

1 -- SUMMARY OF ACCOUNTING POLICIES

A -- Basis of presentation

The Consolidated Financial Statements of BASF SE as of December 31, 2008, have been prepared in accordance with the International Financial Reporting Standards (IFRS) and Section 315a (1) of the German Commercial Code (HGB). All of the binding IFRS in the reporting year 2008 as well as the pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) were applied.

Those IFRSs which had not been endorsed by the European Union at the balance sheet date had no effect on BASF's Consolidated Financial Statements.

The accounting policies and valuation methods that have been applied are the same as those of the previous year. Exceptions to this are changes required by the application of new or revised standards and interpretations. In this regard, there were no material changes in 2008.

On February 24, 2009, the Consolidated Financial Statements were authorized for issue by the Board of Executive Directors and submitted for approval by the Audit Committee to the Supervisory Board of BASF SE at their meeting on March 3, 2009.

B -- Scope of consolidation

The Consolidated Financial Statements include BASF SE, the parent company, with its headquarters in Ludwigshafen, Germany, as well as all the material subsidiaries in which BASF SE directly or indirectly exercises a majority of the voting rights (collectively, the "Company"). Material, jointly operated companies are included on a proportional consolidation basis.

Scope of consolidated

	2008	2007
Consolidated companies as of January 1	297	328
Thereof proportionally consolidated	18	19
First-time consolidations	22	20
Thereof proportionally consolidated	1	(1)
Deconsolidations	26	51
Thereof proportionally consolidated	–	–
Consolidated as of December 31	293	297
Thereof proportionally consolidated	19	18

Associated companies are accounted for using the equity method. These are companies in which the Company has an interest of at least 20% or can exercise a significant influence over the operating and financial policies. In total, this applies to:

Companies consolidated using the equity method

	2008	2007
Subsidiaries	8	10
Joint ventures	4	4
Other associated companies	5	6
	17	20

First-time consolidations in 2008 comprised:

- the formation of two new holding companies headquartered in Chile and Canada
- three companies from the Revus Group acquired in December in the Oil & Gas segment
- four companies from the Sorex Group acquired in December in the Agricultural Solutions segment
- an additional 13 companies, which were consolidated due to their increased importance, headquartered in Germany, the Russian Federation, the Netherlands, Norway, Romania, Iran, Vietnam, Kazakhstan and the Dominican Republic

In 2008, 26 companies were deconsolidated due to merger or immateriality.

First-time consolidations in 2007 comprised:

- the formation of three companies headquartered in South Africa, the Netherlands and the United States
- the Chinese manufacturer of catalysts for motorcycles and small engines, Guilin REEcat Catalyst Co., Ltd, in Guilin, China, acquired in April
- a project company which was acquired through Wintershall's asset swap with Gazprom
- an additional 15 subsidiaries due to their increased importance, which were previously not consolidated, with headquarters in Germany, the Netherlands, India, the Czech Republic, China and the United States

In 2007, 51 companies were deconsolidated due to merger, sale or immateriality.

Effects of changes in the scope of consolidation

	2008 million €	2008 %	2007 million €	2007 %
Sales	(43)	(0.1)	18	.
Long-term assets	.	.	1	.
Thereof property, plant and equipment	24	0.2	1	.
Short-term assets	38	0.2	.	.
Thereof cash and cash equivalents	15	0.5	(14)	(1.6)
Total assets	38	0.1	1	.
Stockholders' equity	2	.	18	0.1
Long-term liabilities	5	.	(4)	.
Thereof financial indebtedness	7	0.1	2	.
Short-term liabilities	31	0.2	(13)	(0.1)
Thereof financial indebtedness	(10)	(0.2)	8	0.2
Total stockholders' equity and liabilities	38	0.1	1	.
Contingent liabilities and other financial obligations	.	.	1	.

Financial information on proportionally consolidated companies (million €)

	2008	2007
Income statement information		
Sales	5,392	4,178
Gross profit on sales	278	368
Income from operations	173	285
Income before taxes and minority interest	169	301
Net income	167	306
Balance sheet information		
Long-term assets	1,282	1,238
Thereof property, plant and equipment	1,178	1,159
Short-term assets	959	960
Thereof marketable securities, cash and cash equivalents	49	31
Total assets	2,241	2,198
Stockholders' equity	783	862
Long-term liabilities	627	538
Thereof financial indebtedness	296	218
Short-term liabilities	831	798
Thereof financial indebtedness	163	39
Total stockholders' equity and liabilities	2,241	2,198
Contingent liabilities and other financial obligations	175	137
Consolidated statements of cash flows		
Cash provided by operating activities	320	280
Cash used in investing activities	(84)	(129)
Cash provided by (used in) financing activities	(223)	(198)
Net changes in cash and cash equivalents	13	(47)

Proportionally and at equity consolidated companies

Proportionally consolidated companies of major significance are as follows:

- Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany; Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland as well as ZAO Achimgaz, Novy Urengoy, the Russian Federation, joint ventures with Gazprom through which gas trading activities and the production of natural gas and condensate in Siberia are operated
- ELLBA C.V., Rotterdam, the Netherlands and ELLBA Eastern Private Ltd., Singapore, which are operated jointly with Shell and produce propylene oxide and styrene monomer
- BASF DOW HPPO Production B.V.B.A., Antwerp, Belgium, which is operated jointly with Dow to produce propylene oxide (PO)
- BASF-YPC Company Ltd., a joint venture between BASF and Sinopec, that operates the Verbund site in Nanjing, China

A complete listing of all proportionally consolidated companies is available in the List of Shares Held.

The following associated companies of major significance have been accounted for using the equity method: Solvin Group (BASF stake: 25%), Heesung Catalysts Corporation, Seoul, South Korea (BASF stake: 49%), N.E. Chemcat Corporation¹, Tokyo, Japan (BASF stake: 42%), Nord Stream AG, Zug, Switzerland (BASF stake: 20%), OAO Severneftegazprom, Krasnoselskuskyy, the Russian Federation (BASF stake: 25%, share of economic rewards: 35%), and Shanghai Lianheng Isocyanate Co. Ltd., Shanghai, China (BASF stake: 35%). Consolidated financial information is shown below:

¹ The market capitalization of the 42% stake in N.E. Chemcat Corporation amounts to a total of €106 million as of December 31, 2008.

Financial information on companies consolidated using the equity method (million €)

	2008	2007
Income statement information		
Sales	3,132	2,736
Gross profit on sales	1,912	475
Income from operations	295	254
Income before taxes and minority interests	(234)	251
Net income	(198)	167
BASF's share of net income	(68)	54
Balance sheet information		
Long-term assets	2,971	2,467
Thereof property, plant and equipment	2,205	2,261
Short-term assets	2,453	1,851
Thereof marketable securities, cash and cash equivalents	1,155	369
Total assets	5,424	4,318
Stockholders' equity	2,590	1,430
Long-term liabilities	425	1,885
Thereof financial indebtedness	233	1,379
Short-term liabilities	2,409	1,003
Thereof financial indebtedness	1,818	116
Total stockholders' equity and liabilities	5,424	4,318
BASF's proportional interest	800	484

C -- Accounting policies

Balance sheet date: The individual financial statements of the companies consolidated in the Consolidated Financial Statements of the BASF Group (hereinafter referred to as “consolidated companies”) are generally prepared as of the balance sheet date of the Consolidated Financial Statements.

Uniform valuation: Assets and liabilities of consolidated companies are accounted for and valued uniformly in accordance with the principles described herein. For companies accounted for using the equity method, material deviations from our accounting policies are adjusted.

Eliminations: Transactions between consolidated companies as well as inter-company profits resulting from sales and services rendered between consolidated companies are eliminated in full. For jointly operated companies this is conducted on a pro rata basis. Material inter-company profits related to companies accounted for using the equity method are eliminated.

Capital consolidation: Capital consolidation is based on the purchase method. Initially, all assets, liabilities and intangible assets that are to be capitalized are valued at fair value. Finally, the acquisition cost is compared with the proportionate share of the net assets acquired at fair value. The resulting differences are capitalized as goodwill and are only written down in the case of impairment.

Revenue recognition: Revenues from the sale of goods or the rendering of services are recognized upon the transfer of ownership and risk to the buyer. They are valued at the fair value of the consideration received and are reported without sales taxes. Expected rebates and other trade discounts are either accrued or deducted. Provisions are made to cover the return of products, estimated future warranty obligations and other claims.

Revenues from the sale of precious metals to industrial customers as well as some revenues from natural gas trading are recognized at the time of shipment and the corresponding purchase price is recorded at cost of sales.

Revenues from the trading of precious metals and their derivatives with broker-traders, where as a rule there is no physical delivery, are recorded on a net basis. Revenues from natural gas trading activities of a project company consolidated by BASF are also recorded on a net basis.

In certain cases, customer acceptance is required on delivery. In these cases, revenues are recognized after customer acceptance occurs.

Long-term contracts primarily relate to the construction of chemical plants for third parties. Realization of revenues and costs takes place according to the stage of completion when the outcome of the construction contract can be reliably estimated. To the extent that the outcome of the construction cannot be estimated reliably, revenue is recognized based on the contract costs incurred. Expected losses on the construction contract are recognized with a write-down to the fair value.

Payments relating to the sale or licensing of technologies or technological expertise are recognized in income according to the contractually agreed transfer of the rights and obligations associated with those technologies.

Borrowing costs: If the construction phase of property, plant and equipment extends beyond a period of one year, the interest incurred on borrowed capital that is directly attributable to that asset is capitalized as part of the cost of that asset. Borrowing costs are capitalized up to the date the asset is ready for its intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Investment subsidies: Government grants related to the acquisition or construction of property, plant and equipment reduce the acquisition or construction cost of the respective assets. Other government grants or government assistance are treated as deferred income and recognized as income over the underlying period or the expected useful life of the related asset.

Foreign currency transactions: The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at the exchange rate on the date of the transaction. Foreign currency receivables and liabilities are valued at the exchange rates on the balance sheet date. Foreign exchange gains or losses resulting from the conversion of assets and liabilities are reported as other operating expenses or other operating income.

Translation of foreign currency financial statements: The translation of foreign currency financial statements depends on the functional currencies of the consolidated companies. Translation into the reporting currency is based on the current rate method: balance sheet items are translated to euro at year-end rates, expenses and income are translated to euro at monthly average rates and accumulated for the year. The translation adjustments due to the use of the closing rate method are shown under currency translation adjustments as a component of other comprehensive income in equity and are recognized in income only upon the disposal of a company.

For certain companies outside the euro or U.S. dollar zone, the euro or U.S. dollar is the functional currency.

Acquired intangible assets – excluding goodwill and intangible assets with indefinite useful lives - are valued at cost less scheduled straight-line amortization. The useful life is determined based on the period of the underlying contract and the period of time over which the intangible asset is expected to be used. Impairment losses are recognized if the recoverable amount of the asset is permanently lower than the carrying amount. The recoverable amount is the higher of fair value less selling costs and value-in-use. Impairment losses are reversed if the reasons behind the impairment no longer exist.

Depending on the type of intangible asset, the amortization expense is recorded as cost of sales, selling expense, research and development expense or other operating expense.

Intangible assets with indefinite useful lives: Intangible assets with indefinite useful lives are trade names and trademarks that have been acquired as part of the 2006 acquisitions. They are tested for impairment annually.

Internally generated intangible assets are primarily comprised of internally developed software. Such software, as well as other internally generated assets for internal use, are valued at cost and amortized over their useful lives. Impairments are recorded if the carrying amount of an asset exceeds the recoverable amount.

Development costs also include, in addition to those costs directly attributable to the development of the asset, an appropriate allocation of overhead cost. Borrowing costs directly related to the development of the assets are capitalized to the extent that they are material and related to the period over which the asset is generated.

The average straight-line amortization period for intangible assets was 11 years in 2008 and 10 years in 2007 based on the following expected useful lives.

Amortization periods in years

Distribution, supply and similar rights	2–20
Product rights, licenses and trademarks	2–30
Know-how, patents and production technologies	3–25
Internally generated intangible assets	3–5
Other rights and values	2–20

Goodwill is only written down if there is an impairment. Impairment testing takes place annually or if there is an indication of an impairment. The goodwill impairment test is based on cash-generating units and compares the recoverable amount of the unit with the respective carrying amount. At BASF, cash-generating units are predominantly the business units, in individual cases, the divisions. The recoverable amount is the higher of net sales price and the value-in-use. Value-in-use is generally determined using the discounted cash flow method.

If the impairment loss exceeds the carrying amount of goodwill, the goodwill is written off completely. Any impairment loss left over is allocated to the remaining assets of the cash-generating unit. Goodwill impairment losses are reported under other operating expenses.

The goodwill of the BASF Group is primarily attributable to the Catalysts and Construction Chemicals divisions in the Functional Solutions segment and the Crop Protection division in the Agricultural Solutions segment.

In 2008, goodwill of €1,383 million relates to the Crop Protection division (2007: €1,304 million), €1,246 million relates to the Catalysts division (2007: €1,269 million), €620 million relates to the Construction Chemicals division (2007: €612 million) and €381 million relates to the Oil & Gas segment (2007: €64 million). Changes arose in 2008 in particular from foreign currency translation effects and the acquisition of Sorex Holdings Ltd. by the Crop Protection division and Revus SAS by the Oil & Gas segment.

Emission rights: Emission right certificates granted free-of-charge by the German Emissions Trading Authority ('Deutsche Emissionshandelsstelle') or a similar authority in other European countries, are recognized on the balance sheet date at their fair value at the time they are credited to the electronic register run by the relevant government authority. Purchased emission rights are recorded at cost. The measurement at the balance sheet date occurs at fair value. If the fair value at the balance sheet date is lower than the carrying amount, the emission rights are written down.

Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation over their estimated useful lives. Low-value assets are fully written off in the year of acquisition and are shown as disposals. The revaluation method is not used.

The cost of self-constructed plants includes direct costs, appropriate allocations of material and manufacturing costs, and an appropriate share of the administrative costs for those areas involved in the construction of the plants. Borrowing costs that are incurred during the period of construction are capitalized. For companies in Germany, borrowing costs were capitalized at 4.5% whereas country-specific rates were used for Group companies outside Germany.

Expected costs related to scheduled maintenance turnarounds of large-scale plants are capitalized as part of the asset and depreciated using the straight-line method over the period to the next planned turnaround.

Both movable and immovable fixed assets are depreciated using the straight-line method. The weighted-average depreciation periods used were as follows:

Average depreciation in years

	2008	2007
Buildings and structural installations	24	23
Machinery and technical equipment	11	11
Factory, office equipment and other facilities	7	8

Impairment losses are recorded whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation is based on the present value of the expected future cash flows less expected costs for the disposal of the asset. An impairment loss is recorded for the difference between the carrying amount and the value of discounted future cash flows.

Investment properties held to realize capital gains or rental income are immaterial. They are valued at the lower of acquisition cost less scheduled depreciation and fair value.

Oil and gas exploration: Exploration and production costs are accounted for using the successful efforts method. Under this method, costs of successful exploratory drilling as well as successful and dry development wells are capitalized as property, plant and equipment.

An exploration well is a well located outside of an area with proven oil and gas deposits. A development well is a well which is sunk to the depth of a deposit of oil or gas within an area with proved reserves.

Production costs include all costs incurred to operate, repair and maintain the well and the associated plant. The costs for the operation, repair and maintenance as well as depreciation of ancillary production equipment are also included.

Exploration expenses relate exclusively to the Oil & Gas segment. These expenses include all costs connected with non-proven oil and gas deposits. Included here are costs for the exploration of areas with possible oil or gas reserves. Costs for geological and geophysical investigations are, as a matter of principle, reported under exploration expenses. In addition, this item includes depreciation on exploration wells which have no proven reserves. Scheduled depreciation on successful exploration wells is part of cost of sales.

Exploratory drilling is reported under construction in progress until its success can be determined. When the presence of hydrocarbons is proved such that the economic development of the field is probable, the costs remain capitalized as suspended well costs. Once a year, all suspended wells are assessed from an economic, technical and strategic viewpoint to see if development is still intended. If this is not the case, the well concerned is written off. When reserves are proven and the development of the field begins, the exploration wells are reclassified as machinery and technical equipment.

An Exploration and Production Sharing Agreement (EPSA) is a type of contract in crude oil and gas concessions whereby the expenses and profits from the exploration, development and production phases are divided between the state (National Oil Company) and one or more exploration and production companies using defined keys. The revenue BASF is entitled to under such contracts is reported as sales. The existing Libyan concessions are currently being renegotiated. They shall be replaced with Exploration and Production Sharing Agreements according to the EPSA-IV standard.

Provisions for required recultivations associated with oil and gas operations primarily concern the filling of wells and the removal of production facilities upon the termination of production. Initial measurement is conducted when the obligation arises at the present value of the future recultivation costs. Interest on the provision is accrued annually until the time of the planned recultivation. An asset of the same value is capitalized as part of the carrying amount of the plant concerned and together they are depreciated.

The unit of production method is used to depreciate assets from oil and gas exploration at the field or deposit level. As a matter of principal, depreciation is calculated on the basis of proven, developed reserves.

In the natural gas trading business, long-distance natural gas pipelines are depreciated using the straight-line method. The weighted-average depreciation period amounted to 24 years in 2008 (2007: 24 years). The intangible asset from the marketing contract for natural gas from the Yuzhno Russkoye natural gas field is amortized based on BASF's share of the produced and distributed volumes.

Leases: According to IAS 17, leasing contracts are classified as either finance or operating leases. Assets which are subject to operating leases are not capitalized. Lease payments are charged to income in the year they are incurred.

A lease is classified as a finance lease if it transfers substantially all of the risks and rewards related to the leased asset. Assets subject to a finance lease are recorded at the present value of the minimum lease payments. A leasing liability is recorded in the same amount. The periodic lease payments are divided into principal and interest components. The principal component reduces the outstanding liability, while the interest component represents an interest expense. Depreciation takes place over the shorter of the useful life of the asset or the period of the lease.

Leases can be embedded within other contracts. If IFRS requires separation, then the embedded lease is recorded separately from its host contract and each component of the contract is carried and valued in accordance with the applicable regulations.

Investments in companies accounted for using the equity method: These investments are accounted for under the same principles as for consolidated subsidiaries. The carrying amounts of these companies are adjusted annually based on the pro rata share of income, dividends and other changes in stockholders' equity. Should there be indications of a permanent reduction in the value of an investment, then an impairment expense is recognized through profit or loss.

Financial Instruments: Financial assets and financial liabilities are recorded on the balance sheet when the BASF Group becomes a party to a financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset, with all risks and rewards of ownership, is transferred. Financial liabilities are derecognized when the contractual obligation expires or is discharged or cancelled. Standard purchases and sales of financial instruments are accounted for using the settlement date and in precious metals trading using the day of trading.

The fair value is the amount for which an instrument could be exchanged in an arm's length transaction between knowledgeable, willing parties. When pricing on an active market is available, for example on a stock exchange, this price is used. In other cases, a valuation is based on internal valuation models using current market parameters or external valuations from banks. These internal valuations predominantly use net present value and option pricing models.

If there is objective evidence of a permanent impairment of an available-for-sale financial instrument, an impairment charge is taken.

If the reason for the impairment of loans and receivables as well as held-to-maturity financial instruments no longer exists, the amortization is reversed up to the amortized cost and recognized as income. Impairment losses on financial instruments are booked separately in an allowance account.

Financial assets and liabilities are divided into the following valuation categories:

- **Financial assets and liabilities that are measured at fair value and recognized through profit or loss** consist of derivatives and other trading instruments. BASF utilized this valuation category only for derivative instruments and does not make use of the fair value option under IAS 39. Derivatives are reported in other short-term assets or other short-term liabilities.
- **Loans and receivables** comprise financial assets with fixed or determinable payments, which are not quoted on an active market and are not derivatives or classified as available-for-sale. Included in this category are trade accounts receivable, loans classified under other financial assets as well as other receivables and loans classified under other receivables and miscellaneous assets. Initial valuation is done at fair value, which generally matches the nominal value of the receivable or loan. Interest-free and low-interest long-term loans and receivables are recorded at present value. Subsequent valuations are generally done at amortized cost, under consideration of the effective interest method. If there is objective evidence for an impairment of a receivable or loan, an individual valuation adjustment is done. In addition, an impairment loss occurs when the contractual conditions which form the basis for the receivable or loan need to be changed through renegotiation in such a way that the present value of the future cash flows decreases. Receivables and loans are written off when their uncollectibility is finally determined. Receivables for which no objective indication for an impairment exists may be impaired, if necessary, based on expected default rates. The company applies historic default rates. In addition, valuation adjustments on receivables for transfer risks in certain countries are established.

- **Held-to-maturity financial assets** consist of non-derivative financial assets with fixed or determinable payments and a fixed term, for which there is the ability and intent to hold until maturity, and which do not fall under other valuation categories. Initial valuation is made at fair value, which, in most cases, matches the nominal value. Subsequent valuations are done at amortized cost under consideration of the effective interest method. For BASF, there are no material financial assets that fall under this category.
- **Available-for-sale financial assets** comprise financial assets which are not derivatives and do not fall under any of the previously stated valuation categories. This valuation category comprises participations not accounted for using the equity method under the item 'other financial assets'; 'long-term securities'; and securities contained under the item 'marketable securities'. Initial valuation is done at fair value. Changes in the fair value are booked to equity under the item other comprehensive income and are only recorded in the income statement when the assets are disposed of or have been impaired. Participations whose fair value cannot be reliably determined are carried at historical cost and are written down in the case of an impairment in value. For these participations, the book values represent the best estimates of value. In the case of available-for-sale securities, write-ups principally are not recognized in the income statement, but are taken directly to equity (other comprehensive income). Write-ups to the amount of the original write-down are recognized in income in the case of debt instruments; write-ups above this amount are recognized in equity.
- **Financial liabilities which are not derivatives** are initially valued at fair value. This normally corresponds to the amount received. Subsequent valuation is generally done at amortized cost, under consideration of the effective interest method.

There were no reclassifications between the valuation categories in 2007 and 2008. The option to reclassify certain assets given under the amendment to IAS 39 on October 15, 2008, was not used.

Revenue from interest-bearing assets is recognized on the outstanding receivables at reporting date using the interest rates calculated under the effective interest method. Dividends from participations not accounted for under the equity method are recognized when the shareholders' right to receive payment is established.

Derivative financial instruments can be embedded within other contracts. If IFRS requires separation, then the embedded derivative is recorded separately from its host contract and shown at fair value.

Cash flow Hedge Accounting has been employed for selected deals to hedge future transactions. The effective portion of the change in fair value is thereby recognized directly in equity under other comprehensive income, taking deferred taxes into account. The ineffective portion is recognized immediately in income. In the case of future transactions that will lead to a non-financial asset or a non-financial debt, the cumulative fair value changes in equity are either charged against the acquisition cost on initial recognition or recognized in profit or loss in the reporting period in which the hedged item is recorded in the income statement. For hedges based on financial assets or debts, the cumulative fair value changes of the hedges are transferred from stockholders' equity to the income statement in the reporting period in which the hedged item is recognized in the income statement. The maturity of the hedging instrument is based upon the effective date of the future transaction.

The derivatives employed by BASF for hedging purposes are effective hedges from an economic point of view. Changes in the fair value of the derivatives almost completely offset the change in the value of the underlying contracts.

Deferred tax assets: Deferred tax assets are recorded for temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes. In addition, deferred taxes are recorded for tax loss carryforwards to the extent that it is probable that future taxable profit for the relevant tax authority will be available against which the tax loss carryforwards can be utilized. For companies located in Germany, a 29% tax rate is applied; for other companies, the tax rates applicable in the individual countries are used. Appropriate valuation allowances are made if expected future earnings of a company make it seem more likely than not that the tax benefits will not be realized.

The valuation of deferred tax assets depends on the estimation of the probability of a reversal of the valuation differences and the utilization of the tax loss carryforwards. A deferred tax asset is recognized for future tax benefits arising from temporary differences and for tax loss carryforwards to the extent that the tax benefits are likely to be realized. Based on experience and the expected development of taxable income, it is assumed that the benefit of deferred tax assets recognized will be realized.

Inventories: Inventories are carried at acquisition costs or production costs. If the listed, market, or fair value of the sales product which forms the basis for the net realizable value is lower, then this is applied. The net realizable value is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

Cost of sales include, in addition to direct costs, an appropriate allocation of production overhead costs based on normal utilization rates of the production plants. In addition, pensions, social services and voluntary social benefits are included as well as allocations for administrative costs, provided they relate to the production process. Financing costs are not included in production costs.

Deductions on inventories result from price declines in sales products, lack of salability and high level of inventory on hand.

IAS 2 "Inventories" does not apply to commodity broker-traders. Accordingly, precious metals held for trading purposes are measured at fair value. Changes in fair value are recognized in income.

Assets and liabilities of disposal groups: These comprise those assets and directly associated liabilities shown on the balance sheet whose sale in the context of a single transaction is highly probable. The assets and liabilities of disposal groups are recognized at the lower of the sum of their carrying amounts or fair value less costs to sell. Scheduled depreciation of long-term assets is suspended. Should a disposal group cease to be classified as such, then the depreciation and amortization for the period of suspension must be taken.

→ Further information on disposal groups is found in Note 2 from page 170 onward

Provisions for pensions and similar obligations: Provisions for pensions are based on actuarial computations made according to the projected unit credit method. Similar obligations, especially those arising from commitments in North America to pay the healthcare costs and life insurance premiums of retired staff and their dependents, are included in pension provisions. Actuarial profits and losses are offset against retained earnings. The calculation of pension provisions is based on actuarial reports.

Other provisions: Other provisions are accrued when there is a present obligation as a result of a past event and when there is a probable outflow of resources whose amount can be reliably estimated. Provisions are made at the probable settlement value.

Provisions for German trade income tax, German corporate income tax and similar income taxes are made in the amount necessary to meet the expected payment obligations, less any prepayments that have been made. Other taxes assessed are appropriately considered.

Provisions are established for certain environmental protection measures and risks if the measures are considered likely as a result of legal or regulatory obligations or other events and these measures have not to be capitalized. Provisions for required recultivations primarily concern the filling of wells and the removal of production facilities upon the termination of production in the Oil & Gas segment. The present value of the obligation increases the cost of the respective asset when it is initially recognized.

Provisions are made for expected severance payments or similar personnel expenses as well as for demolition expenses and other charges related to the closing down of operations that have been planned and publicly announced by management.

Provisions for long service and anniversary bonuses are predominantly calculated based on actuarial principles. For contracts signed under the early retirement programs, provisions for the supplemental payments are provided in their full amount and the wage and salary payments due during the passive phase of agreements are accrued in installments. Provisions are recorded for the expected costs that are anticipated to be contracted during the term of the collective bargaining agreements.

→ Information on provisions for the BASF options program in Note 25 from page 210 onward

The probable amount required to settle long-term obligations is discounted if the effect of discounting is material. In this case, valuation of the provision is done at present value. Related financing costs are shown in other financial results.

Deferred tax liabilities: Deferred tax liabilities are recorded for temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes to the extent that there is a surplus of taxable temporary differences relating to a fiscal unit.

Deferred tax liabilities resulted, in particular, from the revaluation of assets at fair value as part of the purchase price allocation of recent years.

Earnings per share: The calculation of earnings per share is based on the average number of common shares outstanding during the applicable period and the net income. Own shares are included in the calculation for the period of time that they were outstanding.

Use of estimates in the preparation of the Consolidated Financial Statements:

The carrying amount of assets, liabilities and provisions, contingent liabilities and other financial obligations in the Consolidated Financial Statements depends on the use of estimates and assumptions. They are based on the circumstances and estimates at the balance sheet date and affect the reported amounts of income and expenses during the reporting periods. These assumptions affect the selection of useful lives of property, plant and equipment and intangible assets, the measurement of provisions, the carrying amount of investments, and other similar valuations of assets and obligations. Given the uncertainty regarding the determination of these factors, actual results could differ from these estimates.

In **business combinations**, the acquired assets and liabilities are recognized at fair value on the date the acquirer effectively obtains control. The determination of fair value of the acquired intangible assets, property, plant and equipment and liabilities assumed at the date of exchange as well as the useful lives of the acquired intangible assets and property, plant and equipment is based on assumptions. The measurement is largely based on projected cash flows. The actual cash flows can differ significantly from the cash flows used to determine the fair values. The purchase price allocation of material acquisitions is based on external, independent expert reports. The measurement of business combinations is based on the information available on the acquisition date.

Impairment tests on assets are required whenever events or changes in circumstances indicate that an assessment is necessary. Impairment tests are based on a comparison of the carrying amount and the recoverable amount. The recoverable amount is the higher of net realizable value and value-in-use. The determination of value-in-use requires the estimation and discounting of cash flows. The estimation of cash flows and assumptions used consider all information available on the respective balance sheet date on the future development of the operating business and may deviate from actual future developments. An impairment charge is taken for the difference between the recoverable amount and the carrying amount.

Goodwill has to be allocated to cash-generating units and tested for impairment once a year. Impairment losses are recorded when the carrying amount of the cash-generating unit exceeds the recoverable value. Impairment testing relies upon long-term earnings predictions based on economic trends. The estimated cash flows are generally based on the current business plans for the next three years and on the expertise of the respective business unit management and take appropriate account of the relevant specific risks. For cash flow projections beyond the detailed planning period, growth rates ranging from 0% to 3% were assumed depending on the individual business and cash-generating unit. The discount rates used depend on the underlying business and the country in which the business operates and correspond to after-tax rates ranging from 6.7% to 14.5%.

Intangible assets and property, plant and equipment: The estimated useful life and method chosen are based on historical values, plans and estimates. Estimates are made on the period and distribution of future cash inflows.

Impairment charges are taken when circumstances lead to a permanent impairment. These circumstances could include lower profitability of the products concerned, the consequence of restructuring measures or poor economic conditions. Should the reasons for the impairment no longer be valid, then reversals are taken up to, but not exceeding, the value of the amortized cost.

Intangible assets with indefinite useful lives are subject to an annual impairment test. An impairment test is conducted if certain triggering events indicate an impairment. This could include changes in customer industries, in technologies and in the business environment.

Deferred tax assets/liabilities: The realization of deferred tax assets depends on the future taxable profits of the respective group companies. Allowances are recorded when it is uncertain if future earnings will be sufficient to take advantage of the tax loss carryforwards. The continued valuation of deferred tax assets is based on internal projections, among other things based on the future earnings of the Group company.

→ More information can be found in Note 8 from page 183 onward

Receivables and loans are valued at their amortized costs using the effective interest method. Impairments on receivables and loans are recognized in income. Such evidence for an impairment could, for example, be when the financial difficulties of a debtor become known or payment delays occur. When assessing the need for an impairment, regional and sector specific conditions are considered. In addition, use is made of external ratings as well as the assessments of debt collection agencies and credit insurers when available. A significant proportion of receivables is covered by credit insurance. Bank guarantees and letters of credit are used to a limited extent. Only those receivables which are not covered by insurance or other collateral are impaired. Receivables whose insurance includes a deductible are impaired to the value of the deductible. Impairments are based on historical values on customer solvency and the age, period overdue, insurance policies and customer-specific risks. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The write-up may not exceed the amortized cost.

Pension provisions and defined benefit assets are measured using actuarial methods, applying among others the following valuation parameters: future developments in compensation and pensions, the expected performance of plan assets, employee turnover and the life expectancy of beneficiaries. The resulting obligations are discounted by reference to market yields at the balance sheet date on high quality corporate fixed-rate bonds with a AA rating. Actuarial gains and losses are recognized directly in retained earnings. They result from the variance between the actual development in pension obligations and pension assets and the assumptions made at the beginning of the year as well as the updating of actuarial assumptions.

→ More information on provisions for pensions and similar obligations can be found in Note 20 from page 200 onward

Other provisions also cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, claims awarded in similar cases and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible claims. The actual costs can deviate from these estimates.

→ More information can be found in Note 24 on page 209

Other provisions also include expected charges for the rehabilitation of contaminated sites, the recultivation of landfills, the removal of environmental contamination at existing production or storage facilities and other similar measures. If BASF is the only responsible party that can be identified, the provision covers the entire expected claim. At sites operated together by one or more parties, the provision covers only BASF's share of the expected claim. The determination of the amount of the provision is based on the available technical information on the site, the technology used, legal regulations and processes used as well as current regulations and official obligations.

The estimation of future costs is subject to many uncertainties. This refers in particular to rehabilitation measures that involve several parties and longer time periods.

Assumptions have to be made in determining the discount rate to be used in calculating long-term provisions.

IFRSs and IFRICs which do not yet have to be considered in the preparation of these statements

The effects of IFRSs and IFRICs not yet in force or not yet endorsed by the European Union in the reporting year 2008 were reviewed:

- **IFRS 8 “Operating Segments”**, which follows the Management Approach, replaces IAS 14 which follows the Risk-and-Reward Approach. This leads to segmentation based on the internal reporting structure and associated with this the disclosure of management information used for evaluating segment performance and deciding how to allocate resources to operating segments. IFRS 8 shall be applied to financial years beginning on or after January 1, 2009. Earlier application is permitted. As BASF already uses the same performance indicators for external reporting as for internal management reporting, IFRS 8 will not have any effect on the Consolidated Financial Statements of the BASF Group.
- **IAS 1 “Presentation of Financial Statements”** was amended by the IASB as of September 6, 2007. The goal is to ease the analysis and comparison of financial statements. Additional information on stockholders' equity must be presented, for example on the determination, planning and control of the capital structure, and on any supervisory requirements regarding the equity level. The amended version of IAS 1 applies to all financial years beginning on or after January 1, 2009, and has no noteworthy impact on BASF.
- The IASB published an amended version of **IAS 23 “Borrowing Costs”** on March 29, 2007. It is mandatory to capitalize borrowing costs directly associated with the purchase, construction or production of a qualifying asset. The standard applies to all borrowing costs eligible for capitalization on or after January 1, 2009. BASF took the option to capitalize such costs, hence there will be no impact on the BASF Group Consolidated Financial Statements.
- **IFRIC 12 “Service Concession Arrangements”** regulates the accounting for service concession arrangements between private sector companies and government or other public sector entities to provide public services. IFRIC 12 will not have an effect on BASF.

- The amended versions of **IFRS 3 “Business Combinations”** and **IAS 27 “Consolidated and Separate Financial Statements”** allow the option of measuring minority interests at fair value or based on their identifiable net assets. In addition, changes in the ownership percentage without loss of control are recognized directly in equity. Changes in the ownership percentage with loss of control are recognized in profit and loss. Incidental acquisition costs are to be expensed in the future. The changes affect business combinations whose acquisition date falls in a reporting period beginning on or after of July 1, 2009. BASF will apply the changes as soon as they come into force, or are endorsed by the European Union.
- **IFRIC 15 “Agreements for the Construction of Real Estate”** governs the recognition of revenue and the corresponding expense on the construction of real estate. IFRIC 15 will not have an effect on BASF.
- **IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”** clarifies which exchange differences resulting from the difference between the functional currency of the group and the functional currency of the foreign operation can be designated as a hedged risk. IFRIC 16 will not have an effect on BASF.
- **IFRIC 17 “Distributions of Non-cash Assets to Owners”** clarifies that the valuation difference between the book value of the asset and the fair value should be recognized in profit or loss, except for common control transactions. It shall be applied to financial years beginning on or after July 1, 2009. IFRIC 17 will not have an effect on BASF.
- **IFRIC 18 “Transfers of Assets from Customers”** governs agreements in which an entity receives from a customer an asset that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation was published by the IASB on January 29, 2009, and shall be applied to agreements concluded on or after July 1, 2009. The impact on BASF is currently being investigated.
- The amendments to **IAS 1 and IAS 32 “Puttable Financial Instruments and Obligations Arising on Liquidation”** clarify that under certain conditions puttable financial instruments and financial instruments with an enforceable claim on proportionate net assets should be classified as equity and not as liabilities. The amendments will have no impact on the BASF Group Consolidated Financial Statements.
- Other amendments of the standards will have no material impact on BASF.

2 -- ACQUISITIONS/DIVESTITURES

In 2008, BASF acquired Revus Energy ASA, Stavanger, Norway (Revus), an oil and gas exploration and production company listed on the Oslo Stock Exchange with stakes in 60 licenses in Norway and Great Britain. On December 17, 2008, BASF took over control of Revus on the transfer of the tendered shares to a wholly owned subsidiary of Wintershall Holding AG, Wintershall Norwegen Explorations- und Produktions-GmbH. The shares in Revus were acquired as part of a public tender offer. The remaining shares which were not tendered were acquired on

December 18, 2008, as part of the squeeze out resulting in BASF taking ownership of all shares in Revus. The minority shareholders are entitled to a compensation payment of €12 million. This amount has been accrued. The total purchase price is €558 million. Since December 22, 2008, Revus Energy ASA has been trading as Wintershall Norge ASA. The following provides an overview of the preliminary carrying amounts and fair values of the acquired assets and liabilities on December 17, 2008.

Preliminary purchase price allocation of the acquisition of Revus Energy ASA in 2008 (million €)

	Historical book value	Adjustment to fair value	Fair values at the date of acquisition
Long-term assets	296	420	716
Property, plant and equipment	231	119	350
Goodwill	–	–	–
Other intangible assets	2	301	303
Other long-term assets	63	–	63
Short-term assets	106	–	106
Inventories	2	–	2
Other short-term assets	104	–	104
Total assets	402	420	822
Long-term liabilities	193	284	477
Provision for pensions and similar obligations	–	–	–
Deferred tax liabilities	102	285	387
Financial indebtedness	30	(1)	29
Other liabilities	61	–	61
Short-term liabilities	104	–	104
Total liabilities	297	284	581
Net assets	105	136	241
Goodwill			317
Total purchase price			558
Thereof incidental acquisition costs			–

In addition, BASF acquired the following businesses in 2008:

- BASF acquired Attapulgit Mining, Inc., Attapulgitus, Georgia on September 26, 2008. The acquired business provides access to attapulgit ore. Attapulgit is a magnesium aluminium phyllosilicate used mainly as a thickener in coatings.
- BASF acquired the concrete admixture business of Kejie Admixture Science & Technology Co. Ltd. (Kejie), on December 15, 2008. Kejie is one of the leading producers of concrete admixtures in Guangzhou, the capital of the Guangdong province in South China, and has a wide range of concrete admixtures and intermediate products.
- BASF concluded the acquisition of Sorex Holdings Ltd., Widnes, Great Britain on December 19, 2008. Sorex is a leading manufacturer of branded chemical and non-chemical products for professional pest management. The transaction includes U.S.-based Whitmire Micro-Gen and U.K.-based Sorex Ltd. It will increase BASF's presence in the two most important pest control markets worldwide, the United States and Europe.
- BASF concluded an agreement with Recticel to acquire the company's worldwide compounds business for polyurethane (PU) systems for glass encapsulation on December 30, 2008. This transaction includes Recticel's patented aliphatic light stable compounds under the brand name Colofast®.

The purchase price allocations for the individual acquisitions are preliminary and may, according to IFRS, be adjusted when finalized within one year after the date of acquisition.

If Revus Energy ASA had been included in BASF Group Consolidated Financial Statements as of January 1, 2008, the proforma sales would have been €62,482 million and net income would have been €3,348 million. This unaudited proforma information are provided for purposes of comparison only and do not necessarily reflect the results had the transaction had taken place on January 1, 2008. The results reported are not guarantees of future performance.

The remaining acquisitions in 2008 have no material impact on the proforma sales and net income of the BASF Group.

The following shows an overview of the purchase price allocation of the remaining acquisitions in 2008.

Other acquisitions (million €)	
	2008
Purchase price	102
Incidental acquisition costs	-
Total purchase price	102
Net assets at their carrying amounts	(4)
Difference	106
Adjustment to fair value	
Long-term assets	51
Property, plant and equipment	(9)
Goodwill	-
Other intangible assets	60
Other long-term assets	-
Short-term assets	1
Inventories	1
Other short-term assets	-
Total assets	52
Long-term liabilities	-
Short-term liabilities	(1)
Total liabilities	(1)
Total adjustments to fair value	51
Deferred tax liabilities on adjustments	(3)
Remaining goodwill/ negative difference	58

In 2007, Wintershall acquired a stake of 25% less one share in OAO Severneftegazprom (SNG), through an asset swap with Gazprom. SNG holds the production license to the Yuzhno Russkoye natural gas field in Western Siberia. By means of an additional preference share, Wintershall holds a 35% share in the economic rewards of this field. In return, Gazprom received a 49% interest in a German company that holds onshore exploration and production rights in Libya. In addition, Gazprom's stake in our natural gas trading company, WINGAS GmbH & Co. KG, Kassel, was increased from 35% to 50% minus one share. Both the Libyan activities and WINGAS GmbH & Co. KG continue to be consolidated in the BASF Group Consolidated Financial Statements. A cash payment of €598 million was made by BASF to compensate for the assets swapped with Gazprom.

Gazprom's additional shares have led to an increase in minority interests of €216 million in the balance sheet. The measurement of the swapped assets at fair value of €850 million resulted in an excess of €634 million which was recognized in retained earnings. The assets received comprised a marketing contract for natural gas with a fair value of €1,762 million and shares in SNG with a fair value of €110 million. Measurement at fair value resulted in deferred tax liabilities of €424 million.

In addition, BASF acquired the following companies for a total of €38 million in 2007:

- Guilin REEcat Catalyst Co., Ltd. was taken over by BASF on April 20, 2007. The Chinese company, which has a production site for small engine and motorcycle catalysts in Guilin, China, has strengthened BASF's catalysts activities.
- In addition, BASF acquired the remaining 50% stake in Prodrive Engelhard LLC Wixom, Michigan on July 26, 2007. The company provides services connected with the testing of catalysts.
- On December 31, 2007, BASF acquired SABIC Innovative Plastics' shares in the PBT-Joint Venture – BASF GE Schwarzheide GmbH & Co. KG –, Schwarzheide, Germany.

The following overview shows the preliminary purchase price allocations of the acquisitions conducted in 2008, as well as the impact of the final purchase price allocations conducted in 2007 on the consolidated balance sheet.

Effects of acquisitions in the year of acquisition

	2008		2007	
	Million €	%	Million €	%
Long-term assets	1,177	4.0	34	0.1
Property, plant and equipment	363	2.4	17	0.1
Goodwill	380	8.0	11	0.3
Other intangible assets	365	7.1	6	0.1
Other assets	69	4.3	–	–
Short-term assets	138	0.6	7	.
Thereof cash and cash equivalents	11	0.4	1	0.1
Total assets	1,315	2.6	42	0.1
Stockholders' equity	5	.	–	–
Long-term liabilities	489	3.1	2	.
Thereof financial indebtedness	29	0.4	–	–
Short-term liabilities	173	1.1	1	.
Thereof financial indebtedness	31	0.5	–	–
Total stockholders' equity and liabilities	667	1.3	3	.
Payments related to acquisitions	648		38	
Conditional purchase price	12		–	
Purchase price	660		38	
Contingent liabilities and other financial obligations	281	3.2	1	.

In 2008, BASF divested the following activities:

- In the course of 2008, BASF sold further parts of the premix business, including sites in Japan, Taiwan, Chile and Columbia. Premixes are a mixture of vitamins and feed additives for animal nutrition. The activities were allocated to the Care Chemicals division.
- On April 30, 2008, BASF sold the Shreveport, Louisiana, site and the related contract manufacturing business for pharmaceuticals to Dr. Reddy's Laboratories. The activities were allocated to the Care Chemicals division.
- On August 17, 2008, BASF completed the divestiture of Seal Sands site in the north of England to INEOS Nitriles. The Seal Sands site operates production facilities for the intermediates acrylonitrile (AN), adipodinitrile (ADN) and hexamethylenediamine (HMD), as well as for by-products. The site was allocated to the Performance Polymers division.

In 2007, BASF divested the following activities:

- On June 26, 2007, BASF concluded the divestiture of Chemische Fabrik WIBARCO GmbH to Hansa Chemie International AG, Zollikon-Zurich, Switzerland. The company, headquartered in Ibbenbüren, North Rhine-Westphalia, was assigned to the Performance Chemicals division.
- On July 1, 2007, BASF sold its stake in an ethane cracker in Geismar, Louisiana to Williams Olefins, LLC. The associated infrastructure was sold to PetroLogistics, LLC.
- On October 31, 2007, BASF sold a major part of its premix business to Nutreco, an animal feed group headquartered in the Netherlands. The divested business had sites in eight countries.

The following shows the effects of the divestitures in 2008 and 2007 on the consolidated balance sheet. The effect on stockholders' equity is reported as the difference between the purchase price payment and the disposed assets. Any expenditures for restructuring measures connected with divestitures are not included.

Effects of divestitures in the year of divestiture

	2008		2007	
	Million €	%	Million €	%
Sales	(274)	(0.4)	(146)	(0.3)
Long-term assets	(12)	.	(55)	(0.2)
Thereof Property, plant and equipment	(11)	(0.1)	(43)	(0.3)
Short-term assets	(24)	(0.1)	(60)	(0.3)
Thereof cash and cash equivalents	-	-	(3)	(0.4)
Total assets	(36)	(0.1)	(114)	(0.2)
Stockholders' equity	30	0.2	26	0.1
Long-term liabilities	-	-	(5)	.
Thereof financial indebtedness	-	-	-	-
Short-term liabilities	7	.	(33)	(0.3)
Thereof financial indebtedness	-	-	(1)	.
Total stockholders' equity and liabilities	37	0.1	(13)	(0.1)
Proceeds from divestitures	73		102	
Contingent liabilities and other financial obligations	-	-	(1)	.

Assets and liabilities of disposal groups

As of December 31, 2007, parts of the Styrenics division were classified as a disposal group. These concerned BASF's styrene monomer (SM), polystyrene (PS), styrene butadiene copolymer (SBC) and acrylonitrile butadiene styrene (ABS) businesses with plants in Antwerp, Belgium; Altamira, Mexico; Sao Jose dos Campos, Brazil; Ulsan, South Korea; and Dahej, India.

In 2008, the planned sale could not be carried out. Due to poor macroeconomic conditions and the changes on the capital market, divestiture in the near future is not highly probable. As of December 31, 2008, the assets and liabilities of the disposal group were reported under continuing operations.

In the fourth quarter of 2008, €73 million in depreciation and amortization had to be recognized for 2008, as the assets were no longer classified as a disposal group. In addition, impairment charges of €121 million were recognized in connection with the restructuring of the business, particularly for the sites in Mexico and South Korea.

All the depreciation and amortization for 2007 were reflected in the earnings for that year. Consequently, due to the reclassification of the disposal group no adjustment had to be made due to depreciation and amortization for 2007.

The values of the disposal group as of December 31, 2007, are shown in the following table.

Disposal group of the Styrenics division (million €)

	Dec. 31, 2007
Intangible assets	59
Property, plant and equipment	363
Inventories	175
Accounts receivable, trade	10
Other receivables and miscellaneous short-term assets	4
Cash and cash equivalents	3
Assets of the disposal group	614
Provisions for pensions and similar obligations	15
Accounts payable, trade	1
Other liabilities	1
Liabilities of the disposal group	17

Planned Acquisitions/Divestitures

On September 15, 2008, BASF announced its intention to acquire Ciba Holding AG (Ciba). On October 1, 2008, a public tender offer of CHF 50.00 per share was made to the shareholders of Ciba.

On November 13, 2008, the Spanish investor group Bestinver sold its stake of approximately 13% in Ciba to BASF at a price of CHF 49.50 per share outside the public tender offer. BASF provided assurance to Ciba that it will not exercise the voting rights attached to these shares before the completion date. In the 2008 Consolidated Financial Statements, the shares already held by BASF before the announcement of the public tender offer, the additional shares acquired in the course of 2008, as well as the shares in Ciba acquired from the Bestinver Group amounted to €351 million and were reported under long-term securities. This corresponds to a stake in Ciba of 15.2%.

The shares tendered as part of the public tender offer, the shares already held by BASF, the shares in Ciba acquired from the Bestinver Group and the Ciba shares held by Ciba would result in a BASF stake of 95.2%. The completion of the transaction is still subject to approval by the relevant antitrust authorities, which is expected in the first quarter of 2009. After payments to minority shareholders on the transfer of control, the total purchase price will amount to €2.2 billion (CHF 3.4 billion).

The expected purchase price payment of €1,797 million to be paid as part of the public tender offer after the approval by the relevant antitrust authorities is reported under other financial obligations.

→ More information can be found in Note 23 from page 208 onward

3 -- EARNINGS PER SHARE

Earnings per share		
	2008	2007
Net income (million €)	2,912	4,065
Number of shares (1,000)		
Weighted-average number of outstanding shares	930,103	977,786
Earnings per share (€)	3.13	4.16

The calculation of earnings per share is based on the weighted-average number of common shares outstanding. The calculation of diluted earnings per common share reflects all possible outstanding common shares and their effect on income of the BASF employee participation program "Plus."

In 2008 and 2007 there were no dilutive effects. All figures for the number of shares and earnings per share have been adjusted to reflect the two-for-one stock split conducted in the second quarter of 2008.

4 -- REPORTING BY SEGMENT AND REGION

As of January 1, 2008, we restructured our segments on the basis of similar products, production processes and customer industries. In doing so, we are taking account of changes in our portfolio as a result of acquisitions, divestitures and restructuring measures over the past few years. The previous year's figures for the segments and for Other have been adjusted accordingly.

BASF's worldwide business is conducted by operating divisions that are aggregated into six segments for reporting purposes.

The Chemicals segment consists of the Inorganics, Petrochemicals and Intermediates divisions. The Catalysts division has been transferred to the new Functional Solutions segment.

The Plastics segment is composed of the Performance Polymers and Polyurethanes divisions. The Specialty Plastics and Foams business units of the former Styrenics division have been integrated into the Performance Polymers division.

The Performance Products segment comprises the Acrylics & Dispersions, Care Chemicals and Performance Chemicals divisions. The Functional Polymers division has been renamed Acrylics & Dispersions. The activities of the former Fine Chemicals division and the detergents and formulators business from the Performance Chemicals division have been included in the new Care Chemicals division.

In the Functional Solutions segment, which consists of the Catalysts, Construction Chemicals and Coatings divisions, we bundle the majority of our systems solutions and products for the automotive and construction industries.

The Agricultural Products & Nutrition segment has been renamed Agricultural Solutions and its Agricultural Products division has been renamed Crop Protection.

The Oil & Gas segment is composed of the Oil & Gas division with the Exploration & Production and Natural Gas Trading business sectors.

Activities not assigned to a particular division are reported in Other. In particular, they include the styrene (SM), polystyrene (PS), styrene-butadiene-copolymer (SBS) and acrylonitrile butadiene styrene (ABS) businesses, which are managed under the name Styrenics, as well as fertilizer activities. In addition, the sale of feedstock, engineering and other services, rental income and leases are reported in Other. In 2008, Styrenics accounted for €3,082 million of the sales reported under Other.

With our corporate research, which is also reported in Other, we develop cross-divisional growth clusters and secure BASF's long-term competence with regard to technology and methods.

As of January 1, 2008, Group corporate costs are no longer allocated to the segments but reported in Other. Group corporate costs consist of the expenses for steering the BASF Group.

Foreign currencies results reported in Other relate to the results from the hedging of forecasted sales not allocated to the segments; the hedging of cross-segment net positions of monetary assets and liabilities; and the translation of financial indebtedness.

In 2008, hedging and valuation effects were related to negative earnings resulting from hedging for raw material price risks that are not allocated to the segments, as well as income from the reversal of provisions for BASF's option program.

Earnings in the styrenics business were negative due to lower demand and writedowns on sites in Mexico and Korea. Earnings with fertilizers and other business increased, however.

Intersegmental transfers are predominantly conducted on the basis of market prices. The allocation of assets and depreciation to the segments is based on economic control. Assets used by more than one segment are allocated based on the percentage of usage.

Income from operations (EBIT) of Other (million €)

	2008	2007
Corporate research costs	(325)	(323)
Costs of the corporate center	(243)	(237)
Styrenics, fertilizers, other business	(121)	167
Foreign currency results, hedging and other measurement effects	(209)	90
Miscellaneous income and expenses	(32)	(118)
	(930)	(421)

Assets of Other (million €)

	2008	2007
Assets of businesses included under Other	3,081	3,045
Financial assets	3,093	2,786
Deferred tax assets	930	679
Cash and cash equivalents/marketable securities	2,811	818
Defined benefit assets	165	417
Miscellaneous receivables/prepaid expenses	2,512	1,140
	12,592	8,885

The reconciliation Oil & Gas shows the reconciliation of income from operations in the Oil & Gas segment and the contribution of the segment to the net income of the BASF Group.

The miscellaneous earnings relates to income and expenses not included in the income from operations of the segment, the interest result as well as the miscellaneous financial result. The decline in income from operations resulted chiefly from losses on loan commitments denominated in the U.S. dollar and euro at OAO Severneftegazprom due to the depreciation of the Russian Ruble. The increase in the miscellaneous result relates chiefly to results from foreign currency hedging not allocated to the segments that is reported under Other.

Minority interests increased in 2008 compared with the previous year. This resulted chiefly from the increase in the Gazprom's stakes in a German Wintershall subsidiary which holds production and exploration rights to onshore concessions 96 and 97 in Libya and in a natural gas trading company, WINGAS GmbH & Co KG, Kassel, to 50% minus one share.

Reconciliation Oil & Gas (million €)

	2008	2007
Income from operations	3,844	3,031
Income from financial assets	(68)	5
Miscellaneous earnings	121	8
Income before taxes and minority interests	3,897	3,044
Income taxes	2,573	2,121
Thereof income taxes on oil-producing operations non-compensable with German corporate income tax	1,851	1,302
Income before minority interests	1,324	923
Minority interests	373	134
Net income	951	789

Segments

2008 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	10,324	9,675	8,967	9,388	3,409	14,445	5,308	6,096	62,304
Change (%)	10.3	(3.0)	1.2	(1.1)	8.7	37.3	21.6	(7.8)	7.5
Intersegmental transfers	5,503	642	422	147	28	1,235	237	444	8,421
Sales including intersegmental transfers	15,827	10,317	9,389	9,535	3,437	15,680	5,545	6,540	70,725
Income from operations	1,376	530	787	151	705	3,844	3,319	(930)	6,463
Change (%)	(27.7)	(54.8)	15.6	(65.2)	36.6	26.8	33.5	.	(11.7)
Assets	5,455	5,060	6,352	8,693	4,352	8,356	4,740	12,592	50,860
Thereof goodwill	120	119	755	1,898	1,383	381	381	92	4,748
property, plant and equipment	3,313	2,570	2,396	1,562	502	3,638	1,830	1,051	15,032
Debt	1,497	1,044	1,354	2,100	929	3,107	1,487	22,107	32,138
Research and development expenses	125	147	231	186	325	10	10	331	1,355
Additions to property, plant and equipment and intangible assets	528	478	432	234	196	1,651	1,364	115	3,634
Amortization of intangible assets and depreciation of property, plant and equipment	612	432	499	413	200	565	425	378	3,099
Thereof impairments	62	.	38	50	.	.	.	141	291

2007 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	9,358	9,976	8,862	9,491	3,137	10,517	4,365	6,610	57,951
Change (%)	2.2	5.4	4.3	60.7	1.9	(1.6)	(4.2)	13.5	10.2
Intersegmental transfers	4,829	828	361	141	19	1,189	514	336	7,703
Sales including intersegmental transfers	14,187	10,804	9,223	9,632	3,156	11,706	4,879	6,946	65,654
Income from operations	1,903	1,172	681	434	516	3,031	2,486	(421)	7,316
Change (%)	42.3	(0.7)	58.0	28.4	9.3	(7.2)	(6.5)	(54.8)	8.4
Assets	5,971	5,605	6,397	8,730	4,157	7,057	4,037	8,885	46,802
Thereof goodwill	115	114	722	1,914	1,304	64	64	72	4,305
property, plant and equipment	3,220	2,500	2,429	1,530	507	3,125	1,460	904	14,215
Debt	1,804	1,182	1,495	2,193	813	2,624	1,456	16,593	26,704
Research and development expenses	123	142	267	181	328	9	9	330	1,380
Additions to property, plant and equipment and intangible assets	668	510	434	315	83	2,280	2,162	135	4,425
Amortization of intangible assets and depreciation of property, plant and equipment	513	483	462	442	202	561	415	246	2,909
Thereof impairments	.	58	6	90	.	.	.	7	161

Regions
2008 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	36,693	13,796	11,932	9,320	4,359	62,304
Change (%)	13.4	15.3	0.0	(2.7)	6.4	7.5
Share (%)	58.8	22.1	19.2	15.0	7.0	100.0
Location of companies						
Sales	38,652	27,497	11,937	8,664	3,051	62,304
Sales including intersegmental transfers	42,874	30,626	13,050	8,911	3,197	68,032
Income from operations	5,822	4,744	73	254	314	6,463
Assets	32,704	19,950	9,991	5,771	2,394	50,860
Thereof property, plant and equipment	8,778	5,485	3,227	2,477	550	15,032
Additions to property, plant and equipment and intangible assets	2,818	1,249	542	172	102	3,634
Amortization of intangible assets and depreciation of property, plant and equipment	1,801	1,011	690	510	98	3,099
Employees as of December 31	61,889	47,364	15,168	13,734	6,133	96,924

2007 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	32,347	11,967	11,928	9,579	4,097	57,951
Change (%)	9.5	8.2	3.5	18.2	18.5	10.2
Share (%)	55.8	20.7	20.6	16.5	7.1	100.0
Location of companies						
Sales	34,316	24,312	12,007	8,785	2,843	57,951
Sales including intersegmental transfers	41,599	27,278	14,203	11,761	2,969	70,532
Income from operations	5,415	4,226	762	828	311	7,316
Assets	26,799	16,483	11,704	6,185	2,114	46,802
Thereof property, plant and equipment	8,082	5,198	2,984	2,569	580	14,215
Additions to property, plant and equipment and intangible assets	3,513	873	634	184	94	4,425
Amortization of intangible assets and depreciation of property, plant and equipment	1,763	1,004	677	376	93	2,909
Employees as of December 31	61,020	46,890	15,191	13,278	5,686	95,175

5 -- OTHER OPERATING INCOME

Million €	2008	2007
Reversal and adjustment of provisions	209	152
Revenue from miscellaneous revenue-generating activities	178	150
Income from foreign currency and hedging transactions	433	222
Income from the translation of financial statements in foreign currencies	24	27
Gains from disposal of property, plant and equipment and divestitures	70	105
Gains on the reversal of allowances for doubtful trade receivables	30	39
Other	360	358
	1,304	1,053

The **reversal and adjustment of provisions** primarily related to risks arising from shutdown and restructuring costs, employee obligations, risks from sales as well as from various other items as part of the normal course of business. Provisions were reversed or adjusted if the circumstances on the balance sheet date changed.

Revenue from miscellaneous revenue-generating activities primarily represents income from rentals and logistics services.

Income from foreign currency and hedging transactions related to foreign currency transactions, the measurement of receivables and payables in foreign currencies and currency derivatives as well as other hedging transactions with market values.

Income from the translation of financial statements in foreign currencies included gains arising from the use of the temporal method.

In 2008, **gains on the disposal of property, plant and equipment and divestitures** resulted from the sale of the site in Shreveport, Louisiana, and the continuation of the divestiture of the premix business.

Gains in the reversal of allowances for doubtful trade receivables resulted chiefly from the repayment of written down receivables in the Agricultural Solutions segment.

Other gains comprises refunds and settlements; write-ups on property, plant and equipment; gains from precious metal trading and miscellaneous sales as well as a number of other items.

6 -- OTHER OPERATING EXPENSES

Million €	2008	2007
Restructuring measures	147	119
Environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization	147	173
Amortization of intangible assets and depreciation of property, plant and equipment	384	212
Costs from miscellaneous revenue-generating activities	139	126
Expenses from foreign currency and hedging transactions	751	149
Losses from the translation of the financial statements in foreign currencies	50	40
Losses from the disposal of property, plant and equipment and divestitures	27	98
Oil and gas exploration expenses	227	268
Expenses from additions to allowances for doubtful trade receivables	44	66
Other	584	505
	2,500	1,756

Restructuring measures in 2008 related primarily to expenses for shutdowns and restructuring at several sites in Europe, North America and Asia, in particular in the Intermediates and Coatings divisions. In 2007, expenses related chiefly to impairment losses on property, plant and equipment and integration costs.

Amortization of intangible assets and depreciation of property, plant and equipment in 2008 related among other things to impairment losses in the Coatings, Care Chemicals divisions and in the Styrenics business.

Further expenses were related to **demolition and removal measures as well as the preparation of capital expenditure projects** to the extent that they were not subject to mandatory capitalization according to IFRS.

Costs from miscellaneous revenue-generating activities refer to costs related to the items shown as miscellaneous revenue-generating activities.

→ More information can be found in Note 5 on page 180

Expenses from foreign currency and hedging transactions related to foreign currency transactions, the measurement of receivables and payables in foreign currencies, currency derivatives as well as other hedging transactions with market values.

Other expenses were incurred as a result of write off of obsolete inventory in 2008 of €116 million (2007: €91 million). In addition, there were losses resulting from numerous other items.

7 -- FINANCIAL RESULT

Million €	2008	2007
Income from companies accounted for using the equity method	(66)	57
Income from participations in affiliated and associated companies	60	43
Income from the disposal of participations	5	11
Income from profit transfer agreements	7	3
Income from tax allocation to participating interests	2	1
Other income from participations	74	58
Losses from loss transfer agreements	(2)	(23)
Write-down of/losses from the sales of participations	(80)	(8)
Other expenses from participations	(82)	(31)
Interest income from cash and cash equivalents	124	118
Interest and dividend income from securities and loans	50	24
Interest income	174	142
Interest expenses	(601)	(614)
Write-ups/profits from the sale of securities and loans	–	9
Expected income from pension assets and similar assets	677	662
Expected income from plan assets from other long-term employee obligations	27	11
Income from the capitalization of construction interest	43	44
Miscellaneous financial income	25	–
Other financial income	772	726
Write-downs/losses from the disposal of securities and loans	(20)	(13)
Compounding of pension obligations and other similar obligations	(655)	(615)
Expenses from other long-term employee obligations	(48)	(32)
Compounding of other long-term personnel provisions	(35)	(36)
Miscellaneous financial expenses	–	(23)
Other financial expenses	(758)	(719)
Financial result	(487)	(381)

The negative result from companies accounted for using the equity method results primarily from losses on loan commitments in U.S. dollar and euro at OAO Severneftegazprom due to the depreciation of the Russian Ruble.

Interest income and expenses relate to expenses and income from interest-bearing liabilities and financial investments, including dividend income on securities. In addition, these items take into account the ongoing interest expenses and income from interest rate and currency swaps with banks. The interest result increased compared with the previous year primarily due to interest income from loans to finance the natural gas production company in the Yuzhno Russkoye natural gas field. This company is accounted for using the equity method. In addition, the lower interest rate level in the United States led to a decline in interest expenses.

Miscellaneous financial income and miscellaneous financial expenses relate to gains and losses from the translation of individual hedged financing-related receivables and payables and the associated hedging instruments. Furthermore, these items included, among other things, expense and income from the compounding/discounting of long-term liabilities and receivables as required by IFRS.

8 -- INCOME TAXES

Million €	2008	2007
German corporate income tax, solidarity surcharge, German trade taxes	377	341
Foreign income tax	2,781	2,355
Taxes for prior years	(208)	(86)
Current taxes	2,950	2,610
Deferred tax expense (+)/income (-)	(279)	-
Income taxes	2,671	2,610
Thereof income taxes on oil-producing operations	2,206	1,768
Other taxes as well as sales and consumption taxes	269	245
Tax expense	2,940	2,855

Income before taxes and minority interests is broken down into domestic and foreign as follows:

Million €	2008	2007
Germany	1,870	1,759
Foreign oil production branches of German companies	2,389	1,895
Foreign	1,717	3,281
	5,976	6,935

In Germany, a uniform corporate tax rate of 15% (until 2007: 25%) and thereon a solidarity surcharge of 5.5% is levied on all paid out and retained earnings. In addition to corporate income tax, income generated in Germany is subject to a trade tax that varies depending on the municipality in which the company is located. In 2008, the weighted average tax rate amounted to 12.7% (2007: 15.4%). The profits of foreign Group companies are assessed using the tax rates applicable in the respective countries.

Deferred tax assets and liabilities in the Consolidated Financial Statements have to be valued using the tax rates applicable for the period in which the asset or liability is realized or settled.

For German Group companies, deferred taxes were calculated using a uniform 29% rate. The transition to this tax rate as a result of the German Tax Reform 2008 led to non-recurring non-cash income of €229 million in 2007.

For foreign Group companies, deferred taxes were calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 27% in 2008 and 30% in 2007. In 2008, there was €61 million in non-recurring, non-cash income from changes in tax rates, predominantly in the Russian Federation.

Income from deferred taxes of €279 million resulted in particular for tax loss carryforwards.

Income taxes on foreign oil-producing operations in certain regions are compensable up to the level of the German corporate income tax on this foreign taxable income. The non-compensable amount is shown separately in the following table. In 2008, non-compensable foreign income taxes for oil production amounted to €1,851 million. This is based on a corporate income tax rate of 15%.

Other taxes include real estate taxes and other comparable taxes in the amount of €80 million in 2008 and €77 million in 2007; they are allocated to the appropriate functional costs.

Changes in valuation allowances on deferred tax assets for tax loss carryforwards resulted in charges of €34 million in 2008 and €23 million in 2007.

Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2008		2007	
	Million €	%	Million €	%
Expected German corporate income tax (15%; 2007: 25%)	896	15.0	1,734	25.0
Solidarity surcharge	9	0.1	9	0.1
German trade income tax	202	3.4	107	1.5
Foreign tax-rate differential	200	3.3	158	2.3
Tax exempt income	(142)	(2.4)	(338)	(4.9)
Non-deductible expenses	135	2.3	74	1.1
Income after taxes of companies accounted for using the equity method	10	0.2	(14)	(0.2)
Taxes for prior years	(208)	(3.5)	(86)	(1.2)
Income taxes on oil-producing operations non-compensable with German corporate income tax	1,851	31.0	1,302	18.8
Deferred tax liabilities for planned dividend distributions of Group companies	(50)	(0.8)	31	0.4
Adjustment to deferred tax liabilities due to changes in tax rates	(61) ¹	(1.0)	(229) ²	(3.3)
Other	(171)	(2.9)	(140)	(2.0)
Income taxes/effective tax rates	2,671	44.7	2,610	37.6

¹ Non-cash income from the reduction in corporate income taxes, primarily in the Russian Federation

² Non-cash income from the German Tax Reform 2008

Deferred tax assets and liabilities (million €)

	Deferred tax assets		Deferred tax liabilities	
	2008	2007	2008	2007
Intangible assets	37	27	1,448	1,374
Property, plant and equipment	191	146	1,534	1,358
Financial assets	18	9	66	113
Inventories and accounts receivable	276	163	776	271
Provisions for pensions	698	484	258	102
Other provisions and liabilities	541	661	110	54
Tax loss carryforwards	928	637	-	-
Other	499	62	81	216
Netting	(2,106)	(1,428)	(2,106)	(1,428)
Valuation allowances for deferred tax assets	(152)	(82)	-	-
Thereof for tax loss carryforwards	(112)	(78)	-	-
Total	930	679	2,167	2,060
Thereof short term	305	445	247	260

Deferred taxes result primarily from temporary differences between tax balances and the valuation of assets and liabilities according to IFRS as well as from tax loss carryforwards. The revaluation of all the assets and liabilities associated with acquisitions according to IFRS 3 has resulted in significant deviations between fair values and the values in the tax accounts. This has primarily led to deferred tax liabilities.

Deferred tax assets were offset against deferred tax liabilities of the same maturity if they were related to the same taxation authority.

Deferred tax liabilities for undistributed earnings of subsidiaries in the amount of €6,305 million in 2008 and €4,986 million in 2007 were not recognized, as they are either not subject to taxation on pay out or they are expected to be reinvested for indefinite periods of time.

The regional distribution of tax loss carryforwards is as follows:

Tax loss carryforwards (million €)

	2008	2007
Germany	8	34
Foreign	2,507	1,583
	2,515	1,617

German tax losses may be carried forward indefinitely. Foreign tax loss carryforwards exist primarily in North America. These expire starting in 2022. In 2008, tax loss carryforwards increased. Loss carryforwards in North America were reduced in 2007 and 2006 as a result of high earnings. For tax loss carryforwards of €361 million in 2008 and €196 million in 2007, valuation allowances were recorded.

Tax obligations are comprised of both tax liabilities and short-term tax provisions. Tax liabilities primarily concern the assessed income tax and other taxes. Tax provisions concern estimated income taxes not yet assessed for the current and previous years.

Tax liabilities (million €)

	2008	2007
Tax provisions	257	347
Tax liabilities	603	534
	860	881

9 -- MINORITY INTERESTS

Million €	2008	2007
Minority interests in profits	434	275
Minority interests in losses	41	15
	393	260

Minority interest in profits resulted chiefly from Group companies engaged in natural gas trading and from Gazprom's stake in a German Wintershall subsidiary which holds production and exploration rights in Libya.

Minority interests in losses related primarily to BASF Plant Science GmbH, Ludwigshafen, Germany.

→ More information on minority interests in consolidated companies can be found in Note 19 on page 200

10 -- OTHER INFORMATION

Additional information related to the Consolidated Statements of Cash Flows

Cash provided by operating activities includes the following cash flows:

Million €	2008	2007
Income tax payments	3,322	2,432
Interest payments	466	502
Dividends received	68	57

Information related to subsidiaries

German subsidiaries which are either joint-stock companies or partnerships make use of the exemptions according to Section 264 (3) and Section 264b of the German Commercial Code (HGB). The individual companies are listed in the List of Shares Held.

List of Shares Held

A list of companies included in the Consolidated Financial Statements and a list of all companies in which BASF SE has a participation as required by Section 313 (2) (in connection with Section 313 (4)) of the German Commercial Code is provided separately in the List of Shares Held. The List of Shares Held together with the Consolidated Financial Statements have been submitted to the electronic Federal Gazette as required by Section 325 of the German Commercial Code and are available from BASF SE. It is also published on the internet at:

→ basf.com/cg_reports

Statement of compliance according to Section 161 of the German Stock Corporation Act

The annual statement of compliance with the German Corporate Governance Code according to Section 161 of the German Stock Corporation Act was signed by the Board of Executive Directors and the Supervisory Board of BASF SE on December 3, 2008, and is published on the internet at:

→ basf.com/governance_e

Personnel costs and number of employees

On December 31, 2008, the number of employees was 96,924 and on December 31, 2007, 95,175.

The number of employees in proportionally-consolidated companies is included in full in the table below. Considered pro-rata, the average number of employees in the BASF Group was 95,885 in 2008 and 94,893 in 2007.

Personnel costs decreased by 4.3% from €6,648 million in 2007 to €6,364 million in 2008 due to the reversal of provisions for the BASF option program that resulted from decreased obligations under these options. Furthermore, there were lower expenses for variable compensation as the return on assets was below the previous year's level.

Personnel costs (million €)

	2008	2007
Wages and salaries	5,158	5,379
Social security contributions and expenses for pensions and assistance	1,206	1,269
Thereof for pension benefits	310	359
	6,364	6,648

Average number of employees

	Consolidated companies		Proportionally consolidated companies		BASF Group	
	2008	2007	2008	2007	2008	2007
Europe	61,042	60,754	440	428	61,482	61,182
Thereof Germany	46,902	46,738	22	24	46,924	46,762
North America	14,992	15,088	452	454	15,444	15,542
Asia Pacific	12,446	12,080	1,906	1,814	14,352	13,894
South America, Africa, Middle East	6,006	5,623	-	-	6,006	5,623
BASF Group	94,486	93,545	2,798	2,696	97,284	96,241
Thereof with trainee contracts	1,907	1,936	2	3	1,909	1,939
employees with limited-term contracts	2,337	2,268	31	37	2,368	2,305

11 -- INTANGIBLE ASSETS

Development 2008 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Internally generated intangible assets	Other rights and values ¹	Goodwill	Total
Acquisition costs							
Balance as of January 1, 2008	3,472	1,165	1,651	135	789	4,305	11,517
Changes in scope of consolidation	(1)	.	–	.	1	5	5
Additions	29	327	19	17	53	380	825
Disposals	(17)	(9)	(47)	(22)	(25)	(16)	(136)
Transfers	2	23	(3)	1	177	34	234
Exchange differences	(119)	12	12	2	16	40	(37)
Balance as of December 31, 2008	3,366	1,518	1,632	133	1,011	4,748	12,408
Amortization							
Balance as of January 1, 2008	459	417	545	80	457	–	1,958
Changes in scope of consolidation	–	.
Additions	214	82	139	22	145	16	618
Disposals	(17)	(7)	(48)	(21)	(24)	(16)	(133)
Transfers	.	20	.	.	21	–	41
Exchange differences	12	7	5	1	10	–	35
Balance as of December 31, 2008	668	519	641	82	609	–	2,519
Net carrying amount as of December 31, 2008	2,698	999	991	51	402	4,748	9,889

¹ Including licenses on such rights and values

Additions of €303 million for exploration licenses for the British and Norwegian North Sea resulted from the acquisition of Revus Energy ASA and its preliminary purchase price allocation in 2008.

In 2008, impairments of €37 were taken. Disposals of goodwill related, among other things, to impairment charges of €9 million as part of the restructuring of the Styrenics business. Impairments are reported under other operating expenses.

Concessions for oil and gas production with a net carrying amount of €362 million in 2008 and €62 million in 2007 convey the right to produce oil and gas at certain sites. To a limited extent, these rights entail obligations to deliver a portion of the produced amount to local companies. At the end of the term of a concession, the rights are returned.

The amounts recorded under transfers resulted primarily from the reclassification of assets held for sale as intangible assets.

→ More information on the reclassification of the disposal group can be found in Note 2 from page 170 onward

The valuation adjustments of emission rights as of the balance sheet date are included in the line item transfers in the column 'Other rights and values'.

There were no material write-ups in 2008.

Development 2007 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Internally generated intangible assets	Other rights and values ¹	Goodwill	Total
Acquisition costs							
Balance as of January 1, 2007	1,835	1,212	1,684	215	964	4,713	10,623
Changes in scope of consolidation	6	–	2	–	2	6	16
Additions	1,773	6	6	20	45	11	1,861
Disposals	(10)	(2)	(28)	(95)	(68)	(91)	(294)
Transfers	1	(25)	34	–	(108)	31	(67)
Exchange differences	(133)	(26)	(47)	(5)	(46)	(365)	(622)
Balance as of December 31, 2007	3,472	1,165	1,651	135	789	4,305	11,517
Amortization							
Balance as of January 1, 2007	297	377	427	150	451	–	1,702
Changes in scope of consolidation	–	–	1	–	1	–	2
Additions	178	83	143	26	120	65	615
Disposals	(7)	(2)	(28)	(94)	(62)	(65)	(258)
Transfers	7	(28)	7	–	(31)	–	(45)
Exchange differences	(16)	(13)	(5)	(2)	(22)	–	(58)
Balance as of December 31, 2007	459	417	545	80	457	–	1,958
Net carrying amount as of December 31, 2007	3,013	748	1,106	55	332	4,305	9,559

¹ Including licenses on such rights and values

Additions in 2007 resulted primarily from the asset swap with Gazprom and the associated intangible assets from the marketing contract for the natural gas from the Yuzhno Russkoye gas field.

Impairment losses of €84 million in 2007 related to goodwill and various intangible assets. These were reported under other operating expenses.

There were no material write-ups.

12 -- PROPERTY, PLANT AND EQUIPMENT

Development 2008 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2008	7,212	34,277	2,694	1,574	45,757
Changes in scope of consolidation	4	(8)	4	21	21
Additions	58	986	114	1,651	2,809
Disposals	(106)	(858)	(95)	(60)	(1,119)
Transfers	208	2,228	73	(1,318)	1,191
Exchange differences	94	354	27	13	488
Balance as of December 31, 2008	7,470	36,979	2,817	1,881	49,147
Accumulated valuation adjustments					
Balance as of January 1, 2008	4,213	25,136	2,177	16	31,542
Changes in scope of consolidation	1	(8)	2	–	(5)
Additions	255	2,064	161	1	2,481
Disposals	(78)	(808)	(88)	(11)	(985)
Transfers	1	787	51	.	839
Exchange differences	35	186	22	–	243
Balance as of December 31, 2008	4,427	27,357	2,325	6	34,115
Net carrying amount as of December 31, 2008	3,043	9,622	492	1,875	15,032

Additions to property, plant and equipment in 2008 arose from a number of investments. The material ones included: the expansion of the synthesis gas plants and the construction of a plant to produce cyclododecanon at the Ludwigshafen site; the construction of a plant to produce resins in Wyandotte, Michigan, the expansion of a polyol plant in Geismar, Louisiana, the construction of the HPPO plant and the plants for acrylic acid and superabsorbents in Antwerp, Belgium; and the construction of the Nord Stream gas pipeline. Furthermore, the acquisition of Revus Energy ASA and its purchase price allocation resulted in additions to property, plant and equipment of €350 million. The amounts recorded under transfers resulted from the reclassification of the property, plant and equipment of the Styrenics business from assets held for sale.

→ More information on the reclassification of the disposal group can be found in Note 2 from page 170 onward

In 2008, impairments of €254 million were taken. Impairment charges of €112 million were recognized in connection with the restructuring of the Styrenics business, primarily at the sites in Mexico and South Korea. Further material impairments related to the butan diol plant at our site in Kuantan, Malaysia, and the continued restructuring of the coatings business in North America, Asia and Europe.

Development 2007 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2007	7,444	34,827	2,762	1,598	46,631
Changes in scope of consolidation	6	8	2	2	18
Additions	79	962	114	1,409	2,564
Disposals	(115)	(703)	(156)	(32)	(1,006)
Transfers	(11)	144	31	(1,351)	(1,187)
Exchange differences	(191)	(960)	(60)	(51)	(1,263)
Balance as of December 31, 2007	7,212	34,277	2,694	1,574	45,757
Accumulated valuation adjustments					
Balance as of January 1, 2007	4,222	25,268	2,237	3	31,729
Changes in scope of consolidation	3	2	2	-	6
Additions	208	1,900	170	16	2,294
Disposals	(74)	(673)	(143)	.	(890)
Transfers	(58)	(761)	(38)	(3)	(860)
Exchange differences	(87)	(600)	(50)	-	(737)
Balance as of December 31, 2007	4,213	25,136	2,177	16	31,542
Net carrying amount as of December 31, 2007	2,999	9,141	517	1,558	14,215

In 2007, additions related primarily to expansion projects at our Verbund site in Antwerp, the construction of a superabsorbents plant in Freeport, Texas, and investments associated with field development of the Achimov formation in the Urengoy gas and condensate field.

Impairment losses of €78 million in 2007 related primarily to the restructuring at two European sites and the North American coatings business. They were reported as other operating expenses.

The amounts recorded under transfers resulted from the classification of property, plant and equipment to 'assets of disposal groups'.

→ Further information on disposal groups is found in Note 2 from page 170 onward

In 2007, write-ups were made on the vitamin B2 plant at the site in Gunsan, Korea, and on the cushion gas in the Rehden natural gas storage facility.

13 -- INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER FINANCIAL ASSETS

Development 2008 (million €)

	Investments accounted for using the equity method	Investments in affiliated companies	Investments in associated companies	Shares in other participations	Long-term securities
Acquisition cost					
Balance as of January 1, 2008	890	327	68	904	29
Changes in scope of consolidation	(13)	(10)	.	.	.
Additions	450	58	22	350	2
Disposals	(96)	(51)	(9)	(6)	(2)
Transfers/Changes in market value	(81)	9	2	(9)	(2)
Exchange differences	46	2	1	1	2
Balance as of December 31, 2008	1,196	335	84	1,240	29
Accumulated valuation adjustments					
Balance as of January 1, 2008	56	92	7	31	1
Changes in scope of consolidation	–	(2)	–	.	–
Additions	50	14	2	2	1
Disposals	(56)	.	(6)	.	.
Transfers	–	–	.	–	.
Exchange differences	–	.	.	–	–
Balance as of December 31, 2008	50	104	3	33	2
Net carrying amount as of December 31, 2008	1,146	231	81	1,207	27

Development 2008 (million €)

	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans	Other financial assets	Investments accounted for using the equity method and other financial assets Total Acquisition cost
Acquisition cost					
Balance as of January 1, 2008	135	694	54	2,211	3,101
Changes in scope of consolidation	–	–	.	(10)	(23)
Additions	6	31	4	473	923
Disposals	(3)	(374)	(5)	(450)	(546)
Transfers/Changes in market value	.	.	(2)	(2)	(83)
Exchange differences	.	3	(4)	5	51
Balance as of December 31, 2008	138	354	47	2,227	3,423
Accumulated valuation adjustments					
Balance as of January 1, 2008	121	3	4	259	315
Changes in scope of consolidation	–	–	.	(2)	(2)
Additions	5	5	2	31	81
Disposals	.	–	.	(6)	(62)
Transfers	–	.	(2)	(2)	(2)
Exchange differences	–	–	–	.	.
Balance as of December 31, 2008	126	8	4	280	330
Net carrying amount as of December 31, 2008	12	346	43	1,947	3,093

Development 2007 (million €)

	Investments accounted for using the equity method	Investments in affiliated companies	Investments in associated companies	Shares in other participations	Long-term securities
Acquisition cost					
Balance as of January 1, 2007	706	361	62	563	43
Changes in scope of consolidation	(5)	6	-	-	-
Additions	174	3	11	5	.
Disposals	(1)	(38)	(1)	(2)	(11)
Transfers/Changes in market value	52	.	(2)	340	.
Exchange differences	(36)	(5)	(2)	(1)	(3)
Balance as of December 31, 2007	890	327	68	904	29
Accumulated valuation adjustments					
Balance as of January 1, 2007	56	89	9	31	1
Changes in scope of consolidation	-	(1)	-	-	-
Additions	-	6	1	1	.
Disposals	-	(5)	.	(1)	-
Transfers	-	3	(3)	.	-
Exchange differences	-	.	-	-	-
Balance as of December 31, 2007	56	92	7	31	1
Net carrying amount as of December 31, 2007	834	235	61	873	28

Development 2007 (million €)

	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans	Other financial assets	Investments accounted for using the equity method and other financial assets Total Acquisition cost
Acquisition cost					
Balance as of January 1, 2007	132	202	59	1,421	2,127
Changes in scope of consolidation	.	-	-	6	1
Additions	11	518	15	562	737
Disposals	(9)	(16)	(9)	(85)	(86)
Transfers/Changes in market value	1	(1)	(8)	330	381
Exchange differences	.	(9)	(2)	(23)	(58)
Balance as of December 31, 2007	135	694	54	2,211	3,101
Accumulated valuation adjustments					
Balance as of January 1, 2007	92	4	3	231	286
Changes in scope of consolidation	-	-	-	(1)	(1)
Additions	28	1	1	38	38
Disposals	-	(2)	-	(8)	(8)
Transfers	-	-	.	.	.
Exchange differences	-	.	-	(1)	(1)
Balance as of December 31, 2007	121	3	4	259	315
Net carrying amount as of December 31, 2007	14	691	50	1,952	2,786

In 2008, the additions to investments accounted for using the equity method resulted primarily from the capital injections in Nord Stream AG and OAO Severneftegazprom. In 2007, the additions to investments accounted for using the equity method were primarily due to the purchase of a stake in OAO Severneftegazprom and the increase in the share capital of Nord Stream AG.

The shares in other participations and long-term securities are recognized at fair value. Additions in 2008 resulted from the acquisition of the 15.2% stake in Ciba Holding AG for €344 million. The amounts recorded under transfers resulted primarily from the measurement at fair value of our stakes in K+S AG and Ciba Holding AG.

Investments contain impairments of €68 million in 2008, chiefly as a result of our 42% stake in N.E. Chemcat Corporation. Due to impairments of other participations and long-term securities, impairment losses of €8 million

were charged to income in 2007. The disposal of other investments resulted in a loss of €7 million in 2008 and a gain of €11 million in 2007.

The disposals of loans to associated companies and participating interests resulted from the partial repayment of the loan to OAO Severneftegazprom granted in 2007. This company is accounted for using the equity method. In 2007, loans to associated companies and participating interests related primarily to BASF's share of the financing of OAO Severneftegazprom.

The market values of available-for-sale shares on the balance sheet date are summarized below:

Market values of available for sale securities (million €)

	2008			2007		
	Original acquisition cost	Book/market value	Recognized in other comprehensive income	Original acquisition cost	Book/market value	Recognized in other comprehensive income
Shares in funds	29	25	(2)	29	26	(2)
Shares in other participations and securities	561	1,209	652	209	874	673
	590	1,234	650	238	901	671

14 -- INVENTORIES

Million €	2008	2007
Raw materials and factory supplies	1,769	1,800
Work-in-process, finished goods and merchandise	4,924	4,708
Advance payments and services-in-process	70	70
	6,763	6,578

Work-in-process, finished goods and merchandise are combined into one item due to the production conditions in the chemical industry. Services-in-process relate primarily to inventory not invoiced at the balance sheet date.

Price declines in the second half of 2008 led to an increase in the allowances for raw materials, intermediates and end products. Overall, impairment losses on inventory amounted to €159 million in 2008 and €16 million in 2007. Of the total inventory, €1,343 million in 2008 and €1,444 million in 2007 was valued at net realizable value.

Reversals of impairment losses are made if the reasons for the impairment no longer apply. Reversals amounted to €5 million in 2008 and €4 million in 2007.

Inventories were valued using the weighted-average cost method.

15 -- RECEIVABLES AND MISCELLANEOUS ASSETS

Other receivables and miscellaneous assets (million €)

	2008		2007	
		Thereof short-term		Thereof short-term
Receivables from affiliated companies	326	324	284	284
Prepaid expenses	217	195	197	167
Defined benefit assets	165	-	417	-
Receivables from associated companies and other participating interests	215	190	196	191
Tax refund claims	648	536	488	419
Loans and interest receivables	90	90	3	3
Derivatives with positive fair values	1,192	1,172	233	229
Employee receivables	25	16	43	34
Rents and deposits	58	28	51	24
Insurance claims	24	22	25	25
Receivables from joint venture partners	28	28	87	70
Precious metal trading positions	540	540	601	601
Other	1,062	807	367	290
	4,590	3,948	2,992	2,337

Prepaid expenses include prepayments for operating expenses of €31 million in 2008 and €14 million in 2007 as well as prepayments for insurance premiums of €28 million in 2008 and €25 million in 2007.

Precious metal trading positions comprise above all long positions in precious metals, which are largely hedged through sales or derivatives. Unhedged precious metal positions are also included in this item. On the balance sheet date, precious metal trading positions contained derivatives with a positive fair value of €188 million in 2008 (2007: €16 million). Forward contracts made up the bulk of these.

On December 31, 2008, market values of derivatives concluded to hedge currency fluctuations and rising raw material prices were higher than the previous year's level. On the other hand, there were derivatives with negative fair values contained in other liabilities. Margin calls for publicly-traded and over the counter commodity derivatives amounting to €486 million and prepayments for precious metal trading transactions are contained in Other.

The prepaid expenses amounted to €5 million in 2008 and €3 million in 2007.

Valuation allowances for doubtful receivables (million €)

	Balance as of January 1, 2008	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2008
Accounts receivable, trade	364	71	74	15	70	306
Other receivables	31	1	3	-	4	25
	395	72	77	15	74	331

Valuation allowances for doubtful receivables (million €)

	Balance as of January 1, 2007	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2007
Accounts receivable, trade	353	58	69	57	35	364
Other receivables	43	8	14	2	8	31
	396	66	83	59	43	395

Reversals affecting income were due primarily to the reversal of allowances for doubtful receivables resulting from the repayment of written down receivables in the Agricultural Solutions segment.

A significant portion of receivables is covered by credit insurance.

The reversals not affecting income related primarily to changes in the scope of consolidation, translation adjustments and write-offs of uncollectible receivables.

Even in the current economic conditions, we did not note any material changes in the credit quality of our receivables. In 2008, after being individually assessed for impairment, valuation allowances of €58 million were established for trade accounts receivable (reversals €68 million) and

€1 million for miscellaneous receivables (reversals €3 million). In 2007, after being individually assessed for impairment, valuation allowances of €51 million were established for trade accounts receivable (reversals €37 million) and €8 million for miscellaneous receivables (reversals €14 million). Receivables did not need to be re-negotiated to any major extent in 2007 and 2008 as contractual conditions did not change.

Overdue trade accounts receivables which have not been individually assessed for impairment, but which were included in credit insurance policies, amounted to €378 million on December 31, 2008 (€659 million on December 31, 2007).

Contingent assets amounted to €216 million in 2008.

Aged list of trade accounts receivable (million €)

	2008	2007
Not yet due	6,807	7,658
Less than 30 days	615	593
Between 30 and 89 days	215	176
More than 90 days	115	134
	7,752	8,561

Aged list of other receivables (million €)

	2008	2007
Not yet due	1,538	790
Less than 30 days	188	209
Between 30 and 89 days	80	8
More than 90 days	21	49
	1,827	1,056

16 -- MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS

Cash and cash equivalents of €2,776 million in 2008 and €767 million in 2007 consisted primarily of cash on hand and bank balances.

In addition, on the balance sheet date marketable securities of €35 million in 2008 (2007: €51 million) were held.

Marketable short-term securities (million €)

	2008		2007	
	Original acquisition cost	Book/market value	Original acquisition cost	Book/market value
Fixed-term, interest-bearing certificates	5	5	15	16
Shares	27	29	36	33
Other securities	1	1	2	2
	33	35	53	51

The sale of marketable securities in 2008 resulted in proceeds of €13 million and a profit of €0.1 million. In 2007,

the sale of marketable securities resulted in proceeds of €28 million and a profit of €6 million.

Maturities of fixed-term securities (million €)

	2008		2007	
	Original acquisition cost	Book/market value	Original acquisition cost	Book/market value
Less than 1 year	1	1	7	7
Between 1 and 5 years	-	-	3	4
More than 5 years	5	5	5	5
	6	6	15	16

17 -- CAPITAL AND RESERVES

On April 24, 2008, the Annual Meeting of BASF resolved a two-for-one stock split. Shareholders received one additional share for each BASF share held at no additional cost. The adjustment of the securities deposit accounts and the stock exchange listing took place on June 27, 2008. All shares are qualifying for 2008. BASF's shares are no-par-value shares. All figures have been adjusted accordingly.

In 2008, a total of 37,891,306 shares were repurchased for cancellation. Of these 4,649,873 shares had not been cancelled as of December 31, 2008, but were deducted from capital. A total of 57,841,433 shares were cancelled in 2008. Thereof were included 24,600,000 shares that were acquired for the purpose of cancellation in 2007. The subscribed capital of BASF was reduced by the resulting attributable amount of €74 million (57,841,433 shares).

Subscribed capital (million €)

	Number of shares	Subscribed capital
Outstanding shares as of December 31, 2007	490,485,000	1,256
Shares cancelled until June 27, 2008	(17,470,000)	(45)
Outstanding shares before the stock split	473,015,000	1,211
Issuance of new shares as part of the stock split	473,015,000	–
Outstanding shares as of June 27, 2008	946,030,000	1,211
Cancelled shares until December 31, 2008	(22,901,433)	(29)
Outstanding shares as of December 31, 2008	923,128,567	1,182
Repurchased shares intended to be cancelled	(4,649,873)	(6)
Outstanding shares as disclosed in the financial statements	918,478,694	1,176

Share buyback/Own shares

The Board of Executive Directors received approval at the Annual Meeting on April 24, 2008, to buy back BASF shares to a maximum amount of 10% of subscribed capital by October 23, 2009. The shares shall be purchased on the stock exchange or through a public purchase offer open to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the highest market price on the buying day and may not be more than 25% lower than that highest price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 10% higher than the highest market price on the third trading day prior to the announcement of the public purchase offer. This authorization supersedes the validity of the prior authorization to repurchase BASF shares granted by the Annual Meeting on April 26, 2007.

The Board of Executive Directors is authorized to cancel the repurchased shares without the approval of a further resolution at an Annual Meeting.

A sale of treasury shares is only authorized after a corresponding resolution at the Annual Meeting, unless, with the approval of the Supervisory Board, the shares are used to acquire companies, parts of companies or participations in companies in return for shares.

In 2008, a total of 37,891,306 shares, or 3.86% of the issued shares, were acquired under the respective approvals. The average purchase price was €42.70 per share. As of the balance sheet date, 4,649,873 shares of BASF stock were held by BASF. They were purchased for cancellation and are deducted from subscribed capital.

BASF spent a total of €1,618 million on the share buy-back program in 2008. €48 million thereof was expensed through the reduction of subscribed capital and €1,570 million through the reduction of other retained earnings. Retained earnings were also reduced by €74 million due to the reclassification of computed nominal value of the own shares cancelled in 2008 to capital surplus. Of this amount, €31 million related to shares purchased for cancellation in the previous year.

In 2007, 42,990,000 shares, or 4.29% of the issued shares, were acquired. The average purchase price was €44.18 per share.

Conditional capital

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

Authorized capital

At the Annual Meeting of April 29, 2004, shareholders authorized the Board of Executive Directors to increase subscribed capital by issuing new shares in an amount of up to €500 million against cash or contribution in kind with the approval of the Supervisory Board through May 1, 2009. The Board of Executive Directors is empowered to decide on the exclusion of shareholders' subscription rights for these new shares.

Capital surplus

Capital surplus includes share premiums from the issuance of shares, the fair value of options and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for the issue of BASF shares at par value.

Capital structure management

The goal of capital structure management is to maintain the financial flexibility needed to continually develop our business portfolio and take advantage of strategic opportunities. The objectives of our financing policy are to ensure liquidity, limit financial risks and optimize capital costs by means of an appropriate capital structure. The capital structure is orientated to the needs of the operational business and the company's strategic direction.

Capital structure management at BASF is in line with the definition of stockholders' equity. We plan and control the capital structure of BASF using selected financial ratios, within the framework of our financial management. The stockholders' equity as reported on the balance sheet amounted to €18,722 million as of December 31, 2008 (December 31, 2007: €20,098 million). The equity ratio amounted to 36.8% on December 31, 2008 (December 31, 2007: 42.9%).

18 -- RETAINED EARNINGS AND OTHER COMPREHENSIVE INCOME

Million €	2008	2007
Legal reserves	420	354
Other retained earnings	12,830	14,201
	13,250	14,556

Changes in the scope of consolidation led to no changes in the legal reserves in 2008. In 2007, there was an increase of €3 million. Transfers from other retained earnings increased legal reserves by €66 million in 2008 and €40 million in 2007.

The acquisition of stakes in companies which BASF controls are treated as transactions between shareholders. In 2008, minority interests were acquired in BASF India Ltd., Mumbai, India, BASF Construction Chemicals Central Asia LLP, Almati, Kazakhstan, and OOO BASF Stroitelnye Sistemy, Moscow, the Russian Federation. In addition, a 40% stake in Svalöf Weibull AB, Svalöv, Sweden (which had been accounted for using the equity method), was swapped with Svenska Lantmännen for the 15% stake in BASF Plant Science GmbH, Ludwigshafen. The amount resulting from the difference between the acquisition price/value of the shares given and the proportionate value of the net assets received of €105 million was netted against retained earnings.

In 2007, the effect of applying the fair value option to the asset swap with Gazprom resulted in an excess of €634 million which was recognized in retained earnings.

The offsetting of actuarial gains and losses resulted in a decrease in retained earnings of €637 million in 2008 and €92 million in 2007.

Other comprehensive income

According to IFRS, certain expenses and income have been recorded in 'other comprehensive income'. This includes translation adjustments, the valuation of securities at fair value, changes in the fair value of derivatives held to hedge future cash flows and effects from the revaluation of assets and liabilities on takeover. In 2007, there was an effect from the revaluation following the purchase of the remaining 50% stake in BASF GE Schwarzheide GmbH & Co. KG of €12 million.

Translation adjustments

The translation adjustments due to the use of the current rate method are shown under currency translations adjustments as a component of other comprehensive income in equity (translation adjustments) and are recognized in income only upon the disposal of a company.

Valuation of securities at fair value

Changes in value of available-for-sale securities are accounted for in other comprehensive income, without impacting the income statement, until the securities are disposed of. Upon disposal, the changes accumulated in other comprehensive income are recognized in income.

19 -- MINORITY INTERESTS

Group company	Partner	2008		2007	
		Equity stake (%)	Million €	Equity stake (%)	Million €
WINGAS GmbH & Co. KG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	362	49.98	269
Wintershall AG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.00	177	49.00	152
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochemical Corp. Ltd., Nanjing, China	40.00	41	40.00	44
BASF India Ltd., Mumbai, India	Shares are publicly traded	28.82	25	47.31	32
BASF PETRONAS Chemicals Sdn. Bhd., Subang Jaya, Malaysia	PETRONAS (Petroleum Nasional Bhd.), Kuala Lumpur, Malaysia	40.00	145	40.00	152
BASF Sonatrach PropanChem S.A., Tarragona, Spain	SONATRACH, Algier, Algeria	49.00	60	49.00	57
BASF Fina Petrochemicals L.P., Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.00	161	40.00	147
Shanghai BASF Polyurethane Company, Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China, and Sinopec Shanghai Gao Qiao Petrochemical Corporation, Shanghai, China	30.00	90	30.00	64
Other			90		54
			1,151		971

20 -- PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

In addition to state pension plans, most employees are entitled to Company pension benefits from either defined contribution or defined benefit plans. Benefits generally depend on years of service, contributions or compensation, and take into consideration the legal framework of labor, tax and social security laws of the countries where companies are located. To control the risks of changing market conditions, as well as increasing life-expectancies, over the last few years new employees have been increasingly offered defined contribution plans.

For BASF SE and other German subsidiaries, a basic level of benefits is provided by the legally independent funded plan, BASF Pensionskasse VVaG, which is financed by contributions of employees and the Company and the return on its assets. BASF SE will ensure the necessary contributions to adequately finance the benefits promised by BASF Pensionskasse VVaG. In mid-2004, the defined benefit plan of BASF Pensionskasse VVaG was closed for new hired

employees and a new defined contribution plan was introduced. Additional occupational pension commitments at German Group companies are financed almost exclusively via pension provisions.

In the case of non-German subsidiaries, pension benefits are covered in some cases by pension provisions, but mainly by external insurance companies or pension funds.

The measurement date for the pension plans is set as December 31. The most recent actuarial mortality tables are used.

The valuations using the projected unit credit method per IAS 19 were carried out under the following assumptions:

Assumptions used to determine the defined benefit obligation as of December 31
(weighted average in %)

	Germany		Foreign	
	2008	2007	2008	2007
Discount rate	6.00	5.25	5.84	5.82
Projected increase of wages and salaries	2.75	2.75	4.37	4.50
Projected pension increase	2.00	2.00	0.57	0.68

Assumptions used to determine expenses for pension plans
(weighted average in %)

	Germany		Foreign	
	2008	2007	2008	2007
Discount rate	5.25	4.50	5.82	5.31
Projected increase of wages and salaries	2.75	2.50	4.50	4.46
Projected pension increase	2.00	1.75	0.68	0.56
Expected return on plan assets	5.18	4.93	7.20	7.35

The assumptions used to ascertain the defined benefit obligation as of December 31, are used in the following year to determine the expenses for pension plans.

Similar obligations refer to commitments by BASF North American Group companies to provide for the costs of medical and life insurance benefits for employees and eligible dependents after retirement. They are based upon an actuarial valuation, considering the future cost trend and a discount rate of 6.0% in 2008 (2007: 6.25%).

The assumptions regarding the overall expected long-term rate of return are based on forecasts of expected individual asset class returns and the desired portfolio structure. The forecasts are based on long-term historical average returns and take into consideration the current yield level and the inflation trend. In 2008, the discount rate used in this calculation was adjusted to account for developments in the capital markets.

The target asset allocation has been defined by using asset liability studies and is reviewed regularly. Accordingly, plan assets are aligned with long-term pension liabilities, taking into consideration investment risks and adherence to government regulations. The existing portfolio structure is oriented towards the target asset allocation. In addition, current market views are taken into consideration. In order to mitigate risks and maximize returns, a widely spread global portfolio of individual asset classes is held.

Portfolio structure of plan assets (%)

	Target allocation	Share of plan assets	
	2009	2008	2007
Shares	29	22	30
Bonds	60	66	60
Property	4	4	3
Other	7	8	7
Total	100	100	100

Development of defined benefit obligation (million €)

	2008	2007
Defined benefit obligation as of January 1	11,914	12,693
Service cost	243	270
Interest cost	630	588
Benefits paid	(637)	(660)
Participants' contributions	40	41
Actuarial gains	(874)	(722)
Settlements and other plan changes	42	.
Exchange differences	12	(296)
Defined benefit obligation as of December 31	11,370	11,914

Development of plan assets (million €)

	2008	2007
Plan assets as of January 1	12,012	12,079
Expected return on plan assets	675	660
Actuarial losses	(2,159)	(119)
Employer contributions	119	131
Participants' contributions	40	41
Benefits paid	(443)	(516)
Other changes	58	6
Exchange differences	11	(270)
Plan assets as of December 31	10,313	12,012

On December 31, 2008, plan assets contained securities issued by BASF Group companies with a market value of €10 million (December 31, 2007: €16 million). The market value of the properties of legally independent pension funds rented to BASF Group companies amounted to €51 million both on December 31, 2008 and 2007.

No material transactions took place between the legally independent pension funds and BASF Group companies in 2008.

Reconciliation of funded status to provisions for pensions and similar obligations (million €)

	2008	2007
Plan assets as of December 31	10,313	12,012
Less defined benefit obligation as of December 31	11,370	11,914
Funded status of pension plans	(1,057)	98
Unrecognized past service cost	.	.
Asset ceiling in accordance with IAS 19.58	(34)	(538)
Provisions for similar obligations	(456)	(436)
Net obligation recognized on the balance sheet	(1,547)	(876)
Thereof defined benefit assets	165	417
Thereof provisions for pensions	(1,256)	(857)
Thereof provisions for similar obligations	(456)	(436)

The change in the asset ceiling is primarily attributable to the reduction in the funded status at BASF Pensionskasse VVaG. Actuarial gains and losses are recognized directly in retained earnings in the reporting period in which they occur. Past service costs are amortized over the average service period of the entitled employees until the benefits become

vested. Actuarial losses of €1,285 million in 2008 and actuarial gains of €583 million in 2007 were recognized in retained earnings. Since the introduction of this accounting policy, a total actuarial loss of €1,983 million has been charged against retained earnings, not taking deferred taxes into account.

Current funding situation of the plans (million €)

	2008		2007	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Unfunded pension plans	611	–	643	–
Partially funded pension plans	2,803	2,158	2,495	2,340
Total of pension plans that are not fully funded	3,414	2,158	3,138	2,340
Fully funded pension plans	7,956	8,155	8,776	9,672
	11,370	10,313	11,914	12,012

Deviation between actuarial assumptions and the actual development (million €)

	2008	2007	2006	2005	2004
Defined benefit obligation	11,370	11,914	12,693	11,908	9,814
Thereof impact of experience adjustments	36	(138)	(59)	20	23
Plan assets	10,313	12,012	12,079	11,015	6,204
Thereof impact of experience adjustments	(2,159)	(119)	159	438	193
Funded status	(1,057)	98	(615)	(892)	(3,610)

Expected payments resulting from pension obligations existing as of December 31, 2008 (million €)

2009	628
2010	678
2011	689
2012	696
2013	736
2014 through 2018	4,241

Composition of expenses for pension plans (million €)

	2008	2007
Service cost	243	270
Amortization of past service cost	.	8
Settlement gains	(23)	(3)
Expenses for similar obligations	4	6
Expenses for defined benefit plans charged to income from operations	224	281
Interest cost	630	588
Expected return on plan assets	(675)	(660)
Expenses for similar obligations	23	25
Income from defined benefit plans in the financial result	(22)	(47)
Expenses for defined contribution plans charged to income from operations	86	78
Expenses for pension plans	288	312

In 2008, contributions to public pension plans were €392 million (2007: €364 million).

The estimated contribution payments for defined benefit plans for 2009 are €126 million.

21 -- OTHER PROVISIONS

Million €

	2008		2007	
	Total	Thereof short-term	Total	Thereof short-term
Recultivation obligations	796	1	703	4
Environmental protection and remediation costs	377	132	255	31
Personnel costs	1,369	947	1,756	1,091
Sales and purchase risks	1,282	1,264	1,033	997
Restructuring measures	105	83	79	62
Legal, damage claims, guarantees and related commitments	164	83	156	81
Other	1,707	533	1,730	431
	5,800	3,043	5,712	2,697

Recultivation obligations relate to the estimated costs for the filling of wells and the removal of production equipment after the end of production.

Environmental protection and remediation costs concern expected costs for rehabilitating contaminated sites, recultivating landfills, removal of environmental contamination at existing production or storage sites and other measures.

The increase in short-term provisions for environmental protection resulted chiefly from the allocation of emission certificates from the German Emissions Trading Authority or other similar bodies in the European Union.

The **personnel cost** provision includes obligations for the granting of long-service bonuses and anniversary payments, variable compensation including related social security contributions, and other accruals as well as provisions for early retirement programs for employees nearing retirement. BASF's German Group companies have various programs that entitle employees who are at least 55 years old to reduce their working hours to 50% for up to 8 years.

Under such arrangements, employees generally work full time during the first half of the transition period and leave the Company at the start of the second half. Employees receive a minimum 85% of their net salary throughout the transition period.

The reduction in the personnel cost provision is primarily due to lower provisions for the BASF option program and variable compensation.

The **sales and purchase risks** provision includes warranties, product liability, customer rebates, payment discounts and other price reductions, sales commissions and provisions for expected losses on committed purchases as well as provisions for onerous contracts.

Restructuring costs provisions include severance payments to employees as well as specific site shutdowns or restructuring costs, including the costs for demolition and similar measures.

The increase resulted from restructuring measures in 2008, primarily for severance payments.

Provisions for **legal, damage claims, guarantees and related commitments** include the expected costs of litigation, obligations under damage claims, other guarantees and antitrust proceedings.

Others include long-term tax provisions. The reversal in 2008 was justified by the reassessment of provisions for previous years.

Other changes relate primarily to currency effects and the transfer to liabilities of obligations that have become more concrete as to the amount and timing. In addition, changes in the scope of consolidation led to an increase in provisions.

Development of other provisions in 2008 (million €)

	January 1, 2008	Additions	Interest compounding	Utilization	Reversals	Other changes	Dec. 31, 2008
Recultivation obligations	703	58	11	(19)	(20)	63	796
Environmental protection and remediation costs	255	191	2	(61)	(13)	3	377
Personnel costs	1,756	828	25	(979)	(214)	(47)	1,369
Sales and purchase risks	1,033	1,541	1	(1,232)	(117)	56	1,282
Restructuring measures	79	85	–	(25)	(28)	(6)	105
Legal, damage claims, guarantees and related commitments	156	33	5	(10)	(14)	(6)	164
Other	1,730	518	3	(376)	(179)	11	1,707
	5,712	3,254	47	(2,702)	(585)	74	5,800

22 -- LIABILITIES

Financial indebtedness (million €)

	Nominal volume	Effective interest rate	Carrying amounts based on effective interest method	
			2008	2007
3.5% Euro Bond 2003/2010 of BASF SE	1,000	3.63%	998	997
3.375% Euro Bond 2005/2012 of BASF SE	1,400	3.42%	1,398	1,397
4% Euro Bond 2006/2011 of BASF SE	1,000	4.05%	999	999
4.5% Euro Bond 2006/2016 of BASF SE	500	4.62%	496	496
3 Month EURIBOR Bond 2006/2009 of BASF SE	500	variable	500	500
3.25% CHF Bond 2008/2011 of BASF Finance Europe N.V.	300	3.39%	201	–
3.625% CHF Bond 2008/2015 of BASF Finance Europe N.V.	200	3.77%	134	–
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	1,000	5.09%	996	996
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	250	4.83%	252	253
6% Euro Bond 2008/2013 of BASF Finance Europe N.V.	1,250	6.15%	1,242	–
USD Extendible Floating Rate Notes of BASF Finance Europe N.V.		4.51%	330	917
Other bonds			621	548
USD Commercial Papers	6,140		4,406	1,878
Bonds and other liabilities to the capital markets			12,573	8,981
Liabilities to credit institutions			1,941	1,121
			14,514	10,102

Breakdown of financial liabilities by currency (million €)

	2008	2007
Euro	7,876	5,741
U.S. dollar	5,598	3,855
Chinese renminbi	436	355
Swiss franc	335	–
Brazilian real	67	76
Norwegian krone	54	–
Turkish lira	39	12
Other	109	63
	14,514	10,102

Maturities of financial liabilities (million €)

	2008	2007
Following year 1	6,224	3,148
Following year 2	1,027	609
Following year 3	1,401	1,334
Following year 4	1,418	1,019
Following year 5	1,999	1,589
Following year 6 and thereafter	2,445	2,403
	14,514	10,102

Bonds and other liabilities to the capital markets

Other bonds consist primarily of bonds from BASF Catalyst LLC and industrial revenue and pollution control bonds from the BASF Corporation Group that are used to finance investments in the United States. The weighted-average interest rate was 3.1% in 2008 (2007: 3.8%). The weighted-average effective interest rate was 3.1% in 2008 (2007: 3.9%). The average residual term amounted to 189 months as of December 31, 2008, and 205 months as of December 31, 2007.

Liabilities to credit institutions

Liabilities to credit institutions relate to a large number of different credit institutions in various countries. Liabilities to credit institutions denominated in renminbi and Turkish lira resulted from the local financing of investments in China and Turkey.

BASF SE had committed and unused credit lines with variable interest rates of €6,668 million as of December 31, 2008, and €4,076 million as of December 31, 2007.

Additional uncommitted credit lines of BASF SE amounted to €90 million as of December 31, 2008, and €227 million as of December 31, 2007 – these are free of any commitment fees. The weighted-average interest rate on borrowings was 5.3% in 2008 (2007: 6.2%).

Other liabilities

The increase in other liabilities in 2008 related primarily to the negative fair value of derivatives, concluded to hedge currency fluctuations and rising raw material prices. On the other hand, there are derivatives with positive fair values in other receivables.

Liabilities to companies in which participations are held include the proportionate amount of liabilities of joint venture companies accounted for using the proportional consolidation method of €242 million in 2008 and €173 million in 2007. Further other liabilities relating to associated companies accounted for using the equity or cost method were €224 million in 2008 and €221 million in 2007. In addition, other liabilities contained precious metal derivatives with a negative fair value of €39 million as of the balance sheet date 2008.

→ More information on financial risks and derivative financial instruments is available in Note 26 from page 212 onward

→ More information on finance lease payables is available in Note 27 from page 218 onward

Other liabilities (million €)

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Advances received on orders	116	–	111	–
Liabilities on bills	11	27	11	5
Liabilities related to social security	151	16	148	17
Non-trade liabilities to joint venture partners	334	344	269	457
Derivative instruments	1,414	1	88	3
Liabilities arising from finance leases	15	65	23	73
Miscellaneous liabilities	1,255	301	1,191	184
Deferred income	138	163	135	162
	3,434	917	1,976	901

Secured liabilities (million €)

	2008	2007
Liabilities to credit institutions	35	9
Miscellaneous liabilities	504	15
	539	24

On December 31, 2008, material margins had to be provided for derivatives with negative fair values. Derivatives with negative fair values are reported under other liabilities

in the balance sheet. Liabilities to credit institutions are secured primarily with registered land charges. There are no secured contingent liabilities.

23 -- CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The contingencies listed below are stated at nominal value:

Contingent liabilities (million €)

	2008	2007
Bills of exchange	4	13
Thereof to affiliated companies	—	—
Guarantees	788	374
Thereof to affiliated companies	62	60
Warranties	84	68
Granting collateral on behalf of third-party liabilities	18	20
	894	475

The increase in liabilities from guarantees is due to the financial guarantee given in 2008 for the financing of OAO Severneftegazprom.

Other financial obligations (million €)

	2008	2007
Construction in progress	4,753	4,974
Thereof purchase commitments	803	983
Thereof for the purchase of intangible assets	99	24
Obligation arising from long-term leases (excluding financing leases)	1,449	1,272
Payment and loan commitments and other financial obligations	1,803	7
	8,005	6,253

Payment and loan commitments and other financial obligations in 2008 of €1,797 million are related to the purchase of shares in Ciba Holding AG as part of the public tender for that company.

→ More information is available in Note 2 from page 170 onward

Property, plant and equipment used under long-term leases

Property, plant and equipment used under long-term leases primarily concern buildings and IT infrastructure.

→ More information can be found in Note 27 from page 218 onward

Obligations from long-term rental and lease contracts (excluding financing leases) (million €)

	2009	2008
	280	199
	199	160
	136	118
	118	556
	556	1,449
	1,449	1,449

Purchase obligations from long-term natural gas and raw material supply contracts

The Company has entered into long-term purchase contracts for natural gas in the Natural Gas Trading business sector, which are subject to continual price adjustments. These purchase obligations relate to long-term supply contracts with customers with terms between one and twenty years. The increase in purchase commitments compared with 2007 was due primarily to contract extensions and higher expected purchasing costs.

The Company purchases raw materials, both on the basis of long-term contracts and on spot markets. The fixed purchase obligations of long-term purchase contracts with a remaining term of more than one year as of December 31, 2008, are as follows:

Purchase obligations from natural gas and raw material supply contracts (million €)

2009	11,999
2010	8,324
2011	7,780
2012	7,467
2013	6,777
2014 and thereafter	111,385
	153,733

24 -- RISKS FROM LITIGATION AND CLAIMS

Since 2005, several class action lawsuits, among others, against BASF SE and BASF Corporation have been filed at U.S. courts. It was alleged that sales of TDI, MDI and polyether polyols had violated antitrust laws on price fixing. BASF is defending itself against these lawsuits. At the end of 2007, the U.S. Department of Justice ceased an inquiry on alleged price fixing.

BASF Corporation, Bayer Corporation and Bayer Crop-Science Corporation have been sued by a number of plaintiffs for damages because of alleged price fixing in the distribution of the termiticides Premise® (Bayer) and Termidor® (BASF) in the United States. The plaintiffs contend that BASF and Bayer have each engaged in unlawful resale price maintenance resulting in overcharges to plaintiff purchasers who are professionals in termite control. The plaintiffs are suing for trebled damages of US\$600 million. BASF maintains that its pricing was lawful because its sales were through agency agreements rather than through distributors and therefore the claims are without merit. The court dismissed the action on July 13, 2007. The plaintiffs have appealed against this decision. A decision on the appeal has not been made.

In addition, BASF SE and its affiliated companies are defendants in or parties to further judicial and arbitrational proceedings. Based on the current state of knowledge these proceedings will have no material influence on the economic situation of BASF.

25 -- STOCK PRICE-BASED COMPENSATION PROGRAM AND BASF INCENTIVE SHARE PROGRAM

Stock price-based compensation program

In 2008, BASF continued the BASF option program (BOP) for senior executives of the BASF Group. This program has existed since 1999. Approximately 1,000 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program. The options are settled in cash when exercised.

To participate in the BASF option program, each participant must hold as a personal investment BASF shares in the amount of 10% to 30% of his or her individual variable compensation. The number of shares to be held is determined by the amount of variable compensation designated by the participant and the weighted-average market price for BASF shares on the first business day after the Annual Meeting, which was €45.21 on April 25, 2008 (base price after the stock split).

For each BASF share held as an individual investment, a participant receives four options. Each option consists of two parts, right A and right B, which may be exercised if defined thresholds have been met: The threshold of right A is met if the price of the BASF share has increased by more than 30% in comparison to the base price (absolute threshold). The value of right A will be the difference between the market price of BASF shares at the exercise date and the base price; it is limited to 100% of the base price. Right B may be exercised if the cumulative percentage performance of BASF shares exceeds (relative threshold) the percentage performance of the MSCI World Chemicals IndexSM (MSCI Chemicals). The value of right B will be the base price of the option multiplied by twice the percentage outperformance of BASF shares compared to the MSCI Chemicals index on the exercise date. It is limited to the closing price on the date of exercise minus computed nominal value of BASF shares. Shares of the

individual investment must be held for at least two years following the granting of the options. The options were granted on July 1, 2008, and may be exercised following a two-year vesting period, between July 1, 2010, and June 30, 2016. During the exercise period, it is not possible to exercise options during certain periods (closed periods). Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right lapses. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment. Option rights are forfeited if the option holders no longer work for BASF or have sold part of their individual investment before the two-year holding period. They remain valid in the case of retirement.

The option programs BOP 2001 to 2007 were structured in a similar way to BOP 2008.

The benchmark index used to determine the value of right B for BOP 2001 to 2004 is the Dow Jones Chemicals Total Return Index (DJ Chemicals). This index was replaced by the MSCI Chemicals starting with the option program 2005. The MSCI Chemicals is a global industry index for the chemical industry that measures the performance of the companies contained within it in their respective local currencies, which significantly reduces currency effects.

The model used in the valuation of the option plans is based on the arbitrage-free valuation model according to Black-Scholes.

Due to the complexity of the option programs, a numerical solution method was used (Monte Carlo simulation).

Fair value and parameters used ¹

		BASF option program of the year	
		2008	2007
Fair value	€	7.19	20.50
Dividend yield	%	7.03	2.96
Risk-free interest rate	%	2.92	4.33
Volatility BASF shares	%	24.61	21.67
Volatility MSCI Chemicals	%	18.91	15.44
Correlation BASF share price: MSCI Chemicals	%	84.80	83.27

¹ It is assumed that the options will be exercised based upon the potential gains.

The fair values and the valuation parameters relate to the option programs 2008 and 2007. For the option programs from preceding years, corresponding fair values were computed and valuation parameters were used.

The number of options granted amounted to 2,859,472 in 2008 and 3,080,808 ¹ in 2007.

Volatility was determined on the basis of the monthly closing prices over a historical period corresponding to the remaining term of the options.

As a result of a resolution by the Board of Executive Directors in 2002, to settle options in cash, options outstanding as of December 31, 2008, from the BOP 2001 to 2008 were valued with the fair value as of the balance sheet date as of December 31, 2008. This amount is accrued as a provision over the respective vesting period. This provision declined due to lower fair values from €239 million as of December 31, 2007, to €80 million as of December 31, 2008. The reversal of the provision led to income of €112 million, which reduces personnel costs. The utilization of provisions amounted to €47 million. In 2007, personnel costs from the BASF option program amounted to €235 million.

The total intrinsic value of exercisable options amounted to €47 million as of December 31, 2008, and €141 million as of December 31, 2007.

¹ The number of options were adjusted retroactively for the two-for-one stock split conducted in the second quarter of 2008.

BASF incentive share program

In 1999, BASF started an incentive share program called "Plus" for all eligible employees except the senior executives entitled to participate in the BOP. Currently, employees of German and of various European and Mexican subsidiaries are entitled to participate in the program. Each participant must make an individual investment in BASF shares from his or her variable compensation. For every ten BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and ten years of holding the BASF shares. The first ten shares entitle the participant to receive one BASF share at no extra cost for each year for the next ten years.

The right to receive free BASF shares lapses if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement.

The number of free shares to be granted developed as follows:

Number of free shares to be granted

	2008	2007 ²
As of January 1	2,899,824	2,846,564
Newly acquired entitlements	681,770	607,300
Bonus shares issued	(429,284)	(403,960)
Lapsed entitlements	(98,206)	(150,080)
As of December 31	3,054,104	2,899,824

² The number of free shares to be granted were adjusted retroactively for the two-for-one stock split conducted in the second quarter of 2008.

The free shares to be provided by the company are valued at the fair value on the grant date. Fair value is determined on the basis of the stock price of BASF shares, taking into account the present value of dividends, which are not paid during the term of the program. The weighted-average fair value at grant date amounted to €34.71 for the 2008 program and €36.57 for the 2007 program.

The fair value of the free shares to be granted is booked through the income statement against capital surplus over the period until the shares are issued.

Provisions for the costs for the 1999 to 2002 programs continue to be accrued proportionally on the basis of the BASF closing stock price.

Personnel costs of €9 million were recorded in 2008 for the employee stock program (2007: €19 million).

26 -- Financial risks and derivative financial instruments

Market risks

Foreign currency risks: Changes in exchange rates could lead to negative changes in the value of financial instruments and adverse changes in future cash flows from planned transactions. Foreign currency risks from financial instruments result for BASF from the conversion of financial receivables, loans, securities, cash, as well as financial liabilities into the functional currency of the respective Group company. Foreign currency contracts in a variety of currencies are used to hedge foreign exchange risks from primary financial instruments and planned transactions.

The foreign currency risk exposure corresponds to the net amount of the nominal volume of the primary and derivative financial instruments which are exposed to currency risk. In addition, all planned purchase and sales transactions of the respective following year are included, if they fall under the currency risk management system. Opposite positions in the same currency are offset against each other. Companies whose functional currency is not the euro can be exposed to foreign currency risks arising from the euro.

The sensitivity analysis is conducted by simulating a depreciation by 10% of all currencies against the respective functional currency and quantifying the effect on BASF's income before taxes and minority interests. This sensitivity of these instruments amounted to €(244) million on December 31, 2008 (December 31, 2007: €(29) million).

Due to the use of options to hedge currency risks, the sensitivity analysis is not a linear function of the assumed changes in exchange rates.

Foreign currency risk exposure (million €)

	2008	2007
U.S. dollar	(40)	(120)
Swiss franc	1,948	.
Pound sterling	91	39
Euro	158	(3)
Other	85	251
	2,242	167

Interest rate risks: Interest rate risk results from changes in prevailing market interest rates, which can cause a change in the present value of fixed-rate instruments, and changes in the interest payments of variable-rate instruments. To hedge this risk, interest rate swaps and combined interest rate and currency derivatives are used. These risks are relevant to the financing activities of BASF, however, they are not of material significance for BASF's operating activities.

An increase in all relevant interest rates by one percentage point on December 31, 2007 and 2008, would have lowered income before taxes and minority interests by €43 million. The sensitivity of stockholders' equity to changes in interest rates is not material.

Carrying amount of non-derivative interest-bearing financial instruments (million €)

	2008		2007	
	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
Loans	98	303	628	127
Securities	6	26	16	4
Financial indebtedness	11,940	2,574	8,055	2,047

Nominal and fair value of interest rate and combined interest and cross currency swaps (million €)

	2008		2007	
	Nominal value	Fair value	Nominal value	Fair value
Interest rate swaps	150	(3)	296	(11)
Thereof payer swaps	150	(3)	166	(10)
Thereof receiver swaps	-	-	130	(1)
Combined interest and cross currency swaps	384	31	63	(5)
Thereof fixed rate	326	27	18	.
Thereof variable rate	58	4	45	(5)

Equity price risks: BASF holds shares in listed companies and mutual stock funds as a vehicle for investing liquid funds and, to a limited extent, with a view to taking strategic stakes in companies. They are included under participations, long-term and short-term securities, and are classified as available-for-sale in the BASF Group. A decline in all relevant stock prices by 10% would have lowered stockholders' equity by €84 million on December 31, 2008 (December 31, 2007: €78 million), before taking income taxes into consideration.

Commodity price risks: Some of BASF's divisions are occasionally exposed to strong fluctuations in raw material prices. These result primarily from the following raw materials: naphtha, propylene, benzene, titanium dioxide, cyclohexane, methanol, natural gas, butadiene, LPG Condensate, ammonia and precious metals. BASF takes the following measures to reduce price risks associated with the purchase of raw materials:

- BASF uses commodity derivatives to hedge the risks from the volatility of raw material prices. These are primarily options and swaps on crude oil, oil products and natural gas.
- In order to secure margins, the Oil & Gas segment uses commodity derivatives, primarily swaps and options, in natural gas trading. Risks to margins arise in volatile markets when purchase and sales contracts are priced differently.
- The Catalysts division enters into both short-term and long-term purchase contracts with precious metal producers. It also buys precious metals on spot markets from a variety of business partners. The price risk from precious metals purchased to be sold on to third parties, or for use in the production of catalysts, are hedged using derivative instruments. Forward contracts are primarily used and they are settled by entering into offsetting contracts or by delivering the precious metals. In addition, the Catalysts division also holds limited

unhedged precious metal positions, which could also include derivatives, for trading on its own account. The value of these positions is exposed to market price volatility and is subject to constant monitoring.

BASF is exposed to price risk as a result of holding commodity derivatives and precious metal trading positions. The valuation of commodity derivatives and precious metal trading positions at fair value means that adverse changes in market prices could negatively affect the earnings and equity of BASF.

BASF performs "Value-at-Risk" analyses for all commodity derivatives and precious metals trading positions. Using the value-at-risk analysis, we continually quantify market risk and forecast the maximum possible loss within a given confidence interval over a defined period. Our value at risk calculation is based on a confidence interval of 95% and a holding period of one day. The use of a confidence interval of 95% means that the maximum loss does not exceed the value-at-risk in a one-day period with a probability of 95%. BASF uses the variance-covariance approach.

BASF uses value at risk as a supplement to other risk management tools. We also use volume-based, exposure and stop loss limits.

Exposure to commodity derivatives (million €)

	2008		2007	
	Exposure	Value at Risk	Exposure	Value at Risk
Crude oil, oil products and natural gas	230	49	72	5
Precious metals	20	1	40	1
Swaps on CO ₂ emissions certificates	10	1	19	1
	260	51	131	7

The exposure corresponds to the net amount of all long and short positions of the respective commodity category.

→ Further information regarding financial risks and BASF's risk management can be found in BASF Management's Analysis, "Risk Report" from page 112 onward.

Swaps in which various types of CO₂ certificates are swapped are entered into in connection with CO₂ emissions trading. The goal of these transactions is to exploit market price differences. These deals are settled by physical delivery.

Default and credit risk

This is the risk that counterparties do not fulfill their contractual obligations. BASF regularly analyzes the creditworthiness of each significant debtor, and on the basis of this analysis grants credit limits. Due to the global activities and diversified customer structure of the BASF Group, there is no significant concentration of default risk. The carrying amount of all receivables, loans and interest-bearing securities plus the nominal value of contingent liabilities excluding potential warranty obligations represents the maximum default risk.

→ More information on credit risks can be found in Note 15 from page 195 onward

Liquidity risks

We promptly recognize any risks from cash flow fluctuations as part of the liquidity planning. We have ready access to sufficient liquid funds from our ongoing commercial paper program and confirmed lines of credit from banks. Despite the current financial crisis, the commercial paper market for BASF continues to be liquid due to our good rating.

Maturities of contractual cash flows from financial liabilities 2008 (million €)

	Bonds and other liabilities to the capital markets	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities
2009	5,691	943	1,497	1,012
2010	1,318	186	19	75
2011	1,501	201	2	31
2012	1,631	104	–	33
2013	1,531	619	–	31
2014 and thereafter	2,580	77	–	313
	14,252	2,130	1,518	1,495

Maturities of contractual cash flows from financial liabilities 2007 (million €)

	Bonds and other liabilities to the capital markets	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities
2008	2,781	689	83	1,411
2009	845	96	7	161
2010	1,560	89	1	39
2011	1,195	88	18	45
2012	1,555	82	–	30
2013 and thereafter	2,696	247	2	370
	10,632	1,291	111	2,056

The interest and principal payments as well as other payments for derivative financial instruments are relevant for the presentation of the maturities of the contractual cash flows from financial liabilities. Future cash flows are not discounted here.

Derivatives are included using their net cash flows, provided they have a negative fair value and therefore represent a liability. Derivatives with positive fair values are assets and are not considered.

Trade accounts payable are generally interest free and fall due within one year. Therefore the carrying amount of trade accounts payable equals the sum of future cash flows.

Differences between book and fair values of financial instruments

For accounts receivable, trade, other receivables and miscellaneous assets, loans, cash and cash equivalents, as well as trade accounts payable and other liabilities, the carrying amount approximates the fair value. Participations

which are not traded on an active market and whose fair value could not be reliably determined are recognized at amortized cost and contained within ‘other financial assets’.

The carrying amount of participations which are traded on an active market and hence recognized at fair value amounted to €1,049 million on December 31, 2008 (December 31, 2007: €708 million). They are included in the item ‘shares in other participations’.

→ More information can be found in Note 13 from page 192 onward

The carrying amount of financial indebtedness amounted to €14,514 million on December 31, 2008 (December 31, 2007: €10,102 million). The fair value of financial indebtedness amounted to €14,822 million at the end of 2008 (end of 2007: €10,020 million). The fair value of financial debt is determined on the basis of interbank interest rates. The difference between book and fair values resulted primarily from changes in market interest rates.

Carrying value of financial instruments (million €)

	2008	2007
Financial assets at fair value through profit or loss	1,380	249
Financial liabilities at fair value through profit or loss	1,333	124
Derivatives designated as hedging instruments under cash flow hedge accounting	(121)	–
Loans and receivables	9,956	10,372
Cash and cash equivalents	2,776	767
Available-for-sale financial assets	1,581	1,248
Liabilities measured at amortized cost	19,600	16,044
Thereof financial indebtedness	14,514	10,102

Net gains and losses from financial instruments (million €)

	2008	2007
Receivables and loans	201	(814)
Thereof interest result	138	131
Available-for-sale financial assets	(15)	43
Thereof interest result	1	2
Liabilities measured at amortized cost	(911)	58
Thereof interest result	(523)	(508)
Financial instruments at fair value through profit or loss	746	472

Net gains and losses of financial instruments comprise the results of valuations, the amortization of discounts, the recognition and derecognition of impairment losses, results from the translation of foreign currencies as well as interest, dividends and all other effects on profit of financial instruments. The item 'financial instruments at fair value through profit or loss' contains only those gains and losses from instruments which are not designated as hedging instruments as defined by IAS 39. Net gains or net losses from available-for-sale financial assets contain income from write-downs/write-ups, interest, dividends and the transfers of valuation effects from stockholders' equity on the sale of the securities and participations.

The net loss from receivables and loans, and net gains from financial liabilities measured at amortized cost relate primarily to income from the translation of foreign currencies.

→ **The gains and losses from the valuation of securities and participations taken directly to equity are shown in the Consolidated Statements of Recognized Income and Expense on page 154.**

The use of derivative financial instruments

The Company is exposed to foreign currency, interest rate and commodity price risks during the normal course of business. In addition, financial assets are also exposed to equity price risk. These risks are hedged through a centrally determined strategy employing derivative instruments. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities. Hedging is only employed for underlying positions from the operating business, cash investments, financing or planned sales and raw material purchases. The risks from the underlying transactions and the derivatives are constantly monitored. Where derivatives have a positive market value, the Company is exposed to credit risks in the event of nonperformance of their counterparts. This credit risk is minimized by trading contracts exclusively with creditworthy banks and partners within predefined credit limits.

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

Derivative instruments (million €)

	2008	2007
Foreign currency forward contracts	183	111
Currency options	133	63
Foreign currency derivatives	316	174
Interest rate swaps	(3)	(11)
Combined interest and cross currency swaps	31	(5)
Interest derivatives	28	(16)
Commodity derivatives	(418)	(33)
Thereof designated hedging instrument as defined by IAS 39 (Hedge Accounting)	(121)	-

Hedge Accounting

In 2008 and 2007, some of the planned purchases of naphtha were hedged using swaps and options on oil and oil products. Some of these hedges were shown in the Consolidated Financial Statements of the BASF Group by means of cash flow Hedge Accounting, where gains and losses from hedges were recognized directly in equity. Gains and losses from hedges are included in cost of sales at the point in time in which the hedged item is recognized in the statement of income.

In 2008, cash flow hedge accounting was applied in the Natural Gas Trading business sector for swaps on crude oil concluded to hedge price risks from purchase contracts for natural gas. The purchase contracts have variable prices and the price formula is coupled to the oil price.

The majority of the planned transactions and their effect on earnings occur in the year following the balance sheet date. A small part relates to 2010 and 2011. In 2008, €(183) million (2007: €97 million) in effective changes in the fair value of hedging instruments were recognized in stockholders' equity of the shareholders' of BASF SE. In 2008, €(12) million was derecognized from stockholders' equity of the shareholders of BASF SE and recorded as income in cost of sales (2007: €(15) million). The ineffective part in the change in value of the hedge was €(33) million in 2008 (2007: €7 million). This amount was recorded in the income statement in cost of sales.

In 2004 and 2005, fair value changes from forward interest swaps entered into to hedge interest-rate risk from the refinancing of an expiring bond were recognized directly in equity using cash flow Hedge Accounting. The hedge was closed in 2005 as a new bond was issued to refinance the expiring bond. The new bond is due in 2012. Over the maturity of the bond, the changes in fair value of interest rate swaps recognized in stockholders' equity are reclassified proportionally from stockholders' equity to the income statement. In both 2008 and 2007, €(8) million was derecognized from stockholders' equity of the shareholders' of BASF SE and recorded as interest income.

27 -- LEASING

Leased assets

Property, plant and equipment include those assets which are considered to be economically owned through a finance lease. They primarily concern the following items:

Leased assets (million €)

	2008		2007	
	Acquisition cost	Net book value	Acquisition cost	Net book value
Land, land rights and buildings	20	13	26	18
Machinery and technical equipment	223	96	226	118
Miscellaneous equipment and fixtures	73	18	71	20
Advance payments and construction in progress	–	–	–	–
	316	127	323	156

Liabilities from finance leases (million €)

	2008			2007		
	Minimum lease payments	Interest portion	Leasing liability	Minimum lease payments	Interest portion	Leasing liability
Following year 1	20	5	15	29	6	23
Following year 2	20	5	14	19	5	13
Following year 3	22	5	18	18	5	13
Following year 4	11	2	9	21	5	16
Following year 5	7	2	4	10	3	8
Over 5 years	29	10	20	35	12	23
	108	29	80	132	36	96

In the current business year and in 2007, no additional lease payments arising from contractual obligations were recognized in income above the minimum lease payments.

In 2008, leasing liabilities were not offset by any expected minimum lease payments from sub-leases.

In addition, BASF is a lessee under operating lease contracts. The resulting lease obligations totaling €1,449 million in 2008 and €1,272 million in 2007 are due in the following years:

Commitments due to operating lease contracts (million €)

	Nominal value of the future minimum payments	
	December 31, 2008	December 31, 2007
Less than 1 year	280	292
1–5 years	613	505
Over 5 years	556	475
	1,449	1,272

In 2008, commitments due to operating lease contracts of less than one year contained leases of precious metals of €35 million (2007: €93 million). These metals were immediately leased to third parties. Offsetting the other leasing commitments are expected minimum lease payments from sub-leases of €11 million in 2008 (2007: €12 million).

Minimum lease payments of €269 million (2007: €242 million), no conditional lease payments (2007: €0.3 million), and payments received from subleases of €4 million (2007: €4 million) were included in income from operations in 2008.

BASF as lessor

BASF acts as both a lessee and a lessor under finance leases. BASF acts as a lessor for finance leases in a minor capacity only. Receivables on finance leases were €17 million in 2008 and of €1 million in 2007. In 2008, nominal minimum payments arising from operating leases amount to €42 million within one year, and €19 million within the next five years. For 2007, these figures amounted to €101 million within one year, and €23 million within the next five years.

In 2008, precious metal accounts of €505 million (2007: €598 million) continue to be held for customers where the metals are stored physically at BASF.

28 -- COMPENSATION FOR THE BOARD OF EXECUTIVE DIRECTORS AND SUPERVISORY BOARD OF BASF SE

Million €	2008	2007
Performance-related and fixed payments to the Board of Executive Directors	18.6	22.0
Market value of options granted to the Board of Executive Directors in the fiscal year on date of grant	3.7	6.0
Total compensation for the Board of Executive Directors	22.3	28.0
Service cost of the Board of Executive Directors	4.3	4.5
Compensation for the Supervisory Board	2.9	4.2
Total compensation for former members of the Board of Executive Directors and their surviving dependents	6.0	7.1
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	83.4	76.9
Loans to members of the Board of Executive Directors and the Supervisory Board	-	-
Guarantees to members of the Board of Executive Directors and the Supervisory Board	-	-

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

Moreover, in 2008, the members of the Board of Executive Directors were granted 286,800 options under the BASF option program (BOP).

Option rights of active and former members of the Board of Executive Directors resulted in income from the reversal of provisions of €9.5 million. In 2007, the option rights resulted in personnel costs of €29.7 million.

→ More information on the compensation of members of the Board of Executive Directors can be found from page 138 onward

→ More information on the members of the Supervisory Board and Board of Executive Directors, including their memberships on other boards can be found from page 133 onward

29 -- RELATED PARTY TRANSACTIONS

IAS 24 “Related Party Disclosures” requires the disclosure of transactions with related parties; both with related companies that are not fully consolidated, as well as with related individuals.

Material supply relationships exist between the proportionally consolidated joint venture companies Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany, Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland, and companies of the BASF Group for the supply of oil and gas. The unconsolidated portion of these supplies amounted to €1,402 million in 2008 (2007: €726 million).

In addition, there are material supply relationships with Ellba C.V., the Netherlands, and Ellba Eastern Private Ltd., Singapore. The unconsolidated portion of these supplies amounted to €493 million in 2008 and €446 million in 2007.

There were no reportable related party transactions with members of the Board of Executive Directors or the Supervisory Board.

BASF has not issued loans to members of the Board of Executive Directors or the Supervisory Board.

→ More information on receivables and payables with companies accounted for proportionally, at acquisition cost or according to the equity method can be found in Note 15 from page 195 onward and Note 22 from page 206 onward

30 -- SERVICES PROVIDED BY THE EXTERNAL AUDITOR

BASF Group companies have used the following services from KPMG:

Million €	2008	2007
Annual audit	19.8	19.1
Thereof domestic	6.3	6.2
Audit-related services	0.4	0.4
Thereof domestic	0.2	0.1
Tax consultation services	.	0.1
Thereof domestic	–	–
Other services	0.3	0.4
Thereof domestic	0.3	0.3
	20.5	20.0

Of this amount, €7.8 million in 2008 and €6.6 million in 2007 related to fees for annual audits paid to KPMG AG Wirtschaftsprüfungsgesellschaft (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) and its affiliated companies. As of October 1, 2008, the KPMG companies in Germany, Spain and Great Britain merged. The KPMG

companies in Germany and Great Britain had already merged as of October 1, 2007.

The annual audit related to the audit of the annual financial statements of the BASF Group as well as the legally required audit of the financial statements of BASF SE and the consolidated subsidiary companies and joint ventures.