

# SHAPING THE FUTURE

**BASF SE**  
**Financial Statements 2007**

**BASF**  
The Chemical Company



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# CONTENTS

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2 *Management's Analysis of the Financial Statements of  
BASF SE*

9 Corporate Governance Report  
13 Management and Supervisory Boards  
18 Compensation Report  
23 Report of the Supervisory Board  
26 Compliance Statement  
27 Report of the Independent Auditors

*Financial Statements of BASF SE*

28 Statement of Income  
29 Balance Sheet  
30 Notes to the Financial Statements of BASF SE

*Assurance pursuant to Sections 264 (2), 289 (1) of the  
German Commercial Code (HGB)*

The Financial Statements and Management's Analysis of BASF SE for the financial year 2007 are filed with, and published in, the electronic Federal Gazette.

The Financial Statements and Management's Analysis of BASF SE as well as the List of Shares Held by BASF SE are also available on the Internet at:

→ [corporate.basf.com/cg\\_reports](http://corporate.basf.com/cg_reports)

# MANAGEMENT'S ANALYSIS OF THE FINANCIAL STATEMENTS OF BASF SE

## Structure and organization

### Corporate legal structure

On January 14, 2008, BASF Aktiengesellschaft changed its legal form with the entry into the commercial register at the registration office in Ludwigshafen am Rhein. BASF is now a European company, a Societas Europaea (SE). As this change occurred before the preparation of these financial statements, the company will be called by its new name, BASF SE, throughout this report.

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

### Organization

In 2007, BASF's 14 operating divisions were organized in five segments. The divisions carry the operational responsibility and steer our 67 global and regional business units. Ten of the fourteen divisions of the BASF Group operate within BASF SE. As a result, the operational business of BASF SE represents only a portion of the global overall business. Only the Consolidated Financial Statements of the BASF Group provide a complete insight.

## Accounting principles

The Consolidated Financial Statements of the BASF Group incorporate the Financial Statements of BASF SE which are prepared in accordance with International Financial Reporting Standards (IFRS).

In the following, we comment on the Financial Statements of BASF SE, which are based on the German Commercial Code (Handelsgesetzbuch, henceforth HGB).

## Results of operations

To assess the net income of BASF SE a differentiation must be made between income from operations from BASF SE's own production and from the sale of products of other European BASF Group companies as well as the income from the function of BASF SE as a parent company. This function as a parent company is primarily reflected in the financial result.

## Corporate governance

The corporate governance processes apply equally to BASF SE and the BASF Group. For this reason, the information on corporate governance in the BASF SE Financial Statements (pages 9 to 26) and in the BASF Group Consolidated Financial Statements corresponds. The section on corporate governance includes the compensation report with disclosures according to Section 289 (2) No. 5 HGB and Section 289 (4) HGB, which form part of the Management's Analysis audited by the external auditor.

Million €

	2007	2006
<b>Sales</b>	<b>16,679</b>	<b>15,734</b>
<b>Gross profit on sales</b>	<b>3,781</b>	<b>3,661</b>
<b>Income from operations (EBIT)</b>	<b>771</b>	<b>911</b>
Income from participations	2,254	1,987
Interest result	(439)	(252)
Other financial result	(150)	(392)
<b>Financial result</b>	<b>1,665</b>	<b>1,343</b>
<b>Income before taxes*</b>	<b>2,436</b>	<b>2,254</b>
<b>Net income</b>	<b>2,267</b>	<b>1,951</b>

\* Income from ordinary operations

## Sales

### Change

	2007		2006	
	Million €	%	Million €	%
Change in volumes	442	2.8	586	4.0
Change in prices	525	3.4	451	3.0
Currency effects	(43)	(0.3)	(36)	(0.2)
Commissions, licenses, other businesses, etc.	21	0.1	(202)	(1.4)
	<b>945</b>	<b>6.0</b>	<b>799</b>	<b>5.4</b>

### Regions (million €)

	2007	2006
Europe	13,369	12,374
Thereof Germany	4,965	4,628
North America	889	966
Asia Pacific	1,587	1,644
South America, Africa, Middle East	834	750
	<b>16,679</b>	<b>15,734</b>

### Income from operations

BASF SE's sales increased by 6% to €16,679 million compared with 2006. Higher volumes and sales prices contributed to this sales increase.

Higher raw material prices could be passed on to the market in the form of higher sales prices. The result of operations improved significantly due to the increase in volumes.

However, income from operations declined by €140 million to €771 million. This was due to an addition to pension provisions of €376 million due to the Company's commitment made in 2007 to future increases in the pensions paid from the pension fund. This has resulted in a standardization of the rules of adjustment for company and fund pensions. In addition, BASF SE commits itself to increase the occupational pensions and pensions from BASF Pensionskasse VVaG by 5% as of January 1, 2010 - thereafter by 1% annually in three-year periods.

In addition, other operating income declined by €263 million. In 2006, this item contained income from the reversal of provisions for the cost of litigation, damage claims and other guarantees. Following foreign currency gains in 2006 of €78 million, we posted foreign currency losses of €10 million in 2007.

### Financial result

The increase in income from participations of €267 million resulted in particular from the higher income transfers. The interest result declined by €187 million due to higher interest expenses for cash investments from BASF Group companies at BASF SE. The item "Other financial result" improved by €242 million. In 2006, this item contained write-downs on loans to affiliated companies.

### Balance sheet structure and financial position

	2007		2006	
	Million €	%	Million €	%
Fixed assets	20,354	58.8	19,143	51.5
Short-term assets and other assets	14,234	41.2	18,037	48.5
<b>Total assets</b>	<b>34,588</b>	<b>100.0</b>	<b>37,180</b>	<b>100.0</b>
Stockholders' equity	9,081	26.3	10,197	27.4
Provisions	6,375	18.4	6,195	16.7
Liabilities and other liabilities	19,132	55.3	20,788	55.9
<b>Total stockholders' equity and liabilities</b>	<b>34,588</b>	<b>100.0</b>	<b>37,180</b>	<b>100.0</b>

#### Net income

Net income amounted to €2,267 million which represented an increase of €316 million, or 16% compared with 2006.

This was primarily due to the increase in the financial result and the decline in income taxes. The lower income taxes resulted from the increase in provisions following the commitment made in 2007 by the company to increase the pensions paid by the pension fund. In addition, tax-free income, under Section 8b of the German Corporate Income Tax Act (KStG), increased, while taxable income from participations declined in 2007.

#### Balance sheet structure

The balance sheet total declined by €2,592 million, or 7%, to €34,588 million.

The increase in fixed assets by €1,211 million resulted from the rise in financial investments due to capital increases in subsidiaries and acquisition of participations within the Group.

The decline in short-term assets was largely due to the repayment of the principal of a loan of BASF US Verwaltung GmbH which was granted to finance the acquisition of Engelhard Corp. in 2006.

The decline in stockholders' equity was due to the buy-back of own shares of €1,899 million. This was partially offset by the increase in net income by €316 million compared with 2006 and increase in the profit carried forward.

Liabilities and other liabilities declined particularly due to the decrease in financial indebtedness which had risen in 2006 due to the financing of acquisitions.

#### Financial position

In 2007, we generated high cash provided by operating activities of €3,026 million, which represented an increase of 7% compared with 2006.

Cash used in investing and financing activities amounted to €(1,125) million in comparison with €(6,412) million in 2006. This was due to the repayment of the principal of a loan given to BASF US Verwaltung GmbH to finance the acquisition of Engelhard Corp. in 2006. In addition, in fiscal 2007 it was affected by the increase in share buybacks, the repayment of principal on commercial papers and the sale of securities (there had been increases in 2006).

Cash and cash equivalents increased by €51 million to €3,915 million. Securities declined by €1,850 million, while cash increased by €1,901 million.

#### Employees

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

It is our goal to form the best team in industry. We meet this challenge by offering our employees attractive conditions and services. This is vital in the global competition for highly qualified professionals. We therefore place our focus on people. The trust our employees, partners and communities place on our activities is important to us.

BASF SE's personnel costs amounted to €3.10 billion in 2007 (2006: €2.77 billion). The company had 32,706 employees as of December 31, 2007 (2006: 33,220).

We are convinced that recognizing and encouraging performance promotes entrepreneurial thinking and action. For this reason, we have been using remuneration systems based on performance and success for years, that usually involves both fixed and variable components. The variable part is determined by the BASF Group's return on assets as well as an employee's individual performance. Employee performance is assessed in an annual review, which is compulsory for all BASF SE employees.

As part of the BASF incentive share program "plus," employees can invest part of their variable compensation in shares. In 2007, a total of 346,550 BASF shares were acquired by employees of BASF SE under the "plus" share purchase program.

Since 1999, BASF has offered its managers opportunity to participate in the BASF Option Program (BOP), which ties a considerable proportion of remuneration to the long-term development of the BASF share price.

### Research and development

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

In 2007, BASF SE had 5,190 employees in research and development. A global network with industrial partners and reputable universities is an important success factor for efficient and future-oriented research. Our network includes 1,800 collaborative partnerships with universities, research institutes, startup companies and industrial partners. In this regard, we have established an interdisciplinary research initiative with Harvard University mainly to research innovative products in the field of medical technology. In 2007, BASF filed 1,140 patents.

In 2007, BASF SE spent €866 million on research and development. In 2008, we intend to further invest in research and development in order to strengthen our competitive position in the long term.

### Environmental protection and occupational safety

Whoever wants to enjoy long-term success has to conduct their business in a sustainable manner. BASF combines financial success with its global responsibility for environmental and climate protection. We continually optimize our processes to reduce emissions. We have set ourselves challenging new goals in 2008, which we intend to reach by 2020.

The cost of operating environmental protection facilities throughout BASF SE amounted to €348 million in 2007 (2006: €347 million). We invested €74 million in new and improved environmental protection plants and facilities (2006: €81 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 €156 million as of December 31, 2007 (December 31, 2006: €163 million).

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

The number of work-related accidents of BASF employees at the Ludwigshafen site continued to stabilize in 2007. In the period from January to December, the lost time accidents amounted to 90, which was a 1% increase from the previous year (2006: 89).

Safety is a top priority for us. Plant reliability and the safe distribution of our products are part of our social responsibility. For this purpose we have defined clear procedures, which are recorded in our uniform global safety, health and environmental protection directives.

### **Principles and objectives of our financial management**

Financial management in the BASF Group is largely centralized and supported by regional competence centers. Our financing and investment policy is value-based, with risk management taking precedence over return. The risks associated with currencies, interest rate changes and creditworthiness are systematically analyzed and limited using modern processes and financial instruments.

We manage the capital structure of BASF with efficient financial planning tools while taking into account selected financial ratios.

### **Risk management system**

#### **Principles and objectives of risk management**

BASF SE is integrated into the risk management system of BASF Group. Specific risks pertaining to operating divisions and units are continually registered, evaluated and monitored centrally. The Board of Executive Directors regularly receives reports on the risk situation of the BASF Group. We continually monitor certain risk areas with the help of performance data and indicators, and reports are immediately submitted if pre-defined risk thresholds are reached. The Board of Executive Directors is informed by means of monthly reports on the current and expected development of the business as well as the risks and opportunities. Strategic opportunities and risks are assessed as part of the regularly monitored product and regional strategies and are weighed up against one another.

Our risk management process is continually being further developed. In 2007, we installed a new IT system for the quantitative recording and aggregation of opportunities and risks. In addition, we are developing a new method of detailed analysis of opportunities and risks regarding the volatility of raw materials prices that takes the value adding chains of the BASF-Verbund into account.

Corporate Audit continually examines the functioning and effectiveness of our risk management systems as well as its continual development and its integration into business processes. The auditing of the system for early risk recognition forms a part of the audit.

#### **Risk controlling**

The Strategic Planning and Controlling and Finance divisions are responsible for centralized risk controlling. They regularly inform the Board of Executive Directors.

### **Corporate systems**

The Strategic Planning & Controlling division ensures that the risk management standards are implemented and further develops methods and tools. The division is responsible for worldwide communication with the operating units, corporate divisions, competence centers as well as the regional divisions and coordinates the identification of all significant risks for BASF throughout the company and systematically evaluates them according to uniform standards.

Fourteen operating divisions bear the responsibility for the business operations of the BASF Group. It therefore follows that operational risk management is focused in these units. We have also established decentralized risk controlling units in the competence centers and regional divisions that work closely with the centralized units.

### **Risks of future development**

#### **Financial risks**

We monitor and control financial risks in the Treasury department of the Corporate Center or through appropriately authorized Group companies. Detailed guidelines and procedures exist for dealing with financial risks. Among other things, they provide for separate trading and processing functions.

#### **Currency, interest rate and price risks:**

These risks are hedged using derivative instruments. Commentary on the use of derivatives as well as information on the nominal and market value of these instruments is provided in Note 21 to the Financial Statements.

#### **Liquidity risks:**

We promptly recognize any risks from cash flow fluctuations using our liquidity planning system. We ensure a balanced debt repayment profile through the issuing of long-term bonds and thus reduce our refinancing risks. We have ready access to sufficient liquid funds in view of our good credit ratings, the ongoing commercial paper program and committed credit lines from banks.

#### **Credit risk or default risk:**

We limit country-specific risks through internal country ratings, which are continually updated to reflect changing environment conditions. We use export credit insurance and investment guarantees as the main tools to limit specific country-related risks.

We lessen credit risks for our financial investments by engaging in transactions only with business partners and banks with good credit ratings and by adhering to fixed limits. Monetary transactions are also conducted through such banks. We reduce the risk of default on receivables



by continually monitoring the creditworthiness and payment behavior of customers and by setting appropriate credit limits. Risks are also limited through the use of credit insurance and bank guarantees.

#### **Supply risks**

The availability and price volatility of feedstock, especially of oil products and precious metals, pose a special risk for BASF. Therefore in 2007, we implemented a method with which we can capture the opportunities and risks arising from raw materials price volatility with regard to the value adding chains of the BASF Verbund and consequently take any appropriate actions. We reduce our risks through the diversification of our portfolio from the oil and gas business all the way through to our high value products. Our global purchasing activities, long-term supply contracts and a diversification of our suppliers, as well as optimized procedures for the purchase of additional quantities of raw materials on spot markets make an important contribution to risk minimization. We minimize remaining cost risks through commodity derivatives. We address the risks from changes in the market for raw materials in the mid- and long term by developing new technologies.

In addition to the risks arising from the development of the overall economy, fluctuations in demand in key customer segments as well as competition in sales markets by nature present future risks. We reduce these risks through operative measures such as working in close collaboration with our customers and developing tailored system solutions as well as through strategic measures such as geographic diversification, the continuous development of innovative products and systems and active portfolio management. Diversification of our portfolio and the continuous focus on businesses resistant to cyclicity take center stage. The latter is reflected for example in the acquisitions in the areas of catalysts and construction chemicals. Further examples of our continuous measures for portfolio optimization are the asset swap with Gazprom and the planned sale of parts of the styrenics business.

#### **Economic cycle risks**

Economic risks are presenting themselves in the form of continued high oil prices as well as increasing foreign currency instability in the global markets. On the production side we counter foreign currency risks through our local production sites. However on the market side we face risks through our key customer industries. The problems in the U.S. real estate and financial markets had a negative effect on the housing market and private consumption. There is the risk that the credit crisis may deteriorate into a longer crisis of confidence. An increase in the interest rates on

loans has an impact on our customers' interest-rate sensitive industries such as the construction, automotive and capital goods industries. It is hard to estimate the magnitude of the global impact that an intensifying U.S. financial crisis will have, it can however be considerable. In addition, an aggravation of geopolitical tensions and the destabilization of currently politically stable systems pose risks.

#### **Regulatory risks**

As of June 1, 2007, a new European chemicals directive REACH setting forth terms for the registration, evaluation and authorization of chemicals came into effect. With its networked structure and extensive product portfolio, BASF is one of the companies most heavily affected. BASF is aware of the demands and therefore started preparing for REACH several years ago. We will register approximately 2,500 substances under the terms of REACH. We expect annual costs of around €50 million until completion of its implementation in 2018. Despite good preparation and planning we and our European customers face disadvantages due to the cost intensive test and registration procedures of REACH in comparison to our non-European competitors.

Within the framework of E.U. emissions trading, the BASF Group was allocated allowances for 2007. Affected plants at our European sites were allocated allowances for approximately 7 million metric tons of carbon dioxide (CO<sub>2</sub>). For the second trading period from 2008 until 2012, a number of chemical plants will also be included in the Europe-wide trading system. Moreover increased pressure from the E.U. commission could give rise to stringent guidelines for further reductions which may mean additional costs for BASF.

The application procedure for the allocation of emission certificates for the second trading period is currently in process. A decision has not yet been reached by the authorities.

#### **Assessment of the overall risk situation of BASF SE**

In our opinion, there are no individual risks that pose a threat to the continued existence of BASF SE at the present time or in the foreseeable future. The total sum of individual risks also does not pose a threat to the continued existence of BASF SE.

## Outlook and opportunities

### Outlook

Our business has continued to develop successfully since the beginning of 2008. The level of orders remains strong. Taking into account the economic assumptions described below, we expect BASF SE's business to develop positively in the next two years.

In 2008, we expect global economic growth of 2.8%. The financial and property crisis in the United States is affecting the global economy, which will cool off slightly compared with 2007. In the following years, we expect growth of over 3%.

We have based our business planning on the following assumptions:

- A moderate slowdown in global economic growth and growth in chemical production (excluding pharmaceuticals) of 2.8%
- Declining interest rates in the United States in the course of 2008 with moderate knock-on effects for Europe
- An average euro/dollar exchange rate of \$1.45 per euro
- Average oil prices of approximately \$78 per barrel in 2008

### Opportunities

Four strategic guidelines define the way in which we act. Rigorous value-based management, a strong customer focus, the best team in industry and sustainable development form the foundations for our success.

We aim to continue to optimize our portfolio and foster innovation by investing in research and development, while at the same time expanding production capacities for innovative products and in growth markets.

Planned capital expenditures in 2008 amount to €570 million and will therefore likely be above the level of depreciation and amortization. We expect a comparable level of capital expenditures in 2009. We aim to finance these planned expenditures from cash provided by operating activities.

### Forecast

- **Sales:** Assuming there are no changes made to our portfolio, we expect to exceed the previous year's sales.
- **Earnings:** In 2008, we aim to increase net income compared with 2007.
- **Dividends and share buybacks:** We aim to further increase our dividend annually and match the previous year's level even in years in which the business environment is difficult. Moreover, we also intend to continue to buy back shares.

### Supplementary report

The Board of Executive Directors decided on February 12, 2008, to cancel a total of 17,470,000 shares. Of this amount, 12,300,000 were own shares held by the company on December 31, 2007, and a further 5,170,000 were BASF SE shares repurchased in the period January 1 to 31.

Since the beginning of fiscal 2008, there have not been any material changes affecting BASF SE's situation or its competitive environment.

# CORPORATE GOVERNANCE REPORT

Corporate governance refers to the entire system for managing and supervising a company, including its organization, its commercial principles and guidelines as well as all internal and external regulatory and monitoring mechanisms. Effective and transparent corporate governance guarantees that BASF is managed and monitored in a responsible and value-driven manner. This fosters the confidence of our domestic and international investors, the financial markets, our business partners, employees and the public in the company.

## Conversion of BASF Aktiengesellschaft into BASF SE

As of January 14, 2008, BASF took on the new legal European form of a European Company. A highly significant goal of the conversion into BASF SE was the strengthening of BASF's corporate governance structure. By reducing the size of the Supervisory Board to twelve members and broadening the European composition of the employee representatives' side, the future direction for a modern and efficient corporate constitution has been set. At the same time, the equal representation of shareholders and employees has been maintained. Proven structures such as the two-tier administrative system of BASF's Board of Executive Directors and Supervisory Board will be retained in the SE.

## Management and supervision in BASF SE

The legal foundations of BASF SE's corporate constitution are primarily the SE Council Regulation of the European Union, the German SE Implementation Act and the German Stock Corporation Act. Despite these new legal foundations, the previous fundamental elements of BASF Aktiengesellschaft's corporate constitution remain unchanged in BASF SE: these are the two-tier system consisting of BASF's Board of Executive Directors and the Supervisory Board, the equal representation of shareholders and employees in the Supervisory Board and the shareholders' rights of co-administration and supervision at the Annual Meeting.

## Direction and management by the Board of Executive Directors

Under the two-tier administrative system of BASF SE, the Board of Executive Directors is responsible for the management of the company and represents BASF SE in business undertakings with third parties. BASF's Board of Executive Directors is strictly separated from the Supervisory Board: A member of the Supervisory Board cannot simultaneously be a member of the Board of Executive Directors. The Board of Executive Directors agrees on company goals and corporate strategy and manages and monitors the business units of the BASF Group through

the planning and setting of the company budget, the allocation of resources and management capacities, the monitoring and decision making regarding vital individual measures and the control of operative management. The Board is obliged to act and decide in the company's best interests. It is dedicated to the goal of increasing the company's value in the long term. The decisions made by the Board of Executive Directors are based on a simple majority. In the case of a tied vote, the casting vote is given by the Chairman of the Board.

The Board of Executive Directors reports to the Supervisory Board regularly, comprehensively and in a timely manner on all relevant matters concerning the company with regard to strategic planning, business development, risk issues and risk management. Furthermore, they agree on corporate strategy 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 that the acquisition or disposal price in an individual case exceeds 3% of the equity reported in the last consolidated financial statements of the BASF Group.

→ The members of the Board of Executive Directors, including their membership of the supervisory bodies of other companies, are listed on pages 13 to 14. The compensation of the Board of Executive Directors is described in detail in the Compensation Report on pages 18 to 21.

## Monitoring of company management by the Supervisory Board

The Supervisory Board appoints the members of the Board of Executive Directors and monitors and advises the Board on management issues. Members of the Supervisory Board cannot simultaneously be members of the Board of Executive Directors. Structurally, this ensures a high level of autonomy with regards to the supervision of the Board of Executive Directors.

With the change in legal form to an SE come substantial changes in the Supervisory Board. The German Codetermination Act, which is the relevant statutory foundation regarding the size and composition of the Supervisory Board, does not apply to the SE. Together with the SE Council Regulation, other relevant statutory foundations include the Statutes of BASF SE and the Agreement Concerning the Involvement of Employees in BASF SE (Employee Participation Agreement) that was signed on November 15, 2007, by company management and the representatives of BASF Group's European employees.

→ The Statutes of BASF SE and the Employee Participation Agreement can be found on the Internet at: [corporate.basf.com/en/investor/cg](http://corporate.basf.com/en/investor/cg)

While the Supervisory Board of BASF Aktiengesellschaft acting until January 14, 2008, comprised 20 members, 10 of whom were elected at the Annual Meeting and 10 of whom were elected by employees employed in Germany by the BASF Group Companies, the Supervisory Board of BASF SE comprises twelve members. Six members are elected by the shareholders at the Annual Meeting. The remaining six members are elected by the newly appointed "BASF Europa Betriebsrat," the European employee representation body of the BASF Group, as agreed to in the Employee Participation Agreement.

→ The members of the Supervisory Board of BASF Aktiengesellschaft with effect until January 14, 2008, and the members of the first Supervisory Board of BASF SE including their membership of the supervisory bodies of other companies are listed on pages 15 to 17. The compensation of the Supervisory Board is described in detail in the Compensation Report on pages 21 to 22.

Resolutions of the Supervisory Board are passed by a simple majority of the votes of the participating members of the Supervisory Board. In the event of a tie, the vote of the Chairman of the Supervisory Board, who must always be a shareholder representative, shall be the casting vote. This resolution process is also applicable for the appointment and dismissal of members of the Board of Executive Directors by the Supervisory Board. In the Aktiengesellschaft, in accordance with the Codetermination Act, a specific election process with an increased majority vote applied and a Mediation Committee was established. The sole task of the Mediation Committee was to make a proposal concerning the appointment of a member to the Board of Executive Directors in the event that the necessary two-thirds majority was not attained in the first round of voting in the Supervisory Board.

In addition to the Mediation Committee, BASF Aktiengesellschaft's Supervisory Board established two further Supervisory Board Committees: the Nomination and Compensation Committee, dealing with personnel issues and the granting of loans and the Audit Committee. Among other things, the **Nomination and Compensation Committee** was charged with setting Board members' remuneration and related contractual issues. The members of the Nomination and Compensation committee were Supervisory Board Chairman Professor Dr. Jürgen Strube (chairman) as well as Supervisory Board members Robert Oswald, Dr. Tessen von Heydebreck and Michael Vassiliadis. The members of the **Mediation Committee** comprised Supervisory Board Chairman Professor Dr. Jürgen Strube (chairman) as well as Supervisory Board members Wolfgang Daniel, Robert Oswald and Dr. Tessen von Heydebreck.

The **Audit Committee** makes preparations for the negotiations and resolutions of the Supervisory Board for the approval of the financial statements and consolidated

financial statements of BASF SE and deals with risk monitoring and the internal control over financial reporting. The Audit Committee is also responsible for business relations with the company's auditors: It prepares the Supervisory Board's proposal to the Annual Meeting regarding the selection of an auditor, monitors the auditor's independence, defines the key aspects of the audit together with the auditor, negotiates the auditing fees and establishes the conditions for the provision of the auditor's non-audit services. The members of the Audit Committee were Max Dietrich Kley, Dr. Karlheinz Messmer (until April 30, 2007), Hans Dieter Pötsch, Michael Vassiliadis and Dr. Friedrich Wirsing (as of July 6, 2007). Max Dietrich Kley was chairman of the Audit Committee. Max Dietrich Kley (former Chief Financial Officer of BASF AG) and Hans Dieter Pötsch (Chief Financial Officer of Volkswagen AG) have particular knowledge and experience in the application of accounting principles and internal control procedures, and have been named by the Supervisory Board as Audit Committee Financial Experts.

In its constitutive meeting on December 5, 2007, the Supervisory Board of BASF SE first of all appointed the members of the Board of Executive Directors of BASF SE and established a new **Audit Committee** of the Supervisory Board. The members of the Audit Committee are Max Dietrich Kley (chairman), Ralf Bastian, Franz Fehrenbach and Michael Vassiliadis. In addition, BASF's Supervisory Board established a new **Personnel Committee** (formerly the **Nomination and Compensation Committee**) and, according to the recommendation of the German Corporate Governance Code, newly introduced in July 2007, established a **Nomination Committee** for the first time that will prepare the proposals for the election of Supervisory Board members at the Annual Meeting. The members of the Personnel Committee are Prof. Dr. Jürgen Strube, Robert Oswald, Dr. Tessen von Heydebreck and Michael Vassiliadis. The members of the "Nomination Committee" are the members of the Supervisory Board elected at the Annual Meeting, in other words, Prof. Dr. Jürgen Strube, Prof. Dr. François N. Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck and Max Dietrich Kley.

#### Shareholders' rights

At the Annual Meeting, shareholders perform their rights of co-administration and supervision. Each BASF share represents one vote. Shareholders may exercise their voting rights at the Annual Meeting either personally, through a representative of their choice or through a company-appointed proxy authorized by shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast

nor special voting rights. BASF has fully implemented the principle of “one share, one vote.” All shareholders are entitled to participate in the Annual Meeting, to have their say concerning any resolution and to demand information about company issues to the extent that it serves to help make an informed judgment about the resolution under discussion. Half of the members of the Supervisory Board are elected at the Annual Meeting where above all the formal discharge of the Board of Executive Directors and the Supervisory Board is decided on as well as the distribution of profits, capital measures, the authorization of share buybacks and changes to the Statutes.

#### **German Corporate Governance Code**

BASF accords good corporate governance great importance. We therefore support the German Corporate Governance Code, which we regard as an important tool in the capital market-driven continuing development of corporate governance and control. We follow the recommendations of the German Governance Code in its revised version of June 2007 with few exceptions. You can find the Compliance Statement 2007 of the Board of Executive Directors and Supervisory Board of BASF Aktiengesellschaft at the end of this section on page 26. In the same manner, BASF also fulfils most of the non-obligatory suggestions of the German Corporate Governance Code.

→ The Compliance Statement 2007, an overview of the implementation of the code's suggestions and the German Corporate Governance Code are available on the Internet at: [corporate.basf.com/en/investor/cg/kodex](http://corporate.basf.com/en/investor/cg/kodex)

#### **Values and Principles of the BASF Group / Code of Conduct**

In order to guarantee a high standard of corporate governance, the Board of Executive Directors has set down and published the “Values and Principles” of the BASF Group, and the “Code of Conduct/Compliance Program.” These lay down our business principles and guidelines for the conduct of all activities within the BASF Group. The Code of Conduct describes in detail the conduct we expect from BASF employees – based on the principle of integrity. Key areas for us include observing all relevant legislation, in particular antitrust and competition legislation; embargo and export controls legislation – including those on chemical weapons; and labor laws and legislation relating to plant safety. Other issues covered are bans on insider dealing for personal benefit and bans on facilitation payments to, or from, business partners or government officials, and the responsible treatment of BASF's assets. The Corporate Audit department, together with BASF's Chief Compliance Officer, monitors compliance on a regular basis.

→ The “Values and Principles” of the BASF Group and the “Code of Conduct” are also available on the Internet at: [corporate.basf.com/values](http://corporate.basf.com/values)

#### **Disclosure according to Section 289 (4) of the German Commercial Code and the explanatory report of the Board of Executive Directors according to Section 175 (2) of the German Stock Corporation Act**

According to Section 289 (4) of the German Commercial Code the company is obliged to disclose certain legal company structures and other legal relationships so as to enable a better overview of the company and of possible barriers to takeover.

As of December 31, 2007, the subscribed capital of BASF Aktiengesellschaft amounted to €1,255,641,600.00 divided into 490,485,000 bearer shares with no par value (thereof 12,300,000 bought back and designated for cancellation). Each share shall, at an Annual Meeting, entitle the holder to one vote. Restrictions on the right to vote or transfer shares do not exist. The same rights and duties are associated with all shares. According to the Statutes, shareholders are not entitled to securitized shares. There are neither different classes of shares nor shares with preferential voting rights (golden shares).

The appointment and dismissal of members of the Board of Executive Directors is legally governed by the regulations in Article 39 of the SE Council Regulation, Section 16 of the SE Implementation Act and Sections 84, 85 of the German Stock Corporation Act as well as Section 7 of the BASF SE Statutes. Members of the Board of Executive Directors are appointed and dismissed by the Supervisory Board according to these Acts. The members of the Board of Executive Directors are appointed for a maximum of five years, whereby re-appointments are permissible. The Supervisory Board can dismiss a member of the Board of Executive Directors if there is significant reason to do so. Examples include, in particular, a gross breach of the duties pertaining to the Board of Executive Directors or a motion of no confidence at the Annual Meeting. Appointments and dismissals are decided by the Supervisory Board according to their dutiful discretion.

Amendments to the Statutes of BASF SE require a resolution of the Annual Meeting adopted with at least a two-thirds majority of the votes cast, provided that the legal provisions applicable to public limited liability companies do not stipulate or allow for larger majority requirements (Article 59 (1) SE Council Regulation). In the case of amendments to the Statutes, the German Stock Corporation Act (Section 179 (2)) requires a majority of at least three quarters of the subscribed capital represented. Pursuant to Art. 12 No. 6 of the Statutes of BASF SE, the Supervisory Board is authorized to make amendments to the Statutes which only concern their wording. This applies, in particular to the alignment of share capital and the number of shares after a BASF share buyback

and after a new issue of shares from the authorized capital.

Until May 1, 2009, the Board of Executive Directors of BASF SE is empowered by a resolution passed at the Annual Meeting of April 29, 2004 to increase the subscribed capital, with the consent of the Supervisory Board, by a total amount of €500 million through the issue of new shares (authorized capital). This contained the authorization of the Board of Executive Directors to exclude the statutory subscription right of the shareholders in certain cases outlined in Section 3 (8) of the BASF Statutes (now Section 5 (8) in the BASF SE Statutes) with the consent of the Supervisory Board. Such cases include the acquisition of companies, parts of companies or holdings in companies in return for the transfer of BASF shares and capital increases in return for cash contributions, provided that the issue price of the new shares is not substantially lower than the stock market price of the BASF share and the total number of shares issued under this authorization is not more than 10% of the subscribed capital on the date of issue.

The Annual Meeting of April 26, 2007, empowered the Board of Executive Directors to buy back up to 10% of the shares until 25 October, 2008. The shares will be purchased at the discretion of the Board of Executive Directors, via the stock exchange through a public purchase offer addressed to all shareholders. The Board is empowered to cancel the shares bought back and to reduce share capital by the portion of the cancelled shares in the share capital. The shares bought back can only be reissued after a resolution of the Annual Meeting passed with a three-quarters majority. However, notwithstanding the above, the Board of Executive Directors is authorized, with consent of the Supervisory Board to use the shares bought back for the acquisition of companies, parts of companies or holdings in companies without a resolution from the Annual Meeting.

In the case of a change of control, members of the Board of Executive Directors shall, under certain additional conditions, receive compensation (details of which are listed in the compensation report on page 21). A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF SE and its subsidiaries who are designated as 'executives' (Obere Führungskräfte) will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the change-of-control event, provided the employee has not given cause for the termination. The employee whose service contract has been terminated in such a case will receive a severance payment to the maxi-

mum of 1.5 times their 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 289 (4) of the German Commercial Code refer to situations that are not applicable to BASF SE.

#### **Directors' and Officers' liability insurance**

BASF has taken out liability insurance that covers the activities of members of the Board of Executive Directors and the Supervisory Board (D&O insurance). The policy provides for a suitable level of deductibles.

#### **Share ownership by members of the Board of Executive Directors and the Supervisory Board**

No member of the Board of Executive Directors or the Supervisory Board owns shares in BASF SE and related options or other derivatives that account for 1% or more of the share capital. Furthermore, the entire holdings by members of the Board of Executive Directors and the Supervisory Board account for less than 1% of the shares issued by the company.

#### **Share dealings of the Board of Executive Directors and Supervisory Board (notifiable transactions under Section 15a of German Securities Trading Act)**

In accordance with Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz), all members of the Board of Executive Directors and the Supervisory Board, as well as certain members of their relatives, are required to disclose the purchase or sale of BASF shares and other related rights to the German Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) and to the company if transactions within the calendar year exceed the threshold of €5,000.

In 2007, there were a total of six reportable purchases and four reportable sales notified by the members of the Board of Executive Directors and the Supervisory Board. The transactions involved between 40 and 2,700 BASF shares with a share price of between €74.27 and €99.71. The volume of the individual trades was between €3,470 and €244,383.31.

→ All transactions reported in 2007 are published on the Internet at: [corporate.basf.com/governance\\_e](http://corporate.basf.com/governance_e)

# MANAGEMENT AND SUPERVISORY BOARDS

## Board of Executive Directors

As of December 31, 2007, there were eight members on the **Board of Executive Directors of BASF Aktiengesellschaft**. All board memberships ended with the entry of the conversion from BASF Aktiengesellschaft to the legal structure of a European company (SE) in the commercial register on January 14, 2008.

### DR. JÜRGEN HAMBRECHT

#### Chairman of the Board of Executive Directors

**Responsibilities:** Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications BASF Group; Global HR – Executive Management & Development; Investor Relations

**First appointed:** 1997 (chairman since 2003)

**Term expires:** 2011

#### Supervisory board memberships (excluding internal memberships):

Bilfinger Berger AG (supervisory board member)

Daimler AG (supervisory board member since February 2008)

### DR. H.C. EGGERT VOSCHERAU

#### Vice Chairman of the Board of Executive Directors

**Responsibilities:** Industrial Relations Director; Human Resources; Environment, Safety & Energy; Occupational Medicine & Health Protection; Corporate & Governmental Relations; Verbund Site Management Europe; Region Europe

**First appointed:** 1996

**Term expires:** 2008

#### Supervisory board memberships (excluding internal memberships):

HDI Haftpflichtverband der Deutschen Industrie VVaG

(supervisory board member)

Talanx AG (supervisory board member)

CropEnergies AG (supervisory board chairman)

Deutsche Bahn AG (supervisory board member)

Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW)

(supervisory board member since March 2007; supervisory board deputy member since July 2007)

#### Internal memberships as defined in Section 100 (2) of the German

##### Stock Corporation Act:

BASF Schwarzheide GmbH (supervisory board chairman until May 2007)

#### Comparable German and non-German controlling bodies:

Nord Stream AG (supervisory board member)

BASF Antwerpen N.V.

(chairman of the administrative council until October 2007)

### DR. KURT BOCK

**Responsibilities:** Finance; Catalysts (since April 2007); Market & Business Development North America (since April 2007); Regional Functions North America (since April 2007); Information Services; Corporate Controlling; Corporate Audit; Global Procurement & Logistics; Region South America (until August 2007)

**First appointed:** 2003

**Term expires:** 2012

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding AG (supervisory board member)

Wintershall AG (supervisory board member)

BASF Coatings AG (supervisory board member until December 2007)

#### Comparable German and non-German controlling bodies:

The European Equity Fund Inc. (member of the board of directors)

The Central Europe and Russia Fund Inc. (member of the board of directors)

### DR. MARTIN BRUDERMÜLLER

**Responsibilities:** Market & Business Development Asia Pacific; Regional Functions & Market Efficiency Asia Pacific

**First appointed:** 2006

**Term expires:** 2008

### DR. JOHN FELDMANN

**Responsibilities:** Styrenics; Performance Polymers; Polyurethanes; Oil & Gas; Polymer Research

**First appointed:** 2000

**Term expires:** 2009

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Wintershall Holding AG (supervisory board chairman)

Wintershall AG (supervisory board chairman)

### DR. ANDREAS KREIMEYER

**Responsibilities:** Construction Chemicals; Coatings; Functional Polymers; Performance Chemicals

**First appointed:** 2003

**Term expires:** 2012

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

BASF Coatings AG (supervisory board chairman until December 2007)

**DR. STEFAN MARCINOWSKI****Research Executive Director**

**Responsibilities:** Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; Corporate Engineering; Science Relations & Innovation Management; BASF Future Business GmbH; Region South America (since September 2007)

**First appointed:** 1997

**Term expires:** 2012

**Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:**

Wintershall Holding AG (supervisory board member)

Wintershall AG (supervisory board member)

BASF Coatings AG (supervisory board member since December 2007, supervisory board chairman since January 2008 )

**PETER OAKLEY**

**Responsibilities:** Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science

**First appointed:** 1998

**Term expires:** January 2008

Retired from BASF Aktiengesellschaft on July 31, 2007:

**KLAUS PETER LÖBBE**

**Responsibilities:** Catalysts; Region North America

**First appointed:** 2002

Entered the Board of Executive Directors on January 1, 2008:

**DR. HARALD SCHWAGER**

**First appointed:** 2008

**Term expires:** 2010

**Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:**

BASF Schwarzheide GmbH (supervisory board member since May 2007, supervisory board chairman since July 2007)

**Comparable German and non-German controlling bodies:**

BASF Antwerpen N.V. (member of the administrative council, chairman of the administrative council since October 2007)

As of the conversion of the legal structure on January 14, 2008, members of the **Board of Executive Directors of BASF SE** are:

**DR. JÜRGEN HAMBRECHT****Chairman of the Board of Executive Directors**

**Responsibilities:** Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications BASF Group; Global HR - Executive Management & Development; Investor Relations, Chief Compliance Officer

**Term expires:** 2011

**DR. H.C. EGGERT VOSCHERAU****Vice Chairman of the Board of Executive Directors**

**Responsibilities** (until Annual Meeting 2008): Industrial Relations Director; Human Resources; Environment, Health & Safety; Verbund Site Management Europe; Engineering & Maintenance; Corporate & Governmental Relations; Region Europe

**Term expires:** 2008

**DR. KURT BOCK**

**Responsibilities:** Finance; Catalysts; Market & Business Development North America; Regional Functions North America; Information Services; Corporate Controlling; Corporate Audit; Global Procurement & Logistics

**Term expires:** 2012

**DR. MARTIN BRUDERMÜLLER**

**Responsibilities:** Performance Polymers; Polyurethanes; Market & Business Development Asia Pacific; Regional Functions & Market Efficiency Asia Pacific

**Term expires:** 2008

**DR. JOHN FELDMANN**

**Responsibilities:** Oil & Gas; Construction Chemicals; Acrylics & Dispersions; Care Chemicals; Performance Chemicals; Styrenics; Polymer Research

**Term expires:** 2009

**DR. ANDREAS KREIMEYER****Research Executive Director**

**Responsibilities:** Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; BASF Future Business; Science Relations & Innovation Management

**Term expires:** 2012

**DR. STEFAN MARCINOWSKI**

**Responsibilities:** Crop Protection; Coatings; Specialty Chemicals Research; BASF Plant Science; Region South America

**Term expires:** 2012

**DR. HARALD SCHWAGER**

**Responsibilities** (as of Annual Meeting 2008): Industrial Relations Director; Human Resources; Environment, Health & Safety; Verbund Site Management Europe; Engineering & Maintenance; Corporate & Governmental Relations; Region Europe

**Term expires:** 2010



## Supervisory Board

Until the entry of the conversion from BASF Aktiengesellschaft to the legal structure of a European company (SE) in the commercial register on January 14, 2008, the **Supervisory Board of BASF Aktiengesellschaft** comprised 20 members. Ten members were elected by shareholders at the Annual Meeting, and the remaining ten were elected by employees. The term of all supervisory board members of BASF Aktiengesellschaft ended on January 14, 2008, with the entry of the conversion of the legal structure in the commercial register to a European company (SE).

Effective May 1, 2007, Dr. Friedrich Wirsing, who had been elected by employees as a substitute, replaced Dr. Karlheinz Messmer, who retired effective April 30, 2007.

### Members of the Supervisory Board of BASF Aktiengesellschaft (as of December 31, 2007)

**PROFESSOR DR. JÜRGEN STRUBE**, Mannheim, Germany  
Chairman of the Supervisory Board of BASF Aktiengesellschaft  
Former Chairman of the Board of Executive Directors of BASF Aktiengesellschaft

#### Supervisory board memberships (excluding internal memberships):

Allianz Deutschland AG (supervisory board member)  
Bayerische Motoren Werke AG (supervisory board member)  
Bertelsmann AG (supervisory board deputy chairman)  
Commerzbank AG (supervisory board member)  
Fuchs Petrolub AG (supervisory board chairman)  
Hapag-Lloyd AG (supervisory board member)  
Linde AG (supervisory board member)

**ROBERT OSWALD**, Altrip, Germany  
Deputy Chairman of the Supervisory Board of BASF Aktiengesellschaft  
Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft and chairman of the joint works council of the BASF Group

**RALF GERD BASTIAN**, Neuhofen, Germany  
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

**WOLFGANG DANIEL**, Limburgerhof, Germany  
Deputy chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

**PROFESSOR DR. FRANÇOIS N. DIEDERICH**, Zurich, Switzerland  
Professor at the Swiss Federal Institute of Technology Zurich

**MICHAEL DIEKMANN**, Munich, Germany

Chairman of the Board of Management of Allianz SE

#### Supervisory board memberships (excluding internal memberships):

Linde AG (supervisory board deputy chairman)  
Deutsche Lufthansa AG (supervisory board member)

#### Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

Allianz Deutschland AG (supervisory board chairman)  
Allianz Global Investors AG (supervisory board chairman)  
Dresdner Bank AG (supervisory board chairman)

#### Comparable German and non-German bodies:

Assurances Générales de France (administrative council member)  
Riunione Adriatica di Sicurtà S.p.A. (administrative council member)

**DR. TESSEN VON HEYDEBRECK**, Frankfurt (Main), Germany

Former Member of the Board of Managing Directors of Deutsche Bank AG

#### Supervisory board memberships (excluding internal memberships):

DWS Investment GmbH (supervisory board deputy chairman)

#### Comparable German and non-German bodies:

Deutsche Bank OOO (supervisory board chairman)  
Deutsche Bank Luxembourg S. A. (administrative council chairman)  
Deutsche Bank Polska S. A. (supervisory board chairman)  
Deutsche Bank Rt. (supervisory board chairman)

**ARTHUR L. KELLY**, Chicago, Illinois, USA

Chief Executive of KEL Enterprises L.P.

#### Supervisory board memberships (excluding internal memberships):

Bayerische Motoren Werke AG (supervisory board member)

#### Comparable German and non-German bodies:

Data Card Corporation (member of the board of directors)  
Deere & Company (member of the board of directors)  
Northern Trust Corporation (member of the board of directors)  
Snap-on Incorporated (member of the board of directors)

**ROLF KLEFFMANN**, Wehrbleck, Germany

Chairman of the works council of Wintershall Holding AG's Barnstorf Oil Plant

**MAX DIETRICH KLEY**, Heidelberg, Germany

Lawyer

#### Supervisory board memberships (excluding internal memberships):

HeidelbergCement AG (supervisory board member)  
Infineon Technologies AG (supervisory board chairman)  
Schott AG (supervisory board member)  
SGL Carbon AG (supervisory board chairman)

#### Comparable German and non-German bodies:

UniCredito Italiano S.p.A. (member of the board of directors)

**PROFESSOR DR. RENATE KÖCHER**, Allensbach, Germany  
 Managing Director of the 'Institut für Demoskopie Allensbach',  
 Gesellschaft zum Studium der öffentlichen Meinung mbH

**Supervisory board memberships (excluding internal memberships):**

Allianz SE (supervisory board member)  
 MAN AG (supervisory board member)  
 Infineon Technologies AG (supervisory board member)

**EVA KRAUT**, Ludwigshafen, Germany  
 Chairwoman of the works council of BASF IT Services GmbH,  
 Ludwigshafen

**ULRICH KÜPPERS**, Ludwigshafen, Germany  
 Regional manager of the Rhineland-Palatinate/Saarland branch of the  
 Mining, Chemical and Energy Industries Union (IG BCE)

**Supervisory board memberships (excluding internal memberships):**

Klinikum der Stadt Ludwigshafen gGmbH  
 (supervisory board deputy chairman)  
 Evonik New Energies AG (supervisory board deputy chairman)  
 Technische Werke Ludwigshafen AG (TWL)  
 (supervisory board deputy chairman)  
 Villeroy & Boch AG (supervisory board deputy chairman)  
 Villeroy & Boch Fliesen GmbH (supervisory board member)

**KONRAD MANTEUFFEL**, Bensheim, Germany  
 Member of the works council of the Ludwigshafen site of  
 BASF Aktiengesellschaft

**Supervisory board memberships (excluding internal memberships):**

BASF Pensionskasse VVaG (supervisory board deputy chairman)  
 LUWOGGE Wohnungsunternehmen der BASF GmbH  
 (supervisory board member)

**HANS DIETER PÖTSCH**, Wolfsburg, Germany  
 Member of the Board of Management of Volkswagen AG

**Supervisory board memberships (excluding internal memberships):**

Allianz Versicherungs AG (supervisory board member)  
 Bizerba GmbH & Co. KG (supervisory board chairman)

**Comparable German and non-German bodies:**

Scania AB (administrative council member)

**PROFESSOR DR. HERMANN SCHOLL**, Stuttgart, Germany  
 Chairman of the Supervisory Council of Robert Bosch GmbH and  
 Managing Director of Robert Bosch Industrietreuhand KG

**Supervisory board memberships (excluding internal memberships):**

Robert Bosch GmbH (supervisory board chairman)

**Comparable German and non-German bodies:**

Robert Bosch Internationale Beteiligungen AG  
 (administrative council member)  
 Robert Bosch Corporation (member of the board of directors)

**RALF SIKORSKI**, Ludwigshafen, Germany  
 Manager of the Ludwigshafen branch Mining, Chemical and Energy  
 Industries Union (IG BCE)

**ROBERT STUDER**, Zurich, Switzerland  
 Former Chairman of the Supervisory Board of the Union Bank of  
 Switzerland

**Comparable German and non-German bodies:**

Espirito Santo Financial Group S.A. (administrative council member)  
 Schindler Holding AG (administrative council member)

**MICHAEL VASSILIADIS**, Hemmingen, Germany  
 Member of the Central Board of Executive Directors of the Mining,  
 Chemical and Energy Industries Union (IG BCE)

**Supervisory board memberships (excluding internal memberships):**

Henkel KGaA (supervisory board member)  
 K+S Aktiengesellschaft (supervisory board deputy chairman)  
 K+S Kali GmbH (supervisory board deputy chairman)  
 Evonik Steag GmbH (supervisory board deputy chairman)

**DR. FRIEDRICH WIRSING**, Kaiserslautern, Germany  
 Plant manager at the Ludwigshafen site of BASF Aktiengesellschaft

In accordance with the Statutes, the **Supervisory Board of BASF SE** comprises 12 members. Based on Section 35 (1) of the German Act on the Involvement of Employees in a European Company (SE Involvement Act – SEBG), BASF SE is following the principle of parity between shareholder representatives and employee representatives already applied for the constitution of the Supervisory Board of BASF Aktiengesellschaft. The six shareholder representatives were elected at the Annual Meeting on April 26, 2007, within the decision on the conversion into an SE. By way of derogation from Section 40 (2) of the Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE), the six employee representatives are not elected by the Annual Meeting, but appointed by the representative body of the employees, the BASF SE Euro Dialog, according to the Agreement Concerning the Involvement of Employees in BASF SE concluded within the conversion procedure based on Section 21 ff. SEBG. The employee representatives on the first Supervisory Board of BASF SE have been appointed directly by the Agreement Concerning the Involvement of Employees in BASF SE and are members of the Supervisory Board with effect from January 14, 2008 (day of entry of BASF SE in the commercial register of the Ludwigshafen district court). The term of office of all members of the first Supervisory Board of BASF SE terminates upon the conclusion of the Annual Meeting of BASF SE to be held in 2009.

### **Members of the first Supervisory Board of BASF SE**

(The memberships of supervisory boards are not restated if the information has already been mentioned in the section on the supervisory board of BASF Aktiengesellschaft.)

**PROF. DR. JÜRGEN STRUBE**, Mannheim, Germany  
Chairman of the Supervisory Board of BASF SE

**RALF GERD BASTIAN**, Neuhofen, Germany  
Member of the works council of the Ludwigshafen site of BASF SE

**WOLFGANG DANIEL**, Limburgerhof, Germany  
Deputy chairman of the works council of the Ludwigshafen site of BASF SE

**PROF. DR. FRANÇOIS N. DIEDERICH**, Zurich, Switzerland  
Professor at the Swiss Federal Institute of Technology Zurich

**MICHAEL DIEKMANN**, Munich, Germany  
Chairman of the Board of Management of Allianz SE

**FRANZ FEHRENBACH**, Stuttgart, Germany  
Chairman of the Board of Management of Robert Bosch GmbH

**Comparable German and non-German bodies:**  
Robert Bosch Corporation (member of the board of directors)

**DR. TESSEN VON HEYDEBRECK**, Frankfurt (Main), Germany  
Former Member of the Board of Managing Directors of Deutsche Bank AG

**MAX DIETRICH KLEY**, Heidelberg, Germany  
Lawyer

**ULRICH KÜPPERS**, Ludwigshafen, Germany  
Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union (IG BCE)

**ROBERT OSWALD**, Altrip, Germany  
Chairman of the works council of the Ludwigshafen site of BASF SE and the chairman of the joint works council of the BASF Group

**DENISE SCHELLEMANS**, Kalmthout, Belgium  
Full time trade union delegate

**MICHAEL VASSILIADIS**, Hemmingen, Germany  
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union (IG BCE)

# COMPENSATION REPORT

This report outlines the main principles of the compensation system for the Board of Executive Directors. It also discloses the amount and structure of the compensation for each individual Board member. Furthermore, this report provides information on end-of-service undertakings with respect to Board members. This report also includes information on the compensation of the Supervisory Board members.

This report meets the disclosure requirements of the German Commercial Code extended by the additional requirements for the Board of Executive Directors and the Supervisory Board based on the German Law on the Disclosure of Compensation of Members of the Board (Vorstandsvergütungs-Offenlegungsgesetz) and is aligned with the recommendations of the German Corporate Governance Code.

## Compensation of Board members

The compensation of Board members is determined and reviewed every two to three years by the Nomination and Compensation Committee of the Supervisory Board (Personalausschuss) (see page 10). The determination of the amount and structure of the compensation depends on the company's size and its financial position, as well as the performance of the Board of Executive Directors. Globally operating European-based companies serve as a reference. The last such review took place on April 27, 2006. This review resulted in an increase of the variable bonus as of 2007.

The compensation of Board members is composed of:

1. a fixed annual salary
2. an annual variable bonus
3. stock price-based compensation in the form of virtual stock options (hereafter options) as a long-term component
4. non-monetary compensation and other additional compensation in varying amounts
5. company pension benefits

The amount of the annual variable compensation, the value of the options granted and the company pension are largely determined by company performance. This means, in terms of total compensation, significance is attached to company performance.

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.
2. The Board member's annual variable compensation (variable bonus) is based on the return on assets (ROA). The variable bonus for the prior fiscal year is payable after the Annual Meeting.  
Board members, as other employee groups, may contribute a portion of their bonus up to a maximum of €30,000 annually into a deferred compensation program. Board members have taken advantage of this offering to varying degrees.
3. Board members may also participate in the BASF option program (BOP) for senior executives (see table).
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 20.

Based on these principles, individual Board members received the following compensation:

Thousand €

	Non-performance related compensation			Performance-related compensation	Total cash compensation	Options granted		Total compensation (cash compensation plus options granted)
	Year	Fixed salary	Non-monetary compensation and other additional compensation	Variable bonus <sup>(1)</sup>		Number	Market value at option grant date	
Dr. Jürgen Hambrecht Chairman of the Board of Executive Directors	2007	1,100	140	2,800	4,040	30,084	1,172	5,212
	2006	1,100	151	2,175	3,426	38,448	716	4,142
Dr. h.c. Eggert Voscherau Vice Chairman of the Board of Executive Directors	2007	732	145	1,862	2,739	20,004	779	3,518
	2006	732	98	1,446	2,276	25,532	475	2,751
Dr. Kurt Bock	2007	550	106	1,400	2,056	15,040	586	2,642
	2006	550	109	1,088	1,747	19,224	358	2,105
Dr. Martin Bruder Müller	2007	550	964 <sup>(2)</sup>	1,400	2,914	15,040	586	3,500
	2006	550	813 <sup>(2)</sup>	1,088	2,451	7,740	144	2,595
Dr. John Feldmann	2007	550	93	1,400	2,043	15,040	586	2,629
	2006	550	74	1,088	1,712	19,224	358	2,070
Dr. Andreas Kreimeyer	2007	550	96	1,400	2,046	15,040	586	2,632
	2006	550	123	1,088	1,761	18,000	335	2,096
Klaus Peter Löbbbe (until 31.07.2007)	2007	309 <sup>(2)</sup>	621 <sup>(3)</sup>	1,072 <sup>(4)</sup>	2,002	15,040	586	2,588
	2006	535 <sup>(2)</sup>	725 <sup>(3)</sup>	1,088	2,348	17,540	326	2,674
Dr. Stefan Marcinowski	2007	550	102	1,400	2,052	15,040	586	2,638
	2006	550	78	1,088	1,716	19,224	358	2,074
Peter Oakley	2007	550	123	1,400	2,073	15,040	586	2,659
	2006	550	114	1,088	1,752	19,224	358	2,110
	<b>Total 2007:</b>	<b>5,441</b>	<b>2,390</b>	<b>14,134</b>	<b>21,965</b>	<b>155,368</b>	<b>6,053</b>	<b>28,018</b>
	Total 2006:	5,667	2,285	11,237	19,189	184,156	3,428	22,617

<sup>(1)</sup> The variable bonus is based on the return on assets, which is also used to determine the variable compensation of other groups of employees. The shown figure includes all contributions, if any, made to the deferred compensation program.

<sup>(2)</sup> Payment is made in local currency based on a theoretical (pro rata temporis) net salary in Germany. As a result, there is a deviation from the contractually agreed fixed gross salary (€550,000 yearly).

<sup>(3)</sup> Includes delegation allowances, such as the assumption of prevailing local rental fees

<sup>(4)</sup> Variable bonus (pro rata temporis) plus a project-related one-time payment

When comparing with the cash compensation in 2006, it should be considered that Klaus Peter Löbbbe left the Board on July 31, 2007. Adjusted for this effect and based on the decision of the Nomination and Compensation Committee to raise the variable bonus on April 27, 2006, the cash compensation for the Board increased by 19%.

The personnel expenses for the year 2007 relating to the options issued were as follows: Dr. Jürgen Hambrecht €6,268 thousand (2006: €1,805 thousand); Dr. h.c. Eggert Voscherau €3,226 thousand (2006: €1,083 thousand); Dr. Kurt Bock €2,978 thousand (2006: €921 thousand); Dr. Martin Bruder Müller €1,095 thousand (2006: €274 thou-

sand); Dr. John Feldmann €3,333 thousand (2006: €1,009 thousand), Dr. Andreas Kreimeyer €1,327 thousand (2006: €273 thousand); Klaus Peter Löbbbe €3,442 thousand (2006: €920 thousand), Dr. Stefan Marcinowski €3,574 thousand (2006: €1,051 thousand) and Peter Oakley €3,788 thousand (2006: €1,088 thousand).

The personnel expenses refer to the sum of all options from the programs BOP 2001 to BOP 2007. The figure is derived by the difference of the value of the options on December 31, 2007 (balance sheet date), compared with the value on December 31, 2006, considering the options exercised and granted in 2007. The value of the options is based on the development of the BASF share price and its outperformance compared with the benchmark index chosen for the programs BOP 2001 to BOP 2007. The personnel expenses attributable to the year 2007 increased compared with 2006 in particular due to the higher value of the options as of December 31, 2007. This is mainly due to the higher BASF share price at year end (2007: €101.41 compared with 2006: €73.85) and the outperformance compared with the benchmark index.

The personnel expenses are purely accounting figures which do not equate with the actual cash gains in case options are exercised. The members of the Board decide on the timing and scope of the exercise of options taking into account the general terms and conditions and ceilings of the BASF option program (BOP) for senior executives.

The members of the Board are covered by a consequential loss liability insurance concluded by the company (D&O insurance). The policy provides for a deductible.

### Pension benefits

Annual pension units are accrued for the members of the Board. The method of determination of the amount of the pension benefits generally corresponds to that used for other employee groups. The method is designed such that both the performance of the company and the progression of the individual Board member's career significantly affect the pension entitlement.

The annual pension benefits accrued for Board members in a given reporting year (pension unit) are composed of a fixed and a variable component. The fixed component is calculated by multiplying the annual fixed compensation above the Social Security Contribution Ceiling by 35%. The resulting amount is converted into a lifelong pension payable on retirement using actuarial factors based on a discount rate (6%), the probability of death, invalidity and mortality (Heubeck-Richttafeln, 1998) and an assumed pension increase (1.5% per annum). This is the amount that is payable upon retirement. The variable component of the pension unit depends on the return on assets in the reporting year under consideration. The variable component is based on a return on assets of 12% at which point the variable component is equal in value to the fixed component. Based on a return on assets of 12%, there is a linear relationship between the variable component and the return on assets figures between 10% and 14%. The sum

of the pension units accumulated over the respective reporting years determines the respective Board member's pension benefit at the end of service upon the attainment of retirement age of 60 years or disability or death. Pension payments are adjusted on an annual basis according to the changes in the German consumer price index.

The pension units also include survivor benefits. Upon the death of an active or former member of the Board, the surviving spouse receives a survivor pension amounting to 60% of the Board member's pension entitlement. The orphan pension amounts to 10% for each half-orphan, 33% for an orphan, 25% each for two orphans and 20% each for three or more orphans of the pension entitlement of the deceased Board member. The survivor benefits may not exceed 75% of the Board member's total pension entitlement. If the survivor pensions exceed the upper limit, they will be proportionately reduced.

Board members are members of the BASF Pensionskasse VVaG, as are generally all employees of BASF SE. Contributions and benefits are determined by the statutes and general conditions of the BASF Pensionskasse VVaG. The service cost attributable to the year 2007 were as follows: Dr. Jürgen Hambrecht €507 thousand (2006: €830 thousand); Dr. h.c. Eggert Voscherau €108 thousand (2006: €171 thousand); Dr. Kurt Bock €633 thousand (2006: €625 thousand); Dr. Martin Brudermüller €638 thousand (2006: €571 thousand); Dr. John Feldmann €658 thousand (2006: €588 thousand); Dr. Andreas Kreimeyer €652 thousand (2006: €595 thousand); Klaus Peter Löbbe €141 thousand (2006: €154 thousand); Dr. Stefan Marciniowski €621 thousand (2006: €577 thousand) and Peter Oakley €577 thousand (2006: €566 thousand). These amounts include the costs for the pension claims arising from the deferred contribution program.

### End of service benefits

A Board member that leaves the company before the age of 60, whose employment contract is not renewed or is revoked, is entitled to pension benefits. In such a case, the company is entitled to offset compensation received for any other work done against pension benefits.

End of service following a change of control event: A change of control event, in terms of this provision, occurs when a shareholder informs BASF of a shareholding of at least 25%, or the increase of such a holding.

If a Board member's position is revoked within one year following a change-of-control event, the Board member will continue to receive the contractually agreed payments (fixed compensation and variable bonus) for the remaining contractual term of office. In addition, the Board member will receive a severance payment, depending on the

remaining contractual term of office, up to a maximum of 2.5 years of compensation (based on the fixed compensation and the previous year's variable bonus), which, together with the continuing compensation, may not exceed 5 years of compensation. Furthermore, the Board member may receive the fair value of the option rights acquired in connection with BOP within a period of three months. The premature termination of service due to the revocation of a Board member's position entitles the Board member to pension benefits. When calculating the amount of the pension benefits, the missing years of service up to the age of 60 years will be considered.

The aforementioned is also applicable upon the occurrence of a change-of-control event, if the time to the end of the current contractual term of office is less than two years and the appointment is not subsequently extended by a minimum of two years.

The aforementioned payments are only payable if the Board member has not given cause for the termination or non-renewal of his service contract.

#### **Contracts for future Board members**

The contracts for future Board members will contain the following major changes:

A Board member that leaves the company before the age of 60 is entitled to pension benefits only if he/she has been a Board member for at least 10 years or has less than 10 years until the legal retirement age.

If a Board member's position is revoked within one year following a change-of-control event, the Board member will only receive the contractually agreed payments (fixed compensation and variable bonus based on a return on assets of 12%) for the remaining contractual term of office as a lump sum.

#### **Previous Board members**

Total compensation for previous Board members and their surviving dependents amounted to €7.1 million (2006: €6.0 million) in the year 2007. This figure also contains payments which former Board members have themselves financed through the deferred compensation program. Pension provisions for previous Board members and their surviving dependents amounted to €76.9 million (2006: €75.1 million).

#### **Compensation of Supervisory Board members**

The compensation of the Supervisory Board is regulated by the company statutes.

Each member of the Supervisory Board receives fixed compensation of €60,000 and a performance-oriented variable compensation for each full €0.01 by which the earnings per share of the BASF Group declared in the BASF Group Consolidated Financial Statements for the year for which the remuneration is being paid exceeds the minimum earnings per share. The minimum earnings per share for the year 2007 is €2.60. The performance-oriented variable remuneration is €400 for each full €0.01 of earnings per share up to an earnings per share of €4.10, €300 for each further €0.01 of earnings per share up to an earnings per share of €5.10, and €200 for each €0.01 beyond this. The performance-oriented variable remuneration is limited to a maximum amount of €120,000. The minimum earnings per share and the corresponding thresholds shall increase by €0.10 for each subsequent financial year. Based on the earnings per share of €8.32 published in the BASF Group Consolidated Statements 2007, the performance-oriented compensation amounted to the maximum of €120,000. The chairman of the Supervisory Board receives two-and-a-half times and a deputy chairman one-and-a-half times the remuneration of an ordinary member.

Members of the Supervisory Board who are members of a committee, with the exception of the Mediation Committee formed in accordance with Section 27 (3) of the German Codetermination Act, shall receive a further fixed remuneration for this purpose in the amount of €12,500. For the Audit Committee, the further fixed remuneration shall be €25,000. The chairman of a committee shall receive twice and a deputy chairman one-and-half times the further fixed remuneration.

The company reimburses members of the Supervisory Board for out-of-pocket expenses and value-added tax to be paid with regard to their activities as members of the Supervisory Board or of a committee. The company further grants the members of the Supervisory Board a fee of €500 for attending a meeting of the Supervisory Board or one of its committees to which they belong and includes the performance of the duties of the members of the Supervisory Board in the cover of a consequential loss liability insurance concluded by it (D&O insurance).

The total compensation, including attendance fees, of the Supervisory Board amounted to €4.2 million in 2007 (2006: €4.1 million). The compensation of the individual Supervisory Board members was as follows:

Thousand €

	Fixed compensation		Performance-oriented variable compensation		Payment for committee membership(s)		Total compensation	
	2007	2006	2007	2006	2007	2006	2007	2006
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board <sup>(1)</sup>	150	150	300	293.5	25	25	475	468.5
Robert Oswald, Vice Chairman of the Supervisory Board <sup>(2)</sup>	90	90	180	176.1	12.5	12.5	282.5	278.6
Ralf-Gerd Bastian	60	60	120	117.4			180	177.4
Wolfgang Daniel	60	60	120	117.4			180	177.4
Prof. Dr. François N. Diederich	60	60	120	117.4			180	177.4
Michael Diekmann	60	60	120	117.4			180	177.4
Dr. Tessen von Heydebreck <sup>(2)</sup>	60	60	120	117.4	12.5	12.5	192.5	189.9
Arthur L. Kelly	60	60	120	117.4			180	177.4
Rolf Kleffmann	60	60	120	117.4			180	177.4
Max Dietrich Kley <sup>(3)</sup>	60	60	120	117.4	50	50	230	227.4
Prof. Dr. Renate Köcher	60	60	120	117.4			180	177.4
Eva Kraut	60	60	120	117.4			180	177.4
Ulrich Küppers	60	60	120	117.4			180	177.4
Konrad Manteuffel	60	60	120	117.4			180	177.4
Dr. Karlheinz Messmer <sup>(4)</sup> (until 30.04.2007)	20	60	40	117.4	8.3	25	68.3	202.4
Hans Dieter Pötsch <sup>(4)</sup>	60	60	120	117.4	25	25	205	202.4
Prof. Dr. Hermann Scholl	60	60	120	117.4			180	177.4
Ralf Sikorski	60	60	120	117.4			180	177.4
Robert Studer	60	60	120	117.4			180	177.4
Michael Vassiliadis <sup>(2) (4)</sup>	60	60	120	117.4	37.5	37.5	217.5	214.9
Dr. Friedrich Wirsing <sup>(5)</sup> (since June 1, 2007)	40	-	80	-	12.5		132.5	-

<sup>(1)</sup> Chairman of the Nomination and Compensation Committee

<sup>(2)</sup> Member of the Nomination and Compensation Committee

<sup>(3)</sup> Chairman of the Audit Committee

<sup>(4)</sup> Member of the Audit Committee

<sup>(5)</sup> Member of the Audit Committee (since July 2007)

Compensation for Supervisory Board membership and membership of Supervisory Board committees is payable after the Annual Meeting, which approves the Consolidated Financial Statements upon which the variable compensation is based. Accordingly, compensation relating to the year 2007 will be paid following the Annual Meeting on April 24, 2008.

In the year 2007, the company paid the Supervisory Board member, Prof. Dr. Diederich, approximately €23,400 (2006: approximately €24,400) plus value-added taxes and

out-of-pocket expenses for consulting work in the area of chemical research based on a consulting contract approved by the Supervisory Board.

Beyond this, Supervisory Board members did not receive any further compensation in 2007 for services rendered personally, in particular, the rendering of advisory and agency services.



# REPORT OF THE SUPERVISORY BOARD

## Dear Shareholders,

In 2007, BASF again posted outstanding results: Income from operations, income before taxes and earnings per share were again at record highs. In addition, the year was marked by the conversion of BASF Aktiengesellschaft into a European Company. The conversion had been decided at the Annual Meeting on April 26, 2007, and reached its formal end when the change in new legal form was entered into the commercial register at the district court in Ludwigshafen on January 14, 2008. We are now a European Company: BASF SE. This change in legal form underlines our self-concept: We are a European and worldwide orientated company with strong roots in our home market - Europe.

The conversion into an SE has brought with it important changes for the Supervisory Board. When the SE came into existence the mandates of the Supervisory Board members ended. The statutory foundation for the formation and composition of the Supervisory Board also changed. According to the Statutes, the Supervisory Board of BASF SE now has 12 members and – just as with BASF Aktiengesellschaft – consists in equal parts of shareholder and employee representatives. The six shareholder representatives had already been appointed at the Annual Meeting on April 26, 2007, when the resolution for the conversion was passed. The six employee representatives were named in the Employee Participation Agreement. This agreement was negotiated with the special negotiating body representing the European employees as part of the foundation of the SE. For the first time, both German and other European employees were involved in the appointment of employee representatives to the Supervisory Board.

## Monitoring and consultation in continual dialog with the Board of Executive Directors

In 2007, the Supervisory Board of BASF Aktiengesellschaft carefully and regularly monitored the management of the company by the Board of Executive Directors and provided advice on the company's strategic development and important individual measures. To this end, the Supervisory Board requested detailed information from the Board of Executive Directors at five meetings, as well as in written and verbal reports. Topics included: business policies, the business situation and business trends, profitability, the company's planning with regard to finances, capital expenditures and human resources at BASF SE and its major subsidiaries, as well as deviations from plan. The Chairman of the Supervisory Board also regularly requested information from the Chairman of the Board of Executive Directors outside of Supervisory Board meetings with regard to current business developments and important events. The

Supervisory Board was involved at an early stage in decisions of major importance.

At five meetings, the Supervisory Board discussed reports from the Board of Executive Directors. The Supervisory Board also discussed the company's prospects as a whole and its individual businesses with the Board of Executive Directors. The members of the Supervisory Board, elected by shareholders and by employees, prepared for the meetings in separate preliminary discussions.

In 2007, no resolutions on individual measures which require the approval of the Supervisory Board by law or Statutes were submitted by the Board of Executive Directors. In the December 5, 2007, meeting, we discussed and approved the operating and financial planning of the Board of Executive Directors for 2008 and empowered the Board to procure financing under certain conditions.

In addition to monitoring management by the Board of Executive Directors, one of the core duties of the Supervisory Board is to offer advice on BASF's strategic direction. The Supervisory Board dealt intensively in all meetings with the further development of the BASF Group and its businesses. We discussed with the Board the reorganization of BASF's businesses into six segments, the strategic positioning of the individual segments and business units and possible individual transactions. In particular, in 2007 we dealt with the Plastics segment and intensively debated its positioning in the market and its strategic perspectives of the Performance Polymers, Polyurethanes and Styrenics divisions. The Supervisory Board supported the Board's suggested reorganization of the Plastics segment, which took effect as of January 1, 2008, and the intended sale of the general-purpose styrenics business. Another important subject was the cooperation between the BASF Group and Gazprom in the Oil & Gas segment. The cooperation was deepened to the mutual benefit of both companies by the participation of the BASF Group in the Yuzhno Russkoye gas field in Western Siberia, and in the construction of a new gas pipeline through the Baltic Sea coupled with Gazprom's taking a participation in a German Wintershall company which produces crude oil in Libya. BASF has taken a further important step through its cooperation with Monsanto in the field of plant biotechnology - an issue which the Supervisory Board has concerned itself with repeatedly within the last few years.

### Founding of BASF SE

The Supervisory Board actively accompanied the change in legal form from BASF Aktiengesellschaft into a European Company and dealt with this issue at the February 27, July 6, and October 25 meetings. The decision to propose the change in legal form to the Annual Meeting was made at the February 27 meeting. In the two subsequent meetings, the Supervisory Board received reports on the progress of the negotiations between company management and the special negotiating body representing the employees dealing with employee participation in BASF SE. In addition, the Supervisory Board counseled on the emerging design of codetermination in the Supervisory Board and the creation of the BASF Europa Betriebsrat (Europe Works Council).

The members of the first Supervisory Board of BASF SE appointed at the Annual Meeting on April 26, met for the constitutive meeting of the Supervisory Board on December 5, 2007. They examined the progress on the founding of the SE, made the formal foundation audit report and appointed the first Board of Executive Directors of BASF SE. The period of the new mandate of these Executive Directors corresponds to the remaining term of the old mandate at BASF Aktiengesellschaft. Employee representatives named in the Employee Participation Agreement, whose mandates in the Supervisory Board only began with the creation of the SE on January 14, 2008, attended the constitutive meeting as guests.

### Corporate governance and compliance statement

In 2007, the Supervisory Board again addressed in detail the financial and corporate legal framework in which the company operates, as well as the issue of corporate governance standards at BASF. In particular, this involved the revised German Corporate Governance Code as of June 14, 2007.

At its meeting on December 5, 2007, the Supervisory Board approved the joint compliance statement by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act, and conducted an examination of efficiency and an assessment of independence. BASF follows the recommendations of the German Corporate Governance Code, in its version of June 14, 2007, with very few exceptions. No Nomination Committee was set up as a result of the fact that the term in office of the Supervisory Board of BASF Aktiengesellschaft ended with the registration of the SE and that the members of the first Supervisory Board of BASF SE had already been appointed at the Annual Meeting on April 26, 2007. However, it was decided at the meeting on October 25, 2007, that a Nomination Committee based on the latest recommendation of the German Corporate Governance Code would be formed in the Supervisory Board of BASF SE. The complete text of the compliance statement is provided on page 26 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 18 to 22.

### Committees

The Supervisory Board of BASF Aktiengesellschaft had established three committees with equal representation from shareholders and employee representatives: the Nomination and Compensation Committee (Personalaussschuss) created in accordance with Section 89 (4) of the German Stock Corporation Act; the Audit Committee; and the Mediation Committee established in accordance with Section 27 (3) of the German Codetermination Act. The Supervisory Board received regular reports on the activities of the committees.

The members of the Nomination and Compensation Committee were as follows: Supervisory Board Chairman Prof. Dr. Jürgen F. Strube (chairman), Supervisory Board Deputy Chairman Robert Oswald (deputy chairman), Dr. Tessen von Heydebreck and Michael Vassiliadis. The Nomination and Compensation Committee met four times in 2007. In its meetings, sometimes with the Chairman of the Board of Executive Directors, it discussed, in particular, plans for the future appointment of members of the Board of Executive Directors (long-term succession planning), as well as the remuneration of the Board of Executive Directors. The Nomination and Compensation Committee debated intensively the decisions to be taken by the Supervisory Board in 2007 regarding of the membership the Board of Executive directors and submitted their proposals to the full Supervisory Board. This included the appointment of Dr. Harald Schwager and Dr. Wolfgang Büchele as new board members as of January 1, 2008, the early retirement of Klaus Peter Löbbe for health reasons and the extension of the contracts of the Board members Dr. Kurt Bock and Dr. Andreas Kreimeyer (both until the Annual Meeting in 2012). The Supervisory Board approved the proposals of the Nomination and Compensation Committee at the meeting on July 6, 2007. Following the proposal of the Nomination and Compensation Committee, the Supervisory Board decided to suspend the appointment of Dr. Wolfgang Büchele to the Board, who has decided to leave the company at his own request, as of December 31, 2007.

In 2007, the members of the Audit Committee were Max Dietrich Kley, Dr. Karlheinz Messmer (until April 30, 2007), Hans Dieter Pötsch, Michael Vassiliadis and Dr. Friedrich Wirsing (as of July 6, 2007). The chairman of the Audit Committee was Max Dietrich Kley, who like Hans Dieter Pötsch, had been appointed Audit Committee Financial Expert. The Audit Committee met three times in 2007. Its activities primarily included reviewing the Consolidated Financial Statements of BASF Aktiengesellschaft and BASF Group for 2006; reviewing the Annual Report on Form 20-F prepared in accordance with U.S. accounting standards for the last time; advising the Board of Executive Directors on accounting issues; discussing and defining particular features of the audit; regulating business relations with the company's auditors, including the adoption of a resolution regarding the provision of non-audit services by the auditors; agreeing on the auditing fees; and monitoring the auditor's independence.

The Audit Committee dealt with the implications of new recommendations and regulations for the work of the Audit Committee. In particular, this related to the revised German Corporate Governance Code as of June 14, 2007, the E.U. auditing directive and the changes resulting from the change in the legal framework following the delisting from the New York Stock Exchange.

It was not necessary to convene the Mediation Committee in 2007. Its members were Prof. Dr. Jürgen F. Strube (chairman), Robert Oswald (deputy chairman), Wolfgang Daniel and Dr. Tessen von Heydebreck.

The Supervisory Board of BASF SE formed three committees, whose members are as follows:

- Personnel Committee: Prof. Dr. Jürgen Strube (chairman), Dr. Tessen von Heydebreck, Robert Oswald, Michael Vassiliadis
- Audit Committee: Max Dietrich Kley (chairman and financial expert), Ralf Gerd Bastian, Franz Fehrenbach, Michael Vassiliadis
- Nomination Committee: Prof. Dr. Jürgen Strube, Prof. Dr. François N. Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck, Max Dietrich Kley

#### **Financial Statements of the BASF Group and BASF SE**

On the basis of the preliminary review by the Audit Committee, on which the Chairman of the Audit Committee reported to the Supervisory Board, the Supervisory Board of BASF SE have examined the Financial Statements and Management's Analysis of BASF SE for 2007: the proposal by the Board of Executive Directors for the appropriation of profit; the BASF Group Consolidated Financial Statements; and Management's Analysis for the BASF Group for 2007. KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the auditors elected by the Annual Meeting have examined the 2007 Financial Statements of BASF SE and the BASF Group Consolidated Financial Statements, including the Management's Analysis and their bookkeeping, and have approved them free of qualification. The auditors also noted that the Board of Executive Directors, in accordance with Section 91 (2) of the German Stock Corporation Act, had instituted a suitable information and monitoring system which met the needs of the company and appeared suitable, both in design and the way in which it had been applied, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditors' reports were sent timely to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on February 20, 2008, as well as the accounts meeting of the Supervisory Board on March 4, 2008, and reported on the main findings of their audit. The auditors also provided detailed explanations of their reports on the day before the accounts review meeting. We have taken note of and agree to the auditors' reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board

sees no grounds for objection to the management and submitted reports.

At the Supervisory Board's accounts meeting on March 4, 2008, we approved the Financial Statements of BASF SE drawn up by the Board of Executive Directors and the Consolidated Financial Statements of the BASF Group, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €3.90 per share.

#### **Composition of the Supervisory Board and Board of Executive Directors**

Dr. Karlheinz Messmer, who was the representative of executive employees, retired from BASF and the Supervisory Board as of April 30, 2007. Dr. Friedrich Wirsing was elected to replace him in this position in the Supervisory Board. All mandates of the Supervisory Board of BASF Aktiengesellschaft lapsed as of January 14, 2008.

Since January 14, 2008, the Supervisory Board of BASF SE is composed twelve members, six of them being shareholder representatives appointed at the Annual Meeting on April 26, 2008: Prof. Dr. Jürgen Strube, Prof. Dr. François N. Diederich, Michael Diekmann, Franz Fehrenbach, Dr. Tessen von Heydebreck and Max Dietrich Kley. The other six members are employee representatives named in the Employee Participation Agreement of November 15, 2007: Ralf Gerd Bastian, Wolfgang Daniel, Ulrich Küppers, Robert Oswald, Denise Schellemans and Michael Vassiliadis. At the meeting of December 5, 2007, Prof. Dr. Jürgen Strube was elected chairman. In addition, Prof. Dr. Berthold Leibinger was appointed honorary chairman of the Supervisory Board.

Klaus Peter Löbbe retired from the Board of Executive Directors of BASF Aktiengesellschaft due to health reasons as of July 31, 2007. On January 1, 2008, Dr. Harald Schwager joined the Board of Executive Directors. All board mandates of BASF Aktiengesellschaft lapsed following the registration of BASF SE. Peter Oakley retired from the Board of Executive Directors in this connection. Since January 14, 2008, the Board of Executive Directors of BASF SE is composed of: Dr. Jürgen Hambrecht (Chairman), Dr. h. c. Eggert Voscherau (Vice Chairman), Dr. Kurt Bock, Dr. Martin Brudermüller, Dr. John Feldmann, Dr. Andreas Kreimeyer, Dr. Stefan Marcinowski, and Dr. Harald Schwager.

#### **Thanks**

The Supervisory Board thanks all employees of the BASF Group worldwide, the management of the company and the retired members of both the Board of Executive Directors and Supervisory Board for their work performed in 2007.

Ludwigshafen, March 4, 2008

The Supervisory Board

**PROFESSOR DR. JÜRGEN STRUBE**  
Chairman of the Supervisory Board

# COMPLIANCE STATEMENT 2007

## IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

### Compliance Statement 2007 by the Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft

#### 1. Statement of Principles pursuant to § 161 AktG [Stock Corporation Act]

We declare that the recommendations by the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied within the year 2007 and will be complied with in the year 2008 subject to the measures outlined below.

#### 2. Deviations

**a)** Compensation of Chair and Membership in the Mediation Committee of the Supervisory Board (Section 5.4.7 of the Code)

As set forth in Section 5.4.7 of the Code, compensation shall take into account the chair position and the membership in Supervisory Board committees. In respect to the Mediation Committee pursuant to § 27 section 3 of the MitbestG [Co-Determination Act], which, at our company, did not have to convene to date, our company does not comply with this recommendation. The members of the Mediation Committee are not entitled to a specific compensation in addition to any possible attendance fee for the meetings.

**b)** Dealing with the structure of the Executive Board compensation system by the full Supervisory Board; assessment of the appropriateness of the compensation of the members of the Executive Board by also applying performance-related criteria (Section 4.2.2 of the Code)

The respective chairmen of the Supervisory Board Committees report regularly to the Supervisory Board on the work of the Committees. This includes the work of the Nomination and Compensation Committee (Personalaussschuss) which is responsible for the treatment of the management contracts of the members of the Board of Executive Directors at our company. Beyond that we do not and will not comply with the abovementioned recommendations.

**c)** Publication to the shareholders of candidates proposed for the Supervisory Board Chair (Section 5.4.3 of the Code)

In accordance with this recommendation, candidates for the Supervisory Board Chair shall be published to the shareholders, although those candidates, as a rule, are members of a Supervisory Board still to be elected and the Chairman of the Supervisory Board has to be elected from among them. An early nomination may, therefore, lead, in fact, to a prior determination of the Supervisory Board's future members. In the event of a by-election, separate in time from a Supervisory Board election, there is, a priori, no opportunity to publish the candidates to the shareholders. We, therefore, consider the recommendation to be less practical. For the time being, we intend to observe the further development, before we decide on a Comply or an Explain.

**d)** Recommendations by the Government Commission on the German Corporate Governance Code according to the status of the Code on June 14, 2007

In its meeting held on October 25, 2007, the Supervisory Board has resolved to comply with the new recommendations according to Sections 5.3.2 and 5.3.3 of the Code. With regard to Section 5.3.2, the resolution has been taken with immediate effect. The resolution regarding Section 5.3.3 will take effect at the conversion of our company into an SE which is being expected for early January, 2008.

**e)** Compliance Statement (Section 3.10 of the Code)

Pursuant to Section 3.10 of the Code, the Board of Executive Directors and the Supervisory Board shall report each year in the Company's Annual Report on the Company's corporate governance. This includes the explanation of possible deviations from the recommendations of the Code. By § 161 AktG this reporting obligation is regulated with, in part, different content. The Board of Executive Directors and the Supervisory Board resolved to exclusively report as required by law.

Ludwigshafen, December 5, 2007

**The Supervisory Board**  
of BASF Aktiengesellschaft

**The Board of Executive Directors**  
of BASF Aktiengesellschaft

## Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the BASF SE, Ludwigshafen am Rhein (until January 13, 2008: BASF Aktien-gesellschaft), for the business year from January 1, 2007 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management.

Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper

accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 20, 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

**Prof. Dr. Wesner**  
Wirtschaftsprüfer

**Kuhn**  
Wirtschaftsprüfer

# STATEMENT OF INCOME

## Statement of Income (million €)

	Explanations in Note	2007	2006
<b>Sales</b>	<b>(2)</b>	<b>16,678.8</b>	<b>15,733.8</b>
Cost of sales		12,897.5	12,073.3
<b>Gross profit on sales</b>		<b>3,781.3</b>	<b>3,660.5</b>
Selling expenses		1,569.7	1,513.4
General and administrative expenses		372.5	322.1
Research and development expenses		865.7	817.1
Other operating income	(3)	379.6	642.4
Other operating expenses	(4)	582.1	739.5
<b>Income from operations</b>		<b>770.9</b>	<b>910.8</b>
Income from participations		2,254.3	1,987.2
Interest result		(439.6)	(252.1)
Other financial result		(149.7)	(391.9)
<b>Financial result</b>	<b>(5)</b>	<b>1,665.0</b>	<b>1,343.2</b>
<b>Income before taxes*</b>		<b>2,435.9</b>	<b>2,254.0</b>
Income taxes	(6)	169.1	302.7
<b>Net income</b>		<b>2,266.8</b>	<b>1,951.3</b>

\* Income from ordinary operations

# BALANCE SHEET

## ASSETS (million €)

	Explanations in Note	2007	2006
Intangible assets	(8)	170.4	183.6
Property, plant and equipment	(9)	1,506.7	1,519.3
Financial assets	(10)	18,676.6	17,439.8
<b>Fixed assets</b>		<b>20,353.7</b>	<b>19,142.7</b>
<b>Inventories</b>	<b>(11)</b>	<b>1,529.8</b>	<b>1,360.4</b>
Accounts receivable, trade		1,564.0	1,540.8
Receivables from affiliated companies		6,341.5	10,457.8
Miscellaneous receivables and other assets		553.5	406.2
<b>Receivables and other assets</b>	<b>(12)</b>	<b>8,459.0</b>	<b>12,404.8</b>
Marketable securities		1,872.8	3,723.1
Cash in hand and bank balances		2,041.8	140.3
<b>Liquid funds</b>	<b>(13)</b>	<b>3,914.6</b>	<b>3,863.4</b>
<b>Current assets</b>		<b>13,903.4</b>	<b>17,628.6</b>
<b>Deferred taxes</b>	<b>(6)</b>	<b>299.5</b>	<b>374.7</b>
<b>Prepaid expenses</b>	<b>(14)</b>	<b>31.6</b>	<b>33.5</b>
<b>Total assets</b>		<b>34,588.2</b>	<b>37,179.5</b>

## STOCKHOLDERS' EQUITY AND LIABILITIES (million €)

	Explanations in Note	2007	2006
Subscribed capital	(15)	1,224.2	1,279.2
Capital surplus	(15)	3,058.9	3,031.8
Retained earnings	(16)	1,789.6	3,660.8
Profit retained	(16)	3,008.0	2,225.1
<b>Stockholders' equity</b>		<b>9,080.7</b>	<b>10,196.9</b>
<b>Special reserves</b>	<b>(1)</b>	<b>108.7</b>	<b>108.3</b>
Provisions for pensions and similar obligations	(17)	3,568.3	3,177.7
Provisions for taxes		979.2	1,004.4
Other provisions	(18)	1,828.0	2,012.8
<b>Provisions</b>		<b>6,375.5</b>	<b>6,194.9</b>
Financial indebtedness		6,378.1	7,619.7
Accounts payable, trade		571.3	563.6
Liabilities to affiliated companies		11,638.2	12,070.9
Miscellaneous liabilities		333.8	326.6
<b>Liabilities</b>	<b>(19)</b>	<b>18,921.4</b>	<b>20,580.8</b>
<b>Deferred income</b>		<b>101.9</b>	<b>98.6</b>
<b>Total stockholders' equity and liabilities</b>		<b>34,588.2</b>	<b>37,179.5</b>

# NOTES TO THE FINANCIAL STATEMENTS OF BASF SE

**Basis of presentation:** The Financial Statements of BASF SE are prepared according to the German Commercial Code (Handelsgesetzbuch, HGB) and the German Stock Corporation Act (Aktiengesetz) using the cost-of-sales method.

## 1. Accounting policies

**Revenue recognition:** Revenues from the sale of goods or the rendering of services are recognized upon the transfer of ownership and risk to the buyer. Allowances are made for rebates and trade discounts. Provisions are made to cover the return of products, estimated future warranty obligations and other claims based on the principle of individual evaluation.

**Intangible assets:** Intangible assets are valued at cost less scheduled straight-line amortization. The weighted-average amortization period was 11 years in 2007, and 11 years in 2006 and was based on the following useful lives:

	2007	2006
Goodwill	19 years	19 years
Software	4 years	4 years
Patents, licenses, know-how, other rights	8 years	8 years

Write-downs are taken when an other than temporary impairment occurs. If the reason for the impairment no longer exists in subsequent years, the asset is written up to an amount which may not exceed the amortized cost.

**Property, plant and equipment:** They are stated at cost less scheduled depreciation over their estimated useful lives. Low-value assets are written off fully in the year of acquisition and are shown as disposals. Movable depreciable fixed assets that are functionally integrated are treated as a single asset item.

The cost of self-constructed plants includes direct costs, appropriate allocations of material and manufacturing overhead and an appropriate share of the administrative costs for those areas involved in the construction of the plants. Borrowing costs, costs for social services, costs for voluntary social benefits and pension costs are not capitalized.

Movable fixed assets are mostly depreciated by the declining balance method, with a change to straight-line depreciation when this results in higher depreciation amounts. Immovable fixed assets are predominantly depreciated using the straight-line method.

The weighted-average depreciation periods used were as follows:

	2007	2006
Buildings and structural installations	23 years	23 years
Industrial plant and machinery	11 years	11 years
Factory, office equipment and other facilities	9 years	9 years

Write-downs are taken when an other than temporary impairment occurs and the carrying amount of an asset is not expected to be recoverable. Measurement of the write-down is based on the expected future cash flows from the use of the asset less costs for its removal. A write-down is made in the amount of the difference between the carrying amount and the discounted future cash flows. If the reason for the impairment no longer exists in subsequent years, the asset is written up to an amount which may not exceed the amortized cost.

**Financial assets:** Shares in affiliated companies and in participating interests are carried at cost, or in the case of an other than temporary impairment, at the appropriate lower value according to the principle of individual valuation.

Interest-bearing loans are stated at cost; noninterest-bearing loans or loans at below market interest rates are stated at their present value. In the case of foreseeable default risks, the Company recognizes an impairment loss based on the estimated fair value of the loan. If the reason for the impairment no longer exists in subsequent years, the asset is written up to an amount which may not exceed the acquisition cost.

Financial activities are shown in income from participations, interest result and other financial result in the income statement.



**Inventories:** Inventories are carried at cost. They are valued at quoted or market values/fair value if these are lower than cost. These lower values are the replacement costs for raw materials and factory supplies and merchandise and, in the case of work in process and finished products, the expected sales proceeds less the estimated costs of completion or lower reproduction cost. The costs of raw materials, work-in-process, finished goods and merchandise are determined by the last-in-first-out (LIFO) method.

Production costs include, in addition to direct costs, an appropriate allocation of overhead cost of production and materials (including general administrative costs for the production unit) using normal utilization rates of the production plants. Financing costs, social services, voluntary social benefits and pensions are not included in production costs.

Services-in-progress relates to chemical plants under construction mainly for BASF Group companies. Profits are recognized on final settlement or on the completion of part projects. Expected losses are recognized by write-downs to the lower attributable values.

**Receivables and other assets:** Receivables are generally carried at their nominal value. Notes receivable and loans generating no or a low-interest income are discounted to their present values. Lower attributable values due to risks of collectibility and transferability are covered by appropriate valuation allowances.

**Liquid funds:** This item includes marketable securities, cash at bank and cash in hand. Securities are valued at cost. They are valued at quoted or market values if lower than cost.

**Deferred tax assets:** Deferred tax assets are recorded for temporary differences between the valuation of assets and liabilities in the Financial Statements and the carrying values for tax purposes. No valuation adjustments were made for deferred tax assets.

**Special reserves:** To the extent that recognition of special reserves on the balance sheet is required for fiscal acceptance, the amount is set in accordance with fiscal legislation. This refers primarily to transmissions of revealed inner reserves in accordance with Section 6b of the German Income Tax Act (Einkommenssteuergesetz).

**Provisions:** Provisions for pensions are determined using the projected unit credit method according to IAS 19 "Employee Benefits" and are based on actuarial computations. The obligation is valued using the "Richttafeln Heubeck 2005 G" as well as assumptions regarding future pay and pension increases. The discount rate used is 5.25%.

Tax provisions are recognized for German trade income tax and German corporate income tax in the amount necessary to meet the expected payment obligations.

Other provisions are recognized for the expected amounts of contingent liabilities and probable losses from pending transactions. Maintenance provisions are established to cover omitted maintenance procedures as of the end of the year, and are expected to be incurred within the first three months of the following year. The amount provided is based on reasonable commercial judgment.

Provisions are established for environmental protection measures and risks if the measures are necessary to comply with legal or regulatory obligations or if conditions are likely to be imposed due to technological developments and do not result in production costs which should be capitalized.

Provisions for required recultivation associated with the operation of landfill sites are built up in installments over the expected service lives.

Provisions for long-service bonuses and pre-retirement part-time programs are calculated based on actuarial principles corresponding to the projected unit credit method of IAS 19 taking into account the rate of compensation increase and the adequate periodical interest rate. For signed contracts under the pre-retirement part-time programs, provisions for the present value of supplemental (top-up) payments are provided in their full amount and discounted at an interest rate of 4.75%. Wage and salary payments due during the passive phase of agreements are accrued through installments at nominal value.

**Foreign currency transactions:** The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at the exchange rate at the date of the transaction.

Short-term foreign currency receivables and liabilities are valued at the exchange rates on the balance sheet date. Long-term foreign currency receivables are recorded at the rate prevailing on the acquisition date or at the lower rate on the balance sheet date. Long-term foreign currency liabilities are recorded at the rate prevailing on the acquisition date or at the higher rate on the balance sheet date. Foreign-currency receivables or liabilities that are hedged are carried at hedge rates.

**Derivative financial instruments:** Derivative financial instruments are treated as pending transactions and are not recorded as assets or liabilities. Underlying transactions and hedges are combined and valued together, when applicable. Profits from hedging transactions, which cannot be allocated to a particular underlying transaction, are recorded in income upon maturity. Unrealized losses from hedging transactions, which cannot be allocated to a particular underlying transaction, are recognized in earnings and included in provisions.

The use of derivative financial instruments to hedge foreign currency, interest rate and price risks are described in detail in Note 21.

**Use of estimates and assumptions in financial statement preparation:** The carrying amount of assets, liabilities and provisions, contingent liabilities and other financial obligations in the Financial Statements depends on the use of estimates and assumptions. They are based on the circumstances and estimates on the balance sheet date and affect the reported amounts of revenues and expenses during the reporting periods. In the preparation of these financial statements, estimates and assumptions have been made by management concerning the selection of useful lives of property, plant and equipment and intangible assets; the measurement of provisions; the carrying value of investments; and other similar evaluations of assets and obligations. Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates.

## 2. Sales

Million €	2007	2006
<b>Based on segment</b>		
Chemicals	4,415.7	4,020.3
Plastics	4,746.3	4,401.5
Performance Products	4,145.3	4,013.0
Agricultural Products & Nutrition	2,498.2	2,458.1
Other	873.3	840.9
	<b>16,678.8</b>	<b>15,733.8</b>
<b>Based on region</b>		
Europe	13,368.9	12,374.0
Thereof Germany	4,965.1	4,627.5
North America	888.6	966.1
Asia Pacific	1,587.5	1,643.8
South America, Africa, Middle East	833.8	749.9
	<b>16,678.8</b>	<b>15,733.8</b>

## 3. Other operating income

Other operating income declined by €262.8 million. In 2006, this item contained income from the reversal of provisions for the cost of litigation, damage claims and other guarantees. Following foreign currency gains in 2006 of €78 million, we posted foreign currency losses in 2007 of €10 million.

In addition, provisions of €96.3 million were reversed to income (2006: € 227.5 million).

The reversal of special reserves of €7.6 million mainly included the transfer of capital gains from the sale of fixed assets to additions to fixed assets in accordance with Section 6b of the German Income Tax Act.

## 4. Other operating expenses

The decline in other operating expenses was due to lower special charges impacting (primarily restructuring measures) earnings.

Appropriation to special reserves of €8.0 million related primarily to the transfer of capital gains from the sale of fixed assets to additions to fixed assets in accordance with Section 6b of the German Income Tax Act.

## 5. Financial result

Million €	2007	2006
Income from participations and similar income	260.2	514.3
Thereof from affiliated companies	204.0	490.4
Income from profit transfer agreements	2,012.5	1,432.9
Income from tax allocation to affiliated companies	169.6	249.5
Losses from loss transfer agreements	176.4	119.0
Write-downs of, and losses from, disposal of participations	11.6	90.5
<b>Income from participations</b>	<b>2,254.3</b>	<b>1,987.2</b>
Income from other securities and long-term loans	10.7	37.2
Thereof from affiliated companies	8.8	35.2
Other interest and similar income	396.7	348.0
Thereof from affiliated companies	364.1	275.4
Interest and similar expenses	847.0	637.3
Thereof to affiliated companies	500.4	304.1
<b>Interest result</b>	<b>(439.6)</b>	<b>(252.1)</b>
Write-downs of, and losses from, disposal of long-term loans and marketable securities	72.7	202.5
Interest expense for long-term provisions for personnel costs	176.6	159.4
Miscellaneous other financial result	99.6	(30.0)
<b>Other financial result</b>	<b>(149.7)</b>	<b>(391.9)</b>
<b>Financial result</b>	<b>1,665.0</b>	<b>1,343.2</b>

“Write-downs of, and losses from, disposal of long-term loans and marketable securities” includes losses on the disposal and valuation of assets of BASF Pensionstreuhand e.V. (the Contractual Trust Arrangement, CTA). They were more than offset by income from CTA assets shown

under “Miscellaneous other financial result.” This item also includes income from hedging transactions.

In 2006, Other financial result contained write-downs on loans to affiliated companies.

## 6. Income taxes

Million €	2007	2006
Current taxes	93.1	195.3
Deferred taxes	76.0	107.4
<b>Income taxes</b>	<b>169.1</b>	<b>302.7</b>
Other taxes	17.2	18.7
<b>Tax expense</b>	<b>186.3</b>	<b>321.4</b>

Compared with 2006, lower income taxes resulted from the increase in provisions following the commitment made in 2007 by the company to increase the pensions paid by the pension fund (please see Management’s Analysis

page 3). In addition, tax-free income, under Section 8b of the German Corporate Income Tax Act (KStG), increased, while taxable income from participations declined in 2007.

Deferred taxes assets resulting from the temporary differences between valuations in the Financial Statements and valuations for tax purposes were as follows:

Million €	2007	2006
Fixed assets	26.4	55.0
Inventories and accounts receivable	53.2	40.4
Provisions for pensions and similar obligations	68.6	88.1
Other provisions, other	151.3	191.2
<b>Total</b>	<b>299.5</b>	<b>374.7</b>
Thereof short-term	30.5	34.0

An overall tax rate of 29% (2006: 38%) was applied to deferred taxes because of the Corporate Tax Reform 2008

that was passed in 2007 and the associated reduction in the tax rates for corporate and trade income taxes.

## 7. Other information

### Cost of materials (million €)

	2007	2006
Cost of raw materials, plant supplies and purchased merchandise	10,325.5	9,770.9
Cost of purchased services	1,597.2	1,541.6
	<b>11,922.7</b>	<b>11,312.5</b>

### Personnel costs (million €)

	2007	2006
Wages and salaries	2,216.0	2,152.5
Social security contributions and expenses for pensions and assistance	882.3	617.9
Thereof for pensions	523.6	225.9
	<b>3,098.3</b>	<b>2,770.4</b>

### Average number of employees

	2007	2006
Non-exempt employees	25,609	26,182
Exempt employees	5,674	5,565
Employees with trainee contracts	1,121	1,291
Employees with limited-term contracts	250	279
	<b>32,654</b>	<b>33,317</b>

## Compensation for the Board of Executive Directors and Supervisory Board

Million €	2007	2006
Board of Executive Directors' compensation		
Performance-related and fixed payments	22.0	19.2
Market value of options granted in the fiscal year on date of grant	6.1	3.4
Service Cost	4.5	4.7
Supervisory Board's compensation	4.2	4.1
Total remuneration of former members of the Board of Executive Directors and their surviving dependents	7.1	6.0
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	76.9	75.1
Loans to the members of the Board of Executive Directors and the Supervisory Board	-	-
Guarantees to members of the Board of Executive Directors and the Supervisory Board	-	-

Performance-related compensation for Board members is based on the return on assets, which corresponds to earnings before taxes plus borrowing costs as a percentage of average assets.

When comparing with the cash compensation in 2006, it should be considered that one member of the board left on July 31, 2007. Adjusted for this effect and based on the decision of the Nomination and Compensation Committee to raise the variable bonus on April 27, 2006, the cash compensation for the Board increased by 19%.

Moreover, in 2007, the members of the Board of Executive Directors were granted 155,368 options under the BASF option program (BOP).

Option rights of active and former members of the Board resulted in personnel expenses of €29.7 million (2006: €8.4 million).

→ The individual compensation of the members of the Board of Executive Directors and the Supervisory Board are reported in the Compensation Report on pages 18 to 22 of Management's Analysis.

→ The members of the Board of Executive Directors and the Supervisory Board as well as their memberships on other supervisory boards are shown on pages 13 to 17.

### Compliance Statement

The Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft have issued a Compliance Statement with regard to the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporations Act. The Compliance Statement is available on the Internet at:

→ [corporate.basf.com/governance\\_e](http://corporate.basf.com/governance_e)

### List of Shares Held

A list of all companies in which BASF SE has a participation as required by Section 285 sentence 1, No. 11 HGB is provided separately in the List of Shares Held in accordance with Section 287 HGB. The List of Shares Held together with the Financial Statements have been submitted to the electronic Federal Gazette as required by Section 325 German Commercial Code and are available from BASF SE. It is also available on the Internet at:

→ [corporate.basf.com/cg\\_reports](http://corporate.basf.com/cg_reports)

## 8. Intangible assets

### Developments in 2007 (million €)

	Concessions, trademarks and similar rights and values*	Goodwill	Advance Payments	Total
<b>Acquisition costs</b>				
Balance as of January 1, 2007	332.8	107.1	6.5	446.4
Additions	29.8	0.0	1.9	31.7
Additions from mergers	1.0	0.6	0.0	1.6
Disposals	26.0	0.1	0.0	26.1
Transfers	6.4	0.0	(6.4)	0.0
Balance as of December 31, 2007	344.0	107.6	2.0	453.6
<b>Amortization</b>				
Balance as of January 1, 2007	229.9	32.9	0.0	262.8
Additions	40.4 <sup>1</sup>	5.6	0.0	46.0
Additions from mergers	0.3	0.1	0.0	0.4
Disposals	26.0	0.0	0.0	26.0
Balance as of December 31, 2007	244.6	38.6	0.0	283.2
<b>Net carrying amount as of December 31, 2007</b>	<b>99.4</b>	<b>69.0</b>	<b>2.0</b>	<b>170.4</b>
Net carrying amount as of December 31, 2006	102.9	74.2	6.5	183.6

\* Including licenses in such rights and values

<sup>1</sup> Thereof impairment losses of €0.7 million

## 9. Property, plant and equipment

### Developments in 2007 (million €)

	Land, land rights and buildings*	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
<b>Acquisition costs</b>					
Balance as of January 1, 2007	2,505.7	9,445.3	1,236.0	174.4	13,361.4
Additions	19.8	114.0	54.8	166.8	355.4
Additions from mergers	0.0	0.0	1.1	0.0	1.1
Disposals	14.2	54.5	43.3	2.0	114.0
Transfers	13.2	79.0	19.8	(112.0)	0.0
Balance as of December 31, 2007	2,524.5	9,583.8	1,268.4	227.2	13,603.9
<b>Amortization</b>					
Balance as of January 1, 2007	2,053.0	8,705.1	1,084.0	0.0	11,842.1
Additions	37.7	250.1 <sup>1</sup>	72.7 <sup>2</sup>	0.0	360.5
Additions from mergers	0.0	0.0	0.2	0.0	0.2
Disposals	10.1	53.0	42.5	0.0	105.6
Transfers	0.1	(0.1)	0.0	0.0	0.0
Write-ups	0.0	0.0	0.0	0.0	0.0
Balance as of December 31, 2007	2,080.7	8,902.1	1,114.4	0.0	12,097.2
<b>Net carrying amount as of December 31, 2007</b>	<b>443.8</b>	<b>681.7</b>	<b>154.0</b>	<b>227.2</b>	<b>1,506.7</b>
Net carrying amount as of December 31, 2006	452.7	740.2	152.0	174.4	1,519.3

\* Includes buildings on land owned by others

<sup>1</sup> Thereof impairment losses of €7.3 million

<sup>2</sup> Thereof impairment losses of €0.3 million

## 10. Financial assets

### Developments in 2007 (million €) Participations

	Shares in affiliated companies	Shares in participating interests	Total participations
<b>Acquisition costs</b>			
Balance as of January 1, 2007	17,132.5	372.7	17,505.2
Additions	1,493.4	12.3	1,505.7
Disposals	42.6	2.3	44.9
Transfers	2.0	(2.0)	0.0
Balance as of December 31, 2007	18,585.3	380.7	18,966.0
<b>Depreciation</b>			
Balance as of January 1, 2007	330.8	29.0	359.8
Additions	6.8	1.8	8.6
Disposals	8.2	1.2	9.4
Write-ups	0.0	0.3	0.3
Balance as of December 31, 2007	329.4	29.3	358.7
<b>Net carrying amount as of December 31, 2007</b>	<b>18,255.9</b>	<b>351.4</b>	<b>18,607.3</b>
Net carrying amount as of December 31, 2006	16,801.7	343.7	17,145.4

Investments in affiliated companies increased primarily through capital increases in subsidiaries conducted by BASF SE in its role as the parent company of the BASF

Group and with its associated financing function. In addition, participations within the BASF Group were acquired.

### Developments in 2007 (million €) Loans and other financial assets

	Loans to affiliated companies	Loans to participating interests	Other loans and other financial assets	Loans and other financial assets	Total financial assets
<b>Acquisition cost</b>					
Balance as of January 1, 2007	283.2	18.9	18.6	320.7	17,825.9
Additions	14.8	0.9	8.0	23.7	1,529.4
Disposals	258.4	2.8	6.4	267.6	312.5
Balance as of December 31, 2007	39.6	17.0	20.2	76.8	19,042.8
<b>Depreciation</b>					
Balance as of January 1, 2007	22.4	0.3	3.6	26.3	386.1
Additions	2.0	0.4	1.0	3.4	12.0
Disposals	20.4	0.0	0.6	21.0	30.4
Write-ups	1.2	0.0	0.0	1.2	1.5
Balance as of December 31, 2007	2.8	0.7	4.0	7.5	366.2
<b>Net carrying amount as of December 31, 2007</b>	<b>36.8</b>	<b>16.3</b>	<b>16.2</b>	<b>69.3</b>	<b>18,676.6</b>
Net carrying amount as of December 31, 2006	260.8	18.6	15.0	294.4	17,439.8

## 11. Inventories

Million €	2007	2006
Raw materials and factory supplies	229.7	219.9
Work-in-process, finished goods and merchandise	1,252.6	1,105.7
Construction in progress	46.9	34.2
Advance payments	0.6	0.6
	<b>1,529.8</b>	<b>1,360.4</b>

Work-in-process, finished goods and merchandise are combined into one item due to the production conditions in the chemical industry.

The acquisition or production costs of raw materials, work-in-process, finished goods and merchandise are determined by the last-in-first-out (LIFO) method. Factory supplies are carried predominantly at average cost. For

inventories valued on LIFO basis, LIFO reserves (i.e., the difference between LIFO valuation and valuation at average cost or lower quoted or market values) are about €45 million (2006: €35 million) for raw materials and approximately €111 million (2006: €115 million) for finished goods and merchandise.

## 12. Receivables and other assets

Million €	2007		2006	
		Thereof non-current		Thereof non-current
Accounts receivable, trade	1,564.0	–	1,540.8	–
Receivables from affiliated companies	6,341.5	–	10,457.8	–
Receivables from associated companies and other participating interests	143.6	–	36.7	–
Other assets	409.9	234.0	369.5	172.6
	<b>8,459.0</b>	<b>234.0</b>	<b>12,404.8</b>	<b>172.6</b>

The prepaid expenses amounted to €17.3 million in 2007 and €54.8 million in 2006. Thereof €16.7 million are attributable to the CTA. Other assets include €23.4 million which concern the CTA.

## 13. Liquid funds

Liquid funds increased by €51.2 million in 2007. Marketable securities declined by €1,850.3 million, while cash increased by €1,901.5 million.

Marketable securities contain €1,842.6 million and cash €1,810.2 million which serve as security of pension obligations as part of the CTA. According to HGB, these committed funds must be shown in the balance sheet of BASF SE.



## 14. Prepaid expenses

Million €	2007	2006
Discounts	8.6	10.8
Other	23.0	22.7
	<b>31.6</b>	<b>33.5</b>

The discounts from the issuance of the 3.50% Euro Bond 2003/2010, the 3.375% Euro Bond 2005/2012, the 4.00% Euro Bond 2006/2011, the 4.5% Euro Bond 2006/2016 and the 3-Month EURIBOR Bond 2006/2009 are capital-

ized and amortized as interest expense over the term of the obligations. Other prepaid expenses include prepayments related to ongoing business activities.

## 15. Capital and reserves

	Outstanding shares	Subscribed capital €	Capital surplus €
Outstanding shares as of December 31, 2007	490,485,000	1,255,641,600.00	3,058,882,955.93
Repurchased shares intended to be cancelled	(12,300,000)	(31,488,000.00)	0.00
Outstanding shares as disclosed in the financial statements	478,185,000	1,224,153,600.00	3,058,882,955.93

We purchased 21,495,000 shares in 2007 for the purpose of cancellation, of which 12,300,000 have not been cancelled as of the balance sheet date - therefore subscribed capital is shown net of these shares. A total of 10,605,000 were cancelled in 2007. This included 1,410,000 shares that had

already been acquired for the purpose of cancellation in 2006. The subscribed capital of BASF SE was reduced by the resulting attributable amount of €27,148,800.00 (10,605,000 shares).

Million €	Conditional capital		Authorized capital	
	2007	2006	2007	2006
<b>As of January 1</b>	<b>22.4</b>	<b>411.7</b>	<b>500.0</b>	<b>500.0</b>
Conditional capital to ensure the exercise of options on BASF shares in the event of the issuance of stock warrants, retirement due to expiry (April 1, 2006)		(384.0)		
Conditional capital for the option program BOP 1999/2000, the BOP 2001/2005, decrease due to expiration of option rights (2006) and expiry without issuance of option rights (2007)	(22.4)	(5.3)		
<b>As of December 31</b>	<b>0.0</b>	<b>22.4</b>	<b>500.0</b>	<b>500.0</b>

### Share buyback/own shares

The Board of Executive Directors received approval at the Annual Meeting on April 26, 2007 to buy back BASF shares to a maximum amount of 10% of subscribed capital by October 25, 2008. The shares shall be purchased on the stock exchange or through a public purchase offer open to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the highest market price on the buying day and may not be more than 25% lower than that market price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 10% higher than the highest market price on the third trading day prior to the announcement of the public purchase offer. This authorization supersedes the prior authorization to repurchase BASF shares granted at the Annual Meeting on May 4, 2006.

The Board of Executive Directors is authorized to cancel the repurchased shares without the approval of a further resolution at an Annual Meeting. A sale of treasury shares is only authorized after a corresponding resolution at the Annual Meeting, except when, with the approval of the Supervisory Board, the shares are used to acquire companies, parts of companies or participations in companies in return for shares.

In 2007, a total of 21,495,000 shares, or 4.30% of the issued shares, were acquired under the respective approvals. The average purchase price was €88.35 per share. As of the balance sheet date, 12,300,000 shares of BASF stock were held by BASF SE. These were acquired for the purpose of cancellation. Therefore, these shares were not capitalized, but deducted from the subscribed capital.

BASF spent a total of €1,899.1 million on the share buyback program in 2007. Of which, €55.0 million was expensed through the reduction of subscribed capital and €1,844.1 million through the reduction of other retained earnings. Retained earnings declined further by €27.1 million due to the reclassification of the calculated par value of own shares cancelled in 2007 to capital surplus. Of this amount €3.6 million is attributable to shares purchased in 2006 for the purpose of cancellation.

Due to further share buybacks, on January 22, 2008, BASF SE exceeded the threshold of 3% which requires disclosure under Section 26 (1) sentence 2 of the German Securities Trading Act (WpHG). This amounted to 3.08% of the voting rights on this date (15,100,000 shares). According to Section 71b of the German Stock Corporations Act, BASF SE does not have the right to vote these shares. Between January 23 and 31, BASF SE repurchased 2,370,000 further own shares. On February 12, 2008, the Board of Executive Directors decided to cancel 17,470,000

of the shares repurchased by January 31, 2008. Due to the cancellation, the share in BASF SE once again went below the disclosure threshold of 3%.

### Disclosure in compliance with Section 21 (1) of the German Securities Trading Act (WpHG)

Axa Investment Managers Deutschland GmbH notified BASF in the name of and with the express authority of Axa S.A., 25 Avenue Matignon, 75008 Paris, France, that the voting rights of Axa. S.A. in BASF SE exceeded the threshold of 3% on August 6, 2007, which amounted to 6.42 % of the voting rights on this date. These voting rights are to be credited to Axa S.A. pursuant to Section 22 (1) sentence 1, number 6 in connection with Section 22 (1) sentence 2 of the German Securities Trading Act.

### Conditional capital

A residual amount of less than €0.1 million is reserved to meet compensation claims of former shareholders of Wintershall. These compensation claims expired in July 2004. For this reason, BASF SE will not issue any more shares from conditional capital.

### Authorized capital

At the Annual Meeting on April 29, 2004, shareholders authorized the Board of Executive Directors to increase subscribed capital by issuing new shares in an amount of up to €500.0 million against cash or contribution in kind with the approval of the Supervisory Board through May 1, 2009. The Board of Executive Directors is empowered to decide on the exclusion of shareholders' subscription rights for these new shares.

### Capital surplus (million €)

	2007
<b>As of January 1</b>	<b>3,031.8</b>
Reclassification of retained earnings corresponding to the calculated par value of shares cancelled during 2007	27.1
<b>As of December 31</b>	<b>3,058.9</b>

## 16. Retained earnings and profit retained

Million €	2007
<b>Other retained earnings</b>	
As of January 1	3,660.8
Share repurchase	(1,871.2)
Transfer from net income	-
<b>As of December 31</b>	<b>1,789.6</b>
<b>Profit retained</b>	
Profit carried forward	741.2
Net income	2,266.8
Transfer to other retained earnings	-
<b>As of December 31</b>	<b>3,008.0</b>

## 17. Provisions for pensions and similar obligations

BASF SE employees are granted basic benefits by BASF Pensionskasse VVaG, a legally independent BASF pension fund that is financed from the return on its financial assets, from members' contributions and by the company. Additional company pension commitments are financed by

pension provisions.

In 2007, BASF SE committed itself to increase the occupational pensions and pensions from BASF Pensionskasse VVaG by 5% as of January 1, 2010 - thereafter by 1% annually in three-year periods. This has resulted in a standardization of the rules of adjustment for company and fund pension.

## 18. Other provisions

Million €	2007		2006	
		Thereof current		Thereof current
Environmental protection and remediation costs	156.5	12.5	163.3	20.2
Personnel costs	1,257.9	676.0	1,191.8	628.6
Sales risks	80.4	67.8	132.5	109.2
Integration, shutdown and restructuring costs	4.7	4.3	40.1	38.8
Legal, damage claims, guarantees and related commitments	85.8	13.8	187.7	121.0
Maintenance and repair costs	21.9	21.9	28.1	22.8
Other	220.8	176.5	269.3	227.9
	<b>1,828.0</b>	<b>972.8</b>	<b>2,012.8</b>	<b>1,168.5</b>

In 2007, provisions in the amount of €96.3 million were reversed to income (2006: € 227.5 million).

## 19. Liabilities

### Financial indebtedness (million €)

	2007	2006
3.5% Euro Bond 2003/2010 of BASF SE	1,000.0	1,000.0
3.375% Euro Bond 2005/2012 of BASF SE	1,400.0	1,400.0
4% Euro Bond 2006/2011 of BASF SE	1,000.0	1,000.0
4.5% Euro Bond 2006/2016 of BASF SE	500.0	500.0
3-Month EURIBOR Bond 2006/2009 of BASF SE	500.0	500.0
Commercial papers	1,885.1	3,219.3
<b>Bonds and other liabilities to the capital markets</b>	<b>6,285.1</b>	<b>7,619.3</b>
Liabilities to credit institutions	93.0	0.4
	<b>6,378.1</b>	<b>7,619.7</b>

### Liabilities to affiliated companies (million €)

	2007	2006
Accounts payable, trade	1,094.9	1,130.0
Other liabilities	10,543.3	10,940.9
	<b>11,638.2</b>	<b>12,070.9</b>

### Miscellaneous liabilities (million €)

	2007	2006
Advances received on account of orders	6.8	7.3
Liabilities to companies in which participations are held	33.4	81.0
Other miscellaneous liabilities	293.6	238.3
Thereof taxes	35.2	56.0
Thereof liabilities relating to social security	15.5	17.5
Thereof CTA	27.7	–
	<b>333.8</b>	<b>326.6</b>

### Maturities of liabilities (million €)

	2007		2006	
	Less than 1 year	More than 5 years	Less than 1 year	More than 5 years
Financial indebtedness	1,978.1	500.0	3,219.7	1,900.0
Accounts payable, trade	570.0	–	561.0	–
Liabilities to affiliated companies	10,063.3	–	10,460.9	–
Advances received on account of orders	6.8	–	7.3	–
Liabilities to companies in which participations are held	33.4	–	81.0	–
Other liabilities	271.4	20.5	218.1	18.3
	<b>12,923.0</b>	<b>520.5</b>	<b>14,548.0</b>	<b>1,918.3</b>

**Secured liabilities** (million €)

	2007	2006
Other liabilities	-	37.7

Mainly securities are pledged as collateral. In addition, BASF SE has given covenants in favor of BASF Pensionskasse VVaG with regard to adhering to certain creditworthi-

ness criteria and to forgo encumbering property as security for creditors.

## 20. Contingent liabilities and other financial commitments

The contingent liabilities and other financial commitments listed below are stated at nominal value.

**Contingent liabilities** (million €)

	2007	2006
Bills of exchange	5.6	5.2
Thereof to affiliated companies	-	-
Guarantees	2,508.4	715.0
Thereof to affiliated companies	2,444.1	293.2
Warranties	447.3	473.2
Thereof to affiliated companies	444.4	471.7
	<b>2,961.3</b>	<b>1,193.4</b>

**Other financial obligations** (million €)

	2007	2006
<b>Other financial obligations</b>	<b>425.4</b>	<b>366.8</b>
Thereof to affiliated companies	59.4	71.1

**Long-term purchase commitments**

BASF SE purchases raw materials globally, both on the basis of long-term contracts and in spot markets. In this connection, concluded commodity swap contracts are net-

ted with the respective transactions. The fixed and determinable portions of long-term purchase contracts with a remaining term of more than one year are as follows:

Million €	2007	2006
<b>Long-term purchase commitments</b>	<b>8,252.8</b>	<b>6,241.2</b>
Thereof to affiliated companies	2,486.7	1,820.3

## 21. Derivative instruments

**The use of derivative instruments**

The Company is exposed to foreign currency, interest rate and commodity price risks during the normal course of business. These risks are hedged through a centrally determined strategy employing derivative instruments. In addition, derivative instruments are used to replace trans-

actions 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 leverage effect that can be achieved with derivatives is deliberately not used.

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 and by the use of collateral.

To ensure effective risk management, market risks are centralized at BASF SE and certain Group companies. Contracting and execution of these instruments is performed according to internal guidelines, and complies with strict control mechanisms.

The risks arising from the underlying transactions and the derivative transactions concluded to hedge them are monitored constantly. The same is true of the derivative instruments, which are used to replace transactions in original financial instruments. For this purpose, market quotations or computer based mathematical models are used to determine the current market values not only of the underlying transactions but also of the derivative transactions, and these are compared with each other.

Fair value of derivative financial instruments (million €)		
	2007	2006
Foreign currency forwards	(1.1)	54.4
Currency options	45.6	38.1
Combined interest and cross currency swaps	(0.2)	34.6
Commodity derivatives	(2.2)	(8.6)
Index swaps	24.4	-
	<b>66.5</b>	<b>118.5</b>

The fair values correspond to the difference between the cost and redemption value, which is determined from market quotations or by the use of option pricing models, such as the Black-Scholes model. They are based on the exchange rates published by the European Central Bank and the applicable market interest rates and volatilities based on the remaining term to maturity. In the case of unlisted contracts, the fair value corresponds to the redemption value in the event of premature cancellation. Offsetting changes in the valuation of the underlying transactions are not taken into account.

Of the total nominal value of €11.5 billion, €7.6 billion was attributable to foreign currency forwards, €2.0 billion to cross currency options, €1.8 billion to index swaps, and €0.1 billion to commodity derivatives and combined interest and cross currency swaps. The nominal values are the totals of the purchases or sales of the particular derivatives on a gross basis.

Foreign currency derivatives are primarily aimed at hedging the exchange rate risk against the U.S. dollar, the British pound and the Japanese yen. Commodity derivatives are used to hedge price risks, such as for naphtha.

Index swaps are used to replace primary financial instruments, especially in duplication of fixed-rate securities.

Provisions for probable losses from fluctuations of foreign exchange rates, interest rates or prices amounted to €30.1 million. Costs for the purchase of derivatives amounting to €47.1 million were capitalized as "other assets," and €7.2 million was recognized as liabilities under "other liabilities."

## 22. Services provided by the external auditor

BASF SE used the following services from KPMG:

Million €	2007	2006
Annual audit	3.0	4.3
Audit-related services	-	0.1
Tax consultation services	-	-
Other services	-	0.8
<b>Total</b>	<b>3.0</b>	<b>5.2</b>

The annual audit involved expenses for the auditing of the Financial Statements of BASF SE as well as the Consolidated Financial Statements of the BASF Group. In 2006, auditing costs included expenses for the audit of the opening balance sheets of newly acquired companies charged to BASF SE.

Ludwigshafen am Rhein, February 20, 2008

The Board of Executive Directors

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# ASSURANCE PURSUANT TO SECTIONS 264 (2), 289 (1) OF THE GERMAN COM- MERCIAL CODE (HGB)

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To the best of our knowledge, and in accordance with the applicable reporting principles, the Financial Statements of the BASF SE give a true and fair view of the assets, liabilities, financial position and profit situation of BASF SE, and the Management's Analysis of BASF SE includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of BASF SE.

Ludwigshafen, February 20, 2008



**DR. JÜRGEN HAMBRECHT**  
Chairman of the Board of Executive Directors



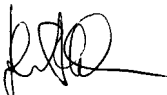
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