts in BASF plants as part of the Joint Implementation Projects based on the Kyoto Protocol, as well as other voluntary projects. In 2010 for the first time, BASF received approximately 340,000 Emission Reduction Unit (ERU) certificates for these projects. Our goal was also achieved thanks in part to the significantly better capacity utilization of our plants in comparison with 2009. Overall since 1990, we have been able to lower BASF's greenhouse gas emissions from chemical operations by 41% and reduce specific emissions by 72%. We are currently working on new goals for the reduction of greenhouse gas emissions.

Emissions of greenhouse gases from oil and gas production totaled around 1.5 million metric tons in 2010 (2009: 1.8 million metric tons). BASF's subsidiary Wintershall set itself the goal of stopping the continuous flaring of gases associated with crude oil production in routine operations at all its oil production sites by 2012. For the last site at which these gases cannot yet be fully utilized, we are currently investigating the feasibility of various technical solutions.

### Reduction of specific greenhouse gas emissions in chemical operations<sup>1</sup> per metric ton of sales product (in %)



<sup>1</sup> Reduction compared with baseline 2002



In our efforts to reduce emissions along our entire value-adding chain, we focused on sustainable logistics in 2010. At our BASF site in Ludwigshafen, we started the expansion of the intermodal transportation terminal, which should be completed by 2012. This will raise the capacity of our transshipment facility from 300,000 to 500,000 loading units per year. BASF's switch to transporting even more goods by rail rather than road will result in further reductions in CO<sub>2</sub> emissions: the current annual reduction in carbon emission is 75,000 metric tons, this will increase to 100,000 metric tons. 🌍

### 2012 Goal

Stop the f aring of associated gases

100%

We want to stop the f aring of associated gases that are released during crude oil production by Wintershall.

### Opportunities with climate protection products

In 2010, we generated sales of around €7.7 billion with our climate protection products – product groups that when used avoid at least twice as much CO<sub>2</sub> as is emitted during their production and disposal. These products now account for 12% of BASF sales, compared with 10% in 2008. In the United States, BASF has developed Green Sense<sup>SM</sup> Concrete – a proportioning service that helps customers improve the composition of concrete with regard to environmental impact, profitability and performance. The result is an environmentally friendly concrete produced with the help of BASF admixtures which is made of recycled material instead of energy- and carbon-intensive components. Eco-Efficiency Analyses for our customers in 2010 showed that, compared with traditional concrete, Green Sense Concrete requires up to 30% less energy to manufacture, causes up to 37% less CO<sub>2</sub> emissions and requires up to 35% less raw materials. 🌍 → For more on Eco-Efficiency Analysis, see page 27

### Greenhouse gas emissions in the BASF Group (1,000 metric tons of CO<sub>2</sub> equivalent per year)

	GWP Factor*	Base-line 2002	2007	2008	2009	2010
CO <sub>2</sub> **	1	19,877	22,654	22,023	21,300	23,189
N <sub>2</sub> O	310	6,407	5,963	6,294	9,553	1,862
CH <sub>4</sub>	21	244	82	91	137	94
HFC ***	140–11,700	61	96	69	74	82
PFC ***	6,500–9,200	0	0	0	0	0
SF <sub>6</sub>	23,900	0	1	2	1	3
		26,589	28,796	28,479	31,065	25,230

\* GWP factor: global warming potential of the individual gases compared with CO<sub>2</sub>

\*\* 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 f uorocarbons (HFC) and perf uorocarbons (PFC); calculated using the GWP factors of the individual components (IPCC 1995)

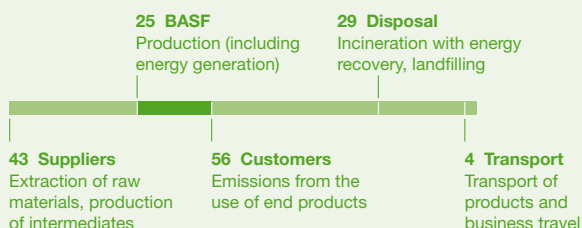
### New corporate carbon footprint

Since 2008, BASF has been the only industrial company worldwide to regularly publish a comprehensive corporate carbon footprint. We contributed our know-how to the development of a standard for reporting greenhouse gas emissions along the value-adding chain (the Greenhouse Gas Protocol's Scope 3 standard). For the first time in 2010, our reporting takes into account this draft standard and includes emissions from the oil and gas business. For instance, we include the emissions that occur when our customers burn oil and gas produced by our subsidiary Wintershall. We also recalculated how our climate protection products such as insulation materials, fuel additives and industrial catalysts reduce our customers' carbon emissions: A total of 322 million metric tons of CO<sub>2</sub> emissions are avoided (2008: 287 million metric tons). We aim to continuously increase this contribution to climate protection. 🌍

→ For more on our new corporate carbon footprint, see [basf.com/corporate\\_carbon\\_footprint](http://basf.com/corporate_carbon_footprint)

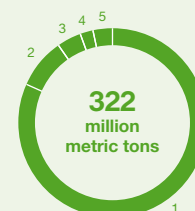
### Corporate carbon footprint 2010

#### Significant greenhouse gas emissions along the BASF value-adding chain<sup>1</sup> (in million metric tons of CO<sub>2</sub> equivalent)



#### Avoidance of greenhouse gas emissions through the use of BASF products by sector (in million metric tons of CO<sub>2</sub> equivalent)

1	Housing and construction	263
2	Industry	28
3	Transport	14
4	Agriculture	7
5	Other	10




<sup>1</sup> According to Greenhouse Gas Protocol, Scope 1, 2 and 3 (including the reporting of emissions resulting from purchases and sales of electricity and steam)

## Energy and raw materials

**The conservation of resources is one of our fundamental economic principles. We focus on efficient energy generation technologies, energy-efficient production and comprehensive energy management. We also make products that help conserve resources.**

### Strategy

We offer our customers products and technologies that help them conserve resources, save energy and make renewable energies more economic in the long run.

We focus on the responsible use of raw materials in our own production: As a company in an energy-intensive industry, our success depends on the long-term security of our supplies of energy and raw materials. For us, energy efficiency is the most important means of combining climate protection, resource conservation and economic benefits. That is why we have started a program to increase our energy efficiency – measured as the volume of sales products produced in relation to the energy required for their production – which includes a global goal for our production processes. We take three approaches to meeting our goal: efficient energy generation; savings through our Energy Verbund; and our energy management, which includes all those activities we use to analyze and continue to increase energy efficiency at BASF plants. 

→ For more on products for renewable energies, see pages 65 and 47

→ For more on energy-efficient products, see page 52

#### 2020 Goal

##### Increase energy efficiency

**+25%**

We want to improve the energy efficiency of our production processes by 25% compared with 2002.

### Global goals

In 2008, we set ourselves a new goal to increase energy efficiency in our chemicals business. In recent years, we have already taken advantage of the greatest potential to increase energy efficiency – for example, by using combined heat and power (CHP) technology. Other individual measures in 2010 also helped us come closer to reaching our goal. In Asia, our energy efficiency measures led to savings of approximately €18 million between 2008 and 2010. Most of the potential savings identified in previous years have thus already been achieved. In North America, energy savings of more than €5 million were achieved through more than 60 individual projects in 2010. The savings in Europe amounted to more than €3 million in 2010, from measures implemented at approximately 40 sites.

In 2010, BASF's energy efficiency rose by 23.7% in relation to the baseline year 2002. This represented an increase of around 8 percentage points compared with 2009, resulting primarily from the higher capacity utilization in our plants. Furthermore, this also reflects the positive effects of our measures introduced to conserve energy. We also focused more on energy efficiency topics in our Responsible Care Management System in 2010. From 2011, we plan to incorporate energy management into our Responsible Care audit system.

### Energy and resource efficiency

To supply our production sites with energy, we operate highly efficient CHP plants that generate both power and steam. By using CHP technology, we are able to meet more than 70% of BASF's electricity demand and saved more than 12 million MWh of fossil fuels in 2010, compared to conventional electricity and steam generation. We are examining the use of renewable energy sources. But these will only play a permanent role in our energy mix when they become competitive in terms of costs and supply security. We analyze energy consumption and costs

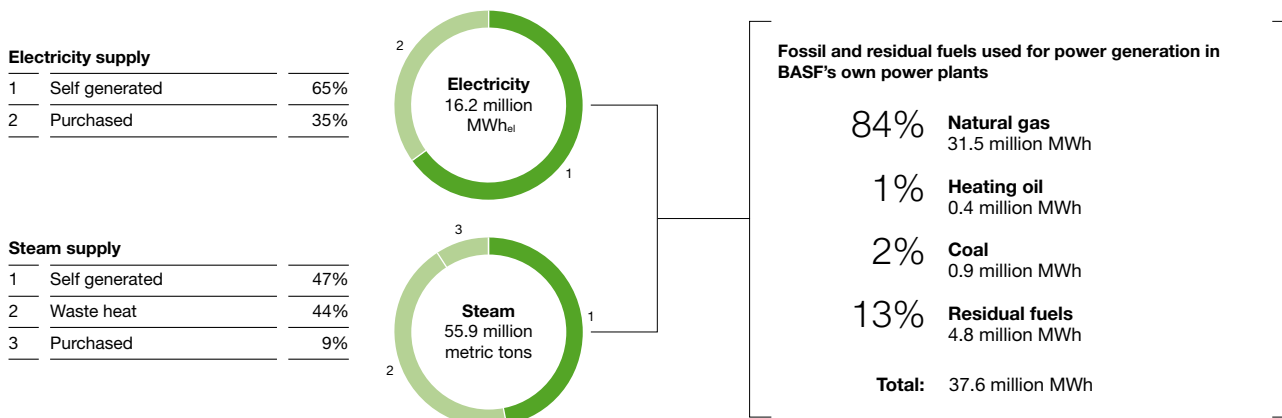
### Strategy

- Products that help customers conserve resources, save energy and make renewable energies more economic in the long run
- Three-pronged approach: efficient energy production, savings through the Energy Verbund and successful energy management
- Quantitative goal to increase energy efficiency

### Progress toward goals

- Savings of approximately €18 million between 2008 and 2010 from energy efficiency measures in Asia
- Energy savings of more than €5 million achieved in North America
- Energy efficiency improves by 23.7% compared with baseline year 2002

### Energy supply of the BASF Group 2010



worldwide, identify potential savings and develop measures based on this information. For example, at our site in Geismar, Louisiana, we increased the yield and saved energy at the ethylene oxide plant by using improved control engineering.

Our Verbund concept makes an important contribution to energy efficiency by linking our production and energy demand. Waste heat from production processes is captured to be used as energy in other production plants. Thanks to the Energy Verbund, BASF saves more than 1.6 million metric tons of oil equivalent per year, equal to an annual reduction in CO<sub>2</sub> emissions of 3.8 million metric tons.

The Verbund also helps us use raw materials efficiently. By-products of one plant can be used as feedstocks elsewhere.

The most important raw materials for BASF are naphtha, natural gas, methanol, ammonia and benzene. For some applications, we replace fossil raw materials with renewables provided they offer ecological and economic advantages.

In the raw material change growth cluster, we research and identify cost-effective processes for the use of alternative raw materials such as natural gas, coal, renewable raw materials and carbon dioxide.

In addition to research and development on growth clusters, we also offer innovative solutions to further improve our customers' energy efficiency. For example, X-Seed® not only accelerates concrete hardening, it also saves energy in the hardening process. BASF's products contribute to improving the competitiveness of renewable energies: A new top coat was added to our portfolio in 2010 which offers better erosion protection for wind turbine rotor blades. 🌐

- For more on the raw material change growth cluster, see [basf.com/raw\\_material\\_change](http://basf.com/raw_material_change)
- For more on risks from the availability of raw materials and raw materials trading, see page 107 onward
- For more on energy efficiency, see [basf.com/resource\\_conservation](http://basf.com/resource_conservation)

### Energy efficiency in production

- Global analysis of energy consumption and costs
- 12 million MWh savings with combined heat and power (CHP) technology
- Savings of more than 1.6 million metric tons of oil equivalent per year with the Energy Verbund
- Most important raw materials: naphtha, natural gas, methanol, ammonia, benzene
- Use of renewable energies when supply is secure and competitive
- Use of renewable raw materials when they offer economic and environmental benefits


## Water

**BASF uses water for cooling and cleaning as well as to produce its products. We want to use water sustainably and have set ourselves global goals to this end. We offer our customers solutions that help them to save and purify water as well as to reduce emissions to water.**

### Strategy

We employ different methods for using water sustainably at our sites around the world owing to the regional differences in water availability and quality. Our global goals for water usage include the further reduction of our emissions to water. We use the Eco-Efficiency Analysis to assess products and processes with respect to their emissions to water and we include other criteria such as local water shortages in the evaluations. In 2010, we took part in the survey of the Carbon Disclosure Project (CDP) on water-related opportunities and risks for companies.

We contribute our know-how about sustainable water management to partnerships and international initiatives. As a strategic partner in the European Water Partnership, BASF tested new standards for water management in 2010. This initiative aims to create and test internationally applicable indicators for sustainable water use. The majority of water used by BASF is used for cooling purposes.

In 2010, we conducted a global analysis to find out whether our sites are located in regions in which water shortages can be expected, and whether this poses any risks related to long-term water supply. We determined that around one fifth of our sites are located in such regions. These sites account for about 7% of BASF's total water demand. Some of them are located in coastal regions where seawater can be used as cooling water. We take the findings of our worldwide analysis into account when developing new goals.  → For more, see [basf.com/water](http://basf.com/water)

### 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 2002.

### Global goals for emissions to water

We want to minimize emissions to water as much as possible. In 2010, BASF discharged a combined total of around 197 million cubic meters of wastewater at its production sites. Owing to higher production volumes compared with the previous year, emissions of organic substances amounted to around 26,100 metric tons (2009: 18,600 metric tons). Emissions to water of nitrogen (N total) were 3,950 metric tons (2009: 3,600 metric tons), which represented a reduction of 82% compared with 2002. Emissions of phosphorous were 458 metric tons (2009: 355 metric tons). Our wastewater contained 25 metric tons of heavy metals (2009: 24 metric tons). Heavy metal emissions were reduced by 58.4% compared with 2002.

A leak in a pump at our Ludwigshafen site in 2010 resulted in the release of 1.2 metric tons of a readily biodegradable product into the rainwater canal system, which made its way into the Rhine. Although the incident did not have any significant environmental impact, we responded by inspecting the existing drainage systems for cooling water and wastewater to prevent similar incidents from occurring again. In 2009, we started a project that will review the water conservation concepts at our major production sites by 2015. In 2010, we extended this project to include all our sites. The aim of the project is to reduce unintentional emissions to water. This and other measures have helped us come close to reaching our goals for emissions of nitrogen and heavy metals to water in 2010. We want to continue to achieve significant reductions in nitrogen and heavy metals emissions and will continue to report on these. We are working on new goals for water use that we will publish in 2011. We are taking into consideration the use of drinking water and our water use at sites located in regions with water shortages.

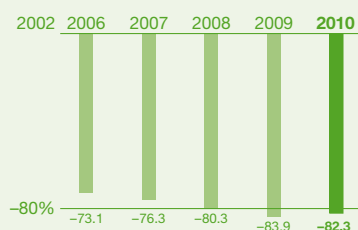
#### Emissions to water

(2020 Goal: reduction compared with baseline 2002 in %)

##### Organic substances



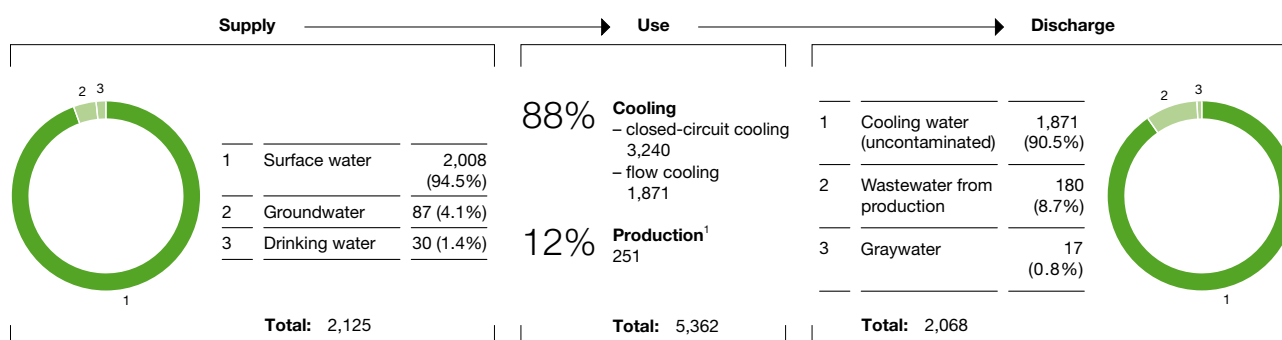
##### Nitrogen



##### Heavy metals



### Water balance of the BASF Group in 2010 (Million cubic meters per year)



<sup>1</sup> Total from production processes, graywater, rinsing and purification in production

### BASF's water use

In 2010, BASF used 2,125 million cubic meters (2009: 1,977 million cubic meters) of water worldwide. Of this amount, 94.5% was drawn from rivers and lakes. Groundwater accounted for 4.1% and drinking water for about 1.4%. BASF uses most of this water as cooling water. Only around 12% of the water comes into contact with products, for example, when used for washing or as a solvent or a reaction medium. We have decreased our specific water use in recent years in a number of ways, including recirculating water as much as possible. We have expanded the scope of our data collection methodology as a result of the increased importance of water. We can now report on recirculated water used in flow and closed-circuit cooling. The recorded volume of recirculated water in 2010 was higher than in the previous year. However, we do not want the recirculation of water to result in an increase in energy use, for instance for recooling or treating the water, or in other negative impacts on the environment. We have recooling plants at our larger sites to reduce the temperature of the cooling water before it is discharged back into a body of water.

### Business opportunities

BASF is already a leading supplier to the water treatment industry and continues to strengthen its position. Our product range includes everything from chemicals for treating municipal wastewater to products for industrial processes. Examples include drinking water treatment, sewage sludge thickening, or preventing films forming when water is used in industrial processes.

BASF supplies products and technologies for the future market of water. These products help our customers with water purification, energy-efficient saltwater desalination and more efficient water use in agriculture.

### Water conservation at BASF

- Review of water conservation concepts at all sites
- Products that help customers to save water, reduce emissions and use water more efficiently
- Broadening of data collection methods
- For more, see [basf.com/water](http://basf.com/water)

### Highlights 2010

- Testing of European Water Partnership's water management standards
- Close to reaching global goals for emissions of nitrogen and heavy metals

## Product stewardship

**For us, product stewardship does not end at the factory gates. We review the safety of our products along the entire value-adding chain – from our raw materials suppliers to our own production and finally to our customers' use of the products. Our highest priority is to ensure that our products pose no risk to people or the environment when they are used responsibly and in the manner intended.**

### Strategy

We ensure uniformly high standards for product stewardship worldwide which often go beyond legal requirements. These are based on our Group-wide directives on product stewardship, with voluntary commitments and global goals for this area. They apply to all of BASF's operative decision makers around the world, who are responsible for implementing them. We inform our customers and the public about the properties of our substances with the help of a global database containing constantly updated environmental, health and safety data on our substances and products. Safety data sheets on all our chemical sales products are available in 39 languages. Our global emergency hotline network provides information around the clock. If required, we train our customers in the safe use of our products, such as crop protection products.

With our global goals for risk assessment, we are also supporting the implementation of the Global Product Strategy (GPS) of the International Council of Chemical Associations (ICCA). GPS is establishing global standards and best practices to improve the safe management of chemical substances. In 2010, BASF took a leading role in creating ICCA's new Chemical Information Search portal. It contains more than 1,600 GPS Safety Summaries, which include relevant information about chemicals and products.

→ For more on auditing of suppliers, see page 26; for more on GPS, see [basf.com/gps\\_e](http://basf.com/gps_e) and page 28

### 2020 Goal

Risk assessment of all products

>99%

Risk assessment of all products that we sell in quantities of more than one metric ton per year

### Global goals

Our global product stewardship goals go beyond legal requirements. We will review our risk assessments for all substances we produce or sell worldwide in quantities of more than one metric ton per year. The risk associated with using a substance is the combination of its hazardous properties and the degree of exposure to people and the environment. Furthermore, we will review our sales products, including mixtures, in the same way.

### REACH and other legal requirements

BASF is implementing the requirements of the European Union's new chemical regulation REACH and successfully completed the first stage of registration in 2010. Around 600 substances that are produced or imported in quantities over 1,000 metric tons per year were officially registered with the European Chemicals Agency (ECHA). These included substances from Ciba Holding AG, which was acquired in 2009. From 2011 we will continuously work on implementing the second registration phase. By 2013, all substances produced or imported in quantities between 100 and 1,000 metric tons per year will be registered. We still expect that the cost of implementing REACH will average around €50 million per year. We consider it an important competitive advantage that we have expertise in evaluating substances as well as processes, which we can use to cost-effectively implement these regulations. When it comes to REACH, we are in close contact with our customers and suppliers to ensure we will have secure supplies of the raw materials we need and to strengthen customer relationships. By 2010, BASF's REACH experts had answered more than 10,000

### Product stewardship strategy – GPS

- Product safety reviewed along the entire value-adding chain
- Transparency thanks to database containing environmental, health and safety information on substances and products
- Global directives with uniformly high product safety standards worldwide
- Implementation of the Global Product Strategy (GPS)

### REACH implementation

- Successful completion of the first registration stage, around 600 substances registered
- Implementation of second registration phase from 2011
- More than 10,000 questions from customers and suppliers answered
- REACH not expected to result in major changes to our portfolio



REACH-related questions from customers and suppliers. The decision whether to continue producing a product in the future depends on a multitude of factors, of which REACH is just one. At present, we are not expecting REACH to result in any major changes to our portfolio.

As a further contribution to international chemical safety, BASF supports the aim of the Globally Harmonized System of Classification and Labelling of Chemicals (GHS). We are making the related labels and safety data sheets available worldwide.


### Ecological and toxicological testing

Before launching products on the market, we subject them to a variety of ecological and toxicological testing. We only conduct animal studies with chemical substances when we are obliged to by legal requirements and regulations. The provisions of the REACH regulation will lead to an increase of these legally required animal studies because they demand more information on the properties of chemical products. We are continuously developing alternative and complementary methods that we put into practice whenever it is possible and accepted by the authorities. The finalists for the BASF Innovation Award 2010 included a research team that developed more than 20 alternative methods to animal studies. Since 2009, there has been a laboratory that performs routine toxicological studies for BASF, exclusively using alternative methods. We are now using alternative methods in more than one third of all toxicological testing. Currently 25 alternative methods are being used by BASF and another ten are in a development stage. Since 1987, the annual number of vertebrates used by BASF in animal studies has been reduced by around 60% while the number of fish used has fallen by 80%. For studies where alternative methods cannot be applied or these are not approved by the authorities, we are constantly working to optimize our tests and obtain better data.

### Management of new technologies

Innovative technologies such as nanotechnology or plant biotechnology offer solutions for the key challenges facing our society – for climate protection or in the area of health and nutrition, for example. The same product stewardship standards that apply to all other BASF products are also applied to new technologies.

Our management of nanomaterials is described in our Code of Conduct Nanotechnology. The dialogue with our stakeholders plays an important role. Since 2004, we have been involved in national and international dialogue forums for nanotechnology. Furthermore, we are committed to safety research, the findings of which are published. Our most recent project is NanoGEM, sponsored by the German Federal Ministry of Education and Research (BMBF). NanoGEM is investigating the absorption and distribution of nanoparticles in the human body. In the past four years alone, BASF has taken part in approximately 20 projects, collaborations and partnerships.

In our plant biotechnology activities, we further improved our internal quality control processes for the genetically modified potato variety Amf ora® after identifying small quantities of another genetically modified potato during in-house quality controls of Amf ora fields in northern Sweden in 2010. We provided the authorities with access to all documents regarding our potato production and worked with them to determine the necessary steps. We were able to trace the history of all the potatoes and thereby find the cause of the problem. 

#### Use of animal studies

- Ecological and toxicological testing of products before they are launched on the market
- Use of alternative methods whenever possible and accepted by the authorities
- Own laboratory for developing alternative methods

#### New technologies

- Innovative technologies offer opportunities for society's challenges
- Close dialogue with stakeholders on nanotechnology since 2004
- Amf ora: quality assurance processes further improved
- For more on nanotechnology, see [basf.com/dialogue-nanotechnology](http://basf.com/dialogue-nanotechnology)

## Risk report

### Identifying, evaluating and managing risks

**The goal of BASF's risk management is to identify and evaluate risks as early as possible and limit business losses by taking appropriate measures. The aim here is to avoid risks that pose a threat to BASF's continued existence and to make improved managerial decisions to create lasting value. We understand risk to be any event that can negatively impact the achievement of our short-term operational or long-term strategic goals. We define opportunities as possible successes that exceed our defined goals.**

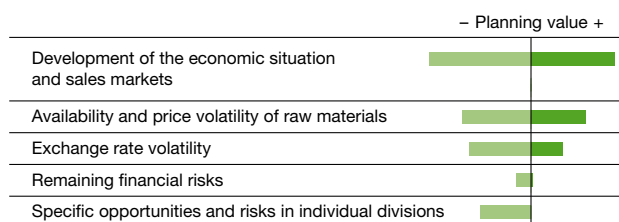
#### Overall assessment

The year 2010 was characterized by a surprisingly quick recovery in demand in nearly all our segments, some significant increases in margins as a result of tight supplies, especially for Petrochemicals, and positive currency effects.

Compared with the previous year, there is greater planning certainty with regard to the earnings of the BASF Group in 2011. This is mainly due to higher confidence in the short-term development of our sales markets.

The most important opportunities and risks are associated with uncertainty regarding the overall economic situation and the development of key customer industries as well as volatility in foreign currency exchange rates and raw materials prices.

#### Relative contribution to earnings from opportunities, risks and volatility



According to our assessment, there are still no significant individual risks that pose a threat to the continued existence of the BASF Group. The same applies to the sum of individual risks.

#### Significant areas of opportunity and risk

	Assessment
Development of the economic situation and sales markets	High contribution to overall volatility
Availability and price volatility of raw materials	High contribution to overall volatility
Creation of overcapacities	Long-term effects, strategic significance
Exchange rate volatility	High 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

#### Organization, responsibilities and tools

The BASF Group's risk management process is based on the international risk management standard COSO II Enterprise Risk Management – Integrated Framework, and comprises the following steps:

##### – Identification of opportunities and risks

The identification of opportunities and risks generally takes place decentrally, in the operational divisions and competence centers, using a variety of tools, such as expert interviews and team-based approaches. It is based on internal and external information sources as well as market, competitive and environmental analyses and statistical evaluations in addition to macroeco-

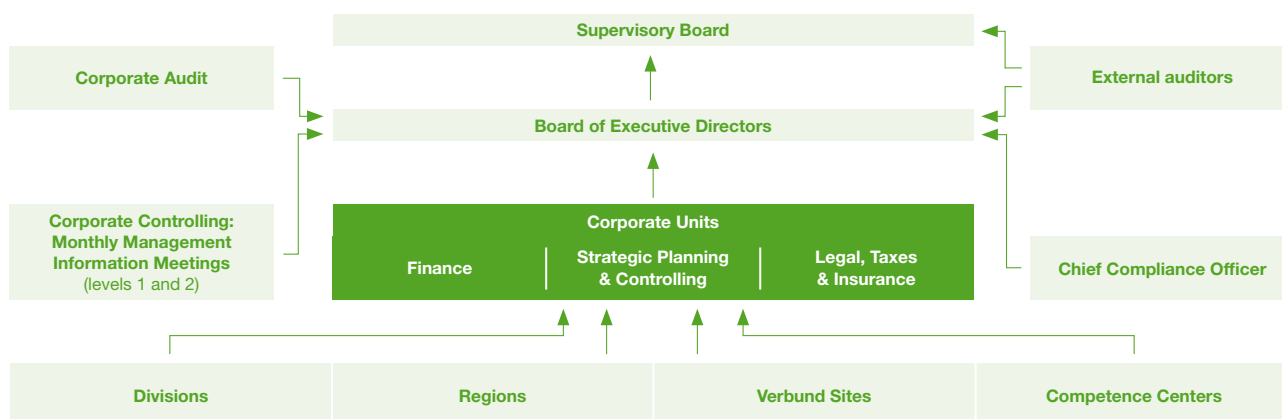
#### Strategy and goal

- Detect risks as early as possible
- Take measures to limit business losses
- Avoid risks that threaten the company's continued existence
- Support managerial decisions

#### Overall assessment

- The most significant causes of risks and opportunities are the development of the economy and important customer industries as well as volatility in exchange rates and raw materials prices
- Improved planning certainty compared with the previous year
- No threat to the continued existence of the BASF Group

### Organization of BASF Group's risk management



conomic scenarios that evaluate important factors such as industry growth rates. The identification process is supported by our company-wide risk catalog, which acts as a checklist.

Company management is informed about operational opportunities and risks in the monthly management report produced by the Corporate Controlling unit. Furthermore, if an individual risk is identified which has an impact on earnings of more than €10 million, it must be immediately reported. The Legal, Taxes & Insurance division and the Chief Compliance Officer report directly to the Board of Executive Directors on legal and tax risks as well as on compliance risks.

As part of the strategy development for our strategic business units and when major investment decisions are to be made, the Strategic Planning & Controlling unit conducts opportunity/risk analyses for a ten-year period, together with the respective business units. These analyses are reviewed during the course of the strategic controlling and are updated if necessary.

#### – Assessment and quantification

Where possible, opportunities and risks are quantified as to their probability of occurrence and impact on profitability. The respective business plan serves as the reference base. In addition, we quantify the dependence of the individual business units on macroeconomic factors, such as exchange rates and raw materials prices.

#### – Aggregation

Opportunities and risks as well as the dependence on macroeconomic factors are aggregated on the division and group level using a Monte Carlo simulation to determine the spectrum of possible effects on profit and the probability distribution. Correlations between individual events and factors, as well as internal interactions within the Verbund, are taken into account.

#### – Management, measures and control

The management of opportunities and risks as well as the taking of measures occurs at the divisional level. Measures are taken at the BASF Group level for certain risks, such as risks

### Internal control and risk management system with regard to the Group financial reporting process

- Uniform, Group-wide guideline that sets accounting policies, processes and dates
- Strict adherence to the principles of segregation of duties and dual control and enforcement of access rights rules
- Annual evaluation of the control environment at significant companies and service units using a central risk catalog

associated with raw materials prices and exchange rates, which are partially reduced by Group-wide hedging effects. The details are governed by our risk management handbook, upon which divisional specific regulations are based. The Board of Executive Directors is regularly informed about the BASF Group's aggregated opportunity and risk exposure by the Strategic Planning & Controlling and Finance corporate divisions.

#### – Monitoring and development

Corporate Audit regularly reviews our risk management system. As part of the annual audit, the external auditor assesses the proper functioning of the early risk detection system set up in accordance with Section 91 (2) of the German Stock Corporation Act. In order to continuously develop our risk management system, we regularly enter into discussions and share ideas with comparable industrial companies and service providers in the risk management field. When BASF was included in the Dow Jones Sustainability Index in September 2010, the company once again received special recognition for its risk management system.

#### **Significant features of the internal control and risk management system with regard to the Group financial reporting process (Section 315 (2) No. 5 of the German Commercial Code (HGB))**

The Consolidated Financial Statements are prepared by a unit in the corporate division Finance. BASF Group's accounting process is based on a uniform accounting guideline that sets out accounting policies and the significant processes and deadlines on a Group-wide basis. There are binding directives for the internal reconciliations and other accounting operations. Standard software is used to carry out the accounting processes for the preparation of the individual financial statements as well as for the Consolidated Financial Statements. There are clear rules for the access rights of each participant in these processes.

Employees involved in the accounting and reporting process meet the qualitative requirements and participate in training on a regular basis. There is a clear assignment of responsibilities between the involved specialist units, companies and regional service units. We strictly adhere to the principles of segregation of duties and dual control. Complex actuarial reports and evaluations are produced by specialized service providers or specially qualified employees.

Our internal control system for financial reporting continuously monitors these principles. To this end, methods are provided for the structured and Group-wide uniform evaluation of the internal control system in financial reporting.

A central risk catalog covers the significant risks for the BASF Group regarding a reliable control environment and proper financial reporting. The risk catalog is revised and updated annually.

In a centralized selection process, companies and units are identified that are exposed to particular risks, that have a material impact on the Consolidated Financial Statements of the BASF Group or that provide service processes. The selection process is conducted annually. In the relevant companies and units, one person is given responsibility to coordinate and monitor the execution of the steps.

The **annual evaluation process** consists of the following steps:

#### – Evaluation of the control environment

The adherence to internal and external guidelines that are relevant for the maintenance of a reliable control environment is checked by means of a standardized questionnaire. The assessment is performed by checking the involved employees' awareness of rules and is supported by sample taking.

#### – Identification of control activities

In order to mitigate the risks to the financial reporting process listed in our central risk catalog, corresponding control activities are conducted.

### Risk management process

- Identification of opportunities and risks
- Assessment and quantification
- Aggregation of opportunities and risks to determine impact at a Group level
- Management, measures and control
- Monitoring and further development of the process

### Annual evaluation process

- Evaluation of the control environment
- Identification of the control activities
- Assessment of the control activities
- Monitoring of control weaknesses
- Internal confirmation of the internal control system

#### – Assessment of the control activities

After documentation, a test is performed to verify whether the described controls are capable of adequately mitigating the risks. In the subsequent test phase, samples are taken to test whether the controls were effective in practice.

#### – Monitoring of control weaknesses

The responsible managers receive reports on any control weaknesses and their resolution, and an interdisciplinary committee investigates their relevance for the BASF Group. The Board of Executive Directors is informed once control weaknesses have been identified that have a considerable impact on the 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 BASF SE at the end of the annual cycle the effectiveness of the internal control system over accounting as well as the reliability of financial reporting.

### Economic and sector-specific opportunities and risks

**Development of demand:** The development of demand in our sales markets represents one of the three most important sources of opportunities and risks, in addition to the volatility in currency exchange rates and raw materials prices. Our assumptions regarding short-term growth rates for the global economy, regions and key customer industries (in particular the chemicals, automotive and construction sectors) can be found in the Forecast section.

In addition to this baseline scenario, we also consider risk scenarios such as another recession in North America or a significant decrease in growth in China. This could lead to a decline in global demand, a devaluation of the U.S. dollar and a drop in the price of crude oil, which together would have a negative impact on our income from operations.

Some of our customers are still very dependent on credit. If credit were to become less accessible and our customers were therefore unable to refinance their businesses, this could also have a negative impact on our business in the short-term.

Inversely, we also have the possibility to take advantage of increased demand as far as our existing production capacities allow.

Overall, there is less uncertainty than one year ago regarding the development of the world economy.

→ For more on the outlook, see our Forecast from page 115 onward

**Development of supply:** In the chemical industry, 2010 was characterized by unscheduled plant shutdowns and project delays, also at our competitors, which resulted in supply bottlenecks. In 2011, we anticipate that new petrochemical production facilities will be completed, particularly in the Middle East and China, which will lead to better product supply.

Our planning takes into consideration the related declines in capacity utilization and prices as well as less opportunity to pass on higher raw materials prices to our customers. In this respect, there is a risk that our assumptions could turn out still to be too high. However, if the product shortages existing in some value-adding chains at the end of 2010 continue, this would offer the opportunity to keep the respective margins stable or to improve them.

Where possible, risks related to the development of sales markets are mitigated using operational measures, for example, through close cooperation with customers, optimized production management and appropriate scheduling of maintenance shutdowns. We manage the construction and expansion of plants and sites for each product based on expected demand. Having customers from various regions and industries also reduces our risk.

We are pursuing our goal of making our business less cyclical. We are exiting markets in which we do not see satisfactory opportunities to differentiate ourselves from our competitors in the long term.

### Development of demand

- Decrease in uncertainty regarding the development of the economy
- Ongoing refinancing risks for our customers, with short-term sales risks for our business
- Taking advantage of opportunities arising from higher demand as far as our production capacities allow

### Development of supply

- Growing global product supply expected due to completion of new plants in the Middle East and China; increased risks regarding capacity utilization, prices and margins
- Long-term goal to make our business less cyclical
- Demand-driven, product-specific plant expansion and construction
- Divestitures of businesses that do not provide sufficient opportunity for differentiation from our competitors

In order to achieve lasting profitable growth, we are committed to operational excellence, innovation and investment in growth markets. We concentrate our research and business on innovative business areas, such as crop protection and plant biotechnology, which we also develop through strategic partnerships with important partners.

**Regulatory and political risks:** Due to the European chemicals directive REACH, which came into force in 2007, BASF and our European customers face the risk of being placed at a disadvantage to our non-European competitors due to the cost-intensive test and registration procedures.

Within the framework of E.U. emissions trading, the BASF Group was allocated emission certificates for the second trading period from 2008 to 2012. We do not currently expect any undersupply of certificates for our activities in Europe in this second trading period. It is still unclear how many CO<sub>2</sub> certificates will be allocated free-of-charge from 2013. BASF will likely be required to purchase several million additional certificates annually. Depending on the trading prices for CO<sub>2</sub> certificates, this will affect our cost position and therefore the global competitiveness of our German and European sites.

This also applies to the most recent increase in the electricity tax and the German government's plans to limit the exemptions for energy-intensive industries from paying levies under the Renewable Energy Sources Act (EEG).

Due to the amendment of the E.U. directive on industrial emissions (IED), additional costs could arise for the conversion of existing plants and to meet additional reporting obligations.

Other risks for us include further regulation, for example, for the use of chemicals or in the gas business as well as the intensification of geopolitical tensions, the destabilization of political systems and the erection of trade barriers (for example, Chinese restrictions on exports of rare earths or OPEC quotas for oil production).

Overall, the probability that regulatory and political risks will occur has increased; the financial impact can be classified as low in the short term and elevated in the medium term.

**Weather:** Colder or warmer winter weather can result in fluctuations in gas consumption, which can have positive or negative effects on the performance of our gas trading business. Similarly, growing seasons that are wet and warm or dry and cold can have positive or negative effects on the performance of our crop protection business.

### Company-specific opportunities and risks

**Availability of raw materials:** As a result of the unexpectedly rapid economic recovery, there were some cases of procurement bottlenecks in 2010. We are not expecting any significant bottlenecks of this type in 2011. But with the considerable rise in demand, also in the medium term, the structural shortage of some raw materials is increasingly relevant for the segments Performance Products and Functional Solutions. In addition, China has limited the export of rare earths, which are used in the production of our catalysts, for example. There continues to be a risk of non-performance among some of our suppliers owing to their weak financial situation.

We minimize procurement risks through our broad portfolio, our global purchasing activities and the purchase of additional quantities of raw materials on spot markets. If possible, we avoid procuring raw materials from a single supplier. When this cannot be avoided, we try to foster competition or we knowingly enter into this relationship and assess the consequences of potential non-delivery. We continuously monitor the credit risk of important business partners, both customers as well as suppliers. We adopt a similar approach regarding the purchasing of services.

### Regulatory and political risks

- REACH: competitive disadvantage for European companies due to cost-intensive testing and registration procedures
- Emissions trading: risk of undersupply and additional costs due to need to purchase certificates
- Intensification of geopolitical tensions and erection of trade barriers

### Availability and price volatility of raw materials

- Economic upturn increases risks related to raw materials availability
- Procurement risks minimized by a broad portfolio, global purchasing activities and careful selection of suppliers
- Continued high volatility in raw materials prices expected
- Use of commodity derivatives to minimize cost risks



In addition to economic criteria, both new and existing suppliers are evaluated on the basis of environmental protection, occupational safety and social standards. If we establish that our standards are only being partially or not met, we agree on corrective measures and provide help with implementing these.

→ For more on supply chain management, see page 26

**Raw material price volatility:** The volatility of prices for feedstocks, especially oil-based chemicals, and for energy is one of the three main drivers of opportunity and risk at BASF. We continue to assume that the volatility of raw materials prices, at least in the short term, will be above the historical level. Our dependence on the oil price is reduced through the contribution of our Oil & Gas business. Earnings in this business rise by around €35 million for every \$1 increase in the average annual barrel price of Brent crude.

Furthermore, we minimize cost risks by using commodity derivatives. These measures help to secure margins when sharply rising raw materials prices are expected, which in times of low demand cannot be passed on via product prices, or only to a limited extent. This could lead to expenses if prices do not move as expected.

**Research and development:** Due to the high degree of complexity and uncertainty involved in chemical and biological research, there is a risk that projects might be discontinued for technical or economic reasons, budgets may be exceeded or developed products will not receive regulatory approval for sale or will not achieve the expected commercial success.

Our global Know-how Verbund, our collaboration with partners and customers as well as our innovation process reduce this risk. Within our project management framework, we continuously review the efficiency, chances of success and the underlying assumptions of research projects; this review includes all phases from idea generation to product launch. The trust of customers and consumers is essential for the success-

ful introduction of new technologies. That is why we enter into dialogue with stakeholders at an early stage of development.

→ For more on the stakeholder dialogue, see page 27

**Exploration:** Geological uncertainties can result in varying degrees of success in the search for and development of oil and natural gas reserves. We lessen such risks by using state-of-the-art exploration methods and having a balanced exploration portfolio.

**Personnel:** Particularly in Germany, flexible working time models including short-time work were an effective way of avoiding redundancies during the economic crisis. These also allowed us to take advantage of the opportunities offered by the rapid economic recovery in 2010. The new agreement between BASF SE management and employee representatives at our largest site in Ludwigshafen comprises a package of measures, which also include increased flexibility in allocating personnel resources; this offers opportunities to manage fluctuating capacity utilization.

Our senior executives have the opportunity to participate in a stock-price based compensation program. The need for related provisions varies according to the development of the BASF share price and leads to a corresponding increase or decrease in personnel costs.

The continued improvement in the economic environment in 2010 led to an increase in global competition for highly-qualified employees and managers; in the medium to long term, this will be further intensified by demographic change. This increases the risk that job vacancies cannot be filled with suitable applicants, or only with a significant delay. In Europe, this affects the engineering and scientific professions in particular; a decline in the number of suitable applicants is already noticeable. In this field, and among business graduates as well, we are facing the challenge of positioning BASF as an employer of choice worldwide.

## Research and development risks

- Risk that activities do not lead to the development of marketable products and therefore are not commercially successful
- Reduction of risks through Know-how Verbund as well as continuous review of the efficiency, chances of success and operating environment of research projects
- Ongoing dialogue with customers and consumers to improve chances of success

## Personnel

- Intensified global competition for highly-qualified specialist and management candidates
- Danger of loss of expertise through numerous retirements and undesired turnover
- More effective personnel recruitment and retention with the help of various measures

The loss of expertise due to the high number of retirements in North America and Europe and the comparatively high level of undesired turnover in Asia may have negative effects on business in the medium to long term.

With our global programs Generations@Work and Diversity + Inclusion, the further development of our employer brand and an emphasis on personnel development as well as additional regional initiatives, we want to make BASF an attractive employer and retain our employees in the long term.

→ For more on the individual initiatives and our goals, see page 84 onward

Overall, we currently rate the risk of a negative impact on our business due to the loss of managers and employees as low. However, we expect this risk to increase in the medium to long term, and are already working to counter these developments using the above-mentioned methods as well as increased investment in human resources marketing and personnel development.

**Sustainability:** BASF is committed to integrating environmental protection and socially responsible conduct into its business activities. Contraventions to our voluntary commitment to sustainability or to laws represent a reputational risk and could lead to operational or strategic risks. We have set up a global issue management system for sustainability to enable us to promptly recognize risks and opportunities related to sustainability. 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 enable us 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 systems include our entire supply chain. In order to assure society's acceptance of our business activities, we remain in continuous dialogue with relevant stakeholders.

→ For more on monitoring tools, see page 120 onward

**Information technology:** Risks are caused primarily by the non-availability of IT systems and applications, delayed provision of important data, loss or manipulation of data and the disclosure of confidential information. This can have negative consequences for the respective business processes.

To minimize such risks, BASF has stable and redundantly designed IT systems, back-up processes, virus and access protection and encoding systems as well as integrated, Group-wide-standardized IT infrastructures and applications. The systems used for information security are continuously tested and updated. In addition, our employees receive regular training on information and data protection. IT-related risk management is conducted using Group-wide regulations for organization and application, as well as an internal control system based on this.

Due to the measures taken, we regard the probability of a risk to our IT system as limited. However, the potential impacts would be high.

**Legal risks:** In order to assess the risks from current legal disputes and proceedings and any requirement to recognize provisions, we prepare our own analysis and assessment of the circumstances and claims considered. In addition, in individual cases, we consider the results of comparable proceedings and independent legal opinions. Furthermore, assumptions are made regarding the probability of claims being successful and their potential financial impact. The actual costs can deviate from these estimates.

We limit risks from potential wrongdoing or legal infringements by using an internal control system. For example, we try to avoid patent and licensing disputes whenever possible with the help of extensive clearance research. As part of our Group-wide compliance program, our employees receive regular training.

→ For more on our Group-wide compliance program, see page 19 and page 119 onward

## Sustainability

- Voluntary commitment to environmental protection and socially responsible conduct
- Adherence to standards assured by monitoring systems
- Global management system for early recognition of important issues
- Ongoing dialogue with stakeholders

## Legal risks

- Avoidance of legal risks with the help of an internal control system
- Estimate of monetary effects from legal disputes and proceedings as realistic as possible
- Regular employee training as part of Group-wide compliance program

**Acquisition risks:** 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. A detailed analysis and quantification are conducted as part of due diligence. Examples of risks are: increased staff turnover, delayed realization of synergies or the assumption of obligations that were not exactly quantifiable in advance. Therefore implementation and follow-up assessments take place along defined processes. By nature, the acquired businesses are subject to general market risks and business-specific risks. For this reason, acquired businesses are promptly incorporated into BASF's risk management process. The recently acquired Cognis business is currently being integrated into our risk management process.

Based on the measures taken, we classify the risk of damages as low and the potential of an impact on earnings as medium.

**Technical risks:** In addition to risks related to raw materials availability, there is the risk that unscheduled shutdowns of our plants will be required for safety reasons or due to technical problems, which could result in delivery bottlenecks for our products. For example, as a precaution we shut down plants at our sites on the U.S. Gulf Coast in the event of hurricane warnings.

We minimize technical risks through continuous monitoring and improvement of facilities and processes as well as through our global production Verbund; therefore we consider the probability of occurrence and impact to be low.

## Financial risks

The management of currency and interest rate risks is conducted in the Treasury unit. The management of commodity price risks takes place in the Global Procurement & Logistics competence center or in the appropriately authorized Group companies. Detailed guidelines and procedures exist for dealing with financial risks. Among other things, they provide for the segregation of trading and back office functions.

**Exchange rate volatility:** Our competitiveness on global markets is influenced by fluctuations in exchange rates. For the BASF Group, this generates sales market risks in particular when the U.S. dollar exchange rate fluctuates. A full-year rise in the value of the U.S. dollar/euro exchange rate by \$0.01 would result in an increase of €40 million in BASF's earnings, assuming other conditions remain the same.

On the production side, we mitigate foreign currency risks by having local production sites in the respective currency zones. Financial foreign currency risks result from the translation of receivables, liabilities and other monetary items in terms of IAS 21 at the closing rate into the functional currency of the respective Group company.

In addition, we incorporate planned purchase and sales transactions in foreign currencies in our financial foreign currency risk management. These risks are hedged using derivative instruments, if required. Exchange rate volatility is one of the top three driving forces for opportunities and risks within the BASF Group.

**Interest rate risks:** Interest rate risks result from potential 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 in individual cases.

## Financial risks

- Exchange rate volatility
- Interest rate risks
- Risks from metal and raw materials trading
- Liquidity risks
- Risk of default on receivables
- Impairment risks
- Risks from pension obligations

## Exchange rate volatility

- Exchange rate volatility a significant risk factor; sales-side opportunities and risks in particular from U.S. dollar exchange rate fluctuations
- Production-related foreign currency risks limited by having local sites
- Foreign currency denominated receivables and liabilities as well as planned foreign currency transactions hedged with derivatives

In addition, if our credit ratings were to be downgraded by credit rating agencies, this could lead to increased refinancing costs. In the short to medium term, BASF is largely protected from the possible effects on the interest result thanks to the well-balanced maturity profile of its financial debt.

→ **For more on the maturity profile, see Notes to the Consolidated Financial Statements on page 181**

**Risks from metal and raw materials trading:** In the catalysts business, BASF employs commodity derivatives for precious metals and trades precious metals on behalf of third parties and on its own account. In addition, we use our knowledge of the markets for crude oil and oil products to generate earnings from the trade of raw materials within predetermined limits. 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. We significantly reduced the risks of refinancing in 2009 by issuing medium and long-term bonds. We have access to comprehensive liquid funds at any time thanks to our good ratings, the commercial paper program and committed bank credit lines. The commercial paper program constituted a reliable and economic source of liquidity for BASF, even during the financial crisis. We therefore rate our liquidity risks as low.

→ **For more on financial risks, see the Notes to the Consolidated Financial Statements from page 187 onward**

**Risk of default on receivables:** We limit country-specific risks by internally determining country ratings, which are continuously 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 lower credit risks for our financial investments by engaging in transactions only with business partners and banks with good credit ratings and

by adhering to fixed limits. Monetary transactions are also conducted through such banks. We continuously check the creditworthiness of our partner banks. We reduce the risk of default on receivables by continuously monitoring the creditworthiness and payment behavior of our customers and by setting appropriate credit limits.

Thanks to the worldwide activities and diversified customer structure of the BASF Group, there is no large concentration of credit default risk. Risks are also limited through the use of credit insurance and bank guarantees.

**Impairment risks:** The risk of an asset impairment occurs if the assumed interest rate in an impairment test increases or the forecast cash flows decline. In the current business environment, we consider the risk of impairment of individual assets such as customer relationships, technologies and brands, as well as goodwill, to be low.

**Risks from pension obligations:** We predominantly finance company pension obligations externally through separate plan assets. In addition to the large pension plans of our Group companies in North America, the United Kingdom and Switzerland, this applies particularly to BASF Pensionskasse VVaG and the BASF Pensionstreuhand e.V. in Germany. To address the risk of underfunding due to market volatility of plan assets, we align the investment strategy in terms of return and risk optimization to the structure of the pension obligations. Stress scenarios are simulated regularly by means of portfolio analyses. Furthermore, new employees are almost always offered defined contribution plans.

## Liquidity risks

- Recognition of risks from cash flow fluctuations by means of liquidity planning
- Good ratings, economic and reliable commercial paper program as well as committed credit lines ensure access to liquid funds at any time

## Risks of default on receivables







- Export credit insurance and investment guarantees to hedge country-related risks
- Reduction of credit risks through credit checks and transaction limits
- Use of credit insurance and bank guarantees
- No concentration of risk of default on receivables at any individual business partner

## Economic environment in 2011







The strong global economic rebound in 2010 was supported by major economic stimulus programs and strong growth in Asia. In 2011, the global economy will continue to recover. In industrialized countries, the austerity programs necessary to trim public spending will dampen growth. In 2011, we expect solid average annual global economic growth (+3.3%). Growth will be weaker in industrialized countries (+2.2%), but production in most of these countries will again reach pre-crisis levels. For 2011, we expect an average oil price of \$90 per barrel, and an average exchange rate of \$1.35 per euro. As there are continued uncertainties in the capital and currency markets, we anticipate foreign exchange rates will be highly volatile over the course of the year.

In **Europe**, our growth expectations for 2011 are dampened by the austerity programs to reduce public spending. We expect domestic consumption will be weak, but demand for capital goods will increase. We forecast growth in 2011 will be nearly unchanged (+1.7%) compared with the previous year. The pace of economic growth in Germany will slow (+2.3%) due particularly to weaker growth in net exports compared with 2010. With a few exceptions, the member states of the European Union will experience positive growth. For the first time since the economic crisis, the European construction industry will grow again. In the medium term, we expect moderate average growth for the European Union (+1.9%).

### Outlook for gross domestic product 2011 (Real change compared with previous year)

<b>World</b>	<b>3.3%</b>	
E.U.	1.7%	
United States	2.9%	
Asia (excl. Japan)	7.4%	
Japan	1.1%	
South America	4.5%	

### Trends in gross domestic product 2011–2013 (Average annual real change)

<b>World</b>	<b>3.4%</b>	
E.U.	1.9%	
United States	2.9%	
Asia (excl. Japan)	7.1%	
Japan	1.5%	
South America	3.8%	

In the **United States**, economic growth in 2011 (+2.9%) will be at the level of the previous year. High unemployment and the loss of wealth among large parts of the population as a result of the financial crisis will continue to dampen growth in private consumption. Further economic stimulation through expansive fiscal or monetary policy is nearly impossible due to high government debt and very low interest rate levels. On the other hand, increasing investment activity and growing net exports are acting as growth drivers. In the United States in the medium term, we expect steady growth momentum and solid growth (+2.9%).

### For the year 2011, we expect the following economic conditions:

- Continued recovery of the global economy, solid growth (+3.3%)
- Weaker growth in the industrialized countries (+2.2%); pre-crisis levels reached in most cases
- Compared with previous year, growth in Europe (+1.7%) broadly unchanged and somewhat weak
- Solid growth in the United States (+2.9%); strong growth in Asia (excluding Japan) (+7.4%) and in South America (+4.5%); weak growth in Japan (+1.1%)
- An average exchange rate of \$1.35 per euro
- An average annual oil price of \$90 per barrel

Economic growth in **Asia (excluding Japan)** will slow slightly in 2011 (+7.4%) with the winding down of China's economic stimulus programs, which had been providing an additional boost to economic growth. A further expected appreciation of the Chinese currency will stabilize China's import growth, but weaken its export economy. Domestic demand should provide positive impetus for the region. In the medium term, we expect high annual growth in the regional gross domestic product (+7.1%), driven in particular by the strong growth in industrial production.

In **Japan**, economic growth will slow again in 2011 (+1.1%). As a result of weakening global economic growth and the relatively strong Japanese yen, export growth will not match the pace of the previous year. In addition to Japanese consumers' general reluctance to spend, the end of fiscal stimulus programs will contribute to a normalization of the growth rate. In the medium term, we expect moderate average annual growth (+1.5%).

In **South America**, growth in gross domestic product in 2011 will be weaker than in the previous year. Nevertheless, the region's economy is expanding significantly (+4.5%), mainly as a result of increasing domestic demand and rising raw materials exports. In the medium term, we expect robust annual economic growth (+3.8%).

### Outlook for key customer industries

In 2011, global industrial production will continue to grow sharply (+5.0%), exceeding the level reached before the economic crisis. In industrialized countries, we anticipate production to rise moderately while growth will be strong in the Asian emerging markets.

Global production volumes in the **automotive industry** will grow substantially in 2011, but not as strongly as in the previous year. As the timing of many vehicles purchases was moved up in response to car scrapping incentive programs, demand will decline in Europe in particular; production, however, will remain at a high level compared with 2010 due to exports. In the United States, automobile production will increase further, but will remain below pre-crisis levels on a per-unit basis. In Asia, especially in China, the pace of growth in automotive production will slow down.

The **construction industry** will grow again worldwide in 2011. This will mainly be driven by emerging markets. In industrialized countries, housing and commercial building activity will remain weak.

The **electrical industry** and the **information and communication technology industry (ICT)** will again experience above-average growth worldwide in 2011. Impetus will primarily come from Asia (excluding Japan). In Europe and Japan, we expect growth will not match the level of the previous year.

Production in the **paper industry** will benefit from growth in emerging markets and will stabilize worldwide in 2011. In the **textiles industry**, we expect continued high growth in emerging markets and developing countries but weakening growth in industrialized countries.

For the **food industry**, we expect above-average growth in global production in 2011. We anticipate robust average global production growth for **agriculture**.

### Outlook for key customer industries in 2011

- Continued strong growth in global industrial production (+5.0%)
- Automotive industry: substantial growth, but not as strong as previous year
- Construction industry: global growth, impetus particularly from emerging markets
- Electrical industry and ICT: strong global growth
- Paper industry: stabilization of worldwide production
- Textiles industry: growth, particularly strong in emerging markets
- Food industry: above-average growth in global production
- Agriculture: robust production growth worldwide



### Outlook for the chemical industry

In 2011, growth in global chemical production (excluding pharmaceuticals) will slow in all regions following the rapid recovery in the previous year. We anticipate considerable growth (+5.2%) in 2011 and the same rate for medium-term annual growth. However, most industrialized countries will not reach pre-crisis production levels before the end of 2011.

For **Europe**, we forecast comparatively moderate growth for the chemical industry in 2011 (+2.9%). Within the European Union, important customer industries will recover at different paces in different countries. In the medium term, we expect moderate growth in chemical production (+2.7%). The pre-crisis level will therefore not be reached before 2012.







The growth rate in chemical production in the **United States** will be higher (+3.3%) than in other large industrialized countries in 2011. As a result of lower natural gas prices, we expect the U.S. chemical sector to be more competitive. In the medium term, we expect moderate average annual growth (+2.4%).

There was a very substantial upswing in chemical production in **Asia (excluding Japan)** in 2010, primarily thanks to the growth in the Chinese chemical industry, which benefited from the government's economic stimulus programs. As a result of the winding down of fiscal programs, we expect growth in the region in 2011 to slow somewhat year-on-year, but continue to be strong (+9.6%) – especially in China (+12.1%). In the medium term, we also expect strong average annual growth (+8.5%).







The chemical industry in **Japan** benefited significantly in 2010 from the recovery in the local export-oriented automotive and electronics industries. In 2011, growth will not be nearly as strong (+1.9%). We expect that the crisis-related collapse in production will result in further structural changes and production will only reach its previous level in 2015. In the medium term, production is expected to stabilize at a low rate (+1.4%).

Chemical production in **South America** will grow again in 2011 thanks to robust domestic demand (+4.3%). As a supplying industry, chemical production in the region will also benefit from the rising construction and infrastructure investments in Brazil. In the medium term, we anticipate solid average growth (+3.5%).

#### Outlook chemical production 2011 (excl. pharmaceuticals) (Real change compared with previous year)

World	5.2 %	
E.U.	2.9 %	
United States	3.3 %	
Asia (excl. Japan)	9.6 %	
Japan	1.9 %	
South America	4.3 %	

#### Trends chemical production 2011–2013 (excl. pharmaceuticals) (Average annual real change)

World	4.7 %	
E.U.	2.7 %	
United States	2.4 %	
Asia (excl. Japan)	8.5 %	
Japan	1.4 %	
South America	3.5 %	

### Outlook for the chemical industry in 2011

- Considerable worldwide growth in chemical production (+5.2%)
- Europe: comparatively moderate growth (+2.9%)
- United States: stronger growth (+3.3%) than in other industrialized countries
- Asia (excluding Japan): growth slower than in 2010, but still strong (+9.6%), especially in China (+12.1%)

- Japan: significant slowdown in growth (+1.9%) compared to previous year
- South America: strong growth (+4.3%), particularly due to robust domestic demand

## BASF Group outlook and opportunities

### Profitable growth thanks to the right strategy

**BASF took advantage of the favorable economic environment in 2010 and achieved record sales and earnings. There was strong demand for chemical products and growth impetus came from all regions. The successful integration of the Ciba businesses and our initiatives to increase operative excellence made a significant contribution to this performance.**

**We expect economic growth to slow down in 2011. Excluding the effects of acquisitions and divestitures, we aim for a slight increase in sales volumes and sales. Sales will additionally be boosted by the inclusion of the Cognis businesses. Overall, we aim to significantly exceed the 2010 record levels in sales and income from operations.**

#### Opportunities

In 2011, we may be presented with opportunities arising from stronger growth in the global economy and our customer industries. Furthermore, decreasing raw materials costs, ongoing product shortages – especially in the Chemicals and Plastics segments – as well as an appreciation of the U.S. dollar would have positive effects on our margins. Additional opportunities for our Oil & Gas segment could arise if exploration wells are more successful or the recovery rates from deposits are greater than expected.

With the acquisition of Ciba and Cognis, we have expanded our portfolio to include innovation-driven businesses that are growing faster than the industry average and make our portfolio more cyclically robust. With the profitable further development of the combined businesses, we want to achieve an EBITDA margin of at least 20% in the Performance Products segment from 2013.

An important step in our active portfolio management is the establishment of Styrolution, a 50-50 joint venture in which BASF and INEOS will combine their styrenics activities. A letter of intent was signed in November 2010. Styrolution will be

the world's leading company for styrenics and set new standards for efficiency, customer service, product quality and competitiveness.

Opportunities also arise from the expansion of our presence in fast-growing emerging markets. For example, we want to deepen our successful long-standing cooperation with our partners PETRONAS in Malaysia, and Sinopec in China. We have signed two important agreements for upcoming joint projects to expand our cooperation in the area of specialty chemicals.

The objectives of our future-oriented projects are determined by global megatrends such as population growth, increasing urbanization as well as rising energy and resource demand. BASF's corporate research is a strategic tool we use to develop growth clusters and secure BASF's long-term competence with regard to technology and methods. In 2015, we aim to generate sales of up to €8 billion with product innovations – new or improved products or applications that have been on the market for less than five years. The segments Agricultural Solutions and Performance Products, in particular, will contribute to our profitable growth in coming years thanks to product innovations.

#### Risks

As described in detail in the Risk report on pages 103 to 111, risks to our business are associated with:

- Weaker business volume due to slower growth in our customer industries
- Intensification of the debt crisis
- Margin declines as a result of rising raw materials prices or overcapacities, especially for basic products and plastics
- Exchange rate volatility
- Delivery bottlenecks due to the shutdown of production facilities or insufficient supply of raw materials
- Rising personnel costs
- Growing geopolitical tensions
- Protectionism and the erection of new trade barriers

#### Outlook 2011

In 2011, economic growth is expected to slow down. Excluding the effects of acquisitions and divestitures, we aim for a slight increase in sales volumes and sales. Sales will be additionally boosted by the inclusion of the Cognis businesses. Overall, we aim to significantly exceed the 2010 record levels in sales and income from operations. We expect to earn a high premium on our cost of capital once again in 2011.

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.

### Forecast

Based on our forecast for the economic environment described on pages 112 to 114 and excluding the effects of acquisitions and divestitures, we expect a slight increase in sales volumes and sales in 2011. In addition, sales should rise by around €3 billion as a result of the inclusion of Cognis. Overall, we expect significant sales growth. Due to the strong regional differences in growth rates, the share of our total sales generated in Asia and South America will increase.

We expect increasing pressure on margins in 2011 in some divisions, particularly in the Chemicals and Plastics segments owing to additional capacities and continued high raw materials prices. In light of these conditions, we will continue to rigorously implement our efficiency and restructuring programs. For example, we are strengthening our operational excellence through a number of individual projects under the NEXT program we initiated in 2008. With this program, we expect to improve earnings by more than €1 billion annually from 2012. At the same time, we expect synergies from the Ciba integration to contribute more than €350 million to earnings in 2011. This will be somewhat offset by the costs of the Cognis integration arising from 2011.

We aim to significantly exceed the record 2010 level in income from operations. We expect to earn a high premium on our cost of capital once again in 2011. Provided the economic growth continues, we anticipate a further increase in sales and earnings in 2012.

→ Our expectations for business development in the segments and divisions are described on pages 46 to 80.

→ Information on our financing principles can be found on page 41

To further develop our chemical activities, we plan to make investments of around €8.2 billion in the next five years. In China, this will include the step-by-step expansion of the Verbund site in Nanjing and the construction of an MDI plant in Chongqing. In addition, we will strengthen our specialty chemicals business, for example, with the construction of a new production plant for the aroma chemical L-menthol in Ludwigshafen. In the Oil & Gas segment, we are planning investments totaling €4.4 billion by 2015. One main focus is the extension of our gas transport and storage infrastructure, which includes the construction of transit pipelines OPAL and NEL as well as the Jemgum natural gas storage facility and the expansion of the Haidach natural gas storage facility. We are also increasing our investments in the exploration and production of gas and oil deposits in Siberia and Norway.

### Dividend

We stand by our ambitious dividend policy and continue to offer our shareholders an attractive dividend yield. Therefore, at the Annual Meeting, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €2.20 per share. We aim to increase our dividend annually or at least maintain the level of the previous year.

### Significant events subsequent to the balance sheet date

The political unrest in Libya intensified in February 2011. To protect our employees in Libya, in the week of February 21, we took the precaution of stopping oil production. We cannot currently estimate when our plants will resume production.

Apart from this, there have not been any other significant changes affecting BASF's situation and competitive environment since the beginning of the financial year 2011.

#### Planned capital expenditures by segment 2011–2015

1	Chemicals	15%
2	Plastics	14%
3	Performance Products	14%
4	Functional Solutions	6%
5	Agricultural Solutions	4%
6	Oil & Gas	35%
7	Other (infrastructure, R&D)	12%



#### Planned capital expenditures by region 2011–2015

1	Europe	63%
2	North America	14%
3	Asia Pacific	17%
4	South America, Africa, Middle East	4%
5	Alternative sites under review	2%



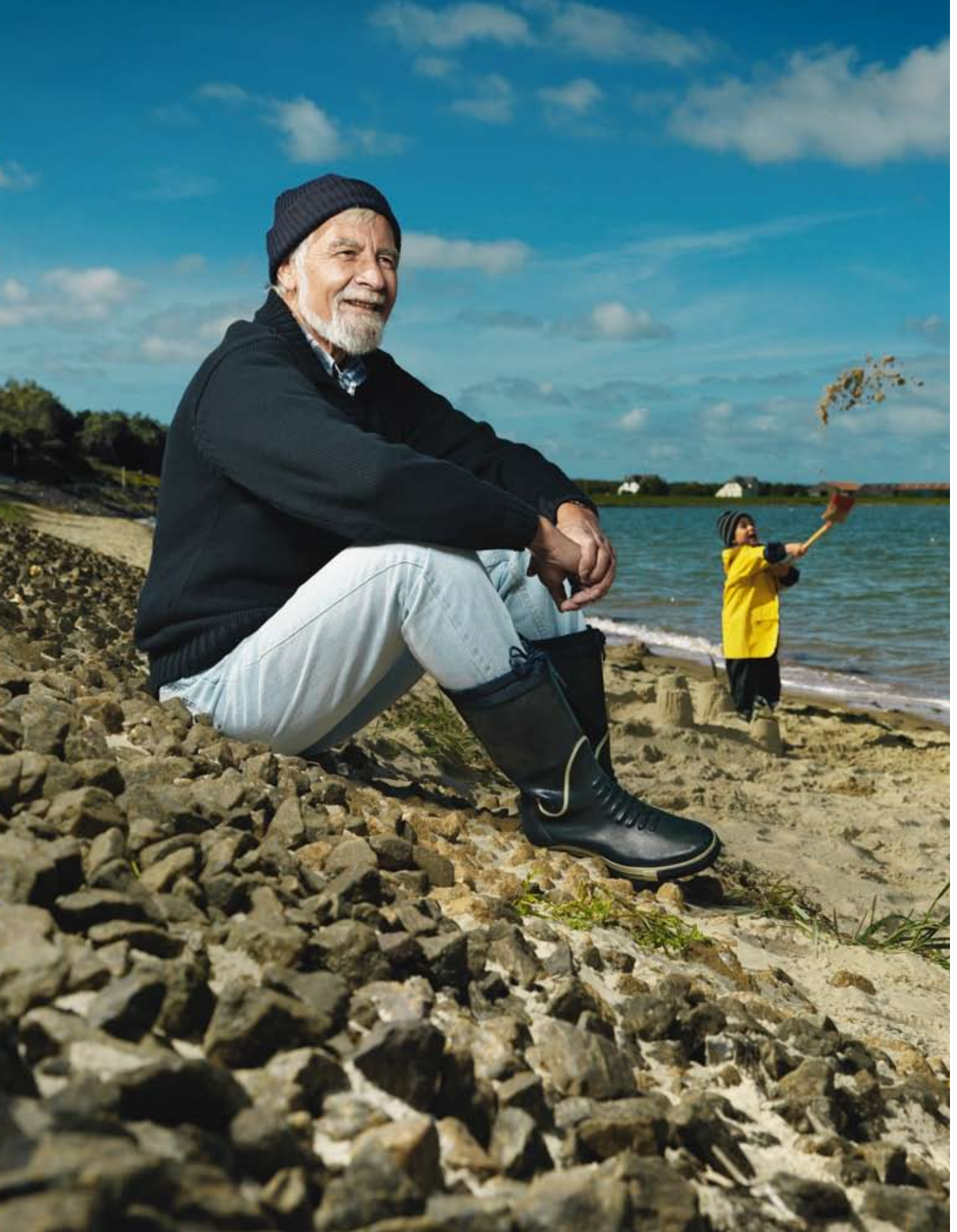


# 3

## Sustainable coastal protection

Elastocoast®, a composite of BASF specialty plastics and stone ballast, defends dikes against the force of waves. This offers long-lasting erosion protection for coastlines, benefiting humans and the environment.

→ For more on specialty plastics, see page 52 onward



# 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 customers and other business partners, employees and the public in the company.**

As of January 14, 2008, BASF took on the new European legal form of a European Company (Societas Europaea). 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 have been 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 proven fundamental elements of the German Aktiengesellschaft's corporate constitution remain unchanged in BASF SE: these are the two-tier management 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 management 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 Board of Executive Directors cannot simultaneously be a member of the Supervisory Board. The Board of Executive Directors agrees on the BASF Group's 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's actions and decisions are aligned with the company's best interests. It is committed to the goal of increasing the company's value in the long term. Decisions that are reserved for the Board as a whole by law, through the Board of Executive's Rules of Procedure or through resolutions adopted by the Board, are taken 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. Members of the Board of Executive Directors are authorized to make decisions individually in their assigned business areas.

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 approved Consolidated Financial Statements of the BASF Group.

→ **The members of the Board of Executive Directors, including their memberships on the boards of other companies, are listed on page 122. Compensation of the Board of Executive Directors is described in detail in the compensation report on the pages 125 to 129.**

### 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 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 the BASF Group's European employees.

→ **For more on the Statutes of BASF SE and the Employee Participation Agreement, see [basf.com/investor/cg\\_e](http://basf.com/investor/cg_e)**



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 (European works council), the European employee representation body of the BASF Group, as agreed to in the Employee Participation Agreement.

→ **The Supervisory Board, including their membership on the boards of other companies, are listed on pages 123 and 124. Compensation of the Supervisory Board is described in detail in the Compensation report on pages 129 and 130.**

It is very important for good corporate governance that the company ensures that seats on the responsible corporate bodies, the Board of Executives and the Supervisory Board, are appropriately filled. Criteria in this case include professional and personal qualifications, the diversity of the board members and the independence of the Supervisory Board. Seats on the Board of Executive Directors and Supervisory Board should be filled with members who as a group possess the necessary knowledge, skills and personal qualifications to manage and supervise BASF as a large, globally operating, capital market-oriented company in the chemical industry.

In its meeting of October 21, 2010, the Supervisory Board agreed upon **objectives for the composition of the Supervisory Board** in accordance with Section 5.4.1 of the German Corporate Governance Code. According to these objectives, the Supervisory Board shall be composed in such a way that the members as a group possess knowledge, ability and expert experience

- in the management of an internationally operating company,
- in cross-industry value creation along different value-adding chains,
- in the application of accounting principles and internal control procedures, and
- in the field of technical and scientific innovations in the chemical sector and associated industries as well as in the sectors using chemical products.

With regard to diversity, the Supervisory Board shall consider a variety of professional and international experience as well as the participation of women. Individuals who may have a conflict of interest shall not be nominated for election to the Supervisory Board. The same applies to candidates who will have reached the age of 70 by the day of the election.

In accordance with these objectives, the Supervisory Board will propose Ms. Anke Schäferkordt to be elected in a by-election at the Annual Meeting on May 6, 2011, replacing Mr. Stephen K. Green as a member of the Supervisory Board. Mr. Green resigned from the Supervisory Board following his appointment to become the United Kingdom's Minister of State for Trade and Investment. As a result, there will be two women among the 12 members of the Supervisory Board. We are committed to main-

taining or, if possible, raising the proportion of women on the Supervisory Board at the next scheduled election to the Supervisory Board in 2014. The Nomination Committee will include both appropriately qualified women and candidates with international experience in its selection process. We firmly believe the current formation of the Supervisory Board already fulfills the objectives agreed on by the Supervisory Board regarding its composition on October 21, 2010.

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 has established a total of three Supervisory Board Committees: the Personnel Committee, the Audit Committee and the Nomination Committee.

The **Personnel Committee's** duties include, amongst others, preparing the appointment of members to the Board of Executive Directors by the Supervisory Board and the employment contracts to be entered into with members of the Board of Executive Directors. When making recommendations on appointments to the Board of Executive Directors, the Personnel Committee takes into account their professional qualifications, international experience and leadership skills, long-term succession planning as well as diversity and, in particular, the appropriate consideration of women. It also prepares the resolutions made by the Supervisory Board with regard to the system and determination of the amount of compensation paid to members of the Board of Executive Directors. The committee comprises Supervisory Board Chairman Dr. h.c. Eggert Voscherau (chairman), Supervisory Board Deputy Chairmen Michael Diekmann and Robert Oswald, as well as Michael Vassiliadis.

The **Audit Committee** prepares the negotiations and resolutions of the Supervisory Board for the approval of the Financial Statements and Consolidated Financial Statements, and considers the quarterly and first-half financial reports with the Board of Executive Directors prior to their publication. It also deals with: monitoring the financial reporting process, the annual audit, the effectiveness of the internal control system, the risk management system, and the internal auditing system as well as compliance issues. The Audit Committee is also responsible for business relations with the company's external 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 main focuses of the audit together with the auditor, negotiates auditing fees and

establishes the conditions for the provision of the auditor's non-audit services. The Audit Committee is authorized to request any information that it deems necessary from the auditors or Board of Executive Directors. It can also view all of BASF's business documents and examine these and all other assets belonging to BASF. The Audit Committee can also engage experts such as auditors or lawyers to carry out these inspections. The members of this committee are Max Dietrich Kley (chairman), Ralf-Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis. Max Dietrich Kley has particular knowledge and experience in the application of accounting principles and internal audit procedures, as he was Chief Financial Officer of BASF Aktiengesellschaft until April 2003.

According to the recommendation of the German Corporate Governance Code, BASF SE's Supervisory Board established a **Nomination Committee** that will prepare the proposals for the Supervisory Board members to be elected at the Annual Meeting. The members of the Nomination Committee are the members of the Supervisory Board elected at the Annual Meeting: Dr. h.c. Eggert Voscherau, Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Stephen K. Green (until December 16, 2010), Max Dietrich Kley and Anke Schäferkordt (since December 17, 2010).

### Shareholders' rights

At the Annual Meeting, shareholders perform their rights of co-administration and supervision. Each BASF SE share represents one vote. Following the conversion of BASF shares to registered shares, which was approved at the Annual Meeting on April 29, 2010 and completed in August 2010, those BASF shareholders who are listed in the share register are entitled to vote. There are no registration restrictions and there is no limit to the number of shares that can be registered to one shareholder. 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 entered in the share register 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 buybacks and changes to the statutes.

### German Corporate Governance Code

BASF accords great importance to good corporate governance. BASF therefore supports the German Corporate Governance Code, which it regards as an important tool in the capital market-focused continuing development of corporate governance and control, and advocates 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 May 2010. This applies also to the Code's new recommendations regarding the composition of the Board of Executive Directors and the Supervisory Board as well as diversity in the staffing of executive positions. The joint declaration of conformity 2010 of the Board of Executive Directors and Supervisory Board of BASF SE is rendered at the end of this section on page 134.

In the same manner, BASF fulfills nearly all of the non-obligatory suggestions of the German Corporate Governance Code. The only exceptions are the suggestions to allow shareholders to follow the entire Annual Meeting online and to consider components based on the long-term success of the company in the compensation of the Supervisory Board. Compensation of the Supervisory Board of BASF SE does not contain any special compensation components that are tied to long-term company success assessed over a number of years. However, the annual variable compensation component based on profit per share is aligned with long-term profit increases, insofar as the profit per share required for the same variable compensation increases annually. This creates an incentive to pay special attention to the company's long-term performance and to sustainably increase the value of the company in the interest of the shareholders. The Annual Meeting will be openly accessible to all via online broadcast until the end of the speech by the Chairman of the Board of Executive Directors. The subsequent discussion of resolutions will not be accessible online in order to preserve the character of the Annual Meeting as a meeting attended by our shareholders on-site.

→ **For more on the declaration of conformity 2010, an overview of the implementation of the Code's suggestions and the German Corporate Governance Code, see [basf.com/governance\\_e](http://basf.com/governance_e)**

### Values and Principles of the BASF Group/ Code of conduct

To ensure high standards of corporate governance, the Board of Executive Directors has set out the business principles and rules of conduct for all BASF activities in the Values and Principles of the BASF Group, and the Code of Conduct/Compliance Program, which have been introduced throughout the company. The Code of Conduct describes in detail the conduct we expect from BASF employees – based on the principle of integrity. Compliance with all relevant legislation is especially important to us, in particular antitrust and competition legislation, embargo and export controls regulations – including those

relating to chemical weapons – as well as labor laws and plant safety regulations. Other issues covered are bans on insider dealing for personal benefit and bans on facilitation payments to, or from, business partners or government officials, and the responsible treatment of BASF's assets. The Corporate Audit department, together with BASF's Chief Compliance Officer, monitors compliance on a regular basis.

→ For more on BASF's Values and Principles and the Code of Conduct, see [basf.com/values](http://basf.com/values)

## Compliance

The basis for our Compliance Program is a system of training, information points and monitoring instruments. New employees at BASF receive mandatory basic compliance training. This is supplemented by subsequent refresher courses and training on special topics such as competition law and embargo regulations. More than 41,000 employees participated in compliance training in 2010.


We implement our Compliance Program in the company with Group-wide codes of conduct. In this way, we ensure our employees to know the rules and guidelines. The aim is to prevent legal violations such as incidents of corruption and to minimize potential compliance risks for BASF.

Our Chief Compliance Officer manages the global implementation of the program, with the help of around 100 Compliance Managers worldwide. The Chief Compliance Officer regularly reports to the Board of Executive Directors on the implementation and, if necessary, the sharpening of the Compliance Program as well as findings from the company's activities. Furthermore, the Chief Compliance Officer reports to the Supervisory Board's Audit Committee in at least one of its meetings each year on the content and implementation of the compliance program and the handling of major individual issues. In the event of significant incidents, the Audit Committee is immediately informed by the Board of Executive Directors.

If, despite all preventive measures, violations occur, we aim to investigate and rectify these as quickly as possible. Our external Group-wide hotlines enable employees to anonymously seek advice regarding personal conduct as well as report incidents in the company that they consider dubious. In 2010, there were 234 calls and e-mails received. The majority of the inquiries were related to questions regarding the employee's own behavior. The rest related to a wide variety of topics, ranging from business-related advice to questions about personnel management and suspicion of personal enrichment at the company's cost. Our Corporate Audit department audits adherence to our principles. In 2010, we carried out 48 compliance audits throughout the Group (2009: 109). We investigate all cases of suspected misconduct detected in these audits or reported to our hotline. In cases of serious violations, sanctions can range up to dismissal and claims for damages. In addition, the Chief Compliance Officer and BASF's data protection representatives in Germany reviewed the processes for proper handling of employee data in 2010.

When selecting suppliers in non-OECD countries, we use a questionnaire to determine whether they have established a code of conduct. In 2010, we developed a new checklist to survey compliance for contractors, consultants and third-party companies that sell our products.

We are involved in initiatives to prevent corruption outside of our company. As a participant in the United Nations Global Compact, we work to implement the Global Compact principle on fighting corruption. As a member of Transparency International Deutschland e.V. since 2003, we support the fight against corruption. Since 2008, we have been participating in the "Partnering Against Corruption Initiative" (PACI) of the World Economic Forum in Davos, Switzerland.

In 2010, we surveyed around 1,000 executives and employees of BASF SE about their perception of compliance in the company, including questions such as how often they feel confronted with conflict situations and whether the Compliance Program gives them sufficient orientation. More than 50% of those polled took part in the voluntary, anonymous survey. In 2011, we plan to extend the survey to include significant Group companies. 

→ For more on our Values and Principles, see Strategy and Values from page 17 onward

## Disclosure according to Section 315 (4) of the German Commercial Code and the explanatory report of the Board of Executive Directors according to Section 176 (1) Sentence 1 of the German Stock Corporation Act

As of December 31, 2010, the subscribed capital of BASF SE was €1,175,652,728.32, divided into 918,478,694 registered shares with no par value. 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 apply to all shares. According to the Statutes, shareholders are not entitled to receive 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 Article 7 of the BASF SE Statutes. Members of the Board of Executive Directors are appointed and dismissed by the Supervisory Board according to these regulations. 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 serious cause to do so. Serious cause includes, in particular, a gross breach of the duties pertaining to the Board of Executive Directors and a vote of no confidence at the Annual Meeting. The Supervisory Board decides on appointments and dismissals according to their own dutiful discretion.

According to Article 59 (1) SE Council Regulation, amendments to the Statutes of BASF SE require a resolution of the Annual Meeting adopted with at least a two-thirds majority of the votes cast, provided that the legal provisions applicable to German stock corporations under the German Stock Corporation Act do not stipulate or allow for larger majority requirements. In the case of amendments to the Statutes, Section 179 (2) of the German Stock Corporation Act requires a majority of at least three quarters of the subscribed capital represented. Pursuant to Article 12 No. 6 of the Statutes of BASF SE, the Supervisory Board is authorized to make amendments to the Statutes that merely 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 April 30, 2014, the Board of Executive Directors of BASF SE is empowered by a resolution passed at the Annual Meeting of April 30, 2009 to increase the subscribed capital by a total amount of €500 million through the issue of new shares (authorized capital). This must have the approval of the Supervisory Board. A right to subscribe to the new shares shall be granted to shareholders. This can also be done by a credit institution acquiring the new shares with the obligation to offer these to shareholders (indirect subscription right). The Board of Executive Directors is authorized to exclude the statutory subscription right of shareholders in certain exceptional cases that are narrowly defined in Article 5 No. 8 of the BASF SE Statutes. This applies in particular, if for capital increases in return for cash contributions, the issue price of the new shares is not substantially lower than the stock market price of BASF shares and the total number of shares issued under this authorization is not more than 10% of the subscribed capital on the date of issue.

In the event of a change of control, members of the Board of Executive Directors shall, under certain additional conditions, receive compensation (details of which are listed in the compensation report on page 128). A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF SE and its subsidiaries who are classed as 'senior executives' (Obere Führungskräfte) will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the occurrence of a change of control 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 (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). This policy provides for the level of deductibles for the Board of Executive Directors as prescribed by Section 93 (2) 3 of the German Stock Corporation Act and for the level of deductibles for the Supervisory Board as recommended in Section 3.8, Paragraph 3 of the German Corporate Governance Code.

### **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 (Directors' Dealings under Section 15a of German Securities Trading Act)**

In accordance with Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz), all members of the Board of Executive Directors and the Supervisory Board, as well as certain members of their families, are required to disclose the purchase or sale of BASF shares and other related rights to the German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) and to the company if transactions within the calendar year exceed the threshold of €5,000.

In 2010, a total of six purchases subject to disclosure as Directors' Dealings by members of the Board of Executive Directors and the Supervisory Board and members of their families subject to disclosure were reported. The transactions involved between 100 and 2,000 shares with a per share price of between €41.23 and €45.00. The volume of the individual trades was between €4,437 and €90,000.

→ For more on directors' dealings in 2010, see [basf.com/governance/sharedealings\\_e](http://basf.com/governance/sharedealings_e)

## Management and Supervisory Boards

### Board of Executive Directors

As of December 31, 2010, there were eight members on the Board of Executive Directors of BASF SE.

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#### Dr. Jürgen Hambrecht Chairman of the Board of Executive Directors

**Responsibilities:** Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications & Government Relations 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):

Daimler AG (supervisory board member)  
Lufthansa AG (supervisory board member)

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#### 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:** 2016

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding GmbH (supervisory board member until March 31, 2010)

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#### Dr. Martin Bruder Müller

**Responsibilities:** Performance Polymers; Polyurethanes; Styrenics; Market & Business Development Asia Pacific; Regional Functions & Country Management Asia Pacific

**First appointed:** 2006

**Term expires:** 2016

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#### Dr. Hans-Ulrich Engel

**Responsibilities:** Oil & Gas; Region Europe; Global Procurement & Logistics

**First appointed:** 2008

**Term expires:** 2016

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding GmbH (supervisory board chairman)  
Wintershall AG (supervisory board chairman)  
Cognis AG (supervisory board member since December 10, 2010)

#### Comparable German and non-German controlling bodies:

Nord Stream AG, Zug, Switzerland  
(member of the Shareholders' Committee)

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#### Dr. John Feldmann

**Responsibilities:** Construction Chemicals; Dispersions & Pigments; Care Chemicals; Nutrition & Health; Paper Chemicals; Performance Chemicals; Polymer Research

**First appointed:** 2000

**Term expires:** 2011

#### Supervisory board memberships (excluding internal memberships):

Bilfinger Berger AG (supervisory board member)

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

BASF Coatings GmbH (supervisory board member)  
Cognis GmbH (supervisory board member since December 10, 2010, supervisory board chairman since December 14, 2010)

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#### 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 GmbH (supervisory board member)

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#### Dr. Stefan Marcinowski

**Responsibilities:** Crop Protection; Coatings; Specialty Chemicals Research; BASF Plant Science; Region South America

**First appointed:** 1997

**Term expires:** 2012

#### Supervisory board memberships (excluding internal memberships):

DWS Investment GmbH (supervisory board member)

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding GmbH (supervisory board member)  
BASF Coatings GmbH (supervisory board chairman)

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#### Dr. Harald Schwager

**Responsibilities:** Human Resources; Environment, Health & Safety; Engineering & Maintenance; Verbund Site Management Europe

**First appointed:** 2008

**Term expires:** 2016

#### 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 Antwerpen N.V. (chairman of the administrative council)

## Supervisory Board

In accordance with the Statutes, the **Supervisory Board of BASF SE** comprises twelve members. Pursuant to Section 35 Paragraph 1 of the Act on the Participation of Employees in a European Company (SE-Beteiligungsgesetz – “SEBG”) and the Agreement Concerning the Involvement of Employees in BASF SE (Employee Participation Agreement) signed on November 15, 2007 by company management and the representatives of BASF Group's European employees, seats on the board are accorded following the principle of parity. The six shareholder representatives on the Supervisory Board of BASF SE are elected by the Annual Meeting. By way of derogation 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, in accordance with the Employee Participation Agreement. The term of office of the Supervisory Board commenced following the Annual Meeting on April 30, 2009, in which the shareholder representatives on the Supervisory Board were elected. It terminates upon conclusion of the Annual Meeting which resolves on the discharge of members of the Supervisory Board for the fourth complete financial year after the term of office commenced; this is the Annual Meeting in 2014. Stephen K. Green, Supervisory Board member elected at the Annual Meeting on April 30, 2009 resigned from the Supervisory Board at the close of December 16, 2010 to take on the role as the United Kingdom's Minister of State for Trade and Investment at the beginning of 2011. Upon request of the Chairman of the Supervisory Board, the Ludwigshafen district court, by decision of November 18, 2010, appointed Ms. Anke Schäferkordt to the Supervisory Board, effective December 17, 2010. The Supervisory Board and the Board of Executive Directors intend to nominate Ms. Schäferkordt to be elected to the Supervisory Board at the Annual Meeting on May 6, 2011. The Supervisory Board comprises the following members:

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**Dr. h.c. Eggert Voscherau, Wachenheim, Germany**

**Chairman of the Supervisory Board of BASF SE**

**Former deputy chairman of the Board of Executive Directors of BASF Aktiengesellschaft and BASF SE**

**Supervisory board memberships (excluding internal memberships):**

Carl-Zeiss AG (supervisory board chairman until February 15, 2010)

Schott AG (supervisory board chairman until February 15, 2010)

**Comparable German and non-German controlling bodies:**

Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW)

(supervisory board member)

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**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)

Siemens AG (supervisory board member)

**Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:**

Allianz Deutschland AG (supervisory board member)

Allianz Global Investors AG (supervisory board chairman)

**Comparable German and non-German controlling bodies:**

Allianz France S.A. (deputy chairman of the administrative council)

Allianz S.p.A. (member of the administrative council)

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**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**

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**Ralf-Gerd Bastian, Neuhofen, Germany**

**Member of the works council of the Ludwigshafen site of BASF SE**

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**Wolfgang Daniel, Limburgerhof, Germany**

**Deputy chairman of the works council of the Ludwigshafen site of BASF SE**

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**Prof. Dr. François Diederich, Zurich, Switzerland**

**Professor at the Swiss Federal Institute of Technology Zurich**

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**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)

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**Stephen K. Green, London, U.K. (until December 16, 2010)**

**Group Chairman HSBC Holdings plc**

**Comparable German and non-German controlling bodies:**

HSBC Bank plc, United Kingdom (chairman of the board of directors)

HSBC Private Banking Holdings (Suisse) SA

(chairman of the administrative council)

The Hong Kong and Shanghai Banking Corporation Limited, Hong Kong

(member of the board of directors)

HSBC North America Holdings Inc., United States (member of the board of directors)

HSBC France (member of the board of directors)



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**Max Dietrich Kley, Heidelberg, Germany****Lawyer****Supervisory board memberships (excluding internal memberships):**

SGL Carbon SE (supervisory board chairman)

HeidelbergCement AG (supervisory board member)

Infineon Technologies AG (supervisory board chairman until February 11, 2010)

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**Anke Schäferkordt, Cologne, Germany (since December 17, 2010)****Chief Executive Officer, Mediengruppe RTL Deutschland and RTL Television****Supervisory board memberships (excluding internal memberships):**

Software AG (supervisory board member)

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**Denise Schellemans, Kalmthout, Belgium****Full-time trade union delegate**

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**Ralf Sikorski, Wiesbaden, Germany****Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union****Supervisory board memberships (excluding internal memberships):**

Villeroy & Boch AG (supervisory board member)

Villeroy & Boch Fliesen GmbH (supervisory board member)

Evonik Power Saar GmbH (supervisory board deputy chairman)

Evonik New Energies GmbH (supervisory board deputy chairman)

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**Michael Vassiliadis, Hanover, Germany****Chairman 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)

Henkel KGaA (supervisory board member)

Evonik Steag GmbH (supervisory board deputy chairman)

## Compensation report

**This report outlines the main principles of the compensation for the Board of Executive Directors and discloses the amount and structure of the compensation of each Board member. Furthermore, it provides information on end-of-service undertakings with respect to Board members, as well as information on the compensation of Supervisory Board members.**

### Compensation of Board members

This report meets the disclosure requirements of the German Commercial Code, supplemented by the additional requirements based on the German Act on Disclosure of Management Board Remuneration (Vorstandsvergütungs-Offenlegungsgesetz) as well as the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung), and is aligned with the recommendations of the German Corporate Governance Code.

Based on a proposal by the Personnel Committee (see page 118), the Supervisory Board (see page 123) determines the amount and structure of compensation of members of the Board. The amount of compensation is determined by the company's size and financial position, as well as the performance of the Board of Executive Directors. Globally operating companies based in Germany and Europe serve as a reference. A review of the structure and amount of compensation of Board members takes place at regular intervals.

In the second half of 2009, the compensation system for Board members was aligned with the German Act on the Appropriateness of Management Board Remuneration, which came into force in August 2009. Contracts with all Board members, regardless of existing contractual terms, were consensually and uniformly converted to this system effective as of January 1, 2010. The new system was approved at the Annual Meeting on April 29, 2010, in accordance with Section 120 (4) of the German Stock Corporation Act.

The compensation of Board members comprises:

1. a fixed annual salary
2. an annual variable bonus
3. a stock price-based long-term incentive (LTI) program
4. non-monetary compensation and other additional compensation in varying amounts; and
5. company pension benefits.

The compensation of the Board of Executive Directors is designed to promote sustainable corporate development. It is marked by a pronounced variability in relation to the performance of the Board of Executive Directors and BASF Group's return on assets.

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.
2. The annual variable compensation (variable bonus) of the Board of Executive Directors is based on the performance of the entire Board and the return on assets. The return on assets is also used to determine the variable compensation of all other employee groups. In order to assess the sustainable performance of the Board of Executive Directors, each year the Supervisory Board sets a target agreement with the entire Board of Executive Directors that primarily contains medium- and long-term goals. The Supervisory Board assesses the achievement of goals in relation to the last three years. A performance factor with a value between 0 and 1.5 is determined on the basis of the goal achievement ascertained by the Supervisory Board. 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 annual variable gross bonus into a deferred compensation program. For members of the Board of Executive Directors, as well as for all other senior executives of the German BASF Group, the maximum amount that can be contributed to this program is €30,000. Board members have taken advantage of this offering to varying degrees.
3. A share price-based remuneration program (a long-term incentive or LTI program) exists for members of the Board of Executive Directors. It is also offered to all other senior executives of BASF Group. Members of the Board of Executive Directors are subject to a stricter set of rules than are contained in the general program conditions: They are required to participate in the LTI program with at least 10% of their gross bonus. This mandatory investment consisting of BASF shares is subject to a holding period of four years. For any additional voluntary investment of up to 20% of the gross bonus, the general holding period of two years applies. Under the LTI program, members of the Board of Executive Directors may only exercise their options at least four years after they have been granted (vesting period). For further details on the LTI program, see page 185.
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 the section "Pension benefits" on page 127.

Based on the principles listed above, individual Board members received the following compensation:

Thousand €

	Non-performance related compensation			Performance related compensation	Options granted			Total compensation (cash compensation plus options granted)
	Year	Fixed salary	Non-monetary compensation and other additional compensation	Variable bonus <sup>1</sup>	Total cash compensation	Number	Market value at option grant date	
Dr. Jürgen Hambrecht Chairman	2010	1,100	129	3,240	4,469	41,244	768	5,237
	2009	1,100	105	1,525	2,730	94,200	647	3,377
Dr. Kurt Bock	2010	695 <sup>3</sup>	1,174 <sup>4</sup>	1,620	3,489	20,620	384	3,873
	2009	705 <sup>3</sup>	1,075 <sup>4</sup>	763	2,543	47,100	324	2,867
Dr. Martin Brudermüller	2010	578 <sup>3</sup>	753 <sup>4</sup>	1,620	2,951	20,620	384	3,335
	2009	583 <sup>3</sup>	982 <sup>4</sup>	763	2,328	47,100	324	2,652
Dr. Hans-Ulrich Engel	2010	550	109	1,620	2,279	20,620	384	2,663
	2009	550	137	763	1,450	41,840	287	1,737
Dr. John Feldmann	2010	550	82	1,620	2,252	20,620	384	2,636
	2009	550	66	763	1,379	47,100	324	1,703
Dr. Andreas Kreimeyer	2010	550	105	1,620	2,275	20,620	384	2,659
	2009	550	98	763	1,411	40,000	275	1,686
Dr. Stefan Marcinowski	2010	550	89	1,620	2,259	20,620	384	2,643
	2009	550	102	763	1,415	47,100	324	1,739
Dr. Harald Schwager	2010	550	108	1,620	2,278	20,620	384	2,662
	2009	550	198 <sup>2</sup>	763	1,511	47,100	324	1,835
	<b>Total 2010:</b>	<b>5,123</b>	<b>2,549</b>	<b>14,580</b>	<b>22,252</b>	<b>185,584</b>	<b>3,456</b>	<b>25,708</b>
	Total 2009:	5,138	2,763	6,866	14,767	411,540	2,829	17,596

<sup>1</sup> The basis for the variable bonus is the return on assets adjusted for special items and, for 2010, the performance factor. These include all contributions made to the deferred compensation program.

<sup>2</sup> Includes expenses for security measures taken at the Board member's home on the occasion of his appointment to the Board of Executive Directors.

<sup>3</sup> Payment is made in local currency based on a theoretical net salary in Germany.

As a result, there is a deviation from the contractually agreed fixed gross salary in euro (€550 thousand per year).

<sup>4</sup> Includes payments to cover additional costs of delegates, such as assumption of prevailing local rental fees.

The options granted led to expenses (personnel expense) in 2010. This personnel expense refers to the sum of all options from the LTI programs 2002 to 2010. It is calculated as the difference in the value of the options on December 31, 2010, compared with the value on December 31, 2009, considering the options exercised and granted in 2010. The value of the options is based primarily on the development of the BASF share price and its outperformance compared with the benchmark indices specified for the LTI programs 2002 to 2010. The rise in the personnel expense in 2010 compared with the previous year was primarily a result of a higher valuation of these option rights as of December 31, 2010. The main reasons for this were the increase in the share price at year-end (2010: €59.70; 2009: €43.46) and the share's outperformance compared with the benchmark indices.

The personnel expenses reported below are purely accounting figures which do not equate with the actual cash gains should options be exercised. The members of the Board may each 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 LTI program. The personnel expenses for the year 2010 relating to all options issued were as follows: Dr. Jürgen Hambrecht €12,171 thousand (2009: €3,666 thousand); Dr. Kurt Bock €4,919 thousand (2009: €2,480 thousand); Dr. Martin Brudermüller €4,087 thousand (2009: €1,883 thousand); Dr. Hans-Ulrich Engel €3,198 thousand (2009: €1,918 thousand); Dr. John Feldmann €5,256 thousand (2009: €1,833 thousand); Dr. Andreas Kreimeyer €3,449 thousand (2009: €1,768 thousand); Dr. Stefan Marciniowski €4,034 thousand (2009: €1,833 thousand); and Dr. Harald Schwager €3,105 thousand (2009: €901 thousand).

→ For more on the LTI program, see page 185 onward

The members of the Board are covered by loss liability insurance concluded by the company (D&O insurance) which includes a deductible.

## Pension benefits

Annual pension units are accrued for the members of the Board ("Board Performance Pension"). 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 32% (contribution factor). The resulting amount is converted into a lifelong pension using actuarial factors based on an actuarial interest rate (5%), the probability of death, invalidity and mortality (Heubeck-Richttafel, 2005G) and an assumed pension increase (1.5% per annum). This is the amount that is payable upon retirement. The variable component of the pension unit depends on the return on assets in the reporting year and the performance factor, which is also decisive for the bonus. The variable component of the pension unit is based on a ROA of 12% and on a performance factor of 1.0 at which point the variable component is equal in value to the fixed component. With regard to the return on assets, there is a linear relationship between the variable component and the ROA figures between 10% and 14%. Should the return on assets exceed 14%, the variable component levels off; should the return on assets fall below 10%, the decline accelerates. With regard to the performance factor, there is a linear relationship between the variable component of the pension unit and a goal achievement of more than 50% and less than 125%. The performance factor ranges between 0 for a goal achievement of 50% or less and 1.5 for a goal achievement of 125% and more. The fixed and the variable components together result in the 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 in the event of a claim. 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, by at least 1% annually, in accordance with 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 (former) 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 of the BASF Pensionskasse VVaG and the General Conditions of Insurance.

The service costs attributable to 2010 include costs for BASF Pensionskasse VVaG as well as for the Performance Pension and are as follows: Dr. Jürgen Hambrecht €9 thousand (2009: €58 thousand); Dr. Kurt Bock €430 thousand (2009: €163 thousand); Dr. Martin Brudermüller €414 thousand (2009: €136 thousand); Dr. Hans-Ulrich Engel €439 thousand (2009: €447 thousand); Dr. John Feldmann €236 thousand (2009: €228 thousand); Dr. Andreas Kreimeyer €456 thousand (2009: €209 thousand); Dr. Stefan Marcinowski €460 thousand (2009: €219 thousand); and Dr. Harald Schwager €420 thousand (2009: €175 thousand).

The present value of pension benefits (defined benefit obligation) is an accounting figure for the entitlements that the Board members have accumulated in their years of service at BASF. The defined benefit obligation up to and including 2010 are as follows: Dr. Jürgen Hambrecht €14,555 thousand; Dr. Kurt Bock €7,416 thousand; Dr. Martin Brudermüller €4,884 thousand; Dr. Hans-Ulrich Engel €3,862 thousand; Dr. John Feldmann €6,883 thousand; Dr. Andreas Kreimeyer €6,899 thousand; Dr. Stefan Marcinowski €7,914 thousand; and Dr. Harald Schwager €3,566 thousand.

### End of service benefits

In the event that a member of the Board of Executive Directors retires from employment before the age of 60, either because his appointment was not extended or was revoked for an important reason, he is entitled to pension benefits if he has served on the Board for at least ten years or if the time needed to reach legal retirement age is less than ten years. The company is entitled to offset compensation received for any other work done against pension benefits until the legal retirement age is reached.

The following applies to end-of-service due to 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 receive the contractually agreed payments for the remaining contractual term of office as a one-off payment (fixed compensation and variable bonus based on a return of assets of 12% as well as target achievement of 100%). Furthermore, the Board member may receive the fair value of the option rights acquired in connection with the LTI program within a period of three months or may continue to hold the existing rights under the terms of the program. For the determination of the accrued pension benefits from the "Board Performance Pension," the time up to the regular expiry of office is taken into consideration.

There is a general limit on severance pay (severance payment cap) for all Board members. 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 nor compensate more than the remaining term of the contract. The severance payment cap is to 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. If membership of the Board of Executive Directors is terminated prematurely as the result of a "Change of Control," the payments may not exceed 150% of the severance compensation cap.

### Former Board members

Total compensation for previous Board members and their surviving dependents amounted to €13.2 million in 2010 (2009: €12.3 million). This figure also contains payments that previous Board members have themselves financed through the deferred compensation program and personnel expense for the year 2010 relating to options that previous members of the Board still hold from the time of their active service period. The continuation of the options that have not yet been exercised at the time of retirement, along with the continuation of the associated holding period for individual investment in BASF shares under the conditions of the program, is intended in order to particularly emphasize how sustainability is incorporated into the compensation for the Board members. Pension provisions for previous Board members and their surviving dependents amounted to €95.4 million (2009: €87.9 million).

### Compensation of Supervisory Board members

The disclosure of compensation of the Supervisory Board is based on the 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 of BASF SE passed by the Annual Meeting.

Each member of the Supervisory Board receives an annual 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, as declared in the BASF Group Consolidated Financial Statements for the year for which the remuneration is paid, exceeds the minimum earnings per share. The minimum earnings per share figure for the year 2010 is €1.45. The performance-oriented variable remuneration is €800 for each full €0.01 of earnings per share up to an earnings per share of €2.20, €600 for each further €0.01 of earnings per share up to an earnings per share of €2.70, 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 €4.96 published in the BASF Group Consolidated Statements 2010, the performance-oriented compensation reached the maximum amount of €120,000. The chairman of the Supervisory Board receives two-and-a-half times and a deputy chairman one-and-a-half times the compensation 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 compensation for this purpose in the amount of €12,500. For the Audit Committee, the further fixed compensation shall be €25,000. The chairman of a committee shall receive twice and a deputy chairman one-and-a-half times the further fixed compensation.

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 loss liability insurance concluded by it (D&O insurance), which includes a deductible.



Total compensation of the Supervisory Board of the company for the activity in 2010, including the attendance fees, was €2.9 million (2009: €1.3 million). The compensation of the individual Supervisory Board members related to the reporting year 2010 is as follows:

#### Thousand €

	Fixed compensation		Performance-oriented variable compensation		Payment for committee membership(s)		Total compensation	
	2010	2009	2010	2009	2010	2009	2010	2009
Dr. h.c. Eggert Voscherau, Chairman of the Supervisory Board <sup>1</sup> (since April 30, 2009)	150.0	112.5	300.0	21.0	25.0	18.7	475.0	152.2
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board <sup>1</sup> (until April 30, 2009)	–	50.0	–	9.3	–	8.3	–	67.6
Michael Diekmann, Vice Chairman of the Supervisory Board <sup>2</sup>	90.0	90.0	180.0	16.8	12.5	9.4	282.5	116.2
Robert Oswald, Vice Chairman of the Supervisory Board <sup>2</sup>	90.0	90.0	180.0	16.8	12.5	12.5	282.5	119.3
Ralf-Gerd Bastian <sup>4</sup>	60.0	60.0	120.0	11.2	25.0	25.0	205.0	96.2
Wolfgang Daniel	60.0	60.0	120.0	11.2	–	–	180.0	71.2
Prof. Dr. François Diederich	60.0	60.0	120.0	11.2	–	–	180.0	71.2
Franz Fehrenbach <sup>4</sup>	60.0	60.0	120.0	11.2	25.0	25.0	205.0	96.2
Stephen K. Green (from April 30, 2009 until Dec. 16, 2010)	60.0	45.0	120.0	8.4	–	–	180.0	53.4
Dr. Tessen von Heydebreck <sup>2</sup> (until April 30, 2009)	–	20.0	–	3.7	–	4.2	–	27.9
Max Dietrich Kley <sup>3</sup>	60.0	60.0	120.0	11.2	50.0	50.0	230.0	121.2
Anke Schäferkordt (since December 17, 2010)	5.0	–	10.0	–	–	–	15.0	–
Denise Schellemans	60.0	60.0	120.0	11.2	–	–	180.0	71.2
Ralf Sikorski	60.0	60.0	120.0	11.2	–	–	180.0	71.2
Michael Vassiliadis <sup>2, 4</sup>	60.0	60.0	120.0	11.2	37.5	37.5	217.5	108.7
<b>Total:</b>	<b>875.0</b>	<b>887.5</b>	<b>1,750.0</b>	<b>165.6</b>	<b>187.5</b>	<b>190.6</b>	<b>2,812.5</b>	<b>1,243.7</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

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 2010 will be paid following the Annual Meeting on May 6, 2011.

In 2010, as in 2009, the company paid the Supervisory Board member Prof. Dr. Diederich a total of CHF38,400 (2010: approximately €27,800; 2009: approximately €25,400) 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, no other Supervisory Board members received any compensation in 2010 for services rendered personally, in particular, the rendering of advisory and agency services.

→ For more on share ownership by members of the Board of Executive Directors and the Supervisory Board, see page 121

## Report of the Supervisory Board

### Dear Shareholders,

Following a difficult year in 2009, we experienced an unexpectedly fast and strong economic recovery in 2010. This upturn is also reflected in BASF's performance, with new records for sales and earnings. This would not have been possible without the impressive work of the Board of Executive Directors and employees and the strategic decisions taken in recent years – they have made BASF robust. The company has the right strategy comprising a broad range of business areas and its future-oriented focus on fast-growing, innovative chemicals markets.

The Supervisory Board wants to make an important contribution to BASF's continued successful development by deciding on the future composition of the Board of Executive Directors. In May 2010, we decided to appoint Dr. Kurt Bock as Chairman of the Board and Dr. Martin Brudermüller as Vice Chairman. Margret Suckale and Michael Heinz were appointed as members of the Board in October 2010. This ensures BASF will continue to have a very good team to write the next chapter in its success story.

### Monitoring and consultation in an ongoing dialogue with the Board of Executive Directors

In 2010, the Supervisory Board of BASF SE exercised its duties required by law and the Statutes with the utmost care. We regularly monitored the management of the Board of Executive Directors and provided advice on the company's strategic development and important individual measures. To this end, the Supervisory Board requested detailed information from the Board of Executive Directors at six meetings, in the form of written and verbal reports. The topics included: business policies and the business situation as well as the company's performance, profitability, and planning with regard to finances, capital expenditures and human resources at BASF SE and its major subsidiaries. Deviations of business performance from the planning were also included in the information. The Supervisory Board discussed in detail the reports from the Board of Executive Directors and also discussed prospects for the company as a whole and its individual business areas with the Board of Executive Directors. The Chairman of the Supervisory Board also regularly requested information from the Chairman of the Board of Executive Directors with regard to current business developments and important events outside of Supervisory Board meetings. The Supervisory Board was always involved at an early stage in decisions of major importance. The Supervisory Board discussed and voted on all of those individual measures taken by the Board of Executive Directors, which by law or the Statutes required the approval of the Supervisory Board.

The members of the Supervisory Board elected by shareholders and those elected by the employees prepared for the meetings in separate preliminary discussions. With the exception

of two meetings where one of the 12 members was absent, all members were present at all Supervisory Board meetings in 2010.

In all of its meetings, the Supervisory Board discussed the further development of the BASF Group's business activities through acquisitions, divestitures and investment projects and advised the Board of Executive Directors on these significant questions impacting the future of the company. The major topics of discussion were the acquisition of Cognis and the plan to bring BASF's worldwide activities in the Styrenics business unit into a joint venture with Ineos. We discussed both of these projects at every Supervisory Board meeting in 2010. Another focus of our monitoring activities was once again the oil and gas business. At the meeting on July 22, 2010, following the sinking of BP's oil drilling rig Deepwater Horizon in the Gulf of Mexico, we intensively discussed risk management and risk standards related to oil and gas exploration at Wintershall, which bundles BASF's oil and gas business. At the meeting on October 21, 2010, we received a comprehensive briefing on the upcoming changes to the German Renewable Energy Sources Act (EEG) and the German Electricity Tax Act as well as the potential additional impact of these for BASF as a company with energy-intensive production. At the meeting on December 16, 2010, we discussed and approved the Board of Executive Directors' operative and financial planning for the year 2011. Furthermore, we empowered the Board of Executive Directors to procure financing under certain conditions.

Personnel issues were particularly significant in 2010. At the meeting on May 31, 2010, the Supervisory Board named Dr. Kurt Bock as Chairman of the Board of Executive Directors, effective as of the close of the Annual Meeting on May 6, 2011. He succeeds Dr. Jürgen Hambrecht, who retires from the Board of Executive Directors on this date. The Supervisory Board also named Dr. Martin Brudermüller as Vice Chairman of the Board of Executive Directors, effective May 6, 2011. To ensure the long-term effectiveness of these decisions, it was mutually agreed to shorten the current appointments of Dr. Bock and Dr. Brudermüller, which were set to expire at the Annual Meeting 2012 and Annual Meeting 2013, respectively. These appointments were terminated effective as of the close of the Annual Meeting on May 6, 2011, and the Supervisory Board reappointed these two Board members to new terms as of May 6, 2011, which expire at the close of the Annual Meeting 2016. At the meeting on October 21, 2010, we appointed Margret Suckale and Michael Heinz as members of the Board of Executive Directors, effective as of the close of the Annual Meeting on May 6, 2011, until the Annual Meeting 2014. Ms. Suckale was also named Industrial Relations Director of BASF SE. At the meeting on December 16, 2010, we extended the appointments of Board members Dr. Hans-Ulrich Engel and Dr. Harald Schwager until the Annual Meeting 2016.

## Committees

BASF SE's Supervisory Board has 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 89 (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 comprises Supervisory Board Chairman Dr. h.c. Eggert Voscherau (chairman), Supervisory Board Deputy Chairmen Michael Diekmann and Robert Oswald, as well as Supervisory Board member Michael Vassiliadis. The Personnel Committee met five times in 2010. At its meetings, sometimes with the Chairman of the Board of Executive Directors, it discussed in particular in detail the long-term succession planning for the Board of Executive Directors as well as the compensation of the Board of Executive Directors and the contents of employment contracts for the members of the Board of Executive Directors. The necessary new appointments to the Board of Executive Directors were the main topic of the discussions of the Personnel Committee. The Supervisory Board adopted the proposals recommended by the Personnel Committee at its meetings on May 31, October 21, and December 16, 2010. Furthermore, the Committee discussed and made recommendations to the Supervisory Board regarding the process of creating target agreements between the Supervisory Board and members of the Board of Executive Directors, the target agreements for the period 2010-2012 and the achievement of targets in 2010.

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 is responsible for all the tasks of an audit committee listed in Section 107 Paragraph (3) Sentence 2 of the German Stock Corporation Act and in subsection 5.3.2 of the German Corporate Governance Code from May 26, 2010. The Audit Committee met five times in 2010. The core duties were to review the Financial Statements 2009 of BASF SE as well as the Consolidated Financial Statements 2009 and to discuss the quarterly and first-half financial reports with the Board of Executive Directors prior to their publication. Other important activities included advising the Board of Executive Directors on accounting issues as well as discussing and defining the focus of the annual audit. The business relations with the auditor were regulated with the adoption of a resolution regarding the provision of non-audit services by the auditor. The committee also reached an agreement with the auditor on the auditing fees and continuously monitored the auditor's independence. In one of its meetings, the Audit Committee dealt intensively with the topic of compliance in the BASF Group following a report from the Chief Compliance Officer.

The members of the Nomination Committee are exclusively the members of the Supervisory Board elected at the Annual Meeting. These are Dr. h.c. Eggert Voscherau, Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Stephen K. Green (until December 16, 2010) and Max Dietrich Kley. The Nomination Committee is responsible for preparing candidate proposals for the election of those Supervisory Board members

who are elected by the Annual Meeting. Following Stephen K. Green's resignation from the Supervisory Board, the members of the Nomination Committee discussed his succession and recommended that the Supervisory Board nominate Ms. Anke Schäferkordt for election to the Supervisory Board at the Annual Meeting. The Nomination Committee based its recommendation on the objectives for the composition of the Supervisory Board decided by the Supervisory Board at its meeting on October 21, 2010.

## Corporate governance and Declaration of conformity

In 2010, the Supervisory Board again addressed in detail the corporate governance standards applied by BASF as well as the basic conditions in Germany as to capital market and company law. This mainly included the German Corporate Governance Code, which was once again amended to include further recommendations related to the Supervisory Board (version dated May 26, 2010). It was discussed at the meetings on October 21, and December 16, 2010. We paid particular attention to the Code's new recommendations and decided that BASF will comply with them. The main topic of discussion was the creation of objectives for the composition of the Supervisory Board to implement the recommendation in Section 5.4.1 of the German Corporate Governance Code. We approved these at the meeting on October 21, 2010. They address the knowledge, ability and expert experience required for membership on the Supervisory Board of BASF as well as the necessity of diversity in the Supervisory Board relating to a variety of professional and international experience and, in particular, the participation of women. Furthermore, the independence of the Supervisory Board shall be ensured by the avoidance of conflicts of interest.

At its meeting on December 16, 2010, 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 May 26, 2010, without exception. The complete wording of the Declaration of Conformity is provided on page 134 and is also available to shareholders on BASF's website.

The compensation report containing full details on the structure and amount of the compensation for the Board of Executive Directors and the Supervisory Board, including the pension benefits of the members of the Board of Executive Directors, can be found on pages 125 to 130.

## Annual Financial Statements of BASF SE and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditor elected by the Annual Meeting for the fiscal year 2010, has 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 (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 auditor's reports were sent in a timely manner to every member of the Supervisory Board. The auditor attended the accounts review meeting of the Audit Committee on February 23, 2011, as well as the accounts meeting of the Supervisory Board on March 3, 2011, and reported on the main findings of his audit. The auditor also provided detailed explanations of his reports on the day before the accounts meeting of the Supervisory Board.

The Audit Committee reviewed the audits and Management's Analysis at its meeting on February 23, 2011, and discussed them in detail with the auditor. The Chairman of the Audit Committee gave a detailed account of the preliminary review at the Supervisory Board meeting on March 3, 2011.

On the basis of this preliminary review by the Audit Committee, the Supervisory Board has examined the Financial Statements and Management's Analysis of BASF SE for 2010, the proposal by the Board of Executive Directors for the appropriation of profit as well as the Consolidated Financial Statements and Management's Analysis for the BASF Group for 2010. We have reviewed, acknowledged and approved the auditor's reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objection to the management and submitted reports.

At the Supervisory Board's accounts meeting on March 3, 2011, we approved the Financial Statements of BASF SE and the Consolidated Financial Statements of the BASF Group prepared by the Board of Executive Directors, 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 €2.20 per share.

## Composition of the Supervisory Board

The Supervisory Board member Stephen K. Green, elected by the Annual Meeting on April 30, 2009, resigned from the Supervisory Board effective December 16, 2010, in order to accept an appointment as the United Kingdom's Minister of State for Trade and Investment at the beginning of 2011. Upon request of the Chairman of the Supervisory Board, the Ludwigshafen district court, by decision of November 18, 2010, appointed Ms. Anke Schäferkordt to the Supervisory Board, effective December 17, 2010.

## Thanks

The Supervisory Board thanks all employees of the BASF Group worldwide and the management of the company for the work they performed in 2010.

The Supervisory Board would like to extend special thanks to Mr. Green for his work on the board.

Ludwigshafen, March 3, 2011

The Supervisory Board

## Dr. h.c. Eggert Voscherau

Chairman of the Supervisory Board

## Declaration of conformity 2010 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 5, 2009 in the official section of the electronic Federal Gazette have been complied with since the submission of the last Declaration of Conformity on December 11, 2009.

2. The recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on July 2, 2010 in the official section of the electronic Federal Gazette are complied with and will be complied with.

Ludwigshafen, dated December 16, 2010

**The Supervisory Board**  
of BASF SE

**The Board of Executive Directors**  
of BASF SE



# 4

## The fun of learning

Knowledge is an important future resource and a motor for growth and innovation. We see investment in education as part of our social responsibility. We therefore offer Kids' Labs in 17 countries and take part in projects that promote education and the fun of learning. In the growth market of Asia alone, over 14,000 children discovered the world of chemistry in our Kids' Labs in 2010.

→ For more on social commitment, see page 90





# 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 2010 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 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 23, 2011. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

Ludwigshafen, February 23, 2011



**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, Ludwigshafen am Rhein, Germany, comprising the income statement, the balance sheet, statement of recognized income and expense, cash flow statement, the development in stockholders' equity and the Notes to the Consolidated Financial Statements, together with the Management's Analysis for the business year from January 1 to December 31, 2010. 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 the 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 framework and in the Manage-

ment'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. The 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 23, 2011

KPMG AG

Wirtschaftsprüfungsgesellschaft

**PROF. DR. JOACHIM SCHINDLER**

Wirtschaftsprüfer

**HANS-DIETER KRAUSS**

Wirtschaftsprüfer

## Consolidated statements of income

### BASF Group

#### Consolidated statements of income (million €)

	Explanations in note	2010	2009
Sales	(4)	63,873	50,693
Cost of sales		45,310	36,682
<b>Gross profit on sales</b>		<b>18,563</b>	<b>14,011</b>
Selling expenses		6,700	5,667
General and administrative expenses		1,138	1,133
Research and development expenses		1,492	1,398
Other operating income	(5)	1,140	1,189
Other operating expenses	(6)	2,612	3,325
<b>Income from operations</b>	<b>(4)</b>	<b>7,761</b>	<b>3,677</b>
Income from companies accounted for using the equity method		201	61
Other income from participations		137	112
Other expenses from participations		39	40
Interest income		150	134
Interest expense		773	734
Other financial income		866	763
Other financial expenses		930	894
<b>Financial result</b>	<b>(7)</b>	<b>(388)</b>	<b>(598)</b>
<b>Income before taxes and minority interests</b>		<b>7,373</b>	<b>3,079</b>
Income taxes	(8)	2,299	1,424
<b>Income before minority interests</b>		<b>5,074</b>	<b>1,655</b>
Minority interests	(9)	517	245
<b>Net income</b>		<b>4,557</b>	<b>1,410</b>
<b>Earnings per share (€)</b>	<b>(3)</b>	<b>4.96</b>	<b>1.54</b>
Dilution effect	(3)	—	—
<b>Diluted earnings per share (€)</b>	<b>(3)</b>	<b>4.96</b>	<b>1.54</b>

## Consolidated statements of recognized income and expense

### BASF Group

#### Income and expense items (million €)

	2010	2009
<b>Income before minority interests</b>	<b>5,074</b>	<b>1,655</b>
Actuarial gains/losses and asset ceiling for defined benefit assets	(171)	(22)
Change in foreign currency translation adjustments	756	83
Fair value changes in available-for-sale securities	315	32
Cash flow hedges	(9)	206
Hedges of net investments in foreign operations	(7)	–
Revaluation due to acquisition of majority of shares	(2)	(2)
Deferred taxes	56	41
Minority interests	42	43
<b>Total income and expense recognized directly in equity</b>	<b>980</b>	<b>381</b>
<b>Total income and expense for the period</b>	<b>6,054</b>	<b>2,036</b>
Thereof BASF	5,495	1,748
minority interests	559	288

#### Development of income and expense recognized directly in equity of shareholders of BASF SE (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	Hedges of net investments in foreign operations	Revaluation due to acquisition of majority of shares	Total of other comprehensive income	
<b>As of January 1, 2010</b>	<b>(1,425)</b>	<b>(555)</b>	<b>698</b>	<b>5</b>	<b>–</b>	<b>8</b>	<b>156</b>	<b>(1,269)</b>
Additions	(171)	756	315	–	(7)	–	1,064	893
Releases	–	–	–	(9)	–	(2)	(11)	(11)
Deferred taxes	70	(11)	(4)	1	–	–	(14)	56
<b>As of December 31, 2010</b>	<b>(1,526)</b>	<b>190</b>	<b>1,009</b>	<b>(3)</b>	<b>(7)</b>	<b>6</b>	<b>1,195</b>	<b>(331)</b>
<b>As of January 1, 2009</b>	<b>(1,511)</b>	<b>(637)</b>	<b>668</b>	<b>(137)</b>	<b>–</b>	<b>10</b>	<b>(96)</b>	<b>(1,607)</b>
Additions	(22)	–	32	206	–	–	238	216
Releases	–	83	–	–	–	(2)	81	81
Deferred taxes	108	(1)	(2)	(64)	–	–	(67)	41
<b>As of December 31, 2009</b>	<b>(1,425)</b>	<b>(555)</b>	<b>698</b>	<b>5</b>	<b>–</b>	<b>8</b>	<b>156</b>	<b>(1,269)</b>

## Consolidated balance sheets

### BASF Group

#### Assets (million €)

	Explanations in note	December 31, 2010	December 31, 2009
Intangible assets	(12)	12,245	10,449
Property, plant and equipment	(13)	17,241	16,285
Investments accounted for using the equity method	(14)	1,328	1,340
Other financial assets	(14)	1,953	1,619
Deferred tax assets	(8)	1,112	1,042
Other receivables and miscellaneous long-term assets	(16)	653	946
<b>Long-term assets</b>		<b>34,532</b>	<b>31,681</b>
Inventories	(15)	8,688	6,776
Accounts receivable, trade	(16)	10,167	7,738
Other receivables and miscellaneous short-term assets	(16)	3,883	3,223
Marketable securities		16	15
Cash and cash equivalents		1,493	1,835
Assets of disposal groups	(2)	614	–
<b>Short-term assets</b>		<b>24,861</b>	<b>19,587</b>
<b>Total assets</b>		<b>59,393</b>	<b>51,268</b>

#### Stockholders' equity and liabilities (million €)

	Explanations in note	December 31, 2010	December 31, 2009
Subscribed capital	(17)	1,176	1,176
Capital surplus	(17)	3,216	3,229
Retained earnings	(18)	15,817	12,916
Other comprehensive income	(18)	1,195	156
<b>Equity of shareholders of BASF SE</b>		<b>21,404</b>	<b>17,477</b>
Minority interests	(19)	1,253	1,132
<b>Stockholders' equity</b>		<b>22,657</b>	<b>18,609</b>
Provisions for pensions and similar obligations	(20)	2,778	2,255
Other provisions	(21)	3,352	3,289
Deferred tax liabilities	(8)	2,467	2,093
Financial indebtedness	(22)	11,670	12,444
Other liabilities	(22)	901	898
<b>Long-term liabilities</b>		<b>21,168</b>	<b>20,979</b>
Accounts payable, trade		4,738	2,786
Provisions	(21)	3,324	3,276
Tax liabilities	(8)	1,140	1,003
Financial indebtedness	(22)	3,369	2,375
Other liabilities	(22)	2,802	2,240
Liabilities of disposal groups	(2)	195	–
<b>Short-term liabilities</b>		<b>15,568</b>	<b>11,680</b>
<b>Total stockholders' equity and liabilities</b>		<b>59,393</b>	<b>51,268</b>



## Consolidated statements of cash flows

### BASF Group

#### Consolidated statements of cash flows<sup>1</sup> (million €)

	2010	2009
Net income	4,557	1,410
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,393	3,740
Changes in inventories	(1,341)	1,094
Changes in receivables	(1,839)	2,065
Changes in operating liabilities and other provisions	1,500	(2,169)
Changes in pension provisions, defined benefit assets and other non-cash items	273	(394)
Net gains from disposal of long-term assets and securities	(83)	(53)
<b>Cash provided by operating activities</b>	<b>6,460</b>	<b>5,693</b>
Payments related to intangible assets and property, plant and equipment	(2,548)	(2,507)
Payments related to financial assets and securities	(480)	(641)
Payments related to acquisitions	(605)	(1,509)
Proceeds from divestitures	43	62
Proceeds from the disposal of long-term assets and securities	874	513
<b>Cash used in investing activities</b>	<b>(2,716)</b>	<b>(4,082)</b>
Capital increases/repayments and other equity transactions	(18)	(134)
Proceeds from the addition of financial liabilities	3,679	5,213
Repayment of financial liabilities	(5,974)	(5,546)
Dividends paid		
To shareholders of BASF SE	(1,561)	(1,791)
To minority shareholders	(370)	(298)
<b>Cash provided by (used in) financing activities</b>	<b>(4,244)</b>	<b>(2,556)</b>
<b>Net changes in cash and cash equivalents</b>	<b>(500)</b>	<b>(945)</b>
Effects on cash and cash equivalents		
From foreign exchange rates	86	4
From changes in scope of consolidation	72	–
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,835</b>	<b>2,776</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,493</b>	<b>1,835</b>

<sup>1</sup> More information on the Consolidated statement of cash flows can be found in the Management's Analysis (Liquidity and capital resources) from page 41 onward. Other information on cash flow can be found in Note 11 from page 166 onward.

## Consolidated statements of stockholders' equity

### BASF Group

#### Consolidated statements of stockholders' equity (million €)

	Number of subscribed shares out- standing	Subscribed capital	Capital surplus	Retained earnings	Other com- prehensive income <sup>1</sup>	Equity of share- holders of BASF SE	Minority interests	Total stock- holders' equity
<b>January 1, 2010</b>	<b>918,478,694</b>	<b>1,176</b>	<b>3,229</b>	<b>12,916</b>	<b>156</b>	<b>17,477</b>	<b>1,132</b>	<b>18,609</b>
Effects of acquisitions achieved in stages	–	–	–	–	–	–	(53)	(53)
Capital withdrawal/contribution	–	–	–	–	–	–	(18)	(18)
Dividend paid	–	–	–	(1,561)	–	(1,561)	(370) <sup>2</sup>	(1,931)
Net income	–	–	–	4,557	–	4,557	517	5,074
Income and expense recognized directly in equity	–	–	–	(101)	1,039	938	42	980
Changes in scope of consoli- dation and other changes	–	–	(13) <sup>3</sup>	6	–	(7)	3	(4)
<b>December 31, 2010</b>	<b>918,478,694</b>	<b>1,176</b>	<b>3,216</b>	<b>15,817</b>	<b>1,195</b>	<b>21,404</b>	<b>1,253</b>	<b>22,657</b>
<b>January 1, 2009</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>
Share buyback and cancellation of own shares including own shares intended to be cancelled	–	–	6	(6)	–	–	–	–
Effects of acquisitions achieved in stages	–	–	–	(28)	–	(28)	–	(28)
Capital withdrawal/contribution	–	–	–	–	–	–	(39)	(39)
Dividend paid	–	–	–	(1,791)	–	(1,791)	(298) <sup>2</sup>	(2,089)
Net income	–	–	–	1,410	–	1,410	245	1,655
Income and expense recognized directly in equity	–	–	–	86	252	338	43	381
Changes in scope of consoli- dation and other changes	–	–	(18) <sup>3</sup>	(5)	–	(23)	30	7
<b>December 31, 2009</b>	<b>918,478,694</b>	<b>1,176</b>	<b>3,229</b>	<b>12,916</b>	<b>156</b>	<b>17,477</b>	<b>1,132</b>	<b>18,609</b>

<sup>1</sup> Details are provided in the development of income and expense recognized directly in equity of shareholders of BASF SE on page 138.

<sup>2</sup> Including profit and loss transfers

<sup>3</sup> Granting of BASF shares under the employee share program "plus"

## 1 – Summary of accounting policies

### A – Group accounting principles

**Accounting standards applied:** The Consolidated Financial Statements of BASF SE as of December 31, 2010, have been prepared in accordance with International Financial Reporting Standards (IFRS) and Section 315a (1) of the German Commercial Code (HGB). The individual financial statements of the companies consolidated in the Consolidated Financial Statements of the BASF Group (hereinafter referred to as “consolidated companies”) are prepared as of the balance sheet date of the Consolidated Financial Statements. All of the binding IFRS in the fiscal year 2010 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 that have been applied are the same as those in 2009. 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 2010. A change was made to the presentation of the consolidated statements of cash flows.

→ For more information, see Note 11 from page 166 onward

On February 22, 2011, 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 its meeting on March 3, 2011.

**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 has control or directly or indirectly exercises a majority of the voting rights.

Material, jointly operated companies are included on a proportional consolidation basis.

Associated companies are accounted for using the equity method. These are companies in which the Company has a participation of at least 20% as a rule and can exercise a significant influence over the operating and financial policies.

A subsidiary whose business is dormant or of low volume and that is insignificant for the presentation of a true and fair view of the net assets, financial position and results of operations as well as the cash flows of the Company are not consolidated. These companies are carried at amortized cost and are written down in the case of an impairment. The aggregate assets and stockholders' equity of these subsidiaries amounts to less than 1% of the corresponding value at group level.

**Consolidation methods:** 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 for.

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 at the acquisition date is based on the purchase method. Initially, all assets, liabilities and additional 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 positive differences are capitalized as goodwill and are only written down in the case of impairment.

The incidental acquisition costs of a business combination are recognized in the income statement.

#### Translation of foreign currency financial statements:

The translation of foreign currency financial statements depends on the functional currency of the consolidated companies. Translation into the reporting currency is based on the closing rate method: Balance sheet items are translated into euro at closing rates on the balance sheet date; expenses and income are translated into 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 profit or loss 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.

#### Selected exchange rates

	Closing rates		Average rates	
	Dec. 31, 2010	Dec. 31, 2009	2010	2009
1 EUR equals				
Brazil (BRL)	2.22	2.51	2.33	2.77
China (CNY)	8.82	9.84	8.97	9.53
Great Britain (GBP)	0.86	0.89	0.86	0.89
Japan (JPY)	108.65	133.16	116.24	130.34
Malaysia (MYR)	4.10	4.93	4.27	4.91
Mexico (MXN)	16.55	18.92	16.74	18.80
The Russian Federation (RUB)	40.82	43.15	40.26	44.14
Switzerland (CHF)	1.25	1.48	1.38	1.51
South Korea (KRW)	1,499.06	1,666.97	1,531.82	1,772.90
United States (USD)	1.34	1.44	1.33	1.39

## B – Accounting policies

### Assets

**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 fair value less costs to sell 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.

**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 the net realizable value and value-in-use. Impairment losses are reversed accordingly if the reasons for 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 expenses.

Intangible assets with indefinite useful lives are trade names and trademarks that have been acquired as part of 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.

In addition to those costs directly attributable to the asset, costs also include an appropriate allocation of overhead cost. Borrowing costs are capitalized to the extent that they are material and relate to the period over which the asset is generated.

The weighted-average useful lives of intangible assets amounted to:

#### Average amortization in years

	2010	2009
Distribution, supply and similar rights	13	14
Product rights, licenses and trademarks	18	17
Know-how, patents and production technologies	11	9
Internally generated intangible assets	5	6
Other rights and values	5	3

**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 at fair value at the time they are credited to the electronic register run by the relevant governmental authority. Purchased emission rights are recorded at cost. Subsequently, they are measured at fair value, up to a maximum of acquisition cost. 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** is carried at cost less accumulated scheduled depreciation over their estimated useful lives and impairments. 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 a share of the administrative costs of the divisions associated with 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 of Germany.

Expenses related to scheduled maintenance turnarounds of large-scale plants are capitalized as part of the relevant asset component and depreciated using the straight-line method over the period until the next planned turnaround. The costs for the exchange of components are recognized as assets to the extent that a future additional benefit is expected. The book value of the exchanged components is derecognized. The costs for maintenance and repair as part of normal business operations are recognized as an expense.

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**

	2010	2009
Buildings and structural installations	18	19
Machinery and technical equipment	10	11
Factory, office equipment and other facilities	6	7

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. An impairment loss is recorded for the difference between the carrying amount and the value of discounted future cash flows. Impairment losses are reversed if the reasons for the impairment no longer exist.

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.

**Leases:** In accordance with 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 measured in accordance with the applicable regulations.

**Borrowing costs:** If the construction phase of property, plant and equipment extends beyond a period of one year, the interest incurred on borrowed capital 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.

**Investments in companies accounted for using the equity method:**

These investments are accounted for under the same principles as used 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, an impairment expense is recognized in the income statement.

**Inventories** are carried at cost. If the listed, market, or fair value of the sales product which forms the basis for the net realizable value is lower, this is applied and an impairment charge is recorded. 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 includes, in addition to direct costs, an appropriate allocation of production overhead costs based on normal utilization rates of the production plants, to the extent they are related to the production process. In addition, pensions, social services and voluntary social benefits are included as well as allocations for administrative costs, provided they relate to the production. Borrowing costs are not included in production costs.

Reductions of inventories result from price declines in sales products, lack of saleability and the age of inventory.

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.

**Deferred tax assets:** 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 temporary 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.

## 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, 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, for example from banks. These internal valuations predominantly use net present value method 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.

Financial assets and liabilities are divided into the following valuation categories:

- **Financial assets and liabilities that are measured at fair value and recognized in income** consist of derivatives and other trading instruments. At BASF, this valuation category only includes derivatives. Derivatives are reported in other short-term assets or other short-term liabilities. BASF does not make use of the fair value option under IAS 39. The calculation of fair values is based on market parameters or valuation methods based on such.
- **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 made 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 historical 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. Subsequently, measurement is carried out 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' and 'long-term securities.' Securities contained under the item 'marketable securities' also fall under this valuation category. Initial valuation is carried out at fair value. Changes in 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. The fair values are determined using market prices. Participations whose fair value cannot be reliably determined are carried at amortized cost and are written down in the case of an impairment. For these participations, the book values represent the best estimate of value.

In the case of available-for-sale securities, write-ups are not recognized in the income statement, but rather directly in 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 measured at fair value. This normally corresponds to the amount received. Subsequently, measurement is carried out at amortized cost, under consideration of the effective interest method.
- **Cash and cash equivalents** relate primarily to cash on hand and bank balances.

There were no reclassifications between the valuation categories in 2010 and 2009.

Revenue from interest-bearing assets is recognized on the outstanding receivables at the balance sheet date using interest rates calculated by means of 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.

Financial guarantees of the BASF Group are contracts that require deficiency payments to be made to the guarantee holder if a debtor fails to make payment when due under terms of the financial guarantee. Financial guarantees are measured at fair value upon initial recognition. In future periods, financial guarantees are carried at the higher of amortized cost and the best estimate of the present obligation on the financial reporting date.

**Cash flow hedge accounting** is applied 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 costs 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.

To hedge the translation risk from the net investment in a foreign subsidiary, BASF uses hedge accounting in individual cases (**hedge of a net investment in a foreign operation**). The effective portion is recognized in stockholders' equity. If the foreign operation is disposed of, these amounts are reclassified to profit or loss. The ineffective portion of the hedge is immediately recognized in profit or loss.

BASF does not currently hedge any fair values under fair value hedges.

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.

## Debt

**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 recognized 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 past events and these measures have not to be capitalized. Provisions for required restoration obligations 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.

→ For more information on provisions for the BASF long-term incentive program, see Note 25 from page 185 onward

The probable amount required to settle long-term obligations is discounted if the effect of discounting is material. In this case, the provision is recognized 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.

### Other accounting policies

**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, revenue is recognized after customer acceptance occurs.

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.

**Foreign currency transactions:** The cost of assets acquired in foreign currencies and revenue 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.

**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 wells as well as the associated plant and ancillary production equipment, including the associated depreciation.

Exploration expenses relate exclusively to the Oil & Gas segment. 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 for which no reserves could be proven. Scheduled depreciation of successful exploratory drilling is reported under 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 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 are to be replaced with Exploration and Production Sharing Agreements according to the EPSA-IV standard.

Provisions for required restoration obligations associated with oil and gas operations 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 restoration costs. An asset of the same value is capitalized as part of the carrying amount of the plant concerned and together they are depreciated. Interest on the provision is accrued annually until the time of the planned restoration.

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 relation to the production of the period.

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 25 years in 2010 (2009: 25 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.

Intangible assets in the Oil & Gas segment relate primarily to exploration and drilling rights. During the exploration phase, these are not subject to scheduled amortization but are tested for impairment annually. When economic success is determined, the rights are written off in accordance with the unit of production method.

**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.

→ Further information on the assets and liabilities of disposal groups can be found in Note 2 on page 156

## 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.

**Goodwill** has to be allocated to cash-generating units and tested for impairment once a year. Impairment losses are recognized 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 weighted average cost of capital (WACC) based on the "Capital Asset Pricing Model" (CAPM) plays an important role. The WACC is made up of the risk-free interest rate, the beta of the BASF share as well as assumptions as to the spread for credit risk and the market risk premium for the cost of equity. Additional important assumptions are the predictions for the detailed planning period and the terminal growth rates used.

→ For more information, see Note 12 from page 167 onward

**Intangible assets and property, plant and equipment:** The estimated useful life and depreciation method chosen are based on historical values, plans and estimates. These estimates also consider the period and distribution of future cash inflows. The depreciation and amortization methods, useful lives and residual values are reviewed at each balance sheet date.

**Impairment tests** on assets are required whenever certain triggering events indicate that an assessment is necessary. External triggering events include, for example, changes in customer industries, technologies used and economic declines. Internal triggering events for an impairment include lower product profitability, planned restructuring measures or physical damage to assets.

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 amounts. 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.

**Deferred tax assets/liabilities:** The realization of deferred tax assets depends on the future taxable profits of the respective Group companies. Corresponding 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 of the future earnings of the Group company.

→ For more information, see Note 8 from page 163 onward

**Receivables and loans** are valued at amortized cost using the effective interest method. Valuation adjustments for receivables and loans are recognized in income. Evidence for a valuation adjustment could be, for example, when the financial difficulties of a debtor become known or payment delays occur. When assessing the need for a valuation adjustment, regional and sector-specific conditions are considered. In addition, use is made of internal and external ratings as well as the assessments of debt collection agencies and credit insurers, when available. A substantial 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 written down. Receivables whose insurance includes a deductible are written down to the value of the deductible. Valuation adjustments 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 valuation adjustment decreases and the decrease can be related objectively to an event occurring after the valuation adjustment was recognized, the previously recognized valuation adjustment loss is to be reversed through profit or loss. Write-ups may not exceed the valuation adjustment.

**Pension provisions and defined benefit assets** are measured using actuarial methods, applying the following valuation parameters, among others: 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 an 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.

→ For more information on provisions for pensions and similar obligations, see Note 20 from page 176 onwards

**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.

→ For more information, see Note 24 on page 184

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 with 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 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 on the BASF Group of the IFRSs and IFRICs not yet in force or not yet endorsed by the European Union in the reporting year 2010 were reviewed:

– **IFRS 9 “Financial Instruments”** was published on November 12, 2009, as the first step in the project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces new categories and new requirements for classifying and measuring financial instruments that must be applied for periods starting January 1, 2013. The potential impact on BASF is currently being investigated.

In addition, on October 28, 2010, new requirements from IFRS 9 were published on the accounting for financial liabilities and the derecognition of financial instruments. These changes relate in particular to entities choosing to measure financial liabilities at fair value. The amendment does not have an effect on BASF.

– The revision to **IAS 24 “Related Party Disclosures”** simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for periods beginning on or after January 1, 2011. The amendment will not have a material effect on BASF.

– The amendment to **IAS 32 “Financial Instruments: Presentation”** requires that rights, options, or warrants to acquire a fixed number of an entity’s own equity instruments for a fixed amount are equity instruments. This is regardless of the currency in which the exercise price is denominated. The amendment is effective for annual periods beginning on or after February 1, 2010. The amendment will not have an effect on BASF.

– The amendment to **IFRIC 14 “Prepayments of a Minimum Funding Requirement”** applies in those cases where a company is obliged to and makes minimum funding payments to external plan assets to fulfill minimum funding requirements. The amendment is effective from January 1, 2011, and has no impact on BASF.

– **IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”** addresses the accounting by an entity that issues equity instruments in order to settle, in full or in part, a financial liability. The interpretation is mandatory for periods beginning on or after July 1, 2010 and has no impact on BASF.

Other amendments of the standards will have no material impact on BASF.

## 2 – Scope of consolidation

### A – Changes in scope of consolidation

In 2010, the scope of consolidation for the Consolidated Financial Statements encompassed 339 companies (2009: 345). Of this number, 46 companies were first-time consolidations (2009: 75). From the beginning of 2010, 52 companies were deconsolidated due to merger, sale or immateriality (2009: 23).

#### Scope of consolidation

	2010	2009
Consolidated companies as of January 1	345	293
Thereof proportionally consolidated	19	19
First-time consolidations	46	75
Thereof proportionally consolidated	2	–
Deconsolidations	52	23
Thereof proportionally consolidated	–	–
<b>Consolidated as of December 31</b>	<b>339</b>	<b>345</b>
Thereof proportionally consolidated	21	19

First-time consolidations in 2010 comprised:

- a total of 40 companies in conjunction with the acquisition of Cognis Holding GmbH;
- an additional six companies due to their increased importance, which had previously not been consolidated, registered in Germany, China, Japan and Algeria.

First-time consolidations in 2009 comprised:

- a total of 68 companies in conjunction with the acquisition of Ciba Holding AG, Basel, Switzerland;
- an additional seven companies due to their increased importance, which had previously not been consolidated, registered in Germany, Switzerland, Colombia, Argentina and Hungary.

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) of the German Commercial Code is provided in the List of Shares Held.

→ For more information, see Note 31 on page 194

## Overview of impact of changes to the scope of consolidation (excluding acquisitions and divestitures)

	2010		2009	
	Million €	%	Million €	%
<b>Sales</b>	<b>149</b>	<b>0.2</b>	<b>2</b>	<b>.</b>
Long-term assets	(146)	(0.4)	8	.
Thereof property, plant and equipment	46	0.3	7	.
Short-term assets	111	0.4	31	0.2
Thereof cash and cash equivalents	72	4.8	.	.
<b>Total assets</b>	<b>(35)</b>	<b>(0.1)</b>	<b>39</b>	<b>0.1</b>
Stockholders' equity	(126)	(0.6)	(4)	.
Long-term liabilities	25	0.1	.	.
Thereof financial indebtedness	.	.	.	.
Short-term liabilities	66	0.4	43	0.4
Thereof financial indebtedness	1	.	1	.
<b>Total stockholders' equity and liabilities</b>	<b>(35)</b>	<b>(0.1)</b>	<b>39</b>	<b>0.1</b>
Contingent liabilities and other financial obligations	28	0.4	.	.

## B – Proportionally and at equity consolidated companies

Proportionally consolidated joint ventures 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 monomers;
- BASF DOW HPPO Production B.V.B.A., Antwerp, Belgium, which is operated jointly with The Dow Chemical Company to produce propylene oxide;
- BASF-YPC Company Ltd., a joint venture between BASF and Sinopec, which operates the Verbund site in Nanjing, China;
- N.E. Chemcat Corporation<sup>1</sup>, Tokyo, Japan, which is operated jointly with Sumitomo Metal Mining. In 2010, the stake in the company was increased from 49% to 50%. Therefore, the company is now proportionally consolidated and is no longer consolidated using the equity method.

<sup>1</sup> In 2010, the stock was delisted.

In total, 14 companies were accounted for using the equity method in 2010 (2009: 17).

## Companies consolidated using the equity method

	2010	2009
Subsidiaries	5	7
Joint ventures	4	5
Other associated companies	5	5
	<b>14</b>	<b>17</b>

The following associated companies of major significance have been accounted for using the equity method:

- Solvin Group (BASF stake: 25%);
- CIMO Compagnie industrielle de Monthey S.A., Monthey, Switzerland (BASF stake: 50%);
- Heesung Catalysts Corporation, Seoul, South Korea (BASF stake: 49%);
- Nord Stream AG, Zug, Switzerland (BASF stake: 15.5%);
- OAO Severneftegazprom, Krasnoselkup, the Russian Federation (BASF stake: 25%; share of economic rewards: 35%); and
- Shanghai Lianheng Isocyanate Co. Ltd., Shanghai, China (BASF stake: 35%).

A complete listing of all proportionally consolidated companies and companies consolidated using the equity method is available in the List of Shares Held.

→ For more information, see Note 31 on page 194



## Financial information on proportionally consolidated companies (BASF stake)

Million €	2010	2009
<b>Income statement information</b>		
Sales	4,602	3,629
Income from operations	383	224
Income before taxes and minority interests	408	219
Net income	363	212
<b>Balance sheet information</b>		
Long-term assets	1,533	1,239
Thereof property, plant and equipment	1,382	1,139
Short-term assets	1,262	877
Thereof marketable securities, cash and cash equivalents	148	58
<b>Total assets</b>	<b>2,795</b>	<b>2,116</b>
Stockholders' equity	1,385	898
Long-term liabilities	426	497
Thereof financial indebtedness	237	251
Short-term liabilities	984	721
Thereof financial indebtedness	105	97
<b>Total stockholders' equity and liabilities</b>	<b>2,795</b>	<b>2,116</b>
Contingent liabilities and other financial obligations	158	138
<b>Consolidated statements of cash flows</b>		
Cash provided by operating activities	486	495
Cash used in investing activities	(213)	(221)
Cash used in financing activities	(300)	(266)
Net changes in cash and cash equivalents	(27)	8

## Financial information on companies consolidated using the equity method (complete financial statements; 100%)

Million €	2010	2009
<b>Income statement information</b>		
Sales	3,332	2,441
Income from operations	712	228
Income before taxes and minority interests	702	132
Net income	554	100
BASF's share of net income	202	42
<b>Balance sheet information</b>		
Long-term assets	7,431	4,921
Thereof property, plant and equipment	2,556	2,497
Short-term assets	1,535	1,945
Thereof marketable securities, cash and cash equivalents	559	940
<b>Total assets</b>	<b>8,966</b>	<b>6,866</b>
Stockholders' equity	3,871	3,252
Long-term liabilities	2,598	903
Thereof financial indebtedness	224	669
Short-term liabilities	2,497	2,711
Thereof financial indebtedness	1,577	958
<b>Total stockholders' equity and liabilities</b>	<b>8,966</b>	<b>6,866</b>
BASF's share of stockholders' equity	958	940

## C – Acquisitions and divestitures

### Acquisitions

In 2010, BASF acquired the specialty chemicals company Cognis Holding GmbH (Cognis), Monheim, Germany. On June 22, 2010, the sales contract was signed by BASF and the three owners of Cognis Holding Luxembourg S.à r.l. – Permira Funds, GS Capital Partners and SV Life Sciences. Following approval from all relevant antitrust authorities, BASF acquired all shares in Cognis Holding GmbH from Cognis Holding Luxembourg S.à r.l. on December 9, 2010.

Cognis is a leading worldwide supplier of innovative solutions and products based on renewable raw materials for the health and nutrition market as well as the cosmetics, detergents and cleaners industries. Another main focus is on products for a number of other industries, such as mining, lubricants, coatings as well as crop protection. The company employs about 5,500 people, and it operates production sites and service centers in 30 countries.

BASF is integrating the acquired Cognis activities into the BASF Group, mainly in the Performance Products segment. The Nutrition & Health division was set up on August 1, 2010 for this purpose. The new division comprises products and system solutions for the nutrition and health market as well as for the

fragrances and flavors industry. It combines BASF's businesses with Nutrition Ingredients, Pharma Ingredients & Services and Aroma Chemicals with the former Cognis segment Nutrition & Health. The Care Chemicals division now comprises products and solutions for cleaning, care, cosmetics and hygiene. It merges BASF's businesses Personal Care, Hygiene, Home Care and Formulation Technologies with the former Cognis segment Care Chemicals, which contained the businesses Personal Care and Home Care. The former Cognis segment Functional Products is being integrated into the Care Chemicals, Dispersions & Pigments and Performance Chemicals divisions within BASF.

The equity purchase price of the shares in Cognis held on the acquisition date amounted to €700 million, plus €4 million in interest. On the acquisition date, net financial debt of €1,806 million and pension obligations of €551 million were taken over.

The following shows an overview of the preliminary book and fair values of the acquired assets and liabilities on December 9, 2010.

#### Preliminary purchase price allocation of the acquisition of Cognis in 2010 (million €)

	Historical book value	Adjustment to fair value	Fair values at the date of acquisition
<b>Long-term assets</b>	<b>935</b>	<b>1,290</b>	<b>2,225</b>
Property, plant and equipment	588	245	833
Goodwill	144	(144)	–
Other intangible assets	50	1,251	1,301
Other long-term assets	153	(62)	91
<b>Short-term assets</b>	<b>1,071</b>	<b>117</b>	<b>1,188</b>
Inventories	424	117	541
Accounts receivable, trade	461	–	461
Cash in hand and at bank	116	–	116
Other short-term assets	70	–	70
<b>Total assets</b>	<b>2,006</b>	<b>1,407</b>	<b>3,413</b>
<b>Long-term liabilities</b>	<b>474</b>	<b>369</b>	<b>843</b>
Provision for pensions and similar obligations	399	152	551
Other provisions	32	20	52
Deferred tax liabilities	18	197	215
Other liabilities	25	–	25
<b>Short-term liabilities</b>	<b>2,453</b>	<b>(1)</b>	<b>2,452</b>
Financial indebtedness	1,920	–	1,920
Other liabilities	533	(1)	532
<b>Total liabilities</b>	<b>2,927</b>	<b>368</b>	<b>3,295</b>
Minority interests	3	–	3
<b>Net assets</b>	<b>(924)</b>	<b>1,039</b>	<b>115</b>
<b>Goodwill</b>			<b>589</b>
<b>Total purchase price</b>			<b>704</b>

Goodwill represents the assets which are not separable when conducting the purchase price allocation. It primarily relates to the employee know-how and synergies from the integration of the acquired businesses as well as the combination of functional units.

BASF expects to generate cost synergies of at least €130 million per year. In the Performance Products segment, BASF aims to grow more than two percentage points above the relevant markets and achieve an EBITDA margin of at least 20% from 2013. The integration of Cognis will contribute to achieving this goal through the realization of growth synergies.

Cognis contributed €171 million to sales and minus €50 million to net income in fiscal year 2010. The negative earnings contribution is, among other things, due to the proportionate depreciation of fair-value adjustments of inventories (step-up) as well as to one-off expenses, such as severance payments.

If Cognis had been included in BASF Group Consolidated Financial Statements as of January 1, 2010, the pro forma sales would have been €66,777 million and net income would have been €4,686 million. This pro forma information is provided for purposes of comparison and does not necessarily reflect the results had the transaction taken place on January 1, 2010. The information is not suitable for forecasting future developments and results.

The purchase price allocation for the acquisition of Cognis is preliminary, as the acquisition date was only shortly before the balance sheet date. The purchase price allocation may, in accordance with IFRS, be finalized within one year of the acquisition date.

As part of the acquisition of Cognis, BASF was subject to conditions regarding divestitures imposed by European antitrust authorities. The approval of the antitrust authorities is subject to the divestiture of businesses that accounted for sales of significantly less than €100 million, which is less than 3% of Cognis' total sales. BASF has to divest the following businesses and plants located at Cognis' site in Hythe, England:

- the Cognis hydroxy methacrylates business,
- the Cognis multifunctional methacrylates (MFM) and adducts business, and
- plants for the manufacture of polyalkylene glycols (PAG) and PAG-based lubricants. BASF will retain the business including the customer base and intellectual property rights and will receive PAG and PAG-based lubricants manufactured at Hythe through a toll manufacturing agreement. In addition, BASF will grant a license for the manufacture of these products to the purchaser of the plants.

Furthermore, BASF acquired the styrene catalysts business of CRI/Criterion, Iselin, New Jersey, on December 30, 2010.

BASF acquired the following businesses in 2009:

- BASF acquired Ciba Holding AG (Ciba), Basel, Switzerland, on April 9, 2009. Ciba, a leading global specialty chemical company, produced plastic additives, pigments and photoinitiators for numerous industrial sectors. Ciba products are also used in paper manufacturing and wastewater treatment. The purchase price for the 95.8% of the shares held on the acquisition date amounted to €2,178 million (CHF 3,314 million). On the date of acquisition, goodwill amounted to €571 million. BASF integrated the acquired Ciba activities completely into the BASF Group, predominantly into the Performance Products segment. The Consolidated Financial Statements 2009 contained some values which were preliminary as the purchase price allocation for the Ciba group had not been finalized at that time. In 2010, there were no material adjustments made to these values. The integration of Ciba was completed in 2010. The finalization of the purchase price allocation in 2010 did not lead to an adjustment to the Consolidated Financial Statements of the previous year.
- Furthermore, on July 31, 2009, BASF acquired the distribution business for construction chemical products of Rimal Engineering in Abu Dhabi, United Arab Emirates.

The following overview shows the preliminary purchase price allocations of the acquisitions conducted in 2010 and 2009.

## Effects of acquisitions in the year of acquisition

	2010		2009	
	Million €	%	Million €	%
<b>Long-term assets</b>	<b>2,830</b>	<b>8.2</b>	<b>3,559</b>	<b>11.2</b>
Goodwill	589	10.0	571	11.3
Other intangible assets	1,317	20.7	1,099	20.4
Property, plant and equipment	833	4.8	1,766	10.8
Financial assets	19	0.6	(315)	(10.6)
Other assets	72	4.1	438	22.0
<b>Short-term assets</b>	<b>1,189</b>	<b>4.8</b>	<b>2,009</b>	<b>10.3</b>
Thereof cash and cash equivalents	116	7.8	241	13.1
<b>Total assets</b>	<b>4,019</b>	<b>6.8</b>	<b>5,568</b>	<b>10.9</b>
<b>Stockholders' equity</b>	<b>3</b>	<b>.</b>	<b>93</b>	<b>0.5</b>
<b>Long-term liabilities</b>	<b>843</b>	<b>4.0</b>	<b>2,788</b>	<b>13.3</b>
Thereof financial indebtedness	1	.	1,176	9.5
<b>Short-term liabilities</b>	<b>2,452</b>	<b>15.7</b>	<b>936</b>	<b>8.0</b>
Thereof financial indebtedness	1,920	57.0	4	0.2
<b>Total stockholders' equity and liabilities</b>	<b>3,298</b>	<b>5.6</b>	<b>3,817</b>	<b>7.4</b>
<b>Payments for acquisitions</b>	<b>721</b>		<b>1,751</b>	

## Divestitures

In 2010, BASF divested the following activities:

- On December 1, 2010, the disposal was completed of the business with iron oxides, marketed under the name Sicovits, to Rockwood Italia S.p.a. Iron oxides are used in cosmetic and pharmaceutical products as well as in dietary supplements. The activities had been allocated to the Care Chemicals division.
- On November 22, 2010, BASF completed the disposal of the dyes and markers business to John Hogg Technical Solutions Ltd. This business included the Sudan®, Pigmoil, Somalia, Kerotect®, COVERTACE® and KeroDye® brands. The activities had been allocated to the Performance Chemicals division.
- As part of the acquisition of Ciba, BASF was subject to conditions regarding divestitures imposed by European and American antitrust authorities. In the third quarter 2010, the business with dry strength agents for the paper industry was sold on September 30, 2010. In addition, the business with starch production and modification plants was sold to Chemigate Oy. In the first quarter, BASF divested major parts of the Ciba Expert Services business to Intertek Group plc. BASF also sold its businesses with the pigments bismuthvanadate and indanthrone blue to the Dominion Colour Corporation. The latter two divestitures were to comply with conditions imposed by antitrust authorities.
- On September 28, 2010, the sale of the Pira company to the Smithers Group was completed. Pira is a provider of independent, knowledge-based information and testing services to clients in the packaging, paper and print industries.
- On June 7, 2010, BASF concluded an agreement to divest its business with hydrophilic melt additives for plastics, marketed under the brand name Irgasurf HL, to Techmer PM, based in Tennessee.

In 2009, BASF divested the following activities:

- As part of the acquisition of Ciba, BASF was subject to conditions regarding divestitures imposed by European and American antitrust authorities. By the end of 2009, the businesses with DMA3 (dimethylaminoethyl acrylate, a chemical intermediate); HALS (hindered amine light stabilizers – used in plastics) and styrene acrylic (for the paper industry) had been sold. In addition, a license agreement for the production of UV filters (light stabilizers) for skin care products was concluded.
- On March 12, 2009, BASF sold its thick films and ceramic colors business, used in electronics and decorative applications, to Heraeus.
- On April 1, 2009, BASF sold its powder coatings business for home appliances, heating and pipe coatings including the production plant in Verbania, Italy to Arsonsisi S.p.A., the powder coatings branch of the Italian Junghanns Group. In addition, on December 31, 2009, BASF divested the site in Ako, Japan and the associated business with marine coatings to Kansai Paint, Co. Ltd.
- On July 31, 2009, BASF concluded the sale of site for the production of process catalysts in Nanjing, China to Süd-Chemie AG. The site sold is independent of the BASF Verbund site in Nanjing. Approximately 400 employees were working at the site in the production of synthesis gas (syngas) catalysts, among other things for the production of ammonia and methanol.
- In the course of 2009, BASF sold further parts of the premix business, including sites in Spain and France. Premixes are a mixture of vitamins and feed additives for animal nutrition.

– The restructuring of the Styrenics division continued with two further divestitures in the styrene value chain. On September 30, 2009, BASF concluded the sale of the polystyrene business in Brazil, including the production plants, to Companhia Brasileira de Estireno (CBE), a subsidiary of Unigel. In addition, on August 18, 2009, BASF sold a styrene monomer plant in Ulsan, South Korea, to SK Energy, a South Korean refining company.

The following shows the effects of the divestitures in 2010 and 2009 on the consolidated balance sheet. The decline in sales caused by the divestitures compared with the previous year is shown. The impact on stockholders' equity relates mainly to disposal gains and losses from divestitures. Any expenditures for restructuring measures connected with divestitures are not included.

#### Effects of divestitures in the year of divestiture

	2010		2009	
	Million €	%	Million €	%
<b>Sales</b>	<b>(58)</b>	<b>.</b>	<b>(35)</b>	<b>(0.1)</b>
<b>Long-term assets</b>	<b>(10)</b>	<b>.</b>	<b>(27)</b>	<b>(0.1)</b>
Thereof property, plant and equipment	(9)	(0.1)	(15)	(0.1)
<b>Short-term assets</b>	<b>(19)</b>	<b>(0.1)</b>	<b>(15)</b>	<b>(0.1)</b>
Thereof cash and cash equivalents	–	–	(1)	(0.1)
<b>Total assets</b>	<b>(29)</b>	<b>.</b>	<b>(42)</b>	<b>(0.1)</b>
<b>Stockholders' equity</b>	<b>19</b>	<b>.</b>	<b>22</b>	<b>0.1</b>
<b>Long-term liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Thereof financial indebtedness	–	–	–	–
<b>Short-term liabilities</b>	<b>(5)</b>	<b>.</b>	<b>(1)</b>	<b>.</b>
Thereof financial indebtedness	–	–	–	–
<b>Total stockholders' equity and liabilities</b>	<b>14</b>	<b>.</b>	<b>21</b>	<b>.</b>
<b>Proceeds from divestitures</b>	<b>43</b>	<b>.</b>	<b>63</b>	<b>.</b>

#### Assets and liabilities of disposal groups

BASF and INEOS Industries Holdings Limited have announced their intention to combine their global business activities in styrene monomers (SM), polystyrene (PS), acrylonitrile butadiene styrene (ABS), styrene-butadiene block copolymers (SBC) and other styrene-based copolymers (SAN, AMSAN, ASA, MABS) as well as copolymer blends into a new joint venture called Styrolution.

The disposal plan covers selected assets of the styrenics business area. BASF's styrenics activities were carved out into separate companies on January 1, 2011. Until the joint venture is set up, these companies will be fully consolidated in the BASF Group.

BASF intends to contribute businesses located in Germany (Ludwigshafen, Schwarzheide), Belgium (Antwerp), South Korea (Ulsan), India (Dahej) and Mexico (Altamira) to the joint venture. BASF employs approximately 1,460 people in its styrenics business and generated sales of more than €3 billion in 2010.

BASF will retain its business with polystyrene foams, which is not part of the carve-out. The SM/PS capacities in Ludwigshafen used to produce foam will also remain with BASF as well as the SM/PS business of BASF-YPC Company Ltd., in Nanjing, China.

Styrolution will have a global presence and will offer significant benefits to its customers in the styrenics industry through enhanced efficiency, reduced costs and excellent service. BASF and INEOS will each hold 50% of the shares of the joint venture. BASF will receive a cash consideration following the completion of the transaction.

The completion of the transaction is still subject to the approval by the appropriate antitrust authorities and is expected to be finalized over the course of 2011.

The assets and liabilities have been reclassified into a disposal group. The values of the disposal group are shown in the following table.

#### Styrenics disposal group (million €)

	Dec. 31, 2010
Intangible assets	42
Property, plant and equipment	210
Inventories	266
Accounts receivable, trade	74
Other receivables and other assets	17
Cash and cash equivalents	5
<b>Assets of the disposal group</b>	<b>614</b>
Provisions for pensions and similar obligations	6
Other provisions	74
Accounts payable, trade	97
Other liabilities	18
<b>Liabilities of the disposal group</b>	<b>195</b>
<b>Net assets</b>	<b>419</b>

### 3 – Earnings per share

#### Earnings per share

		2010	2009
Net income	(million €)	4,557	1,410
<b>Number of shares</b>	<b>(1,000)</b>		
Weighted-average number of outstanding shares		918,479	918,479
<b>Earnings per share</b>	<b>(€)</b>	<b>4.96</b>	<b>1.54</b>

The calculation of earnings per share is based on the average number of common shares outstanding during the applicable period and the net income. 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 2010 and 2009, there were no dilutive effects.

### 4 – Reporting by segment and region

BASF's worldwide business is conducted by operating divisions that are aggregated into six segments for reporting purposes on the basis of similar products, production processes and customer industries.

Chemicals consists of the Inorganics, Petrochemicals and Intermediates divisions. Its portfolio ranges from basic chemicals to the starting materials for the production of a variety of downstream products such as plastics, coatings, detergents, medicines.

Plastics, consisting of the Performance Polymers and Polyurethanes divisions, offers a variety of engineering plastics and the associated system solutions and services.

The Performance Products segment offers innovative and specific system solutions for numerous processing industries. These include, for example, the plastics processing industry, automotive suppliers, the paper industry, refineries, users of oil-field and mining chemicals as well as leather and textiles processors. To integrate the Cognis activities, BASF established a new division in the Performance Products segment. For this reason, the Care Chemicals division was split into two divisions: The new division Nutrition & Health comprises products and system solutions for the health and nutrition market as well as for the fragrances and favors industry. The Care Chemicals division comprises products and system solutions for cleaning, care, cosmetics and hygiene. The segment now consists of the Dispersions & Pigments, Care Chemicals, Nutrition & Health, Paper Chemicals and Performance Chemicals divisions. The previous year's figures have been adjusted accordingly.

Functional Solutions comprises the Catalysts, Construction Chemicals and Coatings divisions. In this segment, we bundle tailor-made system solutions and innovative products for specific industries, in particular for the automotive, chemical and construction sectors.

The Agricultural Solutions segment corresponds to the Crop Protection division, which primarily offers crop protection products that guard against fungal diseases, insects and weeds.

Oil & Gas 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. This comprises primarily the styrenics and fertilizers businesses. In addition, the sale of raw materials, engineering and other services, rental income and leases are reported in Other.

Group corporate costs consist of the expenses for steering the BASF Group and are not allocated to the segments, but rather reported under Other.

With our cross-divisional corporate research, which is also reported under Other, we develop growth clusters and ensure the long-term competence of BASF with regard to technology and methods.

Earnings from currency conversion reported under Other include earnings not allocated to the segments from the hedging of forecasted sales, from currency positions that are macrohedged as well as from the conversion of financial liabilities. In addition, Other also includes income and expenses from the BASF long-term incentive program (LTI program) as well as the results of the hedging of raw material price risks that were not allocated to the segments.

Transfers between the segments are almost always executed at market-based prices. The allocation of assets and depreciation to the segments is based on economic control. Assets used by more than one segment are allocated based on the percentage of usage.



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

	2010	2009
Corporate research costs	(323)	(319)
Costs of the corporate center	(226)	(209)
Styrenics, fertilizers, other businesses	400	339
Foreign currency results, hedging and other measurement effects	(460)	(512)
Miscellaneous income and expenses	(98)	74
	<b>(707)</b>	<b>(627)</b>

Compared with the previous year, income from operations in the Styrenics business increased sharply, while it decreased significantly in the fertilizer business.

The foreign currency result of Other improved significantly compared with the previous year. Charges arising from the long-term incentive program in 2010 grew by €206 million to

€418 million compared with the previous year due to the development in the stock price.

In 2010, miscellaneous income and expenses contain charges related to closed sites among other things.

**Assets of Other** (million €)

	2010	2009
Assets of businesses included under Other	2,690	2,647
Financial assets	3,281	2,960
Deferred tax assets	1,112	1,042
Cash and cash equivalents/marketable securities	1,509	1,850
Defined benefit assets	260	549
Miscellaneous receivables/prepaid expenses	1,915	1,513
	<b>10,767</b>	<b>10,561</b>

The reconciliation reporting Oil & Gas reconciles the income from operations in the Oil & Gas segment with the contribution of the segment to the net income of the BASF Group.

The Oil & Gas segment's miscellaneous earnings relate to income and expenses not included in the income from operations of the segment, the interest result as well as the other financial result.

The increase in income from participations resulted primarily from higher profits at OAO Severneftegazprom (SNG), Krasnoselkup, the Russian Federation, which is accounted for using the equity method. SNG holds the production license to the Yuzhno Russkoye natural gas field in Western Siberia. BASF has a 35% share in the commercial success of the field. The increase in miscellaneous income related mainly to results from foreign currency hedging not allocated to the segments, which are reported in Other.

**Reconciliation reporting Oil & Gas** (million €)

	2010	2009
<b>Income from operations</b>	<b>2,334</b>	<b>2,289</b>
Income from financial assets	226	62
Miscellaneous earnings	(69)	(243)
<b>Income before taxes and minority interests</b>	<b>2,491</b>	<b>2,108</b>
Income taxes	1,340	1,223
Thereof income taxes on oil-producing operations non-compensable with German corporate income tax	983	870
<b>Income before minority interests</b>	<b>1,151</b>	<b>885</b>
Minority interests	228	173
<b>Net income</b>	<b>923</b>	<b>712</b>

## Segments 2010 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	11,377	9,830	12,288	9,703	4,033	10,791	3,819	5,851	63,873
Change (%)	51.4	37.9	31.3	36.4	10.6	(5.0)	(0.7)	27.8	26.0
Intersegmental transfers	5,476	546	438	159	25	852	41	275	7,771
Sales including intersegmental transfers	16,853	10,376	12,726	9,862	4,058	11,643	3,860	6,126	71,644
Income from operations	2,310	1,273	1,345	457	749	2,334	1,918	(707)	7,761
Change (%)	214.3	129.8	.	327.1	(2.6)	2.0	7.7	(12.8)	111.1
Assets	6,526	5,114	13,409	9,364	5,063	9,150	5,158	10,767	59,393
Thereof goodwill	22	118	1,859	2,041	1,394	389	389	50	5,873
property, plant and equipment	3,484	2,287	3,983	1,676	619	4,414	2,005	778	17,241
Debt	1,900	1,289	3,723	2,154	1,123	2,825	1,279	23,722	36,736
Research and development expenses	130	141	289	179	393	15	15	345	1,492
Additions to property, plant and equipment and intangible assets	535	250	3,000	208	145	996	478	170	5,304
Amortization of intangible assets and depreciation of property, plant and equipment	690	448	817	404	189	643	510	179	3,370
Thereof impairments	2	3	89	11	–	96	96	1	202

## Segments 2009 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	7,515	7,128	9,356	7,115	3,646	11,356	3,847	4,577	50,693
Change (%)	(32.7)	(21.8)	15.2	(24.2)	7.0	(21.4)	(27.5)	(31.2)	(18.6)
Intersegmental transfers	3,564	363	319	147	33	702	38	245	5,373
Sales including intersegmental transfers	11,079	7,491	9,675	7,262	3,679	12,058	3,885	4,822	56,066
Income from operations	735	554	(150)	107	769	2,289	1,781	(627)	3,677
Change (%)	(46.3)	2.8	.	(29.1)	9.1	(40.5)	(46.3)	31.3	(43.1)
Assets	5,688	4,530	9,242	8,265	4,681	8,301	4,997	10,561	51,268
Thereof goodwill	22	115	1,214	1,894	1,366	389	389	69	5,069
property, plant and equipment	3,446	2,353	3,390	1,514	592	3,980	1,930	1,010	16,285
Debt	1,384	1,053	2,412	2,003	1,046	2,669	1,516	22,092	32,659
Research and development expenses	129	126	285	163	355	13	13	327	1,398
Additions to property, plant and equipment and intangible assets	482	249	3,753	174	183	1,012	647	119	5,972
Amortization of intangible assets and depreciation of property, plant and equipment	836	440	1,076	404	204	541	407	210	3,711
Thereof impairments	183	7	377	38	–	–	–	2	607

Regions 2010 (million €)<sup>1</sup>

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
<b>Location of customers</b>						
Sales	33,201	12,225	12,886	12,510	5,276	63,873
Change (%)	16.4	14.6	35.9	43.7	32.7	26.0
Share (%)	51.9	19.1	20.2	19.6	8.3	100.0
<b>Location of companies</b>						
Sales	35,156	25,426	13,246	11,642	3,829	63,873
Sales including interregional transfers	41,312	30,197	15,205	12,098	4,037	72,652
Income from operations	5,206	3,769	1,107	1,271	177	7,761
Assets	35,494	21,494	11,885	8,411	3,603	59,393
Thereof property, plant and equipment	10,134	6,424	3,569	2,853	685	17,241
Additions to property, plant and equipment and intangible assets	3,364	2,273	981	788	171	5,304
Amortization of intangible assets and depreciation of property, plant and equipment	2,137	1,140	697	432	104	3,370
Employees as of December 31	69,809	50,801	16,487	15,965	6,879	109,140

## Regions 2009 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
<b>Location of customers</b>						
Sales	28,532	10,666	9,480	8,706	3,975	50,693
Change (%)	(22.2)	(22.7)	(21.0)	(6.6)	(7.4)	(18.6)
Share (%)	56.2	21.0	18.7	17.2	7.9	100.0
<b>Location of companies</b>						
Sales	30,375	21,543	9,404	7,997	2,917	50,693
Sales including interregional transfers	34,393	24,729	10,564	8,263	3,164	56,384
Income from operations	2,390	1,855	503	503	281	3,677
Assets	31,994	18,790	10,177	6,392	2,705	51,268
Thereof property, plant and equipment	9,789	6,006	3,352	2,526	618	16,285
Additions to property, plant and equipment and intangible assets	4,194	2,101	1,123	521	134	5,972
Amortization of intangible assets and depreciation of property, plant and equipment	2,429	1,242	750	428	104	3,711
Employees as of December 31	67,621	48,586	16,027	14,817	6,314	104,779

<sup>1</sup> The regional classification of some Central American countries has been changed. The previous year's figures have been adjusted accordingly.

## 5 – Other operating income

Million €	2010	2009
Reversal and adjustment of provisions	244	348
Revenue from miscellaneous revenue-generating activities	142	116
Income from foreign currency and hedging transactions	136	171
Income from the translation of financial statements in foreign currencies	76	34
Gains on the disposal of property, plant and equipment and divestitures	101	79
Write-ups of property, plant and equipment	40	–
Gains on the reversal of allowances for doubtful business-related receivables	36	77
Other	365	364
	<b>1,140</b>	<b>1,189</b>

The **reversal and adjustment of provisions** primarily related to risks arising from shutdowns and restructuring measures, employee obligations, from lawsuits and damage claims 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 were such that utilization was no longer expected or expected to a lesser extent.

**Revenue from miscellaneous revenue-generating activities** primarily represents income from rentals, property sales and logistics services.

**Income from foreign currency and hedging transactions** related to foreign currency transactions, the measurement at market value of receivables and payables in foreign currencies and currency derivatives as well as other hedging transactions.

**Income from the translation of financial statements in foreign currencies** included gains arising from the translation of subsidiaries outside of the eurozone that use the euro as the functional currency.

In 2010, **gains on the disposal of property, plant and equipment and divestitures** resulted primarily from the sale of parts of the polystyrene business, the Ciba Expert Services business and the sale of property, plant and equipment.

**Write-ups of property, plant and equipment** related to the site in Altamira, Mexico.

**Gains on the reversal of allowances for doubtful business-related receivables** resulted mainly from doubtful receivables that had been written off but that were settled in 2010.

**Other gains** comprise refunds and settlements; gains from precious metal trading and miscellaneous sales as well as a number of other items.

## 6 – Other operating expenses

Million €	2010	2009
Restructuring measures	276	548
Environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization	98	140
Amortization of intangible assets and depreciation of property, plant and equipment	247	717
Costs from miscellaneous revenue-generating activities	180	76
Expenses from foreign currency and hedging transactions as well as market valuation	512	621
Losses from the translation of the financial statements in foreign currencies	152	23
Losses from the disposal of property, plant and equipment and divestitures	24	35
Oil and gas exploration expenses	190	143
Expenses from additions to allowances for business-related receivables	107	135
Expenses from the use of inventories measured at market values and the write-off of obsolete inventory	188	359
Other	638	528
	<b>2,612</b>	<b>3,325</b>

In 2010, **restructuring measures** resulted in expenses from the Ciba acquisition of €113 million and to a lesser extent from the integration of Cognis, which was started in December 2010. The restructuring at the Grenzach site in Germany, which was decided on in 2010, resulted in expenses of €24 million. Restructuring measures in 2009 related primarily to expenses from the Ciba integration of €248 million as well as the closure and restructuring at several sites in Europe and North America.

Further expenses were related to **environmental protection and safety measures, 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.

**Amortization of intangible assets and depreciation of property, plant and equipment** in 2010 related, among other things, to impairments on property, plant and equipment and intangible assets of €40 million in connection with the restructuring at the Grenzach site. In addition, an impairment loss of €96 million was recognized on property, plant and equipment

as well as on concessions for oil and gas production in the British and Norwegian North Sea. In 2009, the amortization and depreciation of intangible assets and property, plant and equipment related, among other things, to the write-off of the SAP system of Ciba Holding AG which amounted to €176 million. Moreover, in 2009 there were additional impairment charges on intangible assets and property, plant and equipment as part of the restructuring of Ciba amounting to €86 million, and amounting to €49 million for BASF Fuel Cell GmbH, Frankfurt am Main, Germany.

**Costs from miscellaneous revenue-generating activities** refer to costs related to items shown under other operating income. → For more information, see Note 5 from page 160 onward

**Expenses from foreign currency and hedging transactions as well as market valuation** related to foreign currency transactions, the measurement at fair market value of receivables and payables in foreign currencies, currency derivatives as well as other hedging transactions. Furthermore, expenses of €418 million resulted from the long-term incentive program (LTI program) due to the higher market value of the BASF share. In 2009, expenses of €212 million resulted from the LTI program.

**Expenses from the use of inventories measured at market values and the write-off of obsolete inventory** resulted from the write-off of obsolete inventories of €126 million in 2010 and €147 million in 2009. In addition, the partial use of inventories measured at market values from the Cognis acquisition resulted in charges of €58 million. In addition, the use of inventories measured at market values from the Ciba acquisition resulted in charges of €208 million in 2009.

**Other expenses** related to the recognition of provisions for risks arising from legal disputes in relation to the closed site in Paulinia, Brazil, as well as from long-term supply contracts in South America. Further expenses related to the introduction of REACH and the recognition of provisions for anticipated losses for a supply contract of BASF SE. In addition, there were expenses resulting from numerous other items. In 2009, the line item 'other' related to the recognition of provisions of €68 million for a fine imposed by the European Commission on the former heat stabilizers business of Ciba.

## 7 – Financial result

Million €	2010	2009
<b>Income from companies accounted for using the equity method</b>	<b>201</b>	<b>61</b>
Income from participations in affiliated and associated companies	59	88
Income from the disposal of participations	48	13
Income from profit transfer agreements	24	10
Income from tax allocation to participating interests	6	1
<b>Other income from participations</b>	<b>137</b>	<b>112</b>
Losses from loss transfer agreements	(5)	(5)
Write-down of/losses from the sales of participations	(34)	(35)
<b>Other expenses from participations</b>	<b>(39)</b>	<b>(40)</b>
Interest income from cash and cash equivalents	131	106
Interest and dividend income from securities and loans	19	28
<b>Interest income</b>	<b>150</b>	<b>134</b>
<b>Interest expenses</b>	<b>(773)</b>	<b>(734)</b>
Write-ups/profits from the sale of securities and loans	1	14
Expected income from plan assets to cover pensions and similar obligations	765	675
Income from plan assets to cover other long-term employee obligations	18	16
Income from the capitalization of construction interest	65	58
Miscellaneous financial income	17	–
<b>Other financial income</b>	<b>866</b>	<b>763</b>
Write-downs/losses from the disposal of securities and loans	(5)	(12)
Interest cost on pension obligations and other similar obligations	(819)	(781)
Expenses from/interest cost on other long-term employee obligations	(47)	(46)
Interest cost on other long-term debts	(59)	(42)
Miscellaneous financial expenses	–	(13)
<b>Other financial expenses</b>	<b>(930)</b>	<b>(894)</b>
<b>Financial result</b>	<b>(388)</b>	<b>(598)</b>

**Income from companies accounted for using the equity method** grew in 2010 due particularly to the higher result at OAO Severneftegazprom.

**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 was lower in comparison with the previous year. This is primarily attributable to the higher interest expense for bonds issued in 2009.

**Miscellaneous financial income and miscellaneous financial expenses** relate to gains and losses from the translation of individually hedged receivables and payables from financing activities and the associated hedging instruments. Furthermore, these items included, among other things, expense and income from the interest cost and discounting of long-term liabilities and receivables as required by IFRS.

## 8 – Income taxes

Million €	2010	2009
German corporate income tax, solidarity surcharge, German trade taxes	616	207
Foreign income tax	1,603	1,381
Taxes for prior years	(147)	(31)
<b>Current taxes</b>	<b>2,072</b>	<b>1,557</b>
Deferred tax expense (+)/income (-)	227	(133)
<b>Income taxes</b>	<b>2,299</b>	<b>1,424</b>
Thereof income taxes on oil-producing operations	1,175	1,033
Other taxes as well as sales and consumption taxes	284	238
<b>Tax expense</b>	<b>2,583</b>	<b>1,662</b>

Income before taxes and minority interests is broken down into domestic and foreign as follows:

Million €	2010	2009
Germany	2,415	535
Foreign oil production branches of German companies	1,277	1,115
Foreign	3,681	1,429
	<b>7,373</b>	<b>3,079</b>

In Germany, a uniform corporate income tax rate of 15.0% 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 2010, the weighted average tax rate amounted to 12.8% (2009: 12.7%). 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 29.0% rate.

For foreign Group companies, deferred taxes were calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 23.1% in 2010, and 26.3% in 2009.

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. Non-compensable foreign income taxes for oil production amounted to €983 million. This calculation is based on a corporate income tax rate of 15.0%.



Other taxes include real estate taxes and other comparable taxes in the amount of €99 million in 2010 and €103 million in 2009; they are allocated to the appropriate functional costs.

Changes in valuation allowances on deferred tax assets for tax loss carryforwards resulted in a gain of €4 million in 2010 and €22 million in 2009.

#### Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2010		2009	
	Million €	%	Million €	%
Income before taxes and minority interests	7,373	—	3,079	—
Expected tax based on German corporate income tax (15%)	1,106	15.0	462	15.0
Solidarity surcharge	15	0.2	4	0.1
German trade income tax	347	4.7	119	3.9
Foreign tax-rate differential	299	4.1	146	4.7
Tax exempt income	(137)	(1.9)	(90)	(2.9)
Non-deductible expenses	71	1.0	75	2.4
Income after taxes of companies accounted for using the equity method	(30)	(0.4)	(9)	(0.3)
Taxes for prior years	(147)	(2.0)	(31)	(1.0)
Income taxes on oil-producing operations non-compensable with German corporate income tax	983	13.3	870	28.2
Deferred tax liabilities for planned dividend distributions of Group companies	77	1.1	(19)	(0.6)
Other	(285)	(3.9)	(103)	(3.3)
<b>Income taxes/effective tax rates</b>	<b>2,299</b>	<b>31.2</b>	<b>1,424</b>	<b>46.2</b>

For planned dividend distributions of Group companies, the resulting future income and withholding taxes are treated as deferred tax liabilities. An increase in the planned dividend distributions led to a deferred tax expense of €77 million in 2010.

The final tax assessment in the North American region led to a tax income for prior years of €100 million.

#### Deferred tax assets and liabilities (million €)

	Deferred tax assets		Deferred tax liabilities	
	2010	2009	2010	2009
Intangible assets	209	88	1,710	1,405
Property, plant and equipment	250	245	2,163	1,743
Financial assets	13	9	116	86
Inventories and accounts receivable	301	256	504	433
Provisions for pensions	1,278	902	529	368
Other provisions and liabilities	939	622	38	52
Tax loss carryforwards	794	927	—	—
Other	293	260	246	133
Netting	(2,839)	(2,127)	(2,839)	(2,127)
Valuation allowances for deferred tax assets	(126)	(140)	—	—
Thereof for tax loss carryforwards	(86)	(90)	—	—
<b>Total</b>	<b>1,112</b>	<b>1,042</b>	<b>2,467</b>	<b>2,093</b>
Thereof short-term	507	367	370	314

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 €3,576 million in 2010 and €6,561 million in 2009 were not recognized, as they are either not subject to taxation on payout 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 €)

	Tax loss carryforwards		Deferred tax assets	
	2010	2009	2010	2009
Germany	19	14	3	9
Foreign	3,004	3,161	705	828
	<b>3,023</b>	<b>3,175</b>	<b>708</b>	<b>837</b>

German tax losses may be carried forward indefinitely. Foreign tax loss carryforwards exist primarily in North America. These expire starting in 2021. Tax loss carryforwards in North America were reduced in 2010 as a result of high earnings.

Valuation allowances were reversed for tax loss carryforwards of €78 million (2009: €74 million).

Tax obligations are comprised of both tax liabilities and short-term tax provisions. Tax liabilities primarily concern the assessed income taxes and other taxes. Tax provisions concern estimated income taxes not yet assessed for the current and previous years.

#### Tax liabilities (million €)

	2010	2009
Tax provisions	499	431
Tax liabilities	641	572
	<b>1,140</b>	<b>1,003</b>

## 9 – Minority interests

Million €	2010	2009
Minority interests in profits	517	259
Minority interests in losses	–	14
	<b>517</b>	<b>245</b>

Minority interests in profits resulted primarily from natural gas trading companies as well as Gazprom's stake in the Wintershall subsidiary that holds production and exploration rights in Libya. Minority interests in profits were higher compared with 2009, in particular at BASF PETRONAS Chemicals Sdn. Bhd., based in Malaysia, and BASF FINA Petrochemicals Ltd. Partnership, based in the United States.

→ For more information on minority interests in consolidated companies, see Note 19 on page 176

## 10 – Other information

### Declaration of conformity in accordance with Section 161 of the German Stock Corporation Act

The annual declaration of conformity 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 16, 2010, and is published on the Internet at:

→ [basf.com/governance\\_e](http://basf.com/governance_e)

### Number of employees

On December 31, 2010, the number of employees was 109,140 (December 31, 2009: 104,779). This increase compared with 2009 resulted primarily from the acquisition of Cognis.

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 104,043 in 2010 and 103,612 in 2009.

### Personnel expenses

Personnel expenses increased by 15.8%, from €7,107 million in 2009 to €8,228 million in 2010. This resulted in particular from higher provisions for the stock price-based compensation program (long-term incentive program) and for salary components related to the success of the BASF Group as well as from the acquisition of Ciba Holding AG.

## Personnel expenses (million €)

	2010	2009
Wages and salaries	6,731	5,942
Social security contributions and expenses for pensions and assistance	1,497	1,165
Thereof for pension benefits	408	178
	<b>8,228</b>	<b>7,107</b>

Average number of employees<sup>1</sup>

	Consolidated companies		Proportionally consolidated companies		BASF Group	
	2010	2009	2010	2009	2010	2009
Europe	66,772	66,310	431	431	67,203	66,741
Thereof Germany	48,620	48,180	16	19	48,636	48,199
North America	15,517	15,822	476	460	15,993	16,282
Asia Pacific	13,776	13,788	2,137	1,993	15,913	15,781
South America, Africa, Middle East	6,456	6,250	–	–	6,456	6,250
BASF Group	102,521	102,170	3,044	2,884	105,565	105,054
Thereof with trainee contracts	2,113	2,097	3	1	2,116	2,098
employees with limited-term contracts	2,214	2,129	105	37	2,319	2,166

<sup>1</sup> The regional classification of some Central American countries has been changed. The previous year's figures have been adjusted accordingly.

## 11 – Consolidated statements of cash flows and capital structure management

## Additional information on cash flows

In 2010, changes were made to the presentation of cash flows from financing and operating activities. In connection with hedging activities for the financing of our North American business, euro are exchanged for U.S. dollars at banks. The regular renewal of these hedging transactions results in inflows or outflows in euro depending on the development of the U.S. dollar exchange rate. Until 2009, these payments were reported under cash from operating activities. Now, they are reported as changes in financial liabilities under cash from financing activities.

This change in presentation was made due to the lasting increase in volatility on the currency markets. The presentation of currency effects related to financial liabilities under cash from financing activities increases the transparency of the consolidated statements of cash flows.

In line with this change in presentation, the figures from the previous year have been adjusted accordingly. The change in presentation resulted in a decline in cash from operating activities of €577 million in favor of cash from financing activities. In 2010, this effect amounted to €382 million. This is the value by which the cash flow from operating activities improved compared with the previous classification.

Cash provided by operating activities includes the following cash flows:

Million €	2010	2009
Income tax payments	2,051	1,650
Interest payments	639	522
Dividends received	75	93

Interest payments comprise interest received of €106 million (2009: €98 million) and interest paid out of €745 million (2009: €620 million).

## 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 the cost of capital 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. The capital structure of BASF is planned and controlled using selected financial ratios, within the framework of our financial management. Stockholders' equity as reported on the balance sheet amounted to €22,657 million as of December 31, 2010 (December 31, 2009: €18,609 million). The equity ratio amounted to 38.1% on December 31, 2010 (December 31, 2009: 36.3%).

BASF prefers to access external financing via the capital markets. A commercial paper program is used for short-term financing, while corporate bonds are used for financing in the mid- and long-term. These are issued in euro and other currencies with different maturities. This ensures a balanced maturity profile and a diverse range of investors.

Currently, BASF has the following ratings:

	December 31, 2010		December 31, 2009	
	Moody's	Standard & Poor's	Moody's	Standard & Poor's
Long-term financial indebtedness	A1	A	A1	A+
Short-term financial indebtedness	P-1	A-1	P-1	A-1
Outlook	negative	stable	stable	negative

In November 2010, Moody's confirmed BASF's A1 long-term rating, however with a negative outlook. Following the June 2010 announcement of the acquisition of Cognis, Standard & Poor's lowered its long-term rating for BASF by one notch to "A" and the outlook to stable. BASF's short-term ratings were confirmed by both agencies.

BASF continues to aim for a solid A rating, which allows unrestricted access to capital markets.

## 12 – Intangible assets

The **goodwill** of BASF is allocated to 31 cash-generating units which are defined either on the basis of business units or on a higher level. The goodwill of €589 million arising from the acquisition of Cognis in 2010 was allocated to cash-generating units in the Care Chemicals, Nutrition & Health and Performance Chemicals divisions.

The annual impairment testing took place in the fourth quarter of the year on the basis of the cash-generating units. The recoverable amount was determined using the value-in-use. In doing this, the plans approved by corporate management for the next five years were used. The cash flows after the planning period are based on the last business year and extrapolated with the help of long-term growth trends. The planning is based on the experience, current performance and best possible corporate management estimates on the future development of the individual parameters such as raw material prices and profit margins. Market assumptions regarding, for example, economic development and market growth are included based on external macroeconomic sources as well as sources specific to the industry.

The weighted average cost of capital percentage after tax required for the impairment tests is determined using the Capital Asset Pricing Model. It comprises a risk-free rate, the market risk premium and the spread for the credit risk. The calculation also takes into account the volatility of the BASF share in comparison to the capital market (beta), the capital structure of the BASF Group and the average tax rate of each cash-generating unit.

The major part of goodwill amounting to €5,873 million in total (2009: €5,069 million) is allocated to the following cash-generating units: The goodwill of the Crop Protection division in the Agricultural Solutions segment amounts to €1,394 million (2009: €1,366 million). Goodwill of €1,342 million (2009: €1,253 million) and €685 million (2009: €627 million) relate to the Catalysts and Construction Chemicals divisions in the Functional Solutions segment. Goodwill of €389 million (2009: €389 million) is allocated to the Oil & Gas segment.

The impairment tests were conducted using the following assumptions: a weighted average cost of capital between 6.96% and 7.28% (2009: 7.15% to 7.64%) and a long-term growth rate between 0.0% and 2.0% (2009: 0.0% to 2.0%). In determining the value-in-use of the cash-generating units, BASF assumes that changes in those material assumptions classified as possible will not lead to the book values of the units exceeding the recoverable amount.

In 2010, the impairment tests resulted in no impairment losses on goodwill. In 2009, impairment losses of €220 million were recognized.

## Development of intangible assets 2010 (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>Cost</b>							
Balance as of January 1, 2010	3,822	1,666	1,761	128	857	5,069	13,303
Changes in scope of consolidation	34	–	(39)	–	2	–	(3)
Additions	809	93	434	15	70	589	2,010
Disposals	(71)	(90)	(184)	(55)	(190)	–	(590)
Transfers	(50)	12	(58)	(7)	45	(22)	(80)
Exchange differences	247	18	53	2	35	237	592
Balance as of December 31, 2010	4,791	1,699	1,967	83	819	5,873	15,232
<b>Amortization</b>							
Balance as of January 1, 2010	881	603	723	87	560	–	2,854
Changes in scope of consolidation	(6)	(2)	(63)	–	(1)	–	(72)
Additions	313	136	167	17	70	–	703
Disposals	(69)	(86)	(183)	(55)	(185)	–	(578)
Transfers	(32)	30	(28)	(3)	2	–	(31)
Exchange differences	53	12	19	1	26	–	111
Balance as of December 31, 2010	1,140	693	635	47	472	–	2,987
<b>Net carrying amount as of December 31, 2010</b>	<b>3,651</b>	<b>1,006</b>	<b>1,332</b>	<b>36</b>	<b>347</b>	<b>5,873</b>	<b>12,245</b>

<sup>1</sup> Including licenses on such rights and values

In connection with the Cognis acquisition and its preliminary purchase price allocation, in 2010 there were additions of €1,301 million for production technologies, brands, customer relationships and other intangible assets; goodwill amounted to €589 million.

Concessions for oil and gas production with a net carrying amount of €350 million in 2010 (2009: €453 million) convey the right to search for and produce oil and gas in certain areas. 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.

In 2010, impairments of €74 million were recognized. Impairments are reported under other operating expenses. A significant proportion of the impairment losses relate to concessions for oil and gas production in the British and Norwegian North Sea as well as intangible assets from the Ciba acquisition in 2009.

The amounts recorded under transfers resulted primarily from the reclassification of intangible assets to assets of disposal groups. → **For more on disposal groups, see Note 2 on page 156**

The revaluations of emission rights as of the balance sheet date are included in the line item transfers in the column 'Other rights and values.'

Changes in the scope of consolidation related primarily to the N.E. Chemcat Corporation, Tokyo, Japan, which was proportionally consolidated for the first time, as well as the deconsolidation of BASF Fuel Cell, Frankfurt am Main, Germany.

There were no material write-ups in 2010.

## Development of intangible assets 2009 (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>Cost</b>							
Balance as of January 1, 2009	3,366	1,518	1,632	133	1,011	4,748	12,408
Changes in scope of consolidation	1	(2)	–	–	–	–	(1)
Additions	605	185	233	12	240	571	1,846
Disposals	(58)	(14)	(111)	(16)	(375)	(222)	(796)
Transfers	–	(15)	12	–	(32)	(7)	(42)
Exchange differences	(92)	(6)	(5)	(1)	13	(21)	(112)
Balance as of December 31, 2009	3,822	1,666	1,761	128	857	5,069	13,303
<b>Amortization</b>							
Balance as of January 1, 2009	668	519	641	82	609	–	2,519
Changes in scope of consolidation	1	–	–	–	–	–	1
Additions	267	96	192	20	302	220	1,097
Disposals	(49)	(7)	(108)	(15)	(366)	(220)	(765)
Transfers	–	(1)	–	–	1	–	–
Exchange differences	(6)	(4)	(2)	–	14	–	2
Balance as of December 31, 2009	881	603	723	87	560	–	2,854
<b>Net carrying amount as of December 31, 2009</b>	<b>2,941</b>	<b>1,063</b>	<b>1,038</b>	<b>41</b>	<b>297</b>	<b>5,069</b>	<b>10,449</b>

<sup>1</sup> Including licenses on such rights and values

The acquisition of Ciba and its preliminary purchase price allocation in 2009 resulted in additions of €1,095 million for production technologies, brands, customer relationships and other intangible assets, and €571 million for goodwill.

In 2009, impairment losses of €500 million were recognized. They are reported in the line item amortization in the development of intangible assets. A significant amount of the €220 million in impairment losses related to impairment losses on goodwill. In addition, an impairment charge of €176 million was recognized for Ciba's SAP system. The closure of the Fuel Cell activities in Frankfurt led to impairment losses on know-how, technology and patents of €47 million in total.

Impairments are reported under other operating expenses.

Disposals of goodwill related to impairment losses in 2009. The amounts recorded under transfers resulted primarily from the adjustment of the preliminary purchase price allocation from the acquisition of Revus and Sorex in the financial year 2008. The revaluations 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 2009.



## 13 – Property, plant and equipment

### Development of property, plant and equipment 2010 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Construction in progress	Total
<b>Cost</b>					
Balance as of January 1, 2010	8,071	38,833	2,936	2,103	51,943
Changes in scope of consolidation	34	(2)	21	(7)	46
Additions	368	983	142	1,801	3,294
Disposals	(57)	(464)	(107)	(36)	(664)
Transfers	96	(507)	(28)	(857)	(1,296)
Exchange differences	281	1,006	81	41	1,409
Balance as of December 31, 2010	8,793	39,849	3,045	3,045	54,732
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2010	4,561	28,725	2,359	13	35,658
Changes in scope of consolidation	14	(20)	17	(7)	4
Additions	276	2,192	199	–	2,667
Disposals	(26)	(399)	(98)	–	(523)
Transfers	(12)	(1,057)	(56)	–	(1,125)
Exchange differences	105	645	61	(1)	810
Balance as of December 31, 2010	4,918	30,086	2,482	5	37,491
<b>Net carrying amount as of December 31, 2010</b>	<b>3,875</b>	<b>9,763</b>	<b>563</b>	<b>3,040</b>	<b>17,241</b>

Additions to property, plant and equipment in 2010 arose primarily from the Cognis acquisition and the associated preliminary purchase price allocation. Additions to fixed assets from the acquisition amounted to €833 million. Further investments in 2010 primarily related to: the expansion of the Ecofex/Ecovio plant in Ludwigshafen, Germany; the construction of natural gas pipelines in Europe (in particular OPAL and NEL); expansion measures at the site in Nanjing, China; construction of an oleum/sulfuric acid plant in Antwerp, Belgium; and a production plant for methylamines in Geismar, Louisiana. The amounts recorded under transfers resulted in particular from the reclassification of selected items of property, plant and equipment from the styrenics business to 'assets of disposal groups.'

→ For more on disposal groups, see Note 2 on page 156

In 2010, impairments of €128 million were recognized. Impairment charges of €68 million were recognized in connection with the restructuring of Ciba, which had been acquired in 2009, in particular at the site in Grenzach, Germany.

Changes in the scope of consolidation related primarily to the N.E. Chemcat Corporation, Tokyo, Japan, which was proportionally consolidated for the first time.

An impairment loss taken in 2008 for our site in Altamira, Mexico, was reversed in 2010 following the significantly improved business development. This €40 million reversal is contained under transfers.

## Development of property, plant and equipment 2009 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Construction in progress	Total
<b>Cost</b>					
Balance as of January 1, 2009	7,470	36,979	2,817	1,881	49,147
Changes in scope of consolidation	(7)	(3)	1	–	(9)
Additions	633	1,653	172	1,668	4,126
Disposals	(167)	(746)	(115)	(26)	(1,054)
Transfers	163	1,123	75	(1,399)	(38)
Exchange differences	(21)	(173)	(14)	(21)	(229)
Balance as of December 31, 2009	8,071	38,833	2,936	2,103	51,943
<b>Accumulated valuation adjustments</b>					
Balance as of January 1, 2009	4,427	27,357	2,325	6	34,115
Changes in scope of consolidation	(12)	(6)	–	–	(18)
Additions	281	2,142	183	8	2,614
Disposals	(128)	(695)	(105)	(1)	(929)
Transfers	(2)	27	(34)	–	(9)
Exchange differences	(5)	(100)	(10)	–	(115)
Balance as of December 31, 2009	4,561	28,725	2,359	13	35,658
<b>Net carrying amount as of December 31, 2009</b>	<b>3,510</b>	<b>10,108</b>	<b>577</b>	<b>2,090</b>	<b>16,285</b>

The acquisition of Ciba and its purchase price allocation resulted in additions to fixed assets of €1,766 million in 2009. Furthermore, in 2009 BASF undertook primarily expansion projects at our Ludwigshafen site, particularly in the syngas facility, the construction of the plant to produce cyclododecanone as well as the capacity expansion of the Ecoflex/Ecovio plant and the connection to the propylene pipeline. Furthermore, there were investments made in the resins plant in Wyandotte, Michigan; the expansion of the polyol plant in Geismar, Louisiana; the construction of the oleum/sulfuric acid plant and the expansion of the Deacon plant in Antwerp, Belgium; as well as the construction of the OPAL natural gas pipeline and the development of the natural gas fields in Norway.

Overall, €106 million in impairment losses were recognized. Impairment losses of €67 million in 2009 related to the restructuring of the acquired Ciba sites, primarily reported as special charges in the Performance Products segment.

Additional impairment losses were reported under the Chemicals segment for restructuring at the sites in Feluy, Belgium, and Frankfurt, Germany, as well as under the Functional Solutions segment at the site in Nanjing, China.

## 14 – Investments accounted for using the equity method and other financial assets

### Investments accounted for using the equity method (million €)

	2010	2009
<b>Amortized cost</b>		
Balance as of January 1	1,340	1,196
Changes in scope of consolidation	(280)	(7)
Additions	93	161
Disposals	(84)	(50)
Transfers/changes in market value	219	40
Exchange differences	40	–
Balance as of December 31	1,328	1,340
<b>Accumulated valuation adjustments</b>		
Balance as of January 1	–	50
Changes in scope of consolidation	–	–
Additions	–	–
Disposals	–	(50)
Transfers/changes in market value	–	–
Exchange differences	–	–
Balance as of December 31	–	–
<b>Net carrying amount as of December 31</b>	<b>1,328</b>	<b>1,340</b>

### Other financial assets (million €)

	2010	2009
Investments in other affiliated companies	309	276
Investments in other associated companies	86	86
Shares in other participations	1,277	965
<b>Participations</b>	<b>1,672</b>	<b>1,327</b>
Loans to affiliated companies	20	13
Loans to associated companies	105	215
Other loans	119	37
<b>Loans</b>	<b>244</b>	<b>265</b>
Long-term securities	37	27
	<b>1,953</b>	<b>1,619</b>

In 2010, the additions to investments accounted for using the equity method resulted from the increase in the share capital of Nord Stream AG. The disposals in 2010 resulted from the fact that an additional partner, GDF Suez Holding Switzerland AG, was taken on in Nord Stream AG. BASF has a stake of 15.5% and exercises significant control of Nord Stream AG as BASF's approval is required for relevant board resolutions. The decline under changes in the scope of consolidation in 2010 relates to the stake in N.E. Chemcat Corporation. This company is now proportionately consolidated following the increase in the stake.

In 2009, the additions to investments accounted for using the equity method resulted primarily from capital injections at Nord Stream AG and OAO Severneftegazprom, the additional purchase of shares in N.E. Chemcat Corporation and the addition of CIMO Compagnie industrielle de Monthey S.A. as part of the Ciba acquisition.

Shares in other participations increased in 2010 due to the increase in value of the participation in K+S AG.

At the end of 2010, impairment losses of €22 million were recognized in participations.

In 2010, the decline in loans to associated companies resulted primarily from the repayment of a loan by OAO Severneftegazprom.

## 15 – Inventories

Million €	2010	2009
Raw materials and factory supplies	2,427	1,845
Work-in-process, finished goods and merchandise	6,171	4,860
Advance payments and services-in-process	90	71
	<b>8,688</b>	<b>6,776</b>

Work-in-process and finished goods and merchandise are combined into one item due to the production conditions in the chemical industry. Services-in-process relate primarily to services not invoiced at the balance sheet date.

Inventories are valued using the weighted average cost method. Write-downs are reversed if the reasons for the write-downs no longer apply.

Inventories with a fair value of €541 million were acquired as part of the acquisition of Cognis.

In 2010, €29 million were recognized for write-downs on inventory. In 2009, reversals led to gains of €15 million. Of the total inventory, €1,520 million in 2010, and €1,346 million in 2009, were valued at net realizable value.

## 16 – Receivables and miscellaneous assets

### Other receivables and miscellaneous assets (million €)

	2010		2009	
		Thereof short-term		Thereof short-term
Receivables from affiliated companies	273	273	190	190
Prepaid expenses	181	162	182	161
Defined benefit assets	260	–	549	–
Receivables from associated companies and other participating interests	289	285	426	398
Tax refund claims	780	766	778	722
Loans and interest receivables	61	61	91	91
Derivatives with positive fair values	440	437	286	277
Employee receivables	42	27	39	24
Rents and deposits	81	19	59	18
Insurance claims	65	54	27	18
Receivables from joint venture partners	8	8	–	–
Precious metal trading positions	1,066	1,066	807	807
Other	991	725	735	517
<b>Total</b>	<b>4,537</b>	<b>3,883</b>	<b>4,169</b>	<b>3,223</b>
thereof from financing activities	1,236	1,050	1,565	1,222

Prepaid expenses include prepayments for operating expenses of €23 million in 2010, and €40 million in 2009, as well as prepayments for insurance premiums of €25 million in 2010, and €31 million in 2009.

Defined benefit assets declined primarily due to the reduction in the discount rate.

In 2010, the decrease in receivables from associated companies and other participating interests was a result of the repayment of a short-term loan to finance Nord Stream AG. 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. Higher precious metal prices in 2010 led to an increase compared with the previous year.

Derivatives with positive fair values increased, primarily due to currency effects brought about by higher fair values of USD currency options.

The Cognis acquisition resulted in additions of €72 million to other receivables and miscellaneous assets.

**Valuation allowances for doubtful receivables 2010** (million €)

	Balance as of January 1, 2010	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2010
Accounts receivable, trade	348	108	42	79	95	398
Other receivables	33	2	1	84	7	111
	<b>381</b>	<b>110</b>	<b>43</b>	<b>163</b>	<b>102</b>	<b>509</b>

**Valuation allowances for doubtful receivables 2009** (million €)

	Balance as of January 1, 2009	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2009
Accounts receivable, trade	306	124	77	34	39	348
Other receivables	25	8	–	10	10	33
	<b>331</b>	<b>132</b>	<b>77</b>	<b>44</b>	<b>49</b>	<b>381</b>

The additions to allowances for doubtful receivables recognized in profit or loss came primarily from receivables in the Agricultural Solutions and Performance Products segments in South America.

A significant portion of receivables is covered by credit insurance.

The changes 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, BASF did not note any material changes in the credit quality of its receivables. In 2010, after being individually assessed for impairment, valuation allowances of €106 million were recognized for trade accounts receivable (reversals: €36 million) and €2 million for miscellaneous receivables (reversals: €1 million). In 2009, after

being individually assessed for impairment, valuation allowances of €97 million were recognized for trade accounts receivable (reversals: €46 million) and €8 million for miscellaneous receivables. Receivables did not need to be renegotiated to any major extent in 2010 and 2009 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 €216 million on December 31, 2010 (December 31, 2009: €305 million).

**Aged list of trade accounts receivable** (million €)

	2010		2009	
	Gross value	Valuation allowances	Gross value	Valuation allowances
Not yet due	9,411	60	7,033	77
Past due less than 30 days	572	14	542	14
Past due between 30 and 89 days	151	13	168	10
Past due more than 90 days	431	311	343	247
	<b>10,565</b>	<b>398</b>	<b>8,086</b>	<b>348</b>

**Aged list of other receivables from financing activities** (million €)

	2010		2009	
	Gross value	Valuation allowances	Gross value	Valuation allowances
Not yet due	1,188	7	1,454	–
Past due less than 30 days	30	–	19	–
Past due between 30 and 89 days	1	–	83	–
Past due more than 90 days	25	1	11	2
	<b>1,244</b>	<b>8</b>	<b>1,567</b>	<b>2</b>

## 17 – Capital and reserves

### Conversion to registered shares

On April 29, 2010, the Annual Meeting voted in favor of the conversion of BASF shares from bearer shares to registered shares. The conversion took place at the beginning of August 2010. No new shares were issued as part of the conversion.

### Share buyback/own shares

In 2010, BASF SE did not buy back any company shares.

### 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 2004. BASF SE will therefore issue no more shares from conditional capital nor fulfill compensation claims.

### Authorized capital

At the Annual Meeting of April 30, 2009, shareholders authorized the Board of Executive Directors to increase the subscribed capital by issuing new shares in an amount of up to €500 million against cash with the approval of the Supervisory Board through April 30, 2014. The Board of Executive Directors is empowered, following the approval of the Supervisory Board, to decide on the exclusion of shareholders' subscription rights for these new shares in certain predefined cases covered by the enabling resolution. Until now, this option has not been exercised and no new shares have been issued.

### Capital surplus

Capital surplus includes share premiums from the issuance of shares, the consideration for warrants and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for the issue of BASF shares at par value.

## 18 – Retained earnings and other comprehensive income

Million €	2010	2009
Legal reserves	436	429
Other retained earnings	15,381	12,487
	<b>15,817</b>	<b>12,916</b>

In 2010, changes in the scope of consolidation led to a decrease in the legal reserves of €11 million. In 2009, they led to an increase in the legal reserves of €2 million. Transfers from other retained earnings raised legal reserves by €18 million in 2010 (2009: €7 million).

The acquisition of shares in companies which BASF controls is treated as transactions between shareholders. In 2010, there were no acquisitions of shares in companies which BASF controls. In 2009, minority interests were acquired in Ciba Holding AG, Basel, Switzerland, and Ciba India Ltd., Mumbai, India. The amount resulting from the difference between the acquisition price and the proportionate value of the net assets received of €28 million in 2009 was netted against retained earnings.

The offsetting of actuarial gains and losses resulted in a decrease in retained earnings of €101 million in 2010 and an increase of €86 million in 2009.

### Other comprehensive income

In accordance with 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 the net investment in a foreign operation as well as effects from the revaluation of assets and liabilities on take-over.

### Translation adjustments

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 (translation adjustments) and are recognized in the income statement 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 the income statement.



## 19 – Minority interests

Group company	Partner	2010		2009	
		Equity stake (%)	Million €	Equity stake (%)	Million €
WINGAS GmbH & Co. KG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	310	49.98	409
WINGAS TRANSPORT GmbH, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	103	49.98	16
Wintershall AG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.00	136	49.00	127
BASF India Ltd., Mumbai, India	Shares are publicly traded	28.31	46	28.82	27
BASF PETRONAS Chemicals Sdn. Bhd., Shah Alam, Malaysia	PETRONAS (Petroleum Nasional Bhd.), Kuala Lumpur, Malaysia	40.00	135	40.00	119
BASF Sonatrach PropanChem S.A., Tarragona, Spain	SONATRACH, Algiers, Algeria	49.00	49	49.00	54
BASF FINA Petrochemicals L.P., Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.00	263	40.00	162
Shanghai BASF Polyurethane Company Ltd., Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China, and Sinopec Shanghai GaoQiao Petrochemical Corporation, Shanghai, China	30.00	92	30.00	72
Other			119		146
			<b>1,253</b>		<b>1,132</b>

The contribution in kind of the long-distance pipeline grid from WINGAS GmbH & Co. KG to WINGAS TRANSPORT GmbH led to a change in the stake of the Gazprom Group in both companies.

## 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 the companies are located. To limit the risks of changing market conditions as well as demographic developments, over the last few years employees have been almost exclusively 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 employer and the return on its assets. BASF SE will ensure the necessary contributions to adequately finance the benefits promised by BASF Pensionskasse VVaG.

Some of the benefits financed via the BASF Pensionskasse VVaG are subject to adjustments that must be borne by the companies to the extent that these cannot be borne by BASF Pensionskasse VVaG due to the regulations imposed by the German supervisory authority. Additional occupational pension commitments at German Group companies are financed almost exclusively via pension provisions.

In the case of non-German subsidiaries, defined 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, which in Germany are derived from the BASF Group population.

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	
	2010	2009	2010	2009
Discount rate	5.00	5.50	4.74	5.17
Projected increase of wages and salaries	2.75	2.75	3.79	3.91
Projected pension increase	1.75	2.00	1.00	0.92

**Assumptions used to determine expenses for pension plans**  
(Weighted average in %)

	Germany		Foreign	
	2010	2009	2010	2009
Discount rate	5.50	6.00	5.17	5.59
Projected increase of wages and salaries	2.75	2.75	3.91	3.82
Projected pension increase	2.00	2.00	0.92	0.76
Expected return on plan assets	5.13	5.42	6.28	6.60

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 for North American Group companies from taking on health care and life insurance costs for retired employees and their dependents were measured using actuarial principles and are included in the overall value. The assumed rate of increase in health care costs is 8% per year (2009: 8%) until 2012, followed by a straight-line reduction until a rate of increase of 5.0% is reached in 2018 (2009: 5%). A change in the underlying rate of increase in health care costs by one percentage point would have the following effects:

**Sensitivity of health care costs (million €)**

	Increase by one percentage point	Decrease by one percentage point
Accumulated post-employment benefit obligation	13	(25)
Effect on pension cost	1	(2)

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 2010, 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	
	2011	2010	2009
Shares	25	31	27
Bonds	64	60	63
Property	5	4	5
Other	6	5	5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Development of defined benefit obligation** (million €)

	2010	2009
Defined benefit obligation as of January 1	15,264	11,814
Service cost	220	244
Interest cost	819	781
Benefits paid	(890)	(802)
Participants' contributions	53	52
Actuarial losses	941	945
Acquisition-related effects	800	2,516
Settlements and other plan changes	(96)	(251)
Exchange differences	584	(35)
<b>Defined benefit obligation as of December 31</b>	<b>17,695</b>	<b>15,264</b>

**Development of plan assets** (million €)

	2010	2009
Plan assets as of January 1	13,810	10,325
Expected return on plan assets	765	675
Actuarial gains	569	1,120
Employer contributions	181	413
Participants' contributions	53	52
Benefits paid	(801)	(516)
Acquisition-related effects	249	1,780
Other changes	(62)	(27)
Exchange differences	462	(12)
<b>Plan assets as of December 31</b>	<b>15,226</b>	<b>13,810</b>

The actual return on plan assets amounted to €1,334 million in 2010, and €1,795 million in 2009. On December 31, 2010, plan assets contained securities issued by BASF Group companies with a market value of €14 million (December 31, 2009: €11 million). The market value of the properties of legally independent pension funds rented to BASF Group companies amounted to €49 million on December 31, 2010, and €50 million on December 31, 2009.

In 2010, BASF Pensionskasse was granted a profit participation capital of €80 million to strengthen its financing. This does not represent a plan asset. To fulfill legal solvency obligations (Section 53c VAG), in 2009 a contribution of €220 million was made to the equity of BASF Pensionskasse. No material transactions took place between the legally independent pension funds and BASF Group companies in 2010.

**Reconciliation of funded status to provisions for pensions and similar obligations** (million €)

	2010	2009
Plan assets as of December 31	15,226	13,810
Less defined benefit obligation as of December 31	17,695	15,264
<b>Funded status</b>	<b>(2,469)</b>	<b>(1,454)</b>
Unrecognized past service cost	(19)	(21)
Asset ceiling in accordance with IAS 19.58	(30)	(231)
<b>Net obligation recognized on the balance sheet</b>	<b>(2,518)</b>	<b>(1,706)</b>
Thereof defined benefit assets	260	549
pension provisions	(2,778)	(2,255)

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 €372 million in 2010 and actuarial gains of

€175 million in 2009 were recognized in retained earnings. Since the introduction of this accounting policy in 2004, total actuarial losses of €2,180 million have been charged against retained earnings, not taking deferred taxes into account.

#### Current funding situation of the plans (million €)

	2010		2009	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Unfunded pension plans	2,003	–	1,467	–
Partially funded pension plans	5,130	4,374	5,069	4,302
<b>Total of pension plans that are not fully funded</b>	<b>7,133</b>	<b>4,374</b>	<b>6,536</b>	<b>4,302</b>
Fully funded pension plans	10,562	10,852	8,728	9,508
	<b>17,695</b>	<b>15,226</b>	<b>15,264</b>	<b>13,810</b>

#### Deviation between actuarial assumptions and the actual development (million €)

	2010	2009	2008	2007	2006
Defined benefit obligation	17,695	15,264	11,814	12,348	13,164
Thereof impact of experience adjustments	21	(2)	36	(172)	(112)
Plan assets	15,226	13,810	10,325	12,038	12,115
Thereof impact of experience adjustments	569	1,120	(2,163)	(121)	159
<b>Funded status</b>	<b>(2,469)</b>	<b>(1,454)</b>	<b>(1,489)</b>	<b>(310)</b>	<b>(1,049)</b>

#### Expected payments resulting from pension obligations existing as of December 31, 2010 (million €)

2011	948
2012	953
2013	984
2014	992
2015	1,021
2016 through 2020	5,767

#### Composition of expenses for pension plans (million €)

	2010	2009
Service cost	220	244
Amortization of past service cost	(2)	(3)
Settlement gains	(4)	(213)
<b>Expenses for defined benefit plans charged to income from operations</b>	<b>214</b>	<b>28</b>
Expenses for defined contribution plans charged to income from operations	194	150
<b>Expenses for pension benefits charged to income from operations</b>	<b>408</b>	<b>178</b>
Interest cost	819	781
Expected return on plan assets	(765)	(675)
<b>Expenses(+)/Income(–) from defined benefit plans in the financial result</b>	<b>54</b>	<b>106</b>

In 2010, contributions to public pension plans were €473 million (2009: €412 million).

The estimated contribution payments for defined benefit plans for 2011 are €190 million.

## 21 – Other provisions

Million €	2010		2009	
		Thereof short-term		Thereof short-term
Restoration obligations	869	5	846	2
Environmental protection and remediation costs	665	192	598	146
Employee obligations	2,043	1,380	1,442	873
Sales and purchase risks	865	828	1,088	1,050
Restructuring measures	234	214	407	392
Legal, damage claims, guarantees and related commitments	249	125	257	144
Other	1,751	580	1,927	669
	<b>6,676</b>	<b>3,324</b>	<b>6,565</b>	<b>3,276</b>

**Restoration obligations** relate to the estimated costs for the filling of wells and the removal of production equipment after the end of production.

Provisions for **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 similar measures. In addition, provisions are recognized in connection with the allocation of emissions certificates from the German Emissions Trading Authority or other similar bodies in the European Union.

The rise in provisions for environmental protection and remediation costs resulted from, among other things, the acquisition of Cognis.

Provisions for **employee obligations** include 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 eight 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 rise in short-term employee obligations was primarily due to higher provisions for variable compensation. The increase in the long-term employee obligation provisions resulted from the rise in the provision for the BASF stock price-based compensation program (long-term incentive program).

→ For more information on provisions for the long-term incentive program, see Note 25 from page 185 onward

The **sales and purchase risks** provisions include 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.

The **restructuring measures** provisions include severance payments to employees as well as expected costs for site closures, including the costs for demolition and similar measures.

As a result of restructuring measures, particularly those carried out in 2010 as part of the Ciba integration, the associated provisions decreased.

Provisions for **legal, damage claims, guarantees and related commitments** include the expected costs of litigation, obligations under damage claims, other guarantees and anti-trust proceedings.

**Other** includes long-term tax provisions, further present obligations and accruals.

**Other changes** relate to changes in the scope of consolidation, currency effects and the transfer to liabilities of obligations that have become more concrete as to amount and timing. In particular, the acquisition of Cognis led to an increase in provisions.

## Development of other provisions in 2010 (million €)

	January 1, 2010	Additions	Interest compounding	Utilization	Reversals	Other changes	December 31, 2010
Restoration obligations	846	20	37	(9)	(38)	13	869
Environmental protection and remediation costs	598	139	3	(134)	(10)	69	665
Employee obligations	1,442	1,774	15	(1,002)	(52)	(134)	2,043
Sales and purchase risks	1,088	748	5	(906)	(97)	27	865
Restructuring measures	407	78	–	(234)	(45)	28	234
Legal, damage claims, guarantees and related commitments	257	138	6	(121)	(44)	13	249
Other	1,927	764	–	(738)	(230)	28	1,751
	<b>6,565</b>	<b>3,661</b>	<b>66</b>	<b>(3,144)</b>	<b>(516)</b>	<b>44</b>	<b>6,676</b>

## 22 – Liabilities

## Financial indebtedness (million €)

	Nominal volume (million currency of issuance)	Effective interest rate	Carrying amounts based on effective interest method	
			2010	2009
3.5% Euro Bond 2003/2010 of BASF SE	1,000	3.63%	–	999
4% Euro Bond 2006/2011 of BASF SE	1,000	4.05%	1,000	999
3.375% Euro Bond 2005/2012 of BASF SE	1,400	3.42%	1,399	1,399
3.75% Euro Bond 2009/2012 of BASF SE	1,350	3.97%	1,345	1,343
4.5% Euro Bond 2006/2016 of BASF SE	500	4.62%	497	497
4.25% Euro Bond 2009/2016 of BASF SE	200	4.40%	199	198
5.875% GBP Bond 2009/2017 of BASF SE	400	6.04%	461	446
4.625% Euro Bond 2009/2017 of BASF SE	300	4.69%	299	299
3.25% CHF Bond 2008/2011 of BASF Finance Europe N.V.	300	3.39%	240	202
6% Euro Bond 2008/2013 of BASF Finance Europe N.V.	1,250	6.15%	1,245	1,244
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	1,000	5.09%	997	996
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	250	4.83%	251	252
3.625% CHF Bond 2008/2015 of BASF Finance Europe N.V.	200	3.77%	159	134
5.125% Euro Bond 2009/2015 of BASF Finance Europe N.V.	1,500	5.30%	1,489	1,488
5.125% Euro Bond 2009/2015 of BASF Finance Europe N.V.	500	4.38%	515	517
4.5% Euro Medium Term Note 2009/2016 of BASF Finance Europe N.V.	150	4.56%	150	149
USD Extendible Floating Rate Notes of BASF Finance Europe N.V.		0.33%	–	3
3.25% CHF Bond 2006/2012 of Ciba Spezialitätenchemie Finanz AG	225	3.32%	177	147
4.875% Euro Bond 2003/2018 of Ciba Spec. Chem. Finance Luxemb. S.A.	477	4.88%	401	393
USD commercial paper	1,850		1,384	487
Other bonds			696	650
<b>Bonds and other liabilities to the capital markets</b>			<b>12,904</b>	<b>12,842</b>
Liabilities to credit institutions			2,135	1,977
			<b>15,039</b>	<b>14,819</b>



**Breakdown of financial indebtedness by currency (million €)**

	2010	2009
Euro	10,980	12,063
U.S. dollar	2,177	1,254
Swiss franc	576	483
British pound	543	560
Chinese renminbi	391	336
Brazilian real	205	–
Argentinean peso	30	41
South African rand	28	–
Japanese yen	25	15
Other	84	67
	<b>15,039</b>	<b>14,819</b>

**Maturities of financial indebtedness (million €)**

	2010	2009
Following year 1	3,369	2,375
Following year 2	3,112	1,363
Following year 3	2,100	3,067
Following year 4	1,321	2,075
Following year 5	2,539	1,329
Following year 6 and thereafter	2,598	4,610
	<b>15,039</b>	<b>14,819</b>

**Bonds and other liabilities to the capital markets**

Other bonds consist primarily of industrial revenue and pollution control bonds of the BASF Corporation group that are used to finance investments in the United States. The weighted-average interest rate was 2.2% in 2010 (2009: 2.3%). The weighted-average effective interest rate was 2.2% in 2010 (2009: 2.3%). The average residual term amounted to 222 months as of December 31, 2010, and 234 months as of December 31, 2009.

**Liabilities to credit institutions**

The weighted-average interest rate on borrowings was 3.6% in 2010 (2009: 3.0%). To finance the investment in the expansion of the OPAL natural gas pipeline, €342 million was borrowed at an interest rate of 3.1% by WINGAS GmbH & Co. KG.

BASF SE had committed and unused credit lines with variable interest rates of €4,490 million as of December 31, 2010, and €4,165 million as of December 31, 2009.

**Other liabilities**

The increase in other liabilities in 2010 related, among other things, to the negative fair value of derivatives concluded to hedge against currency fluctuations and rising raw material prices.

Liabilities to companies in which participations are held include the proportionate amount of liabilities to joint venture companies accounted for using the proportional consolidation method of €195 million in 2010, and €313 million in 2009, thereof miscellaneous liabilities of €57 million in 2010, and €145 million in 2009. Further miscellaneous liabilities relating to participations accounted for using the equity or cost method were €261 million in 2010, and €188 million in 2009. In addition, miscellaneous liabilities contained precious metal derivatives with a negative fair value of €74 million as of the balance sheet date 2010 compared with €52 million in 2009.

→ For more information on financial risks and derivative financial instruments, see Note 26 from page 187 onward

→ For more information on finance lease payables, see Note 27 on page 192

**Other liabilities** (million €)

	2010		2009	
	Short-term	Long-term	Short-term	Long-term
Advances received on orders	283	–	116	–
Liabilities on bills	73	2	52	23
Liabilities related to social security	166	26	156	30
Non-trade liabilities to joint venture partners	314	433	271	437
Derivative instruments	369	7	279	–
Liabilities arising from finance leases	10	49	18	62
Employee liabilities	328	94	211	40
Accrued interest on bonds and other loans	247	–	237	–
Miscellaneous liabilities	858	87	785	124
Deferred income	154	203	115	182
	<b>2,802</b>	<b>901</b>	<b>2,240</b>	<b>898</b>

**Secured liabilities** (million €)

	2010	2009
Liabilities to credit institutions	14	8
Miscellaneous liabilities	26	37
	<b>40</b>	<b>45</b>

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 €)

	2010	2009
Bills of exchange	7	3
Thereof to affiliated companies	–	–
Guarantees	510	625
Thereof to affiliated companies	8	8
Warranties	96	73
Granting collateral on behalf of third-party liabilities	14	17
	<b>627</b>	<b>718</b>

Liabilities from guarantees were primarily due to the financial guarantee given in 2008 for the financing of OAO Severneftegazprom.

BASF has a stake of 15.5% in the project company Nord Stream AG, Zug, Switzerland, which aims to construct a natural gas pipeline through the Baltic Sea from Vyborg, the Russian Federation, to Greifswald, Germany. To finance the first of two lines, project financing was arranged in 2010. As is normal in such financing, the stockholders issued guarantees in favor of the banks giving the loans. The risk from the guarantees issued by BASF is limited to a proportionate share of the project volume. The shares in Nord Stream AG and the

subordinated loan receivables of €99 million granted to Nord Stream AG were given as collateral to the banks extending the loans. As of December 31, 2010, it is assumed that no claims will be made against these guarantees issued by BASF.

After the completion of the approval process and the laying of the first pipeline, operations will start in 2011. By 2012, a second line will be built, parallel to the first line. Upon completion of the second line in 2012, the full capacity of 55 billion cubic meters of natural gas per year will be reached.

In accordance with the provisions of Section 17 of the Republic of Ireland Companies (Amendments) Act 1986, BASF SE gives irrevocable guarantees with respect to the liabilities,

as referred to in Section 5 (c) (ii) of that Act, of the subsidiary company Cognis Ireland Limited, Dublin. As of December 31, 2010, the liabilities of Cognis Ireland totaled €11.2 million.

#### Other financial obligations (million €)

	2010	2009
Construction in progress	4,642	3,888
Thereof purchase commitments	752	556
for the purchase of intangible assets	8	57
Obligation arising from long-term leases (excluding finance leases)	1,679	1,357
Payment and loan commitments and other financial obligations	3	5
	<b>6,324</b>	<b>5,250</b>

#### Assets used under long-term leases

Assets used under long-term leases primarily concern buildings and IT infrastructure.

→ For more information on leasing liabilities, see Note 27 on page 192

#### Obligations arising from long-term leases (Excluding finance leases) (million €)

2011	521
2012	304
2013	242
2014	145
2015	116
2016 and thereafter	351
	<b>1,679</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 obligations compared with the previous year resulted in particular from higher purchase prices.

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, 2010, are as follows:

#### Purchase obligations from natural gas and raw material supply contracts (million €)

2011	10,433
2012	8,771
2013	7,817
2014	6,798
2015	6,636
2016 and thereafter	95,836
	<b>136,292</b>

## 24 – Risks from litigation and claims

Since 2005, a total of 38 class action lawsuits, among others, against BASF SE and BASF Corporation have been filed in U.S. courts. It was alleged that sales of TDI, MDI and polyether polyols had violated antitrust laws on price fixing. The class certification for the class action suits has been granted and the discovery process is currently underway. In addition, two plaintiffs are pursuing their claim outside of the class action process in parallel suits. 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.

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 2010, BASF continued its stock price-based compensation program (the long-term incentive program, or LTI program) for senior executives of the BASF Group. This program has existed since 1999. Approximately 1,100 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program. This program provides for the grant of virtual options. The options are settled in cash when exercised.

Participation in the LTI program is voluntary. The condition for taking part in the program is the participant's own investment: A participant must hold BASF shares in the amount of 10% to 30% of his or her individual variable compensation for a two-year period from the granting of the option (holding period). The number of shares to be held is determined by the amount of variable compensation and the weighted-average market price for BASF shares on the first business day after the Annual Meeting, which was €44.37 on April 30, 2010.

The participant receives four option rights per invested share. 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. The options were granted on July 1, 2010, and may be exercised following a two-year vesting period, between July 1, 2012, and June 30, 2018. 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 is limited to 10 times the original individual investment. Option rights are non-transferable and are forfeited if the option holders no longer work for BASF or have sold part of their individual investment before the expiry of the two-year holding period. They remain valid in the case of retirement.

For the members of the Board of Executive Directors, the long-term direction of the program is significantly strengthened vis-à-vis the conditions applying to the other participants. The members of the Board of Executive Directors are required to participate in the LTI program with at least 10% of their gross bonus. In view of this binding own investment (in the form of BASF shares), an extended holding period of four years applies. Under the LTI program, members of the Board of Executive Directors may only exercise their options at least four years after they have been granted (vesting period).

The 2003 to 2009 programs were structured in a similar way to the LTI program 2010.

The benchmark index used to determine the value of right B for the programs 2003 and 2004 is the Dow Jones Chemicals Total Return Index (DJ Chemicals). This index was replaced by the MSCI Chemicals starting with the 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 models used in the valuation of the option plans are based on the arbitrage-free valuation model according to Black-Scholes.

Due to the complexity of the programs, a numerical solution method was used (Monte Carlo simulation).

### Fair value of options and parameters used as of December 31, 2010<sup>1</sup>

		LTI program of the year	
		2010	2009
Fair value	€	29.15	51.44
Dividend yield	%	2.85	2.85
Risk-free interest rate	%	2.71	2.46
Volatility BASF share	%	25.76	26.45
Volatility MSCI Chemicals	%	18.71	19.30
Correlation BASF share price: MSCI Chemicals	%	80.80	80.18

<sup>1</sup> It is assumed that the options will be exercised based upon the potential gains.

On December 31, 2010, the fair values and the valuation parameters relate to the LTI programs 2010 and 2009. For the programs from preceding years, corresponding fair values were computed and valuation parameters were used.

The number of options granted amounted to 1,833,760 in 2010 (2009: 3,669,668).

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 from the programs 2003 to 2010 were valued with the fair value as of the balance sheet date December 31, 2010. This amount is accrued proportionally as a provision over the respective vesting period. This provision increased due to higher fair values of the options from €256 million as of December 31, 2009, to €411 million as of December 31, 2010. This resulted in personnel expenses of €418 million in 2010 (2009: €212 million). The utilization of provisions amounted to €263 million in 2010 (2009: €36 million).

The total intrinsic value of exercisable options amounted to €266 million as of December 31, 2010, and €165 million as of December 31, 2009.

### 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 LTI program. 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. As a rule, the first and second block of ten shares entitle the participant to receive one BASF share at no extra cost in each of 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

	2010	2009
As of January 1	3,296,361	3,054,104
Newly acquired entitlements	485,080	790,820
Bonus shares issued	(557,001)	(460,151)
Lapsed entitlements	(139,365)	(88,412)
<b>As of December 31</b>	<b>3,085,075</b>	<b>3,296,361</b>

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 €32.93 for the 2010 program, and €18.11 for the 2009 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 2001 to 2002 programs continue to be accrued proportionally on the basis of the BASF closing stock price.

Personnel expenses of €16 million were recorded in 2010 for the BASF incentive share program (2009: €20 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 from the conversion at the closing rate 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 the derivative financial instruments which are exposed to currency risks. In addition, all planned purchase and sales transactions of the respective following year are included, if they fall under the currency risk management system. Opposite positions in the same currency are offset against each other.

The sensitivity analysis is conducted by simulating a 10% depreciation in all currencies against the respective functional currency. The effect on BASF's income before taxes and minority interests would have been minus €157 million as of December 31, 2010, and minus €116 million as of December 31, 2009. The effect from the items designated under hedge accounting would have increased stockholders' equity before income taxes

by €11 million on December 31, 2010 (December 31, 2009: minus €15 million). The currency exposure amounted to €1,058 million on December 31, 2010 (December 31, 2009: €902 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.

**Interest rate risks:** Interest rate risks 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. 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 would have lowered earnings by €23 million as of December 31, 2010, and would have lowered earnings by €40 million as of December 31, 2009. The sensitivity of stockholders' equity to changes in interest rates is not material.

### Carrying amount of non-derivative interest-bearing financial instruments (million €)

	2010		2009	
	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
Loans	169	75	85	180
Securities	28	5	6	24
Financial indebtedness	13,309	1,730	12,976	1,843

### Nominal and fair value of interest rate and combined interest and cross currency swaps (million €)

	2010		2009	
	Nominal value	Fair value	Nominal value	Fair value
<b>Interest rate swaps</b>	<b>1,061</b>	<b>52</b>	<b>426</b>	<b>33</b>
Thereof payer swaps	1,061	52	426	33
<b>Combined interest and cross currency swaps</b>	<b>928</b>	<b>60</b>	<b>948</b>	<b>(1)</b>
Thereof fixed rate	920	61	934	(1)
variable rate	8	(1)	14	.

**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 €117 million on December 31, 2010 (December 31, 2009: €86 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 Natural Gas Trading business sector in the Oil & Gas segment uses commodity derivatives, primarily swaps on oil products. 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 number 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, is 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.
- In the Crop Protection division, the sales prices of products are partially coupled to the price of certain agricultural commodities. To hedge the resulting risks, derivatives on agricultural commodities are concluded.

BASF is exposed to price risks 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, BASF continually quantifies market risk and forecast the maximum possible loss within a given confidence interval over a defined period. The 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%. The value-at-risk calculation for precious metals is based on a confidence interval of 99%. BASF uses the variance-covariance approach.

BASF uses value at risk as a supplement to other risk management tools and also sets volume-based, exposure and stop loss limits.

#### Exposure to commodity derivatives (million €)

	2010		2009	
	Exposure	Value at Risk	Exposure	Value at Risk
Crude oil, oil products and natural gas	(230)	6	65	8
Precious metals	4	1	31	2
Swaps on CO <sub>2</sub> emissions certificates	3	.	4	1
Agricultural commodities	(95)	.	129	.
	<b>(318)</b>	<b>7</b>	<b>229</b>	<b>11</b>

The exposure corresponds to the net amount of all long and short positions of the respective commodity category.

→ For more information regarding financial risks and BASF's risk management, see BASF Management's Analysis, Risk report, from page 103 onward

Swaps are entered into in connection with CO<sub>2</sub> emissions trading, in which various types of CO<sub>2</sub> certificates are swapped. 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.

→ For more information on credit risks, see Note 16 from page 173 onward

#### Liquidity risks

BASF promptly recognizes any risks from cash flow fluctuations as part of the liquidity planning. BASF has ready access to sufficient liquid funds from our ongoing commercial paper program and confirmed lines of credit from banks. Even during the financial crisis, the commercial paper market was always liquid for BASF due to its solid ratings.



**Maturities of contractual cash flows from financial liabilities 2010** (million €)

	<b>Bonds and other liabilities to the capital markets</b>	<b>Liabilities to credit institutions</b>	<b>Liabilities resulting from derivative financial instruments</b>	<b>Miscellaneous liabilities</b>
2011	3,616	795	437	942
2012	3,396	235	62	80
2013	1,799	686	1	14
2014	1,518	53	–	11
2015	2,320	382	–	12
2016 and thereafter	2,819	102	7	388
	<b>15,468</b>	<b>2,253</b>	<b>507</b>	<b>1,447</b>

**Maturities of contractual cash flows from financial liabilities 2009** (million €)

	<b>Bonds and other liabilities to the capital markets</b>	<b>Liabilities to credit institutions</b>	<b>Liabilities resulting from derivative financial instruments</b>	<b>Miscellaneous liabilities</b>
2010	2,042	920	327	700
2011	1,721	187	20	51
2012	3,368	206	16	31
2013	1,798	675	–	34
2014	1,515	43	–	32
2015 and thereafter	5,041	36	7	436
	<b>15,485</b>	<b>2,067</b>	<b>370</b>	<b>1,284</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 therefore not considered.

Trade accounts payable are generally interest free and are 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 trade accounts receivable, 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 are reported in 'other financial assets.'

The carrying amount of participations which are traded on an active market and hence recognized at fair value amounted to €1,116 million on December 31, 2010 (December 31, 2009: €805 million). They are included in the item 'shares in other participations.' → **For more information, see Note 14 on page 172**

The carrying amount of financial indebtedness amounted to €15,039 million on December 31, 2010 (December 31, 2009: €14,819 million). The fair value of financial indebtedness amounted to €15,995 million at the end of 2010 (end of 2009: €15,621 million). The fair value of financial debt is determined on the basis of interbank interest rates. The difference between book and fair values results primarily from changes in market interest rates.

**Carrying value of financial instruments** (million €)

	2010	2009
Financial assets at fair value through profit or loss	396	255
Financial liabilities at fair value through profit or loss	424	328
Derivatives designated as hedging instruments under hedge accounting	2	36
Loans and receivables	12,179	9,531
Cash and cash equivalents	1,493	1,835
Available-for-sale financial assets	1,725	1,369
Liabilities measured at amortized cost	21,850	19,865
Thereof financial indebtedness	15,039	14,819

**Net gains and losses from financial instruments** (million €)

	2010	2009
Receivables and loans	(320)	(209)
Thereof interest result	65	89
Available-for-sale financial assets	7	(7)
Thereof interest result	2	1
Liabilities measured at amortized cost	(910)	(499)
Thereof interest result	(603)	(612)
Financial instruments at fair value through profit or loss	302	(361)

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 the 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 results from the translation of foreign currencies.

→ **The gains and losses from the valuation of securities and participations taken directly to equity of shareholders of BASF SE are shown in the Consolidated statements of recognized income and expense on page 138**

**The use of derivative instruments**

The Company is exposed to foreign currency, interest rate and commodity price risks during the normal course of business. In addition, financial assets are also exposed to equity price risk. These risks are hedged through a centrally determined strategy employing derivative instruments. In addition, derivative instruments are used to replace transactions in original financial instruments, such as fixed-interest securities. Hedging is only employed for underlying positions from the operating business, cash investments, financing and the net investment in a foreign operation as well as 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 is subject to strict control mechanisms.

The fair values of derivative financial instruments are calculated using valuation models which use input parameters observable on the market. The valuation of some commodity derivatives, on the other hand, is based directly on market prices. In this way, fair values of minus €24 million in 2010 (2009: minus €25 million) were determined.

## Fair value of derivative instruments (million €)

	2010	2009
Foreign currency forward contracts	(151)	(142)
Currency options	109	72
<b>Foreign currency derivatives</b>	<b>(42)</b>	<b>(70)</b>
Thereof designated hedging instrument as defined by IAS 39 (Hedge accounting)	3	1
Interest rate swaps	52	33
Combined interest and cross currency swaps	60	(1)
<b>Interest derivatives</b>	<b>112</b>	<b>32</b>
<b>Commodity derivatives</b>	<b>(96)</b>	<b>1</b>
Thereof designated hedging instrument as defined by IAS 39 (Hedge accounting)	(1)	35

## Hedge accounting

In 2010 and 2009, 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 2010, 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 the period between 2012 and 2014. In 2010, the effective changes in values over all subsidiaries balanced each other out in the stockholders' equity of the shareholders of BASF SE. In 2009, €36 million in effective changes in the fair value of hedging instruments were recognized in stockholders' equity of the shareholders of BASF SE. In 2010, €11 million was derecognized from stockholders' equity of shareholders of BASF SE and recorded as a gain in cost of sales. In 2009, there was an expense of €155 million in this regard. The ineffective part in the change in value of the hedge was €12 million in 2010 (2009: €27 million). This amount was reported in the income statement in costs of sales, in other operating income and in other operating expenses.

In 2004 and 2005, fair value changes from forward interest swaps entered into to hedge interest-rate risks 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 equity are reclassified proportionally from stockholders' equity to the income statement. In both 2010 and 2009, €8 million was derecognized from other comprehensive income and recorded as interest expense.

Cash flow hedge accounting was applied for the effects of foreign currency derivatives contained in supply contracts. The impact on earnings from the underlying transactions occurs primarily in 2011, with a smaller impact in the period between 2012 and 2014. In 2010, the effective part of the change in values of the hedges was minus €12 million (2009: €10 million), which was recognized in the stockholders' equity of shareholders of BASF SE. In 2010, the amounts derecognized from the stockholders' equity of shareholders of BASF SE increased costs of sales by €16 million. There was a reduction of €3 million in 2009 in this regard. There were no ineffective parts.

In addition, in 2010 for the first time the translation risk from an investment in a foreign operation was hedged using foreign currency forward contracts. The hedging was completely effective and reduced the stockholders' equity of shareholders of BASF SE by €7 million.

## 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 €)

	2010		2009	
	Acquisition cost	Net book value	Acquisition cost	Net book value
Land, land rights and buildings	46	29	24	12
Machinery and technical equipment	275	79	235	78
Miscellaneous equipment and fixtures	69	13	67	13
	<b>390</b>	<b>121</b>	<b>326</b>	<b>103</b>

#### Liabilities from finance leases (million €)

	2010			2009		
	Minimum lease payments	Interest portion	Leasing liability	Minimum lease payments	Interest portion	Leasing liability
Following year 1	35	8	27	23	5	17
Following year 2	25	6	19	27	4	21
Following year 3	15	3	12	16	5	14
Following year 4	12	4	8	7	2	6
Following year 5	10	2	8	6	2	3
Over 5 years	27	5	22	27	9	19
	<b>124</b>	<b>28</b>	<b>96</b>	<b>106</b>	<b>27</b>	<b>80</b>

In the current business year and in 2009, no additional lease payments arising from contractual obligations for finance leases were recognized in income above the minimum lease payments for finance leases.

In 2010, 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 €1,679 million in 2010, and €1,357 million in 2009, are due in the following years:

#### Commitments due to operating lease contracts (million €)

	Nominal value of the future minimum payments	
	December 31, 2010	December 31, 2009
Less than 1 year	521	376
1–5 years	807	632
Over 5 years	351	349
	<b>1,679</b>	<b>1,357</b>

In 2010, commitments due to operating lease contracts of less than one year included leases of precious metals of €203 million (2009: €133 million). These metals were immediately leased to third parties. Offsetting the other leasing commitments were expected minimum lease payments from sub-leases of €16 million in 2010 (2009: €13 million).

Minimum lease payments of €311 million (2009: €279 million), conditional lease payments of €1 million (2009: €2 million), and payments received from subleases of €4 million (2009: €4 million), were included in income from operations in 2010.

### 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 €18 million in 2010 and €17 million in 2009.

In 2010, nominal minimum payments arising from operating leases amounted to €222 million within one year, and €72 million for more than one year. For 2009, these figures amounted to €143 million within one year, and €40 million for more than one year.

In 2010, precious metal accounts of €706 million (2009: €578 million), were 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 €	2010	2009
Performance-related and fixed payments to the Board of Executive Directors	22.2	14.8
Market value of options granted to the Board of Executive Directors in the fiscal year on date of grant	3.5	2.8
<b>Total compensation for the Board of Executive Directors</b>	<b>25.7</b>	<b>17.6</b>
Service costs of the Board of Executive Directors	2.9	1.6
Compensation for the Supervisory Board	2.9	1.3
Total compensation for former members of the Board of Executive Directors and their surviving dependents	13.2	12.3
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	95.4	87.9
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, as well as the performance of the entire Board. Return on assets corresponds to earnings before taxes plus borrowing costs as a percentage of average assets.

Moreover, in 2010, the members of the Board of Executive Directors were granted 185,584 options under the long-term incentive program (LTI program).

The options of active and former members of the Board resulted in personnel expenses of €46.4 million in 2010. In 2009, options resulted in expenses of €20.9 million.

- For more information on the compensation of members of the Board of Executive Directors, see the Compensation report from page 125 onward
- For more information on the members of the Supervisory Board and Board of Executive Directors, including their memberships on other boards, see page 122 onward

## 29 – Related party transactions

IAS 24 “Related Party Disclosures” requires the disclosure of transactions with related parties.

A related party is a person or entity where the BASF Group can exercise influence, has control or alternatively it is a related party that can exercise significant influence over the BASF Group. In particular, this relates to non-consolidated subsidiaries, joint ventures as well as affiliated and associated companies.

The following table shows the volume of business with related parties that are consolidated at amortized cost, using the equity method or proportionally consolidated.

Million €	2010			2009		
	Sales	Accounts receivable, trade	Accounts payable, trade	Sales	Accounts receivable, trade	Accounts payable, trade
Non-consolidated subsidiaries	1,056	266	48	860	213	45
Joint ventures	536	82	145	334	67	172
Associated and affiliated companies	1,391	189	17	1,332	103	30

Sales from joint ventures related primarily to sales with Ellba C.V., Rotterdam, the Netherlands; Ellba Eastern Private Ltd., Singapore; Polioles S.A. de C.V., Lerma, Estado de Mexico, Mexico; BASF-YPC Company Ltd., Nanjing, China; Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland; and Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany. The unconsolidated portion of the sales with these companies amounted to €391 million in 2010, and €253 million in 2009.

Sales with associated and affiliated companies resulted primarily from the business with Erdgas Münster GmbH, Münster, Germany, and VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig, Germany. The unconsolidated portion of the sales with these companies amounted to €1,291 million in 2010, and €1,272 million in 2009.

There were no reportable related party transactions with members of the Board of Executive Directors or the Supervisory Board and their related parties.

BASF has not issued loans to members of the Board of Executive Directors or the Supervisory Board and their related parties.

→ For more information on subsidiaries, joint ventures, associated and affiliated companies, see the List of Shares Held of the BASF Group 2010 on page 194 below

→ For more information on the Board of Executive Directors and the Supervisory Board, see Management and Supervisory Boards and Compensation Report from page 125 onward

### 30 – Services provided by the external auditor

BASF Group companies have used the following services from KPMG:

Million €	2010	2009
Annual audit	24.5	22.7
Thereof domestic	7.6	6.6
Audit-related services	0.4	0.4
Thereof domestic	0.1	0.1
Tax consultation services	.	.
Thereof domestic	–	–
Other services	0.3	0.3
Thereof domestic	0.3	0.3
	<b>25.2</b>	<b>23.4</b>

Of this amount, €11.4 million in 2010 (2009: €10.3 million), related to fees for annual audits paid to KPMG AG Wirtschaftsprüfungsgesellschaft and its affiliated companies (which together form KPMG Europe LLP).

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.

### 31 – List of Shares Held of the BASF Group in accordance with Section 313 (2) of the German Commercial Code

#### List of Shares Held

The list of consolidated companies and the complete list of all companies in which BASF SE has a participation as required by Section 313 (2) of the German Commercial Code is an integral

component of the audited Consolidated Financial Statements submitted to the electronic Federal Gazette. It is also published on the internet at: → [basf.com/en/investor/cg](http://basf.com/en/investor/cg)



# 5

## Increasing crop yields

Warm or cold weather often determine how well a harvest turns out. It is a problem for both farmers and consumers when crops do not produce the expected yield due to difficult environmental conditions. That is why BASF is working together with Monsanto on the development of stress-tolerant crops, such as corn (maize), that are more resistant to drought. This helps farmers to increase their crop yields and conserve water at the same time.

→ For more on plant biotechnology, see page 72





# Supplementary information on oil and gas producing activities

195 Supplementary information on oil and gas producing activities

## Supplementary information on oil and gas producing activities (unaudited)

The following tables provide supplemental information on the Exploration & Production business sector of the Oil & Gas segment. In the absence of detailed disclosure rules in this area under IFRS, the Group has elected to voluntarily disclose the following information, which would have been required under SFAS No. 69 (Disclosure of Oil and Gas Producing Activities) and by the Securities and Exchange Commission. In order to present an economically meaningful reporting of the cooperation with Gazprom in the Yuzhno Russkoye project, SFAS 69 is applied with several modifications. 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 project company, which is fully consolidated, was established for these operations.

In the following overviews, BASF's stake in the project is included under 'Russia.' In addition, the values for SNG, which is accounted for using the equity method, are presented separately.

All consolidated subsidiaries are included with 100%. To the extent that other investors have a stake in these companies, their share is presented separately. This relates to a stake in a German Wintershall subsidiary which was part of the asset swap with Gazprom in 2007. This company holds the production and exploration rights to the Libyan onshore concessions 96 and 97. Due to contractual rules, the following does not include any volumes or values from the Achimgaz project.

The following table provides an overview of the most important differences between the information given for the Exploration & Production business sector in the Consolidated Financial Statement of the BASF Group and the supplemental information for the oil and gas producing activities.

	BASF reporting	Supplementary information on oil and gas activities
Other activities in Exploration & Production (e.g., merchandise transactions and joint venture services)	included	not included
Achimgaz (joint venture)	proportional consolidation (50%)	not included
Activities accounted for using the equity method (Severneftegazprom and Volgodeminoil)	earnings from the equity method included in financial result	included
Corporate overhead costs and financing costs	included	not included

The regions include the following countries with operational activities:

Region	Exploration & Production	Exploration
Russia/Caspian Sea region	Russia	Turkmenistan
Rest of Europe	United Kingdom, the Netherlands, Norway, Romania	Denmark
North Africa/Middle East	Libya	Qatar, Mauritania
South America	Argentina	Chile

Statistical information on the concession areas or the number of wells is not given due to its limited informative 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 uses independent, internationally recognized reserve auditors to perform recurring reserves audits of its major oil and gas fields.

The tables below show the estimated net quantities as of December 31, 2009 and 2010, 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.

## Oil 2010

	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>54</b>	<b>3</b>	<b>11</b>	<b>274</b>	<b>30</b>	<b>372</b>
Revisions and other changes	6	3		23	1	33
Extensions and discoveries	–	–	–	–	–	–
Purchase/sale of reserves	–	–	–	–	–	–
Production	6	2	2	29	4	43
<b>Proved reserves as of December 31</b>	<b>54</b>	<b>4</b>	<b>9</b>	<b>268</b>	<b>27</b>	<b>362</b>
Minority interests	–	–	–	123	–	123
<b>Proved reserves after minority interests</b>	<b>54</b>	<b>4</b>	<b>9</b>	<b>145</b>	<b>27</b>	<b>239</b>
Thereof at equity companies	–	–	9	–	–	9
<b>Proved reserves after minority interests and at equity companies</b>	<b>54</b>	<b>4</b>	<b>–</b>	<b>145</b>	<b>27</b>	<b>230</b>
<i>Minority interests in production</i>	–	–	–	14	–	14
<i>Proved developed reserves as of December 31</i>	42	3	9	246	22	322

## Gas 2010

	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>278</b>	<b>101</b>	<b>3,562</b>	<b>202</b>	<b>1,317</b>	<b>5,460</b>
Revisions and other changes	5	38	391	13	29	476
Extensions and discoveries	–	5	–	–	–	5
Purchase/sale of reserves	–	–	–	–	–	–
Production	34	43	308	20	136	541
<b>Proved reserves as of December 31</b>	<b>249</b>	<b>101</b>	<b>3,645</b>	<b>195</b>	<b>1,210</b>	<b>5,400</b>
Minority interests	–	–	–	96	–	96
<b>Proved reserves after minority interests</b>	<b>249</b>	<b>101</b>	<b>3,645</b>	<b>99</b>	<b>1,210</b>	<b>5,304</b>
Thereof at equity companies	–	–	3,645	–	–	3,645
<b>Proved reserves after minority interests and at equity companies</b>	<b>249</b>	<b>101</b>	<b>–</b>	<b>99</b>	<b>1,210</b>	<b>1,659</b>
<i>Minority interests in production</i>	–	–	–	9	–	9
<i>Proved developed reserves as of December 31</i>	223	80	3,517	158	1,007	4,985

<sup>1</sup> The natural gas volumes can be converted with the factor 6 BSCF per MMBOE (Million Barrel Oil Equivalent).

## Oil 2009

	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>55</b>	<b>12</b>	<b>12</b>	<b>286</b>	<b>39</b>	<b>404</b>
Revisions and other changes	6	(5)	1	24	(6)	20
Extensions and discoveries	–	–	–	–	–	–
Purchase/sale of reserves	–	(2)	–	–	–	(2)
Production	7	2	2	36	3	50
<b>Proved reserves as of December 31</b>	<b>54</b>	<b>3</b>	<b>11</b>	<b>274</b>	<b>30</b>	<b>372</b>
Minority interests	–	–	–	129	–	129
<b>Proved reserves after minority interests</b>	<b>54</b>	<b>3</b>	<b>11</b>	<b>145</b>	<b>30</b>	<b>243</b>
Thereof at equity companies	–	–	11	–	–	11
<b>Proved reserves after minority interests and at equity companies</b>	<b>54</b>	<b>3</b>	<b>–</b>	<b>145</b>	<b>30</b>	<b>232</b>
Minority interests in production	–	–	–	17	–	17
Proved developed reserves as of December 31	39	3	11	269	24	346

## Gas 2009

	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>313</b>	<b>144</b>	<b>3,432</b>	<b>192</b>	<b>1,281</b>	<b>5,362</b>
Revisions and other changes	3	5	405	31	162	606
Extensions and discoveries	–	6	–	–	–	6
Purchase/sale of reserves	–	(2)	–	–	–	(2)
Production	38	52	275	21	126	512
<b>Proved reserves as of December 31</b>	<b>278</b>	<b>101</b>	<b>3,562</b>	<b>202</b>	<b>1,317</b>	<b>5,460</b>
Minority interests	–	–	–	99	–	99
<b>Proved reserves after minority interests</b>	<b>278</b>	<b>101</b>	<b>3,562</b>	<b>103</b>	<b>1,317</b>	<b>5,361</b>
Thereof at equity companies	–	–	3,562	–	–	3,562
<b>Proved reserves after minority interests and at equity companies</b>	<b>278</b>	<b>101</b>	<b>–</b>	<b>103</b>	<b>1,317</b>	<b>1,799</b>
Minority interests in production	–	–	–	10	–	10
Proved developed reserves as of December 31	275	101	3,554	188	1,108	5,226

<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.

#### 2010 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Sales crude oil (incl. condensate and LPG)	339	105	57	1,734	171	2,406
Sales natural gas	182	222	680	6	171	1,261
Local duties (royalties, export, etc.)	88	2	58	94	82	324
<b>Total sales (net of duties)</b>	<b>433</b>	<b>325</b>	<b>679</b>	<b>1,646</b>	<b>260</b>	<b>3,343</b>
Production costs	109	124	43	202	79	557
Exploration expenses	8	120	21	49	8	206
Depreciation, amortization and impairment	56	213	87	55	40	451
Other	2	(10)	14	19	13	38
<b>Operating income before taxes</b>	<b>258</b>	<b>(122)</b>	<b>514</b>	<b>1,321</b>	<b>120</b>	<b>2,091</b>
Income taxes	74	(113)	101	1,211	20	1,293
<b>Operating income after taxes</b>	<b>184</b>	<b>(9)</b>	<b>413</b>	<b>110</b>	<b>100</b>	<b>798</b>
Minority interests	–	–	–	51	–	51
<b>Operating income after taxes and minority interests</b>	<b>184</b>	<b>(9)</b>	<b>413</b>	<b>59</b>	<b>100</b>	<b>747</b>
Thereof at equity companies	–	–	193	–	–	193
<b>Operating income after taxes, minority interests and at equity companies</b>	<b>184</b>	<b>(9)</b>	<b>220</b>	<b>59</b>	<b>100</b>	<b>554</b>

#### 2009 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Sales crude oil (incl. condensate and LPG)	283	128	45	1,491	122	2,069
Sales natural gas	216	296	579	6	142	1,239
Local duties (royalties, export, etc.)	95	3	45	111	60	314
<b>Total sales (net of duties)</b>	<b>404</b>	<b>421</b>	<b>579</b>	<b>1,386</b>	<b>204</b>	<b>2,994</b>
Production costs	103	125	38	169	61	496
Exploration expenses	9	86	10	40	4	149
Depreciation, amortization and impairment	72	120	69	58	35	354
Other	5	36	9	36	24	110
<b>Operating income before taxes</b>	<b>215</b>	<b>54</b>	<b>453</b>	<b>1,083</b>	<b>80</b>	<b>1,885</b>
Income taxes	63	–	89	1,026	21	1,199
<b>Operating income after taxes</b>	<b>152</b>	<b>54</b>	<b>364</b>	<b>57</b>	<b>59</b>	<b>686</b>
Minority interests	–	–	–	41	–	41
<b>Operating income after taxes and minority interests</b>	<b>152</b>	<b>54</b>	<b>364</b>	<b>16</b>	<b>59</b>	<b>645</b>
Thereof at equity companies	–	–	75	–	–	75
<b>Operating income after taxes, minority interests and at equity companies</b>	<b>152</b>	<b>54</b>	<b>289</b>	<b>16</b>	<b>59</b>	<b>570</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.

#### 2010 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Acquisitions	–	–	–	–	–	–
Exploration	8	160	8	82	12	270
Development	54	132	34	75	23	318
<b>Total net costs</b>	<b>62</b>	<b>292</b>	<b>42</b>	<b>157</b>	<b>35</b>	<b>588</b>

#### 2009 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Acquisitions	–	1	–	–	19	20
Exploration	14	192	8	70	5	289
Development	47	117	82	97	24	367
<b>Total net costs</b>	<b>61</b>	<b>310</b>	<b>90</b>	<b>167</b>	<b>48</b>	<b>676</b>

### 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.

#### 2010 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proved properties	637	867	2,168	1,414	952	6,038
Unproved properties	19	848	6	93	–	966
Other equipment	638	636	4	42	–	1,320
<b>Total gross costs</b>	<b>1,294</b>	<b>2,351</b>	<b>2,178</b>	<b>1,549</b>	<b>952</b>	<b>8,324</b>
Accumulated depreciation	952	1,477	280	916	634	4,259
<b>Total net costs</b>	<b>342</b>	<b>874</b>	<b>1,898</b>	<b>633</b>	<b>318</b>	<b>4,065</b>

#### 2009 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proved properties	601	750	2,016	1,322	913	5,602
Unproved properties	20	782	4	87	24	917
Other equipment	624	602	4	40	–	1,270
<b>Total gross costs</b>	<b>1,245</b>	<b>2,134</b>	<b>2,024</b>	<b>1,449</b>	<b>937</b>	<b>7,789</b>
Accumulated depreciation	904	1,225	119	867	608	3,723
<b>Total net costs</b>	<b>341</b>	<b>909</b>	<b>1,905</b>	<b>582</b>	<b>329</b>	<b>4,066</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 under construction in progress. 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. If proved reserves of oil or natural gas are determined and development is sanctioned, the relevant expenditure is transferred to machinery and technical 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>

	2010	2009
<b>At January 1</b>	<b>175</b>	<b>91</b>
Additions pending determination of proved reserves	112	128
Capitalized exploratory well costs charged to expense	(29)	(8)
Reclassifications to wells, facilities and equipment	(4)	(36)
<b>Ending balance at December 31</b>	<b>254</b>	<b>175</b>

<sup>1</sup> Only consolidated companies

The following table provides an aging of capitalized well costs, the amounts capitalized and, on the last line, the number of suspended exploration wells.

#### Capitalized exploration well-drilling costs (million €)<sup>1</sup>

	2010	2009
Wells for which drilling is not complete	54	14
Wells capitalized less than one year	30	122
Wells capitalized more than one year	170	39
<b>Total</b>	<b>254</b>	<b>175</b>
<b>Number of suspended wells</b>	<b>29</b>	<b>14</b>

<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 69 and the regulations of the Securities and Exchange Commission, which require the standardized measure of discounted future cash flows based on sales prices, costs and statutory interest rates. The proved reserves are valued at the average price calculated from the prices on the first day of the month. The values calculated in this way are subject to a 10% annual discount rate.

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 reserve estimates, 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.

## Standardized measure of discounted future cash flows 2010 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Future revenues	3,470	862	6,647	16,250	2,306	29,535
Future production/development costs	1,980	687	1,364	3,372	1,377	8,780
Future income taxes	326	84	723	10,153	120	11,406
Future net cash flows	1,164	91	4,560	2,725	809	9,349
Discounted to present value at a 10% annual rate	378	30	1,739	925	274	3,346
<b>Standardized measures of discounted future cash flows</b>	<b>786</b>	<b>61</b>	<b>2,821</b>	<b>1,800</b>	<b>535</b>	<b>6,003</b>
Minority interests	–	–	–	770	–	770
<b>Standardized measures of discounted future cash flows after minority interests</b>	<b>786</b>	<b>61</b>	<b>2,821</b>	<b>1,030</b>	<b>535</b>	<b>5,233</b>
Thereof at equity companies	–	–	1,340	–	–	1,340
<b>Standardized measures of discounted future cash flows after minority interests and at equity companies</b>	<b>786</b>	<b>61</b>	<b>1,481</b>	<b>1,030</b>	<b>535</b>	<b>3,893</b>

## Standardized measure of discounted future cash flows 2009 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Future revenues	3,055	677	7,178	10,795	1,901	23,606
Future production/development costs	1,811	510	940	3,819	926	8,006
Future income taxes	259	107	957	5,594	144	7,061
Future net cash flows	985	60	5,281	1,382	831	8,539
Discounted to present value at a 10% annual rate	293	(28)	2,046	429	318	3,058
<b>Standardized measures of discounted future cash flows</b>	<b>692</b>	<b>88</b>	<b>3,235</b>	<b>953</b>	<b>513</b>	<b>5,481</b>
Minority interests	–	–	–	364	–	364
<b>Standardized measures of discounted future cash flows after minority interests</b>	<b>692</b>	<b>88</b>	<b>3,235</b>	<b>589</b>	<b>513</b>	<b>5,117</b>
Thereof at equity companies	–	–	501	–	–	501
<b>Standardized measures of discounted future cash flows after minority interests and at equity companies</b>	<b>692</b>	<b>88</b>	<b>2,734</b>	<b>589</b>	<b>513</b>	<b>4,616</b>

## Summary of changes in standardized measure of discounted future net cash flows 2010 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Balance as of January 1</b>	<b>692</b>	<b>88</b>	<b>3,235</b>	<b>953</b>	<b>513</b>	<b>5,481</b>
Sales and transfers of oil and gas produced, net of production costs	(324)	(201)	(636)	(1,444)	(181)	(2,786)
Net changes in price and in development and production costs	277	(13)	(403)	3,575	83	3,519
Extension, discoveries and improved recovery, less related costs	–	–	–	–	–	–
Revisions of previous quantity estimates	109	169	160	1,054	77	1,569
Development costs incurred during the period	53	109	34	76	23	295
Changes in estimated future development costs	(56)	(136)	(54)	3	(51)	(294)
Purchase/sale reserves	–	–	–	–	–	–
Net change in income taxes	(42)	41	131	(2,851)	14	(2,707)
Accretion of discounts	79	9	354	434	57	933
Other	(2)	(5)	–	–	–	(7)
<b>Balance as of December 31</b>	<b>786</b>	<b>61</b>	<b>2,821</b>	<b>1,800</b>	<b>535</b>	<b>6,003</b>
Minority interests	–	–	–	770	–	770
<b>Standardized measures of discounted future cash flows (SMOG) after minority interests</b>	<b>786</b>	<b>61</b>	<b>2,821</b>	<b>1,030</b>	<b>535</b>	<b>5,233</b>
Thereof at equity companies	–	–	1,340	–	–	1,340
<b>Standardized measure of discounted future cash flows after minority interests and at equity companies</b>	<b>786</b>	<b>61</b>	<b>1,481</b>	<b>1,030</b>	<b>535</b>	<b>3,893</b>

## Summary of changes in standardized measure of discounted future net cash flows 2009 (million €)

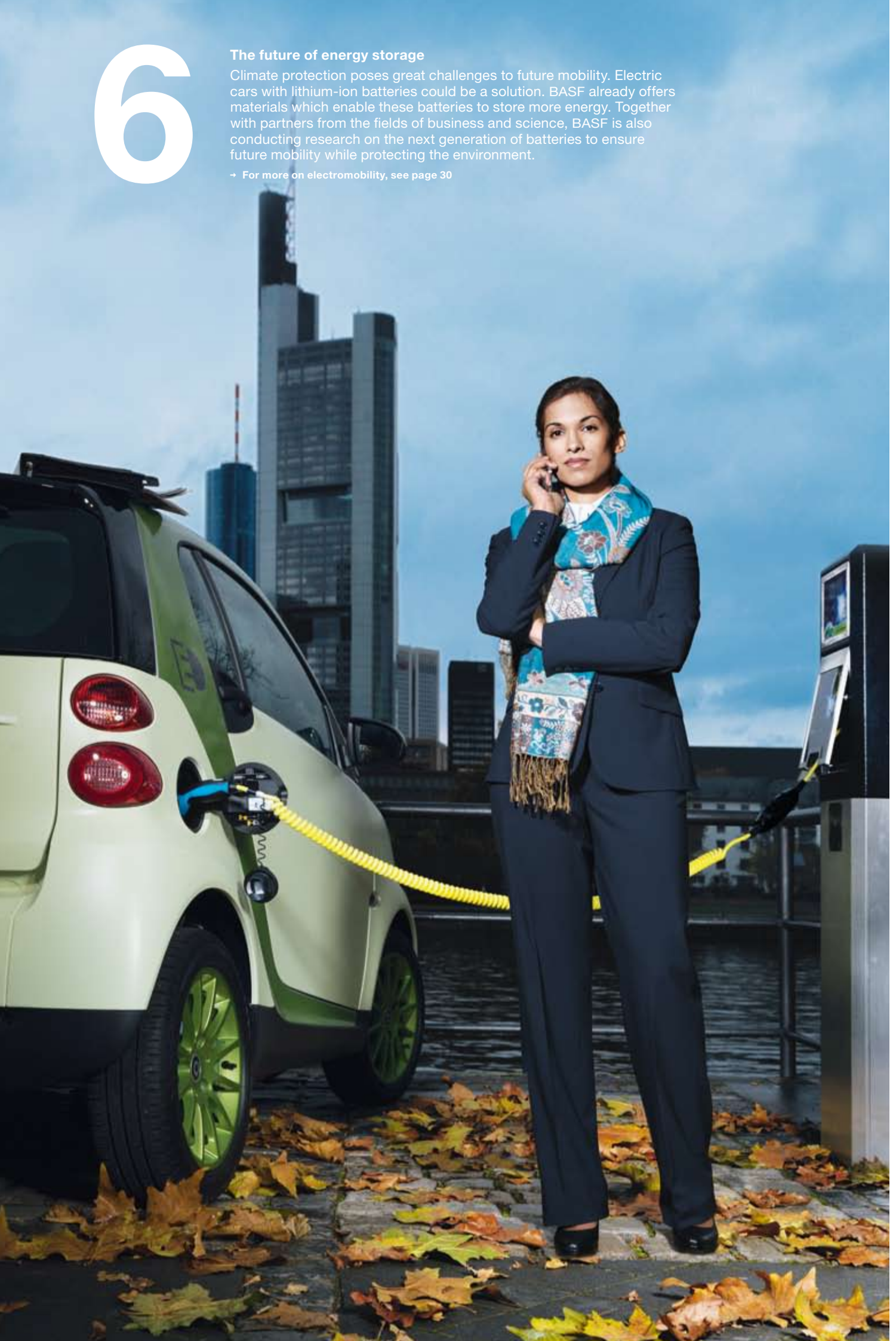
	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
<b>Balance as of January 1</b>	<b>626</b>	<b>317</b>	<b>3,794</b>	<b>502</b>	<b>614</b>	<b>5,853</b>
Sales and transfers of oil and gas produced, net of production costs	(301)	(295)	(542)	(1,217)	(143)	(2,498)
Net changes in price and in development and production costs	173	(299)	(999)	2,428	(65)	1,238
Extension, discoveries and improved recovery, less related costs	–	18	–	–	–	18
Revisions of previous quantity estimates	115	16	193	812	8	1,144
Development costs incurred during the period	47	120	82	82	24	355
Changes in estimated future development costs	(25)	(46)	(53)	50	–	(74)
Purchase/sale reserves	–	(4)	–	–	–	(4)
Net change in income taxes	(13)	219	324	(1,935)	8	(1,397)
Accretion of discounts	71	42	439	230	66	848
Other	(1)	–	(3)	1	1	(2)
<b>Balance as of December 31</b>	<b>692</b>	<b>88</b>	<b>3,235</b>	<b>953</b>	<b>513</b>	<b>5,481</b>
Minority interests	–	–	–	364	–	364
<b>Standardized measures of discounted future cash flows (SMOG) after minority interests</b>	<b>692</b>	<b>88</b>	<b>3,235</b>	<b>589</b>	<b>513</b>	<b>5,117</b>
Thereof at equity companies	–	–	501	–	–	501
<b>Standardized measure of discounted future cash flows after minority interests and at equity companies</b>	<b>692</b>	<b>88</b>	<b>2,734</b>	<b>589</b>	<b>513</b>	<b>4,616</b>

# 6

## The future of energy storage

Climate protection poses great challenges to future mobility. Electric cars with lithium-ion batteries could be a solution. BASF already offers materials which enable these batteries to store more energy. Together with partners from the fields of business and science, BASF is also conducting research on the next generation of batteries to ensure future mobility while protecting the environment.

→ For more on electromobility, see page 30



# Overviews

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## Glossary

### A

#### Amf ora

Amf ora is a genetically modified starch potato developed by BASF which produces an optimized starch composition for industrial applications.

#### Audits

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.

### B

#### Back-up line

A confirmed line of credit that can be drawn upon in connection with the issue of commercial paper if market liquidity is not sufficient, or for the purpose of general corporate financing. It is one of the instruments BASF uses to ensure it is able to make payments at all times.

#### Barrel of Oil Equivalent (BOE)

An international standard for comparing the thermal energy of different fuels. A BOE is the equivalent of one barrel of crude oil or 6,000 cubic feet or 169 cubic meters of natural gas.

#### 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

#### 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> as the reference value.

#### Commercial paper program

A framework agreement between BASF and banks regarding the issuing of debt obligations on the financial market (commercial paper). The commercial paper is issued under a rolling program for which the terms can be determined individually. A prerequisite for this is a good rating.

#### Compliance

Compliance is an important element of corporate governance. It refers to the company's behavior in accordance with laws, guidelines and voluntary codices.

#### Cost of capital

The cost of capital reflects shareholders' expectations regarding return (in the form of dividends or share price increases) and interest rates payable to providers of debt. To ensure its lasting success, a company should earn at least the return on invested capital expected by shareholders and creditors on a sustained basis.

### 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.

#### Drilling

Drilling describes the creation of boreholes to explore for and develop deposits.

### E

#### EBIT

Earnings before Interest and Taxes. At BASF, EBIT corresponds to the income from operations.

#### 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 at BASF.

#### EBITDA

Earnings before Interest, Taxes, Depreciation and Amortization. At BASF, EBITDA corresponds to the income from operations before depreciation and amortization.

#### EBITDA margin

This is the margin that we earn on sales from our operating activities before depreciation and amortization. It is calculated as income from operations before depreciation and amortization as a percentage of sales.

#### Eco-Efficiency Analysis

Method for the evaluation of products and processes considering economic and environmental aspects. The aim is to compare products with regard to profitability and environmental performance.

#### Emollient

Emollients are nurturing oil components that give skin a velvety feel. They are a common ingredient in skin and hair care products such as creams and hair masks.

#### EPSA

An Exploration and Production Sharing Agreement is one of the prevalent types of contract between a national oil company and an international oil company in the exploration and production of hydrocarbons.

#### Equity method

The equity method is an accounting technique used to include BASF's investments in companies in which it has significant influence in the Consolidated Financial Statements. The book value of the investment changes depending on the equity of the company in question.



**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. The exploration process involves using suitable geophysical processes to find structures that may contain oil and gas then proving a possible find by means of exploratory drilling.

**F****Fermentation**

Fermentation is a process in which substances are broken down with the aid of microorganisms such as bacteria, fungi or cell cultures.

**Field development**

Term for the installation of production facilities and the drilling of production wells for the commercial exploitation of oil and natural gas deposits.

**Free cash flow**

Cash provided by operating activities less payments related to property, plant and equipment and intangible assets.

**G****Global Product Strategy (GPS)**

The Global Product Strategy aims to establish global product stewardship standards and practices for companies. The program, initiated by the International Council of Chemical Associations (ICCA), strives to minimize the negative impact of chemicals on human health and the environment, particularly in developing countries.

**Goodwill**

Goodwill is a term used to describe a company's value. It represents the difference between the actual value of a company's assets and the purchase price paid. Because goodwill takes potential earnings into account, it may exceed the book value.

**Growth clusters**

BASF has brought together its research activities related to the important technology-driven issues of the future into five growth clusters: energy management, raw material change, plant biotechnology, nanotechnology and white (industrial) biotechnology.

**Greenhouse Gas Protocol (GHG Protocol)**

The Greenhouse Gas Protocol, used by companies from different sectors, NGOs and governments, is a globally recognized standard to quantify and manage greenhouse gas emissions. The reporting standards and recommendations for the implementation of projects to reduce emissions are jointly developed by companies, governments and NGOs under the guidance of the World Resources Institute and the World Business Council for Sustainable Development.

**H****HPPO**

Technology to produce propylene oxide (PO) from hydrogen peroxide (HP). HPPO technology is more environmentally friendly 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.

**ILO Core Labor Standards**

The ILO Core Labor Standards are laid out in a declaration of the International Labor Organization (ILO). It comprises eight conventions which set minimum requirements for decent working conditions. BASF has a Group-wide system to monitor employees' and suppliers' adherence to these labor standards.

**International Standard on 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 developed by the International Organization for Standardization (ISO) that determines the general requirements for an environmental management system for voluntary certification.

**ISO 19011**

ISO 19011 is an international standard developed by the International Organization for Standardization (ISO) that determines requirements for audits of quality management and environmental management systems.

**M****Materiality analysis**

BASF uses materiality analysis to analyze and evaluate societal interest in sustainability topics as well as their potential significance for the company. The aim is to develop strategies at an early stage to address potential new risks and opportunities. In 2010, several hundred stakeholders participated in the analysis, the results of which are portrayed in a materiality matrix.

**MDI**

MDI stands for diphenylmethane diisocyanate and is one of the most important raw materials for the production of the plastic polyurethane. This plastic is used for applications ranging from the soles of high-tech jogging shoes, to car shock-absorbers, refrigerator insulation and even insulation for buildings.

**MEA (Membrane Electrode Assembly unit)**

The MEA is the core of a fuel cell. This is where hydrogen and oxygen react to form water, generating electrical energy and heat in the process.

**Monitoring**

Monitoring systems and tools serve to measure and ensure the adherence to standards. One area that is monitored is our voluntary commitments such as the adherence to human rights and internationally recognized labor standards.



**N****Nanotechnology**

Characterization, generation and utilization of structures and systems that are smaller than one hundred nanometers.

**Naphtha**

Petroleum that is produced during 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****Patent Asset Index**

The Patent Asset Index measures the strength of a company's patent portfolio. It is made up of two factors: (1) "portfolio size" (the number of worldwide active patent families) and (2) "competitive impact," which is the combination of technology relevance and market coverage (weighted by market size).

**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.

**PolyTHF**

THF stands for tetrahydrofuran and is a starting compound for Poly-tetrahydrofuran (PolyTHF®), an important component for the production of elastomer fibers for textiles. Elastomer fibers are used in sports clothing, for example.

**Product innovations**

New or improved products and applications, which have been on the market for less than five years.

**R****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 retention in the company.

**Return on assets**

This describes the return we make on the average assets employed during the year. It is calculated as income from operations (EBIT) plus interest expenses as a percentage of average assets.

**S****SCR technology** (Selective Catalytic Reduction)

This technology is used to convert harmful nitrogen oxide, which is found in the exhaust flow of heavy duty diesel engines, into water vapor and nitrogen, a natural constituent of the air.

**SEEBALANCE**

SEEBALANCE refers to the Socio-Eco-Efficiency Analysis developed by BASF. This analysis considers the three dimensions of sustainability: economy, environment and society. This tool now allows the assessment of environmental impact and costs as well as the societal impacts of products and processes.

**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.

**Social Business**

The social business BASF Grameen Ltd. serves a social purpose. It should cover its own costs and recoup the partners' initial investment. Any additional profits are reinvested fully in the social business.

**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 or earnings from divestitures.

**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 a 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.

**Steam cracker**

A plant in which steam is used to "crack" naphtha (petroleum) or natural gas. The resulting petrochemicals are the starting materials used to manufacture most of BASF's products.

**Styrenics**

The production of the precursor styrene is primarily for captive use (backward integration). Styrenics are used in many areas, for example, in the construction, packaging, automotive, electrical and leisure industries.

**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 goods or 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****TDI**

Toluene diisocyanate is a starting material for the production of polyurethane.

**Tight Gas**

Gas trapped in extremely low-permeable (tight) formations.

**Time-lag effect**

Delayed adjustment of natural gas prices to the movement in oil prices.

**Traits**

Traits are the genetically determined properties of plants, such as drought and disease resistance or higher yields.

**Transport Accident Information and Emergency Response System (TUIS)**

TUIS is a transport accident information and emergency response system jointly operated by around 130 chemical companies. The member companies can be reached by the public authorities at any time and provide assistance over the telephone, expert on-site advice or special technical equipment.

**V****Value-adding chain**

Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

**Verbund**

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. In the latter, know-how is shared among BASF employees worldwide and expert knowledge is pooled in research platforms.

**Volatile organic compounds (VOC)**

VOCs are substances of organic origin that exist as gases in the air at low temperatures. They include certain hydrocarbons, alcohols, aldehydes and organic acids. The use of volatile organic compounds is regulated by the VOC Solvents Emissions Directive of the European Union.

**W****White biotechnology**

An area of biotechnology, also called industrial 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 chiral intermediates.

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<sup>1</sup> Trademarks are not necessarily registered in all countries.

## Ten-year summary

Million €	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Sales and Earnings<sup>1</sup></b>										
Sales	32,500	32,216	33,361	37,537	42,745	52,610	57,951	62,304	50,693	63,873
Income from operations before depreciation and amortization (EBITDA)	4,142	5,105	5,110	7,685	8,233	9,723	10,225	9,562	7,388	11,131
Income from operations (EBIT)	1,217	2,641	2,658	5,193	5,830	6,750	7,316	6,463	3,677	7,761
Income from ordinary activities	609	2,641	2,168	4,347	5,926	6,527	6,935	5,976	3,079	7,373
Extraordinary income	6,121	–	–	–	–	–	–	–	–	–
Income before taxes and minority interests	6,730	2,641	2,168	4,347	5,926	6,527	6,935	5,976	3,079	7,373
Income before minority interests	5,826	1,599	976	2,133	3,168	3,466	4,325	3,305	1,655	5,074
Net income	5,858	1,504	910	2,004	3,007	3,215	4,065	2,912	1,410	4,557
<b>Capital expenditures and depreciation<sup>1</sup></b>										
Additions to property, plant and equipment and intangible assets	3,313	3,055	3,415	2,163	2,523	10,039	4,425	3,634	5,972	5,304
Thereof property, plant and equipment	3,037	2,677	2,293	2,022	2,188	4,068	2,564	2,809	4,126	3,294
Depreciation and amortization of property, plant and equipment and intangible assets	2,925	2,464	2,452	2,492	2,403	2,973	2,909	3,099	3,711	3,370
Thereof property, plant and equipment	2,307	2,012	1,951	2,053	2,035	2,482	2,294	2,481	2,614	2,667
<b>Number of employees</b>										
At year-end	92,545	89,389	87,159	81,955	80,945	95,247	95,175	96,924	104,779	109,140
Annual average	94,744	90,899	88,167	85,022	80,992	88,160	94,893	95,885	103,612	104,043
<b>Personnel expenses<sup>1</sup></b>										
	6,028	5,975	5,891	5,615	5,574	6,210	6,648	6,364	7,107	8,228
<b>Research and development expenses<sup>1</sup></b>										
	1,247	1,135	1,105	1,173	1,064	1,277	1,380	1,355	1,398	1,492
<b>Key data<sup>1</sup></b>										
Earnings per share (€) <sup>6, 7</sup>	4.86 <sup>2</sup>	1.30	0.81	1.83	2.87	3.19	4.16	3.13	1.54	4.96
Cash provided by operating activities <sup>3</sup>	2,319	2,313	4,878	4,634	5,250 <sup>3</sup>	5,940	5,807	5,023	5,693	6,460
EBITDA margin (%)	12.7	15.8	15.3	20.5	19.3	18.5	17.6	15.3	14.6	17.4
Return on assets (%)	3.1	8.4	7.4	13.2	17.7	17.5	16.4	13.5	7.5	14.7
Return on equity after tax (%)	36.6 <sup>2</sup>	9.3	6.0	12.9	18.6	19.2	22.4	17.0	8.9	24.6
<b>Appropriation of profits</b>										
Net income of BASF SE <sup>4</sup>	5,904	1,045	1,103	1,363	1,273	1,951	2,267	2,982	2,176	3,737
Transfer to retained earnings <sup>4</sup>	5,153	247	334	449	–	–	–	–	–	–
Dividend	758	789	774	904	1,015	1,484	1,831	1,791	1,561	2,021
Dividend per share (€) <sup>6</sup>	0.65	0.70	0.70	0.85	1.00	1.50	1.95	1.95	1.70	2.20
<b>Number of shares as of December 31 (million)<sup>5, 6</sup></b>										
	1,166.8	1,140.6	1,113.3	1,080.9	1,028.8	999.4	956.4	918.5	918.5	918.5

<sup>1</sup> Starting in 2005, the accounting and reporting of the BASF Group have been prepared 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> After deduction of repurchased shares earmarked for cancellation

<sup>6</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.

<sup>7</sup> Adjusted for special items and impairment of intangible assets, earnings per share were €5.73 in 2010 and €3.01 in 2009.

<sup>8</sup> Includes the change in reporting from 2009 onward of the effects of regular extensions of U.S. dollar hedging transactions.

## Consolidated balance sheets (German GAAP)

Million €	2001	2002	2003
Intangible assets	3,943	3,464	3,793
Property, plant and equipment	14,190	13,745	13,070
Financial assets	3,360	3,249	2,600
<b>Fixed assets</b>	<b>21,493</b>	<b>20,458</b>	<b>19,463</b>
Inventories	5,007	4,798	4,151
Accounts receivable, trade	5,875	5,316	4,954
Other receivables	2,384	2,947	3,159
Deferred taxes	1,373	1,204	1,247
Marketable securities	383	132	147
Cash and cash equivalents	360	231	481
<b>Current assets</b>	<b>15,382</b>	<b>14,628</b>	<b>14,139</b>
<b>Total assets</b>	<b>36,875</b>	<b>35,086</b>	<b>33,602</b>
Subscribed capital	1,494	1,460	1,425
Capital surplus	2,914	2,948	2,983
Paid-in capital	4,408	4,408	4,408
Retained earnings	12,222	12,468	12,055
Currency translation adjustment	532	(330)	(972)
Minority interests	360	396	388
<b>Stockholders' equity</b>	<b>17,522</b>	<b>16,942</b>	<b>15,879</b>
Pensions and other long-term provisions	6,809	6,233	6,205
Tax and other short-term provisions	3,332	2,764	2,982
<b>Provisions</b>	<b>10,141</b>	<b>8,997</b>	<b>9,187</b>
Financial indebtedness	2,835	3,610	3,507
Accounts payable, trade	2,467	2,344	2,056
Other liabilities	3,910	3,193	2,973
<b>Liabilities</b>	<b>9,212</b>	<b>9,147</b>	<b>8,536</b>
<b>Provisions and liabilities</b>	<b>19,353</b>	<b>18,144</b>	<b>17,723</b>
Thereof long-term liabilities	9,955	9,211	10,285
<b>Total stockholders' equity and liabilities</b>	<b>36,875</b>	<b>35,086</b>	<b>33,602</b>



## Consolidated balance sheets (IFRS)

Million €	2004	2005	2006	2007	2008	2009	2010
Intangible assets	3,607	3,720	8,922	9,559	9,889	10,449	12,245
Property, plant and equipment	13,063	13,987	14,902	14,215	15,032	16,285	17,241
Investments accounted for using the equity method	1,100	244	651	834	1,146	1,340	1,328
Other financial assets	938	813	1,190	1,952	1,947	1,619	1,953
Deferred taxes	1,337	1,255	622	679	930	1,042	1,112
Other receivables and miscellaneous long-term assets	473	524	612	655	642	946	653
<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>	31,681	<b>34,532</b>
Inventories	4,645	5,430	6,672	6,578	6,763	6,776	8,688
Accounts receivable, trade	5,861	7,020	8,223	8,561	7,752	7,738	10,167
Other receivables and miscellaneous short-term assets	2,133	1,586	2,607	2,337	3,948	3,223	3,883
Marketable securities	205	183	56	51	35	15	16
Cash and cash equivalents	2,086	908	834	767	2,776	1,835	1,493
Assets of disposal groups	–	–	–	614	–	–	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>19,587</b>	<b>24,861</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>	<b>51,268</b>	<b>59,393</b>
Subscribed capital	1,383	1,317	1,279	1,224	1,176	1,176	1,176
Capital surplus	3,028	3,100	3,141	3,173	3,241	3,229	3,216
Retained earnings	11,923	11,928	13,302	14,556	13,250	12,916	15,817
Other comprehensive income	(60)	696	325	174	(96)	156	1,195
Minority interests	328	482	531	971	1,151	1,132	1,253
<b>Stockholders' equity</b>	<b>16,602</b>	<b>17,523</b>	<b>18,578</b>	<b>20,098</b>	<b>18,722</b>	<b>18,609</b>	<b>22,657</b>
Provisions for pensions and similar obligations	4,124	1,547	1,452	1,292	1,712	2,255	2,778
Other provisions	2,376	2,791	3,080	3,015	2,757	3,289	3,352
Deferred taxes	948	699	1,441	2,060	2,167	2,093	2,467
Financial indebtedness	1,845	3,682	5,788	6,954	8,290	12,444	11,670
Other liabilities	1,079	1,043	972	901	917	898	901
<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>	<b>20,979</b>	<b>21,168</b>
Accounts payable, trade	2,372	2,777	4,755	3,763	2,734	2,786	4,738
Provisions	2,364	2,763	2,848	2,697	3,043	3,276	3,324
Tax liabilities	644	887	858	881	860	1,003	1,140
Financial indebtedness	1,453	259	3,695	3,148	6,224	2,375	3,369
Other liabilities	1,641	1,699	1,824	1,976	3,434	2,240	2,802
Liabilities of disposal groups	–	–	–	17	–	–	195
<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>11,680</b>	<b>15,568</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>	<b>51,268</b>	<b>59,393</b>

## GRI and Global Compact Index

An extended overview with information on the GRI core and additional indicators as well as the ten 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. GRI aims to improve the comparability of sustainability reporting. 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 2010 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 online at [basf.com/gri\\_gc\\_e](http://basf.com/gri_gc_e). The online index contains all GRI reporting elements as well as 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 GRI can be found at [www.globalreporting.org](http://www.globalreporting.org)

## Statement GRI Application Level Check



### Statement GRI Application Level Check

GRI hereby states that **BASF SE** has presented its report "BASF Report 2010" to GRI's Report Services which have concluded that the report fulfills the requirements of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

18 February 2011, Amsterdam

A handwritten signature in blue ink, appearing to read "Nelmara Arbex", is written over a faint, large watermark of the GRI logo in the background.

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



The "+" has been added to this Application Level because BASF SE has submitted (part of) this report for external assurance. GRI accepts the reporter's own judgment for choosing its assurance Provider and for deciding the scope of the assurance.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

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