

BASF Report 2009



BASF

Economic, environmental and social performance

 **BASF**
The Chemical Company

BASF Group 2009*

Economic data (million €)

	2009	2008	Change in %
Sales	50,693	62,304	(18.6)
Income from operations before depreciation and amortization (EBITDA)	7,388	9,562	(22.7)
Income from operations (EBIT) before special items	4,852	6,856	(29.2)
Income from operations (EBIT)	3,677	6,463	(43.1)
Income before taxes and minority interests	3,079	5,976	(48.5)
Net income	1,410	2,912	(51.6)
Earnings per share (€)	1.54	3.13	(50.8)
Adjusted earnings per share (€) ¹	3.01	3.85	(21.8)
Dividend per share (€)	1.70	1.95	(12.8)
Cash provided by operating activities	6,270	5,023	24.8
Additions to long-term assets ²	5,972	3,634	64.3
Depreciation and amortization	3,711	3,099	19.7
Return on assets (%)	7.5	13.5	-
Return on equity after tax (%)	8.9	17.0	-
Research and development expenses	1,398	1,355	3.2

Environment and safety

	2009	2008	Change in %	
Operating costs for environmental protection facilities	Million €	669	706	(5.2)
Investments in environmental protection	Million €	141	165	(14.5)
Emissions of greenhouse gases (CO ₂ equivalent) ³	Million metric tons/year	29.3	27.1	8.1
Emissions to air (air pollutants) ³	Thousand metric tons/year	31.3	36.5	(14.2)
Emissions to water ³ of:				
– Organic substances	Thousand metric tons/year	18.6	20.6	(9.7)
– Nitrogen	Thousand metric tons/year	3.6	4.4	(18.2)
– Heavy metals	Metric tons/year	23.5	27.0	(13.0)
Transportation accidents	Per 10,000 shipments	0.24	0.36	(33.3)
Number of environmental and safety audits		99	86	15.1

Employees and society

	2009	2008	Change in %	
Employees as of December 31	104,779	96,924	8.1	
Apprentices/trainees as of December 31	2,401	2,171	10.6	
Personnel costs	Million €	7,107	6,364	11.7
Donations and sponsoring	Million €	48.1	64.7	(25.7)
Annual bonus	% of Group companies	74.9	74.7	0.3
Lost time injury rate	Per million working hours	1.7	1.8	(5.6)
Occupational diseases	Per million working hours	0.42	0.31	35.5

¹ For further information, see page 39

² Including acquisitions

³ Excluding emissions from oil and gas production

Overview of BASF's segments →
see inside cover

* All financial and non-financial performance indicators include the effects of the acquisition of Ciba Holding AG on April 9, 2009.

BASF's segments

Chemicals

→ Page 47



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 higher value 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.

Plastics

→ Page 53



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 serve as highly efficient insulation in refrigerators.

Performance Products

→ Page 58



Performance products help our customers to improve their products and processes. They give special characteristics to countless everyday products: from diapers, paper, vitamins for food supplements or UV filters for sunscreen to products for the oil, automotive and coatings industries as well as for the production of textiles and leather. The acquisition of Ciba strengthens the existing businesses and extends the portfolio to include plastic additives and products for water treatment and mining applications.

Functional Solutions

→ Page 66



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

Agricultural Solutions

→ Page 71



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.

Oil & Gas

→ Page 76



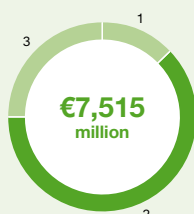
As the largest German producer of oil and gas, we focus our exploration and production on oil and gas-rich regions in Europe, North Africa, South America, Russia and the Caspian Sea region. Together with our Russian partner Gazprom, we are active in the trading, transport and storage of natural gas in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

Key segment data

Chemicals

Sales (%)

1	Inorganics	13
2	Petrochemicals	62
3	Intermediates	25



Key data Chemicals (million €)

	2009	2008	Change in %
Sales	7,515	11,171	(32.7)
EBITDA	1,571	2,053	(23.5)
Income from operations before special items	1,021	1,414	(27.8)
Income from operations (EBIT)	735	1,369	(46.3)

Plastics

Sales (%)

1	Performance Polymers	42
2	Polyurethanes	58



Key data Plastics (million €)

	2009	2008	Change in %
Sales	7,128	9,116	(21.8)
EBITDA	994	947	5.0
Income from operations before special items	576	553	4.2
Income from operations (EBIT)	554	539	2.8

Performance Products

Sales (%)

1	Dispersions & Pigments	26
2	Care Chemicals	37
3	Paper Chemicals	14
4	Performance Chemicals	23



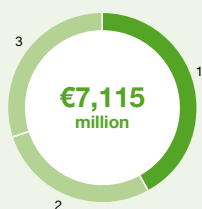
Key data Performance Products (million €)

	2009	2008	Change in %
Sales	9,356	8,125	15.2
EBITDA	926	1,205	(23.2)
Income from operations before special items	698	766	(8.9)
Income from operations (EBIT)	(150)	768	.

Functional Solutions

Sales (%)

1	Catalysts	42
2	Construction Chemicals	28
3	Coatings	30



Key data Functional Solutions (million €)

	2009	2008	Change in %
Sales	7,115	9,388	(24.2)
EBITDA	511	564	(9.4)
Income from operations before special items	209	265	(21.1)
Income from operations (EBIT)	107	151	(29.1)

Agricultural Solutions

Sales (%)

1	Crop Protection	100
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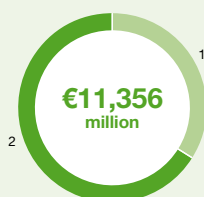
Key data Agricultural Solutions (million €)

	2009	2008	Change in %
Sales	3,646	3,409	7.0
EBITDA	973	905	7.5
Income from operations before special items	776	706	9.9
Income from operations (EBIT)	769	705	9.1

Oil & Gas

Sales (%)

1	Exploration & Production	34
2	Natural Gas Trading	66



Key data Oil & Gas (million €)

	2009	2008	Change in %
Sales	11,356	14,445	(21.4)
EBITDA	2,830	4,409	(35.8)
Income from operations before special items	2,289	3,844	(40.5)
Income from operations (EBIT)	2,289	3,844	(40.5)

We create chemistry

We combine economic success with social responsibility and environmental protection.

Cover photo:
BASF Kids' Lab in Hong Kong

Value for BASF

Knowledge is the driving force of growth and innovation – and an important future resource. As part of our social commitment, we therefore focus our support in our host communities on projects that promote access to education.

Value for society

We offer Kids' Labs in 15 countries, often based at our sites. In Asia, for example, more than 23,000 children participated in our Kids' Labs in 2009.

Report 2009

This is an integrated report.

It documents our economic, environmental and social performance in 2009.



We create chemistry

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 products, technologies and services, we contribute to finding solutions for global challenges such as climate protection, resource conservation, nutrition and demographic change. We support education – the most important future resource – and support projects with long-term benefits around the world. This is our contribution to a better future.

About this report

Content and structure

This integrated report combines our financial and sustainability reporting and is addressed to readers interested in both areas. The reporting of the BASF Group is complemented by our short report BASF In Brief 2009.

Simultaneously with the publication of this report, more sustainability information will be made available online, such as information about the topics stakeholder dialogue and water. To find out more about these and other topics, follow the links listed in this report.

The information in the BASF Report 2009 also serves as a progress report on BASF's implementation of the ten principles of the United Nations Global Compact. The symbol  within the text of the report indicates information that is relevant to the principles of the Global Compact. The Global Compact Index on page 216 gives an overview of all the topics.

In addition to the traditional table of contents, the fold-out index flap provides a break-down by key topic: business development, global megatrends, innovations and other topics of central importance for our business.

- **The 2009 online report with additional service features can be found at basf.com/report**
- **BASF In Brief 2009 can be found at basf.com/basf_in_brief**
- **For more on sustainability, see basf.com/sustainability**
- **For more on our stakeholder dialogue, see basf.com/dialogue**
- **For more on the United Nations Global Compact, see www.globalcompact.org**



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 internal control system for financial reporting based on the guidelines of the Sarbanes-Oxley Act. These internal control mechanisms ensure the reliability of the information in our reporting. BASF's management confirmed the effectiveness of the internal control measures and compliance with the regulations for financial reporting.

Our sustainability reporting follows the international guidelines (G3) of the Global Reporting Initiative (GRI). Every two to three years, we work with sustainability experts to analyze and assess sustainability issues relevant to BASF. This report incorporates the results of that process as well as suggestions from a stakeholder survey on reporting we conducted again in 2009. Information from our dialogue with other interest groups also helps us to identify which topics are particularly important for our stakeholders.

- **For more on the Global Reporting Initiative, see www.globalreporting.org**
- **For more on our matrix for sustainability topics, see page 26 and basf.com/materiality**
- **A short GRI and Global Compact index can be found on page 216; for a more comprehensive version, see basf.com/gri_gc_e**



Overview

- BASF Report 2009 integrates our financial and sustainability reporting
- HTML version of the report contains additional information and service features
- Expanded 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 2009. 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 and non-financial performance indicators include the effects of the acquisition of Ciba Holding AG on April 9, 2009.

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. All employees of the BASF Group as of December 31, 2009, are represented in the information.

To make this report as current as possible, we have included relevant information available up to the editorial deadline of February 24, 2010. The report is published each year in mid-March in English and in German.

→ **More information on emissions can be found in the chapters Our goals, Climate protection, Energy, Water, and Environmental and safety management.**

→ **For more on occupational safety, see page 89**

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 separate financial statements reported by BASF Group companies to our corporate units.

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

Our transparent and reliable reporting helps us gain the confidence of our stakeholders. Our reporting won a number of honors in 2009. In Germany, BASF received an award for the best sustainability report among the 150 largest companies in Germany from the Institute for Ecological Economy Research (IÖW) and the environmental initiative future e.V.

In 2009, BASF Group's sustainability reporting again was recognized with the highest application level A+ from the Global Reporting Initiative.

→ **The Auditor's report is on page 137.**



- Information and bases for calculation are based on international standards for financial and sustainability reporting
- Reporting period was the financial year 2009
- Report includes relevant information available up to the editorial deadline on February 24, 2010
- Data collection on environmental protection and safety follows the recommendations of the European Chemical Industry Council (CEFIC)

- Financial and non-financial information audited by KPMG AG Wirtschaftsprüfungsgesellschaft
- Verification also in accordance with assurance standard for sustainability reporting
- Honors for transparent and reliable reporting

BASF Report 2009

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WWW.BASF.COM

Report 2009 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 allows a comparison of statements. Examples from this report and further information demonstrate how we create value – for BASF and for society.

We create chemistry

Around 105,000 employees contribute to the success of the company, through their commitment, performance and with intelligent solutions.

Six examples demonstrate how we combine this success with advantages for our customers, shareholders, employees and the environment. In this way, we create value – for BASF and for society.

Ciba acquisition expands portfolio

Tinosorb enhances BASF's range of UV protection filters →page 7

Number one in the Patent Asset Index

The insulating material Neopor is based on one of BASF's strongest patent families →page 21

Successful crisis management

Personnel transfer reduces short-time work and helps safeguard jobs →page 117

Helping customers be more successful

Samruddhi business model helps Indian farmers produce more sustainably →page 135

Supply security for Europe

BASF subsidiary WINGAS expands its natural gas storage facilities →page 197

Reliable supplier to our customers

Global transparency of delivery processes helps customers to plan optimally →page 207

Portfolio expansion with Ciba



Enhanced UV protection portfolio: BASF's Swiss employees Stephanie Acker and Marcel Schnyder examine UV filters in the cosmetics laboratory.

VALUE FOR BASF

Acquisition extends UV protection range

BASF is the world's leading producer of chemical UV filters for sun protection. These filters absorb incident UV radiation and transform it into heat. The integration of Ciba Holding AG enhanced our portfolio with the Tinosorb® range – the new UV filters cover a wider range of the UV radiation spectrum and therefore complement our current range.

→ For more on the integration of Ciba, see page 58 onward



Effective protection against sunburn and long-term skin damage: BASF is the world's leading producer of chemical UV filters.

VALUE FOR SOCIETY

Well protected from the sun's rays

Sunscreen contains 10% to 20% UV filters. Good UV protection helps prevent sunburn and protects against long-term skin damage and skin cancer. Reliable UVA protection reduces the formation of free radicals in the skin and counteracts premature skin aging. In addition to testing effectiveness and skin compatibility, BASF has also been testing the environmental impact of its UV filters for several years.

Dear shareholders, dear friends of BASF,

The past year has placed extraordinary demands on us. BASF was also hit hard by the deepest recession in post-war times. Sales and earnings fell considerably, but we acted quickly and decisively. We adjusted our production to the steep decline in demand by idling or closing numerous plants. Furthermore, we accelerated our programs to increase efficiency and reduce costs. Unfortunately, we could not avoid introducing short-time work and job cuts. Together, however, we managed to reach an important goal: Even at the lowest point of the economic cycle, we were able to earn an EBITDA margin of more than 14%.

The BASF team worldwide contributed to this success through its exceptional flexibility and solidarity. For this outstanding accomplishment, I would like to extend my heartfelt thanks to all employees. BASF has mastered this crisis better than many of its competitors. The capital market also shares this view: BASF shares outperformed the most important benchmark and industry indices in 2009. Although we narrowly missed our goal of earning our cost of capital due to high charges arising from the Ciba integration, our record cash flow and our stable financial position allow us to propose an ambitious dividend of €1.70 per share.

I believe the worst is behind us, but there are still clouds on the horizon. The year 2010 will be a transitional year in which the economic recovery in most parts of the world will be slow and uneven. It will likely be at least 2012 before we reach the level seen before the crisis. We have set the following goals for BASF in 2010: We want to grow profitably again and earn a premium on our cost of capital.

Measures to secure long-term, profitable growth

We will continue to follow our successful strategy and actively shape our future. In the medium term, we will still concentrate on improving our portfolio, restructuring and increasing efficiency, as well as on product innovations and expanding our businesses in growth markets. With this strategy, we can supply our customers with the best products and solutions and secure our leading position as *The Chemical Company*.

Our portfolio has become significantly more robust thanks to acquisitions in recent years and organic growth. This is also demonstrated by our acquisition of Ciba, which has made us a leading supplier of specialty chemicals in key business sectors. We want to take full advantage of this new potential. We expect synergies from the combined businesses to reach €350 million in the current year, and rise to more than €450 million annually by the end of 2012.

We have set ourselves ambitious goals for the growing Asian market. We aim to grow two percentage points faster than the chemical market. Given expected market growth of 4% to 5% per year, we expect to double our sales in this region by 2020.



“We want to grow profitably again and earn a premium on our cost of capital in 2010.”

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

Chemistry combining economic success and corporate responsibility

We combine economic success with social responsibility and environmental protection. This principle is a firm part of our strategy and extends to our customers as well as other partners such as suppliers, investors, employees and neighbors. Sustainable management minimizes risks, promotes existing business and helps create new opportunities.

Our excellent ranking in key sustainability indices and our longstanding commitment to the principles of the Global Compact demonstrate that we also lead the competition in this area. For example, we updated our corporate carbon footprint for the 2008 business year. It again showed that when used by customers, BASF products save three times more greenhouse gas emissions than are released in the production and disposal of all products made by BASF. And we are breaking new ground: In March 2009, BASF established a social business, BASF Grameen Ltd., with Nobel Peace Prize Laureate Muhammad Yunus. This joint venture aims to improve the health and business opportunities of the poor in Bangladesh.

As you can see, we do not just offer products and system solutions. At BASF, we create chemistry and thus added value. Thinking and acting in cooperation with our partners is BASF's successful model for shaping the future.

Global challenges need new solutions

Those who want to be successful tomorrow have to act today. This applies especially to market opportunities that emerge from global changes, such as population growth, urbanization and the rising demand for energy. I consider the development of solutions for these challenges to be the crucial foundation for a successful future. For example, together with partners we conduct research into high yielding crops, novel insulation materials and solar cells based on organic semiconductors. That is why we once again slightly increased our research and development expenditures. This is a long-term investment in the future and an integral part of our strategy.

We want to continue to offer the best chemistry: chemistry that creates value for our partners and for our shareholders. The year 2010 will place heavy demands on us, but we are well prepared. You can be certain that my fellow Board members and I, together with the entire team worldwide, will work at full strength for BASF. I would be pleased if you accompany and support us on this path.

Sincerely yours,

A handwritten signature in blue ink that reads "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 in dialogue with employees



Dr. Andreas Kreimeyer
Research Executive Director
54, with BASF for 24 years

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

Dr. Stefan Marcinowski
57, with BASF for 31 years

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

Dr. Martin Bruder Müller
48, with BASF for 22 years

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

Dr. Harald Schwager
Industrial Relations Director
49, with BASF for 22 years

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



Dr. John Feldmann
60, with BASF for 22 years

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

Dr. Jürgen Hambrecht
Chairman of the Board of Executive Directors
63, with BASF for 34 years

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

Dr. Hans-Ulrich Engel
50, with BASF for 22 years

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

Dr. Kurt Bock
Chief Financial Officer
51, with BASF for 19 years









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

Our goals*

Economic goals

	2009 Goals	Status at year-end 2009	More on
Earn an EBIT of at least 9% based on the assets of the operating divisions	At least €3,903 million	We achieved an EBIT of €3,677 million.	Page 24
Dividend per share to be increased annually or at least to remain at the previous year's level	At least €1.95	The Board of Executive Directors and the Supervisory Board will propose a dividend payment of €1.70 per share at the Annual Meeting.	Page 18
EBITDA margin of 18% by 2012	18%	14.6%	Page 36

Environment, safety and product stewardship

	2020 Goals	Goals	Status at year-end 2009	More on
Energy and climate protection				
Emissions of greenhouse gases per metric ton of sales product ¹ (baseline 2002)	-25%		+0.1%	page 92
Improvement of energy efficiency in production processes ¹ (baseline 2002)	+25%		+15.7%	page 93
Stop the flaring of associated gas that is released during crude oil production by Wintershall (2012 goal)	100%		>95%	page 92
Reduction in emissions from chemical operations (baseline 2002)				
Emissions of air pollutants ²	-70%		-63.5%	page 99
Emissions to water of				page 95
Organic substances ²	-80%		-79.7%	page 95
Nitrogen ²	-80%		-83.9%	page 95
Heavy metals ²	-60%		-61.4%	Page 95
Distribution safety (baseline 2003)				
Reduction in transportation accidents	-70%		-57.0%	page 99
Product stewardship				
Review of all products that are sold worldwide by BASF in quantities of more than 1 metric ton per year, based on a risk assessment	>99%		>23%	page 101

¹ Excluding oil and gas production

² Assuming comparable product portfolio

* All statements related to the achievement of our goals include the effects of the acquisition of Ciba Holding AG on April 9, 2009.

EBITDA margin

2012 Goal: 18% (minimum ≥ 14%)


14.6%

Energy efficiency

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

+16%

Employees and society

	2020 Goals	Goals	Status at year-end 2009	More on
Occupational safety (baseline 2002)				
Reduction in lost time injury rate per million working hours	-80%		-46.5%	page 89
Health protection (baseline 2004)				
Reduction in cases of occupational diseases	-80%		+5.0%	page 89
Senior executives				
	Long-term Goals		Status at year-end 2009	More on
International proportion of senior executives	Increase in the proportion of non-German senior executives (baseline 2003: 30%)		32.7%	page 88
Women in senior executive positions	Increase in the proportion of female senior executives (baseline 2003: 5.2%)		6.5%	page 88
Senior executives with international experience	Proportion of senior executives with international experience over 70%		76.8%	page 88
Leadership feedback				
Mandatory leadership feedback for senior executives worldwide	2008 Goal 80% of senior executives have taken part in the standardized leadership feedback process		Management tool successfully introduced	page 87
Employee survey				
Global employee survey	2009 Goal Implement a global employee survey for the BASF Group		Survey carried out, more than 1,500 follow-up measures introduced	page 86

Occupational safety

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

-46%

Senior executives with international experience

77%

Strategy and values

We aim to remain the world's leading chemical company in the future. In order to grow profitably in the long term, we are committed to operational excellence, innovation and investment in growth markets. Our actions are guided by sustainability. Our guidelines and principles summarize how we intend to achieve corporate goals and to establish and implement our values within the company.

Our business focuses on the global challenges of the future. With this in mind, we concentrate our research and commercial focus on innovative business areas and invest in growth markets at an early stage. Strategic partnerships with important cooperation partners help us to tap into these areas and markets. We benefit from our broad portfolio, operational excellence and solid financing. One of our greatest strengths is the motivation and expertise of our global team. Our human resources policy therefore focuses on BASF's long-term competitiveness, and is complemented by programs to address demographic change and our attractiveness as an employer as well as increased emphasis on internationality and diversity.

→ For more on strategic partnerships, see pages 73, 76 and 115; for more on our human resources policy, see page 85 onward

Innovative strength as a success factor

We distinguish ourselves from our competitors through innovation. Therefore, even in a difficult economic environment, our investment in research and development remains consistently high. We also rely on cooperation with universities, customers and industry partners. We work on solutions for global challenges, focusing particularly on future markets and technologies with high growth potential. These include energy management, raw material change, nanotechnology, plant biotechnology and white biotechnology.

→ For more on research and development, see page 31 onward

Strategies for value-adding growth

- Maintain high level of investments in research and development, even in a difficult economic environment
- Global research cooperations
- Innovative business areas
- Align business models with market requirements
- Restructuring and cost cutting
- Strategic partnerships
- Active portfolio management

Regional strategies

Asia

We develop strategic focuses for regions. In 2009, BASF released its Asia Pacific Strategy 2020.

→ For more on the Asia Pacific Strategy, see page 83

Boosting efficiency

We are continuing to intensify our restructuring and cost-cutting processes. For our crisis management in 2009, this meant adapting production to reduced demand, being disciplined with regard to costs and expenditures and using flexible working time arrangements. Thanks to our NEXT program to increase efficiency, we were able to save approximately €300 million in 2009. From 2012, we anticipate that NEXT will contribute more than €1 billion to earnings per year.

→ For more on our measures to increase efficiency, see page 37 onward and pages 82 to 84

Active portfolio management

We increase our competitiveness through active portfolio management. To become even more cyclically robust, we are expanding our portfolio of specialty chemicals. A further step in this direction was the acquisition of the Swiss company Ciba Holding AG: The Ciba businesses strengthen our value-adding chain, making BASF one of the leading suppliers of specialty chemicals. We adopted a sector-specific approach to the integration of Ciba, with a focus on customer industries.

In 2009, we also strengthened our portfolio through divestitures. We divested businesses and plants that could not be optimally developed within our structures. These included the process catalysts production site in Nanjing, China, as well as the polystyrene business in Brazil and the styrene monomer site in Ulsan, South Korea. → For more on divestitures, see page 156

Our positioning

BASF is the world's leading chemical company. We offer intelligent solutions with innovative products and tailor-made services. We create opportunities for success through reliable partnerships based on trust.

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. In 2009, despite the severe economic crisis and €785 million in one-off integration costs related to the Ciba integration, we just narrowly missed this goal.

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

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 diverse backgrounds and experiences.

→ For more on the implementation of this guideline, see page 85 onward

We help our customers to be more successful

We must recognize what our customers 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, 48, 55, 60, 67 and 73

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

Our values

Our actions are guided by clearly defined values and standards of conduct. These define how we intend to achieve our goals and they go beyond formal compliance with laws and regulations. Responsible conduct helps us strengthen our credibility and foster the trust of our stakeholders. As a globally operating company, we act in accordance with internationally recognized standards:

- The ten principles of the U.N. Global Compact
- United Nations' Universal Declaration of Human Rights and both U.N. Covenants on Human Rights

- The International Labor Organization's (ILO) eight 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
 - The German Corporate Governance Code
- The basic values and guidelines we apply throughout the Group reflect these standards and govern our conduct. Our six basic values are: 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

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 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

values is complemented by binding principles that specify how we want to implement our values and standards in 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. 🌐

→ **For more on the instruments we use to anchor our values in day-to-day business activities, see the chapters Sustainability management from page 25 onward and Environmental and safety management from page 97 onward**

→ **For more on values, see basf.com/values**

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. The value “integrity” is 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 onward**

Basis for our actions

- Values, principles and instruments with which we integrate sustainability in the company
- Values go beyond formal compliance with laws and regulations
- Instruments and monitoring systems to pursue and evaluate the implementation in day-to-day business activities

Global standards

With global standards, we set clear rules and monitor our performance with respect to environmental, health and safety management through regular audits. We support the global Responsible Care® initiative and set ourselves ambitious environmental, health and safety goals.

The working conditions of our employees are, at minimum, in compliance with internationally recognized labor standards and the laws of the countries we operate in. Compliance with the ILO's core labor standards is mandatory for us worldwide. This includes the prevention of child labor and forced labor, adherence to the principle of non-discrimination in the workplace, the right to freedom of association and assembly, and the right to collective bargaining. This applies provided national law does not explicitly prohibit adherence to the ILO core labor standards. When we align labor and social standards with local conditions, we comply with the national industry standard. We are committed to the following principles:

- performance-related compensation based on global principles and in line with the market; remuneration that, at the very least, meets the legal minimum wage; employee participation in the company's success;
- an appropriate limit to the maximum number of working hours;
- regular paid vacation;
- social security for our employees;
- good-faith relationships with elected employee representatives.

To ensure that we uphold these voluntary commitments, we have implemented a global monitoring system for labor and social standards. 🌐

→ **For more on monitoring instruments, see page 26; for more on environmental and safety management, see page 97 onward; for more on occupational safety and health protection, see page 89; for more on product stewardship, see page 101 onward**

→ **For more on human rights, see basf.com/humanrights**

Global standards

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

BASF on the capital market

High dividend yield, above-average share performance

After a significant decline in 2008, the BASF share price recovered continuously from the end of the first quarter of 2009. At year-end, BASF's share performance significantly outperformed the most important benchmark and industry indices. We stand by our ambitious dividend policy, even in very difficult economic times: We offer our shareholders a dividend of €1.70, which represents a dividend yield of 3.91%. BASF has solid financing and good credit ratings, especially compared with competitors in the chemical industry.

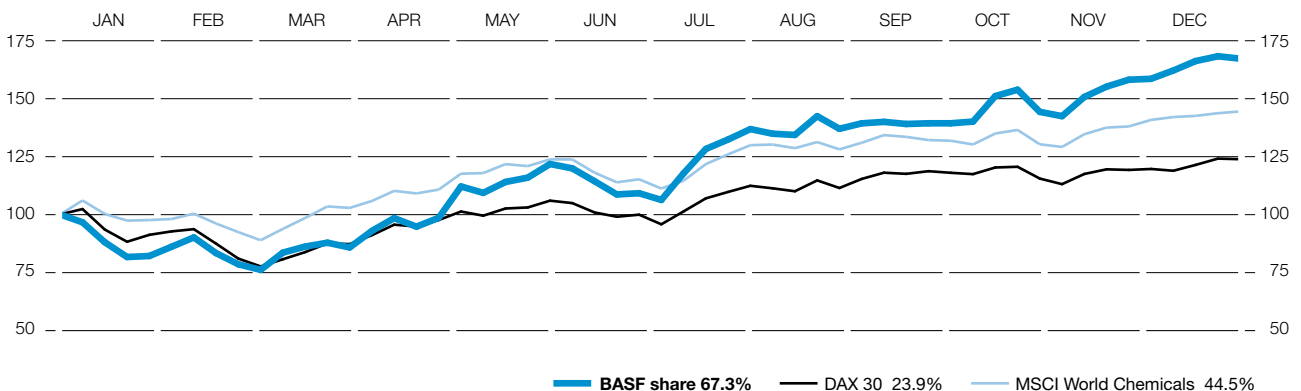
Stock markets – recovery in 2009

High volatility and continued economic uncertainty characterized the stock markets in 2009. After a difficult start to the year, with falling share prices, the market environment improved continuously from the end of the first quarter onward, so that the values of key indices at the end of 2009 were significantly higher than one year earlier.

The BASF stock performed well in this environment, closing at €43.46 per share at the end of 2009 – a significant increase of 57% compared with year-end 2008. Assuming that dividends were reinvested, a holding in BASF shares increased by 67.3% in value (2008: –42.9%). The BASF stock thus outperformed the German and European stock markets: Over the same period, the DAX 30 index rose by 23.9% while the DJ EURO STOXX 50 index gained 25.5%. In 2009, BASF shares also outperformed the global industry indices DJ Chemicals and MSCI World Chemicals, which increased by 53.7% and 44.5%, respectively.

The assets of an investor who invested the equivalent of €1,000 in BASF shares at the end of 1999 and reinvested the dividends in additional BASF shares would have increased to €2,472 by the end of 2009. This average annual return of 9.5% places BASF shares substantially above the corresponding returns for the EURO STOXX 50 (–2.6%), DAX 30 (–1.5%) and MSCI World Chemicals (5.0%).

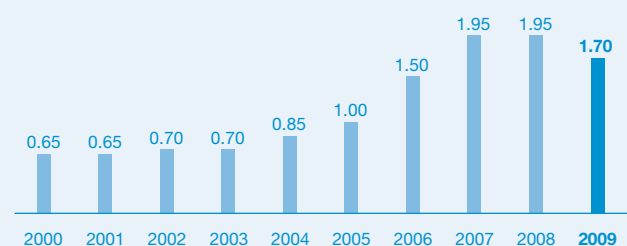
Change in value of an investment in BASF shares 2009
(with dividends reinvested, indexed)



BASF on the capital market

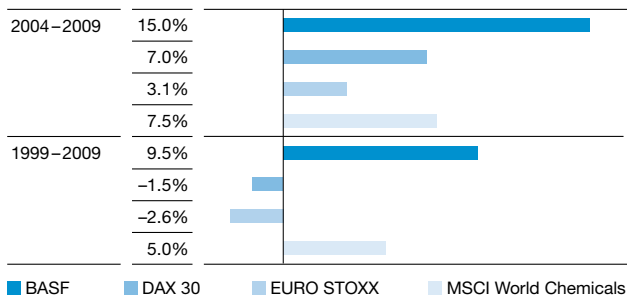
- BASF share outperforms German and European stock markets
- Continuous recovery of BASF's share price from the end of the first quarter
- Ambitious dividend policy, even in very difficult economic times; dividend yield of 3.91%
- Proposed dividend of €1.70 per share

Dividend per share¹ (€ per share)



¹ 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)



Proposed dividend of €1.70 per share

At the Annual Meeting, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €1.70 per share. This means that, even in very difficult economic times, we stand by our ambitious dividend policy and will pay out €1.6 billion to our shareholders (based on the number of qualifying shares on December 31, 2009). Based on the year-end share price for 2009, BASF shares offer a high dividend yield of 3.91%. We continue to aim to increase our dividend each year, or at least maintain it at the previous year's level.

Broad base of international shareholders

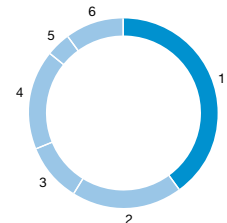
With around 460,000 shareholders, BASF is one of the largest publicly owned companies with a high free float. An analysis of the shareholder structure carried out in September 2009, showed that, at 19% of share capital, the United States and Canada made up the largest regional group of institutional investors. Institutional investors from Germany made up 12%. Shareholders from the United Kingdom and Ireland hold 10% of BASF shares, while institutional investors from the rest of Europe hold a further 17% of capital. Around 28% of the company's share capital is held by private investors, most of whom are residents in Germany.

BASF in sustainability indices

- BASF again included in the most important sustainability indices
- DJSI World: special recognition for BASF's climate protection strategy and risk management
- CDLI: BASF ranked first in the materials sector, making it one of the top performers in the CDLI

Shareholder structure (by region)

1	Germany	40%
2	United States/Canada	19%
3	United Kingdom/Ireland	10%
4	Rest of Europe	17%
5	Rest of the world	4%
6	Unidentified	10%



Employees becoming shareholders

In many countries, we offer share purchase programs to encourage our employees to become BASF shareholders. In 2009, these enabled more than 20,800 employees (2008: 19,400 employees) to purchase employee shares worth over €33 million (2008: €44 million).

→ For more on employee share purchase programs, see page 88

BASF in key sustainability indices

BASF was included in the most important sustainability index worldwide, the Dow Jones Sustainability World Index (DJSI World), for the ninth year in succession. We received special recognition for our climate protection strategy and our risk management.

Additionally, in September, the international investor group Carbon Disclosure Project again included BASF in the prestigious Carbon Disclosure Leadership Index (CDLI). We ranked first among companies in the materials sector, making us one of the top performers in the CDLI. The CDLI includes companies that excel in addressing climate change and in the transparency of their reporting in this area. The Carbon Disclosure Project represents 475 institutional investors, with over \$55 trillion in assets under management.

→ For more on the key sustainability indices, see basf.com/sustainabilityindices

Percentage of BASF shares in important indices as of December 31, 2009

Index	Percentage
DAX 30	7.5
DJ STOXX 50	1.6
DJ EURO STOXX 50	2.5
DJ Chemicals	7.4
MSCI World Index	0.26

Good credit ratings and solid financing

With “A+/A-1/outlook negative” from rating agency Standard & Poor’s and “A1/P-1/outlook stable” from Moody’s, BASF has good credit ratings, especially when compared with competitors in the chemical industry. Thanks to our solid financial position, we continued to have unrestricted access to international financial and capital markets in 2009.

From the beginning of 2009, BASF issued medium and long-term bonds and promissory notes worth over €4.4 billion to finance the acquisition of Ciba and to optimize our financing structure. At year-end, the financial indebtedness of the BASF Group was €14.8 billion with a liquidity of €1.8 billion. Around 84% of financial indebtedness has a maturity of more than one year. As of December 31, 2009, short-term commercial paper in the value of approximately \$0.5 billion was outstanding.

→ For more on financial indebtedness and maturities, see Notes to the Consolidated Financial Statements on page 184

Analysts’ recommendations

Around thirty financial analysts regularly publish reports on BASF. At the end of 2009, 65% of these analysts had a buy rating for our shares (end of 2008: 48%) while 19% of analysts recommended holding our shares (end of 2008: 28%), and 16% had a sell rating (end of 2008: 24%). On December 31, 2009, the average target share price according to analyst consensus estimates was €42.73.

→ For analysts’ current estimates for BASF, see basf.com/share

Close dialogue with the capital markets

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 individual meetings and roadshows worldwide. We also hold events to provide private investors with an insight into the world of BASF.

As 2009 was a difficult financial year, it was very important to us to maintain close contact with our investors. We therefore held a series of roundtable discussions aimed at giving our investors in various cities (Ludwigshafen, Frankfurt, London, New York and Boston) comprehensive information about certain key areas of our business. For example, members of our Board of Executive Directors gave investors an insight into our strategy in Asia. It is 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 were also able to strengthen our relationships with investors who base their investment decisions on sustainability criteria. We held our first dedicated investor day for this target group to discuss issues such as climate protection and energy efficiency.

We also implemented several suggestions from our investors to further improve our external reporting. As a result, for the first time, we also included adjusted earnings per share in our interim report for the first half of 2009. In November 2009, we started publishing a dynamic analyst consensus on our website that is updated whenever there is a new analyst estimate.

Analysts and investors have confirmed the quality of our communication work – and have ranked BASF Investor Relations as the number one on many occasions. In June, BASF won the Investor Relations Award from the business magazine Capital for the third time in succession. In this ranking, around 400 analysts and fund managers ranked BASF first among EURO STOXX 50 companies. BASF also took first place in the chemical sector in the Pan-European IR Excellence Awards 2009, presented by Thomson Extel, for the sixth time in succession. At the IR Society’s Best Practice Awards, which recognizes the best investor relations teams in Europe, BASF took first place in three categories for the first time, including for best annual report and for the sustainability communication within the report.

Solid financing

- BASF Group’s financial indebtedness €14.8 billion at the end of 2009, of which around 84% has a maturity of more than one year
- Bonds and promissory notes totaling over €4.4 billion issued to finance the acquisition of Ciba and optimize BASF’s financing structure
- Liquidity at year-end 2009: €1.8 billion

Investor Relations

- Can be contacted at
- Phone: +49 621 60-48230
 - E-mail: investorrelations@basf.com
 - Internet: 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. Register at basf.com/share/newsletter

Key BASF share data¹

		2005	2006	2007	2008	2009
Year-end price	€	32.36	36.93	50.71	27.73	43.46
Year high	€	32.67	37.12	50.81	52.41	43.95
Year low	€	25.06	29.49	35.98	19.95	20.71
Year average	€	28.57	32.41	44.5	38.88	31.62
Daily trade in shares ²						
– million €		154.0	198.6	298.3	282.1	157.4
– million shares		5.4	6.2	6.7	7.3	5.0
Number of shares December 31 ³	million shares	1,028.80	999.4	956.4	918.5	918.5
Market capitalization December 31	billion €	33.3	36.9	48.5	25.5	39.9
Earnings per share	€	2.87	3.19	4.16	3.13	1.54
Dividend per share ⁴	€	1.00	1.50	1.95	1.95	1.70
Dividend yield ⁵	%	3.09	4.06	3.85	7.03	3.91
Payout ratio	%	34	46	45	62	111
Price-earnings ratio (P/E ratio) ⁵		11.3	11.6	12.2	8.9	28.2

¹ All values adjusted for two-for-one stock split conducted in the second quarter of 2008.

² Average, Xetra trading

³ After deduction of shares earmarked for cancellation

⁴ Adjusted for special items and the amortization of intangible assets, earnings per share amounted to €3.01 in 2009 (2008: €3.85).

⁵ Based on year-end share price

Further information

Securities code numbers

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

International ticker symbol

Deutsche Börse	BAS
London Stock Exchange	BFA
Swiss Exchange	AN

Best patent portfolio

VALUE FOR BASF

First place in Patent Asset Index

Patents form a crucial foundation for our long-term competitiveness. The Patent Asset Index™ compares patent portfolios worldwide and is a transparent indicator for a company's innovative strength. In 2009, BASF was ranked first in the index, which was developed at the Otto Beisheim School of Management (WHU) near Koblenz, Germany. For example, our product Neopor® – plastic granules used in insulating materials – is based on particularly strong patent families. Due to the continuously rising demand for energy-efficient building materials, BASF increased Neopor production capacity in Ludwigshafen by 70,000 metric tons annually in 2009.



BASF employees Hans Vetter and Thorsten Lehr at the Technical Center for Neopor: This insulating material is based on especially strong BASF patent families.

VALUE FOR SOCIETY

Strong insulating materials save energy and cut costs

Insulating materials made from BASF products can save heating costs and increase the value of buildings for homeowners in an environmentally friendly way. Our insulating material Neopor, for example, contains graphite particles that reflect thermal radiation. This enables them to reduce heat loss and helps to save energy. An increasing number of public buildings are also benefiting from this: As part of a project run by the German Energy Agency, for example, the Anne Frank daycare center in Wolgast, Germany, is being turned into a low-energy building using Neopor and other BASF construction products.

→ For more on climate protection, see page 91



Increased energy efficiency for the Anne Frank daycare center: daycare manager Sabine Holznagel and construction engineer Matthias Kühn at the building site in Wolgast.

Markets, structures and organization

The world's leading chemical company – The Chemical Company

Around 105,000 employees of the BASF Group help 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 2009, we achieved 56% of our sales with customers in Europe, of which 21 percentage points were in the Oil & Gas segment. In addition, 19% of sales were generated in North America; 17% in Asia Pacific; and 8% in South America, Africa, Middle East. We operate six Verbund sites and approximately 380 other production sites worldwide. Our Verbund site in Ludwigshafen is the largest integrated chemical complex in the world that belongs to a single company. This was where the Verbund concept was developed and optimized before it was applied to other sites around the world. The Verbund concept also includes an Energy Verbund and a Know-How Verbund. In the latter, know-how is shared among BASF employees worldwide. Expert knowledge is pooled in our technology platforms and Competence Centers.

→ For more on the Verbund concept, see basf.com/verbund and pages 31 and 94

Organization of the BASF Group

BASF's six business segments contain 14 divisions which bear the operational responsibility and manage our 72 global and regional business units. These in turn develop strategies for our 80 product lines and are organized according to sectors or products. The divisions in the Performance Products segment were restructured as of April 1, 2009.

→ For more on the Ciba integration, see page 58 onward and the Notes to the Consolidated Financial Statements from page 154 onward

The BASF Group

- Six Verbund sites and approximately 380 other production sites worldwide; around 105,000 employees
- BASF has subsidiaries in more than 80 countries
- 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

Energy Verbund

Efficient use of resources

Value for BASF
up to

1.5 million
metric tons

of oil equivalent saved
per year

Value for the environment

3.4 million
metric tons

reduction in CO₂ annually

Value for BASF In BASF's Energy Verbund, production and energy needs are intelligently linked so that heat from production processes can be used as energy in other operations, thus saving both primary resources and costs.

Value for the environment With the Energy Verbund, BASF reduces the use of fossil fuels and thereby also lowers CO₂ emissions.

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 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 human resources, research, engineering, finance, investor relations and communication.

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.

Organization of the BASF Group

- Segments contain 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
- Reorganization of the divisions in the Performance Products segment

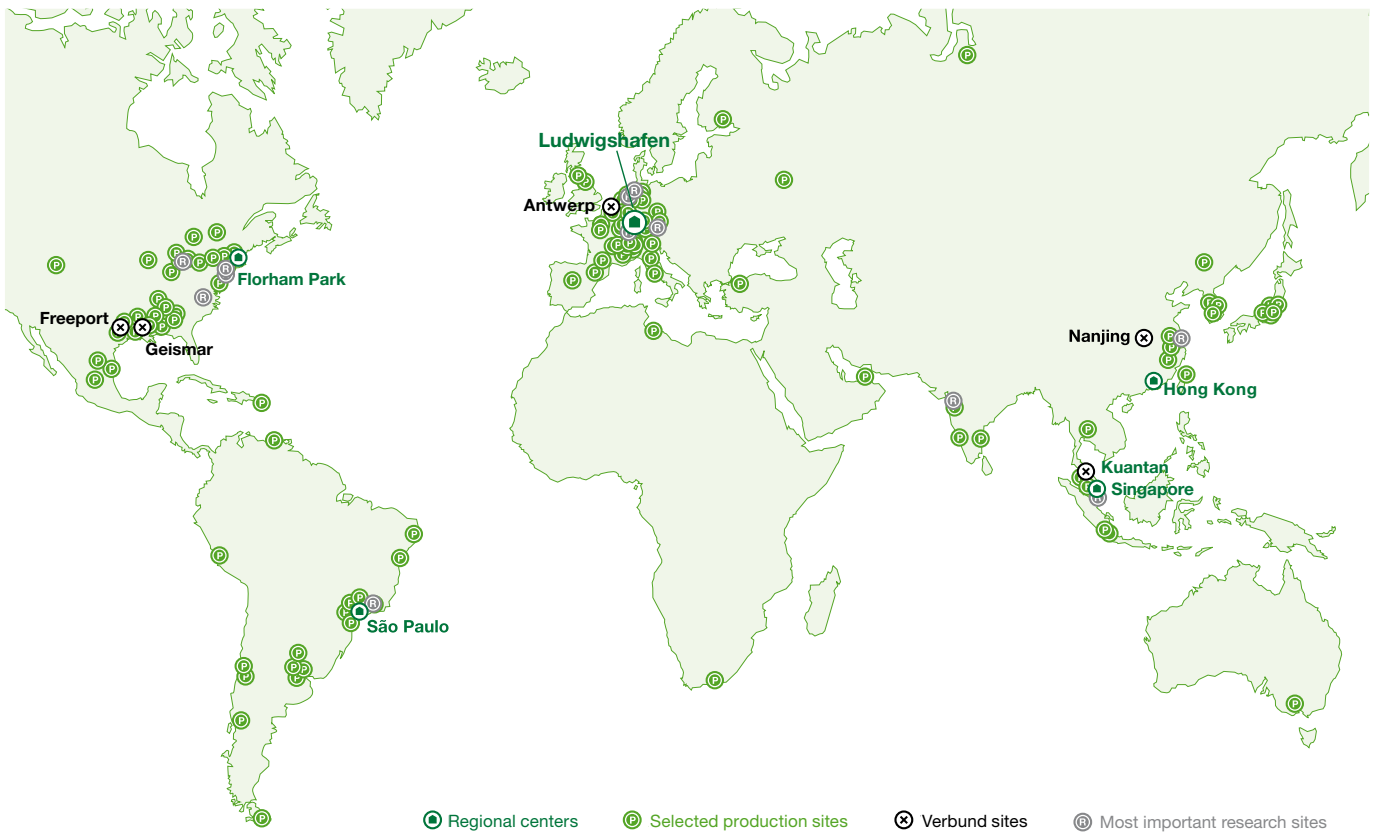
The majority of BASF Group companies cover a broad spectrum of our business. Some concentrate on specific business areas, such as BASF's subsidiary Wintershall. In the BASF Group Consolidated Financial Statements, 326 companies including BASF SE are fully consolidated. We consolidate 19 joint ventures with one or more partners on a proportional basis. We also include 17 companies using the equity method.

→ For more on the scope of consolidation, see the Notes to the Consolidated Financial Statements from page 151 onward

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

→ The compensation report can be found from page 126 onward, and the disclosures required by takeover law from page 121 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
- 326 companies consolidated in the Consolidated Financial Statements; 19 joint ventures included on a proportional basis
- 17 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. With this figure, we determine whether BASF’s shareholders and creditors receive a suitable 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 2009, the cost of capital percentage was 9%; in 2010, we expect it will be at the same level.

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, 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 summary¹

2009	(226)	
2008	1,621	
2007	2,895	
2006	2,126	
2005	2,354	

¹ Since January 1, 2008, Group corporate costs are no longer allocated to the segments, but rather reported under “Other”. The previous years’ figures were not adjusted.

Calculation of EBIT after cost of capital (million €)

	2009	2008
EBIT BASF Group	3,677	6,463
less EBIT for activities not assigned to the segments ¹	(627)	(930)
less noncompensable foreign income taxes for oil production	870	1,851
less cost of capital ²	3,660	3,921
EBIT after cost of capital	(226)	1,621

¹ The projected net expense is already provided for by an increase in the cost of capital percentage. The previous year’s value was not adjusted to reflect the changes to the segment structure.

² In 2009, the cost of capital percentage was 9% compared with 10% in the previous year.

Sustainability management

Minimizing risks, creating new business opportunities

Sustainability is firmly rooted in our company, both strategically and organizationally, and is therefore a responsibility that cuts across the entire structure of BASF. As an integral part of our value-based management, sustainable development helps us minimize risks, enhance the existing business and create new business opportunities.

With sustainability management, BASF is implementing its strategic guideline "We ensure sustainable development." As part of this, we:

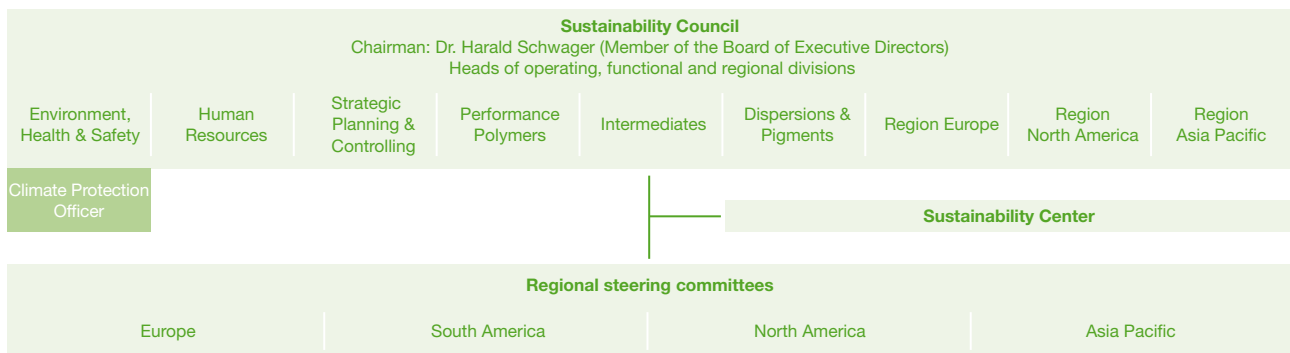
- identify and develop sustainability topics that are relevant to the future,
- implement and monitor environmental, safety and social standards,
- nurture good long-term relationships with customers and suppliers, and
- conduct open dialogue with relevant stakeholders.

To take advantage of business opportunities, we offer products that have economic and ecological benefits and provide sustainability services to customers. In this way, we use sustainability to create value – for BASF and for society.

Sustainability organization

Our globally responsible Sustainability 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 advises the Board of Executive Directors on decisions concerning sustainability. It also issues globally valid Group directives and is the central decision-making body for all relevant sustainability topics. For example, in 2009, it advised on the establishment of the social business BASF Grameen Ltd. in Bangladesh, and defined criteria for environmental protection and social responsibility in the innovation process. The Sustainability Council is supported by regional steering committees in Europe, North and South America and Asia. They identify key regional topics, initiate the corresponding projects, and implement global decisions locally. The steering committees are assisted by task-specific project teams, which can be made up of employees from operating units. Our Sustainability Center coordinates between the Sustainability Council, regional networks and operating units regarding the implementation of the strategy in day-to-day business. In addition, the Center serves as a point of contact for external stakeholders. The worldwide

Sustainability management structures



Sustainability strategy

- Implementation of the strategic guideline "We ensure sustainable development"
- Responsibility that cuts across the entire structure of BASF and a component of value-based management
- Minimize risks and create new business opportunities
- Open dialogue with stakeholders
- For information on value-based management, see page 24

Sustainability organization

- Global Sustainability Council issues worldwide guidelines and advises the Board of Executive Directors on important decisions regarding sustainability
- Regional steering committees for sustainability
- Issues in 2009 included criteria for environmental protection and social responsibility in the innovation process as well as the establishment of a social business

BASF Responsible Care network implements requirements in the areas of environment, health and safety.

→ For more on social business, see basf.com/socialbusiness

Identifying future topics

We endeavor to identify and consider important topics related to sustainable development at an early stage. We regularly analyze sustainability issues with regard to their relevance for society and their significance for BASF. We aim to identify topics that could, currently or in the future, present a risk or opportunity for our business. We use the results of this issue management to initiate long-term change processes within the company, to define goals for developing our portfolio and to specify focus points for reporting.

One example is the topic of water: Water availability and quality are global challenges of the future. We are currently evaluating the significance of this issue for BASF and examining the sustainability of the water supply at our sites. In 2009, we expanded our portfolio of water treatment products.

→ For more on our process for identifying sustainability topics, see basf.com/materiality and page 2; for more on water, see page 95 onward

Monitoring tools

A range of systems help us to monitor whether our sites are in compliance with our environmental, safety and social standards. For example, for over 20 years, BASF has been conducting internal audits around the world according to standardized criteria on process safety, occupational health and safety, and environmental protection.

Likewise, we monitor adherence to internationally recognized labor and social standards as well as legal requirements. We also conduct risk-based assessments of our suppliers worldwide through on-site visits.

→ For more on audits on environment, health and safety, see page 98; for more on compliance, see page 120 onward

Identification of important topics

- Identify important issues pertaining to sustainable development that could pose opportunities or risks to BASF's business
- Regularly analyze and discuss sustainability topics
- Initiate change processes

Adherence to labor and social standards

We introduced a three-part monitoring system to evaluate whether we adhere to internationally recognized labor and social standards within the BASF Group. This includes:

- close dialogue with employee representatives and international organizations in order to recognize new developments and challenges early on,
- a compliance hotline that all employees can use anonymously and confidentially to obtain information about valid labor and social standards or to report grievances, and
- an annual survey in our Group companies to ensure adherence to voluntary commitments in day-to-day business.

If the evaluation and comparison of the monitoring tools indicate deficits at any of our Group companies, we investigate these and take appropriate action. This ranges from a verbal warning to dismissal.

In 2009, our compliance hotline received 48 calls relating to labor and social standards, of which 37 related to grievances. The 2009 survey covered 100% of the employees in our Group companies. In this, we ask about existing processes for adhering to standards. We also query the effectiveness of these processes, for example for the implementation of the International Labor Organization's core labor standards.

As a member of the Global Compact, our responsibility does not end with adherence to minimum standards. We strive to continuously improve working conditions at our companies and to support internationally recognized labor and social standards within our sphere of influence. For example, we are involved in a project in Pakistan, together with the national employers' association EFP and the ILO, to promote equal rights for women in the workplace. The project aims to increase the involvement of women in decision-making processes in companies. In 2009, as part of leadership training, we worked with our partners to train over 400 female managers in all of Pakistan's larger cities. 🌐

→ For more on labor and social standards, see page 16

Internal monitoring

- Audits on environmental, safety and social standards
 - Three-part system to monitor adherence to labor and social standards
 - Survey whether processes for adherence to standards exist and how effective these are
- For more on monitoring systems for labor and social standards, see basf.com/monitoring_e; for more on audits of environmental, safety and social standards, see basf.com/audits_e

Survey of ILO Core Labor Standards 2009

	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 2009, we received 33 calls relating to discrimination. In 10 cases, there was evidence of misconduct.
Employees' right to freedom of association	100% ¹	No company measures to fundamentally restrict freedom of association	91%	Employees are working at a company, in which employee representation exists
Employees' right to collective bargaining	100% ¹	No company measures that fundamentally restrict freedom of collective bargaining	87%	Employees are working at a company in which working conditions are based on a collective contract and employee representation exists

¹ A very small percentage 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.

Supply chain management

When choosing suppliers, our decisions are not based solely on economic criteria. Both new and existing suppliers are also evaluated on the basis of environmental protection, occupational safety and social standards, and these standards are incorporated in our procurement conditions.

In 2009, BASF procured raw materials from more than 6,000 suppliers worldwide. Risk matrices help us to identify potential high-risk suppliers. The assessment is based on country, product and sector risks. We visit suppliers on site according to their risk potential. If we establish that they do not meet our standards or only meet them partially, we agree on corrective measures and provide help with implementing these. We continued with the evaluation of our suppliers' social standards in 2009. In recent years, we have informed our suppliers in writing about expected standards. In 2009, over 260 suppliers filled out a self-assessment questionnaire, which aims to increase their awareness of these issues. We paid on-site visits to around 140 raw materials suppliers in 2009 relating to environmental, health and safety aspects. Furthermore, we inspected around

380 suppliers of technical goods and services as well as logistics services providers. After holding "Supplier Days" in India and China in 2008, we are planning further training sessions on sustainability issues for suppliers in 2010 as well as supplier support visits related to the implementation of labor and social standards.

In 2009, BASF purchased approximately 500,000 different raw materials and technical goods as well as plant construction and maintenance services and logistics. BASF Group's purchasing volume in 2009 amounted to €21.2 billion. Raw materials accounted for €14.4 billion and technical goods and services for €6.8 billion. Purchasing volumes of trading businesses – with natural gas, metals and other raw materials and merchandise – are not included in these figures. The most important raw materials for BASF are naphtha, natural gas, methanol, ammonia and benzene. 

→ For more, see basf.com/supplychain; for more on the safety of logistics providers, see page 99

Monitoring of suppliers

- Information sent to suppliers about expected standards; self-assessment of suppliers
- On-site visits to inspect suppliers
- More than 260 suppliers answered self-assessment questionnaire on labor and social standards
- Inspection of around 140 raw materials suppliers and 380 suppliers of technical goods and services, as well as logistics service providers
- For more on supply chain compliance, see page 120 onward

Customer satisfaction

Good relationships with our customers and their satisfaction with our performance are prerequisites for long-term business success. We established our “perspectives” initiative in 2005 to increase customer orientation across all units. With the help of “perspectives,” customers and BASF employees analyze existing business relationships and new business opportunities. In 2009, for example, new projects with automotive customers in Asia resulted from this dialogue. Using annual surveys, we evaluate whether our customers are aware of improvements in customer service. In 2009, more than 1,800 employees across all regions participated in “perspectives” training courses and workshops on marketing and sales topics.

We were again honored by many satisfied customers in 2009. Our honors included Procter & Gamble's “Supplier of the Year” award, making BASF one of seven prize winners selected by the company from over 80,000 suppliers. In South America, BASF won an award from the Suzano Group as best supplier, for example.

Using our global Non Conformance Management System (NCM), we record and investigate customers' problems with our products and processes. This helps us to learn from mistakes and continuously improve our performance. We are currently further integrating the NCM system in supply chain processes such as inspections of material quality.

Customer satisfaction

- “perspectives” initiative to strengthen customer focus
- More than 1,800 participants in “perspectives” training courses in 2009
- Awards recognize BASF as a good supplier
- Non Conformance Management System records customers' problems with products and processes to help us learn from mistakes

Success – sustainability expertise for customers

Sustainability allows BASF to set itself apart from competitors. We bring our expertise into customer relationships through the initiative “Success – Added Value through Sustainability”. Here, our business units investigate how they can expand or strengthen customer relationships through sustainability, and in doing so create new business models. We carried out 157 sustainability projects as part of the Success initiative in 2009. The services offered range from product analysis to the development of strategic concepts.

A Success project with the raw materials purchasing department won the BASF Business Excellence Award in 2009: To stand out from buyer competition for fertilizer raw materials, BASF supported selected suppliers with technical knowledge relating to the European chemicals regulation REACH, energy security and climate protection. In return, BASF was able to agree on long-term, cost-effective supply contracts. 🌍

→ For more on this topic, see basf.com/success_e

New HPPO technology from BASF and Dow

Greater energy efficiency, less wastewater

Value for BASF
requires up to

25%

less capital
to build new plants in
comparison to traditional
technologies

Value for the environment
up to

40 metric tons

less wastewater per ton
of sales product compared
to conventional processes

Plants using the HPPO technology jointly developed by BASF and DOW to produce propylene oxide are significantly more economical than those using existing processes. The use of the new technology not only reduces wastewater, it also lowers energy consumption by up to 35%. → For more, see page 29

Sustainability services for customers


- Initiative “Success – Added Value through Sustainability” helps BASF to expand and strengthen customer relationships through sustainability
- 157 sustainability projects in 2009
- Success project helps BASF to stand out from competition in buying raw materials and wins the BASF Business Excellence Award

Eco-Efficiency Analysis and SEEBALANCE

BASF developed the Eco-Efficiency Analysis as a strategic tool for the evaluation of products and processes. It provides information about the relationship between the economic benefits of a product and its impact on the environment. This tool helps us and our customers decide which products and processes are most suitable, both in economic and ecological terms. The entire life cycle of a product or process is examined in relation to all important environmental categories, including resource and energy consumption, emissions and risk potential.

In 2009, BASF carried out its 400th Eco-Efficiency Analysis. In cooperation with the German supermarket chain REWE, BASF conducted an Eco-Efficiency Analysis of apples grown in Europe and overseas. Important influential factors were yield, transport and cooling. An Eco-Efficiency Analysis carried out with The Dow Chemical Company for the jointly developed HPPO technology (hydrogen peroxide-propylene oxide technology) revealed significant savings for capital, energy consumption and wastewater quantities compared with conventional technologies. The new technology won the 2009 Innovation and Excellence Award in Core Engineering from the U.K.-based Institution of Chemical Engineers.

The Socio-Eco-Efficiency Analysis SEEBALANCE® is an extension of the Eco-Efficiency Analysis that includes social impact. This incorporates additional social criteria such as accidents at work, vocational training and spending on research and development. In 2009, we enhanced the methodology once again: We now incorporate additional economic evaluation parameters such as taxes and subsidies.

BASF's method for Eco-Efficiency Analysis is certified by the German Association for Technical Inspection (TÜV Berlin). The Eco-Efficiency Analysis received certification in the United States in 2009 from the non-profit organization National Sanitation Foundation (NSF). The goal of the NSF Protocol 352 is to ensure that sustainability analyses are logical, objective and transparent. 

→ For more on this topic, see basf.com/eco_efficiency

Eco-Efficiency Analysis


- Strategic tool for evaluating products and processes
- Provides information about the relationship between economic benefits and impact on the environment
- More than 400 Eco-Efficiency Analyses conducted
- Methodology certified by TÜV Berlin
- Certification from National Sanitation Foundation in the United States

Dialogue with stakeholders

Open and respectful treatment of stakeholders is anchored in our basic values. Employees, employee representatives, neighbors, policy makers, non-governmental organizations, shareholders, customers and other business partners are our most important stakeholders. Our exchange with these stakeholder groups helps us to identify important issues and the ensuing opportunities and risks for BASF. The results of stakeholder dialogue are incorporated into our issue management for sustainability.

As a company in the chemical industry, we are aware of the particular responsibility we have towards our neighbors. Current issues are discussed in Community Advisory Panels (CAPs) in BASF's host communities. There are 75 CAPs at present, mostly at our larger production sites.

The trust of consumers, non-governmental organizations, policy makers and the general public is essential for the successful introduction of products based on new technologies. We enter the political and public debate at an early stage of technological development. Our involvement in national and international dialogue forums on nanotechnology dates back to 2004. In dialogue with stakeholders, we answer questions and provide information about the opportunities and risks of technologies. We aim to confront skepticism in the public debate, for example regarding green biotechnology in Europe, by providing transparency about our activities. To do this, we rely on modern media, among other things: For instance, in 2009, we used a blog to provide information on a field experiment with genetically optimized potatoes at our site in Limburgerhof, Germany.

Transparency is also important in our political communication. That is why our communication includes providing information online about temporary exchanges of staff with public administration and we are listed in the European Commission's register of interest representatives. 

→ For more on dialogue with labor representatives, see page 88; for more on nanotechnology dialogue, see page 102; for more on plant biotechnology, see basf.com/dialogue_plantbiotechnology and for more on stakeholder dialogue in general, see basf.com/dialogue

Dialogue with stakeholders

- Helps recognize important issues and ensuing opportunities and risks
- Stakeholders are employees, shareholders, business partners, employee representatives, neighbors, policy makers and non-governmental organizations
- 75 Community Advisory Panels
- Dialogue relating to new technologies

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 €11,158 million in 2009. This was a reduction of 15.6% in comparison with the previous year, which resulted primarily from a decrease in the company's business performance.

The greatest share of value added was distributed to our employees, who received €7,107 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 €1,662 million in 2009 compared with €2,940 million in the previous year.

In 2009, BASF spent a total of €48 million on donations, sponsoring and funding for our own projects, compared with €65 million in 2008. This amount is reported in "other expenses".

The remaining value added of €1,410 million was available to be paid out as a dividend or retained.

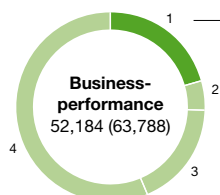
→ For more on wages and salaries, see pages 85 and 168; for more on taxes, see page 165 onward; and for more on donations and sponsoring, see page 90

Value added statement

Creation of value added

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

1	Value added	11,158 (13,210)
2	Amortization and depreciation	3,746 (3,179)
3	Services purchased, energy costs and other expenses	10,867 (11,516)
4	Cost of raw materials and merchandise	26,413 (35,883)



Use of value added

(previous year's figures in brackets)

63.7%	Employees (48.2%)
14.9%	Taxes (22.3%)
2.2%	Minority interests (3.0%)
6.5%	Creditors (4.4%)
12.7%	Remaining value added (dividend and retention) (22.1%)

Value added

- BASF Group's financial contribution to private and public income
- Decline of 15.6% compared with 2008 to €11.2 billion, due to decreased business performance
- Largest share distributed to employees

Use of value added

- €7,107 million for employees
- €1,662 million for taxes
- €48 million for social commitment
- €1,410 million available for dividend or retention

Research and development

Meeting challenges, developing solutions, shaping the future

Our international and interdisciplinary research teams work on solutions for the challenges of the future. Especially in times of crisis, our commitment to research and development strengthens our position as an innovative company. Our know-how, products and processes are driving forces of innovation in almost all industry sectors. They promote the long-term success of our customers, which in turn ensures our profitable growth and sustainable commercial success.

The rapidly growing and aging global population, increasing urbanization, rising demand for energy and climate protection represent global challenges which we address with innovative solutions and future-oriented projects. These global megatrends are the driving force behind our innovations, even in times of economic volatility.

Our team of highly qualified employees of various nationalities and specializations is the cornerstone of our innovative strength. In 2009, the number of employees involved in research and development rose to more than 9,300.

Our four central technology platforms Polymer Research, Specialty Chemicals Research, Chemicals Research and Engineering, and Plant Biotechnology Research are, in addition to the development units in our operating divisions, our research and competence centers. 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. This network includes around 1,900 collaborative partnerships with universities, research institutes, startup companies and industry partners.

→ For more, see basf.com/research-organization

Many of the projects that we undertake in research cooperations are publicly funded. We are currently involved in approximately 80 such projects, which are co-financed by national and international organizations, including the European Union and

the U.S. Department of Energy. One example is the “Organic Electronics Forum” cluster of excellence, supported by the German Federal Ministry of Education and Research, through which BASF and partners are involved in the further development of organic electronics.

With a view to global challenges and opening up new markets, we have continued to internationalize our research. The acquisition of Ciba Holding AG also contributed to this. Together with scientists at our new sites, including our second largest research center in Basel, Switzerland, we aim to implement forward-looking projects. Materials for displays and electronic applications, for example, or the merging of Ciba's and BASF's activities in the area of fire-retardant additives represent new market opportunities. Overall, we expanded our project portfolio to 3,300 projects in 2009.

Expenditures on research and development amounted to €1,398 million in 2009, compared with €1,355 million in 2008. Of these expenditures, 76% fell under the responsibility of the operating divisions, with around 23% being allocated to cross-divisional, strategic corporate research. Despite the current difficult economic environment, we want to maintain the same high level of expenditures in 2010 as in the past few years. Various successfully completed projects, such as the startup of a new plant for intermediates, show us we are on the right track. Using a tailor-made technology, this facility is the first to use the greenhouse gas nitrous oxide – a by-product of another production process – to produce the intermediates cyclododecanone (CDon) and cyclopentanone (CPon) in a manner which is both cost-effective and environmentally friendly. CDon is used to produce a precursor for the high-performance plastic polyamide 12, and CPon can be used as a building block in the synthesis of active ingredients for pharmaceuticals and fragrances.

Around one third of our research and development expenditures are invested in products and technologies for increased energy efficiency, as well as climate protection, resource conservation and alternative raw materials. In 2010, we aim to generate sales of up to €6 billion with product innovations – new

- More than 9,300 employees working in research and development
- Know-how Verbund established with around 1,900 collaborative partnerships
- Expansion of project portfolio to 3,300 projects
- Research and development expenditures of €1,398 million in 2009
- Sales of product innovations expected to be up to €6 billion in 2010 and between €6 billion and €8 billion in 2015

Expenditure on research and development by segment

1	Chemicals	9%
2	Plastics	9%
3	Performance Products	20%
4	Functional Solutions	12%
5	Agricultural Solutions	25%
6	Oil & Gas	1%
7	Other	1%
8	Corporate research	23%



and improved products or applications that have been on the market for a maximum of five years. In 2015, we expect sales of between €6 billion and €8 billion from product innovations.

→ For a multi-year overview of research and development expenditures, see the Ten-year summary on page 213

Patents are also often used as a measure of the success of research. They are an important foundation for long-term competitiveness and, in the chemical industry, an indication of sustainable innovative strength. In 2009, BASF filed around 1,300 patents worldwide (2008: 1,265). The Patent Asset Index™, developed at the Otto Beisheim School of Management (WHU) near Koblenz, Germany, allows a precise comparison of the patent portfolios of global companies. According to this index, BASF ranks first in 2009, making it one of the most innovative companies in the international chemical industry.

BASF's growth clusters

How can we feed a growing world population and provide enough clean water for everyone? How do we meet increasing demands for energy? We address these and other questions related to global megatrends in five growth clusters: plant biotechnology, white biotechnology, raw materials change, energy management, and nanotechnology. In these clusters, the focus is on markets and technologies of the future.

Environmental factors like heat and cold often determine how good a harvest is. As a result of climate change, experts expect that drought will occur more frequently and last longer in the future. In the **plant biotechnology growth cluster**, together with our partner Monsanto we have developed a drought-tolerant corn. Farmers in the United States will likely be able to cultivate this corn as of 2012. Other cooperation partners in the development of important crops are Embrapa (herbicide-tolerant soybeans), CTC (sugarcane) and KWS (sugar beet).

Enzymes make an important contribution to animal nutrition, an area in which we are conducting research in our **white biotechnology growth cluster**. For example, the animal feed additive Natugrain® TS helps improve the nutritive value of feed used in pig and poultry farming. With the help of this additive, animals can utilize the otherwise nearly indigestible carbohydrates in plant-based foods and convert them into energy.

Limited resources are a global challenge – particularly for the chemical industry. In the **raw materials change growth cluster**, we are conducting research into a range of starting materials as alternatives to crude oil for our value-adding chains; examples include renewable raw materials and natural gas. BASF develops dehydration technologies for the production of C3 and C4 olefins, which are basic chemicals for the production of many important products including superabsorbents, plasticizers, polymers, surfactants and solvents.

Due to globalization, the desire for mobility and availability is increasing. In our **energy management growth cluster**, we are involved in the field of technology for energy storage, among other things. Together with partners from industry and science in the consortium "HE-Lion," BASF Future Business GmbH – and in the future, the Catalysts division – plan, for example, to develop and bring to market cathode materials for more efficient, higher-performing and safer lithium-ion batteries.

In the **nanotechnology growth cluster**, materials for printable electronics are contributing to new information technologies. These enable the efficient production of numerous new electronic applications, including memory tags, cost-efficient radio frequency identification tags and flexible displays.

Our successes encourage us to continue into the second phase of our growth cluster initiative "We innovate for growth" from 2009 to 2011 with investments of up to €1 billion. With this, we aim to create profitable growth for BASF and contribute to a better future. 🌐

→ For more on research and development in the segments, see page 47 onward

BASF's growth clusters

- Five growth clusters focus on technologies and markets of the future
- Addressing megatrends such as the growing world population, increasing energy demand and globalization
- Second phase of the growth cluster initiative from 2009 to 2011; expenditures of up to €1 billion

BASF the leader in Patent Asset Index

Patent Asset Index (standardized, as of December 31, 2009)
An indicator of companies' innovative strength¹

BASF	100	
Bayer	72	
Du Pont	63	
Dow Chemical	59	
Evonik	31	

Source: WHU Prof. Ernst

¹ 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

In 2009, the global economy was shaped by the worst recession since the end of the Second World War. As a result of the global financial and economic crisis, real gross domestic product declined in almost every region – particularly in industrialized countries (–3.6%). Global gross domestic product contracted markedly in comparison with the previous year (–2.3%) and was significantly lower than we had originally forecast for 2009 (–0.3%). Following the economic slump at the end of 2008, the global economic downturn bottomed out in the second half of 2009, primarily driven by the revival of economic growth in Asia.

In 2009, the global economy was characterized by a drop in international trade and a sharp decline in demand for goods. The recession affected emerging markets as well as all the industrialized countries. Export-dependent economies, such as Germany and Japan, were particularly affected. Concerted action on the part of national central banks and governments helped to partially stabilize the global financial markets. Over the course of the year, intensified fiscal policy measures in the form of economic stimulus packages helped to mitigate the economic downturn. However, this could not prevent global gross domestic product from declining for the first time since the end of the Second World War (–2.3%).

Development by region

In 2009, **Europe** was in a deep recession that had already started in the second half of 2008. The downturn was a result of low consumer spending and investing activity, inventory destocking and a marked decline in exports. In contrast to the previous year, the gross domestic product of the European Union contracted (2008: +0.8%; 2009: –4.1%). It was not until the second half of 2009 that many companies began to restock inventories that had been depleted in the first half of the year. This caused capacity utilization in industry, which had been very low until then, to rise again in some areas. Government stimulus programs proved effective; they supported private and state consumption.

Trends in the global economy in 2009

- Global gross domestic product contracted considerably in 2009 (–2.3%) and was significantly below our forecast (–0.3%)
- Recession particularly affected industrialized countries and emerging markets
- Government stimulus programs mitigated the economic downturn over the course of the year
- Downturn bottomed out in the second half of 2009; growth impetus from Asia

Economic output in the **United States** was also significantly lower in 2009 (–2.4%). Decreasing employment and a negative wealth effect due to declining real estate and share prices led to a drop in private consumption. Investments also declined considerably. At the end of 2009, the unemployment rate was 9.7%, around twice as high as in 2007.

Compared with the figures from the previous year and the expected long-term growth trend, **Asia (excluding Japan)** saw low growth in 2009 as a result of weak demand from industrialized countries. Gross domestic product growth in this region once again weakened considerably compared with the previous year (2009: +4.0%; 2008: +5.9%). Only China was able to almost fully compensate the decline in demand for export goods thanks to massive national economic stimulus packages, the creation of domestic consumer incentives and further expansion of its infrastructure. Growth in the Chinese economy (+8.7%) was only slightly below the level of the previous years. In the ASEAN region, South Korea and Taiwan, the steep decline in foreign trade caused a downturn in industrial production, which continued until well into the second half of the year in some areas.

Japan was particularly affected by the recession due to its significant trade with North America and Europe. In 2009, the country experienced a further decline in gross domestic product (–5.4%).

In **South America**, where regional economic growth was previously strong, the economy contracted slightly in 2009 (–1.0%). This was caused by the globally weak demand for raw materials as well as low raw materials prices.

→ **Forecast for the economic environment in 2010, see page 112 onward**

Gross domestic product 2009
Real change compared with the previous year

World	–2.3%	
E.U.	–4.1%	
United States	–2.4%	
Asia (excl. Japan)	+4.0%	
Japan	–5.4%	
South America	–1.0%	

Trends in key customer industries

After stagnating in the previous year (+0.2%), global industrial production fell sharply in 2009 (–8.3%); the decline was significantly steeper than we had forecast at the beginning of the year (–2.9%). This development was primarily due to considerably weaker demand both from industry and from private consumers in the OECD industrialized countries. The decline in industrial production was particularly significant in these countries (–13.0%).

Activity in the **construction industry** worldwide decreased in 2009 (–5.2%). In the United States (–16.2%) and in Europe (–7.3%), the construction sector once again contracted significantly compared with the previous year, with private housing construction decreasing substantially. In the emerging markets of Asia, on the other hand, construction activity continued to see robust growth (+7.5%).

Thanks to state-sponsored purchase incentives, such as car scrappage schemes, demand in the **automotive industry** was temporarily revived in many countries in Europe, North America and Asia. Nevertheless, the number of automobiles produced worldwide once again fell sharply compared with the previous year (–11.6%). The decline in automobile production was particularly dramatic in the United States (–34.6%). In contrast, production growth in Asia (excluding Japan) was unexpectedly strong (2008: +3.3%; 2009: +22.6%).

The **electrical industry** also experienced a global downturn (–9.8%). In the industrialized countries, production levels decreased further as a result of weak demand from industry and consumers (–15.0%). In Japan, production levels fell significantly (–22.0%), while in Asia (excluding Japan) the decline was only slight (–0.3%).

In contrast to previous years, the **information and communication technology industry** (ICT) declined worldwide (–7.3%). A lack of demand from the financial sector, in particular, had a negative impact on this industry. Production levels fell especially in Japan (–24.4%) owing to its dependence on exports to the United States and Europe.

The relocation of production to emerging economies in Asia has caused changes in the structure of the global textiles industry over the past few years. During the economic crisis of 2009, production in the **textiles industry** once again declined consid-

erably in the industrialized countries (–16.3%). In Asia (excluding Japan), production levels also decreased as a result of lower demand (–5.4%). Globally, the reduction was substantial (–10.0%).

The **paper industry** contracted worldwide in 2009 (–6.2%). Only the emerging economies in Asia recorded positive growth (+2.3%). In the industrialized countries, on the other hand, production levels declined noticeably (–10.6%). The resulting over-capacities continue to exist.

The **food and nutrition industry** only experienced moderate growth in 2009 as a result of the economic crisis (+0.2%). Both industrialized countries (–0.6%) and emerging economies (+1.5%) saw lower growth compared with previous years.

Growth in **agriculture** worldwide was not as strong (+0.2%) as in the previous year (+3.3%). In the industrialized countries, production in 2009 (–1.5%) was lower than in 2008 (+3.6%). Growth also slowed in the emerging economies (2008: +3.2%; 2009: +1.1%).

→ **Forecast for the economic environment in 2010, see page 112 onward**

Growth in key customer industries in 2009

Real change compared with previous year

Industries total	OECD	–13.0%	
	World	–8.3%	
Construction	OECD	–10.2%	
	World	–5.2%	
Automotive (per-unit basis)	OECD	–26.9%	
	World	–11.6%	
Electrical Industry	OECD	–15.0%	
	World	–9.8%	
Information and communication	OECD	–14.3%	
	World	–7.3%	
Textiles	OECD	–16.3%	
	World	–10.0%	
Paper	OECD	–10.6%	
	World	–6.2%	
Nutrition	OECD	–0.6%	
	World	+0.2%	
Agriculture	OECD	–1.5%	
	World	+0.2%	

Development of industrial production in 2009

- Drop in global industrial production (–8.3%)
- Construction sector contracted compared with previous year, particularly in the United States (–16.2%) and Europe (–7.3%)
- Sharp fall in global automotive production (–11.6%)
- Some steep production declines in the electrical, ICT, textiles and paper industries
- Moderate growth in production in the food and nutrition industry and agriculture

BASF sales by industry

Direct customers

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

Trends in the chemical industry

Demand for chemical products has fallen globally during the current economic crisis. The chemical industry was particularly affected by the weak industrial demand in the second half of 2008 and the first half of 2009. Global chemical production (excluding pharmaceuticals) decreased considerably in 2009 (–5.4%).

Following a decrease in 2008 (–1.8%), worldwide chemical production (excluding pharmaceuticals) declined in 2009 for the second year in a row. The drop in production in the chemical industry occurred almost in parallel with lower production in the key customer industries of construction, automotive, electrical, furniture and paper.

The drop in chemical production (excluding pharmaceuticals) was particularly dramatic in the European Union (–12.5%), in Japan (–10.9%) and in the United States (–6.1%). Within the European Union, it fell especially in Germany (–14.4%). The decline in South America (–1.8%) was not as pronounced. In contrast, after experiencing weak growth in 2008 (+0.5%), chemical production recovered in Asia (excluding Japan) (+5.7%).

Chemical production (excluding pharmaceuticals) in 2009 Real change compared with previous year

World	–5.4%	
E.U.	–12.5%	
United States	–6.1%	
Asia (excl. Japan)	+5.7%	
Japan	–10.9%	
South America	–1.8%	

Trends in the chemical industry in 2009

- Chemical production (excluding pharmaceuticals) decreased considerably as a result of globally weak industrial demand (–5.4%)
- The drop in chemical production (excluding pharmaceuticals) was particularly dramatic in Germany (–14.4%), in Japan (–10.9%) and in the United States (–6.1%)
- Rise in raw materials prices over the course of 2009, starting from a low level

Trends in the raw materials markets

Following volatility over the course of 2008, raw materials prices were at a low level at the beginning of 2009. Despite the global economic and financial crisis and the resulting low demand for raw materials, prices increased again over the course of the year.

Over the course of 2009, the oil price rose from approximately \$40 per barrel to more than \$75 per barrel, reaching the same level as in October 2007. Several times during the year, the average monthly price for a barrel of Brent crude exceeded the price of the usually more expensive U.S. oil type WTI – a result of the severe decline in demand on the American energy market.

Prices for the chemical raw material naphtha developed in almost exactly the same way as the oil price: they rose throughout the course of the year from an average level of \$340 per metric ton in January to well over \$600 per metric ton from October. The average annual price of oil fell by approximately 37% to \$62 per barrel and the average price for naphtha declined by around 33% to \$526 per metric ton.

In both the United States and Europe, the natural gas price initially continued to fall during the course of 2009 before increasing again in the fourth quarter. The average annual gas price in the United States was around \$4/mmbtu, less than half the cost in the previous year. In Europe, the average gas price was well over \$8/mmbtu due to the link with oil prices.

→ Forecast for the economic environment in 2010, see page 112 onward

Price trends for crude oil (Brent) 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 €)

	2009	2008	Change in %
Sales	50,693	62,304	(18.6)
Income from operations before depreciation and amortization (EBITDA)	7,388	9,562	(22.7)
EBITDA as a percentage of sales	14.6	15.3	–
Income from operations (EBIT) before special items	4,852	6,856	(29.2)
Income from operations (EBIT)	3,677	6,463	(43.1)
Financial result	(598)	(487)	(22.8)
Income before taxes and minority interests	3,079	5,976	(48.5)
Income before minority interests	1,655	3,305	(49.9)
Income before minority interests as a percentage of sales	3.3	5.3	–
Net income	1,410	2,912	(51.6)
Earnings per share (€) ¹	1.54	3.13	(50.8)
Adjusted earnings per share (€) ¹	3.01	3.85	(21.8)

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 and earnings by quarter 2008 (million €)

	1st quarter	2nd quarter	3rd quarter	4th quarter	2008
Sales	15,921	16,305	15,772	14,306	62,304
Income from operations before depreciation and amortization (EBITDA)	2,955	3,033	2,171	1,403	9,562
Income from operations (EBIT) before special items	2,354	2,408	1,568	526	6,856
Income from operations (EBIT)	2,303	2,359	1,509	292	6,463
Financial result	(122)	(38)	(39)	(288)	(487)
Income before taxes and minority interests	2,181	2,321	1,470	4	5,976
Net income	1,170	1,297	758	(313)	2,912
Earnings per share (€) ¹	1.24	1.39	0.82	(0.34)	3.13
Adjusted earnings per share (€) ¹	1.38	1.54	0.96	(0.05)	3.85

¹ In the second quarter of 2008, we conducted a two-for-one stock split.

Sales (million €)

2009	50,693	
2008	62,304	
2007	57,951	
2006	52,610	
2005	42,745	

Income from operations (million €)

2009	3,677	
2008	6,463	
2007	7,316	
2006	6,750	
2005	5,830	

In 2009, our business was shaped by the economic crisis and the integration of Ciba. As forecast at the beginning of the year, sales and earnings were significantly below the previous year's levels. Sales declined by 19% to €50,693 million, while income from operations decreased by 43% to €3,677 million. Despite the difficult business environment and the charges related to the Ciba acquisition, we only narrowly missed our goal of earning our cost of capital.

The capacity utilization of our plants was at a historic low in large parts of our business. However, demand recovered over the course of the year, especially in Asia. Thanks to quick and decisive measures to adjust capacities and increase efficiency, we were able to stabilize earnings and increase cash flow to a record high.

→ Forecast for the economic environment in 2010, see pages 112 to 116

Sales and earnings

Sales volumes in the first half of 2009 were significantly below the level achieved in the same period of 2008, but demand recovered in the second half of the year. The fourth quarter of 2009 was the first in which volumes exceeded the same period of the previous year; however, volumes in the fourth quarter of 2008 had already been severely impacted by the onset of the economic crisis. Prices declined significantly in nearly all divisions.

Currency effects had a positive impact on sales. The average euro/dollar exchange rate in 2009 was \$1.39 per euro, compared with \$1.47 per euro in 2008. Acquisitions contributed €2,451 million to sales. This was primarily due to the acquisition of Ciba Holding AG on April 9, 2009. Divestitures reduced sales by €35 million.

Sales in the Chemicals segment declined considerably as a result of lower prices and significantly lower volumes. This trend began in the fourth quarter of 2008 and continued into the first quarter of 2009. The Petrochemicals division, in particular, was adversely impacted by this development. The segment's income from operations was therefore significantly below the previous

year's level. In addition, there was pressure on margins in the Inorganics and Petrochemicals divisions. Rigorous measures to adjust capacity, reduce costs and increase efficiency helped to mitigate the decline in earnings.

Factors influencing sales (million €)

	2009	Influence on sales (%)
Volumes	(5,913)	(9.4)
Prices	(8,505)	(13.7)
Currencies	389	0.6
Acquisitions and changes in the scope of consolidation	2,453	4.0
Divestitures	(35)	(0.1)
	(11,611)	(18.6)

Lower volumes and prices also led to a decline in sales in the Plastics segment. Both divisions in the segment were negatively impacted by lower prices for basic and standard products in particular. Earnings in the segment were slightly above the previous year's level. In 2009, the Performance Polymers division made a positive contribution to earnings after a loss in 2008. This was primarily due to higher demand from the second quarter onward and cost-cutting measures. The contribution to earnings from the Polyurethanes division declined, however.

In the Performance Products segment, sales increased as a result of the Ciba acquisition. Volumes and prices declined, however, in all the divisions of the segment. Income from operations was negative due to the crisis in nearly all customer industries and the special charges associated with the Ciba integration.

Sales

Sales decline significantly; lower prices and volumes due to crisis in key customer industries

–19%

Income from operations

Decline in earnings due to weak demand; measures to increase efficiency nevertheless effective; high one-time expenses for Ciba integration

–43%

Sales fell sharply in the Functional Solutions segment as a result of a dramatic decline in demand from the key customer industries – construction and automotive. In the Catalysts division, lower precious metal prices led to a decrease in sales in precious metals trading. The segment's earnings were below the previous year's level. The Catalysts division was particularly impacted by the drop in automotive and chemical production and therefore posted significantly lower earnings. The Construction Chemicals and Coatings divisions, however, increased earnings as a result of better margins and cost-cutting measures.

Sales in the Agricultural Solutions segment increased further in 2009, and earnings reached a record high. This was primarily attributable to higher prices and positive currency effects, which more than offset the planned increase in spending for research and development as well as for marketing and sales.

Sales in the Oil & Gas segment declined significantly compared with the previous year. This was mainly due to lower prices for crude oil and natural gas. In 2009, earnings were lower than in 2008 as a result of the smaller contribution from the Exploration & Production business sector due to the decline in oil prices.

At €4,577 million, sales in "Other" fell by €2,073 million compared with the previous year. The decline was mainly due to lower sales in the Styrenics and fertilizers businesses and in the trade with raw materials. Income from operations in Other was minus €627 million in 2009, an improvement of €286 million compared with the previous year. This was due primarily to higher earnings in Styrenics and the fact that the previous year included expenses related to the hedging of raw material price risks. In 2009, earnings were negatively impacted by higher expenses for the BASF options program (BOP) and currency losses.

Earnings after cost of capital amounted to minus €226 million compared with €1,621 million in 2008.

Special items

Income from operations was negatively impacted by special charges of €1,175 million in 2009 compared with €393 million in 2008.

The integration of Ciba resulted in special charges of €718 million, primarily for the restructuring of sites, the impairment of Ciba's IT system and the step-up of inventory.

Restructuring measures resulted in special charges of €366 million from write-downs on closed plants as well as severance payments related to the reduction in personnel as part of the restructuring measures.

Other gains and charges totaled minus €85 million. This amount primarily comprises impairment losses on goodwill in the Inorganics and Care Chemicals divisions and a fine imposed on Ciba by the European Commission.

Net income

The financial result was minus €598 million in 2009, compared with minus €487 million in 2008.

Earnings of companies accounted for using the equity method increased compared with the previous year. In particular, this was the result of exchange rate gains from foreign currency loans at the production company for the Yuzhno Russkoye natural gas field (OAO Severneftegazprom). Other income from participations increased due to higher dividend income.

The financing of the Ciba acquisition led to an increase in interest expenses. Interest income declined, primarily due to the repayment of loans by OAO Severneftegazprom (which is accounted for using the equity method) and the lower level of interest rates.

Other financial expenses increased as a result of higher expenses for pension benefits compared with the previous year.

Income from operations

- Income from operations down 43% compared with 2008 to €3,677 million
- High special charges due to integration of Ciba and other restructuring measures
- Cost of capital goal narrowly missed (minus €226 million)

Special items (million €)

	2009	2008
Integration costs (Ciba and other)	(723)	.
Restructuring measures	(366)	(257)
Divestitures	(1)	(5)
Other charges and income	(85)	(131)
	(1,175)	(393)

Income before taxes and minority interests amounted to €3,079 million compared with €5,976 million in 2008. The return on assets declined to 7.5% (2008: 13.5%).

The tax rate of 46.2% was 1.5 percentage points higher than in 2008 due to one-time effects related to the integration of Ciba. In 2008, the tax rate was lower as a result of higher profits from companies in countries with lower tax burdens.

The rise in the tax rate would have been even higher without the decline in non-compensable income taxes on oil production, which decreased from €1,851 million in 2008 to €870 million in 2009 as a result of lower oil prices.

→ For more on the tax rate, see the Notes on page 165

Net income declined by €1,502 million, or 51.6%, to €1,410 million. Minority interests were mainly related to Gazprom's stakes in natural gas trading companies as well as in a German Wintershall subsidiary that holds production and exploration rights to onshore concessions in Libya.

Earnings per share were €1.54 compared with €3.13 in 2008. Adjusted for special items and the amortization of intangible assets, earnings per share amounted to €3.01 in 2009 (2008: €3.85).

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

Cash flow

Despite the economic crisis, we generated cash from operating activities of €6,270 million compared with €5,023 million in the previous year. This record high was reached thanks to a significant reduction in net working capital and rigorous measures to increase efficiency. At €3,763 million, free cash flow was also high (2008: €2,502 million).

Net income

- Interest expenses increase due to financing of Ciba acquisition
- Expenses for pension benefits higher than in 2008
- Income taxes rise due to one-time effects from the integration of Ciba

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 particularly suitable for predicting future profitability. This key ratio was first published in our reporting for the first half of 2009 and has been a part of our quarterly and annual financial reporting since then.

Adjusted earnings per share

Million €	2009	2008
Income before taxes and minority interests	3,079	5,976
Special items	1,175	393
Amortization of intangible assets	1,097	618
Amortization of intangible assets contained in the special items	(500)	(37)
Adjusted income before taxes and minority interests	4,851	6,950
Adjusted income taxes	1,837	2,951
Adjusted income before minority interests	3,014	3,999
Adjusted minority interests	253	416
Adjusted net income	2,761	3,583
Weighted average number of outstanding shares (in thousands)	918,479	930,103
Adjusted earnings per share (€)	3.01	3.85

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

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

Earnings per share/cash flow

- Earnings per share €1.54, a decrease of 50.8% compared with 2008
- Adjusted earnings per share decrease by 22% to €3.01 compared with previous year
- Cash provided by operating activities at record high of €6,270 million, an increase of €1,247 million compared with previous year

Consolidated balance sheets

Assets

	December 31, 2009		December 31, 2008	
	Million €	%	Million €	%
Intangible assets	10,449	20.4	9,889	19.4
Property, plant and equipment	16,285	31.8	15,032	29.6
Investments accounted for using the equity method	1,340	2.6	1,146	2.3
Other financial assets	1,619	3.2	1,947	3.8
Deferred taxes	1,042	2.0	930	1.8
Other receivables and miscellaneous long-term assets	946	1.8	642	1.3
Long-term assets	31,681	61.8	29,586	58.2
Inventories	6,776	13.2	6,763	13.3
Accounts receivable, trade	7,738	15.1	7,752	15.2
Other receivables and miscellaneous short-term assets	3,223	6.3	3,948	7.8
Marketable securities	15	.	35	0.1
Cash and cash equivalents	1,835	3.6	2,776	5.4
Short-term assets	19,587	38.2	21,274	41.8
Total assets	51,268	100.0	50,860	100.0

Stockholders' equity and liabilities

	December 31, 2009		December 31, 2008	
	Million €	%	Million €	%
Subscribed capital	4,405	8.6	4,417	8.7
Retained earnings	12,916	25.2	13,250	26.0
Other comprehensive income	156	0.3	(96)	(0.2)
Minority interests	1,132	2.2	1,151	2.3
Stockholders' equity	18,609	36.3	18,722	36.8
Provisions for pensions and similar obligations	2,255	4.4	1,712	3.4
Other provisions	3,289	6.4	2,757	5.4
Deferred taxes	2,093	4.1	2,167	4.3
Financial indebtedness	12,444	24.3	8,290	16.3
Other liabilities	898	1.7	917	1.8
Long-term liabilities	20,979	40.9	15,843	31.2
Accounts payable, trade	2,786	5.4	2,734	5.4
Provisions	3,276	6.4	3,043	6.0
Tax liabilities	1,003	2.0	860	1.7
Financial indebtedness	2,375	4.6	6,224	12.2
Other liabilities	2,240	4.4	3,434	6.7
Short-term liabilities	11,680	22.8	16,295	32.0
Total stockholders' equity and liabilities	51,268	100.0	50,860	100.0

Long-term assets rose by €2,095 million to €31,681 million, primarily due to the acquisition of Ciba Holding AG. BASF obtained control over Ciba on April 9, 2009. The purchase price amounted to €2,178 million. The acquisition resulted in an increase in goodwill of €571 million, in other intangible assets of €1,095 million and in tangible fixed assets of €1,766 million. Without adjusting for the acquisition of Ciba, capital expenditures were below the level of depreciation and amortization.

The increase in the value of investments accounted for using the equity method was due to the addition of an associated company in the course of the Ciba acquisition and a capital increase at Nord Stream AG. Other financial assets declined in 2009 because the 15.2% stake in Ciba acquired up to the end of 2008 – valued at €344 million – had previously been reported in this item. Higher market values for pension assets led to an increase in other long-term assets.

The acquisition of Ciba resulted in an addition to inventories of €1,091 million and an addition to trade accounts receivable of €391 million. Nevertheless, due to plant shutdowns and our measures to adjust capacities, inventories at the end of 2009 were at the same level as at the end of 2008. Trade accounts receivable also remained unchanged compared with the previous year. Taking into account the acquisition of Ciba, we significantly reduced net working capital and increased cash flow to a record high.

Other receivables and miscellaneous assets declined by €725 million to €3,223 million compared with the previous year. In 2008, this item included higher market values from currency derivatives as well as sums deposited as securities for commodity derivatives with negative fair values.

Stockholders' equity declined by €113 million to €18,609 million at the end of 2009. This was primarily due to dividend payments of €2,089 million and lower net income compared with 2008. The decline was partially offset by actuarial gains on pension plan assets.

Assets

- Ciba acquisition: Purchase price of €2,178 million, contribution to sales of €2,310 million in 2009
- Additions of €571 million to goodwill and €1,095 million to other intangible assets due to Ciba
- Inventories and receivables match previous year's level; additions resulting from the Ciba acquisition offset thanks to rigorous management of net working capital

Long-term liabilities rose by €5,136 million to €20,979 million. Provisions for pension obligations rose due to additions associated with the Ciba acquisition. This was partially offset by the increase in the market value of pension plan assets. Other long-term provisions also rose compared with 2008, primarily due to Ciba. This related mainly to provisions for measures for environmental site remediation. To finance the Ciba acquisition and to extend the maturity profile of our financial liabilities, we issued several bonds in 2009 with a total carrying amount of €4,440 million as of the balance sheet date.

→ **More on the fair value of our financial indebtedness in the Notes to the Consolidated Financial Statements on page 191**

Net debt (million €)

	Dec. 31, 2009	Dec. 31, 2008
Cash and cash equivalents	1,835	2,776
Financial indebtedness	14,819	14,514
Net debt	12,984	11,738

Short-term liabilities declined by €4,615 million to €11,680 million, primarily due to the lower volume of outstanding commercial paper. Short-term provisions rose, in particular due to the recognition of provisions for severance payments that are to be made as part of the integration of Ciba and further restructuring measures.

→ **More on the composition and development of provisions can be found in the Notes to the Consolidated Financial Statements on page 182**

→ **More on the development of the balance sheet can be found in the ten-year summary on page 213**

Stockholders' equity and liabilities

- Stockholders' equity decreases slightly, due primarily to dividend and lower net income
- Long-term liabilities increase due to issuance of bonds
- Short-term liabilities decline due to decrease in volume of commercial paper

Liquidity and capital resources

Value-based financial management, high cash flow

With our value-based financial management, we aim to secure the financial flexibility needed to continuously develop our business portfolio and take advantage of strategic options. Priority is placed on an appropriate capital structure while maintaining liquidity and limiting financial risks. We aim for a solid A rating which is supported by sustainably good cash flow.

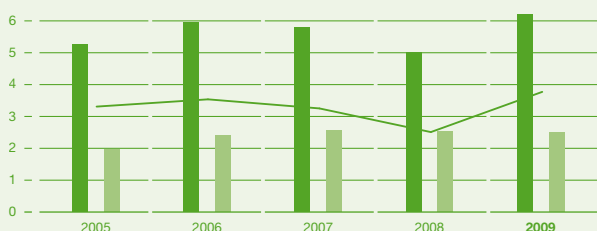
Financing policy

The objectives of our financing policy are to ensure liquidity, limit financial risks and optimize the cost of capital. Our financial activities are conducted in line with the needs of the operational business and the company's strategic direction. We will maintain our financing policy in 2010. Even in very difficult economic times, we aim to offer our shareholders an attractive dividend yield. We aim to increase our dividend each year, or at least maintain it at the previous year's level.

Consolidated statements of cash flows (million €)

	2009	2008
Net income	1,410	2,912
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,740	3,180
Changes in working capital	1,567	(1,339)
Miscellaneous items	(447)	270
Cash provided by operating activities	6,270	5,023
Payments related to property, plant and equipment and intangible assets	(2,507)	(2,521)
Acquisitions/divestitures	(1,447)	(564)
Financial investments and other items	(128)	(375)
Cash used in investing activities	(4,082)	(3,460)
Capital increases/repayments, share repurchases	(134)	(1,573)
Changes in financial liabilities	(910)	4,189
Dividends	(2,089)	(2,157)
Cash provided by (used in) financing activities	(3,133)	459
Net changes in cash and cash equivalents	(945)	2,022
Cash and cash equivalents as of beginning of year and other changes	2,780	754
Cash and cash equivalents as of end of year	1,835	2,776

Cash flow (billion €)



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

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

Cash provided by operating activities

In 2009, cash provided by operating activities amounted to €6,270 million. We thus exceeded the previous year's figure despite the difficult economic environment and significantly lower net income. Funds of almost €1.6 billion were released thanks to a significant reduction in net working capital. Adjusted for the acquisition of Ciba Holding AG and currency effects, receivables declined by around €2.1 billion and inventories by approximately €1.1 billion. Depreciation and amortization increased by €0.6 billion to €3.7 billion, in particular as a result of the acquisition and integration of Ciba. Cash contributions of €220 million were made into the German BASF Pensionskasse (pension fund). Miscellaneous items included the adjustment of various non-cash income items and reclassification of equity income and minority interests.

Cash used in investing activities

In 2009, cash used in investing activities amounted to €4,082 million compared with €3,460 million in 2008. In 2009, payments related to property, plant and equipment and intangible assets were again clearly below depreciation and amortization.

The completion of the Ciba acquisition on April 9, 2009, led to an outflow of liquid funds of €1,746 million and an addition of cash and cash equivalents from Ciba of €241 million.

A cash inflow of €62 million resulted from the divestiture of numerous smaller activities.

In 2009, free cash flow, defined as the difference between cash provided by operating activities and payments related to property, plant and equipment and intangible assets, amounted to €3,763 million (2008: €2,502 million).

→ For more on additions to property, plant and equipment, see page 47 onward

Financial assets and other items resulted in a net cash outflow of €128 million, compared with an outflow of €375 million in 2008. Payments were primarily due to a shareholder loan for the financing of Nord Stream AG and, to a lesser extent, a capital contribution. In addition, we participated in the capital increase of K+S Aktiengesellschaft in proportion to our 10.3% stake. Before obtaining control on April 9, 2009, BASF had purchased Ciba shares for €88 million. This amount and a further €344 million used for the purchase of Ciba shares in the second half of 2008 were reported as payments for financial investments and other items.

In 2009, cash inflows resulted from the repayment of loans, mainly from ZAO Achimgaz. This company is proportionally consolidated.

Cash provided by (used in) financing activities

Financing activities led to a cash outflow of €3,133 million. Dividends of €1,791 million, or €1.95 per share, were paid to the shareholders of BASF SE and €298 million to minority shareholders in Group companies.

The purchase of the remaining outstanding shares in Ciba following the change of control on April 9, 2009 led to a cash outflow of €95 million, which was handled as an equity transaction between shareholders.

The net result of raising and repaying financial liabilities was a cash outflow of €910 million, following an inflow of €4,189 million in the previous year. Additional short-term financial indebtedness incurred in the second quarter to finance the acquisition of Ciba was largely repaid over the course of the rest of the year. Net debt amounted to €12,984 million at the end of 2009, compared with €11,738 million at the end of 2008. At the end of 2009, cash and cash equivalents amounted to €1,835 million, compared with €2,776 million at the end of 2008.

Capital expenditures by region (%)

	2009	2008
Europe	70	77
North America	19	15
Asia Pacific	9	5
South America, Africa, Middle East	2	3
	100	100

Consolidated statements of cash flows

- Cash provided by operating activities reaches record high of €6,270 million
- Free cash flow rises to €3,763 million in 2009, compared with €2,502 million in 2008
- Net working capital reduced by €1,567 million
- Payments related to property, plant and equipment and intangible assets of €2,507 million, significantly below depreciation and amortization
- Financial liabilities decline by €910 million, despite acquisition of Ciba

Credit ratings and financing

We aim to maintain a solid A rating. This goal is the basis for BASF's capital structure and financing. We manage the capital structure of BASF by taking into account selected financial ratios.

Our (A+/A1) ratings have allowed us, and continue to allow us, to access the capital markets to issue bonds. 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 diverse range of investors and a balanced maturity profile.

Short-term debt financing is primarily secured by our commercial paper program, which has an issuing volume of up to \$12.5 billion. BASF always enjoyed full access to the commercial paper market on attractive terms, also during the financial crisis. BASF's external financing is therefore largely independent of short-term fluctuations in the credit markets.

As back-up for the commercial paper program, there are committed, broadly syndicated credit lines of \$6 billion available. As a result of successful capital market transactions and good cash flow, the committed short-term credit lines of CHF3.5 billion for financing the purchase price of Ciba were terminated earlier than expected in December 2009. None of the back-up lines were, or are being tapped.

→ For more on the use of financial instruments, see the Notes to the Consolidated Financial Statements on page 189 onward

Liquidity and debt ratio

		2009	2008
Net debt-to-EBITDA ratio	= $\frac{\text{Net debt}}{\text{Income from operations before depreciation and amortization (EBITDA)}}$	1.8	1.2
Dynamic debt level (%)	= $\frac{\text{Cash flow provided by operating activities}}{\text{Financial indebtedness}}$	42	35
Leverage (%)	= $\frac{\text{Liabilities}}{\text{Stockholders' equity + liabilities}}$	64	63

Maturities of financial liabilities (million €)

2009	2010	2011	2012	2013	2014	2015 ¹
14,819	2,375	1,363	3,067	2,075	1,329	4,610
2008	2009	2010	2011	2012	2013	2014 ¹
14,514	6,224	1,027	1,401	1,418	1,999	2,445

¹ and thereafter

Principles and objectives of our financial management

Financial management in the BASF Group is centralized and is supported by regional treasury units. Our financing and investment policy is value-based. A suitable capital structure has a higher priority than return aspects. The risks associated with currencies, interest rate changes and creditworthiness are analyzed and limited using modern processes and financial instruments. We manage the capital structure of BASF by taking into account selected financial ratios. We aim to maintain a solid A rating.

Business review by segment

Segment overview (million €)

	Sales		Income from operations before depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
	2009	2008	2009	2008	2009	2008
Chemicals	7,515	11,171	1,571	2,053	1,021	1,414
Plastics	7,128	9,116	994	947	576	553
Performance Products	9,356	8,125	926	1,205	698	766
Functional Solutions	7,115	9,388	511	564	209	265
Agricultural Solutions	3,646	3,409	973	905	776	706
Oil & Gas	11,356	14,445	2,830	4,409	2,289	3,844
Other ¹	4,577	6,650	(417)	(521)	(717)	(692)
	50,693	62,304	7,388	9,562	4,852	6,856

Segment overview (million €)

	Income from operations (EBIT)		Assets		Capital expenditures ²	
	2009	2008	2009	2008	2009	2008
Chemicals	735	1,369	5,688	6,121	482	601
Plastics	554	539	4,530	4,826	249	470
Performance Products	(150)	768	9,242	5,769	3,753	360
Functional Solutions	107	151	8,265	8,693	174	234
Agricultural Solutions	769	705	4,681	4,352	183	196
Oil & Gas	2,289	3,844	8,301	8,356	1,012	1,651
Other ¹	(627)	(913)	10,561	12,743	119	122
	3,677	6,463	51,268	50,860	5,972	3,634

¹ Information on the composition of "Other" can be found in the Consolidated Financial Statements from page 158 onward.

² Additions to property, plant and equipment (thereof from acquisitions: €1,766 million in 2009 and €363 million in 2008) and intangible assets (thereof from acquisitions: €1,670 in 2009 and €745 million in 2008)

Sales by segment

1	Chemicals	15%
2	Plastics	14%
3	Performance Products	18%
4	Functional Solutions	14%
5	Agricultural Solutions	7%
6	Oil & Gas	22%
7	Other	10%



Contributions to EBITDA by segment

1	Chemicals	21%	
2	Plastics	13%	
3	Performance Products	13%	
4	Functional Solutions	7%	
5	Agricultural Solutions	13%	
6	Oil & Gas	38%	
7	Other	(5%)	

— The business year at BASF Group — Business review by segment

Sales (million €)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2009	2008	2009	2008	2009	2008	2009	2008
Chemicals	1,556	2,763	1,809	3,081	2,000	3,033	2,150	2,294
Plastics	1,463	2,390	1,750	2,495	1,967	2,452	1,948	1,779
Performance Products	1,677	2,004	2,443	2,081	2,651	2,126	2,585	1,914
Functional Solutions	1,568	2,394	1,755	2,490	1,888	2,479	1,904	2,025
Agricultural Solutions	1,145	946	1,175	1,159	623	636	703	668
Oil & Gas	3,894	3,744	2,452	3,201	2,389	3,182	2,621	4,318
Other ¹	916	1,680	1,118	1,798	1,280	1,864	1,263	1,308
	12,219	15,921	12,502	16,305	12,798	15,772	13,174	14,306

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

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2009	2008	2009	2008	2009	2008	2009	2008
Chemicals	84	532	258	377	364	401	315	104
Plastics	(29)	352	138	285	216	198	251	(282)
Performance Products	123	209	80	221	286	221	209	115
Functional Solutions	(46)	140	48	111	106	117	101	(103)
Agricultural Solutions	344	259	367	363	21	31	44	53
Oil & Gas	725	984	506	1,026	550	870	508	964
Other ¹	(216)	(122)	(257)	25	(295)	(270)	51	(325)
	985	2,354	1,140	2,408	1,248	1,568	1,479	526

Income from operations (EBIT) (million €)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2009	2008	2009	2008	2009	2008	2009	2008
Chemicals	83	532	258	377	364	401	30	59
Plastics	(30)	351	139	285	216	194	229	(291)
Performance Products	123	217	(214)	244	125	221	(184)	86
Functional Solutions	(45)	137	29	108	86	112	37	(206)
Agricultural Solutions	340	259	366	363	21	31	42	52
Oil & Gas	725	984	506	1,026	550	870	508	964
Other ¹	(268)	(177)	(312)	(44)	(391)	(320)	344	(372)
	928	2,303	772	2,359	971	1,509	1,006	292

¹ Information on the composition of "Other" can be found in the Consolidated Financial Statements from page 158 onward.

Contributions to EBIT by segment (million €)

Chemicals	735	
Plastics	554	
Performance Products	(150)	
Functional Solutions	107	
Agricultural Solutions	769	
Oil & Gas	2,289	
Other	(627)	

EBIT BASF Group by quarter (million €)

1st quarter 2009	928	
1st quarter 2008	2,303	
2nd quarter 2009	772	
2nd quarter 2008	2,359	
3rd quarter 2009	971	
3rd quarter 2008	1,509	
4th quarter 2009	1,006	
4th quarter 2008	292	

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 higher value 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 higher value products. As a reliable supplier, we market our products to customers in downstream industries; primarily in the chemical, electronics, construction, textile, automotive, pharmaceutical and agrochemical industries. We continually develop our value-adding chains with innovations, capital expenditures and acquisitions in future markets.

Technology and cost leadership are some of our most important success factors. We achieve them by improving processes, implementing market-oriented business models, and efficiently 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, sodium hydroxide, chlorine as well as sulfuric and nitric acid. Our specialties are particularly geared toward the electronics and pharmaceutical industries. We benefit from the knowledge of our customers' technological requirements and demands. For example, we develop special additives for the semiconductor industry which allow copper to be integrated into even the smallest structures of a chip, thus increasing its electrical conductivity and there-

fore its computational speed. We are the market leader in electronic chemicals in Asia and Europe.

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. 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 key components in the production of coatings and cosmetics as well as oil field, paper and construction 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 materials for products such as coatings, plastics, pharmaceuticals, textile fibers, crop protection products as well as detergents and cleaners. Our intermediates 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 the markets and the Verbund's value-adding chains.

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 with a clear industry focus
- **Petrochemicals:** broad range of basic chemicals for BASF's value-adding chains as well as for external customers
- **Intermediates:** with more than 600 products, the most comprehensive range of intermediates worldwide; leader in multiple markets


CO₂ scrubbingCapturing CO₂ from power station flue gases**Value for BASF****No.1****preferred partner**
of our customers for gas
purification technology**Value for the environment****90%****less CO₂** in combustion
gases in coal-fired power
stations**Value for BASF** We are strengthening our leading position in the field of gas scrubbing technology with the development of an innovative process for carbon capture from combustion gases in coal-fired power plants.**Value for the environment** In the future, carbon capture should allow more than 90% of the CO₂ from a coal-fired power plant's combustion gases to be removed, making this an efficient process for better climate protection.

Our Seluris™ product range offers, for example, tailor-made process chemicals for the solar industry. These products for cutting, etching, texturing and doping mono- and polycrystalline solar cells help optimize the production processes and increase the efficiency of the cells.

Under the brand name Basonetic®, we market a new range of magnetorheological fluids (MRF) with a remarkable, adjustable flow behavior. The Basonetic range of MRF consist of very small iron particles that are dispersed in oil. Using an external magnetic field, the flow properties of MRF can be varied from solid to liquid in milliseconds. They are particularly suitable for applications in which power has to be controlled and transmitted on a continuous, variable basis, such as shock absorbers or electronically adjustable absorbers like those used in suspension bridges.

Research and development

- Focus on innovative production processes to strengthen our competitiveness
- Seluris product range offers tailor-made process chemicals to the solar industry
- Basonetic: new range of magnetorheological fluids
- New technologies and solvents for carbon capture

Together with RWE Power AG and the Linde Group, we are advancing the development of a new process for carbon capture from combustion gases in coal-fired power plants. In 2009, a pilot facility started operations at RWE Power AG's lignite-fired power plant in Niederaussem, Germany, which tests new carbon capture technologies and solvents from BASF. The goal is to apply carbon capture in lignite-fired power plants by 2015. On the basis of this technology, it should be possible to capture and subsequently store more than 90% of the CO₂ from the power plant's combustion gases. 

Marketing and customer relations

For standard products, it is our primary objective to supply customers reliably and cost-efficiently. Internally, we supply our products to almost all BASF divisions. Our products for external customers are mainly marketed 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, together with the machinery manufacturer Schmid, we developed a new, contactless digital laser transfer printing process which can be used to print wafers for the solar cell industry. We developed the paste system for this process and Schmid provided the corresponding printers. The new system improves the efficiency of cell production: the contactless printing process reduces the breakage rate of the wafers.

In 2009, DSM Powder Coating Resins, a BASF customer for many years and the global leader in the powder coating resin industry, awarded us its "Supplier of the year 2008" distinction. Our contributions to DSM's success include not only high product quality and reliable deliveries, but also jointly-developed individual logistics and IT solutions. The company uses our intermediate neopentylglycol to manufacture specialty resins for powder coatings.

→ For more on customer satisfaction, see page 28

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
- Received award from our customer DSM: "Supplier of the year 2008"

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
Guaratinguetá, Brazil	Construction sodium methylate plant		60,000	2011
Ludwigshafen, Germany	Construction cyclododecanone/cyclopentanone		30,000	2009
	Expansion hydrogen	50,000 Nm ³ /h	n/a	2009
	Expansion higher oxo alcohols	80,000	390,000	2009
	Construction ethylene/propylene pipeline		n/a	2009/2010
Nanjing, China ¹	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

¹ 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 products¹

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 ₄ -alcohols (calculated as butyraldehyde)	X	X	X		1,415,000
Polytetrahydrofuran	X	X	X		185,000
Propylene	X	X	X		2,480,000
Plasticizers	X	X	X		660,000

¹ All capacities included at 100%, including plants belonging to joint ventures.

Sales Chemicals
(million €)

2009	7,515	
2008	11,171	
2007	10,133	

Income from operations Chemicals
(million €)

2009	735	
2008	1,369	
2007	1,918	

Segment data Chemicals (million €)

	2009	2008	Change in %
Sales to third parties	7,515	11,171	(32.7)
Thereof Inorganics	983	1,388	(29.2)
Petrochemicals	4,664	7,271	(35.9)
Intermediates	1,868	2,512	(25.6)
Intersegmental transfers	3,564	5,182	(31.2)
Sales including intersegmental transfers	11,079	16,353	(32.3)
Income from operations before depreciation and amortization (EBITDA)	1,571	2,053	(23.5)
EBITDA as a percentage of sales	20.9	18.4	–
Income from operations (EBIT) before special items	1,021	1,414	(27.8)
Income from operations (EBIT)	735	1,369	(46.3)
Income from operations (EBIT) after cost of capital	185	696	(73.4)
Assets	5,688	6,121	(7.1)
Research and development expenses	129	146	(11.6)
Additions to property, plant and equipment and intangible assets	482	601	(19.8)

In 2009, sales to third parties fell sharply to €7,515 million, a decline of €3,656 million compared with the previous year (volumes –12%, prices –22%, portfolio 0%, currencies 1%). Income from operations also declined by €634 million to €735 million. In particular, sales and earnings were negatively affected by the dramatic drop in demand at the end of 2008 and in the first quarter of 2009, which led us to adjust production and reduce our inventories. Over the course of the year, our business recovered slowly but steadily. We accelerated our activities to lower costs and increase efficiency.

In 2010, we expect a slight recovery in demand. However, there will be increased pressure on margins due to additional capacities, especially for cracker products. As sales increase, earnings are expected to rise significantly.

Inorganics

Our sales to third parties in 2009 decreased by €405 million to €983 million (volumes –14%, prices –16%, portfolio 0%, currencies 1%). We posted declines in all market segments. The sharp decrease in sales and volumes that affected all business areas in the fourth quarter of 2008 continued into the first half of 2009. Our businesses recovered in the second half of 2009, but we could not match the high level achieved in the previous year.

Income from operations was significantly below the previous year's level and was negative due to a decline in volumes as well as lower prices and margins for basic products, particularly for ammonia and methanol. Furthermore, special charges resulted from the restructuring of BASF Fuel Cell GmbH and impairment losses on intangible assets in the electronic chemicals business.

Factors influencing sales – Chemicals

Volumes	–12%	
Prices	–22%	
Portfolio	0%	
Currencies	1%	
Sales	–33%	

Sales by division

1	Inorganics	13%
2	Petrochemicals	62%
3	Intermediates	25%



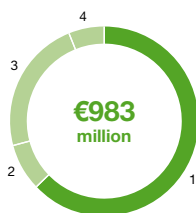
We are realigning our activities for the fuel cell market: In the future, we will concentrate competencies for the production of high-temperature membrane electrode assemblies (MEAs) at our site in Somerset, New Jersey. Operational activities at the BASF Fuel Cell GmbH site in Frankfurt, Germany, were discontinued as of December 31, 2009. BASF plans to close the site in the course of 2010.

In 2009, our Kaurit® Light technology was first successfully introduced in commercial quantities in the furniture industry. This technology can be used to manufacture light, energy-saving chipboard made from wood chips, the polymer Kaurit Light and a binder (Kaurit glue).

For 2010, we expect sales will continue to recover. Despite lower margins, we expect clearly positive income from operations and higher volumes.

Inorganics – Sales by region (location of customer)

1	Europe	63%
2	North America	8%
3	Asia Pacific	23%
4	South America, Africa, Middle East	6%



Petrochemicals

Our sales to third parties in 2009 were €4,664 million, a decline of €2,607 million compared with the previous year (volumes -10%, prices -27%, portfolio 0%, currencies 1%). This decline was due to the global economic crisis, which caused demand to drop dramatically in almost all business units at the end of 2008. At the same time, a sharp decline in raw materials prices led to significantly weaker product sales.

For business and inventory management purposes, we had to considerably reduce capacities in the first few months of 2009; some plants were temporarily shut down. Over the course of the year, sales volumes improved slowly, but did not match the high level of the previous year.

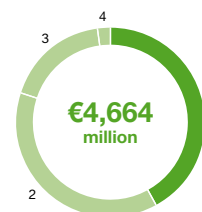
As a result of the significant increase in raw materials prices over the course of the year, margins for cracker products remained at an unsatisfactory level, especially in Asia and North America. New capacities, particularly in the Middle East, led to an oversupply of cracker products there, which meant that prices could not be increased sufficiently. In Europe, steam cracker shutdowns in the entire industry led to temporary supply bottlenecks for olefins, which resulted in a relatively high margin level. Margins for plasticizers, alkylene oxides and glycols were also negatively affected by a sluggish recovery in demand as well as significant overcapacities. In contrast, the business with alcohols, solvents and acrylic monomers was satisfactory.

After a difficult start in the first quarter of 2009, we improved income from operations in the subsequent quarters. Overall, however, it remained below the good level of the previous year.

We expect that the positive business development seen in the last quarters of 2009 will continue in 2010. However, pressure on margins is increasing due to additional production capacities in the Middle East and Asia. We anticipate earnings will be above the previous year's level.

Petrochemicals – Sales by region (location of customer)

1	Europe	42%
2	North America	38%
3	Asia Pacific	18%
4	South America, Africa, Middle East	2%



Inorganics

- Decline in sales in all market segments, particularly in the first half of 2009
- Earnings significantly below the previous year's level due in part to volumes and prices
- Realignment of activities in the market for fuel cells: future production of MEAs at our site in Somerset, New Jersey
- Outlook 2010: sales growth and significantly positive earnings thanks to rising sales volumes

Petrochemicals

- Sales decline as a result of the economic crisis
- Reduction of production capacity at the beginning of 2009; improvement in sales volumes over the course of the year
- Earnings below the good level of 2008 due to lower volumes and margins
- Outlook 2010: higher sales expected despite continued overcapacities; earnings above previous year's level

Intermediates

In 2009, the Intermediates division posted sales to third parties of €1,868 million, 26% less than in 2008 (volumes –18%, prices –10%, portfolio 0%, currencies 2%). Business with products for the agricultural, energy and pharmaceutical industries remained largely stable compared with the previous year. In contrast, the start of 2009 was affected by the crisis-related sharp drop in demand from customers in the textile, leather, automotive, coatings and plastics industries that had already caused a weak fourth quarter of 2008. This particularly affected our polyalcohols and carboxylic acid product lines, as well as butanediol and its derivatives. From April onward, demand began increasing from a low level, mainly as a result of government stimulus programs, the end of inventory destocking by customers and solid demand in Asia.

Prices of important raw materials such as natural gas and methanol fell overall in 2009, but thanks to our “value over volume” strategy, we were able to keep our sales prices largely stable and improve margins – initially for amines and carboxylic acids, and over the course of the year for the butanediol line as well. Against a backdrop of demand-related lower capacity utilization, we intensified our efforts globally in 2009 to lower costs and increase efficiency.

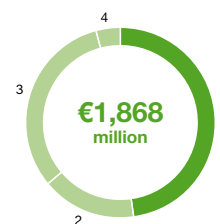
Lower sales volumes reduced income from operations, which did not match the previous year's level despite improved margins and lower fixed costs. Additionally, earnings were negatively impacted by special items related mainly to the planned closure of our maleic anhydride plant in Feluy, Belgium.

In 2009, we started up several new plants, in particular a plant in Ludwigshafen for the production of cyclododecanone, a raw material used in the production of the high-performance plastic polyamide 12 as well as for fragrances. The BASF plant uses an innovative three-stage process, while conventional production processes require five steps. The new facility will be the first to use nitrous oxide from the Verbund site as an oxidizing agent in industrial-scale production.

We expect demand in 2010 to build on the level seen in the second half of 2009, but with considerable fluctuations in the individual markets. Overall in 2010, we aim for higher sales and a significant improvement in earnings compared with the previous year.

Intermediates – Sales by region (location of customer)

1	Europe	48%
2	North America	16%
3	Asia Pacific	32%
4	South America, Africa, Middle East	4%



Intermediates

- Sales lower due to weak demand
- Decline in earnings despite improved margins and reduced fixed costs
- Special charges resulted from the planned closure of the maleic anhydride production plant in Feluy, Belgium
- Outlook 2010: sales growth and significant earnings improvement despite ongoing uncertainties

Investment and research projects

- Expansion of the stream cracker in Nanjing, China
- Construction of sodium methylate plant in Guaratinguetá, Brazil
- Successful market launch of our Kaurit Light technology for the furniture industry

Plastics

Energy-efficient products and system solutions for our customers

BASF is one of the world's leading producers of plastics. Our Performance Polymers and Polyurethanes divisions offer energy-efficient products and system solutions as well as customer-oriented services.

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 diverse properties of our plastics are also increasingly appealing to customers from other industries. By substituting for other materials, we broaden our portfolio of customer industries, grow faster than the market and become less dependent on the cyclicity of individual industries. When developing new products and system solutions, we focus on close cooperation with our customers. We aim to improve our production processes in a sustainable way: conserving more resources, producing more energy efficiently, and using more cost-effective raw materials.

Our products

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

We offer our customers a broad portfolio of engineering plastics based on polyamide 6 and polyamide 6,6 (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 as well as for household appliances and in sports and leisure 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 worldwide network of more than 35 polyurethane system houses and our comprehensive product and service portfolio, we are the preferred partner of our customers in many industries.

Our polyurethane solutions help to save energy sustainably and are used extensively for cold as well as heat insulation applications. Rigid foam products are the preferred material for many cooling systems for food or pharmaceutical products. The use of polyurethane insulation in all the steps of a cold chain saves up to 16 times more energy than is required to manufacture the polyurethane. Our Elastopor®, Elastopir® and Elastocool® materials combine greater insulation capacity with innovative technology to guarantee superior refrigeration. Furthermore, our polyurethane solutions are used to insulate hot water tanks and pipelines for district heating or cooling.

→ For more on energy efficiency, see page 94

In the automotive industry, polyurethanes help make vehicle designs lighter and more attractive, and 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. 🌐

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
- Sustainable improvement of production processes to conserve resources and energy

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

Research and development

In addition to innovative production processes, we focus in particular on product and system development. Together with our customers, we have brought many innovations to the market. These include sophisticated automobile components such as engine mounts and body panels that are lighter than metal alternatives, thus helping to reduce fuel consumption. Such components are developed with BASF software directly at the customer's site.

On the basis of our well-known Ultramid® grades, we are offering a family of new materials under the brand name Ultramid CR. Because Ultramid CR provides even higher strength, our customers are already using it in innovative engine mounts. The parts made of Ultramid CR reliably withstand engine torques of up to 650 Nm and weigh 35% less than metal components with comparable functionality. This kind of progress – which also goes beyond automotive applications – is made possible thanks to the development and technical support we offer. This ranges from computer simulation studies in the design phase to component tests in the trial phase that are carried out at our technical centers for engineering plastics.

In addition to other applications, polyurethanes are used as a thermal insulation core in sandwich building elements. These elements have gained acceptance for use in the construction of industrial buildings because of their exceptional thermal and mechanical properties as well as their ease and speed of installation.

Thanks to our ongoing research and development activities, we have also been able to launch new products for other markets. One example is Lupranate 280 Isocyanate for MDI-based foam – a product with excellent fire-retardant properties that is used in furniture and furnishing applications, such as sofa upholstery.

Another innovative example of a polyurethane application is Elastopor H: This spray foam safely insulates pipes, even in extreme conditions, thanks to its impermeability and resistance to high temperatures. In depths of up to 200 meters, Elastopor H sets a new standard for polyurethane foam in terms of insulating properties, temperature stability and solidity. 🌍

Ultramid

For dual-clutch transmissions

Value for BASF

20%

market growth for this plastic application over the next few years

Value for the environment

14%

lower CO₂ emissions compared with conventional automatic transmissions

Value for BASF Dual-clutch transmissions from VW, Audi, Ford and BMW are among the most innovative automatic transmissions. The plastic parts of the integrated control units for these transmissions are made of Ultramid A3WG6, a proven polyamide produced by BASF. This material is highly heat-stabilized and oil-resistant, characteristics that are already ensuring the transmission's market success.

Value for the environment Thanks to the intelligent Ultramid control unit in the dual-clutch transmission, it is now possible to further improve the efficiency of these transmissions and to cut fuel consumption to a level that is even lower than that of a manual transmission.

Research and development

- Focus on innovative production processes as well as product and system development
- Ultramid CR: a resilient plastic, which, when used in engine mounts, weighs up to 35% less than metal components with comparable functionality
- Lupranate 280 Isocyanate: flame-retardant application for furniture and furnishings
- Elastopor H: impermeable spray foam insulates pipes in extreme conditions

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 lasting success

Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Ludwigshafen, Germany	Expansion Ecoflex	60,000	74,000	2010
	Expansion Neopor	70,000	150,000	2009
Thane, India	Construction compounding plant for engineering plastics		9,000	2009

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			700,000
Polyamide precursors	X	X			1,070,000
Propylene oxide	X		X		925,000 ¹

¹ 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.

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 more than 35 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, sustainable solutions and thus help them to achieve long-term success.

Sales Plastics (million €)

2009	7,128	
2008	9,116	
2007	9,564	

Income from operations Plastics (million €)

2009	554	
2008	539	
2007	1,169	

Segment data Plastics (million €)

	2009	2008	Change in %
Sales to third parties	7,128	9,116	(21.8)
Thereof Performance Polymers	3,005	3,976	(24.4)
Polyurethanes	4,123	5,140	(19.8)
Intersegmental transfers	363	766	(52.6)
Sales including intersegmental transfers	7,491	9,882	(24.2)
Income from operations before depreciation and amortization (EBITDA)	994	947	5.0
EBITDA as a percentage of sales	13.9	10.4	–
Income from operations (EBIT) before special items	576	553	4.2
Income from operations (EBIT)	554	539	2.8
Income from operations (EBIT) after cost of capital	139	(5)	–
Assets	4,530	4,826	(6.1)
Research and development expenses	126	142	(11.3)
Additions to property, plant and equipment and intangible assets	249	470	(47.0)

Sales to third parties decreased by €1,988 million to €7,128 million (volumes –8%, prices –15%, portfolio 0%, currencies 1%). In contrast, income from operations was €554 million, slightly higher than in 2008. This was mainly the result of the positive earnings contribution from Performance Polymers following successful cost reduction measures.

In 2010, we expect an improvement in sales and a significant improvement in earnings against the backdrop of a global economic recovery. At the same time, we anticipate that demand for our products will remain volatile and that overcapacities will have a negative impact on margins.

Performance Polymers

Sales to third parties were €3,005 million, a decline of €971 million compared with the previous year (volumes –11%, prices –14%, portfolio 0%, currencies 1%). Demand from our key customer industries – the automotive, construction, and electric industries as well as the Asian textiles industry – recovered from

the drop seen in the second half of 2008, but did not match the level seen before the economic crisis. In particular, the engineering plastics business was adversely affected in the first half of the year by weak demand from the automotive industry. Lower raw materials prices led to a decline in sales prices for standard products, but prices for specialties were kept constant.

After a loss in the first quarter, business improved in nearly all business sectors over the course of the year. Demand for engineering plastics grew in particular as a result of government stimulus packages to support the automotive industry. The revival of economic growth in Asia also boosted demand for polyamide and intermediates for the textile industry.

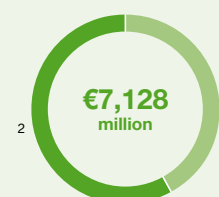
Short-time work had to be introduced temporarily at our production facilities due to significantly lower sales volumes compared with 2008. Following the divestiture of our site in Seal Sands, U.K., in 2008, we accelerated the implementation of further measures to adjust capacities and optimize costs. These included the closure of the Styropor® production plant in Tarragona, Spain, and the polyamide 6,6 spin grades plant in Ludwigshafen. Thanks to the economic recovery and a number of

Factors influencing sales Plastics

Volumes	–8%	
Prices	–15%	
Portfolio	0%	
Currencies	1%	
Sales	–22%	

Sales by division

1	Performance Polymers	42%
2	Polyurethanes	58%

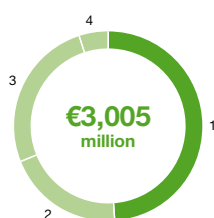


cost-cutting measures, we recorded positive income from operations in 2009 following a loss in 2008.

In 2010, we expect volumes to grow in our important markets. Combined with further cost-cutting measures – the closure of polyamide 6 polymerization in Rudolstadt, Germany, and the restructuring of polyamide 6 production in Ludwigshafen – this is expected to lead to a significant increase in earnings.

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

Sales to third parties were €4,123 million, €1,017 million less than in 2008 (volumes –6%, prices –16%, portfolio 0%, currencies 2%). We posted a decline in sales in all regions and product lines in 2009 due to lower volumes and prices. Our basic products MDI, TDI and polyols were more strongly affected by this development than the elastomers and the systems businesses. Demand from important customer industries such as automotive and construction declined globally compared with the previous year, particularly in Europe and North America. Only in the furniture and household goods sectors were sales volumes almost at the 2008 level. Supported by the positive development in China, demand for polyurethanes in Asia matched the previous year's level.

Toward the end of 2009, we were able to implement successive price increases and thereby offset higher raw material and energy prices. Our margins – in particular for MDI and TDI – were significantly lower than in 2008 due to a sharp fall in prices at the beginning of the year.

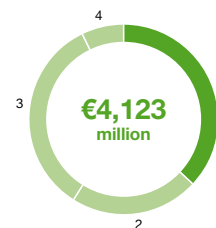
Income from operations declined compared with 2008 due to lower sales volumes and margins.

As a leading supplier of polyurethane solutions, we are continuously expanding our global network of system houses. We have more than 35 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. With the establishment of two system houses in Slovakia and Poland, we are meeting the needs of the growing markets in Central and Eastern Europe. We opened the new system house near Bratislava, Slovakia, at the beginning of December 2009, and our next system house in Poznań, Poland, will start operations in 2010.

Although we expect the economic environment to remain difficult in 2010, we anticipate an increase in both sales and earnings compared with 2009.

Polyurethanes – Sales by region (location of customer)

1	Europe	37%
2	North America	22%
3	Asia Pacific	34%
4	South America, Africa, Middle East	7%



Performance Polymers

- Sales decline as a result of weak demand from main customer industries
- Positive earnings following a loss in 2008
- Acceleration of measures to adjust capacities and optimize costs
- Outlook 2010: sales growth and significant improvement in earnings, chiefly due to higher volumes

Polyurethanes

- Sales decrease in all regions and product lines due to falling volumes and lower prices
- Earnings below previous year's level as a result of lower sales volumes and margins
- Continuous expansion of our system house network
- Outlook 2010: sales and earnings growth despite ongoing difficult market environment

Performance Products

Innovative, high-growth specialties

The Performance Products segment consists of the Dispersions & Pigments, Care Chemicals, Paper Chemicals and Performance Chemicals divisions. Our customers use our products and services to make their processes more efficient and give their products special characteristics such as heat resistance, UV stability or color.

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 vitamins or dispersions for paper coatings. 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 our share of innovative, cyclically resilient, and growth businesses through acquisitions and divestitures. With the acquisition of Ciba Holding AG in April 2009, we expanded and reorganized the Performance Products segment. We have significantly strengthened our position in certain specialty markets – in particular in plastic additives – and we are now market leader in several business areas.

Strategy

- Specialties: innovation, close links to leading customer companies, expertise in applications and development
- Standard products: efficient production structures in the Verbund, technology and cost leadership
- Significantly strengthened position in the specialty market through the integration of Ciba

One of the most important challenges facing the Performance Products segment is the restructuring and repositioning of the combined businesses in order to ensure they have a sustainable and profitable market position. To this end, we are defining and implementing new strategies and appropriate business models.

Integration of Ciba

BASF acquired Ciba Holding AG on April 9, 2009. Almost all of the Ciba businesses have been integrated into the Performance Products segment. To prepare for the realization of the integration, the segment's divisions had already been reorganized as of April 1, 2009. In addition to the three existing divisions, the new Paper Chemicals division was established, which includes BASF's business with paper chemicals, binders and kaolin minerals and since mid-2009 all of Ciba's paper activities. The Acrylics & Dispersions division was fundamentally reorganized and renamed Dispersions & Pigments. This operating division now combines BASF's and Ciba's businesses with raw materials for the coatings and paints industry. Ciba's businesses with plastic additives and water treatment chemicals as well as others were assigned to the Performance Chemicals division. We also expanded the Care Chemicals portfolio with the integration of Ciba. The segment now comprises the divisions Dispersions & Pigments, Care Chemicals, Paper Chemicals and Performance Chemicals.

The integration of the businesses acquired from Ciba into the various divisions is proceeding rapidly, even faster than planned in some areas. In July 2009, the implementation phase began, which includes the introduction of BASF IT systems, the transfer of central functions such as human resources and finance to BASF service platforms and the consolidation of company structures and operating sites. All the essential structural integration measures are expected to be completed by April 2010.

Integration of Ciba

- Acquisition of Ciba Holding AG on April 9, 2009
- Acquired Ciba businesses primarily integrated into the Performance Products segment
- Rapid integration of Ciba, faster than planned in some areas: integration costs of €785 million in 2009, of which around €150 million were cash costs
- From the end of 2012 at the latest, synergies are expected to be more than €450 million annually

As a result of the rapid integration, a major share of the related costs was incurred in 2009. For the full year 2009, the negative impact on earnings was €785 million, of which around €150 million were cash costs. From the end of 2012 at the latest, we expect the combined business to generate synergies of more than €450 million per year. We expect to achieve recurring annual savings of €350 million by the end of 2010.

Our products

The new **Dispersions & Pigments** division bundles products for the coatings and paints industry in particular. The portfolio, which has been strengthened by the Ciba acquisition, includes pigments, resins, dispersions and additives such as photoinitiators, UV filters and formulation additives. Other customer industries include the adhesive, 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, fiber components and construction chemicals.

The **Care Chemicals** portfolio comprises products for cleaning, care, cosmetics and hygiene. These mainly include polymers, surfactants, chelating agents, UV filters and other specialties that are also increasingly being used in chemical engineering industries. The division's portfolio was expanded in 2009. The superabsorbents business, which belonged to the Acrylics & Dispersions division prior to the Ciba acquisition, was transferred to the new Hygiene business sector. We have integrated established businesses from the former Ciba portfolio – such as UV filters, biocides and optical brighteners – in Detergents & Formulators and Personal Care Ingredients. Human and animal nutrition and pharmaceuticals are core Care Chemicals businesses. The main nutrition products are vitamins, carotenoids and enzymes. 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 flavor and fragrance industry.

The **Paper Chemicals** division was established in 2009 to focus on the specific challenges of the business with the paper industry. The acquisition of Ciba rounded out the portfolio, which comprises binders, functional and process chemicals, starch products and kaolin minerals. Our comprehensive range of customized solutions optimizes costs and efficiency in the paper manufacturing process, gives paper certain attributes and enhances the aesthetics and performance of printed paper and board.

The **Performance Chemicals** division offers innovative, specific solutions for various industrial customer industries. A new and important business area is plastic additives, which was integrated into the division following the Ciba acquisition. The product portfolio for the plastics processing industry comprises antioxidants, pigments, light stabilizers and specialty additives. With the integration of the Ciba businesses, we expanded our selection of mining and oilfield chemicals and added water treatment chemicals as a new business sector to the division. For the automotive and refinery industries, we develop brake fluids, engine coolants, fuel and lubricant additives as well as process and refinery chemicals. The division also makes chemicals for the production and finishing of leather and textiles.

Reorganization of the segment

- Effective April 1, 2009, the segment consists of the divisions Dispersions & Pigments, Care Chemicals, Paper Chemicals and Performance Chemicals
- Acrylics & Dispersions division was completely reorganized and renamed Dispersions & Pigments
- New Paper Chemicals division bundles the business with paper chemicals, binders and kaolin minerals.

Products

- Dispersions & Pigments: products for the coatings and paints industry
- Care Chemicals: products for cleaning, care, cosmetics, hygiene, nutrition and pharmaceuticals
- Paper Chemicals: solutions for the paper industry
- Performance Chemicals: specialties for diverse industrial applications

Keropur gasoline additives range

Gasoline additives combined with technical expertise

Value for BASF

No.1

preferred partner for the development of innovative gasoline additives

Value for the environment

2%

less CO₂ emissions for gasoline engines

Value for BASF We are a global market leader with our Keropur gasoline additives range. This is not only because the additives help reduce an engine's fuel consumption, for example – our expertise in this area is also of great importance to our customers. We have developed a special method to demonstrate how much gasoline is saved when an additive is used. This allows our customers to market their fuels more efficiently, with the help of our expertise.

Value for the environment Keropur is also better for the environment. Our gasoline additive range with friction modifiers leads to a 2% reduction in CO₂ emissions from gasoline engines.

Research and development

The success of the Performance Products segment is driven by product innovations. We focus on the needs of our customers and sustainable market trends. For example, we developed friction modifiers as a new component of our Keropur® range of gasoline additives that help reduce an engine's fuel consumption and CO₂ emissions. Our new detergent surfactant Lutensol® M also helps to save energy because it reaches its full cleaning potential even at washing temperatures below 30°C.

Research and development

- Product innovation: focused on customers' needs and sustainable market trends
- Close cooperation with innovation leaders among our customers
- Resources concentrated on developing new solutions for innovative and fast-growing markets
- Further development and increasing the flexibility of our production technology and processes

Close collaboration with innovation leaders among our customers is key for the development and successful market launch of new solutions. For instance, we worked intensively with our Belgian partner N.V. Recticel S.A., a leading polyurethane processor, on the development of the plastics additive Uvinul® 5080 H. This cooperation produced a plastic for use in dashboards which releases significantly less volatile substances than conventional materials.

Our resources to develop new solutions are concentrated on innovative, rapidly growing markets and applications in which we can set ourselves apart from competitors through exceptional expertise. Simultaneously, we pursue the further development and increase the flexibility of our production technologies and processes. This is particularly true for our vitamin production in the Care Chemicals division and our dispersions plants worldwide. 🌐

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 direct and individual service – with many customers, we have had business collaborations and partnerships for many years. In addition to innovative products, we often offer application services as well. We follow a value-based pricing strategy that is oriented on the overall added benefit that customers gain from our solutions.

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.

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
- In addition to innovative products, applications services are often part of the solution package
- Specialized distribution partners to serve 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
Ludwigshafen, Germany	Construction chelating agent		n/a	2010
	Expansion polyisobutene	25,000	40,000	2010
Nanjing, China	Construction surfactants		60,000	2011/2012
	Construction polyisobutene		50,000	2011/2012
Wyandotte, Michigan	Construction superabsorbent		to be determined	to be determined
	Construction water-based resins		n/a	2009

Production capacities of significant products

Product	Sites				Annual capacity (metric tons)
	Europe	North America	Asia Pacific	South America, Africa, Middle East	
Citral	X				40,000
HDI (hexamethylendiisocyanate)	X				10,000
Chelating agent	X	X		X	120,000
Methanesulfonic acid	X				10,000
Nonionic surfactants	X	X			435,000
Organic pigments	X	X	X	X	n/a
Polyisobutene	X				145,000
Superabsorbents	X	X	X		400,000

Sales Performance Products
(million €)

2009	9,356	
2008	8,125	
2007	8,088	

Income from operations Performance Products
(million €)

2009	(150)	
2008	768	
2007	638	

Segment data Performance Products (million €)

	2009	2008	Change in %
Sales to third parties	9,356	8,125	15.2
Thereof			
Dispersions & Pigments	2,445	2,239	9.2
Care Chemicals	3,405	3,593	(5.2)
Paper Chemicals	1,326	1,030	28.7
Performance Chemicals	2,180	1,263	72.6
Intersegmental transfers	319	345	(7.5)
Sales including intersegmental transfers	9,675	8,470	14.2
Income from operations before depreciation and amortization (EBITDA)	926	1,205	(23.2)
EBITDA as a percentage of sales	9.9	14.8	–
Income from operations (EBIT) before special items	698	766	(8.9)
Income from operations (EBIT)	(150)	768	.
Income from operations (EBIT) after cost of capital	(930)	182	.
Assets	9,242	5,769	60.2
Research and development expenses	285	223	27.8
Additions to property, plant and equipment and intangible assets	3,753	360	.

Sales to third parties increased by €1,231 million to €9,356 million (volumes –10%, prices –4%, portfolio 28%, currencies 1%). Against a backdrop of a generally sharp decline in demand, sales growth was due solely to the integration of the Ciba businesses from April 2009 onward. Income from operations was minus €150 million due to the impact of the crisis in nearly all our customer industries and high charges incurred as a result of the Ciba integration.

We expect demand to recover and result in an increase in sales in 2010. Earnings should improve considerably thanks to higher synergy effects from the acquisition and considerably lower integration costs. We aim to significantly outperform the cumulative results that the now combined businesses achieved in 2008.

Dispersions & Pigments

In 2009, sales to third parties were €2,445 million, an increase of €206 million compared with the previous year (volumes –11%, prices –4%, portfolio 22%, currencies 2%). Sales grew thanks to the inclusion of the Ciba businesses.

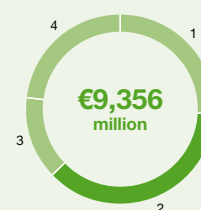
Demand dropped as a result of the global economic crisis. The decline affected all business areas, but to varying degrees. Sales volumes for pigments were significantly lower as a result of the slump in automotive production. For the dispersions unit, the construction sector downturn resulted in a decline in sales volumes, in particular in Europe, as well as in North and South America. However, over the course of the year volumes steadily recovered toward the level of the previous year. Sales of resins were only slightly below the previous year's level, supported by demand from the printing and packaging industry. The business with coatings additives was also negatively affected by the economic crisis. Margins in all business sectors could generally be maintained and even slightly improved in some cases. However,

Factors influencing sales Performance Products

Volumes	–10%	
Prices	–4%	
Portfolio	28%	
Currencies	1%	
Sales	15%	

Sales by division

1	Dispersions & Pigments	26%
2	Care Chemicals	37%
3	Paper Chemicals	14%
4	Performance Chemicals	23%



weak demand and volatile raw materials prices led to increasing pressure on margins in the second half of the year.

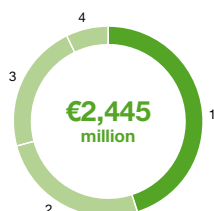
In 2009, we adjusted global production to meet declining demand and reduced our inventories. Lower capacity utilization rates at our plants adversely affected income from operations. We minimized the negative impact of higher fixed costs with rigorous management. Significant special items resulting from the Ciba acquisition led to negative earnings.

In the fourth quarter of 2009, we started up a new resins plant in Wyandotte, Michigan.

We expect the economic environment in 2010 to remain challenging. Our key customer industries – automotive, construction and packaging – are only slowly recovering from the global recession. Overall, we expect to grow somewhat faster than the market and to increase sales. Due to stable margins and continued cost discipline, we expect clearly positive earnings. The rapid implementation of integration and restructuring measures associated with the Ciba acquisition will also contribute to a significant improvement in earnings.

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

1	Europe	45%
2	North America	26%
3	Asia Pacific	22%
4	South America, Africa, Middle East	7%



Dispersions & Pigments

- Higher sales due to integration of Ciba businesses
- Sharp decline in demand impacted all business areas and led to capacity adjustments
- Earnings negative due to low capacity utilization and high special items
- Outlook 2010: sales growth and significantly positive earnings thanks to stable margins and continued cost discipline

Care Chemicals

The Care Chemicals division posted sales to third parties of €3,405 million, a decrease of €188 million compared with the previous year (volumes –9%, prices –3%, portfolio 5%, currencies 2%). Portfolio measures included the integration of Ciba businesses into the division, and the closure of the formulated vitamin-C manufacturing site in Wilmington, North Carolina, in 2009.

Our business performance proved cyclically resilient in a difficult market environment. Despite lower sales volumes, prices largely remained stable and we were able to raise margins, in particular in the business sectors Detergents & Formulators, Aroma Chemicals and Personal Care Ingredients. Sales in the Nutrition business were below the very good level seen in 2008 due in large part to the weak demand for vitamins, but exceeded our expectations due to stable margins and lower fixed costs. Demand in the Care Chemicals division declined overall, but began a steady recovery from the second quarter on.

Income from operations was negatively impacted by costs resulting from the integration of Ciba businesses. Furthermore, the impairment of intangible assets adversely affected earnings, which were below the previous year's strong level. Thanks to the rapid integration of Ciba activities into existing BASF structures, we were already able to take advantage of synergies from the combined portfolio for market development purposes in 2009.

We strengthened cooperation with our strategically important customers: We created a new global unit to bundle our key account business in the fields of cleaning, personal care, hygiene and cosmetics worldwide. This will lead to an even stronger focus on the market and our customers' needs.

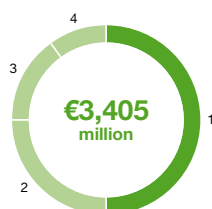
We expect a demand-driven rise in sales and generally stable margins in 2010, supported by economic recovery in our key customer industries. We expect considerably higher earnings. The incorporated Ciba businesses will make a contribution to this improvement through greater synergies, lower integration expenses and higher sales in comparison with 2009.

Care Chemicals

- Sales declined as a result of weak demand
- With sales prices largely stable, margins increased despite lower sales volumes
- Earnings were below the strong 2008 level partly due to integration costs
- Outlook 2010: higher sales and considerable improvement in earnings as a result of economic recovery

Care Chemicals – Sales by region (location of customer)

1	Europe	50%
2	North America	25%
3	Asia Pacific	15%
4	South America, Africa, Middle East	10%

**Paper Chemicals**

The Paper Chemicals division was established on April 1, 2009. It comprises BASF's paper business, which previously belonged to the Acrylics & Dispersions division, and the newly acquired Ciba paper business.

In 2009, we posted sales to third parties of €1,326 million, an increase of €296 million in comparison with the previous year. This included a contribution of €479 million from the integration of Ciba's paper business. Therefore, the sales growth was exclusively due to the Ciba business included in the division since April 2009 (volumes –11%, prices –7%, portfolio 46%, currencies 1%).

The business environment was difficult, particularly in the first half of the year. It was not until the second half that we saw a slow but continuous recovery – albeit from a low level – begin in the paper industry. This industry has for many years been characterized by structural problems such as overcapacity and declining demand. The effects of generally weaker demand could be felt in all regional business units. In particular in Europe and North America, the economic crisis intensified the declining trend. In both regions we faced the challenge of having to adjust our capacities to the significantly lower demand. On the Asian market, our sales volumes decreased as a result of the economic crisis especially in the first half of 2009. In the second half of 2009, we experienced rising demand again, in particular in China. After a weak start, the South American market recovered slowly over the course of the year. Overall, we were able to maintain margins despite declining prices.

Paper Chemicals

- Growth in sales and volumes due exclusively to the integration of Ciba businesses in the division
- Difficult business environment in the first half of 2009; recovery from a low level in the second half
- Earnings in the combined paper businesses were negative due to integration costs, impairment charges and restructuring measures

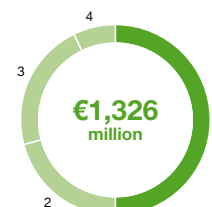
Sales and sales volumes of kaolin minerals declined considerably due to the ongoing difficult market situation in the paper industry. The business was also negatively affected by high energy and freight costs.

To some extent, we were able to compensate for the expenses resulting from the lower capacity utilization with strict cost management. Income from operations in the merged paper businesses was adversely affected by high integration costs and the creation of structures in the newly established division. In addition, there were significant special items in 2009 due to impairment charges and restructuring measures. Overall, earnings were negative.

In 2010 we expect the economic environment to remain difficult along the entire value-adding chain in the paper industry. The pressure on our business will be further increased by our customers' overcapacities and their portfolio adjustments. Simultaneously, we anticipate rising raw materials prices which we will not be able to fully pass on to the market. Planned restructuring measures and the rapid integration of the Ciba operations will contribute to improving sales and earnings in 2010.

Paper Chemicals – Sales by region (location of customer)

1	Europe	49%
2	North America	21%
3	Asia Pacific	23%
4	South America, Africa, Middle East	7%



- Outlook 2010: improved sales and earnings thanks to restructuring and rapid integration of the Ciba businesses

Performance Chemicals

Sales to third parties in 2009 were €2,180 million, an increase of €917 million compared with the previous year (volumes –11%, prices –4%, portfolio 87%, currencies 1%). Established BASF businesses contributed €1,080 million to sales, while the newly consolidated Ciba businesses contributed €1,100 million.

As a result of the economic crisis, which affected all of our customer industries, demand declined in all business sectors compared with 2008. The acquired Ciba businesses – in particular plastic additives – were also negatively impacted by the difficult economic environment. However, demand recovered continuously toward the end of the year. We improved margins despite strong price pressure. The integration proceeded rapidly.

In the leather and textile chemicals business, we were able to counteract the downturn that had started at the end of 2008 and to implement price increases. Thanks to the rapid implementation of restructuring measures, we were able to increase margins and reduce fixed costs.

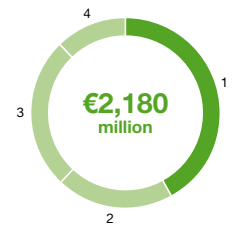
Sales in the business with automotive and refinery chemicals were lower than in the previous year, due both to lower volumes as well as lower prices resulting from raw materials-based sales contracts. However, we were able to prevent margin erosion.

In 2009, the division was negatively impacted by high costs resulting from the integration of the Ciba businesses. Income from operations was therefore significantly below the previous year's level and was negative due to high special items.

Despite uncertainty about macroeconomic developments, we expect sales to increase significantly in 2010 compared with 2009. Earnings should improve considerably as a result of lower integration costs, the realization of synergies from the acquisition and expected higher sales. We will continue to counter pressure on margins by applying strict price and cost management. In 2010, we will continue to pursue measures previously introduced to improve efficiency along the entire value-adding chain. Furthermore, we are concentrating on optimizing the acquired Ciba businesses and further advancing the restructuring program for the leather and textiles chemicals business. Overall, we expect earnings to be clearly positive.

Performance Chemicals – Sales by region (location of customer)

1	Europe	42%
2	North America	20%
3	Asia Pacific	26%
4	South America, Africa, Middle East	12%



Performance Chemicals

- Growth in sales resulted from the integration of Ciba businesses in the division
- After a difficult start, demand recovered continuously toward the end of the year
- Earnings significantly below the previous year's level and negative due to high integration costs

- Outlook 2010: despite ongoing uncertainties about the economic environment, we expect sales to grow significantly; earnings to improve considerably due mainly to lower integration costs and the realization of synergies from the rapid integration of Ciba; positive earnings contribution

Functional Solutions

Customer-specific products and system solutions

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

Segment strategy

Our portfolio is made up of innovative products and technologies that allow our customers to differentiate themselves from their competitors. The success of the segment is based primarily on specialties and system solutions developed in collaboration with our customers. Our strategy focuses on the ongoing optimization of our product portfolio and structures based on regionally differentiated 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 on the North American market and to extend our activities in the growth regions of Asia, South America, Eastern Europe and the Middle East in a targeted manner.

Our products

The **Catalysts** division develops catalysts and adsorbents that help protect the air, produce fuels and efficiently manufacture a number of chemicals and plastics. For example, we produce catalysts that transform pollutants in the exhaust flows of vehicles into harmless chemical compounds. With our Catalyzed Soot Filter, we offer our customers an integrated catalytic converter for diesel vehicles. Furthermore, we produce process catalysts which increase the raw material and energy efficiency of chemical plants and refineries. Our Prox-SMZ catalyst, for example, increases the yield of diesel fuel from crude oil by 1.5%. 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, deferrers and curing agents. These facilitate simple and efficient processing of concrete, and increase the stability and durability of concrete structures. We also produce and market construction systems that help to protect and repair concrete structures. For example, with our Emaco® NanoCrete brand of

concrete repair mortars, lasting and secure repairs can be made on concrete structures such as bridges or high-rise buildings. Besides mortars, our construction systems portfolio also includes tile adhesives, waterproofing and insulating systems as well as sports and industrial flooring.

The **Coatings** division is one of the world's largest suppliers of innovative and environmentally friendly coatings solutions for automotive and industrial applications. Our brands Glasurit® and R-M® for the car refinishing business make us successful in the premium segment worldwide. In Brazil, we are the leading manufacturer of architectural coatings, with an excellent market position of our brand Suviniil®. 🌐

Glenium concrete additives

Improved concrete properties

Value for BASF

Annual average

2.5x

higher growth rate of newest high-performance plasticizers compared to the cement market

Value for the environment

Up to

60%

less CO₂ emissions than conventional concrete mixtures

Value for BASF Our high-performance plasticizers, sold under the brand name Glenium, improve the properties of both liquid and solid concrete. Our customers benefit not only from our expertise in this area, but also from lower production costs. This is the basis of our market success.

Value for the environment With the help of Glenium, manufacturers can produce concrete mixtures that contain significantly less cement clinker, a material which is manufactured in a highly carbon-intensive process, yet are still as strong or even stronger than conventional concrete.

Strategy

- Focus on innovative products and technologies
- Development of specialties and system solutions in close collaboration with our customers
- Continuous optimization of our product portfolio according to regional market requirements and trends in the customer industries

Products

- Catalysts: Automotive and process catalysts as well as adsorbents
- 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
Demarchi, Brazil	Expansion Suvinil	2009
Guangdong, China	Construction admixtures and construction systems	2009
Karachi, Pakistan	Construction admixtures and construction systems	2009
Kunming, China	Construction concrete admixtures	2009
Moscow-Krasnogorsk, Russia	Construction vehicle catalysts	2009
Münster, Germany	Expansion water-based finishes	2009
Poznań, Poland	Construction of construction systems	2009
Shanghai, China	Expansion vehicle catalysts	2009
Würzburg, Germany	Expansion water-based finishes	2009

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 meeting ever-stricter exhaust gas standards and consistently improving the efficiency of our catalysts. Our innovations include our NanoSelect™ catalysts LF 100 and LF 200 – lead-free alternatives to the Lindlar catalyst, which has long been widely used in the fine chemical industry. As they contain very little precious metal, these catalysts also create significant cost savings for our customers.

Construction Chemicals aligns its research activities with customers' needs and construction industry trends. Sustainability as well as cost and resource efficiency are the focus of the division's research. The latest example is our Crystal Speed Hardening™ concept. Thanks to the core product X-SEED® 100, a unique hardening accelerator, concrete strength can be more than doubled. This concept also increases energy efficiency while reducing processing costs. Other focus areas include polymers, reactive resins, new formulations and tailor-made 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 and highly scratch-resistant clearcoats. Another research area is improved

coatings products that can be used in fast-growing fields of application such as wind turbines. Our innovations also include more efficient corrosion protection technologies from the CathoGuard® product range. 🌐

Marketing and customer relations

Our customer portfolio ranges from major customers in the automotive, construction and chemical industries 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 and custom-tailored research and development activities and technical services. Our pricing policy is primarily based on the value of our innovative products and technologies to our customers.

One example of our close collaboration with customers is our cooperation with Masdar: As a preferred partner and supplier of construction materials and system solutions, BASF will contribute to the construction of Masdar City, the world's first carbon-neutral city, in Abu Dhabi. We also maintain close contact with our customers in our redesigned Refinish Competence Center in Münster, Germany. At this center, we offer courses, for example, in the use of our automotive refinish products. 🌐

Sales Functional Solutions (million €)

2009	7,115	
2008	9,388	
2007	9,491	

Income from operations Functional Solutions (million €)

2009	107	
2008	151	
2007	433	

Segment data Functional Solutions (million €)

	2009	2008	Change in %
Sales to third parties	7,115	9,388	(24.2)
Thereof Catalysts	2,961	4,729	(37.4)
Construction Chemicals	1,991	2,163	(8.0)
Coatings	2,163	2,496	(13.3)
Intersegmental transfers	147	147	–
Sales including intersegmental transfers	7,262	9,535	(23.8)
Income from operations before depreciation and amortization (EBITDA)	511	564	(9.4)
EBITDA as a percentage of sales	7.2	6.0	–
Income from operations (EBIT) before special items	209	265	(21.1)
Income from operations (EBIT)	107	151	(29.1)
Income from operations (EBIT) after cost of capital	(644)	(750)	14.1
Assets	8,265	8,693	(4.9)
Research and development expenses	163	186	(12.4)
Additions to property, plant and equipment and intangible assets	174	234	(25.6)

Sales to third parties decreased by 24% to €7,115 million (volumes –14%, prices –11%, portfolio 0%, currencies 1%). Income from operations also declined by €44 million to €107 million. This was mainly due to the dramatic drop in demand from the automotive industry.

In 2010, we expect some improvement in the market environment in the automotive and construction industries and, as a result, we anticipate a slight increase in sales. We aim to significantly increase income from operations.

Catalysts

The dramatic drop in demand from our key customer industries – the automotive and chemical industries – had a negative impact on the division's sales and earnings in 2009. Sales to third parties fell by €1,768 million to €2,961 million due to lower annual average precious metals prices and a decrease in sales volumes (volumes –16%, prices –23%, portfolio 0%, currencies 2%).

While we increased sales of refinery catalysts, sales volumes of chemical catalysts and automotive catalysts were significantly lower than in the previous year. A higher volume of business in emerging markets, particularly in Asia Pacific, could not offset the sharp decline in North America and Europe. As a result of significantly lower precious metals prices and reduced trading volumes, sales in our Precious and Base Metal Services unit dropped by 50% to €1,229 million.

Despite a reduction in fixed costs, income from operations was considerably lower than in 2008 due to the extraordinarily weak market environment, especially during the first half of 2009. Higher earnings in our refinery catalysts business could not compensate for lower results in other businesses.

Factors influencing sales Functional Solutions

Volumes	–14%	
Prices	–11%	
Portfolio	0%	
Currencies	1%	
Sales	–24%	

Sales by division

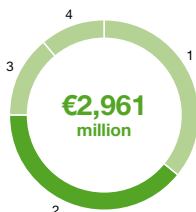
1	Catalysts	42%
2	Construction Chemicals	28%
3	Coatings	30%



For 2010, we expect a considerable increase in sales due to higher precious metals prices and rising volumes, particularly in automotive catalysts. Despite uncertainty about the impact of the end of government stimulus programs, we expect sales volumes will increase due to positive effects from higher overall automotive production worldwide compared to 2009 as well as new emissions regulations coming into effect. We are also optimistic that we can profitably grow our process catalysts business. Overall, earnings in 2010 are expected to be significantly higher than 2009, driven by higher sales and continuing efforts to optimize our cost base.

Catalysts – Sales by region (location of customer)

1	Europe	36%
2	North America	39%
3	Asia Pacific	14%
4	South America, Africa, Middle East	11%



Construction Chemicals

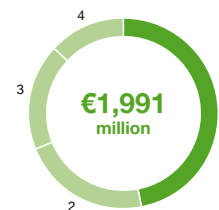
In the Construction Chemicals division, sales to third parties decreased by 8% to €1,991 million due to lower volumes (volumes -10%, prices 1%, portfolio 0%, currencies 1%). This was due to the continuing weakness in the construction sector in many of our important markets. We recorded the sharpest decline in sales in the United States, Spain, the United Kingdom, Brazil and Japan. In contrast, we continued to grow in China and the Arabian Peninsula.

Income from operations improved compared with the previous year and returned to profitability. However, it was negatively impacted by special items resulting from our measures to strengthen our competitiveness. We have adapted our business models and organizations to market developments in all regions, reduced the complexity of our portfolio and increased the efficiency of our processes throughout the entire supply chain. As a result, we reduced fixed costs and improved our margins.

We expect the following developments in our important markets in 2010: Construction activity will continue to decline in the United States, Spain, France and the United Kingdom. At the same time, the construction sector should stabilize in Germany, Italy, Eastern Europe and Japan. In emerging markets in Asia, in particular in China, the growth trend will continue. We also expect positive development in the construction sector in the financially sound states in the Arabian Peninsula. For 2010, we aim for a slight increase in sales at Construction Chemicals and a significant improvement in earnings.

Construction Chemicals – Sales by region (location of customer)

1	Europe	47%
2	North America	22%
3	Asia Pacific	18%
4	South America, Africa, Middle East	13%



Catalysts

- Considerable decline in sales due to lower precious metals prices and weaker volumes; sales increase in the business with refinery catalysts
- Noticeable decline in earnings despite a reduction in fixed costs
- Outlook 2010: higher sales due to a rise in precious metals prices and higher volumes; significant increase in earnings compared with 2009

Construction Chemicals

- Decline in sales due to weak construction sector activity in many important markets
- Increase in earnings thanks to reduction in fixed costs and higher margins
- Measures to increase competitiveness successfully implemented
- Outlook 2010: slight increase in sales and significantly higher earnings

Coatings

Our sales to third parties in 2009 were €2,163 million, a decrease of €333 million compared with 2008 (volumes –14%, prices 1%, portfolio 0%, currencies 0%). The overall decline in demand affected all product lines in Europe, North America and South America. Lower sales resulted in particular from the deterioration in the market environment for the automotive industry in Europe and North and South America as well as our divestitures in our industrial coatings activities in North America in 2008.

The rapid recovery of the automotive industry in China led to sales growth for automotive coatings in Asia. In contrast, as a result of the difficult business environment we posted a slight decline in sales of automotive refinish coatings. Demand for coatings for tractors and other agricultural machines weakened dramatically.

Sales of industrial coatings in North America declined due to divestitures. Sales in Europe also decreased, attributable mainly to lower demand from the steel industry for coil coatings. Even the positive development with coatings for wind turbines could not offset this decline. Sales in the architectural coatings business matched the previous year's level; in South America, we were able to gain market share.

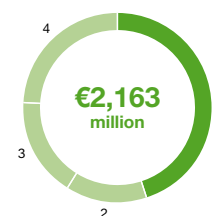
Income from operations exceeded the previous year's level because we were able to reduce fixed costs through personnel adjustments and strict cost discipline while margins remained stable.

Special items were lower overall than in 2008. They were related to restructuring projects in Europe and Asia: Here we responded to changing market conditions by selling our production sites in Ako, Japan, and Verbania, Italy. In addition to these divestitures, we optimized internal processes and streamlined our product portfolios.

In 2010, we expect a slight recovery in the global automotive industry and consumer demand. This should more than offset the sales decline that has resulted from the divestment of our production sites in Japan and Italy. We therefore expect that sales will increase slightly compared with the 2009 level. Income from operations is expected to improve significantly as a result of the restructuring measures we have introduced. We will continue to expand our presence in the growth regions of Asia and Eastern Europe, particularly in Russia, China and India.

Coatings – Sales by region (location of customer)

1	Europe	45%
2	North America	14%
3	Asia Pacific	17%
4	South America, Africa, Middle East	24%



Coatings

- Decline in sales resulted in particular from worsened market environment in the automotive industry in Europe and North and South America
- Increase in earnings due to stable margins and reduced fixed costs
- Sale of our production sites in Ako, Japan, and Verbania, Italy, in response to changing market conditions

- Outlook 2010: sales growth and significant improvement in earnings; presence in Asia and Eastern European growth markets to be expanded further

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

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

Innovation is decisive for our success. That is why 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 acquisitions when appropriate.

Our products

Our products and services make us a reliable partner to farmers. Our products help improve crop health and yields. We also offer solutions for non-agricultural applications: for example, our product Termidor® protects buildings from termites and our Interceptor® mosquito nets are effective in combating the spread of malaria. We are an industry leader with our portfolio of fungicides, insecticides, herbicides and seed treatments.

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.

The fungicidal active ingredient F 500® forms the core of our Plant Health concept. It is also contained in our fungicide Opera®, which is used, for example, in South America for soybean cultivation, an important agricultural product in that region. Opera has a leading position in this market. It helps effectively combat Asian soybean rust – a fungal disease that can lead to a loss of up to 80% of a harvest – and increase yields.

Crop Protection pipeline

	Market segments	Total peak sales potential
Active ingredients already launched on the market		
F 500 (F), boscalid (F), dimoxystrobin (F)	Crops, specialty crops	€1,500 million
Titrosulfuron (H)	Crops	
Chlorfenapyr (I)	Pest control	
Active ingredients/projects being launched on the market		
Metrafenone (F), orysastrobin (F)	Crops, specialty crops	€700 million
Topramezone (H), F 500 fungicide seed treatment (F)	Crops	
Metaflumizone (I)	Specialty crops	
Active ingredients/projects in development		
2 fungicides	Crops, specialty crops, seed treatment	€700 million
1 herbicide, 2 herbicide tolerance projects	Crops	
1 insecticide	Specialty crops	
Total		€2,200 million

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

Sales Agricultural Solutions (million €)

2009	3,646	
2008	3,409	
2007	3,137	

Income from operations Agricultural Solutions (million €)

2009	769	
2008	705	
2007	516	

Our SeedSolutions business 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. We are currently introducing our products with the active ingredient F 500 – such as Stamina® or Acronis® – in the U.S. and Latin American markets. Worldwide, these are the first products of BASF's new generation of seed treatments that we are bringing to market.

Research and development

In 2009, we increased our research and development expenditures to €355 million, around 10% as a percentage 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 €2,200 million. Of this, €700 million relates to future product innovations. A total of €1,500 million relates to active ingredients launched since 2002, with which we achieved approximately 70% of the expected sales potential in 2009.

With boscalid, BASF has successfully launched the world's first fungicide from the promising carboxamide active ingredient class. Farmers have now applied boscalid to over 100 crops in more than 70 countries and in more than 200 indications. We once again raised the sales potential of this active ingredient and now expect peak sales of over €300 million annually.

Strategy and products

- Leading position thanks to an innovative portfolio and continuous improvement of formulations
- Our products: fungicides, insecticides, herbicides and seed treatments as well as applications in the non-agricultural sector
- Plant Health market segment: increase yields through improved plant health

Samruddhi business model

Productivity in soybean cultivation

Value for BASF

60%

annual growth in business with plant protection products for soybeans from 2006 to 2009

Value for our customers

30%

more yield thanks to improved know-how and optimized farming methods

Value for BASF The productivity of soybean cultivation in India is among the lowest in the world because farmers there have very little access to information about the best farming methods. In our Samruddhi business model, BASF agronomists advise Indian farmers. Not only does this ensure our customers' success – our business with plant protection products for soybeans in India also grew by an average 60% annually over the last three years.

Value for our customers We are helping more than 100,000 farmers secure good harvests. And we have been successful: the farmers involved increased their yields by around 30%.

We are working on developing four new active ingredients and two herbicide tolerance projects. Our novel herbicide Kixor® is particularly promising. Kixor can be used against broadleaf and difficult-to-control weeds, including those that have developed resistance to the herbicide glyphosate. After being approved on various Latin American markets, Kixor was granted approval by U.S. authorities in September 2009. We will further advance the introduction of the Kixor product family in 2010. We aim to achieve peak sales of over €200 million annually with Kixor.

Research and development

- 2009: research and development expenditures of €355 million, equivalent to 10% of sales
- Pipeline with peak sales potential of €2,200 million
- Successful market launch of boscalid fungicide; expected peak sales potential of €300 million annually
- Approval for Kixor herbicide in various Latin American markets; approval received from U.S. authorities

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 China and India. We also want to support farmers in these countries with our wide-ranging expertise in agronomic practices and technological solutions. For example, in the Samruddhi business model, BASF agronomists teach Indian farmers about the proper use of crop protection products and fertilizers in soybean cultivation in order to sustainably increase their productivity. 🌍

Investments

In 2009, we invested €183 million. A large part of this investment was directly related to the capacity expansion for our fungicide F 500. Furthermore, we started operations at a new production site for our Kixor herbicide in Hannibal, Missouri. 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

BASF Plant Science is an international research and technology Verbund with eight sites in Europe and North America. Around 700 employees are developing crops with clear advantages for farmers, consumers and the environment. Plant biotechnology is used to give plants specific, desired characteristics. It supplements conventional breeding methods, because it allows the genes from other organisms – and therefore a much larger repertoire of genetic traits – to be used. Research expenditures for BASF Plant Science in 2009 amounted to around €150 million from the corporate research budget.

Strategy

As a partner to leading seed companies, BASF Plant Science develops traits, or genetic properties, such as drought and disease resistance or higher yields. 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 also develop plants that are more nutritious or can be used as renewable raw materials.

Plant biotechnology is an especially controversial topic in Europe. We take our social responsibility seriously: That is why, at an early stage, we enter into close dialogue with farmers, politicians and consumers to explain the benefits of the processes used and our products.

Research and development

We cooperate with a number of research institutes, universities and biotechnology companies worldwide in the discovery and characterization of traits.

Together with Monsanto, we develop higher-yielding and stress-tolerant corn (maize), soybean, canola (oil-seed rape) and cotton plants. An approval process is currently underway in the United States for a corn variety that can withstand dry periods without adverse effects on yields. We expect this new variety will be available for cultivation in North America from 2012. At the end of 2009, we received the first approval for a genetically optimized plant. In Brazil, we obtained approval for the cultivation of the herbicide-tolerant soybean we developed jointly with our Brazilian partner Embrapa. The market launch of the soybean will take place once our product has been approved for import in markets such as China and the European Union. Since August 2009, we have been collaborating on the genetic improvement of sugar cane with Centro de Tecnologia Canavieira (CTC), Brazil's largest sugarcane grower. We also entered into a similar cooperation for sugar beets with KWS Saat AG.

Investments

- Investments of €183 million in 2009
- Investment flow largely directed to capacity expansion for F 500 fungicide and production facilities for the new Kixor herbicide
- Annual investment volume of €100 million to €150 million planned in coming years

BASF Plant Science

- International research and technology Verbund with eight sites in Europe and North America
- Around 700 employees develop, with the help of plant biotechnology, plants with clear advantages for farmers, consumers and the environment
- In 2009, expenditures of around €150 million annually for BASF Plant Science from the corporate research budget
- Obtained approval for the cultivation of a herbicide-tolerant soybean in Brazil

Segment data Agricultural Solutions¹ (million €)

	2009	2008	Change in %
Sales to third parties	3,646	3,409	7.0
Intersegmental transfers	33	28	17.9
Sales including intersegmental transfers	3,679	3,437	7.0
Income from operations before depreciation and amortization (EBITDA)	973	905	7.5
EBITDA as a percentage of sales	26.7	26.5	–
Income from operations (EBIT) before special items	776	706	9.9
Income from operations (EBIT)	769	705	9.1
Income from operations (EBIT) after cost of capital	329	264	24.6
Assets	4,681	4,352	7.6
Research and development expenses	355	325	9.2
Additions to property, plant and equipment and intangible assets	183	196	(6.6)

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

Sales to third parties rose by €237 million compared with the previous year to €3,646 million. Income from operations increased to a record high of €769 million.

We aim for sales growth in 2010 despite a difficult market environment. We aim to keep earnings at the high level of 2009.

Crop Protection

The Crop Protection division once again increased sales and earnings in 2009. Sales to third parties were €3,646 million, an increase of €237 million compared with the previous year's very strong level (volumes 0%, prices 5%, portfolio 1%, currencies 1%). Thanks to strong demand from distributors, we experienced a good start to 2009. However, business slowed from the beginning of the second quarter as unfavorable weather conditions in the northern hemisphere resulted in reduced use of crop protection products. Furthermore, lower prices for agricultural produce, in particular for corn (maize) and wheat, led to more cautious purchasing behavior by farmers. Distributors also acted cautiously because of their higher inventory

levels. Sales growth was mainly due to higher prices. Overall positive currency effects and the businesses of Sorex and Whitmire acquired at the end of 2008 also contributed to the improvement in sales.

At €1,520 million, sales to customers in **Europe** nearly matched the previous year's level. Negative currency effects, particularly related to Eastern European currencies, adversely impacted sales. Use of crop protection products declined due to a late start to the season following a long winter, as well as low disease pressure for field crops. Lower sales volumes were offset by price increases for our innovative products. Our cautious credit management paid off in the Central and Eastern European growth markets.

At €910 million, sales in **North America** were significantly higher than in 2008. This was due mainly to higher prices and a stronger U.S. dollar on average in 2009. In addition, the acquisition of the Sorex Group contributed to sales growth in our business with pest control products for non-agricultural applications. Due to adverse weather conditions and weak prices for corn, there was significantly lower demand for our

Factors influencing sales Agricultural Solutions

Volumes	0%	
Prices	5%	
Portfolio	1%	
Currencies	1%	
Sales	7%	

Factors influencing sales

- Europe: sales nearly at previous year's level due to currency and weather effects
- North America: higher sales due to higher prices and a stronger U.S. dollar
- Asia: sales growth as a result of higher sales volumes
- South America: sales above 2008 level, in particular due to strong demand for fungicide Opera

plant health products (Headline®) compared with 2008. Overall, sales adjusted for currency and portfolio effects were at the previous year's level.

In **Asia**, we increased sales to €378 million, primarily as a result of higher sales volumes. Growth was particularly strong in China and India. For instance, we experienced high demand for our soybean herbicide Pursuit® in India.

At €838 million, sales in **South America** were above the previous year's level. Favorable weather conditions at the end of the year led to increased disease pressure and resulted in strong demand for our fungicide Opera®. The sugarcane market in Brazil recovered thanks to the rise of sugar and ethanol prices toward the end of 2009. This had a positive effect on our insecticide business in this market segment, which had been weak at the beginning of the year. Furthermore, we experienced strong demand for our soybean seed treatment product Standak®.

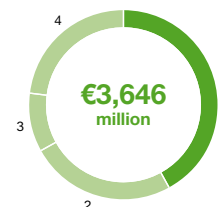
We increased income from operations by €64 million to €769 million despite the expansion of our sales and marketing activities and higher spending on research and development. This increase in earnings was due to higher prices and positive currency effects. With an EBITDA margin of 26.7%, we have once again exceeded our target of 25%.

Assets climbed by €329 million to €4,681 million, mainly as a result of the rise in inventories. Toward the end of 2008, we experienced some inventory shortages as a result of strong demand for our products. In order to improve our ability and flexibility to supply our customers, we increased our inventory levels in 2009. In addition, demand for our crop protection products was lower than anticipated in the second and third quarters of 2009. The level of receivables increased in line with sales growth. Our strict credit and risk management, particularly in the Latin American and Eastern European growth markets, has proven its worth. Payments are being received as planned.

In 2010, we expect market conditions to be more difficult than in 2009. We anticipate prices for agricultural products will continue to be characterized by high volatility. In addition, the future development of important currencies will play a decisive role, as the recent course of the U.S. dollar shows. Moreover, distributors' inventory levels influence the market. Despite this challenge, we aim to increase sales once again and to keep our earnings at the high level of 2009.

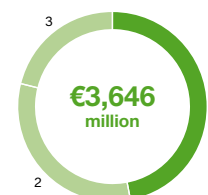
Crop Protection – Sales by region (location of customer)

1	Europe	42%
2	North America	25%
3	Asia Pacific	10%
4	South America, Africa, Middle East	23%



Crop Protection – Sales by indication

1	Fungicides	47%
2	Herbicides	32%
3	Insecticides and other	21%



Crop Protection

- Sales growth due to higher prices and an overall positive currency effect; after a good start to the year, demand weakened continuously
- Earnings improved despite the targeted expansion of our sales and marketing and planned higher research and development expenditures
- At 26.7%, EBITDA margin again exceeded our goal of 25%

- Outlook 2010: volatile prices expected for agricultural products; market conditions anticipated to be more difficult than in the previous year; nevertheless, we aim to increase sales and maintain high earnings level

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

We focus our exploration and production of crude oil and natural gas on selected oil and gas-rich regions in Europe, North Africa and the Middle East, South America as well as Russia and the Caspian Sea region. We secure our lasting success by broadening our technological expertise and investing in the exploration, development and production of hydrocarbons.

The long-term growing demand for natural gas in Western Europe coupled with the decline in regional production, means that in the future even greater 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 help develop the 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 pursue our own research and development activities in selected technology areas. These focus on increasing the yield from producing deposits as well as the development of technologies for reservoirs with difficult production conditions. By tapping synergies with BASF Group's research expertise, we are increasingly able to establish ourselves as a partner with exceptional technological expertise.

We operate in environmentally sensitive areas. Therefore, before our activities start, we examine potential effects on the environment, such as on water and biodiversity. Together with experts, our contractors and relevant stakeholders, we establish appropriate 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. 

Oil & Gas segment

- Two business sectors: Exploration & Production and Natural Gas Trading, 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
- Strengthening our competitive position with our own research and development activities

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 2009, we acquired a 25% stake in the Cuxhaven concession, which directly adjoins the Mittelplate oil field. Wintershall is one of the largest producers of natural gas in the southern sector of the North Sea, producing approximately 1.6 billion cubic meters annually. We operate 26 offshore platforms 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.

Norway plays a central role in our "Gas for Europe" strategy. Thanks to Norway's large oil and gas reserves and its existing pipeline to the Western European markets, the country is – next to Russia – one of Europe's most important suppliers. Following the acquisition of Revus Energy, Wintershall Norge ASA now holds more than 53 licenses in Norway and more than 20 licenses in the United Kingdom that will soon add to crude oil and natural gas production in Europe.

Russia and the Caspian Sea region: The joint field development projects with Gazprom in Western Siberia were successfully continued in 2009. The Yuzhno Russkoye natural gas field reached plateau production earlier than planned. We hold 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. Here we have successfully started up all six production wells of the pilot phase and a gas treatment plant. In the Caspian Sea region, we are pursuing exploration projects in Turkmenistan and Azerbaijan.

Exploration & Production

- Cooperation with Gazprom in joint field development projects in Siberia
- Yuzhno Russkoye natural gas field reached plateau production earlier than planned
- All pilot drill holes in operation in the Achimgaz project
- Successful integration of Revus Energy

North Africa/Middle East: In Libya, we operate eight onshore oil fields in the concessions 96 and 97 and exploit the associated gas released during crude oil production in a gas treatment plant to meet local demand. Gazprom is involved in these projects through its 49% stake in a German Wintershall subsidiary.

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 EPSA-IV standard.

We have continued our exploration activities in the blocks in the Kufra Basin in southern Libya, where we are the operator and hold a 65% stake. In addition, we hold a stake in the Al Jurf offshore oil field in Libya, which is operated by another company. The new EPSA-IV contract was signed there in 2009.

In Mauritania, we operate two onshore exploration blocks. Seismic measurements were conducted in the exploration block 4N in Qatar; the first exploration well is to follow in 2010. The block is located close to the North Field, the largest natural gas field in the world. In Qatar, we also have stakes in blocks 3 and 11; in Oman, we have a stake in block 51.

South America: We have been active in the exploration for and production of oil and gas in Argentina for more than 30 years and we have a stake in 15 fields. In the Neuquén Basin we are advancing the development of the tight gas deposit in the Central-West field of the Aguada Pichana concession by drilling production wells. We are also conducting seismic measurements in the Las Cárceles part of the field. In Chile, we hold a stake in the Otway Block in the Magellan Basin near our existing facilities in Tierra del Fuego. Additional geological activities for exploration of this block are being carried out.

Natural Gas Trading

- Expansion of natural gas infrastructure in Germany and Europe in cooperation with Gazprom
- Participation in the construction of the Nord Stream pipeline running from Russia through the Baltic Sea to the German coast
- Market position in Germany strengthened; continued growth in the rest of Europe

WINGAS natural gas storage facilities

More energy supply security for Europe

Value for BASF

3rd

largest owner of storage facilities in northwest Europe

Value for society

40%

more storage volume for secure energy supply

Value for BASF BASF subsidiary WINGAS is continuing to strengthen its position as one of the leading providers of storage capacities in Europe with new natural gas storage facilities in Austria, Germany and England.

Value for society Natural gas storage facilities are extremely important for a secure supply of energy. With the realization of its new storage projects in Europe, WINGAS is increasing its storage volumes by more than 40%, and therefore ensuring the availability of this environmentally friendly fuel.

Natural Gas Trading

The WINGAS Group is a natural gas trading joint venture that we operate with Gazprom. We supply natural gas from various sources to Germany and other European countries. The pipeline network operated by WINGAS TRANSPORT connects Western European markets with an infrastructure that extends to the gas fields of Siberia. Other important components of the portfolio include the largest natural gas storage facility in Western Europe, in Rehden, Germany, and the natural gas storage facility in Haidach, Austria.

Important developments in 2009

- Construction started on the onshore OPAL pipeline (Ostsee-Pipeline-Anbindungs-Leitung – Baltic Sea Pipeline Link), which has been largely exempted from the German regulations on network access and tariffs
- Construction started on the Jemgum natural gas storage facility

Capital expenditures

Location	Project	Total capacity	Startup
Siberia, Russia	Achimgaz, development of the Achimov formation in the Urengoy gas and condensate field	70,000,000 BOE ^{1,2}	2015
Austria	Expansion and startup of the Haidach natural gas storage facility	2,400,000,000 m ³	2007/2011
Germany	Expansion of the compressor station Haiming	39,000,000 W	2007/2011
	Construction of the Nord Stream natural gas pipeline through the Baltic Sea	55,000,000,000 m ³	2011/2012
	Construction of the onshore pipeline links OPAL and NEL to the Nord Stream natural gas pipeline	around 55,000,000,000 m ³	2011/2012
	Expansion and startup of the Jemgum natural gas storage facility	1,200,000,000 m ³	2013

¹ BOE = Barrel oil equivalent

² Total capacity in the plateau phase after 2015

The planned 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. With this additional supply route of natural gas to Europe, the Nord Stream project will decrease transit risk and improve supply security in the long term. Partners in this project – the shareholders in Nord Stream AG – are: Gazprom (51%), E.ON Ruhrgas (20%), Wintershall (20%) and N.V. Nederlandse Gasunie (9%). Nord Stream AG, which is included in the BASF Group Consolidated Financial Statements using the equity method, pressed ahead with preparations for the construction of the pipeline in 2009, and has now successfully completed the required approval process in all the affected countries bordering the project – Denmark, Sweden, Russia, Germany and Finland. Construction is expected to begin in the first half of 2010.

As a natural gas transit pipeline, the onshore OPAL pipeline (Ostsee-Pipeline-Anbindungs-Leitung – Baltic Sea Pipeline Link) has been largely exempted from the German regulations on network access and tariffs for a period of 22 years from the start of operations. This enables tariffs to be set according to

the market and makes transit capacity exclusively available for transport customers. Construction on this pipeline, which should start operating in 2011, has begun in the German states of Saxony and Mecklenburg-Western Pomerania. The approval process has begun for the NEL pipeline (Norddeutsche Erdgas-Leitung – Northern German Gas Link). It should begin operations, together with the second leg of the Nord-Stream pipeline, in 2012.

Our growth strategy is supplemented by the construction of additional storage capacity. While the natural gas storage facility in Saltfleetby, U.K., is still in the approval phase, we have started construction on the facility in Jemgum, Germany. The second expansion phase of the storage facility in Haidach, Austria, is already underway.

Following a decision by the German Federal Network Agency in September 2008, WINGAS TRANSPORT and all other German operators of long-distance gas transportation networks are no longer allowed to set their natural gas transport tariffs in a competition-oriented manner. WINGAS TRANSPORT now bills its customers according to the cost-based reduced transport tariffs set by the German Federal Network Agency.

Sales Oil & Gas
(million €)

2009	11,356	
2008	14,445	
2007	10,517	

Income from operations Oil & Gas
(million €)

2009	2,289	
2008	3,844	
2007	3,031	

Segment data Oil & Gas¹ (million €)

	2009	2008	Change in %
Sales to third parties	11,356	14,445	(21.4)
Thereof Exploration & Production	3,847	5,308	(27.5)
Natural Gas Trading	7,509	9,137	(17.8)
Intersegmental transfers	702	1,235	(43.2)
Sales including intersegmental transfers	12,058	15,680	(23.1)
Income from operations before depreciation and amortization (EBITDA)	2,830	4,409	(35.8)
Thereof Exploration & Production	2,188	3,744	(41.6)
Natural Gas Trading	642	665	(3.5)
EBITDA as a percentage of sales	24.9	30.5	–
Income from operations (EBIT) before special items	2,289	3,844	(40.5)
Thereof Exploration & Production	1,781	3,319	(46.3)
Natural Gas Trading	508	525	(3.2)
Income from operations (EBIT)	2,289	3,844	(40.5)
Thereof Exploration & Production	1,781	3,319	(46.3)
Natural Gas Trading	508	525	(3.2)
Income from operations (EBIT) after cost of capital ²	695	1,271	(45.3)
Assets	8,301	8,356	(0.7)
Thereof Exploration & Production	4,997	4,740	5.4
Natural Gas Trading	3,304	3,616	(8.6)
Exploration expenses	143	227	(37.0)
Additions to property, plant and equipment and intangible assets	1,012	1,651	(38.7)
Income taxes on oil-producing operations non-compensable with German corporate income tax	870	1,851	(53.0)
Net income ³	712	951	(25.1)

¹ Supplementary Information concerning Oil and Gas Producing Activities from page 198 onward

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

³ 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 159.

Factors influencing sales Oil & Gas

Volumes	-4%	
Prices	-17%	
Portfolio	1%	
Currencies	-1%	
Sales	-21%	

Sales by division

1	Exploration & Production	34%
2	Natural Gas Trading	66%



In 2009, sales to third parties decreased by €3,089 million to €11,356 million (volumes –4%, prices/currencies –18%, portfolio 1%). Income from operations fell by €1,555 million to €2,289 million. Net income declined by €239 million to €712 million.

As a result of the development of the world economy, we expect the oil price in 2010 to stabilize at a high level in comparison with the average price in 2009. We have based our planning on an oil price of \$75 per barrel and an average euro/dollar exchange rate of \$1.40 per euro in 2010. We expect earnings to increase while sales remain nearly unchanged.

→ For more on the segment's net income, see Notes to the Consolidated Financial Statements on page 159

Exploration & Production

Sales to third parties declined by €1,461 million to €3,847 million. The average price of Brent crude in 2009 was \$62 per barrel, a drop of around \$36 per barrel compared with the previous year. With the recovery of the U.S. dollar against the euro, the price in euro declined by only €22 per barrel to €44 per barrel. Crude oil and natural gas production rose overall by 4% to 136 million barrels of oil equivalent (BOE). 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 Achimgaz project are not included due to contractual and legal stipulations.

Income from operations declined by €1,538 million to €1,781 million, mainly as a result of lower prices. In the natural gas activities, this decrease was mitigated by the time-lag effect (the delayed adjustment of sales prices to the development in oil prices) in the first half of 2009. Earnings include income taxes on oil production in North Africa of €870 million that are non-compensable with German corporate income tax (2008: €1,851 million). These taxes are reported as income taxes.

In 2009, 29 exploration and appraisal wells were drilled in the search for new oil and natural gas deposits, of which 17 were successful. We acquired additional stakes in exploration licenses in Norway. Exploration expenses declined significantly to €143 million. This is mainly due to the fact that more exploration wells were successful in 2009 than in the previous year.

Proven crude oil and natural gas reserves decreased by 1% to 1,136 million BOE compared with the end of 2008. The reserve-to-production ratio of these reserves is 10 years (2008: 11 years). This is based on Wintershall's share of production in 2009 and refers to the reserves at year end. We replenished 89% of the volumes drilled in 2009. These figures do not include the volumes from the Achimgaz project.

The Yuzhno Russkoye natural gas field reached the projected plateau production level earlier than planned with all 142 production wells in operation. Wintershall holds a 35% share in the economic rewards of this field through its share in Severneftegazprom. In the Achimgaz joint venture, we started up all production wells of the pilot phase.

In 2010, we expect earnings in the Exploration & Production business sector will improve while sales stay generally unchanged. The anticipated growth in earnings is based on higher prices in crude oil production. The earnings contribution from natural gas production in Russia, Germany and the Netherlands will be lower because the positive time-lag effect seen in the first half of 2009 will not be repeated in 2010.

Oil & Gas segment

- Significant decline in sales due to lower prices; earnings below previous year's level
- Oil price expected to stabilize in 2010 at a higher level than in 2009; our planning is based on the following annual average assumptions: oil price of \$75 per barrel; euro/dollar exchange rate of \$1.40 per euro

- All construction permits for the Nord Stream pipeline have been granted
- Construction started on the OPAL pipeline (Baltic Sea Pipeline Link)
- Outlook 2010: improved earnings and nearly unchanged sales

Natural Gas Trading

Sales to third parties declined by €1,628 million to €7,509 million, due mainly to lower prices. Sales volumes declined to 388 billion kilowatt hours, or by 7% compared with the previous year, as a result of the unfavorable economic climate. This decline was almost equally attributable to markets in Germany and abroad – particularly in Romania. WINGAS supplied around 10% of the natural gas volumes to BASF Group companies.

At €508 million, income from operations was €17 million less than in the previous year. Since sales prices for natural gas contractually follow those of oil prices with a time lag of several months, we were still benefitting in the first half of 2009 from the high oil prices seen in mid-2008. This largely compensated for the significant price decline on the spot markets in the second half of the year as well as volume-related decreases.

A key part of our growth strategy in the natural gas business is our stake in Nord Stream AG. This company is constructing a pipeline from Russia through the Baltic Sea to the German coast. All of the countries bordering the project – Denmark, Sweden, Russia, Germany and Finland – have now granted construction permits. We expect construction to begin in the first half of 2010. Preparations for laying the pipeline have already begun.

In connection with the Nord Stream project, work began in Germany on the Jemgum natural gas storage facility and the onshore OPAL pipeline (Baltic Sea Pipeline Link). Planning activities for the NEL pipeline (Northern German Gas Link) are continuing.

In 2010, we expect volumes in Natural Gas Trading will stabilize at the high level of 2009 despite the ongoing tough economic situation and increasingly intense competition. As positive time-lag effects seen in the first half of 2009 will not be repeated, we expect sales and earnings in 2010 will be slightly below the level of the previous year.

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

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



Exploration & Production

- Price-related decline in sales: oil price in U.S. dollar significantly below previous year's level
- Production expanded by 4% to 136 million BOE
- Earnings below previous year's level due to lower prices
- Outlook 2010: price-related earnings improvement with nearly unchanged sales

Natural Gas Trading

- Sales significantly lower than in previous year due to lower prices
- Decline in volumes due to unfavorable economic developments
- Earnings slightly below the previous year's high level
- Outlook 2010: slight decline in sales and earnings

Regional results

Regions (million €)

	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
	2009	2008	Change in %	2009	2008	Change in %	2009	2008	Change in %
Europe	30,375	38,652	(21)	28,532	36,693	(22)	2,390	5,822	(59)
Thereof Germany	21,543	27,497	(22)	10,666	13,796	(23)	1,855	4,744	(61)
North America	9,320	11,937	(22)	9,423	11,932	(21)	495	73	.
Asia Pacific	7,997	8,664	(8)	8,706	9,320	(7)	503	254	98
South America, Africa, Middle East	3,001	3,051	(2)	4,032	4,359	(8)	289	314	(8)
	50,693	62,304	(19)	50,693	62,304	(19)	3,677	6,463	(43)

Europe

Sales by companies in Europe declined as a result of the economic crisis by 21% to €30,375 million in 2009. In the first half of the year in particular, European economies were in recession. Although this downward trend slowed slightly in the second half of the year, 2009 was characterized by an economic decline of historic proportions.

All divisions in the Chemicals and Plastics segments recorded dramatically lower sales as a result of a fall in volumes and prices. Thanks to the Ciba integration, sales in our Performance Products segment increased. Sales in Functional Solutions decreased substantially, in particular as a result of the drop in demand from the automotive and construction industries in much of Europe. Businesses in Eastern Europe were also unable to escape the decline in demand. The slightly lower volumes in the Agricultural Solutions segment were offset by higher prices. As a result of lower prices and volumes, sales in the Oil & Gas segment were significantly lower than in 2008.

Income from operations was €2,390 million, a decrease of 59% compared with 2008. This was primarily due to the lower contribution of the Oil & Gas segment.

In Europe, as in the other regions, we are fully integrating Ciba's former service and business activities into the existing BASF structures. In addition, we have concentrated our research activities in Basel, Switzerland, and Ludwigshafen. In recognition of the increased significance of the "Basel Area" and Switzerland in general, we have established our Paper Chemicals division in Basel. Bringing together BASF's activities in the border triangle (the zone where France, Switzerland and Germany meet) makes innovative cross-border Verbund concepts possible and creates additional potential for optimization, such as in production and maintenance services.

Based on the motto "We create more value," our excellence program NEXT comprises projects and individual measures that aim to further increase productivity and efficiency in all functions and divisions. In Europe, this also includes further development of the administrative service structures in the areas of corporate communications, environment, health and safety, building services management, and procurement, with the aim of ensuring that these services remain competitive in the long term.

Sales by region (location of company)

1	Germany	43%
2	Europe (excl. Germany)	17%
3	North America	18%
4	Asia Pacific	16%
5	South America, Africa, Middle East	6%



Income from operations by region

1	Germany	50%
2	Europe (excl. Germany)	15%
3	North America	13%
4	Asia Pacific	14%
5	South America, Africa, Middle East	8%



North America

Sales by companies in North America declined by 22% to €9,320 million, or by 25% in local-currency terms.

After a further intensification of the recession at the beginning of 2009, the economy stabilized at a low level from the middle of the year. As a result of the economic downturn, sales volumes were significantly lower in almost all segments. In the Chemicals, Plastics and Functional Solutions segments in particular, lower prices intensified the decline in sales. In the Performance Products segment, on the other hand, the integration of the businesses acquired from Ciba led to an increase in sales. In the Agricultural Solutions segment, sales rose compared with the previous year due to higher prices for our innovative crop protection products.

At €495 million, income from operations in 2009 was €422 million higher than in the previous year. Our successful cost management and consistent implementation of our "value over volume" pricing strategy contributed to this. In addition, improved margins in some businesses more than offset the decline in sales volumes. There was a clear increase in earnings in particular in the Chemicals and Plastics segments as well as in the Styrenics business. The Agricultural Solutions segment performed strongly, once again surpassing the high level of earnings achieved in the previous year. Only Performance Products and Functional Solutions did not reach the level of earnings posted in 2008. This was primarily due to the extremely difficult business environment in the automotive and construction industries.

Within the framework of the NEXT excellence program, we continued to harmonize our business processes in 2009. The standardization of our IT systems, which we are continuing to pursue in this region, also contributes to this. In addition, in 2009 we simplified our structures by merging BASF companies within North America.

In the course of restructuring the Coatings division in North America, our site in Belvidere, New Jersey, was closed.

Our long-established service platform in North America facilitated the rapid and smooth integration of Ciba's service functions within the region. The bundling of our business activities is also proceeding rapidly. For example, all the former Ciba administrative sites in North America have already been closed. We have also closed 27 smaller sales locations or merged them with our larger sales centers, which allows us to supply our customers even more reliably and save costs. With the former Ciba site in Tarrytown, New York, where we have combined various technology activities, BASF now has a fourth research center in North America in addition to the existing ones in Wyandotte, Michigan; Iselin, New Jersey; and Research Triangle Park, North Carolina.

Asia Pacific

In 2009, BASF laid out its ambitious Strategy 2020 for Asia Pacific. The main aim is to grow on average two percentage points faster than the Asia Pacific chemical market each year. With expected market growth of 4% to 5% per year, this means BASF aims to double regional sales by 2020 while earning a premium on cost of capital for the region.

Sales in the Asia Pacific region decreased by €667 million to €7,997 million in 2009, which represents a decline of 11% in local-currency terms. Sales grew in the Agricultural Solutions segment as well as in the Performance Products segment, where the integration of Ciba businesses contributed to the increase. Sales declined, however, in the Chemicals, Plastics and Functional Solutions segments.

At €503 million, income from operations was €249 million higher than in the previous year. Thanks to our cost-cutting measures and strong demand in the second half of the year, earnings improved in the Chemicals and Functional Solutions segments. The Plastics segment did not match the very good level of 2008.

Regional trends

- Europe: further bundling of our business and service activities following the Ciba integration; concentration of research activities in Basel and Ludwigshafen
- North America: rapid integration of Ciba's service functions thanks to our established service platform; Tarrytown, New York, is the fourth research center in the region
- Asia Pacific: Asia Pacific Strategy 2020 aims for growth of two percentage points above the chemical market in the region; reorganization of our business in Japan
- South America, Africa, Middle East: first approval for a genetically optimized plant received at the end of 2009 in Brazil; cultivation of herbicide-tolerant soybean approved

We continued our proactive capacity management in 2009 and reorganized our business in Japan, where we optimized the management structure, consolidated the concrete admixture business and sold a coatings site. We also divested a catalysts production site in China and a styrene monomer plant in South Korea. At the same time, we added new capacities in growth areas such as construction systems in China, admixture systems in India, motorcycle coatings in Thailand and engineering plastics in Malaysia and China.

Asia Pacific continues to make strong contributions to NEXT, the global efficiency project. Efficiency improvements under the Asia Pacific Site Optimization Project are expected to save at least €100 million annually by 2012.

We plan to invest €2 billion in the Asia Pacific region between 2009 and 2013 to reach our goal of generating 70% of sales from local production. China will continue to be central to BASF's growth in Asia Pacific. BASF broke ground in September on the expansion of the Verbund site in Nanjing, including the expansion of the steam cracker and four existing plants, along with the construction of ten new plants. In Chongqing, China, we are planning to construct a plant for MDI, a precursor for polyurethanes, which should produce 400,000 metric tons per year.

Despite the economic crisis, we did not reduce our commitment to research and development in 2009. We did not lower our investments in important research sites, such as our Singapore nanotechnology lab. We opened a lab for PolyTHF® in China and strengthened our research and development activities in India, which included the start-up of a lab for pharmaceutical applications.

South America, Africa, Middle East

Sales by companies in the region amounted to €3,001 million, a decrease of 2% compared with 2008 as volumes declined due to the global economic crisis. In local-currency terms, sales declined by 1%.

In particular, sales growth in the Agricultural Solutions segment and the Care Chemicals division helped stabilize the business in South America. Sales volumes in the architectural coatings business remained steady.

In Africa and the Middle East, sales in 2009 were significantly lower than in 2008. Thanks to the integration of the Ciba businesses, sales volumes rose in the Performance Products segment. The Agricultural Solutions segment and Construction Chemicals division also increased sales. However, the Catalysts division, in particular, experienced substantially reduced demand as a result of the crisis in the automotive and chemical industries.

At €289 million, income from operations was €25 million lower than in the previous year. Higher earnings in the Styrenics business and the Construction Chemicals division were not sufficient to offset declines in other areas.

In Brazil, we received the first approval for a genetically optimized plant at the end of 2009. The cultivation of our herbicide-tolerant soybean, developed jointly by BASF and our Brazilian partner Embrapa, was approved.

Increasing income among the South American population is generating new potential for our products in strong growth industries such as construction, cosmetics and hygiene. Cross-divisional initiatives have been developed to focus on these industries and take advantage of opportunities for profitable growth.

Assets by region (share in %)

	Property, plant and equipment		Inventories		Accounts receivable, trade	
	2009	2008	2009	2008	2009	2008
Europe	60	58	56	57	56	63
North America	21	21	25	24	16	15
Asia Pacific	15	17	13	12	19	15
South America, Africa, Middle East	4	4	6	7	9	7
	100	100	100	100	100	100

Employees

Our employees are key to our success: their skills, commitment and motivation make BASF competitive and fit for the future. For this reason, we want to recruit, support and retain the best employees. We do this, for example, with performance-based remuneration, targeted further training opportunities and measures to balance work and family life. We place emphasis on diversity in our teams to reflect the various backgrounds and meet the needs of our business partners.

Challenges in 2009

Company management, employee representatives and employees worked together in a spirit of partnership to cope with the economic crisis in 2009. We were able to limit the impact of the crisis on our core workforce as much as possible. We limited short-time working in Europe by using a variety of measures such as temporary personnel transfers. In addition, by making use of our flexible personnel systems for working time and variable remuneration as well as keeping strict cost discipline, we were able to achieve two core goals: extensive job security and cost reduction. Nevertheless, we were unfortunately unable to completely avoid staff downsizing in 2009. Our employees worldwide had access to information about the company's current situation and the steps necessary as part of our crisis management. Despite the difficult environment, BASF invested in long-term issues such as demographic change and further training. Moreover, the integration of Ciba proceeded more quickly than planned. → **For more information, see page 117**

Employees worldwide

At the end of 2009, BASF had 104,779 employees, of whom 2,401 were apprentices and trainees. In addition, more than 19,500 employees from other companies were contracted to provide technical and other services at our sites. Worldwide, the percentage of employees who left the company during their first three years of employment was on average 1.1%. This turnover rate varies from region to region.

Overview 2009

- 104,779 employees worldwide
- Coping with the economic crisis with a clear focus on securing jobs and reducing costs
- Short-time work limited in Europe through temporary personnel transfers
- €7,107 million in personnel costs
- Investments in long-term issues such as demographic change and further training despite the economic crisis

Number of employees by region (as of December 31, 2009)

	2009	% 2009	% 2008
Europe	67,621	64.5	63.9
Thereof Germany	48,586	46.4	48.9
Thereof BASF SE	32,870	31.4	33.9
North America	15,945	15.2	15.6
Asia Pacific	14,817	14.2	14.2
South America, Africa, Middle East	6,396	6.1	6.3
	104,779	100.0	100.0

Personnel costs and social benefits

In 2009, the BASF Group spent €7,107 million on wages and salaries, social security contributions, pension contributions and assistance (2008: €6,364 million). Personnel costs rose by 11.7%, in particular due to the acquisition of Ciba. At BASF, attractive compensation for our employees comprises remuneration with fixed and variable components as well as social benefits that go beyond the basic obligations. These benefits include a company pension plan, supplementary health insurance and share programs.

BASF Group personnel costs 2009 (million €)

	2009	Change in %
Wages and salaries	5,942	15.2
Social security contributions and expenses for pensions and assistance	1,165	-3.4
Thereof for pension benefits	178	-42.6
Personnel costs	7,107	11.7

Employees' ideas create value

Our employees around the world make an important contribution to value with their suggestions for improvements. In 2009, one focus was on ideas relating to energy and material efficiency. Around 54,500 suggestions for improvements were submitted during the year. In 2009, we implemented approximately 32,700 suggestions, leading to an overall benefit of about €41.5 million.

BASF Group employee structure 2009 (2008 in parentheses)

	Women	Men
Total number of employees	22.5% (21.9%)	77.5% (78.1%)
Management and professionals	24.1% (23.2%)	75.9% (76.8%)
Senior executives	6.5% (5.7%)	93.5% (94.3%)

Demographic change

Around the world, particularly in Europe and the United States, demographic change poses major challenges to human resource management. To keep BASF innovative and ahead of the competition in this environment, we launched the “Generations@Work” program in 2006. We analyze the age structure of our workforces worldwide and demographic developments in our host communities to determine site-specific risks. In Europe and the United States, we have implemented initial concepts to address demographic change. Health management and further training measures help employees to maintain their performance. At the same time, we want to adjust working conditions accordingly. In a pilot project in 2009, BASF offered all employees in the Petrochemicals division at the Ludwigshafen site a preventive program including a free health check-up for early detection of diseases and risk factors – 85% of the employees took part in the screening. With Generations@Work, we are also well positioned to implement the German chemical industry's collective agreement on working life and demography. Starting in 2010, the companies in the chemical industry in Germany will contribute €300 per non-exempt employee into a company “demography fund” each year. BASF SE and the works council have in this regard agreed on a personal long-term account for every non-exempt employee. This can be used as a means to take a leave of absence near the legal age of retirement.

In dialogue with stakeholders, we take a leading role in the Laboratory for Demographic Change of the CSR Alliance, an alliance between politics and business initiated by the European Commission. Together with its partners, BASF has developed a demographic atlas which evaluates the risks for more than 260 European regions.

→ For more information, see basf.com/demographic_change

Competition for talent

Demographic change also increases the competition for the best specialists and managers. A key topic in our initiative to develop our global employer brand is the variety of challenges

and professional development opportunities available at BASF – features that allow BASF to stand out positively from other employers. We have reviewed the effectiveness of our worldwide recruitment measures in the context of changing employment markets. To continue improving our attractiveness as an employer, we have, for example, developed a unified approach to recruitment for the whole of Europe for the first time. This will fully come into effect in 2011. We rely on cooperation with universities and colleges to find the most talented people. In China, for example, more than 1,300 students took part in BASF industry seminars during 2009.

BASF Group employee age structure 2009 (proportion of employees)

Up to and including 25 years	6.7%	
Between 26 and 39 years	34.1%	
Between 40 and 54 years	48.2%	
55 years and older	11.0%	

Feedback from our employees

In our first global employee survey in 2008, we asked employees worldwide standardized questions on topics relating to the workplace; 66% of our employees answered questions on topics such as leadership and the culture of innovation. In our follow-up process on the basis of the results, we introduced more than 1,500 individual measures worldwide aimed at improving the working environment. A number of activities aim to optimize personnel development and reduce workload – areas in which our employees pointed out a need for improvement. In the follow-up survey to be conducted from the beginning of 2010, our employees will be given the chance to evaluate the selection and implementation of the measures. The results of the employee surveys are also an indicator of the success of our integration activities. Using a method known as pulse surveys, we asked several thousand employees affected by the Ciba integration about the progress of the merger. The results of these surveys help the integration teams to implement any necessary

Mastering demographic change

- Pilot projects in Europe and the United States
- Health management and further training measures
- Active engagement with external partners in the European Alliance for CSR

→ For more on the European Alliance for CSR, see www.demographicchange.info

Competition for the best employees

- BASF as a globally developed employer brand
- Global assessment of the effectiveness of recruitment measures
- New recruitment approach for Europe from 2011 onward
- Cooperate with universities and colleges worldwide
- Diverse challenges and professional development opportunities

measures quickly. Our employees regularly provide feedback for their managers via anonymous online questionnaires. In workshops, they work together to develop goals and ways to improve cooperation. More than 80% of managers had taken part in this global leadership feedback as of March 31, 2009.

Balancing career and family

In the competition for the best employees, we are responding worldwide to changing life situations. To help employees balance their work and family lives, we offer support that goes far beyond flexible working hours and child care. According to the individual's needs, we make use of models such as telecommuting, flexitime, part-time positions and leaves of absence. The percentage of employees working part-time for BASF SE is 9.9%. At the end of 2009, 488 BASF SE employees were on parental leave, of whom 5.3% were fathers.

In host communities that lack childcare facilities, BASF offers supplementary programs. For example, in 2009, around 1,000 children of our employees took part in the holiday childcare schemes offered at our German Group companies. Employees who care for relatives benefit from the opportunity to share experiences as well as attend counseling and courses for caregivers. Our "dual career" assistance offers worldwide support to delegated employees' partners to help them find a job.

In 2009, our commitment was once again rewarded with recognition as a family friendly company by the Hertie Foundation. → **For more information, see basf.com/worklife_balance**

Vocational training

For BASF, sustainable human resource management means continuously offering apprenticeships and recruiting qualified young professionals, even in times of low personnel requirements. BASF is currently training 2,401 young people in more than 50 occupations in 16 countries. In 2009, 1,083 young people started apprenticeships and traineeships at BASF's German companies and in the BASF Training Verbund. Since 2004, the BASF Training Verbund, which today has around 700 partner companies, has created additional apprenticeship positions in

Germany and is currently training 3,274 young people. After passing their final examination, 93% of the apprentices and trainees at BASF SE received a job offer in 2009. In the BASF Training Verbund, 77% of the apprentices were offered a job. The number of dual work-study degree programs offered in Germany rose to 17. Together with Bingen University of Applied Sciences in Bingen, Germany, BASF began offering a degree in Process Technology in 2009. We invested around €68.8 million in our apprentices and trainees worldwide in 2009. In addition, as part of our social commitment, we invested approximately €24.5 million in the Training Verbund.

Further training

Despite the difficult economic environment, we have continued to offer a high level of further training opportunities. In annual performance reviews, we determine every employee's need for professional development and further training. In addition to seminars and workshops, we offer extensive opportunities for independent learning, some of which are available worldwide via electronic media. Our employees made intensive use of these training opportunities in 2009. The BASF Learning Center in Ludwigshafen received over 50,000 visits in its fifth year – a new record. We also extended our European Learning Portal to a global portal in 2009. The platform is currently being used in five projects throughout the world, for example, by the Construction Chemicals Academy. We support our managers in their development throughout their careers. For example, in leadership workshops and seminars, they have the opportunity to discuss the latest management topics. In 2009, BASF invested around €134 million (2008: €129.6 million) in vocational training and further training. More than 86,000 employees participated in training programs throughout the world. On average, each employee spent 3.5 days at training events (2008: 3.9 days).

Balancing career and family

- Flexible working models available
- Childcare offered at sites where demand is high
- Worldwide "dual career" assistance
- Services for employees who are caring for relatives
- Recognized as a family-friendly company by the Hertie Foundation

Vocational and further training

- Level of vocational and further training maintained, even in economically challenging environment
- Around €134 million invested in vocational and further training
- Worldwide, 2,401 apprentices in over 50 occupations
- More than 86,000 employees participated in training programs worldwide

Competitive advantages through diversity

The diversity of our employees creates opportunities for BASF. It helps us to react to changing markets and tap into new customer segments. The goal of our Diversity + Inclusion initiative is to recruit and support employees worldwide who bring a variety of social and specialized skills to our company and contribute to BASF's success. We aim to encourage a corporate culture in which everyone plays a part and is appreciated. Furthermore, we respond to expectations regarding career advancement and work-life balance. Our Best Team approach focuses on the inclusion of varying competencies and backgrounds, but without setting an overall project goal such as quotas. All divisions and regions define their goals based on their own business strategies and situations, and implement individual measures to achieve them. Anchoring these values in our business is the basis of our strategy. In 2009, we analyzed success factors and potential for improvement in pilot projects in Europe, North America and Asia: In this way, we examine which project measures lead to improvements. As a result, we are implementing Diversity + Inclusion measures globally in further areas.

In 2009, the percentage of women in senior executive positions in the BASF Group was 6.5%. The percentage of non-German senior executives was 32.7% in 2009, while 76.8% of senior executives had international experience. We provide equal opportunities for all employees and are committed to the equal treatment of both men and women. We do not make any distinction between male and female employees when it comes to setting salaries. 🌐

→ For more on this topic, see basf.com/diversity

Dialogue with employee representatives

Cooperation with our employee representatives in a spirit of partnership is firmly established at BASF. Using established procedures, we involve the employee representatives in decision-making processes and procedures in the Group companies, in accordance with legal regulations. For cross-border issues, the BASF Europa Betriebsrat (Europe Works Council) has been

responsible for employees in Europe since 2008. In the other regions, platforms for cooperation have also demonstrated their value. For example, for the past ten years, the South American network meeting "diálogo social" has provided a platform for management and employee representatives to meet directly. 🌐

→ For more information, see page 16 and basf.com/employeerepresentation

Employee participation in the company's success

We want employees to share in the company's success and be rewarded for their individual performance. We pursue this goal by means of variable remuneration systems which follow the same basic principles for all employees. As a rule, a salary consists of a fixed and variable component. The variable component is determined by two factors: the economic success of the BASF Group measured by the return on assets, and the employee's individual performance. Thanks to the clear relationship between economic success and the variable remuneration system, our employees have noticeably participated in BASF's success in recent years. In the economically difficult year of 2009, these systems led to cost reductions for the company.

Share programs for employees

Our employees can invest a portion of their remuneration in BASF shares. The "Plus" share program promotes the long-term participation of our employees through incentive shares, thus fostering their interest in the company's success and its performance. In 2009, 20,852 employees purchased 1,187,620 shares under the Plus program.

Since 1999, BASF has offered its senior executives the opportunity to participate in the BASF stock option program (BOP). The program ties a proportion of their compensation to the long-term performance of BASF shares. In 2009, 90% of the approximately 1,100 senior executives eligible participated in BOP worldwide, investing up to 30% of their variable compensation in shares.

Strategic initiative Diversity + Inclusion

- Goal: expand our range of skills
- Values anchored in our business
- All divisions and regions define their goals and individual measures
- Pilot projects in 2009 show which project measures lead to improvements

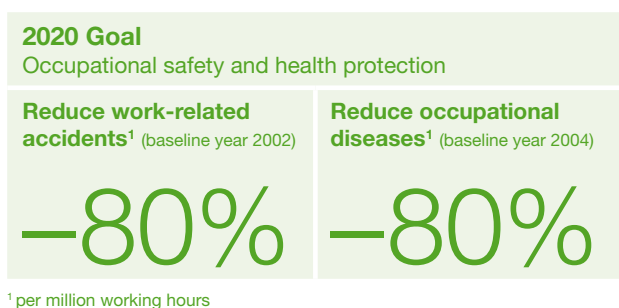
Employee participation and share programs

- Variable remuneration systems led to reduced costs in 2009
- 20,852 employees purchased 1,187,620 shares under the Plus program
- BASF stock option program (BOP) ties a part of remuneration to the development of the BASF share price
- 90% of approximately 1,100 senior executives eligible participated in BOP program

Occupational safety and health protection

The safety and health of our employees play a key role in BASF's success. We have made significant achievements as a result of our high standards. Over the years, we have been able to considerably reduce the number of accidents, benefiting both our employees and the company.

We have set ourselves ambitious goals and we aim to continue improving our performance in the areas of occupational safety and health protection, thanks to comprehensive precautionary measures and the active participation of our employees.



High priority on occupational safety


We promote 100% safety at work through risk assessments, safety regulations, seminars and training courses. Accidents and near-misses are analyzed in order to eliminate potential weak points. Furthermore, in 2008 we started a global safety initiative that aims to go beyond the traditional technical and organizational measures. This initiative aims to strengthen every individual's safety awareness relating to themselves and others, and thus to achieve behavioral changes. So far, more than 14,000 employees at 36 sites throughout the world have attended events relating to this initiative. The initiative supports our occupational safety goal: By 2020, we want to reduce our lost-time injury rate per million working hours by 80% worldwide compared with 2002. In 2009, a total of 1.7 such accidents occurred at BASF sites (2008: 1.8). This represents a reduction of 46% compared with 2002. Unfortunately, in 2009, we experienced fatal accidents for the first time since 2005. At the

Ludwigshafen site, one employee died in a traffic accident and a second was killed in a conveying system for transport pallets. In Indonesia, a third employee died as a result of an accident with a fork lift truck. For companies contracted to work at BASF sites, the number of occupational accidents decreased to 2.6 per million working hours (2008: 3.4). In order to achieve further improvements, these companies are included in our safety initiative.

Innovative health protection

Our global Occupational Medicine and Health Protection Program integrates health topics into the organization, defines professional standards and bundles expert knowledge regarding medical issues relating to work and the environment. BASF also makes this knowledge available to its neighbors and customers. For example, we have developed and published medical guidelines for the treatment of acute exposure to chemical substances.

We have set a goal of reducing cases of occupational diseases in the BASF Group by 80% in comparison with 2004; in this baseline year, 0.4 new cases of occupational diseases were reported per million working hours. This figure includes preventable diseases such as noise-induced hearing damage. In 2009, there were 0.4 new cases of occupational diseases per million working hours at BASF. This is the same level as in the baseline year and reflects increased awareness for individual occupational illnesses within the regions. In order to achieve our health goal, we also carry out preventive measures. Preventive medical examinations and plant inspections help us determine occupational health measures. Regular audits help us to improve our performance worldwide. We also foster health-conscious behavior: More than 22,000 employees took part in our global health campaign to encourage greater daily physical activity in 2009.

BASF has had a company-specific pandemic preparedness plan in place for many years. It consists of medical, hygienic and organizational measures. 

→ For more on preventive health care, see page 86

Lost time injury rate per million working hours (reduction compared with baseline 2002: -46%)

2009	1.7	<div style="width: 40%;"></div>
2008	1.8	<div style="width: 42%;"></div>
2007	2.2	<div style="width: 50%;"></div>
2006	1.7	<div style="width: 40%;"></div>
2005	1.8	<div style="width: 42%;"></div>
2002 ¹	3.3	<div style="width: 100%;"></div>

¹ baseline

Key issues in occupational safety and health protection

- Successful health management including modern occupational medicine methods for prevention, emergency medicine and health promotion
 - Success factors for occupational safety: clear rules, safety-conscious behavior, open dialogue
 - Reduction of 46% in lost time injury rate compared with 2002; rate of occupational diseases at the level of the baseline 2004
- For more, see basf.com/occupational_safety and basf.com/health_protection; for more on audits, see page 98

Social commitment

We aim to be an attractive employer, reliable partner and good neighbor. That is why we take on social responsibility and actively support diverse projects worldwide in the host communities where our sites are located. Our focus is on education and science – in this way, we promote innovative capacity and make regions fit for the future.

In 2009, the BASF Group spent a total of €48.1 million on supporting projects (2008: €64.7 million). Of this total amount, we donated 27.7% (2008: 38.6%).

We primarily support projects that improve access to education. In addition, we actively support social, sports and cultural activities. We have a strong focus on our host communities. After all, BASF's economic success also depends on the trust that employees and neighbors place in us. In our corporate strategy, we commit to conducting business sustainably. We also follow this principle for our social commitments. We support initiatives that reach a lot of people and have long-lasting effects. In order to achieve this, we work with reliable partners who have the necessary expertise and experience. For example, BASF Sozialstiftung ("BASF Social Foundation") implements international donation projects together with U.N. organizations. It is BASF policy not to fund political parties. In the United States, our employees have made use of their right to establish a Political Action Committee (PAC), a non-partisan, federally registered group of employees that supports candidates for political posts at federal, state and local levels.

→ For information on our social business **BASF Grameen Ltd.**, see page 25 onward

Supporting education and science

Our focus is on projects where we can incorporate our core competencies and experience. We offer Kids' Labs at our sites in 15 countries. A total of 52,171 children and young people participated in 2009. In Germany, BASF is a founding member of the Knowledge Factory, and together with around 70 other companies, supports education projects, young entrepreneurs and people starting new businesses. Since it was founded in 2005,

Principles and criteria for support

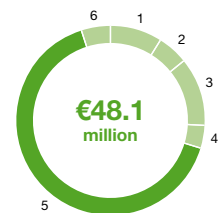
- We focus our support on education and science
- We mainly support projects in our host communities
- We promote projects that bring long-term benefits
- We work together with expert partners such as the United Nations
- BASF does not fund political parties

the Knowledge Factory has entered into more than 1,600 educational partnerships with schools, reaching around 120,000 children. In the area of early childhood education, BASF has supported more than 15,000 children and approximately 1,200 educators in the Rhine-Neckar Metropolitan region with its involvement in the "Action on Education" initiative. The initiative received awards from World Vision Deutschland and the German Commission for UNESCO. In Brazil, BASF, the United Nations and the city of São Paulo set up a youth education center with residents in the impoverished Vila Brasilândia neighborhood.

→ For more on the Knowledge Factory, see www.wissensfabrik-deutschland.de

BASF Group donations, sponsoring and own projects in 2009 (million €)

1	Science	4.3	(8.9%)
2	Society	2.6	(5.5%)
3	Culture	5.6	(11.7%)
4	Sports	1.8	(3.7%)
5	Education	31.5	(65.4%)
6	Other	2.3	(4.8%)



International donation projects

In 2009, the BASF team continued to support international projects. BASF Social Foundation's Christmas donation campaign contributes to improving the drinking water supply in the Umzimvubu region of South Africa. BASF SE made a donation of €100,000 to the project as starting capital. BASF employees in Germany and South Africa together also donated more than €100,000. Our partner for this project is the United Nations Environment Program (UNEP). A further joint project in Guatemala plans to teach people in mountain regions how to produce clean drinking water from rainwater. In the area of long-term reconstruction aid, BASF Social Foundation also supports a UN-HABITAT aid project for flood victims in India and Nepal, as well as a disaster relief community project in the Philippines. 🌍

→ For more information, see basf.com/international-donations

Highlights

- Kids' Labs in 15 countries
- We have reached more than 15,000 children with Action on Education
- Knowledge Factory has reached around 120,000 children with more than 1,600 educational partnerships
- Successful major projects with the United Nations in 12 countries

Climate protection

Industry, science, politics and society are being called on to curb global greenhouse gas emissions and make more efficient use of available resources. BASF's contribution to these aims takes a two-fold approach: We are constantly working to reduce greenhouse gas emissions in our production. Furthermore, we offer our customers products for climate friendly technologies which reduce emissions when they are used. For us, these are the drivers of profitable growth with climate protection.

Strategy

Climate protection is one of the main challenges faced by society. BASF is committed to ambitious global climate protection that rapidly implements existing, economically-viable solutions. We invest in research and development in order to improve the cost-effectiveness of new climate protection solutions. At the same time, solutions need to be developed for adapting to the unavoidable consequences of climate change. Against this backdrop, we are committed to initiatives such as "Seal the Deal" and the U.N.'s Nairobi Work Program.

Climate protection is part of our sustainability strategy. We have set ourselves specific implementation goals which we are rigorously pursuing. These are based on a worldwide action plan for energy efficiency and climate protection. In 2008, BASF was the first globally operating industrial company to appoint a Climate Protection Officer.

We seize market opportunities with our climate protection products – product groups that when used save at least twice as much CO₂ as is emitted during their production and disposal. In 2008, these products accounted for around €6 billion, or 10%, of BASF's sales. Our climate protection strategy was once again recognized with a listing in the prestigious Carbon Disclosure Leadership Index (CDLI) in 2009, ranking BASF first in the materials sector.

→ For information on emissions certificates, see page 109

Greenhouse gas emissions in the chemical business (1,000 metric tons of CO₂ equivalent per year)

	GWP factor*	Base-line 2002	2006	2007	2008	2009
CO ₂ **	1	18,236	20,250	21,433	20,727	19,622
N ₂ O	310	6,407	4,602	5,963	6,294	9,553
CH ₄	21	10	12	21	15	12
HFC***	140–11,700	61	121	96	69	74
PFC***	6,500–9,200	0	0	0	0	0
SF ₆	23,900	0	2	1	2	1
		24,714	24,987	27,514	27,107	29,262
spec. GHG-factor****		0.897	0.786	0.749	0.770	0.898

* GWP factor: global warming potential of the individual gases compared with CO₂

** Energy-related CO₂ emissions cover both direct emissions arising from the generation of electricity and steam as well as indirect emissions from the acquisition and sale of electricity and steam.

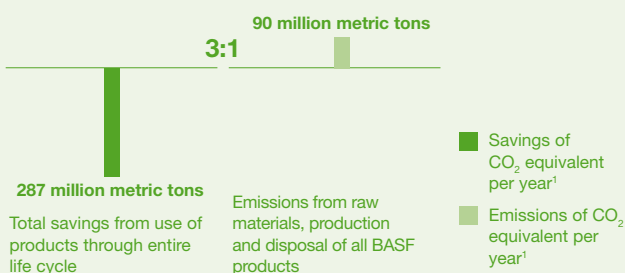
*** Halogenated fluorocarbons (HFC) and perfluorocarbons (PFC); calculated using the GWP factors of the individual components (IPCC 1995)

**** Specific greenhouse gas factor = metric tons of greenhouse gases per metric ton of sales product

Update of our corporate carbon footprint

BASF is the only industrial company to regularly present a comprehensive corporate carbon footprint for its chemical business and have the calculations verified externally. This shows the opportunities and risks that we associate with climate change. The result for 2008 again showed that, when used by customers, BASF climate protection products save three times more greenhouse gas emissions than are released in the production and disposal of all products made by BASF. This corporate carbon footprint covers the entire life cycle of the products. A total of 90 million metric tons CO₂ equivalent emissions from the raw materials, precursors, production and disposal is offset by savings of 287 million metric tons of CO₂ equivalents. Our aim is to maintain or even improve this factor of 3:1 in the long term. We actively support global standards for compiling corporate carbon footprints through our commitment to the World Business Council for Sustainable Development and the World Resources Institute's Greenhouse Gas Protocol Initiative. We have also made our method for compiling a corporate carbon footprint available to the International Council of Chemical Associations (ICCA) so it can draw up a study for the global chemical industry. 🌍

Corporate carbon footprint



¹ from products produced in 2008

- BASF is the only industrial company worldwide to regularly present a comprehensive corporate carbon footprint
- Results of the carbon footprint show BASF products save three times more greenhouse gas emissions than are released in the production and disposal of all products
- BASF wants to maintain or even improve this factor of 3:1 in the long term to secure competitive advantages and achieve its ambitious climate protection goals

→ More information at basf.com/corporate_carbon_footprint

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

In 2009, emissions of greenhouse gases from BASF's chemical operations worldwide totaled 29.3 million metric tons (2008: 27.1 million metric tons). This increase was primarily due to the acquisition of Ciba and extensive repair and installation work on the nitrous oxide decomposer for our plants in Ludwigshafen. In addition, the efficiency of our plants declined in 2009 due to significantly lower capacity utilization. Therefore, our specific greenhouse gas emissions were at the same level as in 2002 (2008: -14%). However, we remain committed to our long-term 2020 climate protection goal. We are developing measures to permanently reduce emissions of carbon dioxide and nitrous oxide, and implementing them in stages. At the end of 2009, we installed proprietary catalysts at our Ludwigshafen site which are even more efficient at breaking down the greenhouse gas nitrous oxide from the adipic acid and nitric acid plants. The additional nitrous oxide decomposers can also be used in the future to prevent emissions when the existing decomposer is undergoing repairs and maintenance work. These and other measures will lead to reductions of several million metric tons of greenhouse gas emissions per year. We started up a new inland ship terminal in Antwerp in 2009, and will complete the construction of our new intermodal transportation terminal at the beginning of 2010, which will also reduce emissions from our logistics operations. From 1990 to 2002, BASF already reduced greenhouse gas emissions in the chemical business by 38% in absolute terms, and specifically by 61%.

In 2009, emissions of greenhouse gases from oil and gas production totaled 1.8 million metric tons (2008: 1.4 million metric tons). BASF's subsidiary Wintershall has 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. At our site in Emlichheim, Germany, we started up a combined heat and power plant in 2009. This created the necessary infrastructure to make use of the associated gases. To achieve our goal, we only have to stop flaring at one remaining site, for which we will develop a technical solution by 2012. Overall, utilization of gas associated with oil production reduces greenhouse gas emissions in Libya and Germany by around two million metric tons per year. 🌍

2012 GOAL

Stop the flaring of associated gases

100%

We want to stop the flaring of associated gases that are released during crude oil production by Wintershall.

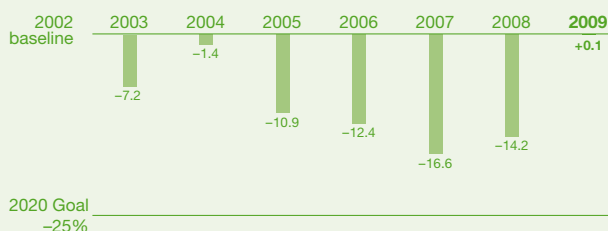
Since the end of 2008, we have assigned greenhouse gas emissions to individual production areas. The division heads and our energy efficiency and climate protection specialists discuss how to increase energy efficiency and reduce greenhouse gas emissions and subsequently introduce the necessary measures.

→ For information on transfer of climate protection technology to emerging economies, see basf.com/partnerships_climate

Innovation for climate protection

Products and processes that improve energy and raw material efficiency or contribute towards the use of renewable energies represent an important area of innovation for BASF. For example, our spray-applied membrane MASTERSEAL® 345 is being used in a tunnel construction project in Hindhead, U.K. With the use of this BASF product, the construction method requires less concrete and our customer reduces CO₂ emissions by around 1,600 metric tons and saves approximately €3.8 million.

We expanded our collaboration with centrotherm photovoltaics AG, a leading technology provider for the production of solar cells, in 2009. The aim is to develop chemical solutions to increase the efficiency of crystalline solar cells and reduce production costs. 🌍

Climate protection**Reduction of specific greenhouse gas emissions¹**
per metric ton of sales product (in %)

¹ reduction compared with baseline 2002

- Climate protection products account for 10% of BASF's sales
- Activities to reduce greenhouse gas emissions along the entire value-adding chain
- An energy efficiency program and the Verbund help us achieve climate protection goals
- For more on climate protection research and technology, see page 31; for more on climate protection at BASF, see pages 54, 60 and 66 and basf.com/climateprotection

Energy

Energy efficiency is the most important means of combining climate protection, resource conservation and economic benefits. BASF takes a three-pronged approach to responsible use of energy, focusing on efficient energy generation, reducing energy consumption in our production facilities and developing products and technologies for the efficient use of energy.

Strategy and goals

The careful use of resources is a fundamental economic principle for BASF. Energy efficiency is the key to lowering energy consumption. In 2008, we set ourselves a new goal to improve our energy efficiency. We are pursuing this goal using three methods: efficiency in energy generation, savings through our Energy Verbund, and our energy management, which includes all those activities we use to analyze and further increase energy efficiency at BASF plants. In this way, we develop integrated energy concepts that are tailored to the conditions at the site, combine competitive prices with supply reliability and make a contribution to climate protection.

2020 GOAL


Increase energy efficiency

+25%

We want to improve the energy efficiency of our production processes by 25% compared with 2002.

The drop in demand in 2009 led to reduced production volumes in the BASF Group's chemicals business and therefore to a decrease in energy consumption. This decrease was significantly greater than the additional energy consumed by the integrated Ciba sites. Compared with the previous year, energy consumption declined by a total of 1.5 million MWh. Due to necessary shut down and start up processes and the lower capacity utilization rates at plants, the energy efficiency – measured as the volume of sales products produced in relation to the energy

required – declined compared with 2008. Compared with the baseline 2002, the figure in 2009 was only 15.7% higher. Despite the difficult economic environment, we continue to focus on measures that increase our energy efficiency and to adhere to our energy goal for 2020.

Furthermore, we offer solutions that save energy and reduce CO₂ emissions. We are present on renewable energy markets with products such as organic semiconductor materials for solar panels and system solutions for wind turbines. 

→ **For more on energy-efficient processes and products, see pages 28 and 94**

Energy management

Worldwide, we analyze energy consumption and costs, identify potential savings and use this information to develop measures. Our production plants are already very energy efficient. The structured exchange of experience at regional and Group-wide levels helps us to apply methods that have proved successful at one site to other locations. In 2009, energy efficiency investigations at our Ludwigshafen site identified a total of more than €10 million worth of energy-saving potential in more than 50 plants. We identified around €25 million worth of annual energy-saving potential at our seven largest production sites in Asia. Measures implemented in North America in 2009 reduce energy costs by around €4 million annually.

Energy production at BASF

To supply our production sites with energy, we use combined heat and power (CHP) plants to generate both power and steam. They achieve overall fuel efficiency of almost 90%, and are used to meet around 75% of BASF's electricity demand. Since the end of 2009, BASF subsidiary Wintershall has been using gas, which previously could not be economically used, to produce electricity and steam at a combined heat and power plant in Emlichheim, Germany.

Thanks to the environmentally friendly CHP technology, BASF saves almost 1 million metric tons of oil equivalent worldwide each year, thus reducing CO₂ emissions by around 2.2 mil-

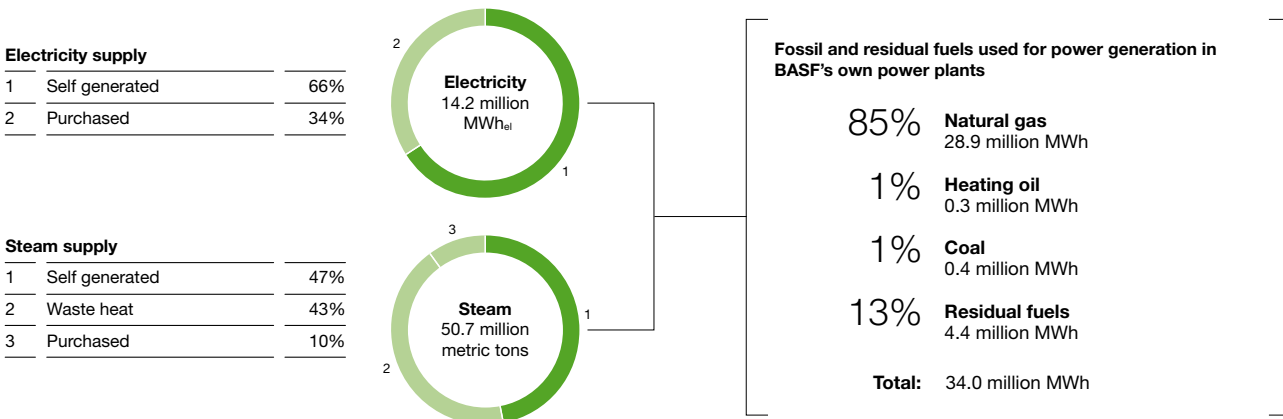
Energy efficiency at BASF

- Strategy: efficient energy generation, savings through the Energy Verbund and successful energy management
- Quantitative goal to increase energy efficiency
- Products and technologies for increased energy efficiency

Key issues in 2009

- Energy consumption and energy efficiency decreased
- Savings of almost 1 million metric tons of oil equivalent through the use of CHP technology to produce electricity and steam in BASF power plants
- Identification of energy savings potential of over €10 million in Ludwigshafen and around €25 million in Asia
- Measures in North America in 2009 reduce energy costs by about €4 million annually

Energy supply of the BASF Group 2009



lion metric tons. Compared to conventional electricity and steam generation, BASF saved approximately 11 million MWh of fossil fuels in 2009 thanks to this technology. The amount of primary fuel used to generate energy and steam (29.6 million MWh) corresponds to 63% of the total of primary fuel used in the BASF Group.

Energy efficiency through the Verbund

Our Verbund system links our production and energy demands, thus making a major contribution to energy efficiency. Heat from production processes is not discharged into the environment; rather it is captured to be used at other production plants. Thanks to the Verbund system, BASF saves up to 1.5 million metric tons of oil equivalent per year, equal to a 3.4 million ton annual reduction in CO₂ emissions. Furthermore, networking several production facilities at one site reduces fuel consumption as less transportation is required.

→ For more on the Verbund, see page 22

Use of fuels and sources of raw materials

We focus on the sustainable use of conventional fuels for our energy supply. At 85%, the majority of our energy is supplied by low-emission natural gas. We are also examining the use of renewable energy sources. These will make up a significant component of our energy mix only when they become competitive in terms of costs and supply security.

When choosing raw materials, we identify the best resources in terms of sustainability in order to use these as efficiently as possible. For some applications, BASF replaces fossil raw materials with renewables provided they offer ecological and economic advantages. Our crop protection products and plant biotechnology contribute to raising the yields and quality of renewable raw materials.

BASF, Wintershall and WINGAS worked with BIS E.M.S. in 2009 to develop a new process for treating biogas. Treatment using PuraTreat® R+ purifies biogas to natural gas quality. The first biogas plants are expected to be using this technology by 2011. 🌍

→ For more on energy efficiency, see basf.com/resource_conservation

Energy Verbund

- Contribution to the efficient use of energy
- Linking of production and energy demands
- Savings of up to 1.5 million metric tons of oil equivalent per year with the Energy Verbund


Fuels and raw materials

- Sustainable use of conventional fuels
- Use of renewable sources of energy if they are competitive
- Use of renewable materials when they offer economic and environmental benefits
- For more on research on energy efficiency, see page 31 onward

Water

The sustainable use of water and the conservation of water resources worldwide are important concerns for BASF. Our water conservation activities involve our production and our products: We have decreased specific water use in our production, reduced emissions to water and we are evaluating water protection and supply concepts at our sites. Our products contribute to water catchment and help our customers to save water and reduce emissions to water.

The availability and quality of water varies regionally and locally. We therefore employ different methods for using water sustainably at our sites. To do so, we develop criteria to evaluate whether water at our production sites is sourced sustainably. Most of our large sites are located close to rivers which guarantee a good water supply. Nevertheless, we analyze whether any sites are located in regions in which water shortages can be expected, and whether there are any risks related to long-term water supply. In 2009, we developed a new water supply concept at our Verbund site in Antwerp. Until now, the site has also been using drinking water in production. From 2011 onward, the water used will be drawn from surface water in a tidal freshwater area in the southern part of the Netherlands.

We already use the Eco-Efficiency Analysis to evaluate products and processes with respect to their emissions to water. In 2009, we also started incorporating new criteria such as local water scarcity into the methodology. We contribute our know-how about sustainable water management to partnerships and international initiatives, for instance as a strategic partner of the European Water Partnership. 

BASF's water use

BASF uses water in the production of products, for cooling and cleaning and as a means of transportation. In 2009, BASF used 1,977 million cubic meters (2008: 2,058 million cubic meters) of water worldwide. Of this amount, 95% was drawn from rivers and lakes. Groundwater accounted for 4% and drinking water for about 1%. The majority of the water is used for cooling.

We have decreased our specific water use in recent years, for instance, by intensively recirculating water as much as possible. However, we do not want the recirculation of water to result in an increase in energy use, for instance when the water has to be recooled, or in other negative impacts on the environment. The catchment, processing and transport of water requires energy. At our Ludwigshafen site, we have been able to reduce the specific energy use of our cooling water supply by 11% since 2005 thanks to technical measures and optimized operating methods such as improved pump networks.

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% (baseline 2002).

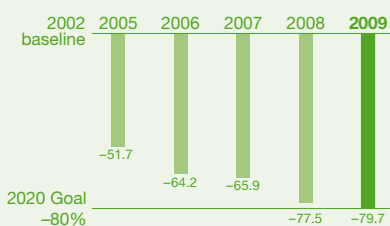
Emissions to water

One tenth of the water used at BASF comes into contact with products when used for washing or as a solvent or a reaction medium, for example. The resulting wastewater is treated appropriately and biologically purified in wastewater treatment plants.

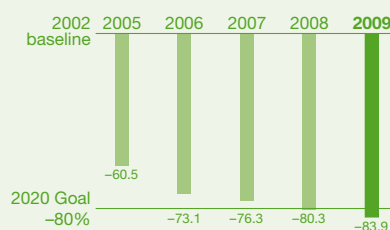
In 2009, BASF discharged a combined total of around 185 million cubic meters of wastewater at all its production sites. We reduced emissions of organic substances to water by 80% compared with 2002. Emissions of organic substances – calculated as chemical oxygen demand (COD) – amounted to around 18,600 metric tons (2008: 20,600 metric tons). Emissions to water of nitrogen (N total) were 3,600 metric tons (2008: 4,400 metric tons). This amounts to a reduction of 84% compared with the baseline year 2002. Emissions of phosphorous were 355 metric tons (2008: 376 metric tons). Our wastewater contained 24 metric tons of heavy metals (2008: 27 metric tons). Heavy metal emissions were cut by 61% compared with 2002.

Emissions to water¹

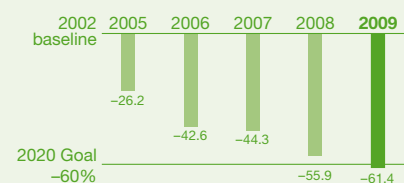
Organic substances (in %)



Nitrogen (in %)

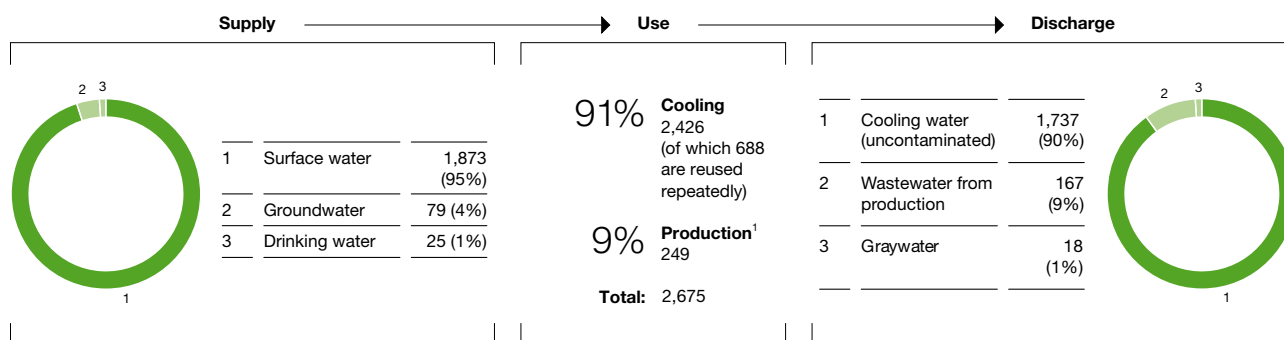


Heavy metals (in %)



¹ reduction compared with baseline 2002

Water balance of the BASF Group in 2009 (Million cubic meters per year)



¹ Total from production processes, graywater, rinsing and purification in production

Thus, we significantly beat some of our goals for emissions to water in 2009. These represent absolute goals that are also related to production volumes. Therefore the improvements are also a result of the decline in production volumes. We will continue to adhere to our goals despite the Ciba integration and even when production volumes rise.

Our water protection concepts aim to ensure that no unforeseen emissions are able to enter natural water reservoirs. Despite our existing protection systems, 7.2 metric tons of hydroxypivalic acid neopentylglycolester (HPN) entered the Rhine river from the cooling water network at BASF's site in Ludwigshafen in June 2009. The unintentional release of this easily biodegradable intermediate product was caused by a technical fault which was immediately corrected. In 2009, we started a global project that will review the water protection concepts at our major production sites by 2015.

Business opportunities

We offer our customers solutions which save water or improve its quality. Our products make new technologies for water treatment economically viable. In a new portable water purification system, our product Luvitec® and the plastic Ultrason® are used in a special filter membrane to help remove harmful bacteria and viruses from drinking water. BASF flocculants are used in wastewater treatment facilities and effluent treatment. We have considerably expanded our portfolio of water treatment chemicals with the acquisition of Ciba – for applications ranging from agriculture, oil refineries, and mining to municipal drinking and wastewater treatment.

Water conservation

- Reduce specific water use at our production sites
- Optimize water protection concepts at major production sites
- Products to promote sustainable use of water by customers
- For more on this topic, see basf.com/water

Highlights 2009

- Emissions to water reduced
- Developed new water supply concept at Antwerp site
- Expanded portfolio of water treatment products through the Ciba acquisition
- For more on our water treatment products, see page 59

Environmental and safety management

Environmental protection and safety are important management responsibilities, for which we set ourselves ambitious goals. With globally applicable standards, we set out clear rules and make our employees aware of these values in the workplace. Our Responsible Care® Management System and global directives ensure the implementation of our voluntary commitments, which we regularly review. We focus on prevention and learn from past incidents so that we can continuously improve our performance in terms of environmental protection and safety.

Responsible Care Management


We constantly work on improving our existing environment and safety management system. Our overriding aim is to protect our employees and neighbors, as well as to safeguard our productivity. We support the global Responsible Care initiative of the International Council of Chemical Associations; in 2006, we co-initiated its Responsible Care Global Charter.

The foundations of our environmental and safety work are set out in our corporate guidelines. Our Responsible Care Management System ensures that globally applicable standards form the basis of our daily work: We have defined requirements and responsibilities, as well as assessment methods for the implementation of our standards. We have also created procedures for measuring and documenting our progress toward our goals. This forms the framework for the safe production of chemicals and the responsible use and secure transportation of our products. We will continue to develop guidelines for environmental and safety management in the next few years. In annual management reviews, our managers assess BASF's environmental and safety performance, achievement of goals, results of audits and changes to underlying conditions. We include information from our stakeholder dialogue.

In 2009, three new Group directives were adopted as part of our Responsible Care Management. Topics included global incident reporting, corporate and information security, and a binding directive on toll manufacturing. With the latter, we

ensure that our environmental, health and safety standards are also adhered to by firms who produce BASF products on our behalf.

The new Group directive on reporting forms the basis of our global incident database, in which we record all accidents as well as near-misses and other incidents. It covers our sites and transportation routes. We include incidents involving employees of BASF, personnel leasing companies and contractors. In this way, we analyze weak points that could potentially affect the environment, the safety of our employees or our host communities. In addition, the database helps us to systematically learn from mistakes so that we can pursue our goals for environmental protection and safety. This requires open communication about mistakes and challenges, which we support through activities such as our new safety initiative. Information about incidents that may help us to avoid similar occurrences in the future is communicated throughout the BASF Group.

BASF's commitment to environment and safety was recognized in 2009. For example, our subsidiary BASF Chemicals Co., Ltd. was honored by the Shanghai Chemical Industry Park for outstanding safety management for the third consecutive year. 

→ **For more on our guidelines, see page 15; for more on occupational safety and health protection, see page 89; for more on product stewardship, see page 101 onward; for more on stakeholder dialogue, see page 29. For more on Responsible Care, see basf.com/responsible-care_e**

Safeguarding plants, employees and know-how

We have global concepts in place to protect our employees and neighbors as well as BASF's plants and company intellectual property. At the same time, these enable us to prevent production stoppages and environmental damage. We train our safety experts regularly, not only in occupational safety, but also in plant safety such as explosion protection and the use of our risk matrix. Using this matrix, we assess possible risks in BASF's plants according to estimated probability and potential impact and we develop appropriate protective measures. At the Ludwigshafen site alone, more than 500 employees took part in

Responsible Care Management

- Coordinates activities in the areas of environmental protection, health and safety
- Three new Group directives adopted in 2009: on global incident reporting, corporate and information security and toll manufacturing

Safety concepts

- Global concepts for the protection of employees, neighbors, plants and intellectual property
- Regional Security Managers coordinate protective measures
- Over 500 employees participated in training courses in process safety at the Ludwigshafen site
- More than 20,000 employees trained in information protection

training courses in process safety in 2009. We introduced a five-stage system for the planning of plants, to prevent the unintentional release of products, explosions or fires. It includes the most important aspects for environmental protection, safety and health protection, from design through to production.

Our new, Group-wide security directive contains measures for early recognition of corporate and information protection risks, site-specific precautions to combat internal and external crime, as well as provisions to protect employees travelling on business. We specifically provide information to our employees about current dangers; for example, in approximately 1,000 cases in 2009, on country-specific high security risks related to business trips. In 2009, we trained more than 20,000 employees in how to correctly handle confidential information. In every BASF region, a regional security manager is responsible for coordinating all protective measures.

At BASF, respect for human rights in our security work is unquestionable. We integrate this topic into training for BASF security officers in Germany. In 2010, we will set out global corporate security requirements relating to this. 

→ **For more on process safety, see basf.com/process_safety. For more on occupational safety and our safety initiative, see page 89**

Audits

Our regular audits are a key component of the Responsible Care Management System. They ensure consistently high standards within the BASF Group in all areas of environmental protection, safety and health protection. Criteria include emissions monitoring, occupational and distribution safety, emergency response and preventive health care. On behalf of the Board of Executive Directors, our audit teams for safety and environment as well as for occupational medicine and health protection investigate the implementation of Responsible Care at BASF sites and at our majority-owned subsidiaries. The tasks and specifications for carrying out the inspections are set out in the BASF Group Directive Responsible Care Audits. These include a defined procedure to be followed if standards are not adhered to. Together with operating divisions, we develop and implement

Responsible Care audits

- 99 audits on safety and environment, 43 audits on occupational medicine and health protection
- A total of 154 of our production sites worldwide are certified in accordance with ISO 14001
- Audits are based on BASF directives and regulations as well as applicable legal standards

measures to bring about improvements. These audits are based on BASF directives and regulations as well as applicable legal standards. Our internal audit system complies with standards for external auditing procedures (ISO 19011 and OHSAS 1900). Worldwide, 154 BASF production sites are certified in accordance with ISO 14001.

In 2009, 99 safety and environment audits were carried out in the BASF Group at 63 sites. BASF carried out audits relating to occupational medicine and health protection at 43 sites.

→ **For more information on certified sites, see basf.com/certified**

Emergency response

With our emergency response, we are prepared for potential incidents. We create specific emergency response plans for our production facilities. If necessary, we include joint ventures, suppliers, neighboring companies, as well as cities and communities and their facilities into these plans and other emergency concepts. Furthermore, BASF's central emergency response supports local emergency response units around the clock. This was extended to sites acquired from Ciba in 2009. Including assistance for third parties, we provided this sort of assistance in around 250 cases in 2009 – for example, our experts provided advice at short notice on toxicology, environmental protection and process safety. A Group-wide directive on emergency response is planned for 2010. Our existing emergency systems are checked regularly, for example in drills with our employees and local authorities.

A swift response is essential whenever accidents occur while chemicals are being transported. This is why we actively support networks that quickly provide information and assist in emergencies. These include the International Chemical Environmental (ICE) initiative and the German Transport Accident Information and Emergency Response System (TUIS), which BASF coordinates. In recent years, we have expanded our engagement in China and set up a new network for chiefs of our Chinese fire departments. On average, we currently provide assistance in cases of accidents on transportation routes in the Greater China region every two to three days.

→ **For more information, see basf.com/emergency_response**

Emergency response

- Local emergency response and global emergency assistance available 24 hours a day
- Commitment to emergency systems such as the International Chemical Environmental initiative and TUIS
- Commitment in China expanded: new network of Chinese fire departments, assistance provided for accidents on transportation routes in Greater China every two to three days on average

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.

Transportation, distribution and warehouse safety

Through our specifications and measures for transportation and distribution safety, we minimize risks to people and the environment. Our rules apply to all modes of transportation and include the delivery and distribution of chemicals between all BASF sites and their suppliers and customers. In our directives, we have set out uniform standards for the transportation and storage of chemical products in rented warehouse facilities. On this basis, we look beyond the relevant national provisions in inspecting the structural and technical condition of existing warehouses and assess the safety of new warehouses. We also share our experience with others. For example, in 2009, we advised the Grand Duchy of Luxembourg on a safety and fire prevention concept.

If an incident occurs despite all of our preventive measures, we provide swift assistance and our transportation safety advisors subsequently evaluate all of the information. Based on their reports, we develop measures to prevent similar incidents in the future. For example, we have selected a new cargo securing system that we are gradually introducing in Europe.

We have reduced the number of transportation accidents from 0.56 per 10,000 shipments in 2003 to 0.24 in 2009 (2008: 0.36). These figures reflect accidents reported to us by our logistics partners. Product spillages during transportation are recorded and assessed separately.

We also assess our transportation partners regularly with regard to safety and quality. To do this, we use approved instruments such as the Safety Quality Assessment System (SQAS). This assessment system was developed under the leadership of the European Chemical Industry Association (CEFIC). It provides information regarding issues such as the training level of the transport company's employees and its accident response. BASF is also a member of the Chemical Distribution Institute (CDI), which aims to improve the safety and quality assessment of marine transportation using liquid bulk parcel tankers. Independent specialists assess the condition of ships and their operation worldwide. We consider CDI's safety reports when deciding which vessels to use for transportation.

→ For more on this topic, see basf.com/distribution_safety

Reduction of emissions of air pollutants

Our environmental management includes monitoring emissions from our plants. 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 (SO₂), nitrogen oxides, ammonia and other inorganic compounds, dust, heavy metals and non-methane volatile organic compounds (NMVOCs).

Even when the size of our portfolio grows, we will remain committed to our goal of reducing absolute emissions: 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. Together with the operating divisions, we evaluate our progress in annual management talks.

Transportation accidents per 10,000 shipments
 (reduction compared with baseline 2003: -57%)

2009	0.24	
2008	0.36	
2007	0.28	
2006	0.45	
2005	0.47	
2003 ¹	0.56	

¹ baseline

Transportation and distribution safety measures

- Consistent standards for the transportation and storage of chemical products
- Continuous monitoring of carriers with regard to safety and quality

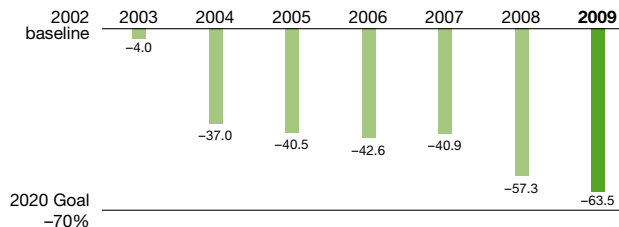
2020 GOAL

Reduce emissions of air pollutants

-70%

We aim to reduce air pollutants from our chemical plants by 70% compared with 2002.

In 2009, emissions to air in BASF's chemical operations worldwide totaled 31,300 metric tons (2008: 36,500 metric tons). This reduction was a result of technical measures as well as structural changes and reduced production volumes, and more than compensated for additional emissions from the integrated Ciba sites. Due to increased use of production facilities, emissions of ozone-depleting substances as defined by the Montreal Protocol totaled 108 metric tons in 2009 (2008: 63 metric tons), while emissions of heavy metals totaled 4 metric tons (2008: 8 metric tons).

Emissions to airAir pollutants¹ (reduction compared with baseline 2002)

¹ Consist of: CO, NO_x (sum of NO₂ + NO, calculated as NO₂), NMVOC (non-methane volatile organic compounds), SO_x, dust and NH₃/other inorganics

We reduce emissions of air pollutants through end-of-pipe environmental technology such as exhaust gas scrubbing plants, while technical improvements also make a contribution. By installing a new thermoreactor for the phthalic acid plant at the Ludwigshafen site, we have been able to reduce emissions of air pollutants by 8,100 metric tons since 2007 – a reduction of more than 99%.

Emissions of air pollutants

- Absolute reduction goal is independent of growth in the product portfolio and production volumes
- Emissions of air pollutants in 2009 totaled 31,300 metric tons, a reduction of 63.5% since 2002
- End-of-pipe environmental technology and technical improvements reduce emissions of air pollutants

Waste

BASF's fundamental principles for handling waste are "avoid, reduce, recycle". We only dispose of waste after all recovery options have been exhausted, and we do so in a correct and environmentally compatible manner. BASF's own landfill sites are continuously monitored. We inform the responsible specialist and approval authorities of the findings. When we make acquisitions, we apply the same standards for responsible management of landfill sites and contaminated sites in accordance with our legal obligations – this also applies to the integration of Ciba. We regularly carry out audits of external waste management companies.

Worldwide, BASF's production, including all former Ciba sites, generated 1.69 million metric tons of waste in 2009 (2008: 1.77 million metric tons). Oil and gas exploration accounted for 0.19 million metric tons of this waste. Around 42% of our waste was recycled or subjected to thermal recovery (2008: 43%); we aim to continue to increase this rate. The residual waste was disposed of by underground storage (14%), through incineration (44%) and by landfill (42%). According to the customary international categories, 554,500 metric tons of the waste we disposed of was classified as hazardous and 431,800 metric tons as non-hazardous.

Costs and provisions for environmental protection

The overall costs of operating environmental protection facilities throughout the BASF Group amounted to €669 million in 2009 (2008: €706 million). BASF invested an additional €141 million in new and improved environmental protection plants and facilities (2008: €165 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 €598 million as of December 31, 2009 (December 31, 2008: €377 million). The figures are higher compared with 2008 primarily as a result of the acquisition of Ciba.

Costs and provisions for environmental protection

- €669 million in overall costs for operating environmental protection facilities
- €141 million additional investment in new and improved environmental protection plants and facilities
- €598 million in provisions for environmental protection measures and remediation costs

Product stewardship

Product safety is an important part of our risk management. We strive for uniformly high standards for product stewardship worldwide which go beyond mere compliance with legal requirements. Our standards are based on our risk assessments and product testing, as well as comprehensive, up-to-date information about our products and how to use them safely.

Global responsibility for products

We ensure that our products pose no danger to people or the environment when they are used responsibly and in the manner intended. The basis is provided by our global directives on product stewardship and product safety. Our directive on product stewardship contains our voluntary commitment with worldwide goals and applies to all operative decision makers, who are also responsible for its implementation. 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. To tap market opportunities, we are working on products that have positive characteristics without undesired side effects, such as low-dust tile adhesives and mortar or alternative plasticizers for plastics.

→ For more on auditing of suppliers, see page 27

Goals

Based on risk assessments, we want to review all substances produced or sold worldwide in the BASF Group in quantities of more than 1 metric ton per year. The risk posed by a substance is based on the combination of its hazardous properties and the potential impact on people and the environment. As part of this process, we conduct studies, collect data with customers on product use, and carry out risk assessments. Furthermore, we want to review our sales products, including mixtures, in the same way, regardless of the volume of individual substances they contain. We are therefore going far beyond the legal requirements.

Key issues concerning product stewardship

- Global directives on product safety and product stewardship
- Global goals
- Product safety reviewed for the entire value-adding chain
- Business opportunities with products that have positive technical properties without undesired side effects

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

With our goals we are supporting the implementation of the Global Product Strategy (GPS) of the International Council of Chemical Associations (ICCA). GPS is to establish global standards and practices to improve the safety of using chemical substances worldwide and to implement the Responsible Care Global Charter. We are taking part in information and further training events related to GPS around the world, and particularly in Asia. In addition to our commitment to GPS, we are also voluntarily engaged in the United Nations' Strategic Approach for International Chemicals Management (SAICM).

Transparency for product safety

We store data records for our substances and products that we have evaluated in a global database, which allows us to provide this environmental, health and safety information at any time. As our product portfolio is constantly changing, for example, due to innovation and acquisitions, we continuously update the database with new substances and products. Safety data sheets on all our sales products are available in 34 languages. Our global emergency hotline network provides information 24 hours a day, seven days a week. If required, we offer our customers training courses on the safe use of our products.

Implementation of REACH and GHS

As a further contribution to international chemical safety, BASF supports the goal of the Globally Harmonized System (GHS), for the classification and labeling of chemicals. The new regulations, such as globally uniform hazard statements, will require a lot of adaptations in BASF's systems. In parallel to this, BASF is implementing the requirements of the European Union's

Transparent product safety

- Global database containing environmental, health and safety information on substances and products
- Safety data sheets for all chemical sales products
- Global network of emergency hotlines
- Customer training on handling products

chemical regulation REACH. After the successful completion of the pre-registration phase, the first stage of registration is now underway. By the end of November 2010, all substances produced in annual quantities of over 1,000 metric tons, as well as environmentally hazardous substances and substances with carcinogenic, mutagenic or reprotoxic effects, have to be registered. In the Substance Information Exchange Forums (SIEFs), BASF participates in sharing data in order to reduce the number of animal studies and costs. For many of our substances, we have taken on the role as lead registrant in the SIEFs.


Our expertise gained in evaluating substances and our existing processes for the implementation of our product stewardship goals help us meet the REACH and GHS requirements at the lowest possible cost. We work in close cooperation with our customers and suppliers on REACH. This allows us to strengthen the supply security of our raw materials and foster customer retention. So far, it is estimated that REACH will cost BASF an average of €50 million a year until implementation is completed in 2018. However, we hope that we will be able to reduce these costs by taking appropriate measures. At present, it is unlikely that REACH will result in any major changes to our portfolio. The decision whether to continue to produce a product in the future depends on a multitude of factors, of which REACH is just one.

Ecological and toxicological testing

Before launching products on the market, we subject them to substantial ecological and toxicological testing and register them with the authorities. Laws and regulations usually prescribe the testing that must be carried out, which can also include animal studies. REACH will require additional data on the properties of chemical substances, which will lead to an increase in the number of animal studies required by law. We are committed to the principles of animal welfare. We reduce the number of animal studies wherever possible and develop and implement alternative and complementary methods. BASF has been operating its own laboratory for the development of animal-free methods (alternative methods) since 2004. In cases where alternative

methods cannot be applied or these are not approved by the authorities, we aim to obtain better data through optimized tests. To date, very few alternative methods have been approved by the authorities. We apply all of these methods – and are doing so with increasing frequency: In 2009, we used alternative methods in over 35% of toxicological studies (2008: 30%). We also made a complete switch to alternative methods in our laboratory for skin tests. For over 20 years, BASF has been involved in all relevant research projects to develop alternative and complementary methods to animal studies. We are currently involved in six national research projects focused on alternative methods.

Use of nanotechnology

Nanotechnology provides opportunities for BASF and society, such as climate protection solutions or more efficient use of raw materials. We aim to use these opportunities responsibly. The same standards for product stewardship apply here as for all other BASF products. Our Code of Conduct Nanotechnology sets out principles for using nanomaterials. We make a record of working areas that may have contact with nanomaterials and minimize this contact, even before substance-specific limit values have been defined. We have been involved in research on the safety of nanomaterials for many years. We publish all results of our safety research online. For NanoCare, a project of the German Federal Ministry of Education and Research (BMBF) completed in 2009, we collaborated with partners from industry, universities and research institutes to develop methods that allow for even more precise measurement of the biological effect of nanomaterials. The results support the OECD's safety evaluation activities. In 2009, we continued our Dialogue Forum Nano, where we discuss the opportunities and risks of nanotechnology with consumer protection organizations, environmental associations and churches. 

REACH implementation

- First stage of registration until the end of November 2010
- For many of its substances, BASF is lead registrant in the SIEFs
- Advantages through expertise and our existing processes for the implementation of product stewardship goals
- Striving to reduce estimated costs of €50 million annually

Nanotechnology at BASF

- Dialogue with consumer protection organizations, environmental associations and churches
- Code of Conduct Nanotechnology for using nanomaterials
- Publication of the results of our safety research
- BMBF (German Ministry of Education and Research) NanoCare project with partners from industry and research institutes successfully completed
- For more information on this topic, see 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 suitable measures. The aim here is to avoid risks that pose a threat to BASF's continued existence and take 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.

Organization, responsibilities and tools

Operational opportunities and risks: Short and medium-term planning covers a period of one to three years. Within this framework, BASF's operating divisions, corporate units and competence centers decentrally identify and quantify opportunities and risks that may lead to positive or negative deviations from the respective business plan. The results are regularly reported to the Strategic Planning & Controlling unit, where they are checked and aggregated by means of Monte Carlo simulation. In addition, operational opportunities and risks are discussed in the monthly management report which is produced by the Corporate Controlling unit. Furthermore, if an individual risk is identified which has an impact on earnings of more than €10 million, this must be immediately reported to the Board of Executive Directors.

The Strategic Planning & Controlling and Finance corporate divisions are responsible for aggregated risk management. Both corporate divisions also provide the necessary risk management tools and expertise, refine the methods and are responsible for communicating these globally. 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.

Strategic opportunities and 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, together with the respective business units. These analyses cover a ten-year timeframe and are reviewed during the course of the strategic controlling and are updated if necessary.

Risk management process

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

Operational divisions decentrally identify opportunities and risks using a variety of tools, such as expert interviews and team-based approaches. These are complemented by market, competitive and environmental analyses as well as statistical evaluations.

The above are based on internal and external risk information sources, macroeconomic scenarios that evaluate important factors such as industry growth rates, and our company-wide risk catalog, which acts as a checklist and supports the identification process.

– 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 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.

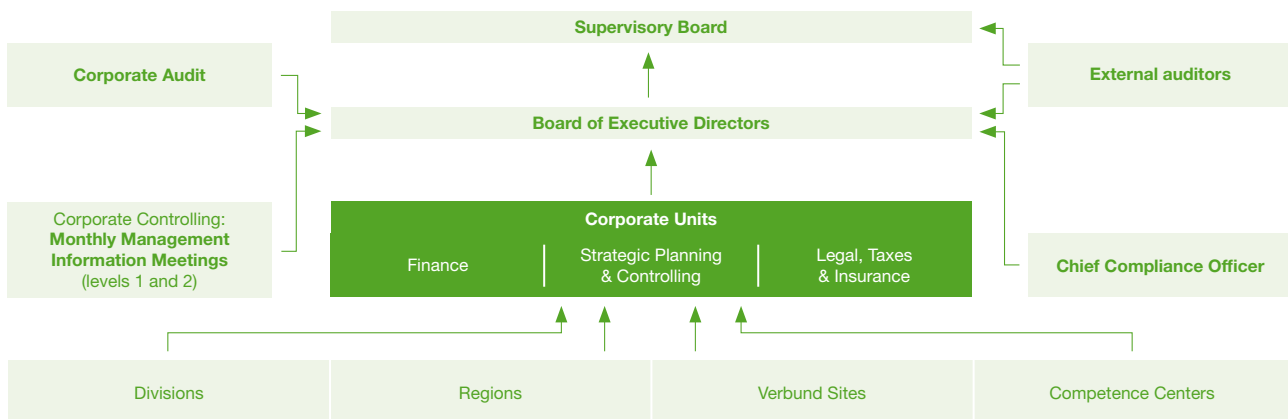
Strategy and goal

- Earliest possible detection of risks
- Taking measures to limit business losses
- Avoidance of risks that threaten the company's continued existence
- Supporting managerial decisions

Risk management process

- Identification of opportunities and risks
- Assessment and quantification
- Aggregation
- Management, measures and control
- Monitoring and further development of the process

Organization of BASF Group's risk management



– Management, measures and control

The management of opportunities and risks as well as the taking of measures takes place on the divisional level. Measures are taken at the BASF Group level for certain risks, such as risks 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 regularly receives reports on the risk situation of the BASF Group. If certain risk thresholds are reached, the Board is informed immediately.

– 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 once again included in the Dow Jones Sustainability Index in September 2009, the company received special recognition from analysts, among other things 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.

Internal control and risk management system with regard to the Group financial reporting process

- Consolidated Financial Statements are prepared by a unit in the Finance corporate unit
- Uniform, group-wide guideline that sets accounting policies, processes and dates
- Evaluation of the internal control system for financial reporting based on a central risk catalog
- Selection of companies and units with regard to risks, material impact on the Consolidated Financial Statements or provision of service processes

Employees involved in the accounting 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 centralized 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 or that have a material impact on the Consolidated Financial Statements of the BASF Group or that provide service processes. All significant BASF sites as well as all regions and divisions are taken into account. 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 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. The control activities of the largest companies and those with special risks are documented in a global IT 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 the BASF Group at the end of the annual cycle the effectiveness of the internal control system over accounting as well as the adequacy of financial reporting.

Risks from operations

Development of sales markets: Because BASF's customers are active in numerous sectors, shifts in demand naturally imply opportunities and risks. We expect the global economy to recover slowly in 2010. However, overall we expect volatility and risks to remain high. There is also the risk that with the fading effects of government stimulus programs and a possible rise in key interest rates, demand in target markets will grow more slowly.

→ For more on the outlook for 2010, see our forecast from page 112 onward

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

Development of sales markets

- Greater planning uncertainty with regard to an economic recovery in 2010
- Volatility and risks remain high
- Our customers' refinancing risks represent sales market risks for our business
- Risks limited through operative measures, such as close cooperation with customers and optimal production management

Several divisions are directly affected by restrained demand in key customer sectors, such as the construction and automotive industries, and increasing competition in sales markets. Other divisions are indirectly affected by a decline in the growth of demand for basic chemical products.

The margins for commodities, such as cracker products or plastics, are particularly exposed to product-specific supply and demand cycles. When demand is low, there is the possibility that higher raw materials prices cannot be passed on to our customers, or only to a limited degree.

The financial crisis also represents a risk for our sales markets. If our customers have less access to credit and therefore cannot refinance their businesses, this could have a negative impact on our business.

Where possible, risks related to the development of sales markets are mitigated using operational measures, for example, through close cooperation with customers and optimized production management. Furthermore, our regional and industrial diversification also contributes to minimizing risks.

Risks from the creation of overcapacities: As a result of the price advantage for raw materials in the Middle East, a significant capacity expansion is currently taking place there for basic chemicals, such as ethylene and propylene. In addition, large petrochemical capacities are being started up in China, meaning China's imports are expected to decline. On a global level, we anticipate growing overcapacities.

We manage the construction and expansion of production facilities based on expected demand and we schedule maintenance turnarounds accordingly. We divest businesses in which we do not see satisfactory opportunities to differentiate ourselves from our competitors in the long term. 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, which we also develop through strategic partnerships with important partners.

Risks from the creation of overcapacities

- Product-specific management of plant construction and expansion
- Divestitures of businesses that do not provide sufficient opportunity for differentiation from our competitors
- Research focus on innovative business areas, which we also develop via strategic partnerships

Overall, risks associated with the global and regional growth of our customer industries as well as the creation of overcapacities – together with volatility in raw materials prices and exchange rates – are three of the top drivers of potential divergences from our business planning.

Availability and price volatility of raw materials: Currently, we do not see risks arising from raw material availability. Given the current economic environment, however, the risk of failure of individual suppliers has increased.

We minimize procurement risks through our wide portfolio, our global purchasing activities and optimized procedures for the purchase of additional quantities of raw materials on spot markets. If possible, we avoid procuring raw materials from a single supplier. Where this cannot be avoided, we try to foster competition or we knowingly enter into these relationships and assess the effects of possible availability problems. 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 logistics and technical services.

Using our supply chain management, we identify potential high-risk suppliers with regard to environmental protection, occupational safety and social responsibility standards and agree on corrective measures.

→ For more on supply chain management, see page 27

Availability and price volatility of raw materials

- Broad portfolio and global purchasing activities minimize procurement risks
- Reduced oil and gas price sensitivity due to the contribution of BASF's own Oil & Gas business
- Use of commodity derivatives to minimize cost risks

The price volatility of feedstocks, in particular oil-based chemicals, is one of the three main drivers of opportunity and risk at BASF. We 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. 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.

Technical risks: Guaranteeing the quality and availability of our products can require unforeseen technical measures. Moreover, there is the risk that unscheduled plant shutdowns will be required for safety reasons or due to technical problems. 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.

Financial risks

The management of currency and interest rate risks is conducted in the Treasury department. 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: Competitiveness on global markets is influenced by fluctuations in the exchange rate. This generates sales market risks for the BASF Group, especially when the U.S. dollar exchange rate fluctuates. 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.

In addition, if our credit rating 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 184

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 and exposure constraints. These activities are subject to constant monitoring.

Financial risks

- Exchange rate volatility
- Risks associated with interest rate changes
- Risks from metal and raw materials trading
- Liquidity risks
- Risk of default on receivables
- Impairment risks
- Risks from pension obligations

Exchange rate volatility

- Risks from change in exchange rate parities minimized by local production
- Risks from the conversion of receivables and liabilities as well as purchase and sales transactions in foreign currencies; hedging with derivatives

Liquidity risks: Risks from cash flow fluctuations are recognized in a timely manner as part of our liquidity planning. Uncertainty regarding economic developments as a result of the global financial crisis makes it difficult to reliably forecast liquidity requirements. We take these uncertainties, as well as potential additional liquidity requirements that would arise in the case of an upswing, into account by means of additional risk scenarios. We update our liquidity planning immediately in response to events. This means we can promptly take the necessary measures when required.

We have significantly reduced the risks of refinancing in 2009 by issuing medium and long-term bonds. At the peak of the financial and economic crisis, issuing bonds was more costly than in previous years. However, we have access to comprehensive liquid funds thanks to our solid rating, the commercial paper program and committed bank credit lines. The commercial paper program constitutes a reliable and economic source of liquidity for BASF, also during the financial crisis. We therefore currently rate our liquidity risks as low.

→ For more on financial risks, see Notes to the Consolidated Financial Statements from page 189 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. Against the background of the current economic crisis, we continuously check the creditworthiness of our partner banks. We reduce the risk of default on receivables by 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. As a result of the economic crisis and the associated changes in our customer industries construction and automotive, a reduction in margins and slower volume growth can be observed in certain markets. This results in an increased risk of impairment of individual assets such as customer relationships, technologies and brands, as well as goodwill.

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 as part of the portfolio analyses. The ongoing review of the investment strategy was further intensified in reaction to the financial and economic crisis. Furthermore, we are reducing this risk by increasingly offering employees defined contribution schemes. In 2009, we converted our defined benefit pension plans in the United States into defined contribution schemes.

Liquidity risks

- Risks from cash flow fluctuations are recognized as part of our liquidity planning
- Issuance of medium to long-term bonds in 2009 considerably reduced refinancing risk
- Access to comprehensive liquid funds thanks to our solid ratings, our commercial paper program and committed lines of credit

Risks of default on receivables

- Country-specific risks limited by internal country ratings
- Use of export credit insurance and investment guarantees
- Credit risks are limited by credit limits
- Use of credit insurance and bank guarantees

Other risk areas

Regulatory and political risks: Due to the European chemicals directive REACH, which came into force on June 1, 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 shortage of certificates for our activities in Europe in this second trading period. However, the concrete design of the European emissions trading from 2013 is still unclear. Depending on the final design of the implementing regulation, BASF may be required to purchase several million additional certificates annually. Depending on the quoted prices for CO₂ certificates, this will affect our cost position and therefore our global competitive situation.

Due to the amendment of the E.U. directive on industrial emissions (IED), scheduled for 2010/11, additional costs could arise for reporting and for the conversion of existing plants.

Additional risks are associated with an intensification of geopolitical tensions, the destabilization of political systems and the erection of trade barriers (customs duties, embargo measures). Overall, we regard the probability that regulatory and political risks will occur as low; the financial impact can be classified as low in the short term and elevated in the medium term.

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, budgets may be exceeded or developed products will not receive regulatory approval for sale. 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 operating environment of research projects; this review includes all phases from idea generation to

product launch. The trust of customers and consumers is essential for the introduction of new technologies. That is why we enter into dialogue with stakeholders at an early stage of development. A significant contribution to long-term risk management is made by the alignment of strategic goals and the research portfolio as part of both strategic planning and strategic controlling.

→ For more on the stakeholder dialogue, see page 29

Exploration: There are also opportunities and risks in oil and gas 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 means of a balanced exploration portfolio.

Personnel: Dedicated and competent employees are essential for BASF's sustainable success. Our goal is to form the best team in industry. Due to global competition for highly-qualified specialist and management candidates, which is intensified by demographic change, there is a risk that job vacancies cannot be filled with suitable applicants, or only with a significant delay. 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. Following the difficult economic situation in 2009, the intensification of competition for specialists and managers will quickly resume. In Europe, this affects the engineering and scientific professions in particular; a noticeable talent shortage can already be observed.

We address these risks 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. These measures are aimed at both effective personnel recruitment and retention.

→ For more on the individual initiatives and our aims, see page 85 onward

Regulatory and political risks

- REACH: cost-intensive testing and registration procedure
- Emissions trading: risk of undersupply from 2013
- E.U. directive on industrial emissions might require conversion of plants

Research and development risks

- Know-how Verbund and close collaboration with customers minimize risks that projects will be stopped prematurely, budgets exceeded or products not approved for sale
- Dialogue with customers and consumers about new technologies at an early stage

Overall, we rate the risk of a negative impact on our business due to the loss of managers and employees as significant. In addition, 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.

Risks from acquisition and investment decisions: Implementing acquisition and investment decisions involves complex risks. The evaluation of risks and opportunities already plays a significant role during the assessment of potential acquisition targets. 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 could not be quantified exactly 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 integrated into BASF's risk management process. This has already been carried out for most of the business activities of the recent Ciba acquisition.

Legal risks: In order to assess the risks from current legal disputes and proceedings and any requirement to recognize provisions, we consider the results of comparable proceedings and independent legal opinions as well as assumptions regarding the probability of occurrence and the range of potential claims in individual cases. In addition, we use our own analyses and assessments of the circumstances and claims asserted. The actual costs can deviate from these estimates.

We limit risks from potential wrongdoing or legal infringements by using a centralized contract management and a Group-wide compliance program.

→ **For more on our Group-wide compliance program, see page 16 and page 120 onward**

In addition, the Global Intellectual Property unit at BASF SE, together with the appropriate units of the U.S.-based BASF Corporation and BASF Coatings in Münster, Germany, monitors all the intellectual property rights of BASF. We aim to avoid patent and licensing disputes whenever possible with the help of extensive clearance research.

Based on the measures taken, we classify the risk of damages as low and the potential of an impact on earnings as medium.

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 25 onward**

Personnel

- Addressing demographic change with the Generations@Work program
- Developing the employer brand to compete internationally for highly-qualified specialist and management candidates
- Diversity + Inclusion initiative to encourage internationality and diversity

Legal risks

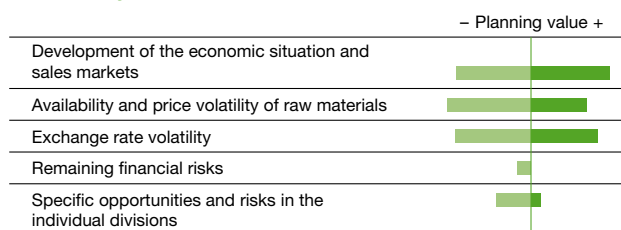
- Central contract management and Group-wide compliance program
- Monitoring of patents, licences and trademarks by Global Intellectual Property unit

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 a stable and redundantly designed IT system, 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 tested and updated on an ongoing basis. In addition, all our employees receive regular training on information and data protection. Risk management is conducted by 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 low. However, the potential impact would be high.

Relative contribution to earnings from opportunities, risks and volatility



Overall assessment

Compared with the previous year, we expect the BASF Group to be exposed to a lower overall risk in 2010. The situation at the beginning of 2009 was characterized by significant uncertainties regarding the future impact of the recession. Although it currently appears that economic recovery remains weak and still susceptible to temporary setbacks, we judge the extent of risks related to sales volumes, currencies, margins and financial markets to be lower than in the previous year.

Sustainability

- Voluntary commitment to environmental protection and socially responsible conduct
- Adherence to standards assured by monitoring systems
- Global management system for early identification of important topics
- Ongoing dialogue with stakeholders

However, the volatility of raw materials prices and exchange rates remains high as does uncertainty regarding the overall economy and the performance of key customer industries.

Nevertheless, based on our assessment, there are currently 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

	Measurement
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

Overall assessment

- No threat to the continued existence of the BASF Group
- Highly volatile currencies and raw materials prices
- Uncertainty regarding the economic environment and key customer industries

Economic environment in 2010

In the second half of 2008 and over the course of 2009, the global economy suffered its worst recession since the end of the Second World War. Leading indicators at the end of 2009 were increasingly suggesting that this slump has bottomed out. For 2010, we expect an average oil price of \$75 per barrel, and an average exchange rate of \$1.40 per euro. A recovery of the world economy and a moderate rise in global gross domestic product (+2.7%) will characterize the year. Government stimulus programs proved effective in 2009 and will be largely phased out in 2010. In the industrialized countries, economic growth for 2010 will still be weak (+1.8%). We expect a significant global recovery from 2011 onward. From 2012, we expect that the previous growth trend of over 3% can be achieved again.

Europe will continue to feel the effects of the financial crisis due to continued difficulties in obtaining credit, higher unemployment and low consumer spending. We forecast weak overall growth in 2010 (+1.1%). In comparison, the German economy will recover relatively well (+1.7%), as the demand for exports rises against the backdrop of gradually increasing investments. Spain and Ireland will still be in recession in 2010. Despite the improved economic outlook, there will be continued weakness in the European construction and automotive industries. In the medium term, we expect moderate average growth for the European Union (+1.4%).

Outlook for gross domestic product 2010 (Real change compared with previous year)

World	+2.7%	
E.U.	+1.1%	
United States	+2.6%	
Asia (excl. Japan)	+7.0%	
Japan	+1.3%	
South America	+3.7%	

Trends in gross domestic product 2010–2012 (Average annual real change)

World	+3.0%	
E.U.	+1.4%	
United States	+2.8%	
Asia (excl. Japan)	+7.1%	
Japan	+1.5%	
South America	+3.6%	

In the **United States**, the economy will begin to grow again in 2010 after the recession has ended (+2.6%). However, private domestic consumption will contribute less to this growth than before the crisis because of negative wealth effects due to the fall in real estate and share prices, and higher unemployment. The U.S. government's massive economic stimulus plan and low interest rates will support the recovery. Future options for further expansive fiscal policy will however be limited due to the sharp increase in national debt. As a result of a recovery in consumption and investing activities, we expect solid economic growth in the medium term (+2.8%).

For the year 2010, we expect the following economic conditions:

- Recovery of the global economy; moderate rise in global gross domestic product (+2.7%)
- Weak growth in the industrialized countries (+1.8%)
- Weak growth in the European Union (+1.1%); growth in the United States (+2.6%); moderate growth in Japan (+1.3%)
- Clear positive economic growth in Asia (excluding Japan) (+7.0%) and in South America (+3.7%)
- An average exchange rate of \$1.40 per euro
- An average annual oil price of \$75 per barrel

The economy in **Asia (excluding Japan)** will experience strong growth again in 2010 (+7.0%). This recovery will be driven by enormous government demand in China and private demand in India. Foreign trade should also provide positive impetus for the region. In the medium term, we expect strong annual growth in the regional gross domestic product (+7.1%). Construction activity and industrial production are growing especially fast.

In **Japan**, growth in 2010 will be moderate (+1.3%). Although Japanese businesses still seem reluctant to invest, domestic demand and exports will begin to grow more strongly again. In the medium term, we expect solid average growth (+1.5%).

In **South America**, growth in gross domestic product will be clearly positive in 2010 (+3.7%). Thanks to solid domestic demand and the global economic recovery, the region will benefit from rising raw materials prices through foreign trade. In the medium term, we expect strong annual economic growth (+3.6%).

Outlook for key customer industries

Following the sharp decline, global industrial production will experience above-average growth in 2010 (+4.9%). While we expect a moderate increase for industrialized countries, we forecast a significant rise in industrial production in Asia's emerging economies.

Production in the **automotive industry** on a per-unit basis will rise again worldwide, but will still not come close to reaching levels seen before the crisis. Despite structural problems, automotive production will increase significantly in the United States in 2010 while European production will continue to be weak.

The **construction industry** will grow slightly worldwide in 2010. However, despite support from state construction programs, it may shrink again slightly in some European countries and in the United States due to weak private and commercial construction activity. The construction industry in these countries will only begin to grow again in subsequent years.

The **electrical industry** will grow again worldwide. Following a global slump in 2009, production in the **information and communication technology industry (ICT)** will be stimulated by the return to increased industrial investment. We expect growth impetus to come mainly from Asia (excluding Japan), while growth will be weaker in Europe and Japan. We anticipate production in the **paper industry** will increase worldwide, primarily as a result of growth in emerging markets. The **textiles industry** will also grow worldwide. We particularly expect relatively high growth in emerging economies and developing countries, where the majority of global production takes place. For the **food industry** and **agriculture**, we expect steady production growth at a global level in the coming years.

Outlook for the chemical industry

After the sharp decline in 2008 and 2009, worldwide chemical production (excluding pharmaceuticals) will recover. We expect above-average growth in 2010 (+5.3%). We expect solid average growth until 2012 (+4.6%). At a global level, we currently expect that chemical production will require two years of growth to return to production levels seen before the crisis. In the industrialized countries, severe declines in production as a result of the global financial and economic crisis will have longer-lasting effects.

For **Europe**, we forecast solid growth for the chemical industry in 2010 (+2.8%), but it will be accompanied by a reduction in overcapacities. In the European Union, key customer industries will recover more slowly than, for example, in the United States and this will also impact the demand for chemical products in the medium term. Chemical production will stabilize with moderate growth from 2011 onward as a result of the improvement in general economic conditions and rising demand for exports (+2.1%). We expect that Europe will need the longest to reach the levels seen before the crisis.

Outlook for key customer industries in 2010

- Growth in global industrial production of +4.9%
- Automotive industry: number of units to increase, without reaching the pre-crisis levels
- Construction industry: slight growth worldwide; continued decline in some European countries and the United States due to weak construction activity
- Electrical industry: global growth
- ICT: upturn in production; growth impetus to come mainly from Asia (excluding Japan)
- Paper industry: rising production due to growth in emerging economies
- Textiles industry: global growth; strong growth dynamic in emerging economies and developing countries
- Agriculture and food industry: stable production growth at a global level







In the **United States**, chemical production will experience above-average growth in 2010 against the backdrop of the recovery in domestic demand (+4.8%). We expect a significantly lower rate of growth for 2011 (+2.5%). In the medium term, the chemical sector's key customer industries will develop more dynamically in the United States than in other industrialized countries, and they will drive growth for the chemical industry in subsequent years.

Asia (excluding Japan) already saw a recovery in chemical production in 2009. We also expect strong growth in the region in 2010 (+9.3%), driven primarily by the Chinese chemical industry (+12.2%). Rising demand for exports will also cause production in key customer industries within the region to rise again, which will stimulate the chemical industry there. In the medium term, we expect strong average growth (+8.7%).







In **Japan**, the chemical industry is likely to undergo further structural changes over the coming years. Following the drop in production resulting from the economic crisis, the chemical industry will grow at an above average rate (+5.7%) in 2010 due to the rapid recovery of the domestic economy as well as demand for exports. From 2011, production will stabilize, with significantly lower growth rates (+2.2%).

Chemical production in **South America** will again grow significantly in 2010 (+4.7%). The chemical industry will benefit from the recovering global economy and an upturn in the key local customer industries. In the medium term, we anticipate stabilization of growth rates and solid average growth (+3.8%).

Outlook chemical production 2010 (excl. pharmaceuticals) (Real change compared with previous year)

World	+5.3%	
E.U.	+2.8%	
United States	+4.8%	
Asia (excl. Japan)	+9.3%	
Japan	+5.7%	
South America	+4.7%	

Trends chemical production 2010–2012 (excl. pharmaceuticals) (Average annual real change)

World	+4.6%	
E.U.	+2.3%	
United States	+3.4%	
Asia (excl. Japan)	+8.7%	
Japan	+3.4%	
South America	+3.8%	

Outlook for the chemical industry in 2010

- Recovery of global chemical production; significant growth (+5.3%)
- Europe: solid growth (+2.8%) and reduction in over-capacities; slower demand-driven recovery in the European Union than, for example, in the United States
- United States: above-average growth rate (+4.8%) thanks to recovery in domestic demand

- Asia (excluding Japan): strong growth (+9.3%), driven by Chinese chemical industry and rising demand for exports
- Japan: substantial year-on-year growth (+5.7%) due to a recovery in the domestic economy and demand for exports
- South America: significant growth (+4.7%), due in part to an upturn in local customer industries

BASF Group outlook and opportunities

Emerging stronger from the crisis thanks to the right strategy

Following a significant downturn in the first half of 2009, the global economy recovered slightly over the course of the year. The same was true for the chemical industry, which stabilized from a low level. In 2010, we expect the economy to recover further, but the recovery is likely to be slow and uneven. Risks are associated, for example, with ongoing overcapacities, the winding down of national stimulus programs and rising unemployment, especially in Europe.

After a very difficult year in 2009, we expect higher sales and a significant increase in earnings in 2010. Overall, we expect to earn a premium on our cost of capital again.

Opportunities

In crisis year 2009, we proved that we have the right strategy: Thanks to our quick and decisive action, we reached our goal of achieving a minimum EBITDA margin of 14% in the most challenging environment and we would have earned a premium on our cost of capital without the special charges arising from the Ciba integration.

The year 2010 may present us with opportunities from a more rapid recovery and inventory restocking by our customer industries. In the medium and long term, opportunities will also arise from our strong position in research and in the most important growth industries and regions.

Asia, and China in particular, is driving the further growth of the global economy. Through 2020, we expect the Asian chemical market to grow 4% to 5% annually. With our strong presence in the region, we will take part in this positive development. We aim to grow on average two percentage points faster than the chemical market, both worldwide and especially in Asia, and thus to double our sales in the Asia Pacific region by 2020.

With the acquisition of Ciba Holding AG in April 2009, we have significantly strengthened our position in many specialties markets, in particular in plastic additives, and we now lead the market in many business sectors. We expect the integration and restructuring of Ciba to result in synergies of more than €450 million annually from the end of 2012 onward. We expect to achieve recurring savings of €350 million by the end of 2010.

With the greater liberalization of the European natural gas market, imports of Russian gas will play an increasingly important role in the long term. Our successful cooperation with Gazprom, the world's largest natural gas producer, ensures our strong position. In a consortium with Gazprom, our subsidiary Wintershall is involved in the planned construction of the Nord Stream pipeline from Russia through the Baltic Sea to the coast of Germany. Construction on the pipeline is scheduled to begin in the first half of 2010. By providing an additional transport route to Europe, the Nord Stream project will improve the long-term supply security for natural gas.

We have a number of innovative products and system solutions to address megatrends such as rising demand for energy, increasing globalization and urbanization, climate protection and the growing world population. 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. Our growth clusters are therefore focused on the markets and technologies of the future. In 2010, we expect to generate sales of up to €6 billion with product innovations – new and improved products and applications that have been on the market for a maximum of five years. In 2015, we expect sales of between €6 billion and €8 billion from product innovations.

Under the NEXT program that we initiated in 2008, we are further strengthening our operational excellence through a number of individual projects. With this program, we expect to improve earnings by more than €1 billion annually by 2012. A large proportion of this amount will be achieved in 2010 and 2011. 

Outlook 2010

The stabilization of the global economy, which started in the second half of 2009, is expected to continue in 2010. However, economic recovery in 2010 will likely be slow and uneven. After a very difficult year in 2009, we expect higher sales in 2010 and a significant increase in income from operations. These expectations are based on the change in the economic environment, further cost savings, and cost synergies from the integration of Ciba. In 2010, we expect to earn a premium on our cost of capital again.

Risks

Risks are associated with:

- the continuing financial and debt crisis,
- the winding down of national stimulus programs,
- volatile raw materials markets,
- industrial overcapacities,
- increasing unemployment in some regions,
- growing geopolitical tensions, and
- protectionism.

However, 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.

→ For more information, see the Risk report on pages 103–111

Forecast

Following a severe recession, the world economy stabilized in the second half of 2009. In 2010, we anticipate a slow and uneven economic recovery. Worldwide, both general industrial production and chemical production will grow. Nevertheless, risks remain, for example, significant overcapacities in the chemical industry. The rise in industrial production will be more pronounced in emerging economies than in industrialized countries.

→ For more on the forecast for the economic environment in 2010, see pages 112–114

Based on our forecast for the economic environment, we expect our sales to grow again in 2010 and outpace global chemical production. We expect improved capacity utilization, a relatively stable U.S. dollar, and oil prices around the level seen at the end of 2009. As the economic situation is still weak, we will maintain our cost discipline and will continue to adjust our investment plans to the current market conditions. We will continue to rigorously implement our efficiency and restructuring programs.

We expect a significant increase in income from operations, mainly due to increasing volumes and cost synergies from the Ciba integration. Furthermore, costs related to the integration of Ciba will be considerably lower in 2010 than they were in 2009. In 2010, we expect to earn a premium on our cost of capital again.

→ For more on the outlook for sales and earnings in the individual segments and divisions, see the chapter BASF's Segments from page 47 onward.

Assuming that the global economy continues to recover once national stimulus programs have expired, we expect BASF's sales, income from operations and the premium on our cost of capital to grow further in 2011.

Dividend

Even in very difficult economic times, we aim to offer our shareholders an attractive dividend yield. We aim to increase our dividend each year, or at least maintain it at the previous year's level.

Significant events subsequent to the balance sheet date

Since the beginning of the financial year 2010, there have not been any significant changes affecting BASF's situation and competitive environment.

Planned capital expenditures by segment 2010–2014

1	Chemicals	13%
2	Plastics	14%
3	Performance Products	10%
4	Functional Solutions	7%
5	Agricultural Solutions	5%
6	Oil & Gas	42%
7	Other (infrastructure, R&D)	9%



Planned capital expenditures by region 2010–2014

1	Europe	68%
2	North America	13%
3	Asia Pacific	14%
4	South America, Africa, Middle East	2%
5	Alternative sites under review	3%





Reacting quickly and flexibly to the effects of the economic crisis: This was the task of the Verbund coordinating committee, headed by Dr. Bernhard Nick.

Workforce flexibility during the crisis

VALUE FOR BASF

Effective crisis management

Our Verbund coordinating committee was an important tool for crisis management in 2009. At our Ludwigshafen site, representatives from all divisions that play an important role in the BASF Verbund worked together to enable a quick and flexible reaction to the effects of the economic crisis at the site. This is where the idea of the personnel transfer was born: Employees temporarily transferred to other operations because, due to plant shut-downs and production slowdowns, there was more work in some plants than others. In close consultation with employee representatives, BASF was able to use personnel transfers to balance personnel availability and free capacities, particularly at our Verbund sites in Belgium and Germany.



Workforce flexibility for safe plants: Andreas Kasznia (right) temporarily took on new responsibilities in communication technology in 2009.

VALUE FOR OUR EMPLOYEES

Workforce flexibility safeguards jobs

At our site in Ludwigshafen alone, around 600 employees temporarily worked in other units in 2009. For example, employees from various operating units supported the team in the ethanolamine plant. One steam cracker employee took on new challenges in communications technology for process safety. By using personnel transfers, we were able to limit the scale of short-time work for affected employees across the company as well as safeguard jobs. This also increased employee confidence in our long-term human resources planning.

→ For more on our human resources challenges, see page 85; for more on the Verbund, see page 22

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 system consisting of BASF's Board of Executive Directors and the Supervisory Board, the equal representation of shareholders and employees in the Supervisory Board and the shareholders' rights of co-administration and supervision at the Annual Meeting.

Direction and management by the Board of Executive Directors

Under the two-tier administrative system of BASF SE, the Board of Executive Directors is responsible for the management of the company, and represents BASF SE in business undertakings with third parties. BASF's Board of Executive Directors is strictly separated from the Supervisory Board: A member of the 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 take 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 pages 123 to 125. Compensation of the Board of Executive Directors is described in detail in the compensation report on pages 126 to 130.**

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**

The Supervisory Board of BASF SE comprises twelve members. Six members are elected by the shareholders at the Annual Meeting. The remaining six members are elected by the 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 to 125. Compensation of the Supervisory Board is described in detail in the Compensation report on pages 126 to 130.**

Resolutions of the Supervisory Board are passed by a simple majority of the votes of the participating members of the Supervisory Board. In the event of a tie, the vote of the Chairman of the Supervisory Board, who must always be a shareholder representative, shall be the casting vote. This resolution process is also applicable for the appointment and dismissal of members of the Board of Executive Directors by the Supervisory Board.

BASF SE's Supervisory Board established a total of three Supervisory Board Committees: the Personnel Committee, the Audit Committee and the Nomination Committee.

The **Personnel Committee's** duties include, amongst others, preparing the appointment of members of the Board of Executive Directors by the Supervisory Board and dealing with the employment contracts to be entered into with members of the Board of Executive Directors. It also prepares the resolutions made by the Supervisory Board with regard to the determination of compensation for the Board of Executive Directors, the monitoring of the compensation system for members of the Board of Executive Directors and the amount of compensation paid to members of the Board. 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** makes preparations for 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 effectiveness of the internal control system, the risk management system, and the internal auditing system, as well as with 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 key aspects 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 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 a member of the Board of Executive Directors of BASF Aktiengesellschaft until 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 and Max Dietrich Kley.

Shareholders' rights

At the Annual Meeting, shareholders perform their rights of co-administration and supervision. Each BASF SE share represents one vote. Shareholders may exercise their voting rights at the Annual Meeting either personally, through a representative of their choice or through a company-appointed proxy authorized by the shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has fully implemented the principle of "one share, one vote." All shareholders are entitled to participate in the Annual Meeting, to have their say concerning any resolution and to demand information about company issues to the extent that it serves to help make an informed judgment about the resolution under discussion. Half of the members of the Supervisory Board are elected at the Annual Meeting where above all the formal discharge of the Board of Executive Directors and the Supervisory Board is decided on as well as the distribution of profits, capital measures, the authorization of share 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 June 2009. This applies also to new recommendations of the Code regarding the compensation of Board members, a deductible in any D&O policy for the Supervisory Board, the requirements to be observed regarding the composition of the Board of Executive Directors and the Supervisory Board, and the number of Supervisory Board mandates of members of the Board of Executive Directors in non-group listed companies.

The joint Declaration of Conformity 2009 of the Management 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 sole exception here is the suggestion regarding the components based on long-term success of the company to be considered 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.

→ **For more on the Declaration of Conformity 2009, an overview of the implementation of the code's suggestions and the German Corporate Governance Code, see 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 the Values and Principles of the BASF Group and the Code of Conduct, see basf.com/values**

Compliance

The aim of our Group-wide Compliance Program is to prevent legal violations such as incidents of corruption, and to anchor the principle of integrity even more firmly within the company. At the same time, it helps us to implement our Code of Conduct in day-to-day business activities, allowing us to minimize compliance risks for BASF.

In 2002, BASF became one of the first companies in Germany to appoint a Chief Compliance Officer (CCO). Supported by a global network of 100 compliance officers, the CCO manages the Group-wide implementation and development of our Compliance Program. The basis for this is a system of training, information points and monitoring instruments. The CCO's regular reporting to the Board of Executive Directors contains, in particular, results of compliance audits and information gained from our compliance hotline, which have a wider relevance. The Board of Executive Directors informs the Audit Committee of the Supervisory Board of any important issues.

Implementing our directives in day-to-day business requires that every employee knows, internalizes and commits to following these guidelines. For this reason, all of our employees receive obligatory compliance training in the first year of their employment at BASF. We also carry out subsequent refresher courses, using interactive learning programs in some cases. In addition, our compliance program provides training on special topics such as embargo regulations and antitrust law, based on the employee's area of responsibility. In 2009, more than 25,000 employees took part in compliance training.

When selecting suppliers in non-OECD countries, we use a questionnaire to determine whether they have established a code of conduct and compliance guidelines.

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 seek advice regarding personal conduct as well as report incidents in the company that they consider dubious - anonymously, if they wish. For the first time since its introduction, the use of the compliance hotline has slightly decreased. In 2009, there were 267 calls and e-mails received with compliance-related questions or concerns. The spectrum of topics ranged from operational concerns through to criminal behavior.

Our Corporate Audit department supports the Compliance Program by carrying out audits. It also regularly assesses whether dealings with business partners and government representatives conform to our values. In 2009, we performed 109 (2008: 60) Group-wide audits of this kind. We investigate all

cases of misconduct detected in these audits or reported to our hotline. If necessary, we take appropriate action, ranging from warnings to dismissals. Depending on the circumstances, we claim compensation and alert the relevant authorities.

We are also involved with external partners in initiatives to prevent corruption outside of our company. As a member of the United Nations Global Compact (UNGC), we work actively in implementing the UNGC principle on fighting corruption. We have been a member of Transparency International Deutschland e.V. since 2003, and strongly support their work in fighting corruption. Since 2008, we have been a participant in the "Partnering Against Corruption Initiative" (PACI) of the World Economic Forum in Davos, Switzerland. 

→ For more on compliance, our basic values, principles and our code of conduct, see page 15 onward and basf.com/compliance_e

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 at December 31, 2009, the subscribed capital of BASF SE was €1,175,652,728.32, divided into 918,478,694 bearer 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 Section 7 of the BASF SE Statutes. Members of the Board of Executive Directors are appointed and dismissed by the Supervisory Board according to these 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, the 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 Section 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 from page 128 onward). 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 '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). The policy provides for a suitable level of deductibles. From July 1, 2010, the legally required deductible for the Board of Executive Directors defined in Section 93 (3) of the German Stock Corporation Act, and the deductible recommended by the German Corporate Governance Code for the Supervisory Board will be agreed in the D&O insurance.

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 of BASF SE shares or related financial instruments 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 2009, a total of three 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, involving between 150 and 230 BASF shares. The price per share was between €28.28 and CHF 44.65. The volume of the individual transactions was between €4,242.00 and CHF 20,092.50.

→ All transactions disclosed in 2009 are available on the Internet at basf.com/governance/sharedealings_e

Management and Supervisory Boards

Board of Executive Directors

As of December 31, 2009, there were eight members on the Board of Executive Directors of BASF SE.

Dr. Jürgen Hambrecht Chairman of the Board of Executive Directors

Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications & 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)

Dr. Kurt Bock

Responsibilities: Catalysts; Market & Business Development North America; Regional Functions North America; Finance; Information Services; Corporate Controlling; Corporate Audit

First appointed: 2003

Term expires: 2012

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding AG (supervisory board member)

Comparable German and non-German controlling bodies:

The European Equity Fund, Inc.

(member of the Board of Directors until September 3, 2009)

The Central Europe and Russia Fund, Inc.

(member of the Board of Directors until September 3, 2009)

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: 2013

Dr. Hans-Ulrich Engel

Responsibilities: Oil & Gas; Region Europe; Global Procurement & Logistics

First appointed: 2008

Term expires: 2011

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding AG (supervisory board chairman)

Wintershall AG (supervisory board chairman)

Comparable German and non-German controlling bodies:

Nord Stream AG, Zug, Switzerland

(member of the Shareholders' Committee since April 24, 2009)

Ciba Holding AG, Basel, Switzerland

(chairman of the administrative council from April 9, 2009 until June 23, 2009)

Dr. John Feldmann

Responsibilities: Construction Chemicals; Dispersions & Pigments; Care Chemicals; 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 AG (supervisory board member)

Dr. Andreas Kreimeyer

Responsibilities: Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; BASF Future Business

First appointed: 2003

Term expires: 2012

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding AG (supervisory board member)

Dr. Stefan Marciniowski

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 AG (supervisory board member)

BASF Coatings AG (supervisory board chairman)

Dr. Harald Schwager

Responsibilities: Human Resources; Environment, Health & Safety; Engineering & Maintenance; Verbund Site Management Europe

First appointed: 2008

Term expires: 2011

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. The Supervisory Board comprises the following members:

Dr. h.c. Eggert Voscherau, Wachenheim, Germany
(since April 30, 2009)

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)

CropEnergies AG (supervisory board chairman until July 16, 2009)

HDI Haftpflichtverband der Deutschen Industrie VVaG

(supervisory board member until July 22, 2009)

Schott AG (supervisory board chairman until February 15, 2010)

Talanx AG (supervisory board member until July 22, 2009)

Comparable German and non-German controlling bodies:

Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW)

(supervisory board member)

Nord Stream AG, Zug, Switzerland (member of the shareholders' committee until April 24, 2009)

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 chairman)

Allianz Global Investors AG (supervisory board chairman)

Dresdner Bank AG (supervisory board chairman until January 12, 2009)

Comparable German and non-German controlling bodies:

Allianz France S.A. (until November 30, 2009: Assurances Générales de France) (member of the administrative council)

Allianz S.p.A. (member of the administrative council)

Robert Oswald, Altrip, Germany

Deputy Chairman of the Supervisory Board of BASF SE

Chairman of the works council of the Ludwigshafen site of BASF SE and chairman of the joint works council of the BASF Group

Ralf-Gerd Bastian, Neuhofen, Germany

Member of the works council of the Ludwigshafen site of BASF SE

Wolfgang Daniel, Limburgerhof, Germany

Deputy chairman of the works council of the Ludwigshafen site of BASF SE

Prof. Dr. François Diederich, Zurich, Switzerland

Professor at the Swiss Federal Institute of Technology Zurich

Franz Fehrenbach, Stuttgart, Germany

Chairman of the Board of Management of Robert Bosch GmbH

Comparable German and non-German controlling bodies:

Robert Bosch Corporation (member of the board of directors)

Stephen K. Green, London, U.K. (since April 30, 2009)**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)

Max Dietrich Kley, Heidelberg, Germany**Lawyer****Former deputy chairman of the Board of Executive Directors of BASF Aktiengesellschaft****Supervisory board memberships (excluding internal memberships):**

HeidelbergCement AG (supervisory board member)
 Infineon Technologies AG (supervisory board chairman until February 11, 2010)
 Schott AG (supervisory board member until September 30, 2009)
 SGL Carbon SE (supervisory board chairman)

Comparable German and non-German controlling bodies:

Unicredito Italiano S.p.A. (member of the board of directors until April 29, 2009)

Denise Schellemans, Kalmthout, Belgium**Full time trade union delegate**

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)

Michael Vassiliadis, Hannover, 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)
 K+S Kali GmbH (supervisory board deputy chairman until July 31, 2009)
 Henkel KGaA (supervisory board member)
 Evonik Steag GmbH (supervisory board deputy chairman)

The following members left the Supervisory Board following the Annual Meeting of BASF SE on April 30, 2009:

Prof. Dr. Jürgen Strube, Mannheim, Germany**Chairman of the Supervisory Board (until April 30, 2009)****Former Chairman of the Board of Executive Directors of BASF Aktiengesellschaft****Supervisory board memberships (excluding internal memberships):**

Allianz Deutschland AG (supervisory board member until April 2, 2009)
 Bayerische Motoren Werke AG (supervisory board deputy chairman)
 Bertelsmann AG (supervisory board deputy chairman)
 Fuchs Petrolub AG (supervisory board chairman)
 Hapag-Lloyd AG (supervisory board member until March 17, 2009)

Dr. Tessen von Heydebreck, Berlin, Germany**Former Member of the Board of Managing Directors of Deutsche Bank Aktiengesellschaft****Supervisory board memberships (excluding internal memberships):**

DWS Investment GmbH (supervisory board deputy chairman until April 2, 2009)
 Deutsche Postbank AG (supervisory board member since April 22, 2009)
 Vattenfall Europa AG (supervisory board member)
 Dussmann Verwaltungs AG (supervisory board member)

Comparable German and non-German controlling bodies:

Deutsche Bank OOO (supervisory board chairman until June 23, 2009)

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 Law on the Disclosure of Compensation of Members of the Board (Vorstandsvergütungs-Offenlegungsgesetz), and is aligned with the recommendations of the German Corporate Governance Code.

After a proposal has been made by the Personnel Committee (see page 119), the Supervisory Board (see page 124) 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 (Gesetz zur Angemessenheit der Vorstandsvergütung), 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 will be submitted for approval to the Annual Meeting on April 29, 2010 in accordance with Section 120 (4) of the German Stock Corporation Act.

The information presented below relates to the compensation system valid until December 31, 2009 and the respective compensation of Board members for 2009.

The compensation of Board members comprises:

1. a fixed annual salary
2. an annual variable bonus
3. stock price-based compensation in the form of virtual stock options (hereafter options) as a long-term component
4. non-monetary compensation and other additional compensation in varying amounts
5. company pension benefits

The amount of the annual variable compensation, the value of the options granted and the company pension are largely determined by company performance. This means, in terms of total compensation, considerable emphasis is placed on company performance.

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.
2. The return on assets (ROA) is used to determine the variable compensation of all employee groups and also determines – 2009 for the last time as sole basis – the Board members' annual variable compensation (variable bonus). The variable bonus for the prior fiscal year is payable after the Annual Meeting. Board members, as other employee groups, may contribute a portion of their bonus up to a maximum of €30,000 annually into a deferred compensation program. Board members have taken advantage of this offering to varying degrees.
3. Board members may also participate in the BASF option program (BOP) for senior executives. Under the BOP, participants must hold their options for a minimum of two years after they have been granted (vesting period). There is an extended vesting period of four years for members of the Board of Executive Directors. For further details on the BASF option program, see page 187.
4. Non-monetary compensation and other additional compensation include: delegation allowances, accident insurance premiums and other similar benefits, as well as the personal use of, or benefit from, communication equipment, company cars and security measures made available by the company. The members of the Board did not receive loans or advances from the company.
5. For details on the company pension benefits, see page 128.

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 ¹	Total cash compensation	Number	Market value at option grant date	
Dr. Jürgen Hambrecht Chairman of the Board of Executive Directors	2009	1,100	105	1,525	2,730	94,200	647	3,377
	2008	1,100	112	2,220	3,432	74,328	967	4,399
Dr. h.c. Eggert Voscherau Vice Chairman of the Board of Executive Directors (until April 24, 2008)	2009	-	-	-	-	-	-	-
	2008	244	33	492	769	-	-	769
Dr. Kurt Bock	2009	705 ³	1,075 ⁴	763	2,543	47,100	324	2,867
	2008	555 ³	855 ⁴	1,110	2,520	37,160	483	3,003
Dr. Martin Bruder Müller	2009	583 ³	982 ⁴	763	2,328	47,100	324	2,652
	2008	550	941 ⁴	1,110	2,601	37,160	483	3,084
Dr. Hans-Ulrich Engel (since March 4, 2008)	2009	550	137	763	1,450	41,840	287	1,737
	2008	457	325 ²	925	1,707	11,944	155	1,862
Dr. John Feldmann	2009	550	66	763	1,379	47,100	324	1,703
	2008	550	71	1,110	1,731	37,160	483	2,214
Dr. Andreas Kreimeyer	2009	550	98	763	1,411	40,000	275	1,686
	2008	550	98	1,110	1,758	37,160	483	2,241
Dr. Stefan Marcinowski	2009	550	102	763	1,415	47,100	324	1,739
	2008	550	83	1,110	1,743	37,160	483	2,226
Peter Oakley (until January 14, 2008)	2009	-	-	-	-	-	-	-
	2008	113	22	231	366	-	-	366
Dr. Harald Schwager	2009	550	198 ²	763	1,511	47,100	324	1,835
	2008	550	337 ²	1,110	1,997	14,728	192	2,189
	Total 2009:	5,138	2,763	6,866	14,767	411,540	2,829	17,596
	Total 2008:	5,219	2,877	10,528	18,624	286,800	3,729	22,353

¹ Return on assets adjusted for special items is the basis for the variable bonus as well as for the variable compensation of other employee groups. These include all contributions made to the deferred compensation program.

² Includes expenses for security measures taken at the Board member's home on the occasion of his appointment to the Board of Executive Directors.

³ 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).

⁴ Includes payments to cover additional costs of delegates, such as assumption of prevailing local rental fees.

While the options granted resulted in 2008 in a gain for BASF, in 2009 they led to expenses (personnel expense). This personnel expense refers to the sum of all options from the programs BOP 2002 to BOP 2009. The personnel expense is calculated as the difference in the value of the options on December 31, 2009, compared with the value on December 31, 2008, considering the options exercised and granted in 2009. 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 programs BOP 2002 to BOP 2009. Because the value of the options on December 31, 2009 was higher than the value of the options on December 31, 2008, a personnel expense resulted for 2009. The main reason for this is the positive development of the BASF share price.

The personnel expenses for the year 2009 relating to the options issued were as follows: Dr. Jürgen Hambrecht €3,666 thousand (2008: earnings amounting to €1,055 thousand); Dr. Kurt Bock €2,480 thousand (2008: earnings amounting to €1,045 thousand); Dr. Martin Bruder Müller €1,883 thousand (2008: earnings amounting to €790 thousand); Dr. Hans-Ulrich Engel €1,918 thousand (2008: earnings amounting to €1,458 thousand); Dr. John Feldmann €1,833 thousand (2008: earnings amounting to €621 thousand); Dr. Andreas Kreimeyer €1,768 thousand (2008: earnings amounting to €416 thousand); Dr. Stefan Marcinowski €1,833 thousand (2008: earnings amounting to €446 thousand); and Dr. Harald Schwager €901 thousand (2008: earnings amounting to €151 thousand).

The earnings and personnel expense reported here for 2008 are purely accounting figures which do not equate with the actual cash gains should options be exercised. The members of the Board decide on the timing and scope of the exercise of options of the individual years, while taking into account the general terms and conditions and ceilings of the BASF option program (BOP) for senior executives.

The members of the Board are covered by loss liability insurance concluded by the company (D&O insurance) which includes a deductible.

→ **More on the BASF option program (BOP) can be found from page 187 onward**

Pension benefits

Annual pension units are accrued for the members of the Board. The method of determination of the amount of the pension benefits generally corresponds to that used for other employee groups. The method is designed such that both the performance of the company and the progression of the individual Board member's career significantly affect the pension entitlement.

The annual pension benefits accruing to Board members in a given reporting year (pension unit) are composed of a fixed and a variable component. The fixed component is calculated by multiplying the annual fixed compensation above the Social Security Contribution Ceiling by 35% (contribution factor). The resulting amount is converted into a lifelong pension payable on retirement using actuarial factors based on an actuarial interest rate (5%), the probability of death, invalidity and mortality (Heubeck-Richttafeln, 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 under consideration. The variable component of the pension unit is based on a ROA of 12% at which point the variable component is equal in value to the fixed component. Based on a ROA of 12%, there is a linear relationship between the variable component and the ROA figures between 10% and 14%. Should the return on assets exceed 14%, the variable component levels off, should the return on assets fall below 10%, the decline accelerates. 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 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 2009 are as follows: Dr. Jürgen Hambrecht €58 thousand (2008: €333 thousand); Dr. Kurt Bock €163 thousand (2008: €546 thousand); Dr. Martin Bruder Müller €136 thousand (2008: €555 thousand); Dr. Hans-Ulrich Engel €447 thousand (2008: €448 thousand); Dr. John Feldmann €228 thousand (2008: €571 thousand); Dr. Andreas Kreimeyer €209 thousand (2008: €558 thousand); Dr. Stefan Marciniowski €219 thousand (2008: €559 thousand); and Dr. Harald Schwager €175 thousand (2008: €556 thousand). These amounts include the costs for any pension claims arising from the deferred compensation program.

In 2008, the basis for the future calculation of pension units for Board members was adjusted as were the pension benefits for senior executives. For pension units acquired up to December 31, 2008, an actuarial interest rate of 6% applied (from January 1, 2009: 5%) and a probability of death, invalidity and mortality in accordance with Heubeck-Richttafeln 1998 (from January 1, 2009: Heubeck-Richttafeln 2005G). For new Board members and mandate extensions beginning after January 1, 2009, a contribution factor of 32% (previously 35%) is applied. For pension units acquired after January 1, 2010, a contribution factor of 32% applies to all Board members.

End of service benefits

a) Board members, whose current mandate began before January 1, 2008

A Board member who leaves the company before the age of 60, whose employment contract is not renewed or is revoked, is entitled to pension benefits. In such a case, the company is entitled to offset compensation received for any other work done against pension benefits.

End-of-service following a change-of-control event: A change-of-control event, in terms of this provision, occurs when a shareholder informs BASF of a shareholding of at least 25%, or the increase of such a holding.

If a Board member's position is revoked within one year following a change-of-control event, the Board member will continue to receive the contractually agreed payments (fixed compensation and variable bonus) for the remaining contractual term of office. In addition, the Board member will receive a severance payment, depending on the remaining contractual term of office, up to a maximum of 2.5 years of compensation (based on the fixed compensation and the previous year's variable bonus). The sum of the severance payment and continuing compensation may not exceed a sum equivalent to five years of compensation. Furthermore, the Board member may receive the fair value of the option rights acquired in connection with BOP within a period of three months. The premature termination of service due to the revocation of a Board member's position entitles the Board member to pension benefits. When calculating the amount of the pension benefits, the missing years of service up to the age of 60 years will be considered.

The aforementioned is also applicable upon the occurrence of a change-of-control event, if the time to the end of the current contractual term of office is less than two years and the appointment is not subsequently extended by a minimum of two years.

The aforementioned payments are only payable if the Board member has not given cause for the termination or non-renewal of his service contract.

b) Contracts as of January 1, 2008

The contracts of new Board members since January 1, 2008 contain the following major changes:

A Board member who leaves the company before the age of 60 is only entitled to pension benefits if the Board member has served on the Board for at least 10 years, or if the time needed to reach the legal retirement age is less than 10 years. The company is entitled to offset compensation received for any other work done against pension benefits until the legal retirement age is reached.

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 the variable bonus based on a ROA of 12%).

As of January 1, 2009, these changes also apply to extensions of current contractual terms, which began before January 1, 2008. As of January 1, 2010, these changes apply uniformly to all Board members.

Furthermore, a general limit on severance pay is contained within the contracts for all Board members as of January 1, 2010. Accordingly, payments made to a Board member upon premature termination of their contract, without serious cause, may not exceed the value of two years' compensation (severance payment cap) nor compensate more than the remaining term of the contract. The severance payment cap 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. Payments promised in the event of premature termination of a Board of Executive Directors member's contract due to a change-of-control may not exceed 150% of the severance payment cap. This general limit on severance pay has already been contained in the contracts for term extensions since January 1, 2009.

Previous Board members

Total compensation for previous Board members and their surviving dependents amounted to €12.3 million in 2009 (2008: €6.0 million). This figure also contains payments that previous Board members have themselves financed through the deferred compensation program and personnel expense for the year 2009 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. The personnel expense for options has increased significantly compared with 2008 due to the positive development of the BASF share price. This is the reason for the calculated increase in total compensation. As in the case of active members of the Board, the personnel expense reported here does not equate with the actual cash gains should options be exercised. Pension provisions for previous Board members and their surviving dependents amounted to €87.9 million (2008: €83.4 million).

Compensation of Supervisory Board members

The disclosure of compensation of the Supervisory Board is based on German Commercial Code and is aligned with the recommendations of the German Corporate Governance Code. The compensation of the Supervisory Board is regulated by the Articles of Association passed by the Annual Meeting.

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 2009 is €1.40. The performance-oriented variable remuneration is €800 for each full €0.01 of earnings per share up to an earnings per share of €2.15, €600 for each further €0.01 of earnings per share up to an earnings per share of €2.65, and €400 for each €0.01 beyond this. The performance-oriented variable compensation 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 €1.54 published in the BASF Group Consolidated Statements 2009, the performance-oriented compensation amounts to €11,200 for 2009. 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).

Total compensation of the Supervisory Board of the company for the activity in 2009, including the attendance fees, was €1.3 million (2008: €2.9 million). The compensation of the individual Supervisory Board members related to the reporting year 2009 is as follows:

Thousand €

	Fixed compensation		Performance-oriented variable compensation		Payment for committee membership(s)		Total compensation ⁶	
	2009	2008 ¹	2009	2008 ¹	2009	2008 ¹	2009	2008 ¹
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board ² (until April 30, 2009)	50	150	9.3	278	8.3	25	67.6	453.0
Dr. h.c. Eggert Voscherau, Chairman of the Supervisory Board ² (since April 30, 2009)	112.5	–	21	–	18.7	–	152.2	–
Michael Diekmann, Vice Chairman of the Supervisory Board ³	90	90	16.8	166.8	9.4	–	116.2	256.8
Robert Oswald, Vice Chairman of the Supervisory Board ³	90	90	16.8	166.8	12.5	12.5	119.3	269.3
Ralf-Gerd Bastian ⁵	60	60	11.2	111.2	25	25	96.2	196.2
Wolfgang Daniel	60	60	11.2	111.2	–	–	71.2	171.2
Prof. Dr. François Diederich	60	60	11.2	111.2	–	–	71.2	171.2
Franz Fehrenbach ⁵	60	60	11.2	111.2	25	25	96.2	196.2
Stephen K. Green (since April 30, 2009)	45	–	8.4	–	–	–	53.4	–
Dr. Tessen von Heydebreck ³ (until April 30, 2009)	20	60	3.7	111.2	4.2	12.5	27.9	183.7
Max Dietrich Kley ⁴	60	60	11.2	111.2	50	50	121.2	221.2
Ulrich Küppers (until May 30, 2008)	–	25	–	46.4	–	–	–	71.4
Denise Schellemans	60	60	11.2	111.2	–	–	71.2	171.2
Ralf Sikorski (since May 31, 2008)	60	45	11.2	83.4	–	–	71.2	128.4
Michael Vassiliadis ^{3, 5}	60	60	11.2	111.2	37.5	37.5	108.7	208.7
Total:	887.5	880	165.6	1,631.0	190.6	187.5	1,243.7	2,698.5

¹ Effective January 14, 2008, BASF Aktiengesellschaft was transformed into a European Company (Societas Europaea, SE). The figures for 2008 also include the compensation for duties carried out on the Supervisory Board of BASF Aktiengesellschaft until January 14, 2008.

² Chairman of the Personnel Committee

³ Member of the Personnel Committee (Mr. Diekmann since April 30, 2009)

⁴ Chairman of the Audit Committee

⁵ Member of the Audit Committee

⁶ Following the transformation into a European Company, nine members of the Supervisory Board of BASF Aktiengesellschaft did not become members of the Supervisory Board of BASF SE. These people received compensation for January 2008 totaling €132.9 thousand.

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 2009 will be paid following the Annual Meeting on April 29, 2010.

In the year 2009, the company paid the Supervisory Board member, Prof. Dr. Diederich, rounded €25,400 (2008: approximately €24,200) plus value-added taxes and out-of-pocket expenses for consulting work in the area of chemical research based on a consulting contract approved by the Supervisory Board.

Beyond this, Supervisory Board members did not receive any further compensation in 2009 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 122

Report of the Supervisory Board

Dear Shareholders,

The year 2009 posed great challenges for BASF. By the beginning of 2009 at the latest, the financial market crisis had reached the real economy and also had a significant impact on BASF's business activities. The speed of the downturn was unparalleled in recent years. Overcoming the crisis placed great demands on the Board of Executive Directors and employees alike. For us, it also confirmed that:

- it pays to take decisive action as early as possible,
- the company's strategy of working in a broad range of business areas and its future-oriented focus on fast-growing, innovative chemicals markets is correct, and
- the long-established BASF model of cooperation between the company's management and employee representatives has proved successful.

Overall, therefore, BASF coped well with the difficult situation. The Supervisory Board would like to extend its sincere thanks to the Board of Executive Directors and BASF's employees for their efforts.

The company's good corporate governance contributed significantly to mastering the crisis. This covers the entire organization and all of the BASF Group's business and control processes, with the Board of Executive Directors and the Supervisory Board at the top. BASF's adherence to all of the recommendations of the German Corporate Governance Code reflects the importance the company accords to good corporate governance. For BASF, it is a matter of course that the compensation of the Board of Executive Directors is largely determined by the BASF Group's success, in both positive and negative terms. The development of compensation for the Board of Executive Directors clearly proves this.

Monitoring and consultation in an ongoing dialogue with the Board of Executive Directors

In 2009, 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 seven meetings in the form of written and verbal reports. Topics included: business policies, the business situation and business trends, profitability, the company's planning with regard to finances, capital expenditures and human resources at BASF SE and its major subsidiaries, as well as deviations of the business development from the planning. 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 indi-

vidual businesses 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 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 employees prepared for the meetings in separate preliminary discussions. All members were present at all Supervisory Board meetings in 2009.

In 2009, one particular focus of the monitoring activities was current business developments within the BASF Group, which was impacted by the economic crisis throughout the entire year. To this end, the Supervisory Board held an unscheduled meeting at the beginning of February 2009 to request timely information from the Board of Executive Directors regarding the latest developments and to discuss the crisis management measures to be introduced.

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 those significant questions impacting the future of the company. One salient issue was the integration of the Ciba businesses acquired following the successful takeover bid. In this respect, we also received reports from the head of the integration team. We were frequently informed about the status of Wintershall's natural gas activities and discussed important subprojects, such as the Nord Stream pipeline through the Baltic Sea and the development of this capital intensive business segment. At the meeting on July 10, 2009, we again discussed the biotechnology growth cluster, with a particular emphasis on green genetic engineering. The Supervisory Board was greatly concerned to note that promising innovations offering great value for society and economic potential are being hindered by the hesitation of the responsible institutions in Germany and the European Union. At the meeting on October 22, 2009, we addressed risk management at BASF and received reports regarding risk management organization, procedures and significant observations. A further important topic at the Supervisory Board meeting on October 22, 2009, was the implementation of the Act on the Appropriateness of Management Board Remuneration. On the basis of proposals from the Personnel Committee, the Supervisory Board confirmed the compensation system for the Board of Executive Directors agreed for 2009 and decided on the compensation system and employment contracts for members of the Board of Executive Directors to be applied from 2010 onward. The existing Executive Directors' contracts have been

adjusted in agreement with the members of the Board of Executive Directors and took effect on January 1, 2010. The Supervisory Board also decided to present the new compensation system, adjusted to conform with the German Act on the Appropriateness of Management Board Remuneration, to the 2010 Annual Meeting for approval. At our meeting on December 11, 2009, we discussed and approved the Board of Executive Directors' operational and financial planning for 2010 and empowered the Board of Executive Directors to procure financing under certain conditions.

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 consists of Supervisory Board Chairman Dr. h.c. Eggert Voscherau (since April 30, 2009) in the role of Chairman, Supervisory Board Deputy Chairmen Michael Diekmann (since April 30, 2009) and Robert Oswald and Supervisory Board member Michael Vassiliadis. Until the Annual Meeting on April 30, 2009, the Supervisory Board Chairman presiding up to that time, Prof. Dr. Jürgen Strube, and Dr. Tessen von Heydebreck were also members of the Personnel Committee. The Personnel Committee met three times in 2009. At its meetings, sometimes with the Chairman of the Board of Executive Directors, it discussed 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. Following the approval of the Act on the Appropriateness of Management Board Remuneration and in preparation for the decisions to be made by the Supervisory Board regarding the compensation and contracts of the members of the Board of Executive Directors, the Personnel Committee conducted a fundamental examination of the structure of the compensation system, and then refined the existing system. The main objectives of this were to give greater relevance to the component based on long-term success and to make compensation for the Board of Executive Directors even more performance-oriented. The Personnel Committee presented a proposal to the Supervisory Board in this regard. In addition, the Committee intensively discussed decisions to be made by the Supervisory Board regarding appointments to the Board of Executive Directors and prepared the related decisions to be put to the plenary session of the Supervisory Board. In 2009, this only concerned the extension of the mandate of Board of Executive Directors member Dr. John Feldmann (until the 2011 Annual Meeting). The Supervisory Board adopted the proposals of the Personnel Committee at the meetings on July 11, and October 22, 2009.

The Audit Committee consists of Supervisory Board members Max Dietrich Kley, Ralf Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis. The Chairman of the Audit Committee is Max Dietrich Kley, who has also been appointed "Audit Committee Financial Expert". The Audit Committee met five times in

2009. The core duties were to review the Financial Statements 2008 of BASF SE as well as the Consolidated Financial Statements 2008 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, discussing and defining the focus of the audit; regulating business relations with the company's auditor, including the adoption of a resolution regarding the provision of non-audit services by the auditor; agreeing upon the auditing fees; and monitoring the auditor's independence. At its meeting on July 10, 2009, the Supervisory Board assigned the Audit Committee the task of monitoring the internal control system and internal audit in addition to its other duties. The Audit Committee is thereby 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 June 18, 2009. After a report from the Chief Compliance Officer, the Audit Committee held a meeting in which it dealt intensively with the topic of compliance in the BASF Group. At the meeting on December 10, 2009, the Head of the Corporate Audit department reported on the reviews of the internal audits and their significant findings.

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 (since April 30, 2009), Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Stephen K. Green (since April 30, 2009) and Max Dietrich Kley. Until the Annual Meeting on April 30, 2009, the Supervisory Board Chairman presiding up to that time, Prof. Dr. Jürgen Strube, and Dr. Tessen von Heydebreck were also members of the Nomination Committee. The Nomination Committee is responsible for preparing candidate proposals for the election of those Supervisory Board members who are elected by the Annual Meeting. The members of the Nomination Committee consulted on the selection of candidates for the regular election at the Annual Meeting on April 30, 2009 and, on March 2, 2009, decided on a candidate proposal and tabled it for resolution before the Supervisory Board meeting on March 3, 2009. This also included the proposal of Dr. h.c. Eggert Voscherau for Chairman of the Supervisory Board should he be elected by the Annual Meeting. The Supervisory Board confirmed the Nomination Committee's proposal for the election at the Annual Meeting on April 30, 2009.

Corporate governance and Declaration of conformity

In 2009, 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 amended German Corporate Governance Code in the version dated June 18, 2009; the German Accounting Law Modernization Act; and the German Act on the Appropriateness of Management Board Remuneration. These were dealt with at the meetings on July 10 and October 22, 2009. In particular, we discussed the new Code recommendations and decided that BASF will comply with them.

At its meeting on December 11, 2009, 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 recommendations of the German Corporate Governance Code in its version of June 18, 2009, 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 126 to 130.

Annual Financial Statements of BASF SE and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditors elected by the Annual Meeting for the fiscal year 2009, have audited the Financial Statements of BASF SE and the Consolidated Financial Statements including Management's Analysis under consideration of bookkeeping, and have approved them free of qualification. Furthermore, the auditor certified that the Board of Executive Directors had taken the measures incumbent on it under Section 91 (2) of the German Stock Corporation Act in an appropriate way. In particular, it had instituted a suitable information and monitoring system that met the needs of the company and appeared suitable, both in design and the way in which it had been applied, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditors' reports were sent in a timely manner to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on February 24, 2010, as well as the accounts meeting of the Supervisory Board on March 4, 2010, and reported on the main findings of their audit. The auditors also provided detailed explanations of their 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 24, 2010 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 4, 2010.

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 2009, 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 2009. 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 4, 2010, 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 €1.70 per share.

Composition of the Supervisory Board

The term of office of the first Supervisory Board, formed during the course of the change in corporate form from BASF Aktiengesellschaft into a European Company (SE), ended upon the conclusion of the Annual Meeting on April 30, 2009. The Annual Meeting elected Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Max Dietrich Kley, Stephen K. Green and Dr. h.c. Eggert Voscherau as the representatives of the shareholders on the Supervisory Board. At this point, the long-serving Chairman of the Supervisory Board, Prof. Dr. Jürgen Strube, and Dr. Tessen von Heydebreck left the Supervisory Board. Neither of them was available for reelection. The six employee representatives in the Supervisory Board of BASF SE, Ralf Gerd Bastian, Wolfgang Daniel, Robert Oswald, Denise Schellemans, Ralf Sikorski and Michael Vassiliadis, were appointed by BASF Europa Betriebsrat (Europe Works Council) as the responsible representative body for the employees at its meeting on March 18 and 19, 2009, in accordance with the regulations of the Employee Participation Agreement of November 15, 2007. The term of office of the newly elected Supervisory Board will end upon the conclusion of the 2014 Annual Meeting.

In its constitutive meeting on April 30, 2009, the new Supervisory Board elected Dr. h.c. Eggert Voscherau as its chairman and Michael Diekmann and Robert Oswald as deputy chairmen.

Thanks

The Supervisory Board thanks all employees of the BASF Group worldwide, the management of the company and the retired members of the Supervisory Board for the work they performed in 2009.

With the conclusion of the Annual Meeting on April 30, 2009, the long-serving Chairman of the Board of Executive Directors and the Supervisory Board, Prof. Dr. Jürgen Strube, retired from the Supervisory Board. Prof. Dr. Strube had a decisive influence for nearly 25 years as a member and Chairman of the Board of Executive Directors, and subsequently as Chairman of the Supervisory Board, and played a major role in BASF's success. The Supervisory Board would like to extend special thanks to Prof. Dr. Strube. As an acknowledgement of his dedication, the Supervisory Board has appointed Prof. Dr. Strube Honorary Chairman of the Supervisory Board.

Ludwigshafen, March 4, 2010

The Supervisory Board

Dr. h.c. Eggert Voscherau

Chairman of the Supervisory Board

Declaration of conformity 2009 of the Board of Executive Directors and the Supervisory Board of BASF SE

The Board of Executive Directors and the Supervisory Board of BASF SE hereby declare pursuant to § 161 AktG (Stock Corporation Act)

1. The recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on August 8, 2008 in the official section of the electronic Federal Gazette have been complied with since the submission of the last Declaration of Conformity on December 3, 2008.

2. 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 are complied with and will be complied with.

Ludwigshafen, dated December 11, 2009

The Supervisory Board
of BASF SE

The Board of Executive Directors
of BASF SE

Sustainable agriculture



Crop protection research: Todd Jones, Technical Center Leader of Plant Cell Biology and researcher Aparna Sri Vanguri examine the tissue cultures of crops.

VALUE FOR BASF

Growth in business with soybeans

The market for crop protection products in India is growing twice as fast as the industry average. As part of our Samruddhi business model, BASF agronomists advise Indian farmers throughout the entire season on successful, long-term agricultural methods. In 2009, BASF was already working with over 100,000 farmers – 25% more than in the previous year. Our business with crop protection products in India has also grown – sales of products for soybean cultivation, for example, have increased by an average of 60% annually in the last three years.



Advice for sustainable agriculture: BASF employee Jai Krishna Pandey advises Indian farmers participating in the Samruddhi business model.

VALUE FOR OUR CUSTOMERS

Better yields for Indian farmers

We offer our expertise to help farmers produce more sustainably. In the Samruddhi project, BASF employees advise Indian farmers on the selection of the best cultivation methods, suitable varieties, optimum fertilizer applications, and appropriate crop protection measures for a high-yielding harvest. For soybean cultivation, for example, participating farmers increased their yields by an average of 30%.

→ For more on the Agricultural Solutions segment, see page 71 onward

Consolidated Financial Statements

BASF Group

Statement by the Board of Executive Directors and assurance pursuant to Section 297(2), Section 315(1) German Commercial Code

The Board of Executive Directors of BASF SE is responsible for preparing the Consolidated Financial Statements and Management's Analysis of the BASF Group.

The Consolidated Financial Statements were prepared according to the International Financial Reporting Standards (IFRS), which are published by the International Accounting Standards Board (IASB), London, and have been endorsed by the European Union.

In order to ensure the adherence of the Consolidated Financial Statements of the BASF Group and Management's Analysis to the applicable accounting rules, and the accuracy of reporting, we have established effective internal control systems.

The adherence to uniform, Group-wide accounting and reporting standards, and the reliability and effectiveness of our control systems are continually audited throughout the Group by our internal audit department. The risk management system is designed to allow the Board of Executive Directors to identify material risks in a timely manner and 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 24, 2010. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

Ludwigshafen, February 24, 2010



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 BASF SE, Ludwigshafen am Rhein, Germany, comprising the income statement, the balance sheet, the statement of recognized income and expense, the cash flow statement, the development in stockholders' equity and the notes to the Consolidated Financial Statements, together with Management's Analysis for the business year from January 1 to December 31, 2009. The preparation of the Consolidated Financial Statements and Management's Analysis in accordance with IFRSs as adopted by the E.U., and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on Management's Analysis based on our audit. In addition we have been instructed to express an opinion as to whether the Consolidated Financial Statements comply with full IFRS.

We conducted our audit of the Consolidated Financial Statements in accordance with § 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW).

Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance

with the applicable financial reporting framework and in Management's Analysis are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and Management's Analysis are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements and Management's Analysis. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRSs as adopted by the E.U., the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Management's Analysis is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 24, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

PROF. DR. SCHINDLER
Wirtschaftsprüfer

KUHN
Wirtschaftsprüfer

Consolidated statements of income

BASF Group

Consolidated statements of income (million €)

	Explanations in note	2009	2008
Sales	(4)	50,693	62,304
Cost of sales		36,682	46,455
Gross profit on sales		14,011	15,849
Selling expenses		5,667	5,777
General and administrative expenses		1,133	1,058
Research and development expenses		1,398	1,355
Other operating income	(5)	1,189	1,304
Other operating expenses	(6)	3,325	2,500
Income from operations	(4)	3,677	6,463
Income from companies accounted for using the equity method		61	(66)
Other income from participations		112	74
Other expenses from participations		40	82
Interest income		134	174
Interest expense		734	601
Other financial income		763	772
Other financial expenses		894	758
Financial result	(7)	(598)	(487)
Income before taxes and minority interests		3,079	5,976
Income taxes	(8)	1,424	2,671
Income before minority interests		1,655	3,305
Minority interests	(9)	245	393
Net income		1,410	2,912
Earnings per share (€)	(3)	1.54	3.13
Dilution effect	(3)	–	–
Diluted earnings per share (€)	(3)	1.54	3.13

Consolidated balance sheets

BASF Group

Assets (million €)

	Explanations in note	December 31, 2009	December 31, 2008
Intangible assets	(11)	10,449	9,889
Property, plant and equipment	(12)	16,285	15,032
Investments accounted for using the equity method	(13)	1,340	1,146
Other financial assets	(13)	1,619	1,947
Deferred tax assets	(8)	1,042	930
Other receivables and miscellaneous long-term assets	(15)	946	642
Long-term assets		31,681	29,586
Inventories	(14)	6,776	6,763
Accounts receivable, trade	(15)	7,738	7,752
Other receivables and miscellaneous short-term assets	(15)	3,223	3,948
Marketable securities		15	35
Cash and cash equivalents		1,835	2,776
Short-term assets		19,587	21,274
Total assets		51,268	50,860

Stockholders' equity and liabilities (million €)

	Explanations in note	December 31, 2009	December 31, 2008
Subscribed capital	(16)	1,176	1,176
Capital surplus	(16)	3,229	3,241
Retained earnings	(17)	12,916	13,250
Other comprehensive income	(17)	156	(96)
Equity of shareholders of BASF SE		17,477	17,571
Minority interests	(18)	1,132	1,151
Stockholders' equity		18,609	18,722
Provisions for pensions and similar obligations	(19)	2,255	1,712
Other provisions	(20)	3,289	2,757
Deferred tax liabilities	(8)	2,093	2,167
Financial indebtedness	(21)	12,444	8,290
Other liabilities	(21)	898	917
Long-term liabilities		20,979	15,843
Accounts payable, trade		2,786	2,734
Provisions	(20)	3,276	3,043
Tax liabilities	(8)	1,003	860
Financial indebtedness	(21)	2,375	6,224
Other liabilities	(21)	2,240	3,434
Short-term liabilities		11,680	16,295
Total stockholders' equity and liabilities		51,268	50,860

Consolidated statements of recognized income and expense

BASF Group

Income and expense items (million €)

	2009	2008
Income before minority interests	1,655	3,305
Actuarial gains/losses and asset ceiling for defined benefit assets	(22)	(782)
Change in foreign currency translation adjustments	83	(142)
Fair value changes in available-for-sale securities	32	(12)
Cash flow hedges	206	(163)
Revaluation due to acquisition of majority of shares	(2)	(2)
Deferred taxes	41	194
Minority interests	43	(12)
Total income and expense recognized in equity	381	(919)
Total income and expense for the period	2,036	2,386
Thereof BASF	1,748	2,005
minority interests	288	381

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	Revaluation due to acquisition of majority of shares	Total of other comprehensive income	
As of January 1, 2009	(1,511)	(637)	668	(137)	10	(96)	(1,607)
Additions	(22)	–	32	206	–	238	216
Releases	–	83	–	–	(2)	81	81
Deferred taxes	108	(1)	(2)	(64)	–	(67)	41
As of December 31, 2009	(1,425)	(555)	698	5	8	156	(1,269)
As of January 1, 2008	(874)	(497)	680	(21)	12	174	(700)
Additions	(782)	(142)	–	(170)	–	(312)	(1,094)
Releases	–	–	(12)	7	(2)	(7)	(7)
Deferred taxes	145	2	.	47	–	49	194
As of December 31, 2008	(1,511)	(637)	668	(137)	10	(96)	(1,607)

Consolidated statements of cash flows

BASF Group

Consolidated statements of cash flows¹ (million €)

	2009	2008
Net income	1,410	2,912
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,740	3,180
Changes in inventories	1,094	136
Changes in receivables	2,065	(739)
Changes in operating liabilities and other provisions	(1,592)	(736)
Changes in pension provisions, defined benefit assets and other non-cash items	(394)	271
Net gains from disposal of long-term assets and securities	(53)	(1)
Cash provided by operating activities	6,270	5,023
Payments related to intangible assets and property, plant and equipment	(2,507)	(2,521)
Payments related to financial assets and securities	(641)	(976)
Payments related to acquisitions	(1,509)	(637)
Proceeds from divestitures	62	73
Proceeds from the disposal of long-term assets and securities	513	601
Cash used in investing activities	(4,082)	(3,460)
Capital increases/repayments and other equity transactions	(134)	45
Share repurchases	–	(1,618)
Proceeds from the addition of financial liabilities	4,636	6,271
Repayment of financial liabilities	(5,546)	(2,082)
Dividends paid		
To shareholders of BASF SE	(1,791)	(1,831)
To minority shareholders	(298)	(326)
Cash provided by (used in) financing activities	(3,133)	459
Net changes in cash and cash equivalents	(945)	2,022
Effects on cash and cash equivalents		
From foreign exchange rates	4	(31)
From changes in scope of consolidation	–	18
Cash and cash equivalents at the beginning of the year	2,776	767
Cash and cash equivalents at the end of the year	1,835	2,776

¹ More information on the Consolidated statement of cash flows can be found in the Management's Analysis on page 42.
Other information on cash flow can be found in Note 10 on page 168.

Consolidated statements of stockholders' equity

BASF Group

Consolidated statements of stockholders' equity (million €)

	Number of subscribed shares out- standing ¹	Subscribed capital	Capital surplus	Retained earnings	Other com- prehensive income ²	Equity of share- holders of BASF SE	Minority interest	Total stock- holders' equity
January 1, 2009	918,478,694	1,176	3,241	13,250	(96)	17,571	1,151	18,722
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) ³	(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 consolidation and other changes	-	-	(18) ⁴	(5)	-	(23)	30	7
December 31, 2009	918,478,694	1,176	3,229	12,916	156	17,477	1,132	18,609
January 1, 2008	956,370,000	1,224	3,173	14,556	174	19,127	971	20,098
Share buyback and cancellation of own shares including own shares intended to be cancelled	(37,891,306)	(48)	74	(1,644)	-	(1,618)	-	(1,618)
Effects of acquisitions achieved in stages	-	-	-	(105)	-	(105)	27	(78)
Capital withdrawal/contribution	-	-	-	-	-	-	100	100
Dividend paid	-	-	-	(1,831)	-	(1,831)	(326) ³	(2,157)
Net income	-	-	-	2,912	-	2,912	393	3,305
Income and expense recognized directly in equity	-	-	-	(637)	(270)	(907)	(12)	(919)
Changes in scope of consolidation and other changes	-	-	(6) ⁴	(1)	-	(7)	(2)	(9)
December 31, 2008	918,478,694	1,176	3,241	13,250	(96)	17,571	1,151	18,722

¹ The number of outstanding shares was adjusted retroactively for the two-for-one stock split conducted in the second quarter of 2008.

² Details are provided in the development of income and expense recognized directly in equity of shareholders of BASF SE on page 140.

³ Including profit and loss transfers

⁴ Granting of BASF shares under the employee share program "Plus"

1 – Summary of accounting policies

A – Basis of presentation

Accounting standards applied: The Consolidated Financial Statements of BASF SE as of December 31, 2009, 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 generally prepared as of the balance sheet date of the Consolidated Financial Statements. All of the binding IFRS in the reporting year 2009 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 2008. 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 2009.

On February 23, 2010, 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 4, 2010.

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% and can exercise a significant influence over the operating and financial policies.

Consolidation method: 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.

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 is based on the purchase method. Initially, all assets, liabilities and intangible assets that are to be capitalized are valued at fair value. Finally, the acquisition cost is compared with the proportionate share of the net assets acquired at fair value. The resulting differences are capitalized as goodwill and are only written down in the case of impairment.

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 current rate method: balance sheet items are translated into euro at year-end rates, expenses and income are translated to euro at monthly average rates and accumulated for the year. The translation adjustments due to the use of the closing rate method are shown under currency translation adjustments as a component of other comprehensive income in equity and are recognized in income only upon the disposal of a company.

For certain companies outside the euro or U.S. dollar zone, the euro or U.S. dollar is the functional currency.

Selected exchange rates

€1 equals	Closing rates		Average rates	
	December 31, 2009	December 31, 2008	2009	2008
United States (USD)	1.44	1.39	1.39	1.47
Mexico (MXN)	18.92	19.23	18.80	16.29
Great Britain (GBP)	0.89	0.95	0.89	0.80
Brazil (BRL)	2.51	3.24	2.77	2.67
Argentina (ARS)	5.46	4.79	5.21	4.64
China (CNY)	9.84	9.50	9.53	10.22
Japan (JPY)	133.16	126.14	130.34	152.46
South Korea (KRW)	1,666.97	1,839.13	1,772.90	1,606.16
Malaysia (MYR)	4.93	4.80	4.91	4.89
The Russian Federation (RUB)	43.15	41.28	44.14	36.42

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 are valued at cost less scheduled straight-line amortization, except for goodwill and intangible assets with indefinite useful lives. The useful life is determined based on the period of the underlying contract and the period of time over which the intangible asset is expected to be used. Impairment losses are recognized if the recoverable amount of the asset is permanently lower than the carrying amount. The recoverable amount is the higher of fair value less selling costs and value-in-use. Impairment losses are reversed if the reasons 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 expense.

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.

Costs also include, in addition to those costs directly attributable to the asset, 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

	2009	2008
Distribution, supply and similar rights	14	16
Product rights, licenses and trademarks	17	18
Know-how, patents and production technologies	9	12
Internally generated intangible assets	6	6
Other rights and values	3	6

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. The measurement at the balance sheet date occurs at fair value. If the fair value at the balance sheet date is lower than the carrying amount, the emission rights are written down.

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation over their estimated useful lives. Low-value assets are fully written off in the year of acquisition and are shown as disposals. The revaluation method is not used.

The cost of self-constructed plants includes direct costs, appropriate allocations of material and manufacturing costs, and a share of the administrative costs 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 Germany.

Expenses related to scheduled maintenance turnarounds of large-scale plants are capitalized as part of the asset and depreciated using the straight-line method over the period until the next planned turnaround.

Both movable and immovable fixed assets are depreciated using the straight-line method. The weighted-average depreciation periods used were as follows:

Average depreciation in years

	2009	2008
Buildings and structural installations	19	24
Machinery and technical equipment	11	11
Factory, office equipment and other facilities	7	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.

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 valued 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, then an impairment expense is recognized through profit or loss.

Inventories: 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, then this is applied and an impairment charge 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. In addition, pensions, social services and voluntary social benefits are included as well as allocations for administrative costs, provided they relate to the production process. Borrowing costs are not included in production costs.

Deductions on inventories result from price declines in sales products, lack of salability and high level of inventory on hand.

IAS 2 "Inventories" does not apply to commodity broker-traders. Accordingly, precious metals held for trading purposes are measured at fair value. Changes in fair value are recognized in income.

Deferred tax assets: Deferred tax assets are recorded for temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes. In addition, deferred taxes are recorded for tax loss carryforwards to the extent that it is probable that future taxable profit for the relevant tax authority will be available against which the tax loss carryforwards can be utilized. For companies located in Germany, a 29% tax rate is applied; for other companies, the tax rates applicable in the individual countries are used. Appropriate valuation allowances are made if expected future earnings of a company make it seem more likely than not that the tax benefits will not be realized.

The valuation of deferred tax assets depends on the estimation of the probability of a reversal of the 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 or is discharged or cancelled. Standard purchases and sales of financial instruments are accounted for using the settlement date and in precious metals trading using the day of trading.

The fair value is the amount for which an instrument could be exchanged in an arm's length transaction between knowledgeable, willing parties. When pricing on an active market is available, for example on a stock exchange, this price is used. In other cases, a valuation is based on internal valuation models using current market parameters or external valuations from banks. These internal valuations predominantly use net present value 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 through profit or loss** 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 done at amortized cost, under consideration of the effective interest method. If there is objective evidence for an impairment of a receivable or loan, an individual valuation adjustment is done. In addition, an impairment loss occurs when the contractual conditions which form the basis for the receivable or loan need to be changed through renegotiation in such a way that the present value of the future cash flows decreases. Receivables and loans are written off when their uncollectibility is finally determined. Receivables for which no objective indication for an impairment exists may be impaired, if necessary, based on expected default rates. The company applies historic default rates. In addition, valuation adjustments on receivables for transfer risks in certain countries are established.

- **Held-to-maturity financial assets** consist of non-derivative financial assets with fixed or determinable payments and a fixed term, for which there is the ability and intent to hold until maturity, and which do not fall under other valuation categories. Initial valuation is made at fair value, which, in most cases, matches the nominal value. Subsequent valuation is generally done at amortized cost, under consideration of the effective interest method.

For BASF, there are no material financial assets that fall under this category.

- **Available-for-sale financial assets** comprise financial assets which are not derivatives and do not fall under any of the previously stated valuation categories. This valuation category comprises participations not accounted for using the equity method under the item 'other financial assets'; 'long-term securities'; and securities contained under the item 'marketable securities'. Initial valuation is done at fair value. Changes in 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 historical cost and are written down in the case of an impairment in value. For these participations, the book values represent the best estimates of value.

In the case of available-for-sale securities, write-ups principally are not recognized in the income statement, but are taken directly to equity (other comprehensive income). Write-ups to the amount of the original write-down are recognized in income in the case of debt instruments; write-ups above this amount are recognized in equity.

- **Financial liabilities which are not derivatives** are initially valued at fair value. This normally corresponds to the amount received. Subsequent valuation is generally done at amortized cost, under consideration of the effective interest method.
- **Cash and cash equivalents** relate primarily to cash on hand and bank balances.

There were no reclassifications between the valuation categories in 2009 and 2008.

Revenue from interest-bearing assets is recognized on the outstanding receivables at reporting 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 has been employed for selected deals to hedge future transactions. The effective portion of the change in fair value is thereby recognized directly in equity under other comprehensive income, taking deferred taxes into account. The ineffective portion is recognized immediately in income. In the case of future transactions that will lead to a non-financial asset or a non-financial debt, the cumulative fair value changes in equity are either charged against the acquisition 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.

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 made at the probable settlement value.

Provisions for German trade income tax, German corporate income tax and similar income taxes are made in the amount necessary to meet the expected payment obligations, less any prepayments that have been made. Other taxes assessed are appropriately considered.

Provisions are established for certain environmental protection measures and risks if the measures are considered likely as a result of legal or regulatory obligations or other past events and these measures have not to be capitalized. Provisions for required recultivations primarily concern the filling of wells and the removal of production facilities upon the termination of production in the Oil & Gas segment. The present value of the obligation increases the cost of the respective asset when it is initially recognized.

Provisions are made for expected severance payments or similar personnel expenses as well as for demolition expenses and other charges related to the closing down of operations that have been planned and publicly announced by management.

Provisions for long service and anniversary bonuses are predominantly calculated based on actuarial principles. For contracts signed under the early retirement programs, provisions for the supplemental payments are provided in their full amount and the wage and salary payments due during the passive phase of agreements are accrued in installments. Provisions are recorded for the expected costs that are anticipated to be contracted during the term of the collective bargaining agreements.

→ For more information on provisions for the BASF options program, see Note 24 from page 187 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: Revenue from the sale of goods or the rendering of services is recognized upon the transfer of ownership and risk to the buyer. Revenue is valued at the fair value of the consideration received and 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.

Long-term contracts primarily relate to the construction of chemical plants for third parties. Realization of revenue and costs takes place according to the stage of completion when the outcome of the construction contract can be reliably estimated. To the extent that the outcome of the construction cannot be estimated reliably, revenue is recognized based on the contract costs incurred. Expected losses on the construction contract are recognized with a write-down to the fair value.

Payments relating to the sale or licensing of technologies or technological expertise are recognized in income according to the contractually agreed transfer of the rights and obligations associated with those technologies.

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 well and the associated plant. The costs for the operation, repair and maintenance as well as depreciation of ancillary production equipment are also included.

Exploration expenses relate exclusively to the Oil & Gas segment. These expenses include all costs connected with non-proven oil and gas deposits. Included here are costs for the exploration of areas with possible oil or gas reserves. Costs for geological and geophysical investigations are, as a matter of principle, reported under exploration expenses. In addition, this item includes depreciation on exploration wells for which no reserves could be proven. Scheduled depreciation on successful exploration wells is part of cost of sales.

Exploratory drilling is reported under construction in progress until its success can be determined. When the presence of hydrocarbons is proved such that the economic development of the field is probable, the costs remain capitalized as suspended well costs. Once a year, all suspended wells are assessed from an economic, technical and strategic viewpoint to see if development is still intended. If this is not the case, the well concerned is written off. When reserves are proven and the development of the field begins, the exploration wells are reclassified as machinery and technical equipment.

An Exploration and Production Sharing Agreement (EPSA) is a type of contract in crude oil and gas concessions whereby the expenses and profits from the exploration, development and production phases are divided between the state (National Oil Company) and one or more exploration and production companies using defined keys. The revenue BASF is entitled to under such contracts is reported as sales. The existing Libyan concessions are currently being renegotiated. They shall be replaced with Exploration and Production Sharing Agreements according to the EPSA-IV standard.

Provisions for required recultivations associated with oil and gas operations concern the filling of wells and the removal of production facilities upon the termination of production. Initial measurement is conducted when the obligation arises at the present value of the future recultivation costs. Interest on the provision is accrued annually until the time of the planned recultivation. An asset of the same value is capitalized as part of the carrying amount of the plant concerned and together they are depreciated.

The unit of production method is used to depreciate assets from oil and gas exploration at the field or deposit level. As a matter of principle, depreciation is calculated on the basis of proven, developed reserves.

In the natural gas trading business, long-distance natural gas pipelines are depreciated using the straight-line method. The weighted-average depreciation period amounted to 25 years in 2009 (2008: 24 years). The intangible asset from the marketing contract for natural gas from the Yuzhno Russkoye natural gas field is amortized based on BASF's share of the produced and distributed volumes.

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 BASF 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 11 from page 169 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.

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.

→ More information in Note 8 on page 165 onward

Receivables and loans are valued at amortized costs using the effective interest method. Impairments on receivables and loans are recognized in income. Evidence for an impairment could, for example, be when the financial difficulties of a debtor become known or payment delays occur. When assessing the need for an impairment, regional and sector specific conditions are considered. In addition, use is made of external ratings as well as the assessments of debt collection agencies and credit insurers when available. A significant proportion of receivables is covered by credit insurance. Bank guarantees and letters of credit are used to a limited extent. Only those receivables which are not covered by insurance or other collateral are impaired. Receivables whose insurance includes a deductible are impaired to the value of the deductible. Impairments are based on historical values on customer solvency and the age, period overdue, insurance policies and customer-specific risks. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is to be reversed through profit or loss. The write-up may not exceed the amortized cost.

Pension provisions and **defined benefit assets** are measured using actuarial methods, applying among others the following valuation parameters: future developments in compensation and pensions, the expected performance of plan assets, employee turnover and the life expectancy of beneficiaries. The resulting obligations are discounted by reference to market yields at the balance sheet date on high quality corporate fixed-rate bonds with 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 19 from page 179 onward**

Other provisions also cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, claims awarded in similar cases and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible claims. The actual costs can deviate from these estimates.

→ **More in Note 23 on page 187**

Other provisions also include expected charges for the rehabilitation of contaminated sites, the recultivation of landfills, the removal of environmental contamination at existing production or storage facilities and other similar measures. If BASF is the only responsible party that can be identified, the provision covers the entire expected claim. At sites operated together by one or more parties, the provision covers only BASF's share of the expected claim. The determination of the amount of the provision is based on the available technical information on the site, the technology used, legal regulations and processes used as well as current regulations and official obligations.

The estimation of future costs is subject to many uncertainties. This refers in particular to rehabilitation measures that involve several parties and longer time periods.

Assumptions have to be made in determining the discount rate to be used in calculating long-term provisions.

IFRSs and IFRICs which do not yet have to be considered in the preparation of these statements

The effects of IFRSs and IFRICs not yet in force or not yet endorsed by the European Union in the reporting year 2009 were reviewed:

– The amendments to **IFRS 2 “Group Cash-settled Share-based Payment Transactions”** clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statement. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.

The amendments shall be applied to periods beginning on or after January 1, 2010. They must be applied retroactively. Earlier application is permitted. The amendment will not have an effect on BASF.

- The amended versions of **IFRS 3 “Business Combinations”** and **IAS 27 “Consolidated and Separate Financial Statements”** allow the option of measuring minority interests at fair value or based on their identifiable net assets. In addition, changes in the ownership percentage without loss of control are recognized directly in equity. Changes in the ownership percentage with loss of control are recognized in profit and loss. Incidental acquisition costs are to be expensed in the future. The changes affect business combinations whose acquisition date falls in a reporting period beginning on or after of July 1, 2009. BASF applies the changes for the periods beginning on January 1, 2010.
- **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.
- 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 an 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 amendments to **IFRIC 14 “Prepayments of a Minimum Funding Requirement”** apply in those cases where a company is obliged to and makes minimum funding payments to external plan assets to fulfill minimum funding requirements. The amendments are effective from January 1, 2011 and have no impact on BASF.

- **IFRIC 17 “Distributions of Non-cash Assets to Owners”** clarifies that the valuation difference between the book value of the asset and the fair value should be recognized in profit or loss, except for common control transactions. It shall be applied to financial years beginning on or after July 1, 2009 and has no impact on BASF.
- **IFRIC 18 “Transfers of Assets from Customers”** governs agreements in which an entity receives an asset from a customer that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation was published on January 29, 2009 by the IASB and adopted by the E.U. on December 1, 2009. It shall be applied to agreements concluded on or after July 1, 2009. IFRIC 18 has no effect on BASF.
- **IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”** addresses the accounting by the 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 2009, the scope of consolidation for the Consolidated Financial Statements encompassed 345 companies (2008: 293). Of this number, 75 companies were first-time consolidations (2008: 22). Since the beginning of 2009, 23 companies were deconsolidated due to merger, sale or immateriality (2008: 26).

Scope of consolidation

	2009	2008
Consolidated companies as of January 1	293	297
Thereof proportionally consolidated	19	18
First-time consolidations	75	22
Thereof proportionally consolidated	–	1
Deconsolidations	23	26
Thereof proportionally consolidated	–	–
Consolidated as of December 31	345	293
Thereof proportionally consolidated	19	19

First-time consolidations in 2009 comprised:

- 68 companies in conjunction with the acquisition of Ciba Holding AG;
- an additional 7 companies due to their increased importance, which had previously not been consolidated, registered in Germany, Switzerland, Colombia, Argentina and Hungary.

First-time consolidations in 2008 comprised:

- the formation of two new holding companies headquartered in Chile and Canada;
- three companies from the Revus Group acquired in December in the Oil & Gas segment;
- four companies from the Sorex Group acquired in December in the Agricultural Solutions segment;
- an additional 13 companies, which were consolidated due to their increased importance, registered in Germany, the Russian Federation, the Netherlands, Norway, Romania, Iran, Vietnam, Kazakhstan and the Dominican Republic.

Overview of impact of changes to the scope of consolidation (excluding acquisitions and divestitures)

	2009		2008	
	Million €	%	Million €	%
Sales	2	.	(43)	(0.1)
Long-term assets	8	.	.	.
Thereof property, plant and equipment	7	.	24	0.2
Short-term assets	31	0.2	38	0.2
Thereof cash and cash equivalents	.	.	15	0.5
Total assets	39	0.1	38	0.1
Stockholders' equity	(4)	.	2	.
Long-term liabilities	.	.	5	.
Thereof financial indebtedness	.	.	7	0.1
Short-term liabilities	43	0.4	31	0.2
Thereof financial indebtedness	1	.	(10)	(0.2)
Total stockholders' equity and liabilities	39	0.1	38	0.1
Contingent liabilities and other financial obligations

B – Proportionally and at equity consolidated companies

Proportionally consolidated companies of major significance are as follows:

- Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany; Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland as well as ZAO Achimgaz, Novy Urengoy, the Russian Federation. All of which are joint ventures with Gazprom through which gas trading activities and the production of natural gas and condensate in Siberia are operated;
- ELLBA C.V., Rotterdam, the Netherlands and ELLBA Eastern Private Ltd., Singapore, which are operated jointly with Shell and produce propylene oxide and styrene monomer;
- BASF DOW HPPO Production B.V.B.A., Antwerp, Belgium, which is operated jointly with The Dow Chemical Company to produce propylene oxide (PO);
- BASF-YPC Company Ltd., a joint venture between BASF and Sinopec, which operates the Verbund site in Nanjing, China.

A complete listing of all proportionally consolidated and at equity consolidated companies is available in the List of Shares Held.

In total, 17 companies were accounted for using the equity method in 2009 (2008: 17).

Companies consolidated using the equity method

	2009	2008
Subsidiaries	7	8
Joint ventures	5	4
Other associated companies	5	5
	17	17

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%);
- N.E. Chemcat Corporation¹, Tokyo, Japan (BASF stake: 49%);
- Nord Stream AG, Zug, Switzerland (BASF stake: 20%);
- 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%).

¹ The market capitalization of the 49% stake in N.E. Chemcat Corporation amounts to a total of €194 million as of December 31, 2009.

Financial information on proportionally consolidated companies (million €)

	2009	2008
Income statement information		
Sales	3,629	5,392
Income from operations	224	173
Income before taxes and minority interest	219	169
Net income	212	167
Balance sheet information		
Long-term assets	1,239	1,282
Thereof property, plant and equipment	1,139	1,178
Short-term assets	877	959
Thereof marketable securities, cash and cash equivalents	58	49
Total assets	2,116	2,241
Stockholders' equity	898	783
Long-term liabilities	497	627
Thereof financial indebtedness	251	296
Short-term liabilities	721	831
Thereof financial indebtedness	97	163
Total stockholders' equity and liabilities	2,116	2,241
Contingent liabilities and other financial obligations	138	175
Consolidated statements of cash flows		
Cash provided by operating activities	495	320
Cash used in investing activities	(221)	(84)
Cash used in financing activities	(266)	(223)
Net changes in cash and cash equivalents	8	13

Financial information on companies consolidated using the equity method (million €)

	2009	2008
Income statement information		
Sales	2,441	3,132
Income from operations	228	295
Income before taxes and minority interests	132	(234)
Net income	100	(198)
BASF's share of net income	42	(68)
Balance sheet information		
Long-term assets	4,921	2,971
Thereof property, plant and equipment	2,497	2,205
Short-term assets	1,945	2,453
Thereof marketable securities, cash and cash equivalents	940	1,155
Total assets	6,866	5,424
Stockholders' equity	3,252	2,590
Long-term liabilities	903	425
Thereof financial indebtedness	669	233
Short-term liabilities	2,711	2,409
Thereof financial indebtedness	958	1,818
Total stockholders' equity and liabilities	6,866	5,424
BASF's share of stockholders' equity	940	800

C – Acquisitions and divestitures

In 2009, BASF acquired Ciba Holding AG (Ciba), Basel, Switzerland. On April 9, 2009, BASF obtained control of Ciba with the acquisition of the tendered shares as part of the public tender offer. By the end of June 2009, the remaining shares not tendered were acquired, meaning that BASF now holds 100% of the shares in Ciba. Ciba, a leading global specialty chemical company with more than 12,500 employees and customers in more than 120 countries, produced plastic additives, pigments and photoinitiators for numerous industrial sectors. Ciba products are also used in paper manufacturing and water treat-

ment. The purchase price for the 95.8% of the shares held on the acquisition date amounted to €2,178 million (CHF3,314 million) and was made up of the following components: In 2008, shares valued at €330 million were acquired. In 2009, BASF acquired €88 million worth of shares before the acquisition was completed. On April 9, 2009, BASF paid €1,735 million for the shares tendered under the public tender offer for Ciba. In addition, €25 million were incurred for incidental acquisition costs.

The following shows an overview of the preliminary book and fair values of the acquired assets and liabilities on April 9, 2009.

Preliminary purchase price allocation of the acquisition of Ciba in 2009 (million €)

	Historical book value	Adjustment to fair value	Fair values at the date of acquisition
Long-term assets	2,838	585	3,423
Property, plant and equipment	1,419	347	1,766
Goodwill	459	(459)	–
Other intangible assets	510	585	1,095
Other long-term assets	450	112	562
Short-term assets	1,801	208	2,009
Inventories	883	208	1,091
Accounts receivable, trade	391	–	391
Other short-term assets	527	–	527
Total assets	4,639	793	5,432
Long-term liabilities	2,411	378	2,789
Provision for pensions and similar obligations	682	54	736
Other provisions	274	93	367
Deferred tax liabilities	97	359	456
Financial indebtedness	1,304	(128)	1,176
Other liabilities	54	–	54
Short-term liabilities	929	6	935
Total liabilities	3,340	384	3,724
Minority interests	28	73	101
Net assets	1,271	336	1,607
Goodwill			571
Total purchase price			2,178

BASF has integrated the acquired Ciba activities completely into the BASF Group, predominantly into the Performance Products segment. 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 realize annual savings of more than €450 million; the full extent of which will only be achieved at the end of 2012.

Ciba contributed minus €739 million to net income in 2009. This was attributable to, among other things, impairment charges of €263 million. These charges related mainly to Ciba's SAP system, which is being replaced during the integration, and to the property, plant and equipment of sites which will not be continued. Overall, earnings were negatively impacted by expenses for the rapidly introduced integration and restructuring measures. Of which, expenses of €718 million were reported in special items. If Ciba had been included in BASF Group Consolidated Financial Statements as of January 1, 2009, the proforma sales would have been €51,411 million and net income would have been €1,341 million. This unaudited proforma information is provided for purposes of comparison only and does not necessarily reflect the results had the transaction taken place on January 1, 2009. The information is not suitable for forecasting future developments and results.

The purchase price allocation for Ciba is preliminary and may, in accordance with IFRS, be finalized within one year after the date of acquisition.

As part of the acquisition of Ciba, BASF is subject to conditions regarding divestitures imposed by European and American antitrust authorities. The following businesses were sold by the end of 2009: DMA3 (dimethylaminoethyl acrylate, a chemical intermediate); HALS (hindered amine light stabilizers – used in plastics) and styrene acrylic (for the paper industry). In addition, a license agreement for the production of UV filters (light stabilizers) for skin care products was concluded. The businesses with the pigments bismuth vanadate and indanthrone blue were sold by the time the Consolidated Financial Statements were prepared. The business with dry strength agents for the paper industry could not be sold in the prescribed period. By order of the European antitrust authorities, this sale has been handed over to a trustee.

Furthermore, on July 31, 2009, BASF acquired the distribution business for construction chemical products of Rimal Engineering in Abu Dhabi, United Arab Emirates.

BASF acquired the following businesses in 2008:

- Attapulgit Mining, Inc., Attapulgitus, Georgia, was acquired by BASF on September 26, 2008. The acquired business provides access to attapulgit ore. Attapulgit is a magnesium aluminum phyllosilicate used mainly as a thickener in coatings.
- BASF acquired the concrete admixture business of Kejie Admixture Science & Technology Co. Ltd. (Kejie), on December 15, 2008. Kejie is one of the leading producers of concrete admixtures in Guangzhou, China and has a wide range of concrete admixtures and intermediate products.
- On December 17, 2008, BASF acquired Revus Energy ASA (Revus), Stavanger, Norway as part of a public tender offer. The company was an oil and gas exploration and production company listed on the Oslo Stock Exchange with stakes in 60 licenses in Norway and Great Britain. The total purchase price for 100% of the shares amounted to €558 million. Since December 22, 2008, Revus Energy ASA has been trading under the name Wintershall Norge ASA.
- BASF concluded the acquisition of Sorex Holdings Ltd. (Sorex), Widnes, Great Britain on December 19, 2008. Sorex is a leading producer of branded chemical and non-chemical products for professional pest management. The transaction included U.S.-based Whitmire Micro-Gen and U.K.-based Sorex Ltd.
- BASF concluded an agreement with Recticel to acquire the company's worldwide compounds business for polyurethane (PU) systems for glass encapsulation on December 30, 2008. This transaction included Recticel's patented aliphatic light stable compounds under the brand name COLO-FAST®.

The following overview shows the preliminary purchase price allocations of the acquisitions conducted in 2009. The impact of the final purchase price allocations of the Revus and Sorex acquisitions from 2008 on the Consolidated Financial Statements is shown separately. The finalization of the purchase price allocation in 2009 did not lead to an adjustment to the Consolidated Financial Statements of the previous year.

Effects of acquisitions in the year of acquisition

	2009		2008			
	Million €	%	Final purchase price allocations	Adjustments	Preliminary purchase price allocations	%
Long-term assets	3,559	11.2	1,139	(38)	1,177	4.0
Goodwill	571	11.3	373	(7)	380	8.0
Other intangible assets	1,099	20.4	361	(4)	365	7.1
Property, plant and equipment	1,766	10.8	336	(27)	363	2.4
Financial assets	(315)	(10.6)	–	–	–	–
Other assets	438	22.0	69	–	69	4.3
Short-term assets	2,009	10.3	141	3	138	0.6
Thereof cash and cash equivalents	241	13.1	11	–	11	0.4
Total assets	5,568	10.9	1,280	(35)	1,315	2.6
Stockholders' equity	93	0.5	5	–	5	.
Long-term liabilities	2,788	13.3	455	(34)	489	3.1
Thereof financial indebtedness	1,176	9.5	29	–	29	0.4
Short-term liabilities	936	8.0	173	–	173	1.1
Thereof financial indebtedness	4	0.2	31	–	31	0.5
Total stockholders' equity and liabilities	3,817	7.4	633	(34)	667	1.3
Payments for acquisitions	1,751		647	(1)	648	

The following additional activities were sold by BASF in 2009. These are in addition to the divestitures imposed by antitrust authorities as part of the Ciba acquisition.

- On March 12, 2009, BASF sold its thick films and ceramic colors business, used in electronics and decorative applications, to Heraeus. The site concerned in East Newark, New Jersey, had been acquired as part of the Engelhard acquisition in 2006.
- 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. The activities were allocated to the Coatings division.
- 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 activities were allocated to the Care Chemicals division.

- 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. The polystyrene plant in São José dos Campos, Brazil, has a capacity of 190,000 metric tons of polystyrene per year. All employees from production, marketing and sales were transferred to the buyer. In addition, on August 18, 2009, BASF sold a styrene monomer site in Ulsan, Korea, to SK Energy, a South Korean refining company. The contract comprises the plant with a capacity of 320,000 metric tons of styrene monomer per year, which is situated within SK's production complex. The styrene monomer plant had been idled since October 2008, because of an overcapacities in regional markets. On December 31, 2009, there were no assets and liabilities classified as a disposal group according to IFRS.

In 2008, BASF divested the following activities:

- In the course of 2008, BASF sold further parts of the premix business, including sites in Japan, Taiwan, Chile and Colombia. Premixes are a mixture of vitamins and feed additives for animal nutrition. The activities were allocated to the Care Chemicals division.
- On April 30, 2008, BASF sold the Shreveport, Louisiana site and the related contract manufacturing business for pharmaceuticals to Dr. Reddy's Laboratories. The activities were allocated to the Care Chemicals division.

– On August 17, 2008, BASF completed the divestiture of Seal Sands site in the north of England to INEOS Nitriles. The Seal Sands site operates production facilities for the intermediates acrylonitrile (AN), adipodinitrile (ADN) and hexamethylenediamine (HMD), as well as for by-products. The site was allocated to the Performance Polymers division.

The following shows the effects of the divestitures in 2009 and 2008 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

	2009		2008	
	Million €	%	Million €	%
Sales	(35)	(0.1)	(274)	(0.4)
Long-term assets	(27)	(0.1)	(12)	.
Thereof Property, plant and equipment	(15)	(0.1)	(11)	(0.1)
Short-term assets	(15)	(0.1)	(24)	(0.1)
Thereof cash and cash equivalents	(1)	(0.1)	–	–
Total assets	(42)	(0.1)	(36)	(0.1)
Stockholders' equity	22	0.1	30	0.2
Long-term liabilities	–	–	–	–
Thereof financial indebtedness	–	–	–	–
Short-term liabilities	(1)	.	7	.
Thereof financial indebtedness	–	–	–	–
Total stockholders' equity and liabilities	21	.	37	0.1
Proceeds from divestitures	63		73	

3 – Earnings per share

Earnings per share

	2009	2008
Net income (million €)	1,410	2,912
Number of shares (1,000)		
Weighted-average number of outstanding shares	918,479	930,103
Earnings per share (€)	1.54	3.13

The calculation of earnings per share is based on the average number of common shares outstanding during the applicable period and the net income. Own shares are included in the calculation for the period of time that they were outstanding. 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 2009 and 2008, there were no dilutive effects. All figures for the number of shares and earnings per share have been adjusted to reflect the two-for-one stock split conducted in the second quarter of 2008.

4 – Reporting by segment and region

BASF's worldwide business is conducted by operating divisions that are aggregated into six segments for reporting purposes.

The Chemicals segment consists of the Inorganics, Petrochemicals and Intermediates divisions. As of January 1, 2009, the activities of BASF Fuel Cell GmbH were transferred from Other to the Inorganics division.

Plastics is composed of the Performance Polymers and Polyurethanes divisions. As of January 1, 2009, the styrene copolymers business from the Performance Polymers division was transferred to Styrenics. Styrenics does not belong to a segment and is reported in Other.

In the first quarter of 2009, Performance Products comprised the Acrylics & Dispersions, Care Chemicals and Performance Chemicals divisions. Almost all the businesses of Ciba Holding AG acquired on April 9, 2009, were reported as part of the Performance Products segment.

In order to accommodate the changes to our portfolio as a result of the acquisition of Ciba Holding AG, the divisions of the Performance Products segment were restructured as of April 1, 2009. The figures for the segment reporting of the previous year have been adjusted accordingly.

The new Paper Chemicals division has been assigned to the Performance Products segment. The new division comprises the paper chemicals and binders business as well as the kaolin minerals business, which had previously been part of the Acrylics & Dispersions division. Ciba's business with products for paper manufacturing was integrated into the Paper Chemicals division in the third quarter of 2009.

The Acrylics & Dispersions division was renamed Dispersions & Pigments as of the second quarter of 2009. This division consists of BASF's business with raw materials for the coatings and paint industry. The dispersions business was supplemented by the pigments and resins business of the Performance Chemicals division. The acrylic monomers business has been reassigned to the Petrochemicals division, which consequently encompasses the key steps in the propylene value chain. The superabsorbents business has been assigned to the Care Chemicals division. All of Ciba's coating effects activities were also integrated into the Dispersions & Pigments division in the third quarter of 2009.

In the Care Chemicals division, BASF combines, in addition to human and animal nutrition and pharmaceuticals, all businesses related to personal care and hygiene. The assignment of the superabsorbents business to Care Chemicals strengthened the division's portfolio with consumer-related products for personal care. Ciba's home and personal care business was integrated into the Care Chemicals division in the third quarter of 2009.

The Performance Chemicals division offers innovative and specific solutions for a broad range of industries including the plastics processing industry, automotive suppliers, refineries, users of oil field and mining chemicals, as well as leather and textiles processors. Ciba's plastic additives business and the majority of Ciba's water treatment business have also become part of the Performance Chemicals division as of the third quarter of 2009.

The Functional Solutions segment comprises the Catalysts, Construction Chemicals and Coatings divisions.

The Agricultural Solutions segment consists of the Crop Protection division.

The Oil & Gas segment is composed of the Oil & Gas division with the Exploration & Production and Natural Gas Trading business sectors.

Activities not assigned to a particular division are reported in Other. 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 reported under Other.

With our cross-divisional corporate research, 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 options 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 €)

	2009	2008
Corporate research costs	(319)	(312)
Costs of the corporate center	(209)	(243)
Styrenics, fertilizers, other businesses	339	49
Foreign currency results, hedging and other measurement effects	(512)	(209)
Miscellaneous income and expenses	74	(198)
	(627)	(913)

Assets of Other (million €)

	2009	2008
Assets of businesses included under Other	2,647	3,232
Financial assets	2,960	3,093
Deferred tax assets	1,042	930
Cash and cash equivalents/marketable securities	1,850	2,811
Defined benefit assets	549	165
Miscellaneous receivables/prepaid expenses	1,513	2,512
	10,561	12,743

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 chiefly from gains at OAO Severneftegazprom, where, in the previous year, there had been losses on loan commit-

ments denominated in U.S. dollars and euros due to the depreciation of the Russian ruble. The decrease in other income related chiefly to results from foreign currency hedging not allocated to the segments, which are reported in Other.

The non-compensable income taxes on oil-producing operations fell compared with the previous year due to the decline in oil prices.

Reconciliation reporting Oil & Gas (million €)

	2009	2008
Income from operations	2,289	3,844
Income from financial assets	62	(68)
Miscellaneous earnings	(243)	121
Income before taxes and minority interests	2,108	3,897
Income taxes	1,223	2,573
Thereof income taxes on oil-producing operations non-compensable with German corporate income tax	870	1,851
Income before minority interests	885	1,324
Minority interests	173	373
Net income	712	951

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

2008 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	11,171	9,116	8,125	9,388	3,409	14,445	5,308	6,650	62,304
Change (%)	10.2	(4.7)	0.5	(1.1)	8.7	37.3	21.6	(5.3)	7.5
Intersegmental transfers	5,182	766	345	147	28	1,235	237	465	8,168
Sales including intersegmental transfers	16,353	9,882	8,470	9,535	3,437	15,680	5,545	7,115	70,472
Income from operations	1,369	539	768	151	705	3,844	3,319	(913)	6,463
Change (%)	(28.6)	(53.9)	20.4	(65.1)	36.6	26.8	33.5	.	(11.7)
Assets	6,121	4,826	5,769	8,693	4,352	8,356	4,740	12,743	50,860
Thereof goodwill	148	119	749	1,898	1,383	381	381	70	4,748
property, plant and equipment	3,641	2,510	2,072	1,562	502	3,638	1,830	1,107	15,032
Debt	1,655	1,033	1,204	2,100	929	3,107	1,487	22,110	32,138
Research and development expenses	146	142	223	186	325	10	10	323	1,355
Additions to property, plant and equipment and intangible assets	601	470	360	234	196	1,651	1,364	122	3,634
Amortization of intangible assets and depreciation of property, plant and equipment	684	408	437	413	200	565	425	392	3,099
Thereof impairments	62	.	38	50	.	.	.	141	291

Regions

2009 (million €)

	Europe	Thereof Germany	North America	Asia, Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	28,532	10,666	9,423	8,706	4,032	50,693
Change (%)	(22.2)	(22.7)	(21.0)	(6.6)	(7.5)	(18.6)
Share (%)	56.2	21.0	18.6	17.2	8.0	100.0
Location of companies						
Sales	30,375	21,543	9,320	7,997	3,001	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	495	503	289	3,677
Assets	31,994	18,790	10,139	6,392	2,743	51,268
Thereof property, plant and equipment	9,789	6,006	3,351	2,526	619	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	15,945	14,817	6,396	104,779

2008 (million €)

	Europe	Thereof Germany	North America	Asia, Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	36,693	13,796	11,932	9,320	4,359	62,304
Change (%)	13.4	15.3	–	(2.7)	6.4	7.5
Share (%)	58.8	22.1	19.2	15.0	7.0	100.0
Location of companies						
Sales	38,652	27,497	11,937	8,664	3,051	62,304
Sales including interregional transfers	42,874	30,626	13,050	8,911	3,197	68,032
Income from operations	5,822	4,744	73	254	314	6,463
Assets	32,704	19,950	9,991	5,771	2,394	50,860
Thereof property, plant and equipment	8,778	5,485	3,227	2,477	550	15,032
Additions to property, plant and equipment and intangible assets	2,818	1,249	542	172	102	3,634
Amortization of intangible assets and depreciation of property, plant and equipment	1,801	1,011	690	510	98	3,099
Employees as of December 31	61,889	47,364	15,168	13,734	6,133	96,924

5 – Other operating income

Million €	2009	2008
Reversal and adjustment of provisions	348	209
Revenue from miscellaneous revenue-generating activities	116	178
Income from foreign currency and hedging transactions	171	433
Income from the translation of financial statements in foreign currencies	34	24
Gains from disposal of property, plant and equipment and divestitures	79	70
Gains on the reversal of allowances for doubtful business-related receivables	77	30
Other	364	360
	1,189	1,304

The **reversal and adjustment of provisions** primarily related to risks arising from personnel 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 are such that utilization is not expected at all or to a lesser extent.

Revenue from miscellaneous revenue-generating activities primarily represents income from rentals and logistics services.

Income from foreign currency and hedging transactions related to foreign currency transactions, the measurement of receivables and payables in foreign currencies and currency derivatives as well as other hedging transactions with market values.

Income from the translation of financial statements in foreign currencies included gains arising from the use of the temporal method.

In 2009, **gains on the disposal of property, plant and equipment and divestitures** resulted primarily from the sale of parts of the polystyrene business and the sale of property, plant and equipment.

Gains on the reversal of allowances for doubtful business-related receivables resulted chiefly from receivables in the Agricultural Solutions and Performance Products segments in South America.

Other gains comprise refunds and settlements; write-ups on property, plant and equipment; gains from precious metal trading and miscellaneous sales as well as a number of other items.

6 – Other operating expenses

Million €	2009	2008
Restructuring measures	548	159
Environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization	140	147
Amortization of intangible assets and depreciation of property, plant and equipment	717	384
Costs from miscellaneous revenue-generating activities	76	139
Expenses from foreign currency and hedging transactions as well as market valuation	621	751
Losses from the translation of the financial statements in foreign currencies	23	50
Losses from the disposal of property, plant and equipment and divestitures	35	27
Oil and gas exploration expenses	143	227
Expenses from additions to allowances for business-related receivables	135	44
Expenses from the use of inventories measured at market values and the write off of obsolete inventory	359	116
Other	528	456
	3,325	2,500

Restructuring measures in 2009 related to expenses primarily from the Ciba integration (€248 million) as well as the closure and restructuring at several sites in Europe (predominately in Germany, Belgium, Spain and Italy) and North America. These measures were taken chiefly in the Care Chemicals, Performance Chemicals, Dispersions & Pigments, Paper Chemicals, Intermediates, Coatings, Inorganics and Construction Chemicals divisions. In 2008, the expenses related primarily to the cost for shutdowns and restructuring in the Intermediates and Coatings divisions at several sites in Europe, North America and Asia.

Further expenses were related to **demolition and removal measures as well as the preparation of capital expenditure projects** to the extent that they were not subject to mandatory capitalization according to IFRS.

Amortization of intangible assets and depreciation of property, plant and equipment in 2009 related, among other things, to impairments on goodwill of €220 million, primarily in the Care Chemicals and Inorganics divisions. In addition, the amortization of the SAP system of Ciba Holding AG because of the changeover to the BASF SAP system resulted in expenses of €176 million. Moreover, there were additional impairment charges on intangible assets and property, plant and equipment as part of the restructuring of Ciba amounting to €86 million. For BASF Fuel Cell GmbH, these charges amounted to €49 million. In 2008, amortization of intangible assets and depreciation of property, plant and equipment related among other things to impairment losses in the Coatings, Care Chemicals divisions and in the Styrenics business.

Costs from miscellaneous revenue-generating activities refer to costs related to the items shown as miscellaneous revenue-generating activities. → **More in Note 5 on page 162**

Expenses from foreign currency and hedging transactions as well as market valuation related to foreign currency transactions, the measurement of receivables and payables in foreign currencies, currency derivatives as well as other hedging transactions with market values. Furthermore, expenses of €212 million resulted from the increase in provisions for the BASF options program due to the higher share price.

Expenses from the use of inventories measured at market values and the write-off of obsolete inventory resulted from the use of inventories measured at market value of €147 million in 2009 and €116 million in 2008. In addition, the use of inventories measured at market values from the Ciba acquisition resulted in charges of €208 million. This mainly impacted the Care Chemicals, Performance Chemicals, Dispersions & Pigments and Paper Chemicals divisions.

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. In addition, there were expenses resulting from numerous other items.

7 – Financial result

Million €	2009	2008
Income from companies accounted for using the equity method	61	(66)
Income from participations in affiliated and associated companies	88	60
Income from the disposal of participations	13	5
Income from profit transfer agreements	10	7
Income from tax allocation to participating interests	1	2
Other income from participations	112	74
Losses from loss transfer agreements	(5)	(2)
Write-down of/losses from the sales of participations	(35)	(80)
Other expenses from participations	(40)	(82)
Interest income from cash and cash equivalents	106	124
Interest and dividend income from securities and loans	28	50
Interest income	134	174
Interest expenses	(734)	(601)
Write-ups/profits from the sale of securities and loans	14	–
Expected income from plan assets to cover pensions and similar obligations	675	677
Income from plan assets to cover other long-term personnel obligations	16	27
Income from the capitalization of construction interest	58	43
Miscellaneous financial income	–	25
Other financial income	763	772
Write-downs/losses from the disposal of securities and loans	(12)	(20)
Interest cost on pension obligations and other similar obligations	(781)	(655)
Expenses from other long-term employee obligations	(46)	(48)
Interest cost on other long-term personnel provisions	(42)	(35)
Miscellaneous financial expenses	(13)	–
Other financial expenses	(894)	(758)
Financial result	(598)	(487)

In 2009, the positive result from companies accounted for using the equity method primarily resulted from gains at OAO Severneftegazprom. In the previous year, losses on loan commitments denominated in U.S. dollar and euro due to the depreciation of the Russian Ruble led to a negative earnings contribution from this company.

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 financing of the Ciba acquisition led to a rise in the interest expense. Interest income declined primarily due to the repayment of loans by OAO Severneftegazprom and lower market interest rates.

Miscellaneous financial income and miscellaneous financial expenses relate to gains and losses from the translation of individual hedged financing-related receivables and payables and the associated hedging instruments. Furthermore, these items included, among other things, expense and income from the interest cost and discounting of long-term liabilities and receivables as required by IFRS.

8 – Income taxes

Million €	2009	2008
German corporate income tax, solidarity surcharge, German trade taxes	207	377
Foreign income tax	1,381	2,781
Taxes for prior years	(31)	(208)
Current taxes	1,557	2,950
Deferred tax expense (+)/income (-)	(133)	(279)
Income taxes	1,424	2,671
Thereof income taxes on oil-producing operations	1,033	2,206
Other taxes as well as sales and consumption taxes	238	269
Tax expense	1,662	2,940

Income before taxes and minority interests is broken down into domestic and foreign as follows:

Million €	2009	2008
Germany	535	1,870
Foreign oil production branches of German companies	1,115	2,389
Foreign	1,429	1,717
	3,079	5,976

In Germany, a uniform corporate tax rate of 15.0% (until 2007: 25.0%) 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 2009, the weighted average tax rate remained unchanged at 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 26.3% in 2009, and 26.6% in 2008.

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 €870 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 €103 million in 2009, and €80 million in 2008; 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 €22 million in 2009. In the previous year, there had been a charge of €34 million.

Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2009		2008	
	Million €	%	Million €	%
Expected tax based on German corporate income tax (15%)	462	15.0	896	15.0
Solidarity surcharge	4	0.1	9	0.1
German trade income tax	119	3.9	202	3.4
Foreign tax-rate differential	146	4.7	200	3.3
Tax exempt income	(90)	(2.9)	(142)	(2.4)
Non-deductible expenses	75	2.4	135	2.3
Income after taxes of companies accounted for using the equity method	(9)	(0.3)	10	0.2
Taxes for prior years	(31)	(1.0)	(208)	(3.5)
Income taxes on oil-producing operations non-compensable with German corporate income tax	870	28.2	1,851	31.0
Deferred tax liabilities for planned dividend distributions of Group companies	(19)	(0.6)	(50)	(0.8)
Adjustment to deferred tax liabilities due to changes in tax rates	–	–	(61) ¹	(1.0)
Other	(103)	(3.3)	(171)	(2.9)
Income taxes/effective tax rates	1,424	46.2	2,671	44.7

¹ Non-cash income from the reduction in corporate income taxes, primarily in the Russian Federation

Deferred tax assets and liabilities (million €)

	Deferred tax assets		Deferred tax liabilities	
	2009	2008	2009	2008
Intangible assets	88	37	1,405	1,448
Property, plant and equipment	245	191	1,743	1,534
Financial assets	9	18	86	66
Inventories and accounts receivable	256	276	433	776
Provisions for pensions	902	698	368	258
Other provisions and liabilities	622	541	52	110
Tax loss carryforwards	927	928	–	–
Other	260	499	133	81
Netting	(2,127)	(2,106)	(2,127)	(2,106)
Valuation allowances for deferred tax assets	(140)	(152)	–	–
Thereof for tax loss carryforwards	(90)	(112)	–	–
Total	1,042	930	2,093	2,167
Thereof short-term	367	305	314	247

Deferred taxes result primarily from temporary differences between tax balances and the valuation of assets and liabilities according to IFRS as well as from tax loss carryforwards. The revaluation of all the assets and liabilities associated with acquisitions according to IFRS 3 has resulted in significant deviations between fair values and the values in the tax accounts. This has primarily led to deferred tax liabilities.

Deferred tax assets were offset against deferred tax liabilities of the same maturity if they were related to the same taxation authority.

Deferred tax liabilities for undistributed earnings of subsidiaries in the amount of €6,561 million in 2009 and €6,305 million in 2008 were not recognized, as they are either not subject to taxation on pay out or they are expected to be reinvested for indefinite periods of time.

The regional distribution of tax loss carryforwards is as follows:

Tax loss carryforwards (million €)

	2009	2008
Germany	14	8
Foreign	3,161	2,507
	3,175	2,515

German tax losses may be carried forward indefinitely. Foreign tax loss carryforwards exist primarily in North America. These expire starting in 2020. Valuation allowances were reversed for tax loss carryforwards of €74 million. In the previous year, valuation allowances were recognized for tax loss carryforwards of €361 million.

Tax obligations are comprised of both tax liabilities and short-term tax provisions. Tax liabilities primarily concern the assessed income tax and other taxes. Tax provisions concern estimated income taxes not yet assessed for the current and previous years.

Tax liabilities (million €)

	2009	2008
Tax provisions	431	257
Tax liabilities	572	603
	1,003	860

9 – Minority interests

Million €	2009	2008
Minority interests in profits	259	434
Minority interests in losses	14	41
	245	393

Lower minority interest in profits compared with the previous year resulted chiefly from Group companies engaged in natural gas trading and from Gazprom's stake in a German Wintershall subsidiary which holds production and exploration rights in Libya.

→ For more information on minority interests in consolidated companies, see Note 18 on page 178

10 – Other information

Additional information related to the consolidated statements of cash flows

Cash provided by operating activities includes the following cash flows:

Million €	2009	2008
Income tax payments	1,650	3,322
Interest payments	522	466
Dividends received	93	68

Information related to subsidiaries

German subsidiaries which are either joint-stock companies or partnerships make use of the exemptions according to Section 264 (3) and Section 264b of the German Commercial Code (HGB). The individual companies are listed in the List of Shares Held.

List of Shares Held

A list of companies included in the Consolidated Financial Statements and a list of all companies in which BASF SE has a participation as required by Section 313 (2) (in connection with Section 313 (4)) of the German Commercial Code is provided separately in the List of Shares Held. The List of Shares Held together with the Consolidated Financial Statements have been submitted to the electronic Federal Gazette as required by Section 325 of the German Commercial Code and are available from BASF SE. It is also published on the internet at:

→ basf.com/cg_reports

Statement of compliance according to Section 161 of the German Stock Corporation Act

The annual statement of compliance with the German Corporate Governance Code according to Section 161 of the German Stock Corporation Act was signed by the Board of Executive Directors and the Supervisory Board of BASF SE on December 11, 2009, and is published on the internet at:

→ basf.com/governance_e

Personnel costs and number of employees

On December 31, 2009, the number of employees was 104,779 (December 31, 2008: 96,924).

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 103,612 in 2009 and 95,885 in 2008.

Personnel costs increased by 11.7% from €6,364 million in 2008 to €7,107 million in 2009. This resulted primarily from the acquisition of Ciba Holding AG. In addition, provisions for the BASF options program were increased due to the higher share price.

Personnel costs (million €)

	2009	2008
Wages and salaries	5,942	5,158
Social security contributions and expenses for pensions and assistance	1,165	1,206
Thereof for pension benefits	178	310
	7,107	6,364

Average number of employees

	Consolidated companies		Proportionally consolidated companies		BASF Group	
	2009	2008	2009	2008	2009	2008
Europe	66,310	61,042	431	440	66,741	61,482
Thereof Germany	48,180	46,902	19	22	48,199	46,924
North America	15,740	14,992	460	452	16,200	15,444
Asia Pacific	13,788	12,446	1,993	1,906	15,781	14,352
South America, Africa, Middle East	6,332	6,006	–	–	6,332	6,006
BASF Group	102,170	94,486	2,884	2,798	105,054	97,284
Thereof with trainee contracts	2,097	1,907	1	2	2,098	1,909
employees with limited-term contracts	2,129	2,337	37	31	2,166	2,368

11 – Intangible assets

The **goodwill** of BASF is allocated to 37 cash-generating units which are defined either on the basis of business units or on a higher level. The goodwill arising from the acquisition of Ciba in 2009 of €571 million was allocated to cash-generating units in the Performance Chemicals, Dispersion & Pigments, Care Chemicals and Paper Chemicals divisions.

The annual impairment test 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 and the plans approved by corporate management for the next five years. The cash flows after the planning period are based on the last year and extrapolated with the help of long-term growth trends. The planning is based on the experience, current performance and best possible 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 after tax required for the impairment tests is determined using the Capital Asset Pricing Model. It comprises the corresponding risk-free interest 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 impairment test for the financial year 2009 resulted in an overall impairment loss on goodwill of €220 million.

Changes in the market for electronic chemicals brought on by the economic crisis and changing technology led to a reduction in future growth forecasts and, as a result, to an impairment loss on goodwill of €103 million in the Inorganic division in the Chemicals segment.

In addition, an impairment loss on goodwill of €73 million was recognized in the Care Chemicals division in the Performance Products segment. Expectations regarding future cash flows have worsened due to lower demand for high-priced cosmetics. This decline was caused by changed consumer behavior and intensified by the economic crisis.

The restructuring of the activities of BASF Fuel Cell, which involves the transfer of fuel cell activities from Frankfurt, Germany, to Somerset, New Jersey, led to an impairment loss on goodwill of €22 million. These activities are allocated to the Inorganics division in the Chemicals segment.

Further impairment losses on goodwill were recognized for an overall amount of €22 million for cash-generating units in the Polyurethanes division in the Plastics segment, the Performance Chemicals division in the Performance Products segment and the Coatings division in the Functional Solutions segment. All impairment losses on goodwill are reported under other operating expenses.

The major part of goodwill amounting to €5,069 million in total (2008: €4,748 million) is allocated to the following cash-generating units. The goodwill of the Crop Protection division in the Agricultural Solutions segment amounts to €1,366 million (2008: €1,383 million). Goodwill of €1,253 million (2008: €1,246 million) and €627 million (2008: €620 million) relate to the Catalysts and Construction Chemicals divisions in the Functional Solutions segment. Goodwill of €389 million (2008: €381 million) is allocated to the Oil & Gas segment.

The impairment tests were conducted using the following assumptions: a weighted average cost of capital between 7.15% and 7.64% (2008: 6.72% to 7.59%) and a long-term growth rate between 0.0% and 2.0% (2008: 0.0% to 3.0%). In determining the value-in-use of the cash-generating units, BASF assumes that changes in material assumptions classified as possible will not lead to the book values of the units materially exceeding the recoverable amount.

This excludes the goodwill of the Catalysts division in the Functional Solutions segment that arose from the acquisition of Engelhard in 2006. The results of this division are connected to market developments in the automotive and chemical industries. The weighted average cost of capital used for the impairment test of the Catalyst cash-generating unit was 7.50% (2008: 7.48%). Catalysts currently has a value-in-use which exceeds the book value by approximately €300 million. The recoverable amount would equal the book value of the unit if the cost of capital increased by 0.43 percentage points.

→ For more information on the Catalysts division, see the Management's Analysis on page 68

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 ¹	Goodwill	Total
Acquisition costs							
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
Amortization							
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
Net carrying amount as of December 31, 2009	2,941	1,063	1,038	41	297	5,069	10,449

¹ 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 taken 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.

Concessions for oil and gas production with a net carrying amount of €453 million in 2009, and €362 million in 2008, convey the right to produce oil and gas at certain sites. To a limited extent, these rights entail obligations to deliver a portion of the produced amount to local companies. At the end of the term of a concession, the rights are returned.

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.

Development of intangible assets 2008 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Internally generated intangible assets	Other rights and values ¹	Goodwill	Total
Acquisition costs							
Balance as of January 1, 2008	3,472	1,165	1,651	135	789	4,305	11,517
Changes in scope of consolidation	(1)	.	–	.	1	5	5
Additions	29	327	19	17	53	380	825
Disposals	(17)	(9)	(47)	(22)	(25)	(16)	(136)
Transfers	2	23	(3)	1	177	34	234
Exchange differences	(119)	12	12	2	16	40	(37)
Balance as of December 31, 2008	3,366	1,518	1,632	133	1,011	4,748	12,408
Amortization							
Balance as of January 1, 2008	459	417	545	80	457	–	1,958
Changes in scope of consolidation	–	.
Additions	214	82	139	22	145	16	618
Disposals	(17)	(7)	(48)	(21)	(24)	(16)	(133)
Transfers	.	20	.	.	21	–	41
Exchange differences	12	7	5	1	10	–	35
Balance as of December 31, 2008	668	519	641	82	609	–	2,519
Net carrying amount as of December 31, 2008	2,698	999	991	51	402	4,748	9,889

¹ Including licenses on such rights and values

Additions of €303 million for exploration licenses for the British and Norwegian North Sea resulted from the acquisition of Revus and its preliminary purchase price allocation in 2008.

In 2008, impairments of €37 million were taken. Disposals of goodwill related, among other things, to impairment charges of €9 million as part of the restructuring of the Styrenics business. Impairments are reported under other operating expenses.

The amounts recorded under transfers resulted primarily from the reclassification of assets held for sale as intangible assets. There were no material write-ups in 2008.

12 – Property, plant and equipment

Development of property, plant and equipment 2009 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 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
Accumulated valuation adjustments					
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
Net carrying amount as of December 31, 2009	3,510	10,108	577	2,090	16,285

The acquisition of Ciba and its purchase price allocation resulted in additions to fixed assets of €1,766 million in 2009. Furthermore, in 2009 we 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, and 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 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.

Development of property, plant and equipment 2008 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2008	7,212	34,277	2,694	1,574	45,757
Changes in scope of consolidation	4	(8)	4	21	21
Additions	58	986	114	1,651	2,809
Disposals	(106)	(858)	(95)	(60)	(1,119)
Transfers	208	2,228	73	(1,318)	1,191
Exchange differences	94	354	27	13	488
Balance as of December 31, 2008	7,470	36,979	2,817	1,881	49,147
Accumulated valuation adjustments					
Balance as of January 1, 2008	4,213	25,136	2,177	16	31,542
Changes in scope of consolidation	1	(8)	2	-	(5)
Additions	255	2,064	161	1	2,481
Disposals	(78)	(808)	(88)	(11)	(985)
Transfers	1	787	51	.	839
Exchange differences	35	186	22	-	243
Balance as of December 31, 2008	4,427	27,357	2,325	6	34,115
Net carrying amount as of December 31, 2008	3,043	9,622	492	1,875	15,032

Additions to property, plant and equipment in 2008 arose from a number of investments. The material ones included: the expansion of the synthesis gas plants and the construction of a plant to produce cyclododecanone at the Ludwigshafen site; the construction of a plant to produce resins in Wyandotte, Michigan; the expansion of a polyol plant in Geismar, Louisiana; the construction of the HPPO plant and the plants for acrylic acid and superabsorbents in Antwerp, Belgium; and the construction of the Nord Stream gas pipeline. Furthermore, the acquisition of Revus and its purchase price allocation resulted in additions to property, plant and equipment of €350 million. The amounts recorded under transfers resulted from the reclassification of the property, plant and equipment of the Styrenics business from assets held for sale.

In 2008, impairments of €254 million were taken. Impairment charges of €112 million were recognized in connection with the restructuring of the Styrenics business, primarily at the sites in Mexico and South Korea. Further material impairments related to the butanediol plant at our site in Kuantan, Malaysia, and the continued restructuring of the coatings business in North America, Asia and Europe.

13 – Investments accounted for using the equity method and other financial assets

Investments accounted for using the equity method (million €)

	2009	2008
Acquisition cost		
Balance as of January 1	1,196	890
Changes in scope of consolidation	(7)	(13)
Additions	161	450
Disposals	(50)	(96)
Transfers/Changes in market value	40	(81)
Exchange differences	–	46
Balance as of December 31	1,340	1,196
Accumulated valuation adjustments		
Balance as of January 1	50	56
Changes in scope of consolidation	–	–
Additions	–	50
Disposals	(50)	(56)
Transfers	–	–
Exchange differences	–	–
Balance as of December 31	–	50
Net carrying amount as of December 31	1,340	1,146

Other financial assets (million €)

	2009	2008
Investments in affiliated companies	276	231
Investments in associated companies	86	81
Shares in other participations	965	1,207
Participations	1,327	1,519
Loans to affiliated companies	13	12
Loans to associated companies	215	346
Other loans	37	43
Loans	265	401
Long-term securities	27	27
	1,619	1,947

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.

In 2008, the additions to investments accounted for using the equity method resulted primarily from the capital injections in Nord Stream AG and OAO Severneftegazprom.

Shares in other participations declined in 2009 due to the complete acquisition of Ciba Holding AG. In 2008, shares in other participations rose due to the purchase of 15.2% of the shares in Ciba Holding AG amounting to €344 million.

In 2009, impairment losses of €19 million were recognized in participations. Investments contain impairments of €68 million in 2008, chiefly as a result of our 42% stake in N.E. Chemcat Corporation. The disposal of other investments resulted in a loss of €1 million in 2009 and a loss of €7 million in 2008.

In 2009, the decline in loans to associated companies resulted from the repayment of a loan by ZAO Achimgaz.

14 – Inventories

Million €	2009	2008
Raw materials and factory supplies	1,845	1,769
Work-in-process, finished goods and merchandise	4,860	4,924
Advance payments and services-in-process	71	70
	6,776	6,763

Work-in-process, finished goods and merchandise are combined into one item due to the production conditions in the chemical industry. Services-in-process relate primarily to inventory not invoiced at the balance sheet date.

Inventories were 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 €1,091 million were acquired as part of the acquisition of Ciba.

Following the decline in prices in the second half of 2008, the extensive price recovery in the course of 2009 resulted in reversals. Overall, reversals in 2009 led to gains of €15 million following write-downs of €159 million in 2008. Of the total inventory, €1,346 million in 2009, and €1,343 million in 2008, was valued at net realizable value.

15 – Receivables and miscellaneous assets

Other receivables and miscellaneous assets (million €)

	2009		2008	
		Thereof short-term		Thereof short-term
Receivables from affiliated companies	190	190	326	324
Prepaid expenses	182	161	217	195
Defined benefit assets	549	–	165	–
Receivables from associated companies and other participating interests	426	398	215	190
Tax refund claims	778	722	648	536
Loans and interest receivables	91	91	90	90
Derivatives with positive fair values	286	277	1,192	1,172
Employee receivables	39	24	25	16
Rents and deposits	59	18	58	28
Insurance claims	27	18	24	22
Receivables from joint venture partners	–	–	28	28
Precious metal trading positions	807	807	540	540
Other	735	517	1,062	807
	4,169	3,223	4,590	3,948

Prepaid expenses include prepayments for operating expenses of €40 million in 2009, and €31 million in 2008, as well as prepayments for insurance premiums of €31 million in 2009, and €28 million in 2008.

Defined benefit assets increased primarily due to the positive development in capital markets.

The rise in receivables from associated companies and other participating interests was a result 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 by means of forward contracts. In addition, there are also unhedged precious metal positions from the Precious and Base Metal

Services unit. On the balance sheet date, precious metal trading positions contained derivatives with a positive fair value of €8 million in 2009 (2008: €188 million). Higher precious metal prices in 2009 led to an increase of the overall position compared with the previous year.

Derivatives concluded in 2008 to hedge against currency fluctuations and rising raw material prices became due in 2009. This led to a reduction in margins posted for publicly-traded and over the counter commodity derivatives, which had been reported under Other in 2008.

The Ciba acquisition resulted in additions of approximately €1 billion to other receivables and miscellaneous assets at acquisition date.

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
	331	132	77	44	49	381

Valuation allowances for doubtful receivables 2008 (million €)

	Balance as of January 1, 2008	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2008
Accounts receivable, trade	364	71	74	15	70	306
Other receivables	31	1	3	–	4	25
	395	72	77	15	74	331

The additions and reversals to allowances for doubtful receivables recognized in profit and loss came primarily from the Agricultural Solutions and Performance Products segments in South America.

A significant portion of receivables is covered by credit insurance.

The reversals not affecting income related primarily to changes in the scope of consolidation, translation adjustments and write-offs of uncollectible receivables.

Even in the current economic conditions, we did not note any material changes in the credit quality of our receivables. In 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. In 2008, after being individually

assessed for impairment, valuation allowances of €58 million were established for trade accounts receivable (reversals: €68 million) and €1 million for miscellaneous receivables (reversals: €3 million). Receivables did not need to be renegotiated to any major extent in 2009 and 2008 as contractual conditions did not change.

Overdue trade accounts receivables which have not been individually assessed for impairment, but which were included in credit insurance policies, amounted to €305 million on December 31, 2009 (December 31, 2008: €378 million).

Aged list of trade accounts receivable (million €)

	2009	2008
Not yet due	6,956	6,807
Due less than 30 days	528	615
Due between 30 and 89 days	158	215
Due more than 90 days	96	115
	7,738	7,752

Aged list of other receivable (million €)

	2009	2008
Not yet due	1,454	1,538
Due less than 30 days	19	188
Due between 30 and 89 days	83	80
Due more than 90 days	9	21
	1,565	1,827

16 – Capital and reserves

A total of 4,649,873 shares were cancelled in 2009. Thereof were included 4,649,873 shares that were acquired for the purpose of cancellation in 2008. The subscribed capital of BASF SE was reduced by the resulting attributable amount of €6 million.

Subscribed capital (million €)

	Outstanding shares	Subscribed capital
Shares cancelled up to December 31, 2009	(4,649,873)	(6)
Outstanding shares as disclosed in the financial statements	918,478,694	1,176

Share buyback/own shares

The authorization to buy back company shares granted by the Annual Meeting on April 24, 2008, to the Board of Executive Directors expired on October 23, 2009 without being replaced. In 2009, BASF SE did not buy back any company shares under this authorization.

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 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. Up till now, this option has not been exercised and no new shares were issued.

Capital surplus

Capital surplus includes share premiums from the issuance of shares, the fair value of options and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for the issue of BASF shares at par value.

Capital structure management

The goal of capital structure management is to maintain the financial flexibility needed to continually develop our business portfolio and take advantage of strategic opportunities. The objectives of our financing policy are to ensure liquidity, limit financial risks and optimize capital costs by means of an appropriate capital structure. The capital structure is orientated to the needs of the operational business and the company's strategic direction.

Capital structure management at BASF is in line with the definition of stockholders' equity. We plan and control the capital structure of BASF using selected financial ratios, within the framework of our financial management. Stockholders' equity as reported on the balance sheet amounted to €18,609 million as of December 31, 2009 (December 31, 2008: €18,722 million). The equity ratio amounted to 36.3% on December 31, 2009 (December 31, 2008: 36.8%).

17 – Retained earnings and other comprehensive income

Million €	2009	2008
Legal reserves	429	420
Other retained earnings	12,487	12,830
	12,916	13,250

In 2009, changes in the scope of consolidation led to an increase in the legal reserves of €2 million. Changes in the scope of consolidation led to no changes in the legal reserves in 2008. Transfers from other retained earnings increased legal reserves by €7 million in 2009, and €66 million in 2008.

The acquisition of stakes in companies which BASF controls is treated as transactions between shareholders. In 2009, minority interests were acquired in Ciba Holding AG, Basel, Switzerland, and Ciba India Ltd., Mumbai, India. In 2008, minority interests were acquired in BASF India Ltd., Mumbai, India; BASF Construction Chemicals Central Asia LLP, Almaty, Kazakhstan; and OOO BASF Stroitelnye Sistemy, Moscow, the Russian Federation. In addition, a 40% stake in Svalöf Weibull AB, Svalöv, Sweden (which had been accounted for using the equity method), was swapped with Svenska Lantmännen for

the 15% stake in BASF Plant Science GmbH, Ludwigshafen. The amount resulting from the difference between the acquisition price/value of the shares given and the proportionate value of the net assets received of €28 million in 2009 and €105 million in 2008 was netted against retained earnings.

The offsetting of actuarial gains and losses resulted in an increase in retained earnings of €86 million in 2009 and a decrease in retained earnings of €637 million in 2008.

Other comprehensive income

According to IFRS, certain expenses and income have been recorded in 'other comprehensive income'. This includes translation adjustments, the valuation of securities at fair value, changes in the fair value of derivatives held to hedge future cash flows and effects from the revaluation of assets and liabilities on takeover.

Translation adjustments

The translation adjustments due to the use of the current rate method are shown under currency translations adjustments as a component of other comprehensive income in equity (translation adjustments) and are recognized in income only upon the disposal of a company.

Valuation of securities at fair value

Changes in value of available-for-sale securities are accounted for in other comprehensive income, without impacting the income statement, until the securities are disposed of. Upon disposal, the changes accumulated in other comprehensive income are recognized in income.

18 – Minority interests

Group company	Partner	2009		2008	
		Equity stake (%)	Million €	Equity stake (%)	Million €
WINGAS GmbH & Co. KG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	409	49.98	362
Wintershall AG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.00	127	49.00	177
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochemical Corp. Ltd., Nanjing, China	40.00	45	40.00	41
BASF India Ltd., Mumbai, India	Shares are publicly traded	28.82	27	28.82	25
BASF PETRONAS Chemicals Sdn. Bhd., Shah Alam, Malaysia	PETRONAS (Petroleum Nasional Bhd.), Kuala Lumpur, Malaysia	40.00	119	40.00	145
BASF Sonatrach PropanChem S.A., Tarragona, Spain	SONATRACH, Algier, Algeria	49.00	54	49.00	60
BASF Fina Petrochemicals L.P., Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.00	162	40.00	161
Shanghai BASF Polyurethane Company Ltd., Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China, and Sinopec Shanghai GaoQiao Petrochemical Corporation, Shanghai, China	30.00	72	30.00	90
Other			117		90
			1,132		1,151

19 – Provisions for pensions and similar obligations

In addition to state pension plans, most employees are entitled to Company pension benefits from either defined contribution or defined benefit plans. Benefits generally depend on years of service, contributions or compensation, and take into consideration the legal framework of labor, tax and social security laws of the countries where companies are located. To control the risks of changing market conditions, as well as increasing life expectancy, over the last few years employees have been increasingly offered defined contribution plans.

For BASF SE and other German subsidiaries, a basic level of benefits is provided by the legally independent funded plan, BASF Pensionskasse VVaG, which is financed by contributions of employees and the employer and the return on its assets. BASF SE will ensure the necessary contributions to adequately

finance the benefits promised by BASF Pensionskasse VVaG. 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.

It was necessary to adjust the prior year figures as in 2009 the information on similar obligations was for the first time reported together with the figures for pension plans.

The measurement date for the pension plans is set as December 31. The most recent actuarial mortality tables are used.

The valuations using the projected unit credit method per IAS 19 were carried out under the following assumptions:

Assumptions used to determine the defined benefit obligation as of December 31

(Weighted average in %)

	Germany		Foreign	
	2009	2008	2009	2008
Discount rate	5.50	6.00	5.17	5.86
Projected increase of wages and salaries	2.75	2.75	3.91	4.44
Projected pension increase	2.00	2.00	0.92	0.51

As of December 31, 2009, the assumed rate of increase in the cost of medical benefits was 8.0% per year until December 31, 2012. After that point in time, it is expected that there will be an incremental reduction in the rate of increase of 0.5 percentage points per year, resulting in a rate of increase of 5.0% by the end

of 2018. As of December 31, 2008, the assumed increase was 7.5% per year, with a reduction in the rate of increase of 0.5 percentage points per year, resulting in a rate of increase of 5.0% by the end of 2014.

Assumptions used to determine expenses for pension plans

(Weighted average in %)

	Germany		Foreign	
	2009	2008	2009	2008
Discount rate	6.00	5.25	5.59	5.87
Projected increase of wages and salaries	2.75	2.75	3.82	4.56
Projected pension increase	2.00	2.00	0.76	0.60
Expected return on plan assets	5.42	5.18	6.60	7.21

In preparing the 2009 income statement, the assumed rate of increase in cost of medical benefits was 7.5% per year, with a reduction in the rate of increase of 0.5 percentage points per year, resulting in a rate of increase of 5.0% in 2014. In preparing

the 2008 income statement, the assumed rate of increase in the cost of medical benefits was 8.0% per year, with a reduction in the rate of increase of 0.5 percentage points per year, resulting in a rate of increase of 5.0% in 2014.

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. 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
Effect on projected benefit obligation	9	(20)
Effect on plan expenses	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 inflation trend. In 2009, the discount rate used in this calculation was adjusted to account for developments in the capital markets.

Development of defined benefit obligation (million €)

	2009	2008
Defined benefit obligation as of January 1	11,814	12,348
Service cost	244	250
Interest cost	781	655
Benefits paid	(802)	(672)
Participants' contributions	52	40
Actuarial gains/losses	945	(877)
Acquisition-related effects	2,516	–
Settlements and other plan changes	(251)	34
Exchange differences	(35)	36
Defined benefit obligation as of December 31	15,264	11,814

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	
	2010	2009	2008
Shares	29	27	22
Bonds	59	63	66
Property	4	5	4
Other	8	5	8
Total	100	100	100

Development of plan assets (million €)

	2009	2008
Plan assets as of January 1	10,325	12,038
Expected return on plan assets	675	677
Actuarial gains/losses	1,120	(2,163)
Employer contributions	413	119
Participants' contributions	52	40
Benefits paid	(516)	(455)
Acquisition-related effects	1,780	–
Other changes	(27)	57
Exchange differences	(12)	12
Plan assets as of December 31	13,810	10,325

The actual return on plan assets amounted to €1,795 million in 2009, and minus €1,486 million in 2008. On December 31, 2009, plan assets contained securities issued by BASF Group companies with a market value of €11 million (December 31, 2008: €10 million). The market value of the properties of legally independent pension funds rented to BASF Group companies amounted to €50 million on December 31, 2009, and €51 million on December 31, 2008.

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 2009.

Reconciliation of funded status to provisions for pensions and similar obligations (million €)

	2009	2008
Plan assets as of December 31	13,810	10,325
Less defined benefit obligation as of December 31	15,264	11,814
Funded status	(1,454)	(1,489)
Unrecognized past service cost	(21)	(24)
Asset ceiling in accordance with IAS 19.58	(231)	(34)
Net obligation recognized on the balance sheet	(1,706)	(1,547)
Thereof defined benefit assets	549	165
provisions for pensions	2,255	1,712

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. In 2009, €175 million in actuarial gains were recognized in retained

earnings and €1,286 million in actuarial losses in 2008. Since the introduction of this accounting policy in 2004, total actuarial losses of €1,808 million have been charged against retained earnings, not taking deferred taxes into account.

Current funding situation of the plans (million €)

	2009		2008	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Unfunded pension plans	1,467	–	765	–
Partially funded pension plans	5,069	4,302	3,093	2,170
Total of pension plans that are not fully funded	6,536	4,302	3,858	2,170
Fully funded pension plans	8,728	9,508	7,956	8,155
	15,264	13,810	11,814	10,325

Deviation between actuarial assumptions and the actual development (million €)

	2009	2008	2007	2006	2005
Defined benefit obligation	15,264	11,814	12,348	13,164	12,293
Thereof impact of experience adjustments	(2)	36	(172)	(112)	8
Plan assets	13,810	10,325	12,038	12,115	11,067
Thereof impact of experience adjustments	1,120	(2,163)	(121)	159	439
Funded status	(1,454)	(1,489)	(310)	(1,049)	(1,226)

Expected payments resulting from pension obligations existing as of December 31, 2009 (million €)

2010	861
2011	843
2012	845
2013	875
2014	887
2015 through 2019	4,938

Composition of expenses for pension plans (million €)

	2009	2008
Service cost	244	250
Amortization of past service cost	(3)	(3)
Settlement gains	(213)	(23)
Expenses for defined benefit plans charged to income from operations	28	224
Expenses for defined contribution plans charged to income from operations	150	86
Expenses for retirement provision charged to income from operations	178	310
Interest cost	(781)	(655)
Expected return on plan assets	675	677
Expense(-)/Income(+) from defined benefit plans in the financial result	(106)	22

In 2009, contributions to public pension plans were €412 million (2008: €392 million). The estimated contribution payments for defined benefit plans for 2010 are €181 million.

20 – Other provisions

Million €	2009		2008	
		Thereof short-term		Thereof short-term
Recultivation obligations	846	2	796	1
Environmental protection and remediation costs	598	146	377	132
Personnel costs	1,442	873	1,369	947
Sales and purchase risks	1,088	1,050	1,282	1,264
Restructuring measures	407	392	105	83
Legal, damage claims, guarantees and related commitments	257	144	164	83
Other	1,927	669	1,707	533
	6,565	3,276	5,800	3,043

Recultivation obligations relate to the estimated costs for the filling of wells and the removal of production equipment after the end of production.

Environmental protection and remediation costs concern expected costs for rehabilitating contaminated sites, recultivating landfills, removal of environmental contamination at existing production or storage sites and other measures. In addition, provisions were recognized in connection with the allocation of emission 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 the acquisition of Ciba. These primarily related to obligations to rehabilitate landfill sites and sites in Switzerland and the United States.

The **personnel cost provision** includes obligations for the granting of long-service bonuses and anniversary payments, variable compensation including related social security contributions, and other accruals as well as provisions for early retirement programs for employees nearing retirement. BASF's German Group companies have various programs that entitle employees who are at least 55 years old to reduce their working hours to 50% for up to 8 years.

Under such arrangements, employees generally work full time during the first half of the transition period and leave the Company at the start of the second half. Employees receive a minimum 85% of their net salary throughout the transition period.

The reduction in short-term personnel cost provisions was primarily due to lower provisions for variable compensation. The increase in the long-term personnel cost provisions resulted in the rise in the provision for the BASF options program.

The **sales and purchase risks** provision includes warranties, product liability, customer rebates, payment discounts and other price reductions, sales commissions and provisions for expected losses on committed purchases as well as provisions for onerous contracts.

Restructuring costs provisions include severance payments to employees as well as specific site shutdowns or restructuring costs, including the costs for demolition and similar measures.

The increase resulted from restructuring measures in conjunction with the Ciba integration in 2009, primarily for severance payments.

Provisions for **legal, damage claims, guarantees and related commitments** include the expected costs of litigation, obligations under damage claims, other guarantees and antitrust proceedings.

A fine imposed by the European Commission on the business with heat stabilizers sold by Ciba back in 1998 led to an increase in provisions. BASF assumes the statute of limitations applies in this case and has appealed the decision.

Other includes long-term tax provisions, further present obligations and accruals.

These further present obligations and accruals led to an increase in provisions, primarily due to the Ciba acquisition.

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 Ciba led to an increase in provisions.

Development of other provisions in 2009 (million €)

	January 1, 2009	Additions	Interest compounding	Utilization	Reversals	Other changes	December 31, 2009
Recultivation obligations	796	26	35	(14)	(4)	7	846
Environmental protection and remediation costs	377	115	3	(187)	(8)	298	598
Personnel costs	1,369	1,043	25	(937)	(85)	27	1,442
Sales and purchase risks	1,282	788	–	(944)	(42)	4	1,088
Restructuring measures	105	374	–	(63)	(29)	20	407
Legal, damage claims, guarantees and related commitments	164	126	2	(20)	(41)	26	257
Other	1,707	773	–	(612)	(71)	130	1,927
	5,800	3,245	65	(2,777)	(280)	512	6,565

21 – Liabilities

Financial indebtedness (million €)

	Nominal volume	Effective interest rate	Carrying amounts based on effective interest method	
			2009	2008
3.5% Euro Bond 2003/2010 of BASF SE	1,000	3.63%	999	998
4% Euro Bond 2006/2011 of BASF SE	1,000	4.05%	999	999
3.375% Euro Bond 2005/2012 of BASF SE	1,400	3.42%	1,399	1,398
3.75% Euro Bond 2009/2012 of BASF SE	1,350	3.97%	1,343	–
4.5% Euro Bond 2006/2016 of BASF SE	500	4.62%	497	496
4.25% Euro Bond 2009/2016 of BASF SE	200	4.40%	198	–
5.875% GBP Bond 2009/2017 of BASF SE	400	6.04%	446	–
4.625% Euro Bond 2009/2017 of BASF SE	300	4.69%	299	–
3 Month EURIBOR Bond 2006/2009 of BASF SE	500	variable	–	500
3.25% CHF Bond 2008/2011 of BASF Finance Europe N.V.	300	3.39%	202	201
6% Euro Bond 2008/2013 of BASF Finance Europe N.V.	1,250	6.15%	1,244	1,242
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	1,000	5.09%	996	996
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	250	4.83%	252	252
3.625% CHF Bond 2008/2015 of BASF Finance Europe N.V.	200	3.77%	134	134
5.125% Euro Bond 2009/2015 of BASF Finance Europe N.V.	1,500	5.30%	1,488	–
5.125% Euro Bond 2009/2015 of BASF Finance Europe N.V.	500	4.38%	517	–
4.5% Euro Medium Term Note 2009/2016 of BASF Finance Europe N.V.	150	4.56%	149	–
USD Extendible Floating Rate Notes of BASF Finance Europe N.V.		0.30%	3	330
3.25% CHF Bond 2006/2012 of Ciba Spezialitätenchemie Finanz AG	225	3.32%	147	–
4.875% Euro Bond 2003/2018 of Ciba Spec. Chem. Finance Luxemb. S.A.	477	4.88%	393	–
USD Commercial Paper	703		487	4,406
Other bonds			650	621
Bonds and other liabilities to the capital markets			12,842	12,573
Liabilities to credit institutions			1,977	1,941
			14,819	14,514

Breakdown of financial indebtedness by currency (million €)

	2009	2008
Euro	12,063	7,876
U.S. dollar	1,254	5,598
British pound	560	–
Swiss franc	483	335
Chinese renminbi	336	436
Argentinean peso	41	22
Turkish lira	24	39
Norwegian krone	10	54
Brazilian real	–	67
Other	48	87
	14,819	14,514

Maturities of financial indebtedness (million €)

	2009	2008
Following year 1	2,375	6,224
Following year 2	1,363	1,027
Following year 3	3,067	1,401
Following year 4	2,075	1,418
Following year 5	1,329	1,999
Following year 6 and thereafter	4,610	2,445
	14,819	14,514

Bonds and other liabilities to the capital markets

Other bonds consist primarily of bonds from BASF Catalyst LLC and industrial revenue and pollution control bonds from the BASF Corporation Group that are used to finance investments in the United States. The weighted-average interest rate was 2.3% in 2009 (2008: 3.1%). The weighted-average effective interest rate was 2.3 % in 2009 (2008: 3.1%). The average residual term amounted to 234 months as of December 31, 2009, and 189 months as of December 31, 2008.

Liabilities to credit institutions

The weighted-average interest rate on borrowings was 3.0% in 2009 (2008: 5.3%). To finance the investment in the expansion of the OPAL natural gas pipeline, €500 million were borrowed at an interest rate of 2.5% by WINGAS GmbH & Co. KG.

BASF SE had committed and unused credit lines with variable interest rates of €4,165 million as of December 31, 2009, and €6,668 million as of December 31, 2008.

Other liabilities

The decline in other liabilities in 2009 is related primarily to the negative fair value of derivatives concluded to hedge currency fluctuations and rising raw material prices. This was partially offset by a decline in derivatives with positive fair values reflected in 'other receivables'.

Liabilities to companies in which participations are held include the proportionate amount of liabilities of joint venture companies accounted for using the proportional consolidation method of €313 million in 2009, and €242 million in 2008, thereof miscellaneous liabilities of €145 million in 2009, and €36 million in 2008. Further other liabilities relating to associated companies accounted for using the equity or cost method were €188 million in 2009, and €224 million in 2008. In addition, other liabilities contained precious metal derivatives with a negative fair value of €52 million as of the balance sheet date 2009 compared with €39 million in 2008.

→ For more information on financial risks and derivative financial instruments, see Note 25 from page 189 onward

→ For more information on finance lease payables, see Note 26 from page 194

Other liabilities (million €)

	2009		2008	
	Short-term	Long-term	Short-term	Long-term
Advances received on orders	116	–	116	–
Liabilities on bills	52	23	11	27
Liabilities related to social security	156	30	151	16
Non-trade liabilities to joint venture partners	271	437	334	344
Derivative instruments	279	–	1,414	1
Liabilities arising from finance leases	18	62	15	65
Miscellaneous liabilities	1,233	164	1,255	301
Deferred income	115	182	138	163
	2,240	898	3,434	917

Secured liabilities (million €)

	2009	2008
Liabilities to credit institutions	8	35
Miscellaneous liabilities	37	504
	45	539

On December 31, 2008, material margins (margin calls) had to be provided for derivatives with negative fair values. These derivatives, which were concluded in 2008, were due in 2009, leading to a reduction in the margins deposited.

Liabilities to credit institutions are secured primarily with registered land charges. There are no secured contingent liabilities.

22 – Contingent liabilities and other financial obligations

The contingencies listed below are stated at nominal value:

Contingent liabilities (million €)

	2009	2008
Bills of exchange	3	4
Thereof to affiliated companies	–	–
Guarantees	625	788
Thereof to affiliated companies	8	62
Warranties	73	84
Granting collateral on behalf of third-party liabilities	17	18
	718	894

Liabilities from guarantees were primarily due to the financial guarantee given in 2008 for the financing of OAO Severneftegazprom.

Other financial obligations (million €)

	2009	2008
Construction in progress	3,888	4,753
Thereof purchase commitments	556	803
for the purchase of intangible assets	57	99
Obligation arising from long-term leases (excluding financing leases)	1,357	1,449
Payment and loan commitments and other financial obligations	5	1,803
	5,250	8,005

In 2008, payment and loan commitments and other financial obligations of €1,797 million were related to the purchase of shares in Ciba Holding AG as part of the public tender for that company. → **For more information, see Note 2 from page 151 onward**

Property, plant and equipment used under long-term leases

Property, plant and equipment used under long-term leases primarily concern buildings and IT infrastructure.

→ **More information on finance lease payables is available in Note 26 on page 194**

Obligations from long-term rental and lease contracts (excluding financing leases) (million €)

2010	376
2011	207
2012	170
2013	138
2014	117
2015 and thereafter	349
	1,357

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 decline in purchase obligations compared with the previous year resulted in particular from lower 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, 2009, are as follows:

Purchase obligations from natural gas and raw material supply contracts (million €)

2010	7,614
2011	6,451
2012	6,399
2013	5,790
2014	5,464
2015 and thereafter	86,238
	117,956

23 – Risks from litigation and claims

Since 2005, several 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. BASF is defending itself against these lawsuits. At the end of 2007, the U.S. Department of Justice ceased an inquiry on alleged price fixing.

BASF Corporation, Bayer Corporation and Bayer Crop-Science Corporation were sued by a number of plaintiffs for damages because of alleged price fixing in the distribution of the termiticides Premise® (Bayer) and Termidor® (BASF) in the United States. The plaintiffs contend that BASF and Bayer had each engaged in unlawful resale price maintenance resulting in overcharges to plaintiff purchasers, who are professionals in

termite control. The plaintiffs are suing for trebled damages of US\$600 million. BASF maintains that its pricing was lawful because its sales were through agency agreements rather than through distributors and therefore the claims are without merit. The court dismissed the action on July 13, 2007. The plaintiffs appealed against this decision. The Court of Appeal denied the petition. The proceedings are therefore closed.

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.

24 – Stock price-based compensation program and BASF incentive share program

Stock price-based compensation program

In 2009, BASF continued the BASF option program (BOP) 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. The options are settled in cash when exercised.

To participate in the BASF option program, each participant must hold as a personal investment BASF shares in the amount of 10% to 30% of his or her individual variable compensation. The number of shares to be held is determined by the amount of variable compensation designated by the participant and the weighted-average market price for BASF shares on the first business day after the Annual Meeting, which was €28.28 on May 4, 2009.

For each BASF share held as an individual investment, a participant receives four options. Each option consists of two parts, right A and right B, which may be exercised if defined thresholds have been met: The threshold of right A is met if the price of the BASF share has increased by more than 30% in comparison to the base price (absolute threshold). The value of right A will be the difference between the market price of BASF shares at the exercise date and the base price; it is limited to 100% of the base price. Right B may be exercised if the cumulative percentage performance of BASF shares exceeds (relative threshold) the percentage performance of the MSCI World Chemicals IndexSM (MSCI Chemicals). The value of right B will be the base price of the option multiplied by twice the percentage outperformance of BASF shares compared to the MSCI Chemicals Index on the exercise date. It is limited to the closing price on the date of exercise minus computed nominal value of BASF shares. Shares of the individual investment must be held for at least two years following the granting of the options (vest-

ing period). The options were granted on July 1, 2009, and may be exercised following a two-year vesting period, between July 1, 2011, and June 30, 2017. For members of the Board of Executive Directors of BASF SE the vesting period ends after four years. Therefore the exercise period for members of the Board of Executive Directors begins on July 1, 2013, and ends on June 30, 2017. During the exercise period, it is not possible to exercise options during certain periods (closed periods). Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right lapses. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment. Option rights are forfeited if the option holders no longer work for BASF or have sold part of their individual investment before the expiry of the two-year vesting period. They remain valid in the case of retirement.

The option programs BOP 2002 to 2008 were structured in a similar way to BOP 2009.

The benchmark index used to determine the value of right B for BOP 2002 to 2004 is the Dow Jones Chemicals Total Return Index (DJ Chemicals). This index was replaced by the MSCI Chemicals starting with the option program 2005. The MSCI Chemicals is a global industry index for the chemical industry that measures the performance of the companies contained within it in their respective local currencies, which significantly reduces currency effects.

The model used in the valuation of the option plans is based on the arbitrage-free valuation model according to Black-Scholes.

Due to the complexity of the option programs, a numerical solution method was used (Monte Carlo simulation).

Fair value of options and parameters used as of December 31, 2009¹

		BASF option program of the year	
		2009	2008
Fair value	€	23.32	21.44
Dividend yield	%	4.49	4.49
Risk-free interest rate	%	3.17	2.93
Volatility BASF shares	%	27.25	26.10
Volatility MSCI Chemicals	%	19.51	18.64
Correlation BASF share price: MSCI Chemicals	%	85.35	84.32

¹ It is assumed that the options will be exercised based upon the potential gains.

On December 31, 2009, the fair values and the valuation parameters relate to the option programs 2009 and 2008. For the option programs from preceding years, corresponding fair values were computed and valuation parameters were used.

The number of options granted amounted to 3,669,668 in 2009 (2008: 2,859,472).

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 BOP 2002 to 2009 were valued with the fair value as of the balance sheet date December 31, 2009. This amount is accrued as a provision over the respective vesting period. This provision increased due to higher fair values of the options from €80 million as of December 31, 2008, to €256 million as of December 31, 2009. This resulted in personnel costs of €212 million in 2009. In 2008, lower fair values of the options led to an income of €112 million. The utilization of provisions amounted to €36 million in 2009 (2008: €47 million).

The total intrinsic value of exercisable options amounted to €165 million as of December 31, 2009, and €47 million as of December 31, 2008.

BASF incentive share program

In 1999, BASF started an incentive share program called "Plus" for all eligible employees except the senior executives entitled to participate in the BOP. Currently, employees of German and of various European and Mexican subsidiaries are entitled to participate in the program. Each participant must make an individual investment in BASF shares from his or her variable compensation. For every ten BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and ten years of holding the BASF shares. As a rule, the first and second block of ten shares entitles 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

	2009	2008
As of January 1	3,054,104	2,899,824
Newly acquired entitlements	790,820	681,770
Bonus shares issued	(460,151)	(429,284)
Lapsed entitlements	(88,412)	(98,206)
As of December 31	3,296,361	3,054,104

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 €18.11 for the 2009 program, and €34.71 for the 2008 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 2000 to 2002 programs continue to be accrued proportionally on the basis of the BASF closing stock price.

Personnel costs of €20 million were recorded in 2009 for the employee stock program (2008: €9 million).

25 – 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 depreciation by 10% of all currencies against the respective functional currency. The effect on BASF's income before taxes and minority interests would have been minus €116 million as of

December 31, 2009, and minus €244 million as of December 31, 2008. The effect of the items designated as cash flow hedges would have reduced stockholders' equity before income taxes by €15 million. The currency exposure amounted to €902 million on December 31, 2009 (December 31, 2008: €2,242 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 €40 million as of December 31, 2009, and would have lowered earnings by €43 million as of December 31, 2008. The sensitivity of stockholders' equity to changes in interest rates is not material.

Carrying amount of non-derivative interest-bearing financial instruments (million €)

	2009		2008	
	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
Loans	85	180	98	303
Securities	6	24	6	26
Financial indebtedness	12,976	1,843	11,940	2,574

Nominal and fair value of interest rate and combined interest and cross currency swaps (million €)

	2009		2008	
	Nominal value	Fair value	Nominal value	Fair value
Interest rate swaps	426	33	150	(3)
Thereof payer swaps	426	33	150	(3)
Combined interest and cross currency swaps	948	(1)	384	31
Thereof fixed rate	934	(1)	326	27
variable rate	14	.	58	4

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 €86 million on December 31, 2009 (December 31, 2008: €84 million), before taking income taxes into consideration.

Commodity price risks: Some of BASF's divisions are occasionally exposed to strong fluctuations in raw material prices. These result primarily from the following raw materials: naphtha, propylene, benzene, titanium dioxide, cyclohexane, methanol, natural gas, butadiene, LPG Condensate, ammonia and precious metals. BASF takes the following measures to reduce price risks associated with the purchase of raw materials:

- BASF uses commodity derivatives to hedge the risks from the volatility of raw material prices. These are primarily options and swaps on crude oil, oil products and natural gas.
- In order to secure margins, the Oil & Gas segment uses commodity derivatives, primarily swaps and options, in natural gas trading. Risks to margins arise in volatile markets when purchase and sales contracts are priced differently.
- The Catalysts division enters into both short-term and long-term purchase contracts with precious metal producers. It also buys precious metals on spot markets from a variety of business partners. The price risk from precious metals purchased to be sold on to third parties, or for use in the production of catalysts, are hedged using derivative instruments. Forward contracts are primarily used and they are settled by entering into offsetting contracts or by delivering the precious metals. In addition, the Catalysts division also holds limited unhedged precious metal positions, which could also include derivatives, for trading on its own account. The value of these positions is exposed to market price volatility and is subject to constant monitoring.
- 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 products 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, we continually quantify market risk and forecast the maximum possible loss within a given confidence interval over a defined period. Our value-at-risk calculation is based on a confidence interval of 95% and a holding period of one day. The use of a confidence interval of 95% means that the maximum loss does not exceed the value at risk in a one-day period with a probability of 95%. 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. We also use volume-based, exposure and stop loss limits.

Exposure to commodity derivatives (million €)

	2009		2008	
	Exposure	Value at Risk	Exposure	Value at Risk
Crude oil, oil products and natural gas	65	8	230	49
Precious metals	31	2	20	1
Swaps on CO ₂ emissions certificates	4	1	10	1
Agricultural commodities	129	.	–	–
	229	11	260	51

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 CO₂ emissions trading, in which various types of CO₂ certificates are swapped. The goal of these transactions is to exploit market price differences. These deals are settled by physical delivery.

Default and credit risks

This is the risk that counterparties do not fulfill their contractual obligations. BASF regularly analyzes the creditworthiness of each significant debtor, and on the basis of this analysis grants credit limits. Due to the global activities and diversified customer structure of the BASF Group, there is no significant concentration of default risk. The carrying amount of all receivables, loans and interest-bearing securities plus the nominal value of contingent liabilities excluding potential warranty obligations represents the maximum default risk.

→ More information on credit risks in Note 15 on page 175 onward

Liquidity risks

We promptly recognize any risks from cash flow fluctuations as part of the liquidity planning. We have ready access to sufficient liquid funds from our ongoing commercial paper program and confirmed lines of credit from banks. Even during the financial crisis, the commercial paper market was always liquid for BASF due to our solid ratings.

Maturities of contractual cash flows from financial liabilities 2009 (million €)

	Bonds and other liabilities to the capital markets	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities
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
	15,485	2,067	370	1,284

Maturities of contractual cash flows from financial liabilities 2008 (million €)

	Bonds and other liabilities to the capital markets	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities
2009	5,691	943	1,497	1,012
2010	1,318	186	19	75
2011	1,501	201	2	31
2012	1,631	104	–	33
2013	1,531	619	–	31
2014 and thereafter	2,580	77	–	313
	14,252	2,130	1,518	1,495

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 fall due within one year. Therefore the carrying amount of trade accounts payable equals the sum of future cash flows.

Differences between book and fair values of financial instruments

For accounts receivable, trade, other receivables and miscellaneous assets, loans, cash and cash equivalents, as well as trade accounts payable and other liabilities, the carrying amount approximates the fair value. Participations which are not traded on an active market and whose fair value could not be reliably determined are recognized at amortized cost and 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 €805 million on December 31, 2009 (December 31, 2008: €1,049 million). They are included in the item 'shares in other participations'. → **For more information, see Note 13 on page 174**

The carrying amount of financial indebtedness amounted to €14,819 million on December 31, 2009 (December 31, 2008: €14,514 million). The fair value of financial indebtedness amounted to €15,621 million at the end of 2009 (end of 2008: €14,822 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 €)

	2009	2008
Financial assets at fair value through profit or loss	255	1,380
Financial liabilities at fair value through profit or loss	328	1,333
Derivatives designated as hedging instruments under cash flow hedge accounting	36	(121)
Loans and receivables	9,531	9,956
Cash and cash equivalents	1,835	2,776
Available-for-sale financial assets	1,369	1,581
Liabilities measured at amortized cost	19,865	19,600
Thereof financial indebtedness	14,819	14,514

Net gains and losses from financial instruments (million €)

	2009	2008
Receivables and loans	(209)	201
Thereof interest result	89	138
Available-for-sale financial assets	(7)	(15)
Thereof interest result	1	1
Liabilities measured at amortized cost	(499)	(911)
Thereof interest result	(612)	(523)
Financial instruments at fair value through profit or loss	(361)	746

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 140**

The use of derivative instruments

The Company is exposed to foreign currency, interest rate and commodity price risks during the normal course of business. In addition, financial assets are also exposed to equity price risk. These risks are hedged through a centrally determined strategy employing derivative instruments. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities. Hedging is only employed for underlying positions from the operating business, cash investments, financing or planned sales and raw material purchases. The risks from the underlying transactions and the derivatives are constantly monitored. Where derivatives have a positive market value, the Company is exposed to credit risks in the event of nonperformance of their counterparts. This credit risk is minimized by trading contracts exclusively with creditworthy banks and partners within predefined credit limits.

To ensure effective risk management, risk positions are centralized at BASF SE and certain Group companies. Contracting and execution of derivative financial instruments for hedging purposes is conducted according to internal guidelines, and are subject to strict control mechanisms.

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 €25 million in 2009 (2008: €4 million) were determined.

Fair value of derivative instruments (million €)

	2009	2008
Foreign currency forward contracts	(142)	183
Currency options	72	133
Foreign currency derivatives	(70)	316
Thereof designated hedging instrument as defined by IAS 39 (Hedge Accounting)	1	-
Interest rate swaps	33	(3)
Combined interest and cross currency swaps	(1)	31
Interest derivatives	32	28
Commodity derivatives	1	(418)
Thereof designated hedging instrument as defined by IAS 39 (Hedge Accounting)	35	(121)

Hedge Accounting

In 2009 and 2008, 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 2009, 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 2011 and 2012. In 2009, €36 million (2008: €(183) million), in effective changes in the fair value of hedging instruments were recognized in equity of shareholders of BASF SE. In 2009, €155 million (2008: €12 million) was derecognized from equity of shareholders of BASF SE and recorded as an expense in cost of sales. The ineffective part in the change in value of the hedge was €27 million in 2009 (2008: €(33) million). This amount was reported in the income statement in costs of sales and in miscellaneous revenue-generating activities or other operating expenses respectively.

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 stockholders' equity are reclassified proportionally from stockholders' equity to the income statement. In both 2009 and 2008, €8 million was derecognized from equity of shareholders of BASF SE and recorded as interest expense.

Furthermore, in 2009, cash flow hedge accounting was applied for the effects of foreign currency derivatives contained in supply contracts for the first time. The impact on earnings from the underlying transactions occurs primarily in 2010, with a smaller impact in 2011 and 2012. In 2009, the effective part of the change in values of the hedges was €10 million, which was recognized in equity of shareholders of BASF SE. The amounts derecognized from equity of shareholders of BASF SE reduced costs of sales by €3 million. There were no ineffective parts.

26 – 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 €)

	2009		2008	
	Acquisition cost	Net book value	Acquisition cost	Net book value
Land, land rights and buildings	24	12	20	13
Machinery and technical equipment	235	78	223	96
Miscellaneous equipment and fixtures	67	13	73	18
	326	103	316	127

Liabilities from finance leases (million €)

	2009			2008		
	Minimum lease payments	Interest portion	Leasing liability	Minimum lease payments	Interest portion	Leasing liability
Following year 1	23	5	17	20	5	15
Following year 2	27	4	21	20	5	14
Following year 3	16	5	14	22	5	18
Following year 4	7	2	6	11	2	9
Following year 5	6	2	3	7	2	4
Over 5 years	27	9	19	29	10	20
	106	27	80	108	29	80

In the current business year and in 2008, no additional lease payments arising from contractual obligations for finance leases were recognized in income above the minimum lease payments for finance leases.

In 2009, 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 €1,357 million in 2009, and €1,449 million in 2008, are due in the following years:

Commitments due to operating lease contracts (million €)

	Nominal value of the future minimum payments	
	December 31, 2009	December 31, 2008
Less than 1 year	376	280
1–5 years	632	613
Over 5 years	349	556
	1,357	1,449

In 2009, commitments due to operating lease contracts of less than one year included leases of precious metals of €133 million (2008: €35 million). These metals were immediately leased to third parties. Offsetting the other leasing commitments are expected minimum lease payments from sub-leases of €13 million in 2009 (2008: €11 million).

Minimum lease payments of €279 million (2008: €269 million), conditional lease payments of €2 million (2008: none), and payments received from subleases of €4 million (2008: €4 million), were included in income from operations in 2009.

BASF as lessor

BASF acts as both a lessee and a lessor under finance leases. BASF acts as a lessor for finance leases in a minor capacity only. Receivables on finance leases were €17 million in both 2009 and 2008.

In 2009, nominal minimum payments arising from operating leases amount to €143 million within one year, and €40 million within the next five years. For 2008, these figures amounted to €42 million within one year, and €19 million within the next five years.

In 2009, precious metal accounts of €578 million (2008: €505 million), continue to be held for customers where the metals are stored physically at BASF.

27 – Compensation for the Board of Executive Directors and Supervisory Board of BASF SE

Million €	2009	2008
Performance-related and fixed payments to the Board of Executive Directors	14.8	18.6
Market value of options granted to the Board of Executive Directors in the fiscal year on date of grant	2.8	3.7
Total compensation for the Board of Executive Directors	17.6	22.3
Service costs of the Board of Executive Directors	1.6	4.3
Compensation for the Supervisory Board	1.3	2.9
Total compensation for former members of the Board of Executive Directors and their surviving dependents	12.3	6.0
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	87.9	83.4
Loans to members of the Board of Executive Directors and the Supervisory Board	–	–
Guarantees to members of the Board of Executive Directors and the Supervisory Board	–	–

Performance-related compensation for the Board of Executive Directors is based on the return on assets, which corresponds to earnings before taxes plus borrowing costs as a percentage of average assets.

Moreover, in 2009, the members of the Board of Executive Directors were granted 411,540 options under the BASF option program (BOP).

Option rights of active and former members of the Board resulted in personnel costs of €20.9 million in 2009. In 2008, option rights resulted in income from the reversal of provisions of €9.5 million.

- For more information on the compensation of members of the Board of Executive Directors, see the Compensation report from page 126 onward
- For more information on the members of the Supervisory Board and Board of Executive Directors, including their memberships on other boards, see page 123 onward

28 – Related party transactions

IAS 24 “Related Party Disclosures” requires the disclosure of transactions with related parties; both with related companies that are not fully consolidated, as well as with related individuals.

Material supply relationships exist for the supply of oil and gas between the proportionally consolidated joint venture companies Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany, Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland, and companies of the BASF Group. The unconsolidated portion of these supplies amounted to €902 million in 2009, and €1,402 million in 2008.

In addition, there are material supply relationships with Ellba C.V., Rotterdam, the Netherlands, and Ellba Eastern Private Ltd., Singapore. The unconsolidated portion of these supplies amounted to €295 million in 2009, and €493 million in 2008.

There were no reportable related party transactions with members of the Board of Executive Directors or the Supervisory Board.

BASF has not issued loans to members of the Board of Executive Directors or the Supervisory Board.

- For more information on receivables and payables with companies accounted for proportionally, at acquisition cost or according to the equity method, see Note 15 from page 175 onward and Note 21 from page 184 onward

29 – Services provided by the external auditor

BASF Group companies have used the following services from KPMG:

Million €	2009	2008
Annual audit	22.7	19.8
Thereof domestic	6.6	6.3
Audit-related services	0.4	0.4
Thereof domestic	0.1	0.2
Tax consultation services	.	.
Thereof domestic	–	–
Other services	0.3	0.3
Thereof domestic	0.3	0.3
	23.4	20.5

Of this amount, €10.3 million in 2009 (2008: €7.8 million), related to fees for annual audits paid to KPMG AG Wirtschaftsprüfungsgesellschaft and its affiliated companies (which together form KPMG Europe LLP). The scope of affiliated companies in KPMG Europe LLP increased in 2009 with the inclusion of the KPMG member firms from the Netherlands, Belgium, Luxemburg and Turkey.

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.

Securing Europe's natural gas supply

VALUE FOR BASF

Leaders in natural gas storage in Europe

BASF subsidiary WINGAS continues to strengthen its position as one of the leading providers of natural gas storage facilities in Europe. The German-Russian company is increasing its storage volumes by more than 40% with the realization of new storage projects in Haidach, Austria, in Jemgum on the German-Dutch border and in Saltfleetby, England. WINGAS already operates the largest natural gas storage facility in Western Europe, in Rehden, Germany.

→ For more on the oil and gas business, see page 76 onward



Natural gas production in Western Siberia: preparing gas wells in Novy Urengoy.



More natural gas storage facilities for Europe: WINGAS's growing storage capacities are contributing to securing the supply of energy.

VALUE FOR SOCIETY

More supply security for Europe

Natural gas storage facilities guarantee the availability of this environmentally friendly fuel by balancing out fluctuations in natural gas supply and demand. As the European Union has to import more and more natural gas, the need for additional storage facilities is increasing. WINGAS's growing storage capacities therefore make a key contribution to securing Europe's energy supply.

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, several modifications have been made to SFAS 69. BASF has an interest of 35% in the economic rewards of this field through Severneftegazprom (SNG), the company which holds the production license. SNG is accounted for using the equity method. A consolidated project company was established for these operations.

In the following overviews, BASF's stake in the project is included under 'Russia'. In addition, the values for SNG, which is accounted for using the equity method, are presented separately.

All consolidated subsidiaries are included with 100%. To the extent that other investors have a stake in these companies, their share is presented separately. This relates to a stake in a German Wintershall subsidiary which was part of the asset swap with Gazprom in 2007. This company holds the production and exploration rights to the Libyan onshore concession 96 and 97. Due to contractual rules, the following does not include any volumes or values from the Achimgaz project.

The 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 & Gas segment.

	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, Oman
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 has used independent, internationally recognized reserve auditors for some years to perform reserves audits of its major oil and gas fields.

The tables below show the estimated net quantities as of December 31, 2008 and 2009, 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.

2009

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Oil						
Proved developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)	55	12	12	286	39	404
Revisions und other changes	6	(5)	1	24	(6)	20
Extensions and discoveries	-	-	-	-	-	-
Purchase/sale of reserves	-	(2)	-	-	-	(2)
Production	7	2	2	36	3	50
Proved reserves as of December 31	54	3	11	274	30	372
Minority interests	-	-	-	129	-	129
Proved reserves after minority interests	54	3	11	145	30	243
Thereof at equity companies	-	-	11	-	-	11
Proved reserves after minority interests and at equity companies	54	3	-	145	30	232
<i>Minority interests in production</i>	-	-	-	17	-	17
<i>Proved developed reserves as of December 31</i>	39	3	11	269	24	346

2009

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Gas						
Proved developed and undeveloped gas reserves as of January 1, Billion Standard Cubic Feet (BSCF)¹	313	144	3,432	192	1,281	5,362
Revisions und 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
Proved reserves as of December 31	278	101	3,562	202	1,317	5,460
Minority interests	-	-	-	99	-	99
Proved reserves after minority interests	278	101	3,562	103	1,317	5,361
Thereof at equity companies	-	-	3,562	-	-	3,562
Proved reserves after minority interests and at equity companies	278	101	-	103	1,317	1,799
<i>Minority interests in production</i>	-	-	-	10	-	10
<i>Proved developed reserves as of December 31</i>	275	101	3,554	188	1,108	5,226

¹ The natural gas volumes can be converted with the factor 6 BSCF per MMBOE (Million Barrel Oil Equivalent).

2008

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Oil						
Proved developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)	63	1	11	270	45	390
Revisions und other changes	-	-	2	60	(1)	61
Extensions and discoveries	-	-	-	-	-	-
Purchase/sale of reserves	-	12	-	-	-	12
Production	8	1	1	44	5	59
Proved reserves as of December 31	55	12	12	286	39	404
Minority interests	-	-	-	133	-	133
Proved reserves after minority interests	55	12	12	153	39	271
Thereof at equity companies	-	-	12	-	-	12
Proved reserves after minority interests and at equity companies	55	12	-	153	39	259
<i>Minority interests in production</i>	-	-	-	21	-	21
<i>Proved developed reserves as of December 31</i>	<i>40</i>	<i>7</i>	<i>12</i>	<i>282</i>	<i>32</i>	<i>373</i>

2008

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Gas						
Proved developed and undeveloped gas reserves as of January 1, Billion Standard Cubic Feet (BSCF)¹	365	170	3,239	194	1,337	5,305
Revisions und other changes	(11)	16	375	25	63	468
Extensions and discoveries	-	24	-	-	-	24
Purchase/sale of reserves	-	(4)	-	-	-	(4)
Production	41	62	182	27	119	431
Proved reserves as of December 31	313	144	3,432	192	1,281	5,362
Minority interests	-	-	-	94	-	94
Proved reserves after minority interests	313	144	3,432	98	1,281	5,268
Thereof at equity companies	-	-	3,432	-	-	3,432
Proved reserves after minority interests and at equity companies	313	144	-	98	1,281	1,836
<i>Minority interests in production</i>	-	-	-	13	-	13
<i>Proved developed reserves as of December 31</i>	<i>308</i>	<i>126</i>	<i>2,512</i>	<i>190</i>	<i>1,007</i>	<i>4,143</i>

¹ 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.

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
Total sales (net of duties)	404	421	579	1,386	204	2,994
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
Operating income before taxes	215	54	453	1,083	80	1,885
Income taxes	63	-	89	1,026	21	1,199
Operating income after taxes	152	54	364	57	59	686
Minority interests	-	-	-	41	-	41
Operating income after taxes and minority interests	152	54	364	16	59	645
Thereof at equity companies	-	-	75	-	-	75
Operating income after taxes, minority interests and at equity companies	152	54	289	16	59	570

2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Sales crude oil (incl. condensate and LPG)	460	39	62	2,753	145	3,459
Sales natural gas	300	452	456	8	147	1,363
Local duties (royalties, export etc.)	129	5	53	136	80	403
Total sales (net of duties)	631	486	465	2,625	212	4,419
Production costs	97	82	25	158	63	425
Exploration expenses	12	134	27	44	12	229
Depreciation, amortization and impairment	59	111	55	57	37	319
Other	(4)	9	20	19	4	48
Operating income before taxes	467	150	338	2,347	96	3,398
Income taxes	136	51	92	2,203	23	2,505
Operating income after taxes	331	99	246	144	73	893
Minority interests	-	-	-	87	-	87
Operating income after taxes and minority interests	331	99	246	57	73	806
Thereof at equity companies	-	-	78	-	-	78
Operating income after taxes, minority interests and at equity companies	331	99	168	57	73	728

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.

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
Total net costs	61	310	90	167	48	676

2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Acquisitions	–	559	–	–	–	559
Exploration	15	113	24	75	12	239
Development	75	33	50	89	40	287
Total net costs	90	705	74	164	52	1,085

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.

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
Total gross costs	1,245	2,134	2,024	1,449	937	7,789
Accumulated depreciation	904	1,225	119	867	608	3,723
Total net costs	341	909	1,905	582	329	4,066

2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proved properties	575	689	2,082	1,247	891	5,484
Unproved properties	19	748	7	5	–	779
Other equipment	602	559	4	39	–	1,204
Total gross costs	1,196	1,996	2,093	1,291	891	7,467
Accumulated depreciation	865	1,087	64	795	573	3,384
Total net costs	331	909	2,029	496	318	4,083

Capitalized exploration well-drilling costs: Suspended well costs

Exploratory drilling costs are capitalized until the drilling of the well is complete. If hydrocarbons are found, and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. 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 €) ¹

	2009	2008
At January 1	91.1	75.3
Additions pending determination of proved reserves	128.2	118.4
Capitalized exploratory well costs charged to expense	(8.0)	(60.1)
Reclassifications to wells, facilities and equipment	(35.8)	(42.5)
Ending balance at December 31	175.5	91.1

¹ Only consolidated companies

The following table provides an aging of capitalized well costs and, on the last line, the number of suspended exploration wells.

Capitalized exploration well-drilling costs (million €) ¹

	2009	2008
Wells for which drilling is not complete	14.2	25.8
Wells capitalized less than one year	122.5	30.6
Wells capitalized more than one year	38.8	34.7
Total	175.5	91.1
Number of suspended wells	14	13

¹ 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. In contrast to previous years, as of 2009 the proven reserves are not measured based on the price on the balance sheet date (December 31), but on the average price of the quotations from the first day of each 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 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
Standardized measures of discounted future cash flows	692	88	3,235	953	513	5,481
Minority interests	-	-	-	364	-	364
Standardized measures of discounted future cash flows after minority interests	692	88	3,235	589	513	5,117
Thereof at equity companies	-	-	501	-	-	501
Standardized measures of discounted future cash flows after minority interests and at equity companies	692	88	2,734	589	513	4,616

Standardized measure of discounted future cash flows 2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Future revenues	2,919	1,480	8,594	6,394	2,539	21,926
Future production/development costs	1,649	762	862	2,441	1,254	6,968
Future income taxes	273	379	1,489	3,161	166	5,468
Future net cash flows	997	339	6,243	792	1,119	9,490
Discounted to present value at a 10% annual rate	371	22	2,449	290	505	3,637
Standardized measures of discounted future cash flows	626	317	3,794	502	614	5,853
Minority interests	-	-	-	193	-	193
Standardized measures of discounted future cash flows after minority interests	626	317	3,794	309	614	5,660
Thereof at equity companies	-	-	652	-	-	652
Standardized measures of discounted future cash flows after minority interests and at equity companies	626	317	3,142	309	614	5,008

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
Balance as of January 1	626	317	3,794	502	614	5,853
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)
Balance as of December 31	692	88	3,235	953	513	5,481
Minority interests	-	-	-	364	-	364
Standardized measures of discounted future cash flows (SMOG) after minority interests	692	88	3,235	589	513	5,117
Thereof at equity companies	-	-	501	-	-	501
Standardized measure of discounted future cash flows after minority interests and at equity companies	692	88	2,734	589	513	4,616

Summary of changes in standardized measure of discounted future net cash flows 2008 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Balance as of January 1	1,389	295	3,315	1,235	816	7,050
Sales and transfers of oil and gas produced, net of production costs	(534)	(404)	(440)	(2,467)	(149)	(3,994)
Net changes in price and in development and production costs	(746)	268	162	(5,669)	(306)	(6,291)
Extension, discoveries and improved recovery, less related costs	-	105	-	-	-	105
Revisions of previous quantity estimates	50	91	98	625	131	995
Development costs incurred during the period	75	23	170	80	32	380
Changes in estimated future development costs	(96)	(7)	(3)	(254)	(63)	(423)
Purchase/sale reserves	-	6	-	-	-	6
Net change in income taxes	320	(86)	76	6,118	64	6,492
Accretion of discounts	170	26	416	832	91	1,535
Other	(2)	-	-	2	(2)	(2)
Balance as of December 31	626	317	3,794	502	614	5,853
Minority interests	-	-	-	193	-	193
Standardized measures of discounted future cash flows (SMOG) after minority interests	626	317	3,794	309	614	5,660
Thereof at equity companies	-	-	652	-	-	652
Standardized measure of discounted future cash flows after minority interests and at equity companies	626	317	3,142	309	614	5,008



Delivery processes are monitored online and loads are also checked on site: BASF employee Andreas Nirmaier conducts an inspection at the Ludwigshafen site's northern harbor.

A reliable supplier to our customers

VALUE FOR BASF

Global transparency for deliveries

Reliability of supply is an important prerequisite for building long-term customer relationships. This is why we use the Supply Chain Event Manager (SCEM) to keep track of key events in the global export business throughout our delivery processes. The central online system allows us to monitor whether predefined delivery events occur at the specified time; for example, whether an order reaches its port of loading on time. We are the only company that has integrated the international ports of Hong Kong and Singapore as a data source into the SCEM system. This allows us to identify delays in the logistics chain at an early stage and to introduce countermeasures if necessary. In this way, we lay the foundations for increasing efficiency in the logistics chain.



BASF employee Cai Le Min (left) with a carrier company employee in Shanghai.

VALUE FOR OUR CUSTOMERS

Reliable supplies help our customers plan optimally

With reliable delivery of our products, our customers in all major industries can plan their production more effectively and, ideally, produce and sell more themselves. The Supply Chain Event Manager helps us increase the reliability of our deliveries. We are constantly expanding the system: In 2009, we integrated air freight deliveries from Europe to the rest of the world into our event-driven monitoring. The Supply Chain Event Manager monitored around 130,000 deliveries for more than 9,000 BASF Group customers in 2009.

Glossary

A

Audits for environment, health and safety

Audits are a strategic tool for managing safety and environmental protection standards. During a site or plant audit, a profile is created using clearly defined environmental, safety or health criteria.

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

CO₂ equivalent

A parameter to describe the effect of greenhouse gas emissions. A factor known as the global warming potential (GWP) shows the effect of the individual gases compared with CO₂ 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.

D

Dividend yield

The dividend yield is the return received by a shareholder in the form of a dividend in relation to the year-end share price. It is calculated by dividing the per-share dividend by the year-end share price and multiplying by 100.

E

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

This analysis allows both economic and environmental aspects to be considered when developing and optimizing products and processes. The aim is to offer the best possible cost-effective products with good environmental performance.

EPSA

An Exploration and Production Sharing Agreement is the prevalent type of contract between a national oil company and an international oil company in the exploration and production of hydrocarbons.

European Water Partnership

The European Water Partnership was founded in 2006 as an independent non-profit organization to promote sustainable water management. It serves as a discussion forum, promotes partnerships as well as the exchange of information among relevant stakeholders, and initiates and coordinates initiatives.

Exploration

To investigate and explore an area in the search for mineral resources such as crude oil or natural gas. 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 biological materials 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**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.

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.

International Standard in Assurance Engagements 3000 (ISAE 3000)

ISAE 3000 is published by the International Audit and Assurance Standards Board (IAASB). It provides guidelines for comprehensive audits, which contain non-financial data, for example for the audits of sustainability reports.

ISO 14001

ISO 14001 is an international standard 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 Matrix**

The materiality matrix identifies and evaluates societal interest as well as the potential impact of sustainability topics for BASF. The aim is to develop strategies for addressing potential new risks and opportunities at an early stage. A detailed examination of stakeholder expectations forms the basis of this analysis.

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 (high-temperature Membrane Electrode Assembly units)

The MEA is the core of a fuel cell. This is where hydrogen and air 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. The objective of monitoring is, among other things, voluntary commitments such as the adherence to human rights and internationally recognized labor standards.

MRF (magnetorheological fluids)

MRFs are liquids that exhibit adjustable flow behavior. Using an external magnetic field, the flow properties of MRF can be varied from solid to liquid in milliseconds. They are particularly suitable for applications in which power has to be controlled and transmitted on a continuous, variable basis.

N**Nanotechnology**

Characterization, generation and utilization of structures and systems that are smaller than one hundred nanometers.

Naphtha

Liquid 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.

"Organic Electronics Forum" cluster of excellence

The "Organic Electronics Forum" cluster of excellence is a collaborative network of companies, research institutes and universities which is sponsored by the German Federal Ministry for Education and Research.

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.

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**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 – above all, ethylene and propylene – 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.

Tetrahydrofuran (THF)

Tetrahydrofuran is a starting compound for Polytetrahydrofuran (PolyTHF®), a component for the production of elastic fibers.

Time-lag effect

Delayed adjustment of natural gas prices to the movement in oil prices.

Traits

Traits are the genetic properties of plants, such as drought and disease resistance or higher yields.

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.

W**White biotechnology**

An area of biotechnology that uses microorganisms and/or enzymes to produce chemical products, utilized in many levels of the value-adding chain in the chemical industry. This involves, for example, the biotechnological production of enzymes and chiral intermediates.

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Registered Trademarks¹

Acronis: _____ reg. trademark of BASF
AgCelence: _____ reg. trademark of BASF
Basonetic: _____ reg. trademark of BASF
Basotect: _____ reg. trademark of BASF
CathoGuard: _____ reg. trademark of BASF
COLO-FAST: _____ reg. trademark of BASF
Crystal Speed: _____ reg. trademark of
 FCI Corporation (United States)
Ecoflex: _____ reg. trademark of BASF
Ecovio: _____ reg. trademark of BASF
Elastocool: _____ reg. trademark of BASF
Elastopir: _____ reg. trademark of BASF
Elastopor: _____ reg. trademark of BASF
Emaco: _____ reg. trademark of BASF
F 500: _____ reg. trademark of BASF
Glasureit: _____ reg. trademark of BASF
Headline: _____ reg. trademark of BASF
Interceptor: _____ reg. trademark of BASF
Kaurit: _____ reg. trademark of BASF
Keropur: _____ reg. trademark of BASF
Kixor: _____ reg. trademark of BASF
Lutensol: _____ reg. trademark of BASF
Luvitec: _____ reg. trademark of BASF
MASTERSEAL: _____ reg. trademark of BASF
Nanoselect: _____ reg. trademark of
 Uni Tech Medical K.K. und K.K. Morris (Japan)
Natugrain: _____ reg. trademark of BASF
Neopor: _____ reg. trademark of BASF

Opera: _____ reg. trademark of BASF
Patent Asset Index: _____ trademark of PatentSight GmbH
PolyTHF: _____ reg. trademark of BASF
Premise: _____ reg. trademark of Bayer AG
PuraTreat: _____ reg. trademark of BASF
Pursuit: _____ reg. trademark of BASF
Responsible Care: _____ reg. trademark of the Conseil
 Européen de l'Industrie Chimique
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Ultrason: _____ reg. trademark of BASF
Uvinul: _____ reg. trademark of BASF
X-SEED: _____ reg. trademark of BASF

¹ Trademarks are not necessarily internationally registered.

Ten-year summary

Million €	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales and Earnings¹										
Sales	35,946	32,500	32,216	33,361	37,537	42,745	52,610	57,951	62,304	50,693
Income from operations before depreciation and amortization (EBITDA)	5,986	4,142	5,105	5,110	7,685	8,233	9,723	10,225	9,562	7,388
Income from operations (EBIT)	3,070	1,217	2,641	2,658	5,193	5,830	6,750	7,316	6,463	3,677
Income from ordinary activities	2,827	609	2,641	2,168	4,347	5,926	6,527	6,935	5,976	3,079
Extraordinary income	-	6,121	-	-	-	-	-	-	-	-
Income before taxes and minority interests	2,827	6,730	2,641	2,168	4,347	5,926	6,527	6,935	5,976	3,079
Income before minority interests	1,282	5,826	1,599	976	2,133	3,168	3,466	4,325	3,305	1,655
Net income	1,240	5,858	1,504	910	2,004	3,007	3,215	4,065	2,912	1,410
Capital expenditures and depreciation¹										
Additions to property, plant and equipment and intangible assets	6,931	3,313	3,055	3,415	2,163	2,523	10,039	4,425	3,634	5,972
Thereof property, plant and equipment	3,631	3,037	2,677	2,293	2,022	2,188	4,068	2,564	2,809	4,126
Depreciation and amortization of property, plant and equipment and intangible assets	2,916	2,925	2,464	2,452	2,492	2,403	2,973	2,909	3,099	3,711
Thereof property, plant and equipment	2,245	2,307	2,012	1,951	2,053	2,035	2,482	2,294	2,481	2,614
Number of employees										
At year-end	103,273	92,545	89,389	87,159	81,955	80,945	95,247	95,175	96,924	104,779
Annual average	105,784	94,744	90,899	88,167	85,022	80,992	88,160	94,893	95,885	103,612
Personnel costs¹										
	6,596	6,028	5,975	5,891	5,615	5,574	6,210	6,648	6,364	7,107
Research and development expenses¹										
	1,526	1,247	1,135	1,105	1,173	1,064	1,277	1,380	1,355	1,398
Key data¹										
Earnings per share (€) ^{7,8}	1.01	4.86 ²	1.30	0.81	1.83	2.87	3.19	4.16	3.13	1.54
Cash provided by operating activities	2,992	2,319	2,313	4,878	4,634	5,250 ³	5,940	5,807	5,023	6,270
EBITDA margin (%)	16.7	12.7	15.8	15.3	20.5	19.3	18.5	17.6	15.3	14.6
Return on assets (%)	9.9	3.1	8.4	7.4	13.2	17.7	17.5	16.4	13.5	7.5
Return on equity after tax (%)	9.0	36.6 ²	9.3	6.0	12.9	18.6	19.2	22.4	17.0	8.9
Appropriation of profits										
Net income of BASF SE ⁴	1,265	5,904	1,045	1,103	1,363	1,273	1,951	2,267	2,982	2,176
Transfer to retained earnings ⁴	50	5,153	247	334	449	-	-	-	-	-
Dividend	1,214	758	789	774	904	1,015	1,484	1,831	1,791	1,561
Dividend per share (€) ⁷	0.65	0.65	0.70	0.70	0.85	1.00	1.50	1.95	1.95	1.70
	+0.35 ⁵									
Number of shares as of December 31 (million)^{6,7}										
	1,214.8	1,166.8	1,140.6	1,113.3	1,080.9	1,028.8	999.4	956.4	918.5	918.5

¹ Starting in 2005, the accounting and reporting of the BASF Group has been formed 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.

² Including extraordinary income

³ Before external financing of pension obligations

⁴ Calculated in accordance with German GAAP

⁵ Special dividend of stockholders' equity charged with 45% corporate income tax

⁶ After deduction of repurchased shares earmarked for cancellation

⁷ 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.

⁸ Adjusted for special items and impairment of intangible assets, earnings per share were €3.01 in 2009 and €3.85 in 2008.

Consolidated balance sheets (German GAAP)

Million €	2000	2001	2002	2003
Intangible assets	4,538	3,943	3,464	3,793
Property, plant and equipment	13,641	14,190	13,745	13,070
Financial assets	3,590	3,360	3,249	2,600
Fixed assets	21,769	21,493	20,458	19,463
Inventories	5,211	5,007	4,798	4,151
Accounts receivable, trade	6,068	5,875	5,316	4,954
Other receivables	3,369	2,384	2,947	3,159
Deferred taxes	1,270	1,373	1,204	1,247
Marketable securities	364	383	132	147
Cash and cash equivalents	506	360	231	481
Current assets	16,788	15,382	14,628	14,139
Total assets	38,557	36,875	35,086	33,602
Subscribed capital	1,555	1,494	1,460	1,425
Capital surplus	2,746	2,914	2,948	2,983
Paid-in capital	4,301	4,408	4,408	4,408
Retained earnings	8,851	12,222	12,468	12,055
Currency translation adjustment	662	532	(330)	(972)
Minority interests	481	360	396	388
Stockholders' equity	14,295	17,522	16,942	15,879
Pensions and other long-term provisions	6,209	6,809	6,233	6,205
Tax and other short-term provisions	3,334	3,332	2,764	2,982
Provisions	9,543	10,141	8,997	9,187
Financial indebtedness	7,892	2,835	3,610	3,507
Accounts payable, trade	2,848	2,467	2,344	2,056
Other liabilities	3,979	3,910	3,193	2,973
Liabilities	14,719	9,212	9,147	8,536
Provisions and liabilities	24,262	19,353	18,144	17,723
Thereof long-term liabilities	9,059	9,955	9,211	10,285
Total stockholders' equity and liabilities	38,557	36,875	35,086	33,602

Consolidated balance sheets (IFRS)

Million €	2004	2005	2006	2007	2008	2009
Intangible assets	3,607	3,720	8,922	9,559	9,889	10,449
Property, plant and equipment	13,063	13,987	14,902	14,215	15,032	16,285
Investments accounted for using the equity method	1,100	244	651	834	1,146	1,340
Other financial assets	938	813	1,190	1,952	1,947	1,619
Deferred taxes	1,337	1,255	622	679	930	1,042
Other receivables and miscellaneous long-term assets	473	524	612	655	642	946
Long-term assets	20,518	20,543	26,899	27,894	29,586	31,681
Inventories	4,645	5,430	6,672	6,578	6,763	6,776
Accounts receivable, trade	5,861	7,020	8,223	8,561	7,752	7,738
Other receivables and miscellaneous short-term assets	2,133	1,586	2,607	2,337	3,948	3,223
Marketable securities	205	183	56	51	35	15
Cash and cash equivalents	2,086	908	834	767	2,776	1,835
Assets of disposal groups	-	-	-	614	-	-
Short-term assets	14,930	15,127	18,392	18,908	21,274	19,587
Total assets	35,448	35,670	45,291	46,802	50,860	51,268
Subscribed capital	1,383	1,317	1,279	1,224	1,176	1,176
Capital surplus	3,028	3,100	3,141	3,173	3,241	3,229
Retained earnings	11,923	11,928	13,302	14,556	13,250	12,916
Other comprehensive income	(60)	696	325	174	(96)	156
Minority interests	328	482	531	971	1,151	1,132
Stockholders' equity	16,602	17,523	18,578	20,098	18,722	18,609
Provisions for pensions and similar obligations	4,124	1,547	1,452	1,292	1,712	2,255
Other provisions	2,376	2,791	3,080	3,015	2,757	3,289
Deferred taxes	948	699	1,441	2,060	2,167	2,093
Financial indebtedness	1,845	3,682	5,788	6,954	8,290	12,444
Other liabilities	1,079	1,043	972	901	917	898
Long-term liabilities	10,372	9,762	12,733	14,222	15,843	20,979
Accounts payable, trade	2,372	2,777	4,755	3,763	2,734	2,786
Provisions	2,364	2,763	2,848	2,697	3,043	3,276
Tax liabilities	644	887	858	881	860	1,003
Financial indebtedness	1,453	259	3,695	3,148	6,224	2,375
Other liabilities	1,641	1,699	1,824	1,976	3,434	2,240
Liabilities of disposal groups	-	-	-	17	-	-
Short-term liabilities	8,474	8,385	13,980	12,482	16,295	11,680
Total stockholders' equity and liabilities	35,448	35,670	45,291	46,802	50,860	51,268

GRI and Global Compact Index

An extended overview with information on the GRI core and additional indicators as well as the principles of the United Nations Global Compact can be found at → basf.com/gri_gc_e



Global-Compact-Principle

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Since 2003, BASF has been participating in the feedback meetings of the Global Reporting Initiative (GRI) and has been working to further develop the guidelines together with experts from industry, non-governmental organizations, analysts and financial auditors. We reported on the basis of the GRI for the first time in our Corporate Report 2003. The GRI aims to make international reporting comparable. Since 2005, we have been supporting the Global Reporting Initiative as an Organizational Stakeholder. The BASF Report 2009 has been aligned with the indicators of the current GRI guideline G3.

This short index shows where to find information on the GRI core and additional indicators, as well as topics relevant to the principles of the United Nations Global Compact, in this report. An extended overview is available on the Internet at basf.com/gri_gc_e. The online index contains all GRI reporting elements, all GRI core and additional indicators and shows where details are to be found in our printed and online reporting. We also give a brief explanation if no data is available for a given indicator.

→ More information on the GRI can be found at www.globalreporting.org

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Global Compact relevance

Prizes and awards



Dow Jones Sustainability Index

BASF shares included in the most important sustainability index

For the ninth year in succession, BASF shares were included in the Dow Jones Sustainability Index (DJSI World) – the most important sustainability index worldwide.



Global 100

Included for the fourth time in succession

BASF was included in the list of the “Global 100” for the fourth time in succession in 2009 by New York-based investment advisory firm Innovest. This list comprises the world’s most successful companies in the areas of environmental protection, social affairs and corporate governance.

CARBON DISCLOSURE PROJECT

Carbon Disclosure Leadership Index

First place in materials sector

In 2009, BASF achieved the top ranking in the materials sector in the Carbon Disclosure Leadership Index. This index of the international investor group Carbon Disclosure Project recognizes corporations that excel in addressing the opportunities and risks associated with climate change.



Best Corporate Citizenship Award

Commitment to education and environmental protection

In 2009, BASF China Co. Ltd. received the Best Corporate Citizenship Award for the fifth time. The prize recognizes achievements in categories such as education and environmental protection, and is awarded by the business magazine 21st Century Business Herald.



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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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