

# **BASF SE**

## **Financial Statements 2009**

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The Financial Statements and Management's Analysis of BASF SE as well as the List of Shares Held by BASF SE for the financial year 2009 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:

→ [basf.com/en/investor/cg](http://basf.com/en/investor/cg)

## Management's Analysis of BASF SE

### Corporate structure

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.

BASF's divisions, which are grouped in six business segments, bear the operational responsibility and manage our 72 global and regional business units.

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. 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.

### 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 prepared in accordance with the German Commercial Code (Handelsgesetzbuch, henceforth HGB).

### Corporate Governance Statement according to Section 289a HGB

The Corporate Governance Statement according to Section 289a HGB, printed on pages 12 to 16 (Corporate Governance Report, Declaration of Conformity) is an element of the Management's Analysis. Disclosures in the Corporate Governance Report in accordance with Section 317 (2) Sentence 3 HGB are not included in the audit of the external auditor, with the exception of the disclosures according to Section 289 (4) HGB.

### Trends in the global economy

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

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

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

## Business Development

### Results of operations

Million €	2009	2008
<b>Sales</b>	<b>14,079</b>	<b>17,143</b>
<b>Gross profit on sales</b>	<b>3,604</b>	<b>4,026</b>
<b>Income from operations (EBIT)</b>	<b>786</b>	<b>709</b>
Income from participations	1,803	3,429
Interest result	(306)	(440)
Other financial result	203	(564)
<b>Financial result</b>	<b>1,700</b>	<b>2,425</b>
<b>Income before taxes <sup>1</sup></b>	<b>2,486</b>	<b>3,134</b>
<b>Net income</b>	<b>2,176</b>	<b>2,982</b>

<sup>1</sup> Income from ordinary operations

### Sales

#### Change

	2009		2008	
	Million €	%	Million €	%
Change in volumes	(1,546)	(9.0)	(278)	(1.7)
Change in prices	(1,417)	(8.3)	844	5.1
Currency effects	95	0.5	(232)	(1.4)
Commissions, licenses, other businesses, etc.	(196)	(1.1)	130	0.8
	<b>(3,064)</b>	<b>(17.9)</b>	<b>464</b>	<b>2.8</b>

#### Regions (million €)

	2009	2008
Europe	10,692	13,517
Thereof Germany	3,896	4,980
North America	972	1,027
Asia Pacific	1,532	1,673
South America, Africa, Middle East	883	926
	<b>14,079</b>	<b>17,143</b>

### Income from operations

In 2009, BASF SE's sales decreased by 18% compared with the previous year. The decline in sales was chiefly attributable to lower sales volumes and prices.

Despite a significantly improved margin situation, gross profit on sales decreased by €422 million compared with the previous year. This was due mainly to lower capacity utilization at our production plants resulting from the general global economic situation.

Income from operations, however, increased by €77 million to €786 million. This was due in part to the reduction of €305 million in other operating expenses, and an increase of €159 million in other operating income. These changes were mainly attributable to foreign currency results, which rose by €439 million compared with the previous year.

These positive effects on income from operations were partially offset in particular by a one-time contribution to BASF Pensionskasse VVaG amounting to €177 million.

Furthermore, acquired parts of the Ciba business were integrated in the sales structure of BASF SE in 2009. The resulting expenditures have been included in the corresponding functional costs as well as in other operating expenses in the Statement of Income.

### Financial result

The financial result declined by €725 million, chiefly as a result of lower income from participations. Smaller dividends as well as lower disposal gains and income from profit and loss transfer agreements led to a decrease of €1,626 million in income from participations.

This was partially offset by an increase of €134 million in the interest result due to the lower level of interest rates: The decline in expenses for affiliated companies was more significant than the decline in earnings from affiliated companies.

Furthermore, the Other financial result increased by €767 million, which had a positive effect on the financial result. This was due to income from write-ups, lower amortization related to the valuation of investments, and earnings from the sale of plan assets belonging to BASF Pensionstreuhand e.V. (Contractual Trust Arrangement, CTA).

### Net income

Net income in 2009 amounted to €2,176 million, representing a decline of €806 million, or 27%, compared with the previous year.

This was attributable primarily to a significantly weaker financial result as well as higher income taxes resulting from an increase in deferred taxes.

## Balance sheet structure and financial position

	2009		2008	
	Million €	%	Million €	%
Fixed assets	21,052	56.9	19,041	53.3
Current assets and other assets	15,975	43.1	16,709	46.7
<b>Total assets</b>	<b>37,027</b>	<b>100.0</b>	<b>35,750</b>	<b>100.0</b>
Stockholders' equity	9,000	24.3	8,614	24.1
Provisions	6,251	16.9	6,390	17.9
Liabilities and other liabilities	21,776	58.8	20,746	58.0
<b>Total stockholders' equity and liabilities</b>	<b>37,027</b>	<b>100.0</b>	<b>35,750</b>	<b>100.0</b>

### Balance sheet structure

The balance sheet total increased by €1,277 million, or 4%, to €37,027 million.

The increase in fixed assets by €2,011 million resulted primarily from the acquisition of intangible assets in association with the Ciba acquisition and the rise in the value of financial assets.

The decrease in current assets is largely due to a lower level of liquid funds, which declined by €671 million compared with the previous year.

The €386 million increase in stockholders' equity resulted from the fact that net income was higher than the dividend paid in 2009.

Liabilities and deferred income rose by €1,030 million. While the volume of our commercial paper was significantly reduced and partially replaced by the issuance of new bonds, there was an increase in particular in our financing-related payables to affiliated companies.

### Financial position

In 2009, we generated cash from operating activities of €2,028 million (2008: €3,407 million). The 40% decrease in comparison with the previous year was primarily attributable to lower net income and an increase in the market value of securities held by BASF Pensionstreuhand e.V., which was recognized in earnings but did not increase liquidity.

Cash used in investing activities amounted to €(1,879) million (2008: €(72) million). The higher capital requirement was a result of the acquisition of intangible assets in connection with the Ciba acquisition as well as capital increases at BASF subsidiaries.

Cash used in financing activities amounted to €(820) million (2008: €(1,972) million), and was affected by the repayment of commercial paper, the issuance of new bonds and internal Group borrowing. Overall, cash used in financing activities declined in comparison with 2008 as there were no share buy-backs in 2009.

Liquid funds declined by €577 million to €4,864 million, of which €671 million were cash and cash equivalents. This was partially offset by an increase of €94 million in the value of securities.

## Employees and Society

### Employees

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

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

Despite the effectiveness of these systems, BASF SE's personnel costs in 2009 rose to €2.77 billion (2008: €2.44 billion). The increase was chiefly due to a one-time contribution of €177 million to BASF Pensionskasse VVaG, higher additions to personnel provisions and higher contributions to the German Pension Security Association (Pensionsversicherungsverein). The company had 32,870 employees as of December 31, 2009 (December 31, 2008: 32,838).

Our employees can invest a portion of their remuneration in BASF shares. The "Plus" share program promotes the long-term participation of our employees through incentive shares, thus fostering their interest in the company's success and its performance. In 2009, employees of BASF SE purchased 952,190 shares under the Plus program. Since 1999, BASF has offered its senior executives the opportunity to participate in the BASF stock option program (BOP). The program ties a proportion of their compensation to the long-term performance of BASF shares.

### Research and development

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

Thanks to our close cooperation with numerous partners from science and business worldwide, we have created an international and interdisciplinary Know-how Verbund – an important factor in the success of efficient and future-oriented research and development. This network includes around 1,900 collaborative partnerships with universities, research institutes, startup companies and industry partners. In 2009, BASF filed around 1,300 patents worldwide (previous year: 1,265).

In 2009, BASF SE had 5,188 employees working in research and development. Expenditures on research and development amounted to €852 million.

### Environmental protection and safety

Industry, science, politics and society are being called on to curb global greenhouse gas emissions and make more efficient use of available resources. We contribute to this in two ways: We are constantly working to reduce greenhouse gas emissions in our production. Furthermore, we offer our customers products that make climate friendly technology possible and reduce emissions when they are used. For us, these are the drivers of profitable growth with climate protection.

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

The overall costs of operating environmental protection facilities throughout BASF SE amounted to €351 million in 2009 (2008: €381 million). BASF invested an additional €107 million in new and improved environmental protection plants and facilities (2008: €116 million). These capital expenditures involved both end-of-pipe measures as well as integrated environmental protection measures. Provisions established for environmental protection measures and remediation amounted to €142 million as of December 31, 2009 (December 31, 2008: €151 million).

The safety and health of our employees play a key role in BASF's success. We have made significant achievements as a result of our high standards. The number of work-related accidents of BASF employees and employees from other companies at the Ludwigshafen site has been stable at a low level for years. We aim to become even better in the future, thus contributing to BASF's long-term business success.

We have global concepts in place to protect our employees and neighbors as well as BASF's plants and company intellectual property. At the same time, these enable us to prevent production stoppages and environmental damage. Through our specifications and measures for distribution safety, we minimize risks to people and the environment. Our rules apply to all modes of transportation and include the delivery and distribution of chemicals between all BASF sites and their suppliers and customers. In our guidelines, we have set out uniform standards for the transportation and storage of chemical products in rented storage facilities. On this basis, we look beyond the relevant national provisions in inspecting the structural and technical condition of existing warehouses and assess the safety of new warehouses.

## Principles and objectives of our financial management

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

## Risk Report

The goal of BASF's risk management is to identify and evaluate risks as early as possible and limit business losses by taking suitable measures. The aim here is to avoid risks that pose a threat to BASF's continued existence and to make improved managerial decisions to create lasting value. We understand risk to be any event that can negatively impact the achievement of our short-term operational or long-term strategic goals. We define opportunities as possible successes that exceed our defined goals.

### Organization, responsibilities and tools

**Operational opportunities and risks:** Short and medium-term planning covers a period of one to three years. Within this framework, BASF's operating divisions, corporate units and competence centers decentrally identify and quantify opportunities and risks that may lead to positive or negative deviations from the respective business plan. The results are regularly reported to the Strategic Planning & Controlling unit, where they are checked and aggregated by means of Monte Carlo simulation. In addition, operational opportunities and risks are discussed in the monthly management report which is produced by the Corporate Controlling unit. Furthermore, if an individual risk is identified which has an impact on earnings of more than €10 million, this must be immediately reported to the Board of Executive Directors.

The Strategic Planning & Controlling and Finance corporate divisions are responsible for aggregated risk management. Both corporate divisions also provide the necessary risk management tools and expertise, refine the methods and are responsible for communicating these globally. The Legal, Taxes & Insurance division and the Chief Compliance Officer report directly to the Board of Executive Directors on legal and tax risks as well as on compliance risks.

**Strategic opportunities and risks:** As part of the strategy development for our strategic business units and when major investment decisions are to be made, the Strategic Planning & Controlling unit conducts opportunity/risk analyses, together with the respective business units. These analyses cover a ten-year timeframe and are reviewed during the course of the strategic controlling and are updated if necessary.

## Risk management process

The BASF Group's risk management process is based on the international risk management standard COSO II Enterprise Risk Management – Integrated Framework, and comprises the following steps:

### – Identification of opportunities and risks

Operational divisions decentrally identify opportunities and risks using a variety of tools, such as expert interviews and team-based approaches. These are complemented by market, competitive and environmental analyses as well as statistical evaluations.

The above are based on internal and external risk information sources, macroeconomic scenarios that evaluate important factors such as industry growth rates, and our company-wide risk catalog, which acts as a checklist and supports the identification process.

### – Assessment and quantification

Where possible, opportunities and risks are quantified as to their probability of occurrence and impact on profitability. The respective business plan serves as the reference base. In addition, we quantify the dependence of the individual business units on macroeconomic factors, such as exchange rates and raw materials prices.

### – Aggregation

Opportunities and risks as well as the dependence on macroeconomic factors are aggregated on the division and group level to determine the spectrum of possible effects on profit and the probability distribution. Correlations between individual events and factors, as well as internal interactions within the Verbund, are taken into account.

### – Management, measures and control

The management of opportunities and risks as well as the taking of measures takes place on the divisional level. Measures are taken at the BASF Group level for certain risks, such as risks associated with raw materials prices and exchange rates, which are partially reduced by Group-wide hedging effects. The details are governed by our risk management handbook, upon which divisional specific regulations are based. The Board of Executive Directors regularly receives reports on the risk situation of the BASF Group. If certain risk thresholds are reached, the Board is informed immediately.

### – Monitoring and development

The Corporate Audit unit regularly reviews our risk management system. As part of the annual audit, the external auditor assesses the proper functioning of the early risk detection system set up in accordance with Section 91 (2) of the German Stock Corporation Act. In order to continuously develop our risk management system, we regularly enter into discussions and share ideas with comparable industrial companies and service providers in the risk management field. When BASF was once again included in the Dow Jones Sustainability Index in September 2009, the company received special recognition from analysts for its risk management system, among other things.

### Significant features of the internal control and risk management system with regard to the financial reporting process (Section 289 (5) HGB)

The Financial Statements of BASF SE are prepared by a unit in the corporate division Finance. BASF SE's accounting process is based on the accounting provisions of the German Commercial Code having regard to significant processes and consistent deadlines. There are binding directives for the internal reconciliations and other accounting operations. Standard software is used to carry out the accounting processes as well as the preparation of the Financial Statements. There are clear rules for the access rights of each participant in these processes.

Employees involved in the accounting process meet the qualitative requirements and participate in trainings on a regular basis. There is a clear division of responsibilities between the involved specialist units, companies and regional service units. We strictly adhere to the principles of segregation of duties and dual control. Complex actuarial reports and evaluations are produced by specialized service providers or specially qualified employees.

Our internal control system for financial reporting continuously monitors these principles. To this end, methods are provided for the structured and Group-wide uniform evaluation of the internal control system in financial reporting.

A centralized risk catalog covers the significant risks for the BASF Group regarding a reliable control environment and proper financial reporting. The risk catalog is revised and updated annually.

In a centralized selection process, the units are identified that are exposed to particular risks. All significant BASF sites as well as all regions and divisions are taken into account. The selection process is conducted annually. In the relevant units, one person is given responsibility to coordinate and monitor the execution of the steps.

The **annual evaluation process** consists of the following steps:

#### – Evaluation of the control environment

The adherence to internal and external guidelines that are relevant for the maintenance of a reliable control environment is checked by means of a standardized questionnaire. The assessment is performed by checking the awareness of rules and is supported by sample taking.

#### – Identification of control activities

In order to mitigate the risks to the financial reporting process listed in our central risk catalog, corresponding control activities are conducted. The control activities of the largest companies and those with special risks are documented in a global IT system.

#### – Assessment of the control activities

After documentation, a test is performed to verify whether the described controls are capable of adequately mitigating the risks. In the subsequent test phase, samples are taken to test whether the controls were effective in practice.

#### – Monitoring of control weaknesses

The managers responsible receive reports on any control weaknesses and their resolution, and an interdisciplinary committee investigates their relevance for the BASF Group. The Board of Executive Directors is informed once control weaknesses have

been identified that have a considerable impact on the financial reporting.

#### – Internal confirmation of the internal control system

The responsible managing director and chief financial officer for each consolidated Group company confirm to the Board of Executive Directors of the BASF Group at the end of the annual cycle the effectiveness of the internal control system over accounting as well as the adequacy of financial reporting.

## Risks of future development

### Risks from operations

**Development of sales markets:** Because BASF's customers are active in numerous sectors, shifts in demand naturally imply opportunities and risks. We expect the global economy to recover slowly in 2010. However, overall we expect volatility and risks to remain high. There is also the risk that with the fading effects of government stimulus programs and a possible rise in key interest rates, demand in target markets will grow more slowly.

Several divisions are directly affected by restrained demand in key customer sectors, such as the construction and automotive industries, and increasing competition in sales markets. Other divisions are indirectly affected by a decline in the growth of demand for basic chemical products.

The margins for commodities, such as cracker products or plastics, are particularly exposed to product-specific supply and demand cycles. When demand is low, there is the possibility that higher raw materials prices cannot be passed on to our customers, or only to a limited degree.

The financial crisis also represents a risk for our sales markets. If our customers have less access to credit and therefore cannot refinance their businesses, this could have a negative impact on our business.

Where possible, risks related to the development of sales markets are countered using operational measures, for example, through close cooperation with customers and optimized production management. Furthermore, our regional and industrial diversification also contributes to minimizing risks.

**Risks from the creation of overcapacities:** We manage the construction and expansion of facilities for each product according to the expected demand and we schedule maintenance turnarounds accordingly.

We divest businesses in which we do not see satisfactory opportunities to differentiate ourselves from our competitors in the long term. In order to achieve lasting profitable growth, we are committed to operational excellence, innovation and investment in growth markets.

We concentrate our research and business on innovative business areas, which we also develop through strategic partnerships with important partners.

Overall, risks associated with the global and regional growth of our customer industries as well as the creation of overcapacities - together with raw materials prices and exchange rate volatility - are three of the top drivers of potential deviations from our plans.

**Availability and price volatility of raw materials:** Currently, we do not see risks arising from raw material availability. Given the current economic environment, however, the risk of failure of individual suppliers has increased.

We minimize procurement risks through our wide portfolio, our global purchasing activities and optimized procedures for the purchase of additional quantities of raw materials on spot markets. If possible, we avoid procuring raw materials from a single supplier. Where this cannot be avoided, we try to foster competition or we knowingly enter into these relationships and assess the effects of possible availability problems. We continuously monitor the credit risk of important business partners, both customers as well as suppliers. We adopt a similar approach regarding the purchasing of logistics and technical services.

Using our supply chain management, we identify potential high-risk suppliers with regard to environmental protection, occupational safety and social responsibility standards and we agree on corrective measures.

The price volatility of feedstocks, in particular oil-based chemicals, is one of the three main drivers of opportunity and risk at BASF. We assume that the volatility of raw materials prices, at least in the short term, will be above the historical level.

Our dependence on the oil price is reduced through the contribution of our Oil & Gas business. Furthermore, we minimize cost risks by using commodity derivatives. These measures help to secure margins when sharply rising raw material prices are expected, which due to low demand cannot be passed on via product prices, or only to a limited extent. This could lead to expenses if prices do not move as expected.

**Technical risks:** Guaranteeing the quality and availability of our products can require unforeseen technical measures. Moreover, there is the risk that unscheduled plant shutdowns will be required for safety reasons or due to technical problems.

We minimize technical risks through continuous monitoring and improvement of facilities and processes as well as through our global production Verbund.

### Financial risks

The management of currency and interest rate risks is conducted in the Treasury department; the management of commodity price risks in the Global Procurement & Logistics competence center or through appropriately authorized Group companies. Detailed guidelines and procedures exist for dealing with financial risks. Among other things, they provide for the segregation of trading and back office functions.

**Exchange rate volatility:** Competitiveness on global markets is influenced by fluctuations in exchange rates. This generates sales market risks for the BASF Group, especially when the U.S. dollar exchange rate fluctuates. On the production side, we mitigate foreign currency risks by having local production sites in the respective currency zones.

In addition, we incorporate planned purchase and sales transactions in foreign currencies in our financial foreign currency risk management. These risks are hedged using derivative instruments, if required. Exchange rate volatility is one of the top three driving forces for opportunities and risks within the BASF Group.

**Interest rate risks:** Interest rate risks result from potential changes in prevailing market interest rates, which can cause a change in the present value of fixed-rate instruments, and changes in the interest payments of variable-rate instruments. To hedge these risks, interest rate swaps and combined interest rate and currency derivatives are used in individual cases.

In addition, if our credit rating is downgraded by the credit rating agencies, this could lead to increased refinancing costs. In the short to medium term, BASF is largely protected from the possible effects on the interest result thanks to the well-balanced maturity profile of its financial debt.

**Risks from raw materials trading:** We use our knowledge of the markets for crude oil and oil products to generate earnings from the trade of raw materials within predetermined limits and exposure constraints. These activities are subject to constant monitoring.

**Liquidity risks:** Risks from cash flow fluctuations are recognized in a timely manner as part of our liquidity planning. Uncertainty regarding economic developments as a result of the global financial crisis makes it difficult to reliably forecast liquidity requirements. We take these uncertainties, as well as potential additional liquidity requirements that would arise in the case of an upswing, into account by means of additional risk scenarios. We update our liquidity planning immediately in response to events. This means we can promptly take the necessary measures when required.

We have significantly reduced the risks of refinancing in 2009 by issuing medium and long-term bonds. At the peak of the financial and economic crisis, issuing bonds was more costly than in previous years. However, we have access to comprehensive liquid funds thanks to our solid rating, the commercial paper program and committed bank credit lines.

The commercial paper program constitutes a reliable and economic source of liquidity for BASF, also during the financial crisis. We therefore currently rate our liquidity risks as low.

**Risk of default on receivables:** We limit country-specific risks by internally determining country ratings, which are continuously updated to reflect changing environment conditions. We use export credit insurance and investment guarantees as the main tools to limit specific country-related risks. We lessen credit risks for our financial investments by engaging in transactions only with business partners and banks with good credit ratings and by adhering to fixed limits. Monetary transactions are also conducted through such banks. Against the backdrop of the current economic crisis, we continuously check the creditworthiness of our partner banks. We reduce the risk of default on receivables by continuously monitoring the creditworthiness and payment behavior of our customers and by setting appropriate credit limits. Thanks to the worldwide activities and diversified

customer structure of the BASF Group, there is no large concentration of credit default risk. Risks are also limited through the use of credit insurance and bank guarantees.

**Impairment risks:** The risk of an asset impairment occurs if the assumed interest rate in an impairment test increases or the forecast cash flows decline. As a result of the economic crisis and the associated changes in our customer industries construction and automotive, a reduction in margins and slower volume growth can be observed in certain markets. This results in an increased risk of impairment of individual assets such as financial assets, technologies and brands, or goodwill.

**Risks from pension obligations:** We predominantly finance company pension obligations externally through separate plan assets. This applies to BASF Pensionskasse VVaG and BASF Pensionstreuhand e.V. in Germany. We address the risk of pension plan underfunding due to market volatility of plan assets by aligning the investment strategy in terms of return and risk optimization to the structure of the pension obligations. Stress scenarios are simulated regularly as part of the portfolio analyses. The ongoing review of the investment strategy was further intensified in reaction to the financial and economic crisis. Furthermore, we are reducing this risk by increasingly offering employees defined contribution schemes.

### Other risk areas

**Regulatory and political risks:** Due to the European chemicals directive REACH, which came into force on June 1, 2007, BASF and our European customers face the risk of being placed at a disadvantage to our non-European competitors due to the cost-intensive test and registration procedures.

Within the framework of E.U. emissions trading, the BASF Group was allocated emission certificates for the second trading period from 2008 to 2012. We do not currently expect any shortage of certificates for our activities in Europe in this second trading period. However, the concrete design of the European emissions trading from 2013 is still unclear. Depending on the final design of the implementing regulation, BASF may be required to purchase several million additional certificates annually. Depending on the quoted prices for CO<sub>2</sub> certificates, this will affect our cost position and therefore our global competitive situation.

Due to the amendment of the E.U. directive on industrial emissions (IED), scheduled for 2010/11, additional costs could arise for reporting and for the conversion of existing plants.

Additional risks are associated with an intensification of geopolitical tensions, the destabilization of political systems and the erection of trade barriers (customs duties, embargo measures). Overall, we regard the probability that regulatory and political risks will occur as low; the financial impact can be classified as low in the short term and elevated in the medium term.

**Research and development:** Due to the high degree of complexity and uncertainty involved in chemical and biological research, there is a risk that projects might be discontinued, budgets may be exceeded or developed products will not receive regulatory approval for sale. Our global Know-how Verbund, our collaboration with partners and customers as well as our innovation process reduce this risk. Within our project management framework, we continuously review the efficiency, chances of success and the operating environment of research projects; this review includes all phases from idea generation to product launch. The trust of customers and consumers is essential for the introduction of new technologies. That is why we enter into dialogue with stakeholders at an early stage of development. A significant contribution to long-term risk management is made by the alignment of strategic goals and the research portfolio as part of both strategic planning and strategic controlling.

**Personnel:** Dedicated and competent employees are essential for BASF's sustainable success. Our goal is to form the best team in industry. Due to global competition for highly-qualified specialist and management candidates, which is intensified by demographic change, there is a risk that job vacancies cannot be filled with suitable applicants, or only with a significant delay. The loss of expertise due to the high number of retirements may have negative effects on business. Following the difficult economic situation in 2009, the ongoing intensification of competition for specialists and managers will quickly resume. In Europe, this affects the engineering and scientific professions in particular; a noticeable supply shortage can already be observed.

We address these risks with our global programs Generations@Work and Diversity + Inclusion, the further development of our employer brand and an emphasis on personnel development as well as additional regional initiatives. These measures are aimed at both effective personnel recruitment and retention.

Overall, we rate the risk of a negative impact on our business due to the loss of managers and employees as significant. In addition, we expect this risk to increase in the medium to long term, and are already working to counter these developments using the above-mentioned methods as well as increased investment in human resources marketing and personnel development.

**Risks from acquisition and investment decisions:** Implementing acquisition and investment decisions involves complex risks. The evaluation of risks and opportunities already plays a significant role during the assessment of potential acquisition targets. A detailed analysis and quantification are conducted as part of due diligence. Examples of risks are: increased staff turnover, delayed realization of synergies or the assumption of obligations that could not be quantified exactly in advance. Therefore implementation and follow-up take place along defined processes. By nature, the acquired businesses are subject to general market risks and business-specific risks. For this reason, acquired businesses are promptly integrated into BASF's risk management process.

**Legal risks:** In order to assess the risks from current legal disputes and proceedings and any requirement to recognize provisions, we consider the results of comparable proceedings and independent legal opinions as well as assumptions regarding the probability of occurrence and the range of potential claims in individual cases. In addition, we use our own analyses and assessments of the circumstances and claims asserted. The actual costs can deviate from these estimates.

We limit risks from potential wrongdoing or legal infringements by using a centralized contract management and a Group-wide compliance program.

We aim to avoid patent and licensing disputes whenever possible with the help of extensive clearance research.

Based on the measures taken, we classify the risk of damages as low and the potential of an impact on earnings as medium.

**Sustainability:** BASF is committed to integrating environmental protection and socially responsible conduct into its business activities. Contraventions to our voluntary commitment to sustainability or to laws represent a reputational risk and could lead to operational or strategic risks. We have set up a global issue management system for sustainability to enable us to promptly recognize risks and opportunities related to sustainability. The results are then used to initiate change processes in the company in order to be prepared for any risks and to exploit opportunities accordingly. We have established global monitoring systems to enable us to ensure the adherence to laws and our voluntary commitments in the areas of environment, health and safety as well as to labor and social standards. These systems include our entire supply chain.

In order to assure society's acceptance of our business activities, we remain in continuous dialogue with relevant stakeholders.

**Information technology:** Risks are caused primarily by the non-availability of IT systems and applications, delayed provision of important data, loss or manipulation of data and the disclosure of confidential information. This can have negative consequences for the respective business processes.

To minimize such risks, BASF has a stable and redundantly designed IT system, back-up processes, virus and access protection and encoding systems as well as integrated, Group-wide-standardized IT infrastructures and applications. The systems used for information security are tested and updated on an ongoing basis. In addition, all our employees receive regular training on information and data protection. Risk management is conducted by using Group-wide regulations for organization and application, as well as an internal control system based on this.

Due to the measures taken, we regard the probability of a risk to our IT system as low. However, the potential impact would be high.

### Overall assessment

Compared with the previous year, we expect BASF SE to be exposed to a lower overall risk in 2010. The situation at the beginning of 2009 was characterized by significant uncertainties regarding the future impact of the recession. Although it currently appears that economic recovery remains weak and still susceptible to temporary setbacks, we judge the extent of risks related to sales volumes, currencies, margins and financial markets to be lower than in the previous year.

However, the volatility of raw materials prices and exchange rates remains high as does uncertainty regarding the overall economy and the performance of key customer industries.

Nevertheless, based on our assessment, there are currently no significant individual risks that pose a threat to the continued existence of BASF SE. The same applies to the sum of individual risks.

## Outlook

**Global economic environment:** Following a significant downturn in the first half of 2009, the global economy recovered slightly over the course of the year. The same was true for the chemical industry, which stabilized from a low level. In 2010, we expect the economy to recover further, but the recovery is likely to be slow and uneven. Risks are associated, for example, with ongoing overcapacities, the winding down of national stimulus programs and rising unemployment, especially in Europe.

For the year 2010 we expect the following economic conditions:

- Recovery in global chemical production; significant growth (+5.3%)
- Recovery of the world economy; moderate increase in the global gross domestic product (+2.7%)
- Weak growth in the industrialized countries (+1.8%)
- Weak growth in the European Union (+1.1%); growth in the United States (+2.6%); moderate growth in Japan (+1.3%)
- Significantly positive growth in Asia (excluding Japan) (+7.0%) and South America (+3.7%)
- An average exchange rate of \$1.40 per euro
- An average annual oil price of \$75 per barrel

We expect a significant global recovery from 2011 onward. From 2012, we expect that the previous growth trend of over 3% will be achieved again.

**Sales, earnings and investments:** We expect that BASF SE's sales in 2010 will increase significantly, particularly as a result of the acquisition of the Ciba business. Income from operations is also expected to improve.

As the economic situation is still weak, we will maintain our cost discipline and will continue to adjust our investment plans to the current market conditions. We will continue to rigorously implement our efficiency and restructuring programs. Assuming that the global economy continues to recover once national stimulus programs have expired, we expect further growth in 2011 in sales and income from operations compared with 2010.

The planned investment in property, plant and equipment for the years 2010 to 2012 will be approximately €1.1 billion, and will therefore most likely be below the level of depreciation. This is mainly due to amortization of intangible assets from the Ciba acquisition. We aim to finance these planned expenditures from cash provided by operating activities. This figure does not include acquisitions.

**Opportunities:** The year 2010 may present us with opportunities from a more rapid recovery and inventory restocking by our customer industries. In the medium and long term, opportunities will also arise from our strong position in research and in the most important growth industries and regions.

**Dividend:** Even in very difficult economic times, we aim to offer our shareholders an attractive dividend yield. We aim to increase our dividend each year, or at least maintain it at the previous year's level.

**Significant events subsequent to the balance sheet date:**

Since the beginning of the financial year 2010, there have not been any significant changes affecting BASF's situation and competitive environment.

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

Our (A+/A1) ratings have allowed us, and continue to allow us, to access the capital markets to issue bonds. Corporate bonds form the basis of our medium to long-term debt financing. These are issued in euro and other currencies with different maturities to ensure a diverse range of investors and a balanced maturity profile.

## Corporate Governance Statement according to Section 289a HGB

### 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 customers and other business partners, employees and the public in the company.**

As of January 14, 2008, BASF took on the new European legal form of a European Company (Societas Europaea). A highly significant goal of the conversion into BASF SE was the strengthening of BASF's corporate governance structure. By reducing the size of the Supervisory Board to 12 members while maintaining the equal representation of shareholders and employees and broadening the European composition of the employee representatives' side, the future direction for a modern and efficient corporate constitution has been set. Proven structures such as the two-tier administrative system of BASF's Board of Executive Directors and Supervisory Board have been retained in the SE.

#### Management and supervision in BASF SE

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

#### Direction and management by the Board of Executive Directors

Under the two-tier administrative system of BASF SE, the Board of Executive Directors is responsible for the management of the company, and represents BASF SE in business undertakings with third parties. BASF's Board of Executive Directors is strictly separated from the Supervisory Board: A member of the Board of Executive Directors cannot simultaneously be a member of the Supervisory Board. The Board of Executive Directors agrees on the BASF Group's company goals and corporate strategy, and manages and monitors the business units of the BASF Group through the planning and setting of the company budget, the allocation of resources and management capacities, the monitoring and decision making regarding significant individual measures and the control of the operational management.

The Board's actions and decisions are aligned with the company's best interests. It is committed to the goal of increasing the company's value in the long term. Decisions that are reserved for the Board as a whole by law, through the Board of Executive's Rules of Procedure or through resolutions adopted by the Board, are taken based on a simple majority. In the case of a tied vote, the casting vote is given by the Chairman of the Board. However, the Chairman of the Board does not have the right to veto the decisions of the Board of Executive Directors. Members of the Board of Executive Directors are authorized to make decisions individually in their assigned business areas.

The Board of Executive Directors reports to the Supervisory Board regularly, comprehensively and in a timely manner on all relevant matters concerning the company with regard to strategic planning, business development, risks and risk management. Furthermore, the Board agrees on corporate strategy with the Supervisory Board. Where required by the Statutes of BASF SE, the Board of Executive Directors must have the approval of the Supervisory Board for certain transactions before they are concluded. Such cases include the acquisition and disposal of enterprises and parts of enterprises, the issuance of bonds or comparable financial instruments provided the acquisition or disposal price or the amount of the issue in an individual case exceeds 3% of the equity reported in the last approved Consolidated Financial Statements of the BASF Group.

→ **The members of the Board of Executive Directors, including their memberships on the boards of other companies, are listed on page 22. Compensation of the Board of Executive Directors is described in detail in the compensation report on pages 17 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.

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

→ **For more on the Statutes of BASF SE and the Employee Participation Agreement, see [basf.com/investor/cg\\_e](http://basf.com/investor/cg_e)**

The Supervisory Board of BASF SE comprises twelve members. Six members are elected by the shareholders at the Annual Meeting. The remaining six members are elected by the BASF Europa Betriebsrat (European Works Council), the European employee representation body of the BASF Group, as agreed to in the Employee Participation Agreement.

→ **The Supervisory Board, including their membership on the boards of other companies, are listed on pages 23 to 24. Compensation of the Supervisory Board is described in detail in the Compensation report on pages 17 to 21.**

Resolutions of the Supervisory Board are passed by a simple majority of the votes of the participating members of the Supervisory Board. In the event of a tie, the vote of the Chairman of the Supervisory Board, who must always be a shareholder representative, shall be the casting vote. This resolution process is also applicable for the appointment and dismissal of members of the Board of Executive Directors by the Supervisory Board.

BASF SE's Supervisory Board established a total of three Supervisory Board Committees: the Personnel Committee, the Audit Committee and the Nomination Committee.

The **Personnel Committee's** duties include, amongst others, preparing the appointment of members of the Board of Executive Directors by the Supervisory Board and dealing with the employment contracts to be entered into with members of the Board of Executive Directors. It also prepares the resolutions made by the Supervisory Board with regard to the determination of compensation for the Board of Executive Directors, the monitoring of the compensation system for members of the Board of Executive Directors and the amount of compensation paid to members of the Board. The committee comprises Supervisory Board Chairman Dr. h.c. Eggert Voscherau (chairman), Supervisory Board Deputy Chairmen Michael Diekmann and Robert Oswald, as well as Michael Vassiliadis.

The **Audit Committee** makes preparations for the negotiations and resolutions of the Supervisory Board for the approval of the financial statements and consolidated financial statements, and considers the Quarterly and First-Half financial reports with the Board of Executive Directors prior to their publication. It also deals with monitoring the financial reporting process, the effectiveness of the internal control system, the risk management system, and the internal auditing system, as well as with compliance issues. The Audit Committee is also responsible for business relations with the company's external auditor: It prepares the Supervisory Board's proposal to the Annual Meeting regarding the selection of an auditor, monitors the auditor's independence, defines the key aspects of the audit together with the auditor, negotiates auditing fees and establishes the conditions for the provision of the auditor's non-audit services. The members of this committee are Max Dietrich Kley (chairman), Ralf-Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis.

Max Dietrich Kley has particular knowledge and experience in the application of accounting principles and internal audit procedures, as he was a member of the Board of Executive Directors of BASF Aktiengesellschaft until 2003.

According to the recommendation of the German Corporate Governance Code, BASF SE's Supervisory Board established a **Nomination Committee** that will prepare the proposals for the Supervisory Board members to be elected at the Annual Meeting. The members of the Nomination Committee are the members of the Supervisory Board elected at the Annual Meeting: Dr. h.c. Eggert Voscherau, Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Stephen K. Green and Max Dietrich Kley.

### Shareholders' rights

At the Annual Meeting, shareholders perform their rights of co-administration and supervision. Each BASF SE share represents one vote. Shareholders may exercise their voting rights at the Annual Meeting either personally, through a representative of their choice or through a company-appointed proxy authorized by the shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has fully implemented the principle of "one share, one vote." All shareholders are entitled to participate in the Annual Meeting, to have their say concerning any resolution and to demand information about company issues to the extent that it serves to help make an informed judgment about the resolution under discussion. Half of the members of the Supervisory Board are elected at the Annual Meeting where above all the formal discharge of the Board of Executive Directors and the Supervisory Board is decided on as well as the distribution of profits, capital measures, the authorization of share buybacks and changes to the statutes.

### German Corporate Governance Code

BASF accords great importance to good corporate governance. BASF therefore supports the German Corporate Governance Code, which it regards as an important tool in the capital market-focused continuing development of corporate governance and control, and advocates responsible corporate governance that focuses on a sustainable increase in the value of the company.

BASF SE follows all recommendations of the German Corporate Governance Code in its revised version of June 2009. This applies also to new recommendations of the Code regarding the compensation of Board members, a deductible in any D&O policy for the Supervisory Board, the requirements to be observed regarding the composition of the Board of Executive Directors and the Supervisory Board, and the number of Supervisory Board mandates of members of the Board of Executive Directors in non-group listed companies.

The joint Declaration of Conformity 2009 of the Management and Supervisory Board of BASF SE is rendered at the end of this section on page 16. In the same manner, BASF fulfills nearly all of the non-obligatory suggestions of the German Corporate Governance Code. The sole exception here is the suggestion regarding the components based on long-term success of the company to be considered in the compensation of the

Supervisory Board. Compensation of the Supervisory Board of BASF SE does not contain any special compensation components that are tied to long-term company success assessed over a number of years. However, the annual variable compensation component based on profit per share is aligned with long-term profit increases, insofar as the profit per share required for the same variable compensation increases annually.

→ For more on the Declaration of Conformity 2009, an overview of the implementation of the code's suggestions and the German Corporate Governance Code, see [basf.com/governance\\_e](http://basf.com/governance_e)

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

To ensure high standards of corporate governance, the Board of Executive Directors has set out the business principles and rules of conduct for all BASF activities in the Values and Principles of the BASF Group, and the Code of Conduct/Compliance Program, which have been introduced throughout the company. The Code of Conduct describes in detail the conduct we expect from BASF employees - based on the principle of integrity. Compliance with all relevant legislation is especially important to us, in particular antitrust and competition legislation, embargo and export controls regulations - including those relating to chemical weapons - as well as labor laws and plant safety regulations. Other issues covered are bans on insider dealing for personal benefit and bans on facilitation payments to, or from, business partners or government officials, and the responsible treatment of BASF's assets. The Corporate Audit department, together with BASF's Chief Compliance Officer, monitors compliance on a regular basis.

→ For more on the Values and Principles of the BASF Group and the Code of Conduct, see [basf.com/values](http://basf.com/values)

## Compliance

The aim of our Group-wide Compliance Program is to prevent legal violations such as incidents of corruption, and to anchor the principle of integrity even more firmly within the company. At the same time, it helps us to implement our Code of Conduct in day-to-day business activities, allowing us to minimize compliance risks for BASF.

In 2002, BASF became one of the first companies in Germany to appoint a Chief Compliance Officer (CCO). Supported by a global network of 100 compliance officers, the CCO manages the Group-wide implementation and development of our Compliance Program. The basis for this is a system of training, information centers and monitoring instruments. The CCO's regular reporting to the Board of Executive Directors contains, in particular, results of compliance audits and information gained from our compliance hotline, which have a wider relevance. The Board of Executive Directors informs the Audit Committee of the Supervisory Board of any important issues.

Implementing our directives in day-to-day business requires that every employee knows, internalizes and commits to following these guidelines. For this reason, all of our employees receive obligatory compliance training in the first year of their employment at BASF. We also carry out subsequent refresher courses, using interactive learning programs in some cases. In addition, our compliance program provides training on special topics such as embargo regulations and antitrust law, based on

the employee's area of responsibility. In 2009, more than 25,000 employees took part in compliance training.

When selecting suppliers in non-OECD countries, we use a questionnaire to determine whether they have established a code of conduct and compliance guidelines.

If, despite all preventive measures, violations occur, we aim to investigate and rectify these as quickly as possible. Our external Group-wide hotlines enable employees to seek advice regarding personal conduct as well as report incidents in the company that they consider dubious - anonymously, if they wish. For the first time since its introduction, the use of the compliance hotline has slightly decreased. In 2009, there were 267 calls and e-mails received with compliance-related questions or concerns. The spectrum of topics ranged from operational concerns through to criminal behavior.

Our Corporate Audit department supports the Compliance Program by carrying out audits. It also regularly assesses whether dealings with business partners and government representatives conform to our values. In 2009, we performed 109 (2008: 60) Group-wide audits of this kind. We investigate all cases of misconduct detected in these audits or reported to our hotline. If necessary, we take appropriate action, ranging from warnings to dismissals. Depending on the circumstances, we claim compensation and alert the relevant authorities.

We are also involved with external partners in initiatives to prevent corruption outside of our company. As a member of the United Nations Global Compact (UNGC), we work actively in implementing the UNGC principle on fighting corruption. We have been a member of Transparency International Deutschland e.V. since 2003, and strongly support their work in fighting corruption. Since 2008, we have been a participant in the "Partnering Against Corruption Initiative" (PACI) of the World Economic Forum in Davos, Switzerland.

→ For more on compliance, our basic values, principles and our code of conduct, see [basf.com/compliance\\_e](http://basf.com/compliance_e)

## Disclosure according to Section 289 (4) HGB and the explanatory report of the Board of Executive Directors according to Section 176 (1) Sentence 1 of the German Stock Corporation Act

As at December 31, 2009, the subscribed capital of BASF SE was €1,175,652,728.32, divided into 918,478,694 bearer shares with no par value. Each share shall, at an Annual Meeting, entitle the holder to one vote. Restrictions on the right to vote or transfer shares do not exist. The same rights and duties apply to all shares. According to the Statutes, shareholders are not entitled to receive share certificates. There are neither different classes of shares nor shares with preferential voting rights (golden shares).

The appointment and dismissal of members of the Board of Executive Directors is legally governed by the regulations in Article 39 of the SE Council Regulation, Section 16 of the SE Implementation Act and Sections 84, 85 of the German Stock Corporation Act, as well as Section 7 of the BASF SE Statutes. Members of the Board of Executive Directors are appointed and dismissed by the Supervisory Board according to these regulations. The members of the Board of Executive Directors are appointed for a maximum of five years, reappointments being permissible. The Supervisory Board can dismiss a member of

the Board of Executive Directors if there is serious cause to do so. Serious cause includes, in particular, a gross breach of the duties pertaining to the Board of Executive Directors and a vote of no confidence at the Annual Meeting. The Supervisory Board decides on appointments and dismissals according to their own dutiful discretion.

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

Until April 30, 2014, the Board of Executive Directors of BASF SE is empowered by a resolution passed at the Annual Meeting of April 30, 2009 to increase the subscribed capital by a total amount of €500 million through the issue of new shares (authorized capital). This must have the approval of the Supervisory Board. A right to subscribe to the new shares shall be granted to shareholders. This can also be done by a credit institution acquiring the new shares with the obligation to offer these to shareholders (indirect subscription right). The Board of Executive Directors is authorized to exclude the statutory subscription right of shareholders in certain exceptional cases that are narrowly defined in Section 5 No. 8 of the BASF SE Statutes. This applies, in particular, if for capital increases in return for cash contributions, the issue price of the new shares is not substantially lower than the stock market price of BASF shares and the total number of shares issued under this authorization is not more than 10% of the subscribed capital on the date of issue.

In the event of a change of control, members of the Board of Executive Directors shall, under certain additional conditions, receive compensation (details of which are listed in the compensation report on pages 19 and 20). A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF SE and its subsidiaries who are classed as 'executives' (Obere Führungskräfte) will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the occurrence of a change of control provided the employee has not given cause for the termination. The employee whose service contract has been terminated in such a case will receive a severance payment to the maximum of 1.5 times the annual salary (fixed component) depending on the number of months that have passed since the change-of-control event.

The remaining specifications stipulated in Section 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. From July 1, 2010, the legally required deductible for the Board of Executive Directors defined in Section 93 (3) of the German Stock Corporation Act, and the deductible recommended by the German Corporate Governance Code for the Supervisory Board will be agreed in the D&O insurance.

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

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

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

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

In 2009, a total of three purchases subject to disclosure as Directors' Dealings by members of the Board of Executive Directors and the Supervisory Board and members of their families subject to disclosure were reported, involving between 150 and 230 BASF shares. The price per share was between €28.28 and CHF 44.65. The volume of the individual transactions was between €4,242.00 and CHF 20,092.50.

→ **All transactions disclosed in 2009 are available on the Internet at [basf.com/governance/sharedealings\\_e](http://basf.com/governance/sharedealings_e)**

**Declaration of Conformity 2009**

of the Board of Executive Directors and the Supervisory Board of BASF SE

**The Board of Executive Directors and the Supervisory Board of BASF SE hereby declare pursuant to § 161 AktG (Stock Corporation Act)**

1. The recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on August 8, 2008 in the official section of the electronic Federal Gazette have been complied with since the submission of the last Declaration of Conformity on December 3, 2008.

2. The recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on August 5, 2009 in the official section of the electronic Federal Gazette are complied with and will be complied with.

Ludwigshafen, dated December 11, 2009

**The Supervisory Board**  
of BASF SE

**The Board of Executive Directors**  
of BASF SE

## Compensation report

**This report outlines the main principles of the compensation for the Board of Executive Directors and discloses the amount and structure of the compensation of each Board member. Furthermore, it provides information on end-of-service undertakings with respect to Board members, as well as information on the compensation of Supervisory Board members.**

### Compensation of Board members

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

After a proposal has been made by the Personnel Committee (see page 13), the Supervisory Board (see page 23) determines the amount and structure of compensation of members of the Board. The amount of compensation is determined by the company's size and financial position, as well as the performance of the Board of Executive Directors. Globally operating companies based in Germany and Europe serve as a reference. A review of the structure and amount of compensation of Board members takes place at regular intervals. In the second half of 2009, the compensation system for Board members was aligned with the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung), which came into force in August 2009. Contracts with all Board members, regardless of existing contractual terms, were consensually and uniformly converted to this system effective as of January 1, 2010. The new system will be submitted for approval to the Annual Meeting on April 29, 2010 in accordance with Section 120 (4) of the German Stock Corporation Act.

The information presented below relates to the compensation system valid until December 31, 2009 and the respective compensation of Board members for 2009.

The compensation of Board members comprises:

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

The amount of the annual variable compensation, the value of the options granted and the company pension are largely determined by company performance. This means, in terms of total compensation, considerable emphasis is placed on company performance.

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.
2. The return on assets (ROA) is used to determine the variable compensation of all employee groups and also determines – 2009 for the last time as sole basis – the Board members' annual variable compensation (variable bonus). The variable bonus for the prior fiscal year is payable after the Annual Meeting. Board members, as other employee groups, may contribute a portion of their bonus up to a maximum of €30,000 annually into a deferred compensation program. Board members have taken advantage of this offering to varying degrees.
3. Board members may also participate in the BASF option program (BOP) for senior executives. Under the BOP, participants must hold their options for a minimum of two years after they have been granted (vesting period). There is an extended vesting period of four years for members of the Board of Executive Directors. For further details on the BASF option program, see pages 18 and 19.
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 19.

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

Thousand €

	Non-performance related compensation			Performance related compensation	Options granted			Total compensation (cash compensation plus options granted)
	Year	Fixed salary	Non-monetary compensation and other additional compensation	Variable bonus <sup>1</sup>	Total cash compensation	Number	Market value at option grant date	
Dr. Jürgen Hambrecht Chairman of the Board of Executive Directors	2009	1,100	105	1,525	2,730	94,200	647	3,377
	2008	1,100	112	2,220	3,432	74,328	967	4,399
Dr. h.c. Eggert Voscherau Vice Chairman of the Board of Executive Directors (until April 24, 2008)	2009	-	-	-	-	-	-	-
	2008	244	33	492	769	-	-	769
Dr. Kurt Bock	2009	705 <sup>3</sup>	1,075 <sup>4</sup>	763	2,543	47,100	324	2,867
	2008	555 <sup>3</sup>	855 <sup>4</sup>	1,110	2,520	37,160	483	3,003
Dr. Martin Brudermüller	2009	583 <sup>3</sup>	982 <sup>4</sup>	763	2,328	47,100	324	2,652
	2008	550	941 <sup>4</sup>	1,110	2,601	37,160	483	3,084
Dr. Hans-Ulrich Engel (since March 4, 2008)	2009	550	137	763	1,450	41,840	287	1,737
	2008	457	325 <sup>2</sup>	925	1,707	11,944	155	1,862
Dr. John Feldmann	2009	550	66	763	1,379	47,100	324	1,703
	2008	550	71	1,110	1,731	37,160	483	2,214
Dr. Andreas Kreimeyer	2009	550	98	763	1,411	40,000	275	1,686
	2008	550	98	1,110	1,758	37,160	483	2,241
Dr. Stefan Marcinowski	2009	550	102	763	1,415	47,100	324	1,739
	2008	550	83	1,110	1,743	37,160	483	2,226
Peter Oakley (until January 14, 2008)	2009	-	-	-	-	-	-	-
	2008	113	22	231	366	-	-	366
Dr. Harald Schwager	2009	550	198 <sup>2</sup>	763	1,511	47,100	324	1,835
	2008	550	337 <sup>2</sup>	1,110	1,997	14,728	192	2,189
	<b>Total 2009:</b>	<b>5,138</b>	<b>2,763</b>	<b>6,866</b>	<b>14,767</b>	<b>411,540</b>	<b>2,829</b>	<b>17,596</b>
	Total 2008:	5,219	2,877	10,528	18,624	286,800	3,729	22,353

<sup>1</sup> Return on assets adjusted for special items is the basis for the variable bonus. These include all contributions made to the deferred compensation program.

<sup>2</sup> Includes expenses for security measures taken at the Board member's home on the occasion of his appointment to the Board of Executive Directors.

<sup>3</sup> Payment is made in local currency based on a theoretical net salary in Germany. As a result, there is a deviation from the contractually agreed fixed gross salary in Euro (€550 thousand per year).

<sup>4</sup> Includes payments to cover additional costs of delegates, such as assumption of prevailing local rental fees.

While the options granted resulted in 2008 in a gain for BASF, in 2009 they led to expenses (personnel expense). This personnel expense refers to the sum of all options from the programs BOP 2002 to BOP 2009. The personnel expense is calculated as the difference in the value of the options on December 31, 2009, compared with the value on December 31, 2008, considering the options exercised and granted in 2009. The value of the options is based primarily on the development of the BASF share price and its outperformance compared with the benchmark indices specified for the programs BOP 2002 to BOP 2009. Because the value of the options on December 31, 2009 was higher than the value of the options on December 31, 2008, a personnel expense resulted for 2009. The main reason for this is the positive development of the BASF share price.

The personnel expenses for the year 2009 relating to the options issued were as follows: Dr. Jürgen Hambrecht €3,666 thousand (2008: earnings amounting to €1,055 thousand); Dr. Kurt Bock €2,480 thousand (2008: earnings amounting to €1,045 thousand); Dr. Martin Brudermüller €1,883 thousand (2008: earnings amounting to €790 thousand); Dr. Hans-Ulrich Engel €1,918 thousand (2008: earnings amounting to €1,458 thousand); Dr. John Feldmann €1,833 thousand (2008: earnings amounting to €621 thousand); Dr. Andreas Kreimeyer €1,768 thousand (2008: earnings amounting to €416 thousand); Dr. Stefan Marcinowski €1,833 thousand (2008: earnings amounting to €446 thousand); and Dr. Harald Schwager €901 thousand (2008: earnings amounting to €151 thousand).

The earnings and personnel expense reported here for 2008 are purely accounting figures which do not equate with the actual cash gains should options be exercised. The members of the Board decide on the timing and scope of the exercise of options of the individual years, while taking into account the general terms and conditions and ceilings of the BASF option program (BOP) for senior executives.

The members of the Board are covered by loss liability insurance concluded by the company (D&O insurance) which includes a deductible.

### Pension benefits

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

The annual pension benefits accruing to Board members in a given reporting year (pension unit) are composed of a fixed and a variable component. The fixed component is calculated by multiplying the annual fixed compensation above the Social Security Contribution Ceiling by 35% (contribution factor). The resulting amount is converted into a lifelong pension payable on retirement using actuarial factors based on an actuarial interest rate (5%), the probability of death, invalidity and mortality (Heubeck-Richttafeln 2005G) and an assumed pension increase (1.5% per annum). This is the amount that is payable upon retirement. The variable component of the pension unit depends on the return on assets in the reporting year under consideration. The variable component of the pension unit is based on a ROA of 12% at which point the variable component is equal in value to the fixed component. Based on a ROA of 12%, there is a linear relationship between the variable component and the ROA figures between 10% and 14%. Should the return on assets exceed 14%, the variable component levels off, should the return on assets fall below 10%, the decline accelerates. The fixed and the variable components together result in the acquired pension unit for the reporting year. The sum of the pension units accumulated over the reporting years determines the respective Board member's pension benefit in the event of a claim. The pension benefit takes effect at the end of service upon reaching retirement age of 60 years or disability or death. Pension payments are adjusted on an annual basis, by at least 1% annually, in accordance with changes in the German consumer price index.

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

Board members are members of the BASF Pensionskasse VVaG, as are generally all employees of BASF SE. Contributions and benefits are determined by the Statutes of the BASF Pensionskasse VVaG and the General Conditions of Insurance.

The service costs attributable to 2009 are as follows: Dr. Jürgen Hambrecht €58 thousand (2008: €333 thousand); Dr. Kurt Bock €163 thousand (2008: €546 thousand); Dr. Martin Bruder Müller €136 thousand (2008: €555 thousand); Dr. Hans-Ulrich Engel €447 thousand (2008: €448 thousand); Dr. John Feldmann €228 thousand (2008: €571 thousand); Dr. Andreas Kreimeyer €209 thousand (2008: €558 thousand); Dr. Stefan Marciniowski €219 thousand (2008: €559 thousand); and Dr. Harald Schwager €175 thousand (2008: €556 thousand).

These amounts include the costs for any pension claims arising from the deferred compensation program.

In 2008, the basis for the future calculation of pension units for Board members was adjusted as were the pension benefits for senior executives. For pension units acquired up to December 31, 2008, an actuarial interest rate of 6% applied (from January 1, 2009: 5%) and a probability of death, invalidity and mortality in accordance with Heubeck-Richttafeln 1998 (from January 1, 2009: Heubeck-Richttafeln 2005G). For new Board members and mandate extensions beginning after January 1, 2009, a contribution factor of 32% (previously 35%) is applied. For pension units acquired after January 1, 2010, a contribution factor of 32% applies to all Board members.

### End of service benefits

#### a) Board members, whose current mandate began before January 1, 2008

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

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

If a Board member's position is revoked within one year following a change-of-control event, the Board member will continue to receive the contractually agreed payments (fixed compensation and variable bonus) for the remaining contractual term of office. In addition, the Board member will receive a severance payment, depending on the remaining contractual term of office, up to a maximum of 2.5 years of compensation (based on the fixed compensation and the previous year's variable bonus). The sum of the severance payment and continuing compensation may not exceed a sum equivalent to five years of compensation. Furthermore, the Board member may receive the fair value of the option rights acquired in connection with BOP within a period of three months. The premature termination of service due to the revocation of a Board member's position entitles the Board member to pension benefits. When calculating the amount of the pension benefits, the missing years of service up to the age of 60 years will be considered.

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

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

#### **b) Contracts as of January 1, 2008**

The contracts of new Board members since January 1, 2008 contain the following major changes:

A Board member who leaves the company before the age of 60 is only entitled to pension benefits if the Board member has served on the Board for at least 10 years, or if the time needed to reach the legal retirement age is less than 10 years. The company is entitled to offset compensation received for any other work done against pension benefits until the legal retirement age is reached.

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

As of January 1, 2009, these changes also apply to extensions of current contractual terms, which began before January 1, 2008. As of January 1, 2010, these changes apply uniformly to all Board members.

Furthermore, a general limit on severance pay is contained within the contracts for all Board members as of January 1, 2010. Accordingly, payments made to a Board member upon premature termination of their contract, without serious cause, may not exceed the value of two years' compensation (severance payment cap) nor compensate more than the remaining term of the contract. The severance payment cap is to be calculated on the basis of the total compensation for the past full financial year and, if appropriate, also the expected total compensation for the current financial year. Payments promised in the event of premature termination of a Board of Executive Directors member's contract due to a change-of-control may not exceed 150% of the severance payment cap. This general limit on severance pay has already been contained in the contracts for term extensions since January 1, 2009.

#### **Previous Board members**

Total compensation for previous Board members and their surviving dependents amounted to €12.3 million in 2009 (2008: €6.0 million). This figure also contains payments that previous Board members have themselves financed through the deferred compensation program and personnel expense for the year 2009 relating to options that previous members of the Board still hold from the time of their active service period. The continuation of the options that have not yet been exercised at the

time of retirement, along with the continuation of the associated holding period for individual investment in BASF shares under the conditions of the program, is intended in order to particularly emphasize how sustainability is incorporated into the compensation for the Board members. The personnel expense for options has increased significantly compared with 2008 due to the positive development of the BASF share price. This is the reason for the calculated increase in total compensation. As in the case of active members of the Board, the personnel expense reported here does not equate with the actual cash gains should options be exercised. Pension provisions for previous Board members and their surviving dependents amounted to €87.9 million (2008: €83.4 million).

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

The disclosure of compensation of the Supervisory Board is based on German Commercial Code and is aligned with the recommendations of the German Corporate Governance Code. The compensation of the Supervisory Board is regulated by the Articles of Association passed by the Annual Meeting.

Each member of the Supervisory Board receives an annual fixed compensation of €60,000 and a performance-oriented variable compensation for each full €0.01 by which the earnings per share of the BASF Group, as declared in the BASF Group Consolidated Financial Statements for the year for which the remuneration is paid, exceeds the minimum earnings per share. The minimum earnings per share figure for the year 2009 is €1.40. The performance-oriented variable remuneration is €800 for each full €0.01 of earnings per share up to an earnings per share of €2.15, €600 for each further €0.01 of earnings per share up to an earnings per share of €2.65, and €400 for each €0.01 beyond this. The performance-oriented variable compensation is limited to a maximum amount of €120,000. The minimum earnings per share and the corresponding thresholds shall increase by €0.05 for each subsequent financial year. Based on the earnings per share of €1.54 published in the BASF Group Consolidated Statements 2009, the performance-oriented compensation amounts to €11,200 for 2009. The chairman of the Supervisory Board receives two-and-a-half times and a deputy chairman one-and-a-half times the compensation of an ordinary member.

Members of the Supervisory Board who are members of a committee, except for the Nomination Committee, shall receive a further fixed compensation for this purpose in the amount of €12,500. For the Audit Committee, the further fixed compensation shall be €25,000. The chairman of a committee shall receive twice and a deputy chairman one-and-a-half times the further fixed compensation.

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

Total compensation of the Supervisory Board of the company for the activity in 2009, including the attendance fees, was €1.3 million (2008: €2.9 million). The compensation of the individual Supervisory Board members related to the reporting year 2009 is as follows:

#### Thousand €

	Fixed compensation		Performance-oriented variable compensation		Payment for committee membership(s)		Total compensation <sup>6</sup>	
	2009	2008 <sup>1</sup>	2009	2008 <sup>1</sup>	2009	2008 <sup>1</sup>	2009	2008 <sup>1</sup>
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board <sup>2</sup> (until April 30, 2009)	50	150	9.3	278	8.3	25	67.6	453.0
Dr. h.c. Eggert Voscherau, Chairman of the Supervisory Board <sup>2</sup> (since April 30, 2009)	112.5	–	21	–	18.7	–	152.2	–
Michael Diekmann, Vice Chairman of the Supervisory Board <sup>3</sup>	90	90	16.8	166.8	9.4	–	116.2	256.8
Robert Oswald, Vice Chairman of the Supervisory Board <sup>3</sup>	90	90	16.8	166.8	12.5	12.5	119.3	269.3
Ralf-Gerd Bastian <sup>5</sup>	60	60	11.2	111.2	25	25	96.2	196.2
Wolfgang Daniel	60	60	11.2	111.2	–	–	71.2	171.2
Prof. Dr. François Diederich	60	60	11.2	111.2	–	–	71.2	171.2
Franz Fehrenbach <sup>5</sup>	60	60	11.2	111.2	25	25	96.2	196.2
Stephen K. Green (since April 30, 2009)	45	–	8.4	–	–	–	53.4	–
Dr. Tessen von Heydebreck <sup>3</sup> (until April 30, 2009)	20	60	3.7	111.2	4.2	12.5	27.9	183.7
Max Dietrich Kley <sup>4</sup>	60	60	11.2	111.2	50	50	121.2	221.2
Ulrich Küppers (until May 30, 2008)	–	25	–	46.4	–	–	–	71.4
Denise Schellemans	60	60	11.2	111.2	–	–	71.2	171.2
Ralf Sikorski (since May 31, 2008)	60	45	11.2	83.4	–	–	71.2	128.4
Michael Vassiliadis <sup>3, 5</sup>	60	60	11.2	111.2	37.5	37.5	108.7	208.7
<b>Total:</b>	<b>887.5</b>	<b>880</b>	<b>165.6</b>	<b>1,631.0</b>	<b>190.6</b>	<b>187.5</b>	<b>1,243.7</b>	<b>2,698.5</b>

<sup>1</sup> Effective January 14, 2008, BASF Aktiengesellschaft was transformed into a European Company (Societas Europaea, SE). The figures for 2008 also include the compensation for duties carried out on the Supervisory Board of BASF Aktiengesellschaft until January 14, 2008.

<sup>2</sup> Chairman of the Personnel Committee

<sup>3</sup> Member of the Personnel Committee (Mr. Diekmann since April 30, 2009)

<sup>4</sup> Chairman of the Audit Committee

<sup>5</sup> Member of the Audit Committee

<sup>6</sup> Following the transformation of BASF Aktiengesellschaft into BASF SE on January 14, 2008, nine members of the Supervisory Board of BASF Aktiengesellschaft did not become members of the Supervisory Board of BASF SE. These people received compensation for January 2008 totaling €132.9 thousand.

Compensation for Supervisory Board membership and membership of Supervisory Board committees is payable after the Annual Meeting, which approves the Consolidated Financial Statements upon which the variable compensation is based. Accordingly, compensation relating to the year 2009 will be paid following the Annual Meeting on April 29, 2010.

In the year 2009, the company paid the Supervisory Board member, Prof. Dr. Diederich, rounded €25,400 (2008: approximately €24,200) plus value-added taxes and out-of-pocket expenses for consulting work in the area of chemical research based on a consulting contract approved by the Supervisory Board.

Beyond this, Supervisory Board members did not receive any further compensation in 2009 for services rendered personally, in particular, the rendering of advisory and agency services.

→ For more on share ownership by members of the Board of Executive Directors and the Supervisory Board, see page 15

## Management and Supervisory Boards

### Board of Executive Directors

As of December 31, 2009, there were eight members on the Board of Executive Directors of BASF SE.

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

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

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

**Term expires:** 2011

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

Daimler AG (supervisory board member)

Lufthansa AG (supervisory board member)

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**Dr. Kurt Bock**

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

**First appointed:** 2003

**Term expires:** 2012

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

Wintershall Holding AG (supervisory board member)

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

The European Equity Fund, Inc.

(member of the Board of Directors until September 3, 2009)

The Central Europe and Russia Fund, Inc.

(member of the Board of Directors until September 3, 2009)

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**Dr. Martin Bruder Müller**

**Responsibilities:** Performance Polymers; Polyurethanes; Styrenics; Market & Business Development Asia Pacific; Regional Functions & Country Management Asia Pacific

**First appointed:** 2006

**Term expires:** 2013

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**Dr. Hans-Ulrich Engel**

**Responsibilities:** Oil & Gas; Region Europe; Global Procurement & Logistics

**First appointed:** 2008

**Term expires:** 2011

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

Wintershall Holding AG (supervisory board chairman)

Wintershall AG (supervisory board chairman)

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

Nord Stream AG, Zug, Switzerland

(member of the Shareholders' Committee since April 24, 2009)

Ciba Holding AG, Basel, Switzerland

(chairman of the administrative council from April 9, 2009 until June 23, 2009)

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**Dr. John Feldmann**

**Responsibilities:** Construction Chemicals; Dispersions & Pigments; Care Chemicals; Paper Chemicals; Performance Chemicals; Polymer Research

**First appointed:** 2000

**Term expires:** 2011

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

Bilfinger Berger AG (supervisory board member)

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

BASF Coatings AG (supervisory board member)

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**Dr. Andreas Kreimeyer**

**Responsibilities:** Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; BASF Future Business

**First appointed:** 2003

**Term expires:** 2012

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

Wintershall Holding AG (supervisory board member)

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**Dr. Stefan Marciniowski**

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

**First appointed:** 1997

**Term expires:** 2012

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

DWS Investment GmbH (supervisory board member)

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

Wintershall Holding AG (supervisory board member)

BASF Coatings AG (supervisory board chairman)

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**Dr. Harald Schwager**

**Responsibilities:** Human Resources; Environment, Health & Safety; Engineering & Maintenance; Verbund Site Management Europe

**First appointed:** 2008

**Term expires:** 2011

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

BASF Schwarzheide GmbH (supervisory board chairman)

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

BASF Antwerpen N.V. (chairman of the administrative council)

## Supervisory Board

In accordance with the Statutes, the Supervisory Board of BASF SE comprises twelve members. Pursuant to Section 35 (1) of the Act on the Participation of Employees in a European Company (SE-Beteiligungsgesetz – “SEBG”) and the Agreement Concerning the Involvement of Employees in BASF SE (Employee Participation Agreement) signed on November 15, 2007 by company management and the representatives of BASF Group’s European employees, seats on the board are accorded following the principle of parity. The six shareholder representatives on the Supervisory Board of BASF SE are elected by the Annual Meeting. By way of derogation from Section 40 (2) of the Council Regulation (EC) No. 2157/2001, the six employee representatives are not elected by the Annual Meeting, but appointed by the representative body of the employees, the BASF Europa Betriebsrat, in accordance with the Employee Participation Agreement. The term of office of the Supervisory Board commenced following the Annual Meeting on April 30, 2009, in which the shareholder representatives on the Supervisory Board were elected. It terminates upon conclusion of the Annual Meeting which resolves on the discharge of members of the Supervisory Board for the fourth complete financial year after the term of office commenced; this is the Annual Meeting in 2014. The Supervisory Board comprises the following members:

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**Dr. h.c. Eggert Voscherau, Wachenheim, Germany**  
(since April 30, 2009)

**Chairman of the Supervisory Board of BASF SE**

**Former deputy chairman of the Board of Executive Directors of BASF Aktiengesellschaft and BASF SE**

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

Carl-Zeiss AG (supervisory board chairman until February 15, 2010)

CropEnergies AG (supervisory board chairman until July 16, 2009)

HDI Haftpflichtverband der Deutschen Industrie VVaG  
(supervisory board member until July 22, 2009)

Schott AG (supervisory board chairman until February 15, 2010)

Talanx AG (supervisory board member until July 22, 2009)

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

Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW)  
(supervisory board member)

Nord Stream AG, Zug, Switzerland (member of the shareholders’  
committee until April 24, 2009)

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**Michael Diekmann, Munich, Germany**

**Deputy Chairman of the Supervisory Board of BASF SE**

**Chairman of the Board of Management of Allianz SE**

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

Linde AG (supervisory board deputy chairman)

Siemens AG (supervisory board member)

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

Allianz Deutschland AG (supervisory board chairman)

Allianz Global Investors AG (supervisory board chairman)

Dresdner Bank AG (supervisory board chairman until January 12, 2009)

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

Allianz France S.A. (until November 30, 2009: Assurances Générales  
de France) (member of the administrative council)

Allianz S.p.A. (member of the administrative council)

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**Robert Oswald, Altrip, Germany**

**Deputy Chairman of the Supervisory Board of BASF SE**

**Chairman of the works council of the Ludwigshafen site of BASF SE and chairman of the joint works council of the BASF Group**

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**Ralf-Gerd Bastian, Neuhofen, Germany**

**Member of the works council of the Ludwigshafen site of BASF SE**

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**Wolfgang Daniel, Limburgerhof, Germany**

**Deputy chairman of the works council of the Ludwigshafen site of BASF SE**

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**Prof. Dr. François Diederich, Zurich, Switzerland**

**Professor at the Swiss Federal Institute of Technology Zurich**

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**Franz Fehrenbach, Stuttgart, Germany**

**Chairman of the Board of Management of Robert Bosch GmbH**

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

Robert Bosch Corporation (member of the board of directors)

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**Stephen K. Green, London, U.K. (since April 30, 2009)**

**Group Chairman HSBC Holdings plc**

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

HSBC Bank plc, United Kingdom (chairman of the board of directors)

HSBC Private Banking Holdings (Suisse) SA

(chairman of the administrative council)

The Hong Kong and Shanghai Banking Corporation Limited, Hong Kong  
(member of the board of directors)

HSBC North America Holdings Inc., United States (member of the board of  
directors)

HSBC France (member of the board of directors)

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**Max Dietrich Kley, Heidelberg, Germany**

**Lawyer**

**Former deputy chairman of the Board of Executive Directors of BASF Aktiengesellschaft**

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

HeidelbergCement AG (supervisory board member)

Infineon Technologies AG (supervisory board chairman until  
February 11, 2010)

Schott AG (supervisory board member until September 30, 2009)

SGL Carbon SE (supervisory board chairman)

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

Unicredito Italiano S.p.A. (member of the board of directors until  
April 29, 2009)

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**Denise Schellemans, Kalmthout, Belgium**

Full time trade union delegate

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**Ralf Sikorski, Wiesbaden, Germany**

**Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union**

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

Villeroy & Boch AG (supervisory board member)  
Villeroy & Boch Fliesen GmbH (supervisory board member)  
Evonik Power Saar GmbH (supervisory board deputy chairman)  
Evonik New Energies GmbH (supervisory board deputy chairman)

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**Michael Vassiliadis, Hannover, Germany**

**Chairman of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union**

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

K+S AG (supervisory board deputy chairman)  
K+S Kali GmbH (supervisory board deputy chairman until July 31, 2009)  
Henkel KGaA (supervisory board member)  
Evonik Steag GmbH (supervisory board deputy chairman)

**The following members left the Supervisory Board following the Annual Meeting of BASF SE on April 30, 2009:**

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**Prof. Dr. Jürgen Strube, Mannheim, Germany**

**Chairman of the Supervisory Board (until April 30, 2009)  
Former Chairman of the Board of Executive Directors of BASF Aktiengesellschaft**

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

Allianz Deutschland AG (supervisory board member until April 2, 2009)  
Bayerische Motoren Werke AG (supervisory board deputy chairman)  
Bertelsmann AG (supervisory board deputy chairman)  
Fuchs Petrolub AG (supervisory board chairman)  
Hapag-Lloyd AG (supervisory board member until March 17, 2009)

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**Dr. Tessen von Heydebreck, Berlin, Germany**

**Former Member of the Board of Managing Directors of Deutsche Bank Aktiengesellschaft**

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

DWS Investment GmbH (supervisory board deputy chairman until April 2, 2009)  
Deutsche Postbank AG (supervisory board member since April 22, 2009)  
Vattenfall Europa AG (supervisory board member)  
Dussmann Verwaltungs AG (supervisory board member)

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

Deutsche Bank OOO (supervisory board chairman until June 23, 2009)

## Report of the Supervisory Board

### Dear Shareholders,

The year 2009 posed great challenges for BASF. By the beginning of 2009 at the latest, the financial market crisis had reached the real economy and also had a significant impact on BASF's business activities. The speed of the downturn was unparalleled in recent years. Overcoming the crisis placed great demands on the Board of Executive Directors and employees alike. For us, it also confirmed that:

- it pays to take decisive action as early as possible,
- the company's strategy of working in a broad range of business areas and its future-oriented focus on fast-growing, innovative chemicals markets is correct, and
- the long-established BASF model of cooperation between the company's management and employee representatives has proved successful.

Overall, therefore, BASF coped well with the difficult situation. The Supervisory Board would like to extend its sincere thanks to the Board of Executive Directors and BASF's employees for their efforts.

The company's good corporate governance contributed significantly to mastering the crisis. This covers the entire organization and all of the BASF Group's business and control processes, with the Board of Executive Directors and the Supervisory Board at the top. BASF's adherence to all of the recommendations of the German Corporate Governance Code reflects the importance the company accords to good corporate governance. For BASF, it is a matter of course that the compensation of the Board of Executive Directors is largely determined by the BASF Group's success, in both positive and negative terms. The development of compensation for the Board of Executive Directors clearly proves this.

### Monitoring and consultation in an ongoing dialogue with the Board of Executive Directors

In 2009, the Supervisory Board of BASF SE exercised its duties required by law and the Statutes with the utmost care. We regularly monitored the management of the Board of Executive Directors and provided advice on the company's strategic development and important individual measures. To this end, the Supervisory Board requested detailed information from the Board of Executive Directors at seven meetings in the form of written and verbal reports. Topics included: business policies, the business situation and business trends, profitability, the company's planning with regard to finances, capital expenditures and human resources at BASF SE and its major subsidiaries, as well as deviations of the business development from the planning. The Supervisory Board discussed in detail the reports from the Board of Executive Directors and also discussed prospects for the company as a whole and its individual businesses with the Board of Executive Directors. The

Chairman of the Supervisory Board also regularly requested information from the Chairman of the Board of Executive Directors with regard to current business developments and important events outside of Supervisory Board meetings. The Supervisory Board was always involved at an early stage in decisions of major importance. The Supervisory Board voted on all of those individual measures taken by the Board of Executive Directors, which by law or the Statutes required the approval of the Supervisory Board.

The members of the Supervisory Board elected by shareholders and those elected by employees prepared for the meetings in separate preliminary discussions. All members were present at all Supervisory Board meetings in 2009.

In 2009, one particular focus of the monitoring activities was current business developments within the BASF Group, which was impacted by the economic crisis throughout the entire year. To this end, the Supervisory Board held an unscheduled meeting at the beginning of February 2009 to request timely information from the Board of Executive Directors regarding the latest developments and to discuss the crisis management measures to be introduced.

In all of its meetings, the Supervisory Board discussed the further development of the BASF Group's business activities through acquisitions, divestitures and investment projects and advised the Board of Executive Directors on those significant questions impacting the future of the company. One salient issue was the integration of the Ciba businesses acquired following the successful takeover bid. In this respect, we also received reports from the head of the integration team. We were frequently informed about the status of Wintershall's natural gas activities and discussed important subprojects, such as the Nord Stream pipeline through the Baltic Sea and the development of this capital intensive business segment. At the meeting on July 10, 2009, we again discussed the biotechnology growth cluster, with a particular emphasis on green genetic engineering. The Supervisory Board was greatly concerned to note that promising innovations offering great value for society and economic potential are being hindered by the hesitation of the responsible institutions in Germany and the European Union. At the meeting on October 22, 2009, we addressed risk management at BASF and received reports regarding risk management organization, procedures and significant observations. A further important topic at the Supervisory Board meeting on October 22, 2009, was the implementation of the Act on the Appropriateness of Management Board Remuneration. On the basis of proposals from the Personnel Committee, the Supervisory Board confirmed the compensation system for the Board of Executive Directors agreed for 2009 and decided on the compensation system and employment contracts for members of the Board of Executive Directors to be applied from 2010 onward. The existing Executive Directors' contracts have been adjusted in agreement with the members of the Board of Executive Directors and took effect on January 1, 2010. The

Supervisory Board also decided to present the new compensation system, adjusted to conform with the German Act on the Appropriateness of Management Board Remuneration, to the 2010 Annual Meeting for approval. At our meeting on December 11, 2009, we discussed and approved the Board of Executive Directors' operational and financial planning for 2010 and empowered the Board of Executive Directors to procure financing under certain conditions.

### Committees

BASF SE's Supervisory Board has established a total of three Committees: the committee for personnel affairs of the Board of Executive Directors as well as the granting of loans in accordance with Section 89 (4) of the German Stock Corporation Act (Personnel Committee), the Audit Committee and the Nomination Committee. The Supervisory Board received regular reports on the activities of these committees.

The Personnel Committee consists of Supervisory Board Chairman Dr. h.c. Eggert Voscherau (since April 30, 2009) in the role of Chairman, Supervisory Board Deputy Chairmen Michael Diekmann (since April 30, 2009) and Robert Oswald and Supervisory Board member Michael Vassiliadis. Until the Annual Meeting on April 30, 2009, the Supervisory Board Chairman presiding up to that time, Prof. Dr. Jürgen Strube, and Dr. Tessen von Heydebreck were also members of the Personnel Committee. The Personnel Committee met three times in 2009. At its meetings, sometimes with the Chairman of the Board of Executive Directors, it discussed in detail the long-term succession planning for the Board of Executive Directors as well as the compensation of the Board of Executive Directors and the contents of employment contracts for the members of the Board of Executive Directors. Following the approval of the Act on the Appropriateness of Management Board Remuneration and in preparation for the decisions to be made by the Supervisory Board regarding the compensation and contracts of the members of the Board of Executive Directors, the Personnel Committee conducted a fundamental examination of the structure of the compensation system, and then refined the existing system. The main objectives of this were to give greater relevance to the component based on long-term success and to make compensation for the Board of Executive Directors even more performance-oriented. The Personnel Committee presented a proposal to the Supervisory Board in this regard. In addition, the Committee intensively discussed decisions to be made by the Supervisory Board regarding appointments to the Board of Executive Directors and prepared the related decisions to be put to the plenary session of the Supervisory Board. In 2009, this only concerned the extension of the mandate of Board of Executive Directors member Dr. John Feldmann (until the 2011 Annual Meeting). The Supervisory Board adopted the proposals of the Personnel Committee at the meetings on July 11, and October 22, 2009.

The Audit Committee consists of Supervisory Board members Max Dietrich Kley, Ralf Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis. The Chairman of the Audit Committee is Max Dietrich Kley, who has also been appointed "Audit Committee Financial Expert". The Audit Committee met five times in 2009. The core duties were to review the Financial Statements 2008 of BASF SE as well as the Consolidated Financial State-

ments 2008 and to discuss the quarterly and first-half financial reports with the Board of Executive Directors prior to their publication. Other important activities included advising the Board of Executive Directors on accounting issues, discussing and defining the focus of the audit; regulating business relations with the company's auditor, including the adoption of a resolution regarding the provision of non-audit services by the auditor; agreeing upon the auditing fees; and monitoring the auditor's independence. At its meeting on July 10, 2009, the Supervisory Board assigned the Audit Committee the task of monitoring the internal control system and internal audit in addition to its other duties. The Audit Committee is thereby responsible for all the tasks of an audit committee listed in Section 107 Paragraph (3) Sentence 2 of the German Stock Corporation Act and in subsection 5.3.2 of the German Corporate Governance Code from June 18, 2009. After a report from the Chief Compliance Officer, the Audit Committee held a meeting in which it dealt intensively with the topic of compliance in the BASF Group. At the meeting on December 10, 2009, the Head of the Corporate Audit department reported on the reviews of the internal audits and their significant findings.

The members of the Nomination Committee are exclusively the members of the Supervisory Board elected at the Annual Meeting. These are Dr. h.c. Eggert Voscherau (since April 30, 2009), Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Stephen K. Green (since April 30, 2009) and Max Dietrich Kley. Until the Annual Meeting on April 30, 2009, the Supervisory Board Chairman presiding up to that time, Prof. Dr. Jürgen Strube, and Dr. Tessen von Heydebreck were also members of the Nomination Committee. The Nomination Committee is responsible for preparing candidate proposals for the election of those Supervisory Board members who are elected by the Annual Meeting. The members of the Nomination Committee consulted on the selection of candidates for the regular election at the Annual Meeting on April 30, 2009 and, on March 2, 2009, decided on a candidate proposal and tabled it for resolution before the Supervisory Board meeting on March 3, 2009. This also included the proposal of Dr. h.c. Eggert Voscherau for Chairman of the Supervisory Board should he be elected by the Annual Meeting. The Supervisory Board confirmed the Nomination Committee's proposal for the election at the Annual Meeting on April 30, 2009.

### Corporate Governance and Declaration of Conformity

In 2009, the Supervisory Board again addressed in detail the corporate governance standards applied by BASF as well as the basic conditions in Germany as to capital market and company law. This mainly included: the amended German Corporate Governance Code in the version dated June 18, 2009; the German Accounting Law Modernization Act; and the German Act on the Appropriateness of Management Board Remuneration. These were dealt with at the meetings on July 10 and October 22, 2009. In particular, we discussed the new Code recommendations and decided that BASF will comply with them.

At its meeting on December 11, 2009, the Supervisory Board approved the joint Declaration of Conformity by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act. Furthermore, at this meeting the Supervisory Board carried out an examination of efficiency and an assessment of independence. BASF complies with recommendations of the German Corporate Governance Code in its version of June 18, 2009, without exception. The complete wording of the Declaration of Conformity is provided on page 16 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 17 to 21.

### **Annual Financial Statements of BASF SE and Consolidated Financial Statements**

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditors elected by the Annual Meeting for the fiscal year 2009, have audited the Financial Statements of BASF SE and the Consolidated Financial Statements including Management's Analysis under consideration of bookkeeping, and have approved them free of qualification. Furthermore, the auditor certified that the Board of Executive Directors had taken the measures incumbent on it under Section 91 (2) of the German Stock Corporation Act in an appropriate way. In particular, it had instituted a suitable information and monitoring system that met the needs of the company and appeared suitable, both in design and the way in which it had been applied, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditors' reports were sent in a timely manner to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on February 24, 2010, as well as the accounts meeting of the Supervisory Board on March 4, 2010, and reported on the main findings of their audit. The auditors also provided detailed explanations of their reports on the day before the accounts meeting of the Supervisory Board.

The Audit Committee reviewed the audits and Management's Analysis at its meeting on February 24, 2010 and discussed them in detail with the auditor. The Chairman of the Audit Committee gave a detailed account of the preliminary review at the Supervisory Board meeting on March 4, 2010.

On the basis of this preliminary review by the Audit Committee, the Supervisory Board has examined the Financial Statements and Management's Analysis of BASF SE for 2009, the proposal by the Board of Executive Directors for the appropriation of profit as well as the Consolidated Financial Statements and Management's Analysis for the BASF Group for 2009. We have reviewed, acknowledged and approved the auditor's reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objection to the management and submitted reports.

At the Supervisory Board's accounts meeting on March 4, 2010, we approved the Financial Statements of BASF SE and the Consolidated Financial Statements of the BASF Group

prepared by the Board of Executive Directors, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €1.70 per share.

### **Composition of the Supervisory Board**

The term of office of the first Supervisory Board, formed during the course of the change in corporate form from BASF Aktiengesellschaft into a European Company (SE), ended upon the conclusion of the Annual Meeting on April 30, 2009. The Annual Meeting elected Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Max Dietrich Kley, Stephen K. Green and Dr. h.c. Eggert Voscherau as the representatives of the shareholders on the Supervisory Board. At this point, the long-serving Chairman of the Supervisory Board, Prof. Dr. Jürgen Strube, and Dr. Tessen von Heydebreck left the Supervisory Board. Neither of them was available for reelection. The six employee representatives in the Supervisory Board of BASF SE, Ralf Gerd Bastian, Wolfgang Daniel, Robert Oswald, Denise Schellemans, Ralf Sikorski and Michael Vassiliadis, were appointed by BASF Europa Betriebsrat (Europe Works Council) as the responsible representative body for the employees at its meeting on March 18 and 19, 2009, in accordance with the regulations of the Employee Participation Agreement of November 15, 2007. The term of office of the newly elected Supervisory Board will end upon the conclusion of the 2014 Annual Meeting.

In its constitutive meeting on April 30, 2009, the new Supervisory Board elected Dr. h.c. Eggert Voscherau as its chairman and Michael Diekmann and Robert Oswald as deputy chairman.

### **Thanks**

The Supervisory Board thanks all employees of the BASF Group worldwide, the management of the company and the retired members of the Supervisory Board for the work they performed in 2009.

With the conclusion of the Annual Meeting on April 30, 2009, the long-serving Chairman of the Board of Executive Directors and the Supervisory Board, Prof. Dr. Jürgen Strube, retired from the Supervisory Board. Prof. Dr. Strube had a decisive influence for nearly 25 years as a member and Chairman of the Board of Executive Directors, and subsequently as Chairman of the Supervisory Board, and played a major role in BASF's success. The Supervisory Board would like to extend special thanks to Prof. Dr. Strube. As an acknowledgement of his dedication, the Supervisory Board has appointed Prof. Dr. Strube Honorary Chairman of the Supervisory Board.

Ludwigshafen, March 4, 2010

The Supervisory Board

**Dr. h.c. Eggert Voscherau**

Chairman of the Supervisory Board

# Financial Statements of BASF SE

## Statement of Income

### Statement of Income (million €)

	Explanations in Note	2009	2008
<b>Sales</b>	<b>(2)</b>	<b>14,079</b>	<b>17,143</b>
Cost of sales		10,475	13,117
<b>Gross profit on sales</b>		<b>3,604</b>	<b>4,026</b>
Selling expenses		1,469	1,563
General and administrative expenses		386	372
Research and development expenses		852	807
Other operating income	(3)	638	479
Other operating expenses	(4)	749	1,054
<b>Income from operations</b>		<b>786</b>	<b>709</b>
Income from participations		1,803	3,429
Interest result		(306)	(440)
Other financial result		203	(564)
<b>Financial result</b>	<b>(5)</b>	<b>1,700</b>	<b>2,425</b>
<b>Income before taxes <sup>1</sup></b>		<b>2,486</b>	<b>3,134</b>
Income taxes	(6)	310	152
<b>Net income</b>		<b>2,176</b>	<b>2,982</b>

<sup>1</sup> Income from ordinary operations

## Balance Sheet

### Assets (million €)

	Explanations in Note	2009	2008
Intangible assets	(8)	859	168
Property, plant and equipment	(9)	1,678	1,602
Financial assets	(10)	18,515	17,271
<b>Fixed assets</b>		<b>21,052</b>	<b>19,041</b>
<b>Inventories</b>	<b>(11)</b>	<b>1,320</b>	<b>1,418</b>
Accounts receivable, trade		1,389	1,273
Receivables from affiliated companies		7,183	7,302
Miscellaneous receivables and other assets		910	848
<b>Receivables and other assets</b>	<b>(12)</b>	<b>9,482</b>	<b>9,423</b>
Marketable securities		2,130	2,036
Cash and cash equivalents		2,734	3,405
<b>Liquid funds</b>	<b>(13)</b>	<b>4,864</b>	<b>5,441</b>
<b>Current assets</b>		<b>15,666</b>	<b>16,282</b>
<b>Deferred taxes</b>	<b>(6)</b>	<b>265</b>	<b>375</b>
<b>Prepaid expenses</b>	<b>(14)</b>	<b>44</b>	<b>52</b>
<b>Total assets</b>		<b>37,027</b>	<b>35,750</b>

### Stockholders' equity and liabilities (million €)

	Explanations in Note	2009	2008
Subscribed capital	(15)	1,176	1,176
Capital surplus	(15)	3,139	3,133
Retained earnings	(16)	2,509	146
Profit retained	(16)	2,176	4,159
<b>Stockholders' equity</b>		<b>9,000</b>	<b>8,614</b>
<b>Special reserves</b>	<b>(1)</b>	<b>107</b>	<b>107</b>
Provisions for pensions and similar obligations	(17)	3,656	3,615
Provisions for taxes		943	872
Other provisions	(18)	1,652	1,903
<b>Provisions</b>		<b>6,251</b>	<b>6,390</b>
Financial indebtedness		6,747	9,155
Accounts payable, trade		302	491
Liabilities to affiliated companies		13,873	10,291
Miscellaneous liabilities		607	588
<b>Liabilities</b>	<b>(19)</b>	<b>21,529</b>	<b>20,525</b>
<b>Deferred income</b>		<b>140</b>	<b>114</b>
<b>Total stockholders' equity and liabilities</b>		<b>37,027</b>	<b>35,750</b>

## Notes

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

**Application of the German Act to Modernise Accounting Law (Bilanzrechtsmodernisierungsgesetz, BilMoG):** The Act to Modernize Accounting Law entered into force on May 29, 2009. Application of the new accounting rules is obligatory as of January 1, 2010. BASF did not make use of the possibility of voluntarily applying the new rules in a comprehensive manner as of December 31, 2009. BASF SE's Financial Statements 2009 include the application of those provisions of the Act that were mandatory as of December 31, 2009.

### 1 – Accounting and valuation methods

**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. In 2009, the weighted-average amortization period was 10 years and was based on the following useful lives:

	2009	2008
Goodwill	12 years	19 years
Software	4 years	4 years
Patents, licences, know-how other rights	9 years	7 years

The acquisition of goodwill in association with the acquisition of Ciba reduced the expected useful life of goodwill from 19 years to 12 years.

Write-downs are made 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 acquisition or production cost less scheduled depreciation over their estimated useful lives. Assets whose costs exceed €150 but are less than €1,000 are allocated to a low-value asset pool that is depreciated on a straight-line basis over five years. 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. Financing 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 remained unchanged as follows:

	2009	2008
Buildings and structural installations	24 years	24 years
Industrial plant and machinery	11 years	11 years
Factory, office equipment and other facilities	9 years	9 years

Write-downs are made on property, plant and equipment whenever events or changes in circumstances indicate that the net book value of an asset may not be recoverable. The assessment is based on the discounted 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 net book value 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; non-interest-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 under in income from financial assets, interest result and miscellaneous financial result in the Statement of Income.

**Inventories:** Inventories are carried at cost. They are valued at quoted, market or fair values if 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 costs to be incurred prior to sale or lower reproduction cost. 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.

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

Construction-in-progress relates mainly to chemical plants under construction for BASF Group companies. Profits are recognized at finalization and billing of a project or part of a project. 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 collectability and transferability are covered by appropriate valuation allowances.

**Cash and cash equivalents:** This position includes marketable securities, cash at banks and cash on 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 taxable 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, EStG).

**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 5.50%.

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 the measures are likely to become necessary due to technological developments, provided these measures do not lead to the capitalization of production costs.

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 4.50%. 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 on 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. Related underlying transactions and derivatives 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 against foreign currency, interest rate and price risks is 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. These are based on the circumstances and estimates at the balance sheet date and affect the reported amounts

of income and expenses during the reporting periods. 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 could differ from these estimates.

### Site network

BASF SE operates an energy supply network, which is a site network in terms of Section 110 (1) No. 3 of the German Energy Act. The company is therefore exempt from, among other things, the commitments in Section 10 (3) of the German Energy Act which would, in particular, require an unbundling of the book-keeping.

The exemption for site networks according to Section 110 (1) No. 3 of the German Energy Act remains in effect in accordance with our legal interpretation, also following the European Court of Justice decision on May 22, 2008 (Decision C 439/06).

## 2 – Sales

### Based on segment (million €)

	2009	2008
Chemicals	3,418	4,901
Plastics	2,059	2,735
Performance Products	4,539	4,990
Functional Solutions	142	134
Agricultural Solutions	1,812	1,682
Other	2,109	2,701
	<b>14,079</b>	<b>17,143</b>

### Based on region (million €)

	2009	2008
Europe	10,692	13,517
Thereof Germany	3,896	4,980
North America	972	1,027
Asia Pacific	1,532	1,673
South America, Africa, Middle East	883	926
	<b>14,079</b>	<b>17,143</b>

The previous year's values have been adjusted for the current segment structure.

## 3 – Other operating income

Other operating income rose by €159 million, largely as a result of the improved currency result amounting to €219 million. This was primarily attributable to gains from matured foreign currency derivatives. In 2009, provisions in the amount of €142 million were reversed to income (2008: €114 million).

Release of special reserves of €11 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

Other operating expenses in 2009 declined by €305 million. In the previous year, this position had been affected by losses on derivatives for hedging currency and price risks totaling €385 million. In 2009, this position contains expenditures related to the integration of the business acquired from Ciba.

Appropriation to special reserves of €11 million was primarily related to the transfer of capital gains from the sale of fixed assets in accordance with Section 6b of the German Income Tax Act.

## 5 – Financial result

Million €	2009	2008
Income from participations and similar income	946	1,950
Thereof from affiliated companies	886	1,890
Income from profit transfer agreements	879	1,523
Income from tax allocation to affiliated companies	164	252
Losses from loss transfer agreements	161	171
Write-downs of, and losses from, disposal of participations	25	125
<b>Income from participations</b>	<b>1,803</b>	<b>3,429</b>
Income from other securities and long-term loans	2	2
Thereof from affiliated companies	.	1
Other interest and similar income	79	231
Thereof from affiliated companies	52	184
Interest and similar expenses	387	673
Thereof to affiliated companies	141	399
<b>Interest result</b>	<b>(306)</b>	<b>(440)</b>
Write-downs of, and losses from, disposal of long-term loans and marketable securities	36	401
Interest expense for long-term provisions for personnel costs	236	222
Miscellaneous other financial result	475	59
<b>Other financial result</b>	<b>203</b>	<b>(564)</b>
<b>Financial result</b>	<b>1,700</b>	<b>2,425</b>

In 2009, income from participations and similar income as well as income from profit transfer agreements declined as a result of lower dividend payments, a decrease in gains from disposals of participations as well as the economic environment.

Write-downs of, and losses from, disposal of long-term loans and marketable securities includes losses from the disposal and valuation of assets of the Contractual Trust Arrangement (CTA). They were more than offset in 2009 by income from write-ups of CTA assets shown under Miscellaneous other financial result.

## 6 – Income taxes

Million €	2009	2008
Current taxes	200	228
Deferred taxes	110	(76)
<b>Income taxes</b>	<b>310</b>	<b>152</b>
Other taxes	18	21
<b>Tax expense</b>	<b>328</b>	<b>173</b>

The effective income tax expense was slightly below the previous year's level due to lower pre-tax earnings. The deferred tax expense was chiefly attributable to reversal of effects from the

previous year, in particular provisions for impending losses and temporary impairment losses.

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

Million €	2009	2008
Fixed assets	32	30
Inventories and accounts receivable	37	74
Provisions for pensions and similar obligations	66	63
Other provisions, other	130	208
<b>Total</b>	<b>265</b>	<b>375</b>

An overall tax rate of 29% was applied to deferred taxes in 2008 and 2009.

## 7 – Other information

### Cost of materials (million €)

	2009	2008
Cost of raw materials, plant supplies and purchased merchandise	7,968	10,723
Cost of purchased services	1,585	1,792
	<b>9,553</b>	<b>12,515</b>

### Personnel costs (million €)

	2009	2008
Wages and salaries	2,063	1,938
Social security contributions and expenses for pensions and assistance	703	499
Thereof for pensions	340	142
	<b>2,766</b>	<b>2,437</b>

In 2009, personnel costs increased due to a one-time contribution of €177 million to BASF Pensionskasse VVaG and higher additions to personnel provisions. Furthermore, the contribution to the German Pension Security Association (Pensionsversicher-

ungsverein) increased sharply in 2009 due to a significant increase in insolvencies among companies with company pension programs.

**Average number of employees**

	2009	2008
Non-exempt employees	25,337	25,451
Exempt employees	6,048	5,883
Employees with trainee contracts	1,166	1,138
Employees with limited-term contracts	201	210
	<b>32,752</b>	<b>32,682</b>

**Compensation for the Board of Executive Directors and Supervisory Board** (million €)

	2009	2008
Performance-related and fixed payments to the Board of Executive Directors	14.8	18.6
Market value of options granted to the Board of Executive Directors in the fiscal year on date of grant	2.8	3.7
<b>Total compensation for the Board of Executive Directors</b>	<b>17.6</b>	<b>22.3</b>
Service cost of the Board of Executive Directors	1.6	4.3
Compensation for the Supervisory Board	1.3	2.9
Total compensation for former members of the Board of Executive Directors and their surviving dependents	12.3	6.0
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	87.9	83.4
Loans to members of the Board of Executive Directors and the Supervisory Board	–	–
Guarantees to members of the Board of Executive Directors and the Supervisory Board	–	–

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

Moreover, in 2009, the members of the Board of Executive Directors were granted 411,540 options under the BASF option program (BOP). Option rights of active and former members of the Board resulted in personnel expenses of €20.9 million in 2009. In 2008, option rights resulted in income from the reversal of provisions of €9.5 million.

- **More information on the compensation of members of the Board of Executive Directors is available from page 17 onward**
- **More information on the members of the Supervisory Board and Board of Executive Directors, including their memberships on other boards is available from page 22 onward**

**Declaration of Conformity:** The Board of Executive Directors and the Supervisory Board of BASF SE have issued a Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act with regard to the German Corporate Governance Code (see page 16). This statement is available online at:

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

**List of Shares Held:** A list of companies in which BASF SE has a participation as required by Section 285 (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 in accordance with Section 325 HGB. The list is also available from BASF SE and online at:

→ [basf.com/en/investor/cg](http://basf.com/en/investor/cg)

## 8 – Intangible assets

### Developments in 2009 (million €)

	Concessions, trademarks and similar rights and values <sup>1</sup>	Goodwill	Advance payments	Total
<b>Acquisition costs</b>				
Balance as of January 1, 2009	350	108	.	458
Additions	226	547	.	773
Disposals	101	–	–	101
Transfers	–	–	.	.
Balance as of December 31, 2009	475	655	.	1,130
<b>Amortization</b>				
Balance as of January 1, 2009	246	44	–	290
Additions	50	33	–	83
Disposals	102	–	–	102
Write-ups	–	–	–	–
Balance as of December 31, 2008	194	77	–	271
<b>Net carrying amount as of December 31, 2009</b>	<b>281</b>	<b>578</b>	<b>.</b>	<b>859</b>
Net carrying amount as of December 31, 2008	104	64	.	168

<sup>1</sup> Including licenses in such rights and values

The increase in intangible assets in 2009 is attributable to the acquisition of Ciba's businesses.

## 9 – Property, plant and equipment

### Developments in 2009 (million €)

	Land, land rights and buildings <sup>1</sup>	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
<b>Acquisition costs</b>					
Balance as of January 1, 2009	2,530	9,698	1,307	348	13,883
Additions	12	221	69	82	384
Additions from merger	–	194 <sup>3</sup>	.	–	194
Disposals	13	33	32	1	79
Transfers	9	229	21	(259)	–
Balance as of December 31, 2009	2,538	10,309	1,365	170	14,382
<b>Amortization</b>					
Balance as of January 1, 2009	2,102	9,032	1,147	–	12,281
Additions	35	284 <sup>2</sup>	62	–	381
Additions from merger	–	114 <sup>3</sup>	.	–	114
Disposals	8	32	32	–	72
Transfers	.	(1)	1	–	.
Write-ups	–	–	–	–	–
Balance as of December 31, 2009	2,129	9,397	1,178	–	12,704
<b>Net carrying amount as of December 31, 2009</b>	<b>409</b>	<b>912</b>	<b>187</b>	<b>170</b>	<b>1,678</b>
Net carrying amount as of December 31, 2008	428	666	160	348	1,602

<sup>1</sup> Including buildings on land owned by others

<sup>2</sup> Thereof impairments of €15 million

<sup>3</sup> Resulted from the merger of BASF Power GmbH & Co. KG

## 10 – Financial assets

### Developments in 2009 (million €) Participations

	Shares in affiliated companies	Shares in other participating interests	Total participations
<b>Acquisition costs</b>			
Balance as of January 1, 2009	17,322	384	17,706
Additions	1,315	72	1,387
Disposals	148	10	158
Balance as of December 31, 2009	18,489	446	18,935
<b>Depreciation</b>			
Balance as of January 1, 2009	438	25	463
Additions	18	2	20
Disposals	31	8	39
Write-ups	–	–	–
Balance as of December 31, 2009	425	19	444
<b>Net carrying amount as of December 31, 2009</b>	<b>18,064</b>	<b>427</b>	<b>18,491</b>
Net carrying amount as of December 31, 2008	16,884	359	17,243

Participations increased mainly as a result of capital increases at subsidiaries for which BASF SE provides the financing function in its roles as the parent company of the BASF Group. In

addition, participations were acquired and sold within the BASF Group.

### Developments in 2009 (million €) Loans and other financial assets

	Loans to affiliated companies	Loans to other participating interests	Other loans and other financial assets	Loans and other financial assets	Total financial assets
<b>Acquisition costs</b>					
Balance as of January 1, 2009	1	15	17	33	17,739
Additions	27	–	9	36	1,423
Disposals	.	3	10	13	171
Balance as of December 31, 2009	28	12	16	56	18,991
<b>Depreciation</b>					
Balance as of January 1, 2009	–	1	4	5	468
Additions	19	.	10	29	49
Disposals	–	–	2	2	41
Write-ups	–	–	.	.	.
Balance as of December 31, 2009	19	1	12	32	476
<b>Net carrying amount as of December 31, 2009</b>	<b>9</b>	<b>11</b>	<b>4</b>	<b>24</b>	<b>18,515</b>
Net carrying amount as of December 31, 2008	1	14	13	28	17,271

## 11 – Inventories

Million €	2009	2008
Raw materials and factory supplies	212	219
Work-in-process, finished goods and merchandise	1,061	1,149
Construction in progress	45	49
Advance payments	2	1
	<b>1,320</b>	<b>1,418</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) were €31 million (2008: €21 million) for raw materials and €59 million (2008: €94 million) for finished goods and merchandise.

## 12 – Receivables and other assets

Million €	2009		2008	
		Thereof non-current		Thereof non-current
Accounts receivable, trade	1,389	.	1,273	1
Receivables from affiliated companies	7,183	4	7,302	.
Thereof accounts receivable, trade	1,317	4	1,131	.
Receivables from other participating interests	186	.	188	–
Other assets	724	317	660	282
	<b>9,482</b>	<b>321</b>	<b>9,423</b>	<b>283</b>

In 2009, prepaid expenses totaled €9 million (2008: €14 million). Thereof €8 million (2008: €8 million) are attributable to the CTA.

Other assets include a further €176 million (2008: €135 million) related to the CTA.

## 13 – Cash and cash equivalents

Liquid funds declined by €577 million in 2009. While marketable securities increased by €94 million, cash and cash equivalents decreased by €671 million.

Marketable securities contain €1,824 million (2008: €2,013 million) and cash and cash equivalents €2,077 million

(2008: €1,350 million), which serve as security for 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 €	2009	2008
Discounts	22	6
Other	22	46
	<b>44</b>	<b>52</b>

Discounts from the issuance of bonds (No. 19 Liabilities - Financial indebtedness) are capitalized and amortized over the term

of the obligations. Other prepaid expenses include prepayments related to ongoing business activities.

## 15 – Capital and reserves

	Outstanding shares	Subscribed capital €
Shares cancelled until December 31, 2009	(4,649,873)	(5,951,837.44)
<b>Outstanding shares as disclosed in the financial statements</b>	<b>918,478,694</b>	<b>1,175,652,728.32</b>

A total of 4,649,873 shares were cancelled in 2009. These consisted solely of shares acquired for the purpose of cancellation in 2008. The subscribed capital of BASF was reduced by the resulting attributable amount of €5,951,837.44 (4,649,873 shares).

### Share buyback/Own shares

The authorization to buy back BASF shares that was granted to the Board of Executive Directors by the Annual Meeting on April 24, 2008 expired on October 23, 2009 without being replaced. BASF SE did not acquire any of its own shares in 2009.

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

AXA Investment Managers Deutschland GmbH notified us in the name of and with the express authority of AXA S.A., Paris, France, that the voting rights of AXA S.A. in BASF SE fell below the threshold of 3% on August 7, 2009 and on this date amounted to 2.88% of voting rights. BlackRock Inc., New York, notified us that its share of voting rights in BASF SE on December 1, 2009 exceeded the threshold of 5% and amounted to 5.40% of voting rights on this date.

The voting rights are accorded to the holders pursuant to Section 22 (1) Sentence 1, No. 6 in connection with Section 22 (1) Sentence 2 WpHG and pursuant to Section 22 (1) Sentence 1, No. 1 WpHG.

### Conditional capital

A residual amount of less than €10,000 is reserved to meet compensation claims of former shareholders of Wintershall. These compensation claims expired in 2004. BASF SE will therefore issue no more shares from conditional capital nor fulfill compensation claims.

### Authorized capital

At the Annual Meeting of April 30, 2009, shareholders authorized the Board of Executive Directors to increase subscribed capital by issuing new shares in an amount of up to €500 million against cash with the approval of the Supervisory Board through April 30, 2014. The Board of Executive Directors is empowered, following the approval of the Supervisory Board, to decide on the exclusion of shareholders' subscription rights for these new shares. Until now, this option has not been exercised and no new shares have been issued.

### Capital surplus (million €)

	2009
<b>As of January 1</b>	<b>3,133</b>
Reclassification of retained earnings corresponding to the calculated par value of shares cancelled during 2009	6
<b>As of December 31</b>	<b>3,139</b>

## 16 – Retained earnings and profit retained

Million €	2009
<b>Other retained earnings</b>	
As of January 1	146
Share repurchase	(6)
Transfer from profit retained	2,369
Transfer from net income	–
<b>As of December 31</b>	<b>2,509</b>
<b>Profit retained as of December 31</b>	
Profit carried forward	–
Net income	2,176
Transfer to other retained earnings	–
	<b>2,176</b>

Retained earnings were reduced by €6 million due to the reclassification of calculated nominal value of the own shares cancelled in 2009 to capital surplus.

## 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. BASF SE will ensure the necessary contributions to adequately finance the benefits promised by BASF Pensionskasse VVaG.

Additional company pension commitments are covered by pension provisions.

BASF SE approved a 1% per year increase in pensions from BASF Pensionskasse VVaG. Furthermore, the current Pensionskasse pensions were increased by 5.3% per year as of January 1, 2010.

## 18 – Other provisions

Million €	2009		2008	
		Thereof current		Thereof current
Environmental protection and remediation costs	142	5	151	6
Personnel costs	1,070	444	1,061	561
Sales risks	100	92	107	97
Integration, shutdown and restructuring costs	1	1	2	2
Legal, damage claims, guarantees and related commitments	76	17	87	11
Maintenance and repair costs	19	19	17	17
Other	244	221	478	447
	<b>1,652</b>	<b>799</b>	<b>1,903</b>	<b>1,141</b>

In 2009, provisions in the amount of €142 million were reversed to income (2008: €114 million).

## 19 – Liabilities

### Financial indebtedness (million €)

	2009	2008
3.5% Euro Bond 2003/2010	1,000	1,000
3.375% Euro Bond 2005/2012	1,400	1,400
4% Euro Bond 2006/2011	1,000	1,000
4.5% Euro Bond 2006/2016	500	500
3-Month EURIBOR Bond 2006/2009	–	500
5.875% GBP Bond 2009/2017	434	–
3.75% Euro Bond 2009/2012	1,350	–
4.625% Euro Bond 2009/2017	300	–
4.25% Euro Bond 2009/2016	200	–
Commercial papers	496	4,754
<b>Bonds and other liabilities to the capital markets</b>	<b>6,680</b>	<b>9,154</b>
Liabilities to credit institutions	67	1
	<b>6,747</b>	<b>9,155</b>

### Liabilities to affiliated companies (million €)

	2009	2008
Accounts payable, trade	1,209	979
Other liabilities	12,664	9,312
	<b>13,873</b>	<b>10,291</b>

### Miscellaneous liabilities (million €)

	2009	2008
Advances received on account of orders	6	7
Liabilities to other participating interests	28	28
Other miscellaneous liabilities	573	553
Thereof taxes	38	36
Thereof liabilities relating to social security	32	15
Thereof CTA	313	170
	<b>607</b>	<b>588</b>

### Maturities of liabilities (million €)

	2009		2008	
	Less than 1 year	More than 5 years	Less than 1 year	More than 5 years
Financial indebtedness	1,496	1,434	5,255	500
Accounts payable, trade	302	–	491	–
Liabilities to affiliated companies	12,717	1,150	9,809	–
Advances received on account of orders	6	–	7	–
Liabilities to other participating interests	28	–	28	–
Other miscellaneous liabilities	543	14	536	15
	<b>15,092</b>	<b>2,598</b>	<b>16,126</b>	<b>515</b>

**Secured liabilities** (million €)

	2009	2008
Other liabilities	1	1

The above liabilities are collateralized by securities.

## 20 – Contingent liabilities and other financial obligations

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

**Contingent liabilities** (million €)

	2009	2008
Bills of exchange	3	4
Thereof to affiliated companies	–	–
Guarantees	5,774	4,056
Thereof to affiliated companies	5,766	3,997
Warranties	1,029	885
Thereof to affiliated companies	690	452
	<b>6,806</b>	<b>4,945</b>

Contingent liabilities are primarily related to guarantees for bonds issued by BASF Finance Europe N. V. which serve to finance the BASF Group. At the time the balance sheet was pre-

pared, identifiable risks from contingent liabilities were recognized with appropriate provisions in the balance sheet.

**Other financial obligations** (million €)

	2009	2008
<b>Other financial obligations</b>	<b>398</b>	<b>512</b>
Thereof to affiliated companies	68	60

**Long-term purchase commitments** (million €)

	2009	2008
<b>Long-term purchase commitments</b>	<b>4,369</b>	<b>8,006</b>
Thereof to affiliated companies	1,366	2,535

BASF SE purchases raw materials globally, both on the basis of long-term contracts and in spot markets. The commodity swap

contracts concluded in connection with this are netted with the respective transactions.

## 21 – Derivative instruments

### 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 transactions in original financial instruments, such as shares or fixed-interest securities. Hedging is only employed for underlying positions from the operating business, cash investments, financing or planned sales and raw material purchases.

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, risk positions are centralized at BASF SE and certain Group companies. Contracting and execution of derivative financial instruments for hedging purposes is conducted according to internal guidelines, and are subject to strict control mechanisms.

The 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 or 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 €)

	2009	2008
Foreign currency forwards	(2)	(308)
Currency options	31	71
Combined interest and cross currency swaps	(6)	.
Commodity derivatives	12	(146)
Index swaps	298	168
	<b>333</b>	<b>(215)</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 options 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.

Of the total nominal value of €14.4 billion, €9.2 billion was attributable to foreign currency forwards, €2.9 billion to currency options, €1.7 billion to index swaps and €0.6 billion to commodity derivatives and combined interest and cross currency swaps.

The nominal values are the totals of the purchases and 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 Swiss franc.

Commodity derivatives are used to hedge purchase and sales market price risks.

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 €62 million. Costs for the purchase of derivatives amounting to €247 million were capitalized as Other assets. Losses of €48 million were recognized as liabilities under Other liabilities.

## 22 – Services provided by the external auditor

Information on the services provided by KPMG AG Wirtschaftsprüfungsgesellschaft to BASF SE can be found in Note 29 of the BASF Group's Consolidated Financial Statements.

Ludwigshafen am Rhein, February 24, 2010

The Board of Executive Directors

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

To the best of our knowledge, and in accordance with the applicable reporting principles, the Financial Statements of 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 24, 2010



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



**DR. KURT BOCK**  
Chief Financial Officer



**DR. MARTIN BRUDERMÜLLER**



**DR. HANS-ULRICH ENGEL**



**DR. JOHN FELDMANN**



**DR. ANDREAS KREIMEYER**



**DR. STEFAN MARCINOWSKI**



**DR. HARALD SCHWAGER**

## Auditor's report

We have audited the 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's Analysis of BASF SE, Ludwigshafen am Rhein, for the business year from January 1, 2009 to December 31, 2009. 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's Analysis based on our audit.

We conducted our audit of the annual financial statements in accordance with § 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's Analysis 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's Analysis 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's Analysis. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the 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's Analysis 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 24, 2010

KPMG AG  
Wirtschaftsprüfungsgesellschaft

**Prof. Dr. Schindler**  
Wirtschaftsprüfer

**Fischer**  
Wirtschaftsprüferin

## Further information

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

## Contacts

### General inquiries

Phone: +49 621 60-0, Fax: +49 621 60-42525

### Corporate Media Relations

Jennifer Moore-Braun, Phone: +49 621 60-99123,  
Fax: +49 621 60-92693

### Investor Relations

Magdalena Moll, Phone: +49 621 60-48230, Fax: +49 621 60-22500

### Internet

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

**BASF SE**, 67056 Ludwigshafen, Germany