BASF Report 2012

Economic, environmental and social performance

BASF
The Chemical Company

On the cover: The One World Trade Center in New York. With a total height of 541 meters, this skyscraper demands a lot from the concrete used in its construction. BASF's Green Sense® Concrete helps increase the material's performance in order to reduce the environmental footprint of concrete production and conserve resources.

Chemicals Page 58

The Chemicals segment comprises our business with basic chemicals and intermediates. Our portfolio ranges from solvents, plasticizers, glues and electronic chemicals to starting materials for detergents, plastics, textile fibers, paints and coatings, as well as for crop protection products and pharmaceuticals. In addition to supplying customers in the chemical industry and numerous other sectors, we also ensure that other BASF segments are supplied with chemicals for producing downstream products.

Key data Chemicals (million €)

	2012	2011	Change in %
Sales	13,824	12,958	6.7
Thereof Inorganics	1,735	1,415	22.6
Petrochemicals	9,179	8,839	3.8
Intermediates	2,910	2,704	7.6
EBITDA	2,409	3,188	(24.4)
Income from operations before special items	1,717	2,441	(29.7)
Income from operations (EBIT)	1,718	2,442	(29.6)

Performance Products Page 68

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

Key data Performance Products (million €)

	2012	2011	Change in %
Sales	15,871	15,697	1.1
Thereof Dispersions & Pigments	3,677	3,509	4.8
Care Chemicals	4,957	5,174	(4.2)
Nutrition & Health	1,959	1,862	5.2
Paper Chemicals	1,634	1,623	0.7
Performance Chemicals	3,644	3,529	3.3
EBITDA	2,113	2,312	(8.6)
Income from operations before special items	1,428	1,727	(17.3)
Income from operations (EBIT)	1,286	1,361	(5.5)

Agricultural Solutions Page 80

Our crop protection products guard against fungal diseases, insects and weeds, increase the quality of agricultural products and secure crop yields. Our research in plant biotechnology concentrates on plants for greater efficiency in agriculture, better nutrition, and use as renewable raw materials.

Research and development expenses, sales, earnings and all other data pertaining to BASF Plant Science are not included in the Agricultural Solutions segment; they are reported in Other.

Key data Agricultural Solutions (million €)

	2012	2011	Change in %
Sales	4,679	4,165	12.3
EBITDA	1,182	981	20.5
Income from operations before special items	1,037	810	28.0
Income from operations (EBIT)	1,026	808	27.0

Plastics Page 64

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

Key data Plastics (million €)

	2012	2011	Change in %
Sales	11,402	10,990	3.7
Thereof Performance Polymers	5,110	5,138	(0.5)
Polyurethanes	6,292	5,852	7.5
EBITDA	1,314	1,678	(21.7)
Income from operations before special items	873	1,203	(27.4)
Income from operations (EBIT)	874	1,259	(30.6)

Functional Solutions Page 75

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

Key data Functional Solutions (million €)

	2012	2011	Change in %
Sales	11,460	11,361	0.9
Thereof Catalysts	6,184	6,380	(3.1)
Construction Chemicals	2,315	2,181	6.1
Coatings	2,961	2,800	5.8
EBITDA	894	921	(2.9)
Income from operations before special items	561	559	0.4
Income from operations (EBIT)	435	427	1.9

Oil & Gas Page 84

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

Key data Oil & Gas (million €)

	2012	2011	Change in %
Sales	16,700	12,051	38.6
Thereof Exploration & Production	5,330	3,182	67.5
Natural Gas Trading	11,370	8,869	28.2
EBITDA	4,721	2,616	80.5
Income from operations before special items	4,104	2,111	94.4
Income from operations (EBIT)	3,904	2,111	84.9
Net income	1,201	1,064	12.9

BASF Group 2012 at a glance

Economic data

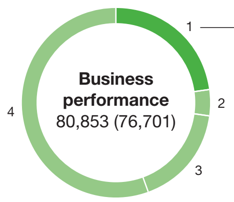
		2012	2011	Change in %
Sales	million €	78,729	73,497	7.1
Income from operations before depreciation and amortization (EBITDA)	million €	12,516	11,993	4.4
Income from operations (EBIT) before special items	million €	8,881	8,447	5.1
Income from operations (EBIT)	million €	8,976	8,586	4.5
Income before taxes and minority interests	million €	8,436	8,970	(6.0)
Net income	million €	4,879	6,188	(21.2)
Earnings per share	€	5.31	6.74	(21.2)
Adjusted earnings per share[1]	€	5.71	6.26	(8.8)
Dividend per share	€	2.60	2.50	4.0
Cash provided by operating activities	million €	6,733	7,105	(5.2)
Additions to long-term assets[2]	million €	5,397	3,646	48.0
Depreciation and amortization[2]	million €	3,540	3,407	3.9
Return on assets	%	14.6	16.1	–
Return on equity after tax	%	20.4	27.5	–

[1] For further information, see page 51
[2] Including acquisitions

Value added 2012[3]

Creation of value added
(Million €, previous year's figures in parentheses)

1	Value added	18,619 (18,652)
2	Amortization and depreciation	3,540 (3,407)
3	Services purchased, energy costs and other expenses	13,889 (12,656)
4	Cost of raw materials and merchandise	44,805 (41,986)



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

48.9% **Employees** (46.0%)

19.1% **Government** (14.5%)

1.8% **Minority interests** (2.2%)

4.0% **Creditors** (4.1%)

26.2% **Remaining for shareholders** (Dividend and retention) (33.2%)

[3] Value added results from the company's performance minus goods and services purchased, depreciation and amortization. It shows the BASF Group's contribution to both private and public income as well as the distribution of this contribution among all stakeholders.

Innovation

		2012	2011	Change in %
Research and development expenses	million €	1,746	1,605	8.8
Number of employees in research and development as of December 31		10,542	10,126	4.1

Employees and society

		2012	2011	Change in %
Employees as of December 31		113,262	111,141	1.9
Apprentices as of December 31		2,809	2,565	9.5
Personnel expenses	million €	9,089	8,576	6.0
Annual bonus	% of Group companies	97.5	93.7	4.1
Donations and sponsorship	million €	49.2	48.7	1.0

Supply chain management and Responsible Care

	2012	2011	Change in %
Number of on-site audits of raw material suppliers	210	206	2.0
Number of environmental and safety audits	112	97	15.5
Number of occupational medicine and health protection audits	42	35	20.0

Safety and health

		2012	2011	Change in %
Transportation accidents	per 10,000 shipments	0.24	0.18	33.3
Product spillages during transportation	per 10,000 shipments	0.25	0.30	(16.7)
Lost time injuries	per million working hours	1.7	1.9	(10.5)
Health Performance Index[4]		0.89	–	–

[4] For more information, see page 96; the Health Performance Index was newly defined in 2012.

Environment

		2012	2011	Change in %
Primary energy usage[5]	million MWh	61.5	63.8	(3.6)
Energy efficiency in production processes	metric tons of sales product/MWh	0.589	0.621[7]	(5.2)
Total water withdrawal	million cubic meters	2,009	2,130	(5.7)
Withdrawal of drinking water	million cubic meters	23	24	(4.2)
Emissions of organic substances to water[6]	thousand metric tons	21.6	24.3	(11.1)
Emissions of nitrogen to water[6]	thousand metric tons	2.8	2.9	(3.4)
Emissions of heavy metals to water[6]	metric tons	26	24	8.3
Emissions of greenhouse gases	million metric tons of CO_2 equivalents	24.7	25.8	(4.3)
Emissions to air (air pollutants)[6]	thousand metric tons	31.6	34.4[8]	(8.1)
Waste	million metric tons	2.24	2.11[9]	6.2
Operating costs for environmental protection facilities	million €	910	850	7.1
Investments in environmental protection	million €	272	190	43.2

[5] Primary energy used in BASF's plants as well as in the plants of our energy suppliers to cover energy demand for production processes
[6] Excluding emissions from oil and gas production
[7] Deviation from Report 2011 due to reclassification of natural gas usage
[8] Deviation from Report 2011 due to retroactive inclusion of emissions from a former Cognis site
[9] Deviation from Report 2011 primarily due to retroactive inclusion of waste from construction activities at the Ludwigshafen site

Welcome to BASF – Our integrated corporate report presents both our financial and sustainability reporting to shareholders and the interested public to inform them about the 2012 business year.

We create chemistry for a sustainable future.

BASF combines economic success with environmental protection and social responsibility, making a contribution to a better future. Through science and innovation, we enable our customers in nearly every industry to meet the current and future needs of society.

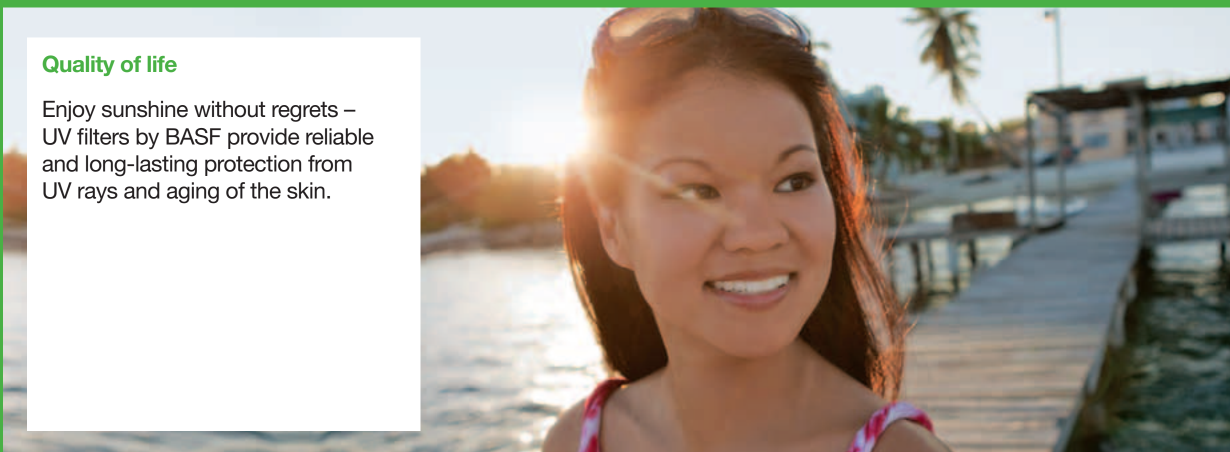
In the following photos, we show three examples of how BASF's products and solutions contribute to conserving resources, ensuring good nutrition and improving quality of life.

Resources, environment and climate

From foundation to the tips of the rotor blades – at every point on a wind turbine, BASF products help make the manufacture and construction of new turbines more efficient and their operation more cost-effective.

Food and nutrition

Whether from puddles, rain barrels or rivers – membranes made of BASF's plastic filter viruses and bacteria out of dirty water and make it drinkable. This is how our products help people in water scarcity regions gain access to clean drinking water.



Quality of life

Enjoy sunshine without regrets – UV filters by BASF provide reliable and long-lasting protection from UV rays and aging of the skin.

Resources, environment and climate

For the more efficient use of wind power

Modern wind turbines are exposed to tough weather conditions: Whether wind, rain, hail, snow or heat – the power of nature puts a strain on all components. BASF products help to make constructing new turbines more efficient and operating them more cost-effective: Mortars provide a lasting, solid bond between the tower and foundation and lubricants make sure turbine engines run reliably. Fiber-reinforced epoxy systems by BASF make rotor blades robust and special foams ensure additional stability with minimal weight. BASF coating systems protect rotor blades against weather-related wear and tear. This is how wind turbines withstand even rough weather on the high seas.

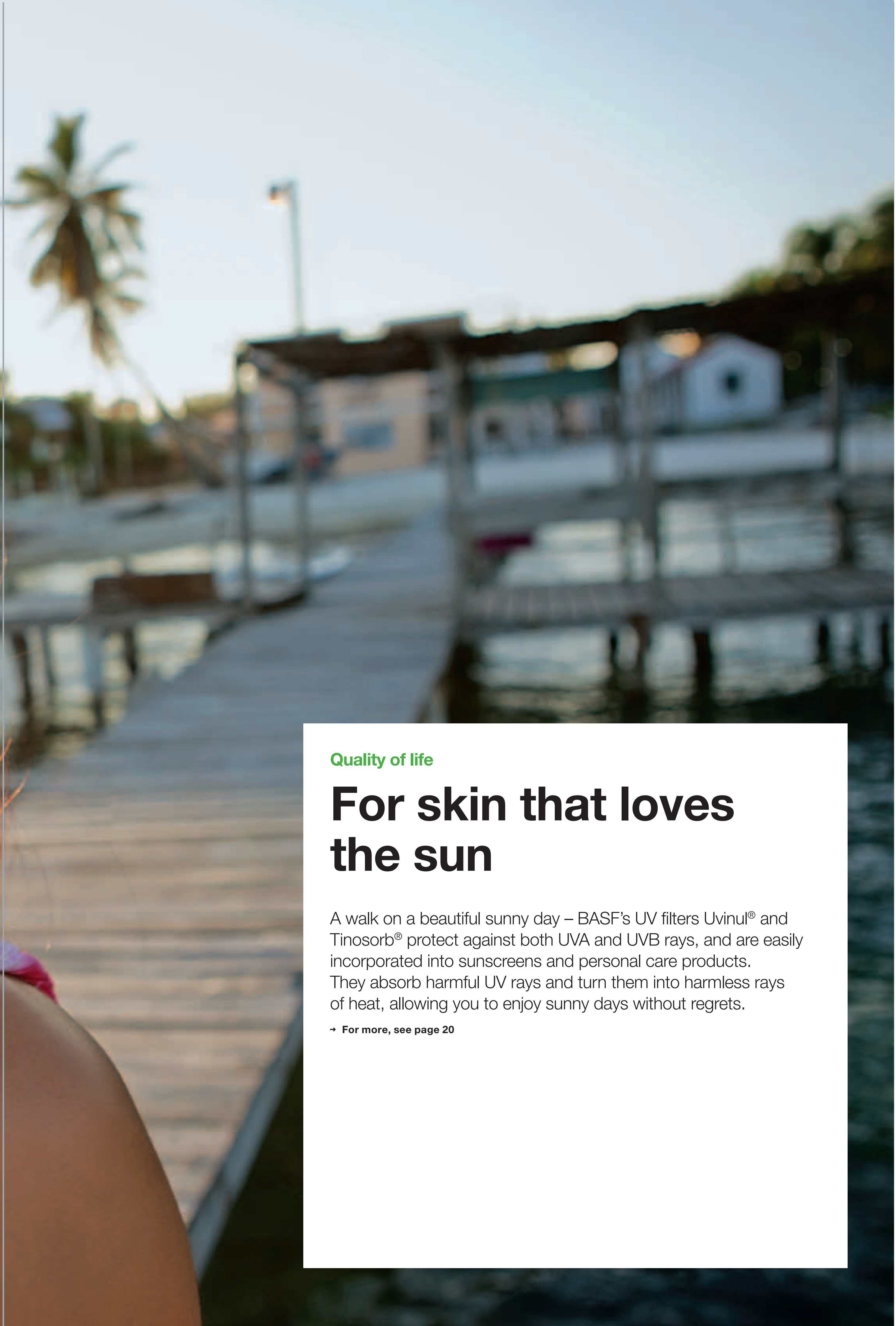
→ **For more, see pages 20 and 34**

Food and nutrition

For turning dirty water into drinking water

In many regions, water is a scarce resource: Almost one billion people worldwide do not have access to clean drinking water. Membranes made from Ultrason® E 6020 P, BASF's high-performance plastic, filter viruses and bacteria out of the water and make it drinkable. The company Vestergaard Frandsen uses Ultrason® in its LifeStraw® Family water purification system. This system converts large quantities of dirty water – for example, from puddles, rain barrels or rivers – into drinking water entirely without the use of electricity and can thus supply entire villages with clean water.

→ **For more, see page 20, page 31 onward and page 104 onward**



Quality of life

For skin that loves the sun

A walk on a beautiful sunny day – BASF’s UV filters Uvinul® and Tinosorb® protect against both UVA and UVB rays, and are easily incorporated into sunscreens and personal care products. They absorb harmful UV rays and turn them into harmless rays of heat, allowing you to enjoy sunny days without regrets.

→ For more, see page 20

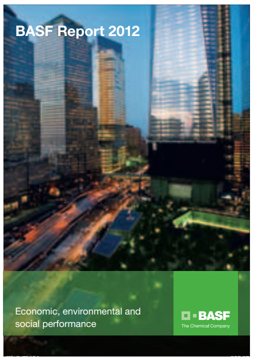
Contents

Corporate Governance

Consolidated Financial Statements

Supplementary Information on the Oil & Gas Segment

Overviews



www.basf.com/report
BASF Report 2012 online

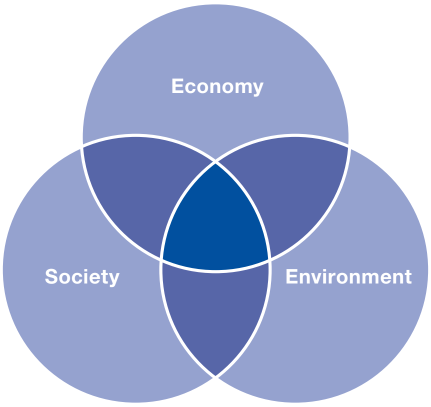
This report is also available in HTML format and as a PDF download on our website. Interactive tools enable individual compilation of texts, tables and diagrams, and quick selection according to subject. The direct link to the previous year’s report makes it easier to compare statements.

About this report

Integrated reporting

This integrated report documents BASF's economic, environmental and social performance in 2012. Using specific examples, we illustrate how sustainability contributes to BASF's success and how we as a company create value for employees, business partners, shareholders, neighbors and the public.

Sustainability is the even balance between economy, environment and society



Content and structure

The BASF Report combines our financial and sustainability reporting and is addressed to readers interested in both areas.

In addition to our integrated corporate report, we publish further information about sustainability issues online. Links to this supplementary information are provided in each chapter. Our sustainability reporting has been oriented toward the Global Reporting Initiative (GRI) framework since 2003.

The information in the BASF Report 2012 also serves as a progress report on BASF's implementation of the ten principles of the U.N. Global Compact and takes into consideration the Blueprint for Corporate Sustainability Leadership – an action plan initiated as part of the Global Compact LEAD platform. The symbol indicates information on the implementation of the ten principles and the Blueprint for Corporate Sustainability Leadership. If the symbol appears at the end of a chapter, the entire content of the chapter is relevant. The GRI and Global Compact Index from page 230 onward provides information on GRI indicators for topics relevant to the Global Compact principles. An expanded overview is available online.

- **The 2012 online report can be found at basf.com/report**
- **For more on sustainability, see basf.com/sustainability**
- **For more on the Global Compact, the implementation of the Global Compact principles, Global Compact LEAD and Blueprint for Corporate Sustainability Leadership, see basf.com/globalcompact_e, www.globalcompact.org and basf.com/gclead_e**
- **A short GRI and Global Compact index can be found on pages 230 and 231; for a more comprehensive version, see basf.com/gri_gc_e**

Overview

– BASF Report 2012 integrates our financial and sustainability reporting
– HTML version of the report online contains additional information and service features
– Further information on sustainability issues online
– Report serves as a progress report for the United Nations Global Compact

Requirements and topics

The information on the financial position and performance of the BASF Group is based on the requirements of International Financial Reporting Standards (IFRS), and, where applicable, the German Commercial Code as well as the German Accounting Standards (GAS). Internal control mechanisms ensure the reliability of the information presented in this report. BASF's management confirmed the effectiveness of the internal control measures and compliance with the regulations for financial reporting.

Our sustainability reporting is aligned with the international guidelines (G3.1) of the Global Reporting Initiative (GRI) as well as with the principles of the U.N. Global Compact and the Blueprint for Corporate Sustainability Leadership. We want to identify and evaluate sustainability issues relevant for BASF at an early stage. To this end, we engage in constant dialog with our stakeholders. We evaluate and analyze sustainability issues together with experts in our materiality analysis. We used this analysis as the basis for identifying and prioritizing key topics for the report in order to develop strategies well in advance for dealing with potential opportunities and risks. The resulting materiality matrix considers the degree of societal interest as well as the significance of these issues for BASF.

→ **For more on the Global Reporting Initiative, see www.globalreporting.org**

→ **For more on our selection of sustainability topics, see page 27 onward and basf.com/materiality**

Data

All information and bases for calculation in this report are based on national and international standards for financial and sustainability reporting. All of the data and information for the reporting period were sourced from the responsible units using representative methods. The reporting period was the financial year 2012. BASF Group's scope of consolidation for its reporting comprises BASF SE, the parent company, with its headquarters in Ludwigshafen, Germany, as well as all of its material subsidiaries. Jointly operated companies are included on a proportional basis. Employees within the BASF Group scope of consolidation as of December 31, 2012, are represented accordingly in the information contained in the chapter Employees.

Our data collection methods for environmental protection and occupational safety are based on the recommendations of the European Chemical Industry Council (CEFIC). In the Environment chapter, with its sections on Energy and Climate Protection, Water, and Air and Soil, we report on approximately 98% of all emissions and waste from our production sites worldwide and show around 98% of our worldwide energy and water use. The emissions, waste, energy and water use of joint venture companies are included pro rata, based on our stake. We compile information on work-related accidents at all Group company sites worldwide. Accidents at joint venture sites are also compiled and reported in full. Further data on social responsibility and transportation safety apply to all consolidated Group companies, unless otherwise indicated. To make this report as current as possible, we have included relevant information available up to the editorial deadline of February 20, 2013. The report is published each year in English and German.

→ **For more on emissions, see page 25 and from page 100 onward**

→ **The Consolidated Financial Statements begin on page 144**

Topics

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

Data

- Information and bases for calculation based on international standards for financial reporting and sustainability reporting
- Data collection methods for environmental protection and safety based on recommendations of the European Chemical Industry Council
- Relevant information available up to editorial deadline of February 20, 2013

External audit and evaluation

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

The audit covers financial information as well as statements and figures pertaining to sustainability, and was conducted in accordance with the International Standard of Assurance Engagements 3000, a pertinent standard for assuring sustainability information. The additional content provided on the BASF internet sites indicated in this report is not part of the information audited by KPMG.

For the BASF Report 2012, the GRI confirmed that the BASF Group's sustainability reporting fulfills the expanded GRI guideline 3.1 with the highest application level, A+. We thus also comply with the German Sustainability Code.

→ **The Auditor's Report can be found on page 145**

→ **The Assurance Report on sustainability information in the BASF Report 2012 can be found at basf.com/sustainability_information**

→ **The GRI Statement can be found on page 232**

External audit and evaluation

– Financial information as well as figures and statements pertaining to sustainability in the Consolidated Financial Statements and Management's Analysis audited by KPMG AG Wirtschaftsprüfungsgesellschaft
– Audit also in accordance with assurance standards for sustainability reporting
– Level A+ in sustainability reporting confirmed by Global Reporting Initiative

To Our Shareholders

Letter from the Chairman of the Board of Executive Directors

Dear Shareholder,

BASF maintained its good performance in 2012. We exceeded the 2011 record levels in sales and income from operations. The Oil & Gas and Agricultural Solutions segments achieved new records, while development in our chemicals business was weaker than we had anticipated at the beginning of the year. Net income therefore did not match the previous year's level.

For the chemical industry, 2012 was a mixed year: Growth in worldwide chemical production (excluding pharmaceuticals) slowed from 3.8% in 2011 to 2.6%. The emerging markets of Asia showed markedly weak growth in the first half of the year. The upswing in demand expected for the second half of the year failed to materialize. In this environment, we were unable to increase sales volumes in the chemicals business. At the same time, raw material costs were higher than in the previous year.

For the capital markets, 2012 was a volatile, yet successful year overall. The BASF share performed well, trading at €71.15 at the end of December, 32% above the previous year's closing price. With dividends reinvested, BASF shares gained 37%, once again significantly outperforming the German and European stock markets as well as worldwide chemical industry indices.

For you, stability and reliability are especially important in times like these. This is why we stand by our dividend policy: At the Annual Shareholders' Meeting at the end of April 2013, we will propose a dividend increase of 4.0% to €2.60, representing a dividend yield of 3.65%.

"Innovations lie at the core of our competitiveness, and we have lots of good ideas."

A year of the "We create chemistry" strategy

We see excellent growth opportunities for the chemical industry, and especially for BASF. More and more people are living on this planet. They need more resources as well as more and better nutrition – and they strive to improve their quality of life. Chemistry creates the necessary preconditions for this and helps to use natural resources more efficiently. Examples include better automotive catalysts, lighter-weight vehicles, and crop protection products that are even more effective and can thus be applied more sparingly. In this report, you will find additional innovations and products with which we aim to achieve sustainable growth by combining economic success with environmental protection and social responsibility. We have summed this up in our corporate purpose: "We create chemistry for a sustainable future."

In order to even better fulfill the expectations of our customers in emerging markets, we opened an Innovation Campus in Shanghai in 2012. We are also investing in the development and production of battery materials: High-performance and more affordable batteries are the main requirements for increasing electromobility. In the past year, we have acquired a range of smaller battery chemical manufacturers, started producing cathode materials in the United States, and reinforced our research activities. We are aware that we will need perseverance to achieve market success.

We want to grow profitably with health products and functional crop care. In 2012, we acquired Equateq, a U.K.-based producer of highly concentrated omega-3 fatty acids, and made a public takeover bid to the shareholders of Pronova, a producer of omega-3 fatty acids headquartered in Norway. We were already able to conclude this transaction by the end of January 2013. Highly concentrated omega-3 fatty acids are a growing market worldwide that will benefit from increasing consumer awareness of the positive effects of omega-3 products. In the United States, we acquired Becker Underwood, a leading provider of technologies for biological seed treatment and biological crop protection products.

Plant biotechnology is an important element of feeding a growing world population. Yet there is a lack of acceptance in large parts of Europe for the development and cultivation of genetically modified plants. We have therefore moved our plant biotechnology activities from Europe to the United States.

Dividend

€2.60

(+4.0%)

At the Annual Shareholders' Meeting, we will propose a dividend of €2.60 – an increase of €0.10 compared with the previous year.

We have also set a course for further growth in the Oil & Gas segment. Along with our successful exploration activities, we have gained access to additional oil and gas reserves. We will acquire shares in producing fields in the North Sea as part of an asset swap with Statoil. We want to expand our cooperation with Gazprom in oil and gas production in Western Siberia and, in return, completely transfer our 50% share in the gas trading and storage business to our longtime partner.

Growth track 2013

2013 will be a demanding year: We anticipate that the environment will remain volatile. The global economy is expected to grow slightly faster than in 2012. Our goal is to grow once again in 2013 and improve income from operations. We have undertaken measures to align ourselves even more closely with our customers and increase operational and technological excellence, such as the optimization of our organization and segment structure. We will also keep a tight rein on costs. With our STEP program, we are improving our productivity and internal processes in all divisions and regions. Starting at the end of 2015, STEP is expected to contribute around €1 billion to earnings each year.

Innovations lie at the core of our competitiveness, and we have lots of good ideas. Therefore, we will once again increase our research and development spending in 2013, after expenditures of €1.7 billion in the past year.

We will also raise our capital expenditures in 2013, both in the emerging markets as well as in Europe. There are new opportunities in North America, as well, where energy and raw material costs have fallen drastically due to the production of shale gas. This is an important factor for the chemical industry. In Europe, the discussion surrounding shale gas is one-sided, limited to an ecological perspective. In fact, Europe needs more growth, and must improve its competitiveness. This requires a balanced discussion of opportunities and risks – the current energy policy does not provide the conditions for this.

There is great energy to be found in BASF. Our second global survey showed that our employees have a strong sense of identification with the company. My heartfelt thanks go to them, for our success is only possible through their competence and high level of commitment.

I would also like to thank you for your trust in the past year. I hope you will continue to place your trust in us. We innovate to make our customers more successful, and we aim to generate attractive yields for our shareholders. My colleagues and I are working hard to achieve this.

Sincerely,

Dr. Kurt Bock

The Board of Executive Directors

Innovations for the future

→ For more information on the Board of Executive Directors of BASF SE, see page 130 onward

“We need innovations to ensure a secure and competitive supply of energy and raw materials.”

Dr. Harald Schwager

“Our distinct focus on key industries allows for customized innovations with which we can fulfill customers’ requirements even more quickly.”

Michael Heinz

“BASF is one of the most innovative companies in the world, thanks especially to the creativity and dedication of our employees.”

Margret Suckale
Industrial Relations Director

“Through innovations, we aim to significantly increase our sales to customers in emerging markets, which are expected to comprise 45% of BASF Group total sales by 2020.”

Dr. Martin Brudermüller
Vice Chairman of the Board of Executive Directors

"At BASF, sustainable business and innovation go hand in hand. We develop solutions for a better future and help to meet global challenges."

Dr. Kurt Bock
Chairman of the Board of Executive Directors

"Innovations based on chemical and technical expertise are both our roots and our growth engine."

Dr. Andreas Kreimeyer
Research Executive Director

"Innovation is the key factor in enabling us to reach our growth objectives."

Dr. Hans-Ulrich Engel
Chief Financial Officer

"With innovations in the chemicals business, we are continuously developing our value chains and strengthening our market position."

Wayne T. Smith

BASF on the capital market
Dividend increase, good credit ratings

Stock markets in 2012 were characterized by widespread uncertainty due primarily to the debt crisis in the eurozone. In this difficult environment, the BASF share performed well and traded at €71.15 at the end of 2012, 32.0% above the previous year's closing price.

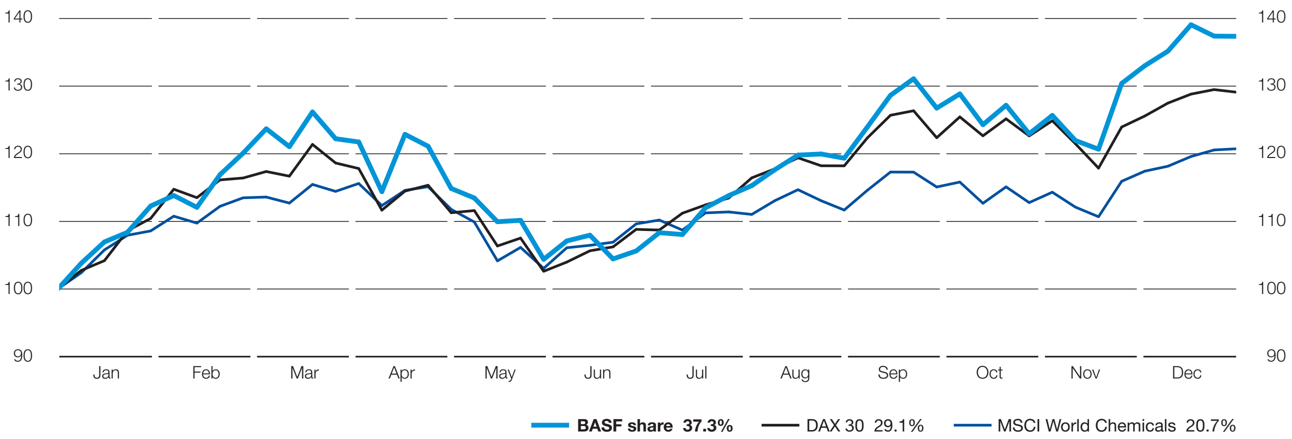
We stand by our ambitious dividend policy and will propose a dividend of €2.60 per share at the Annual Meeting – an increase of 4.0% compared with the previous year. BASF has solid financing and good credit ratings.

BASF share performance

After positive development on the stock market at the beginning of the year, the second quarter saw a decline in share prices resulting from continuing uncertainty in the eurozone. Recovery in the third quarter was bolstered by the European Central Bank's resolution to purchase unlimited quantities of European government bonds. After a brief consolidation phase, stock markets posted strong share-price gains at the end of the year and BASF shares achieved a new all-time high of €73.09 on December 19, 2012. At the end of 2012, the BASF share traded at €71.15, 32.0% above its closing price one year earlier. Assuming that dividends were reinvested, BASF shares gained 37.3% of their value in 2012. The BASF stock thus outperformed the German and European stock markets: Over the same period, the DAX 30 index rose by 29.1% while the DJ EURO STOXX 50 index gained 17.7%. BASF shares also performed better than the global industry indices DJ Chemicals and MSCI World Chemicals in 2012, both of which rose by 20.7%.

The assets of an investor who invested €1,000 in BASF shares at the end of 2002 and reinvested the dividends in additional BASF shares would have increased to €5,774 by the end of 2012. This average annual return of 19.2% places BASF shares substantially above the returns for the DAX 30 (10.2%), EURO STOXX 50 (4.0%) and MSCI World Chemicals (10.6%) indices.

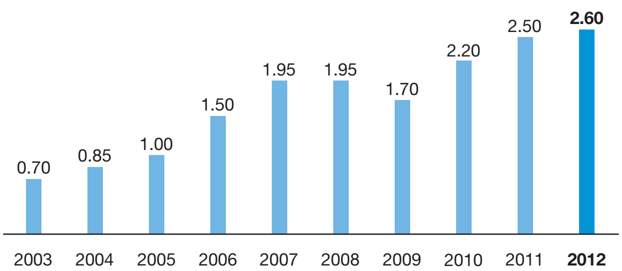
Change in value of an investment in BASF shares 2012
(with dividends reinvested, indexed)



BASF on the capital market

- After positive first quarter, uncertainty in eurozone leads to decline in share prices; recovery begins in the third quarter; strong share-price gains at end of year
- BASF share outperforms the most important benchmark and industry indices
- Proposed dividend of €2.60 per share; increase of 4.0% compared with previous year

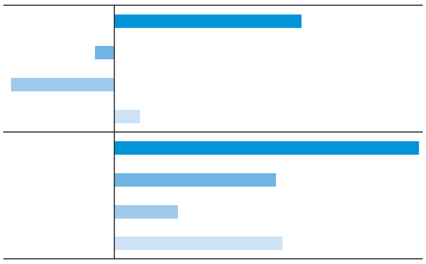
Dividend per share[1] (€ per share)



[1] Adjusted for two-for-one stock split conducted in 2008

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

2007–2012	11.8%
	(1.2%)
	(6.5%)
	1.6%
2002–2012	19.2%
	10.2%
	4.0%
	10.6%



BASF share DAX 30 EURO STOXX MSCI World Chemicals

Dividend of €2.60 per share

At the Annual Meeting, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €2.60 per share. We stand by our ambitious dividend policy and plan to pay out around €2.4 billion to our shareholders. Based on the year-end share price for 2012, BASF shares offer a high dividend yield of 3.65%. BASF is part of the DivDAX share index, which contains the 15 companies with the highest dividend yield in the DAX 30. We continue to aim to increase our dividend each year, or at least maintain it at the previous year's level.

Broad base of international shareholders

With over 400,000 shareholders, BASF is one of the largest publicly owned companies with a high free float. An analysis of the shareholder structure carried out at the end of 2012 showed that, at just under 16% of share capital, the United States and Canada made up the largest regional group of institutional investors. Institutional investors from Germany accounted for 12%. Shareholders from the United Kingdom and Ireland hold around 10% of BASF shares, while institutional investors from the rest of Europe hold a further 18% of capital. Approximately 25% of the company's share capital is held by private investors, most of whom are resident in Germany. BASF is therefore one of the DAX 30 companies with the largest percentage of private shareholders in Germany.

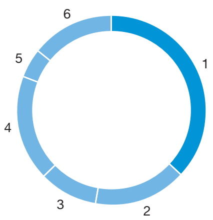
Employees becoming shareholders

In many countries, we offer share purchase programs to encourage our employees to become BASF shareholders. In 2012, more than 20,300 employees (2011: 19,600) purchased employee shares worth around €48 million (2011: €45 million).

→ **For more on employee share purchase programs, see page 42**

Shareholder structure (by region)

1	Germany	37%
2	United States / Canada	16%
3	United Kingdom / Ireland	10%
4	Rest of Europe	18%
5	Rest of world	5%
6	Not identified	14%



Percentage of BASF shares in important indices as of December 31, 2012

DAX 30	9.9%
DJ Chemicals	8.3%
MSCI World Index	0.3%

BASF in key sustainability indices

The BASF share has been included in the Dow Jones Sustainability World Index (DJSI World) for the twelfth year in succession. The analysts particularly recognized our commitment in the areas of climate strategy and risk and crisis management as well as human capital development. This important sustainability index represents the top 10% of the 2,500 largest companies in the Dow Jones Global Index based on economic, environmental and social criteria.

According to the non-profit organization Carbon Disclosure Project (CDP), BASF is among the ten leading companies in the world in climate protection. The CDP represents 655 institutional investors, with around $78 trillion in assets under management. We were once again listed in the CDP's two renowned indices in 2012: BASF was represented for the eighth time in the Carbon Disclosure Leadership Index (CDLI) with an outstanding ranking. The CDLI contains 51 companies that disclose their data in a particularly transparent and comprehensive manner. As in previous years, we were the top scorer in the Materials sector. We have been listed for the third time in the Carbon Performance Leadership Index (CPLI) – ever since its beginning. The CPLI lists 33 companies based on their exemplary performance in climate protection activities such as climate strategy, stakeholder communication or management system.

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

Good credit ratings and solid financing

With "A+/A-1/outlook stable" from rating agency Standard & Poor's and "A1/P-1/outlook stable" from Moody's, BASF has good credit ratings, especially in comparison with competitors in the chemical industry.

At the end of 2012, the financial indebtedness of the BASF Group was around €13.4 billion with liquid funds of approximately €1.8 billion. The average maturity of our financial indebtedness was 3.4 years. The company's medium to long-term debt financing is based on corporate bonds with a balanced maturity profile. For short-term debt financing, BASF has a commercial paper program with an issuing volume of up to $12.5 billion. As backup for the commercial paper program, there are committed, broadly syndicated credit lines of €3 billion and $2.25 billion available; these are not being used at this time.

→ **For more on financial indebtedness and maturities, see the Notes from page 192 onward**

Analysts' recommendations

Around 30 financial analysts regularly publish studies on BASF. At the end of 2012, 58% of these analysts had a buy rating for our shares (end of 2011: 50%) while 42% of analysts recommended holding our shares (end of 2011: 44%). There were no sell ratings (end of 2011: 6%). On December 31, 2012, the average target share price according to analyst consensus estimates was €70.56.

→ **Continuously updated consensus estimates on BASF are available online at basf.com/share**

BASF in sustainability indices

- DJSI World: particular recognition for climate strategy, risk and crisis management and human capital development
- CDLI and CPLI: repeated inclusion in sustainability indices attests to BASF's transparency and exemplary climate protection activities

Solid financing

- Financial indebtedness of the BASF Group around €13.4 billion at year-end 2012; average maturity of 3.4 years
- Commercial paper program with an issuing volume of up to $12.5 billion
- Committed, unused back-up lines of €3 billion and $2.25 billion

Close dialog with the capital markets

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

We presented our position as the leading provider of chemistry-based solutions for the automobile industry to analysts and investors at the "Investor Day Automotive" event at the beginning of September. Topics discussed by two members of the Board of Executive Directors, along with top management from several divisions, included how our business with the automotive industry contributes to the achievement of our ambitious growth goals. Our customer Hyundai illustrated this close cooperation using the example of a jointly developed concept car, which relies on a number of new BASF materials and solutions. Furthermore, at the Agricultural Solutions roundtable in the middle of November, we illustrated the progress and prospects of our activities in crop protection and plant biotechnology. It is very important to us that analysts and investors have direct contact with BASF management, as we feel that investors should get to know the people who lead our businesses. → **For more on our growth targets, see page 24**

Once again in 2012, we put on roadshows targeted specifically toward investors who base their investment decisions on sustainability criteria, where we particularly explained our measures related to climate protection and energy efficiency. In addition, as in the last year, we conducted several special creditor relations roadshows presenting our business and our financing strategy to credit analysts and creditors.

Investors can find comprehensive information about BASF and BASF shares on our website. We have also been providing interested users with current information on the BASF share via social media platforms like Twitter and Facebook for a few years now. This offer is being used at an ever-increasing rate.

Analysts and investors have confirmed the quality of our communication work: In addition to taking first place in the German Investor Relations Award (*Deutscher Investor Relations Preis*), BASF's investor relations team was also recognized multiple times in the Thomson Reuters Extel Pan-European Survey 2012. Furthermore, our work was awarded several first prizes in the IR Magazine Europe Awards 2012 and in the annual rankings of the publication Institutional Investor.

Dialog with the capital markets

- Global roadshows and individual meetings provide information to institutional investors and ratings agencies
- Information events for retail investors
- Investor days and roundtable talks provide in-depth discussion of topics
- Special creditor relations roadshows provide information to credit analysts and creditors
- Numerous awards for BASF Investor Relations

Investor Relations

Can be contacted at
- Phone: +49 621 60-48230
- Email: ir@basf.com
- Internet: basf.com/share

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

Key BASF share data[1]

		2008	2009	2010	2011	2012
Year-end price	€	27.73	43.46	59.70	53.89	71.15
Year high	€	52.41	43.95	61.73	69.40	73.09
Year low	€	19.95	20.71	39.43	43.66	51.89
Year average	€	38.88	31.62	46.97	57.02	62.17
Daily trade in shares[2]						
	million €	282.1	157.4	197.5	265.7	205.6
	million shares	7.3	5.0	4.2	4.7	3.3
Number of shares December 31[3]	million shares	918.5	918.5	918.5	918.5	918.5
Market capitalization December 31	billion €	25.5	39.9	54.8	49.5	65.4
Earnings per share	€	3.13	1.54	4.96	6.74	5.31
Adjusted earnings per share	€	3.85	3.01	5.73	6.26	5.71
Dividend per share	€	1.95	1.70	2.20	2.50	2.60
Dividend yield[4]	%	7.03	3.91	3.69	4.64	3.65
Payout ratio	%	62	111	44	37	49
Price-earnings ratio (P/E ratio)[4]		8.9	28.2	12.0	8.0	13.4

[1] All values adjusted for two-for-one stock split conducted in the second quarter of 2008
[2] Average, Xetra trading
[3] After deduction of shares earmarked for cancellation
[4] Based on year-end share price

Further information

Securities code numbers	
Germany	BASF11
Great Britain	0083142
Switzerland	323600
United States (CUSIP Number)	055262505
ISIN International Securities Identification Number	DE000BASF111

International ticker symbol	
Deutsche Börse	BAS
London Stock Exchange	BFA
Swiss Exchange	AN

Management's Analysis

2

The BASF Group

The world's leading chemical company – The Chemical Company

We are the world's leading chemical company – The Chemical Company. Around 113,000 employees work in the BASF Group toward contributing to the success of our customers from nearly all sectors and almost every country in the world. Our broad portfolio is arranged into six segments: Chemicals, Plastics, Performance Products, Functional Solutions, Agricultural Solutions and Oil & Gas.

Markets and sites

BASF has subsidiaries in more than eighty countries and supplies products to a large number of business partners in nearly every part of the world. In 2012, we achieved 55% of our sales with customers in Europe, of which 36 percentage points were in the Oil & Gas segment. In addition, 18% of sales were generated in North America; 19% in Asia Pacific; and 8% in South America, Africa, Middle East.

We operate six Verbund sites as well as approximately 380 additional production sites worldwide. Our Verbund site in Ludwigshafen is the largest integrated chemical complex in the world. This was where the Verbund concept was developed and continuously optimized before it was applied to other sites around the world.

The Production Verbund, for example, intelligently links production units and energy demand so that heat from production processes can be used as energy in other plants, saving both primary resources and costs. Another important part of the Verbund concept is the Know-How Verbund. Expert knowledge is pooled in our central research areas.

→ For more on the Verbund concept, see basf.com/verbund_e

Organization of the BASF Group

Until the end of 2012, BASF's six segments contained 15 divisions which bore operational responsibility and managed our 70 global and regional business units. The divisions develop strategies for our approximately 80 strategic business units and are organized according to sectors or products.

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

Three central divisions, six corporate departments and eleven competence centers provide Group-wide services such as finance, investor relations, communications, human resources, research, engineering, site management and environment, health and safety.

→ For information on the organization of the BASF Group since January 1, 2013, see page 122

BASF structure up to December 31, 2012

Segments	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas
Divisions	– Inorganics – Petrochemicals – Intermediates	– Performance Polymers – Polyurethanes	– Dispersions & Pigments – Care Chemicals – Nutrition & Health – Paper Chemicals – Performance Chemicals	– Catalysts – Construction Chemicals – Coatings	– Crop Protection	– Oil & Gas (Exploration & Production, Natural Gas Trading)

The BASF Group

- Six Verbund sites and approximately 380 other production sites worldwide; around 113,000 employees
- Ludwigshafen is the location of the largest BASF Verbund site, and where the Verbund concept was created
- Verbund: Intelligent plant networking in the Production Verbund; Know-How and Research Verbund

Organization of the BASF Group

- Six segments contain 15 divisions that manage our global and regional business units
- Regional divisions optimize the infrastructure and support operations
- Corporate divisions and departments as well as competence centers provide Group-wide services

Corporate legal structure

As the publicly traded parent company, BASF SE takes a central position: Directly or indirectly, it holds the shares in the companies belonging to the BASF Group, and is also the largest operating company. The majority of Group companies cover a broad spectrum of our business. Some concentrate on specific business areas: the Wintershall Group companies, for example, focus on oil and gas activities. In the BASF Group Consolidated Financial Statements, 308 companies including BASF SE are fully consolidated. We consolidate 22 jointly controlled entities with one or more partners on a proportional basis. We also include 14 companies using the equity method.

→ **For more, see the Notes to the Consolidated Financial Statements from page 160 onward**

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

→ **The compensation report can be found from page 133 onward, and the disclosures required by takeover law in accordance with section 315 (4) German Commercial Code from page 127 onward. They form part of the Management's Analysis audited by the external auditor.**

BASF sites

Regional centers   Selected production sites   Verbund sites   Most important research sites

Corporate legal structure

- BASF SE is the publicly traded parent company of the BASF Group
- 308 companies fully consolidated in the Consolidated Financial Statements
- 22 jointly controlled entities included on a proportional basis
- 14 additional companies included using the equity method

Most important research sites

- Europe: Ludwigshafen, Basel, Düsseldorf
- North America: Raleigh, Iselin, Wyandotte
- Asia Pacific: Shanghai, Singapore, Mumbai
- South America: Guaratinguetá

Corporate strategy

With the "We create chemistry" strategy, BASF has set itself ambitious goals in order to strengthen its position as the world's leading chemical company. We want to contribute to a sustainable future and have embedded this into our corporate purpose: "We create chemistry for a sustainable future."

In 2050, around nine billion people will live on this planet. While the world population and its demands will keep growing, the planet's resources are finite. On the one hand, population growth is associated with enormous global challenges; but we also see many opportunities, especially for the chemical industry.

Our purpose
We create chemistry for a sustainable future

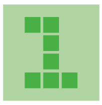
Growth in the chemicals sector will be particularly dynamic in the emerging economies. We expect that these markets will account for around 60% of global chemical production by 2020.

Innovations based on chemistry will play a key role in these countries, particularly in three areas:

- Resources, environment and climate
- Food and nutrition
- Quality of life

Our leading position as an integrated global chemical company opens up opportunities for us in all three of these areas. In pursuing them, we act in accordance with four strategic principles.

Our strategic principles



We add value as one company

We innovate to make our customers more successful

We drive sustainable solutions

We form the best team

We add value as one company. Our Verbund concept is unique in the industry. We plan to strengthen this sophisticated and profitable system even further. It extends from the Production Verbund and Technology Verbund to the Know-How Verbund, and provides access to all relevant customer industries worldwide. In this way, we combine our strengths and add value as one company.

We innovate to make our customers more successful. We want to focus our business even more strongly on our customers' needs and contribute to their success with innovative and sustainable solutions. Through close partnerships with customers and research institutes, we link expertise in chemistry, biology, physics, materials sciences and engineering to jointly develop customized products as well as functional materials and system solutions.

"We create chemistry" strategy

– Our purpose: We create chemistry for a sustainable future
– Innovations based on chemistry will play a key role in three areas in particular:
  resources, environment and climate; food and nutrition; quality of life
– Our strategic principles: We add value as one company – We innovate to make our customers more successful –
  We drive sustainable solutions – We form the best team

We drive sustainable solutions. In the future, sustainability will increasingly become a starting point for new business opportunities. We therefore value sustainability and innovation as important drivers for profitable growth.

We form the best team. Committed and qualified employees around the world are the key to making our contribution to a sustainable future. That is why we will continue to pursue our goal of building the best team. We offer excellent working conditions and an open leadership culture that fosters mutual trust and respect and encourages high motivation.

→ **For more on innovation, see page 30 onward**
→ **For more on business opportunities with sustainability, see page 27 onward**
→ **For more on the Best Team strategy, see page 39 onward**

Our values

How we act is critical for the successful implementation of our strategy: This is what our values represent. They guide how we interact with society, our partners and with each other.

Creative

In order to find innovative and sustainable solutions, we have the courage to pursue bold ideas. We bring together our expertise in many different fields and build partnerships to develop creative, value-adding solutions. We constantly improve our products, services and solutions.

Open

We value diversity – in people, opinions and experience. That is why we foster dialog based on honesty, respect and mutual trust. We explore our talents and capabilities.

Responsible

We act responsibly as an integral part of society. Thereby, we strictly adhere to our compliance standards. And in everything we do, we never compromise on safety.

Entrepreneurial

We all contribute to BASF's success, as individuals and as a team. BASF turns market needs into customer solutions. We succeed in this because we take ownership and embrace accountability for our work.

Strategic focus areas

We have defined strategic focus areas within our company: In order to achieve our goals, we are concentrating on the areas of sustainability, innovation, sector orientation, employees, technological and operational excellence. To maximize our potential, we will connect our strengths as one company to even better use the full range of competencies that make us unique in our industry. We will tap new growth markets by linking our research and development expertise, our operational excellence, our market knowledge and our customer relationships even more closely together. In this way, we promote the long-term success of both BASF and of our customers with our products and solutions. Our employees are the critical factor in achieving the goals of our "We create chemistry" strategy.

Our values

– Creative
– Open
– Responsible
– Entrepreneurial

Focus areas

– Sustainability
– Innovation
– Sector orientation
– Employees
– Technological and operational excellence

Global standards

We act responsibly as an integral part of society. Our standards are aligned with internationally recognized principles and fulfill or exceed existing laws and regulations. We respect and promote

- The 10 principles of the U.N. Global Compact,
- The Universal Declaration of Human Rights and both United Nations covenants on human rights,
- The ILO's core labor standards and Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration),
- The OECD Guidelines for Multinational Enterprises,
- The Responsible Care Global Charter, and
- The German Corporate Governance Code.

We stipulate rules for our employees with standards that apply Group-wide. We set ourselves ambitious goals with voluntary commitments and review our environmental, health and safety performance using our Responsible Care Management System. Regular audits and a three-pronged monitoring system ensure our compliance with labor and social standards. This system comprises three instruments:

- External compliance hotlines,
- The annual survey in our Group companies to inspect the prevailing working conditions, and
- Close dialog with our stakeholders, such as employee representatives and international organizations.

Our business partners are expected to align their actions with internationally recognized principles. We have established monitoring systems to ensure this.

→ **For more on labor and social standards, see page 43**
→ **For more on the Responsible Care Management System, see page 94**
→ **For more on corporate governance, see page 124 onward**

Compliance

For us, compliance means the duty to comply with laws and internal corporate directives. This takes place within the framework of our corporate governance system. With the statement, "We strictly adhere to our compliance standards," we ensure that these standards are a mandatory part of everyday operations for all employees. → **For more on compliance, see page 129**

Global standards and compliance

- We act according to clearly defined values and standards of conduct that fulfill or go beyond laws and regulations
- We review our performance with regular audits and a three-pronged monitoring system
- Binding standards of conduct ensure that compliance is firmly established in day-to-day business activities

Innovations for a sustainable future

We need innovations in chemistry to fulfill the needs of the growing world population on a long-term basis. The development of innovative solutions and products is, therefore, of vital significance for BASF's success. In 2020, we aim to generate around €30 billion of our sales and €7 billion of our EBITDA with the help of innovative products that will have been on the market for less than 10 years.

This means effective and efficient research is becoming increasingly important. In 2012, we oriented our processes, structures and project portfolio toward the future and aligned them even more closely with the market than before. We defined technology and growth fields in which we can make a decisive contribution to innovative and sustainable solutions for global challenges. We are continuing to expand our research and development activities in Asia as well as in North and South America in order to participate in regional innovation processes and gain access to local talent. By 2020, we aim to conduct half of our research and development activities outside of Europe.

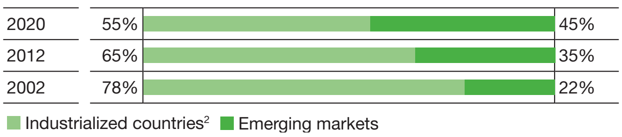
→ For more on innovation, see page 30 onward

Business expansion in emerging markets

In the years ahead, we want to grow even more robustly within the emerging economies and expand our leading position there. Today's emerging markets are expected to account for around 60% of global chemical production in 2020. We aim to benefit from the significant growth in these regions and therefore plan to invest more than a third of our additions to property, plant and equipment there between 2011 and 2020.

In 2012, economic growth was once again considerably more vigorous in the emerging markets than in the industrialized countries. Against the backdrop of the weak global economy, however, many emerging markets – including China, India and Brazil – also posted a decline in growth rates compared with the strong dynamic of previous years. This was partly due to the lower demand from Europe for exports as well as to dampened domestic investing activities.

Sales in emerging markets (% of sales[1])



[1] BASF Group sales excluding Oil & Gas

[2] Comprises EU15, Norway, Switzerland, North America, Japan, Australia, New Zealand

Nevertheless, our business in emerging markets grew once again in 2012: Compared with 2011, we were able to increase the sales of our companies headquartered in these regions by 5% to €18,213 million. All segments made a strong contribution to this growth. Based on customer location, we increased sales (excluding Oil & Gas) in emerging markets year-on-year by 2% to €21,605 million; sales to customers in emerging markets therefore amounted to around 35% of total sales (excluding Oil & Gas) in 2012. By 2020, we aim to expand this proportion to 45%.

Innovation

– In 2020, we aim to generate €30 billion of our sales and €7 billion of our EBITDA through innovative products from the previous ten years
– Processes, structures and project portfolio aligned even more closely with the market than before
– By 2020, half of our research and development activities are to be conducted outside of Europe

Business expansion in emerging markets

– 2020: Emerging markets are expected to account for around 60% of world chemical production
– BASF participates in growth through strong local presence
– Sales increase in emerging markets compared with previous year; portion of total BASF sales (excluding Oil & Gas) at around 35% in 2012

Goals

Growth and profitability[1]

	Annual goals	2015 Goals	2020 Goals	Status at year-end 2012
Sales		Approx. €85 billion	Approx. €115 billion	€78.7 billion
Premium on cost of capital	At least €2.5 billion on average each year			€1.5 billion
EBITDA		Approx. €15 billion	Doubling compared with 2010 to approx. €23 billion	€12.5 billion
Earnings per share		Around €7.50		€5.31

[1] We have set ourselves these goals as part of the "We create chemistry" strategy adopted in 2011. Our goals are based on the assumptions that we will continue to grow two percentage points faster than global chemical production annually and that global gross domestic product will grow by an average of 3% every year until 2020 and worldwide chemical production by 4% every year.

Employees

	Long-term goals	Status at year-end 2012	More on
International proportion of senior executives	Increase in the proportion of non-German senior executives (baseline 2003: 30%)	33.8%	Page 41
Senior executives with international experience	Proportion of senior executives with international experience over 80%	80.4%	Page 41
Women in executive positions	Increase in the proportion of female executives worldwide	17.0%	Page 41
Personnel development	Establishment of personnel development as a responsibility shared by employees and managers based on relevant processes and tools	Introduced for around 30,000 employees worldwide in first phase	Page 40

EBITDA 2012

(2020 goal: approx. €23 billion)

€12.5 billion

Executives

Proportion of senior executives with international experience (goal: over 80%)

80%

Safety, security and health

	2020 Goals	Status at year-end 2012	More on
Transportation			
Transportation accidents per 10,000 shipments (baseline 2003)	–70%	–57%	Page 95
Production			
Lost time injuries per million working hours (baseline 2002)	–80%	–48%	Page 96
Health Performance Index (annual goal)	>0.9	0.89	Page 96
Products			
Risk assessment for all products sold worldwide by BASF in quantities of more than one metric ton per year	>99%	45%	Page 98

Environment

	2020 Goals	Status at year-end 2012	More on
Energy and climate protection			
Improvement of energy efficiency in production processes[2] (baseline 2002)	+35%	+19.3%	Page 101
Greenhouse gas emissions per metric ton of sales product[2] (baseline 2002)	–40%	–31.7%	Page 101
Stop flaring of associated gas released during Wintershall's production of crude oil (2012 goal)	100%	100%	Page 101
Greenhouse gas emissions per amount and distance of transported gas (baseline 2010)	–10%	–22.1%	Page 101
Water			
Emission of organic substances to water[2] (baseline 2002)	–80%	–76.4%	Page 104
Emission of nitrogen to water[2] (baseline 2002)	–80%	–87.3%	Page 104
Emission of heavy metals to water[2] (baseline 2002)	–60%	–56.8%	Page 104
Withdrawal of drinking water for production (baseline 2010)	–50%	–23.2%	Page 104
Introduction of sustainable water management at production sites in water stress areas	100%	3.1%	Page 104
Air			
Emission of air pollutants[2] (baseline 2002)	–70%	–63.1%	Page 106

[2] Excluding oil and gas production

Occupational safety

Lost time injury rate per million working hours, baseline 2002 (2020 goal: –80%)

–48%

Climate protection

Greenhouse gas emissions per metric ton of sales product, baseline 2002 (2020 goal: –40%)

–32%

Value-based management

We add value as one company

"We add value as one company" is one of the four principles of our "We create chemistry" strategy. To create value in the long term, a company's earnings must exceed the costs of stockholders' equity and debt capital. This is why we strive to earn a premium on our cost of capital of at least €2.5 billion on average per year. To secure BASF's long-term success, we encourage all employees to think and act entrepreneurially within the framework of our value-based management concept. Our goal: to create awareness about how every employee can find value-oriented solutions and implement these in an efficient and effective manner in day-to-day business.

EBIT after cost of capital

Earnings before interest and taxes (EBIT) after cost of capital is the key performance and management indicator for our operating divisions and business units. This figure takes into account that BASF's shareholders and creditors expect a return on the capital they provide. When we earn a premium on our cost of capital, we exceed the return expected by our shareholders.

Calculation of the cost of capital percentage

The cost of capital percentage depends primarily on three factors:

– The capital structure of the BASF Group
– The level of interest rates on debt, and
– The return expected by shareholders.

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

An EBIT threshold is determined based on the cost of capital and income taxes. The BASF Group's operating units combined need to reach this threshold in order to earn the cost of capital. The cost of capital percentage is the ratio between this minimum EBIT level and the assets of the BASF Group's operating units. In 2012, the cost of capital percentage was 11%; it will be at the same level in 2013.

Value-based management throughout the company

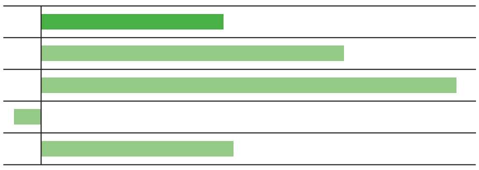
Value-based management is only successful if it is firmly rooted in the company. For us, value-based management is the daily value-oriented performance of all our employees. We have identified value drivers that show how each individual unit in the company can create value. We develop performance indicators for the individual value drivers that help us to plan and pursue changes.

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

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

EBIT after cost of capital (million €)
Five-year summary

2012	**1,534**
2011	2,551
2010	3,500
2009	(226)
2008	1,621



Calculation of EBIT after cost of capital (million €)

	2012	2011
EBIT BASF Group	8,976	8,586
Less EBIT for activities not assigned to the segments[1]	(267)	178
Less non-compensable foreign income taxes for oil production	1,880	439
Less cost of capital[2]	5,829	5,418
EBIT after cost of capital	1,534	2,551

[1] The projected net expense is already provided for by an increase in the cost of capital percentage.
[2] In 2011 and 2012, the cost of capital percentage was 11%.

Sustainability

Sustainability is firmly embedded in our strategy and organization. Sustainability management supports our strategic principle "We drive sustainable solutions," helping us to put our company's purpose – "We create chemistry for a sustainable future" – into practice.

Strategy

We have strategically embedded sustainability into our company as a significant driver for growth. BASF defines sustainability as balancing economic success with social and environmental responsibility, both today and in the future. The conflicts of interest involved in this challenge us to weigh varying concerns and find the best possible solutions.

Our sustainability management has three responsibilities: Taking advantage of business opportunities, minimizing risks and establishing strong relationships with our stakeholders. We take advantage of business opportunities by offering our customers innovative products and solutions that contribute to sustainable development. We minimize risks by identifying relevant issues early on with the help of our materiality analysis, and through operational excellence in our business processes. We engage in ongoing open dialog with our stakeholders.

→ **For more, see page 29**

Organization

In 2012, we enhanced our sustainability management and integrated it into BASF's central units. In this way, we can bind sustainability even better into our core and business processes and more efficiently coordinate the cooperation between our Sustainability Council, regional steering committees and specialist units.

Our globally responsible Sustainability Council is the decision-making body for the sustainability issues most important to us. The Chairwoman of the Council is Board member Margret Suckale. The Council comprises twelve heads of functional, operating and regional divisions, including the Climate Protection Officer. Regional steering committees, specialist units and operating divisions identify focus areas in the regions and implement global decisions.

Stakeholder engagement

A fixed component of our sustainability management is the continuous exchange with our stakeholders. These include employees, customers, suppliers and shareholders, as well as experts in science, industry, politics, society and media. We provide transparent communication about our activities and take on critical questions. We have a particular responsibility toward our production sites' neighbors, and discuss current issues with them in 78 Community Advisory Panels (CAPs).

An open exchange with consumers, non-governmental organizations, policy makers and the public is very important for the successful introduction of products based on new technologies. In 2012, we published the report of the Dialog Forum Nano on transparent communication on nanomaterials. Together with representatives from the participating companies and environmental, consumer and religious groups, we presented the results to selected political leaders.

In order to provide our employees with sustainability training within the framework of our strategy, we conducted 66 workshops with more than 1,200 employees in South America in 2012. We make information on our social standards and our conditions for production available to our customers via special online platforms. BASF is actively involved in local Global Compact networks. BASF's Chairman of the Board of Executive Directors was appointed to the UN Global Compact Board in 2012. In addition, we provide a representative to the Global Reporting Initiative Stakeholder Council.

BASF as a company does not support political parties. In the United States, our employees have established the BASF Corporation Employees Political Action Committee. It is an independent, federally registered association of employees which pools donations to political candidates from BASF employees and independently decides how these are used.

→ **For more on the stakeholder dialog, see basf.com/dialog_e**

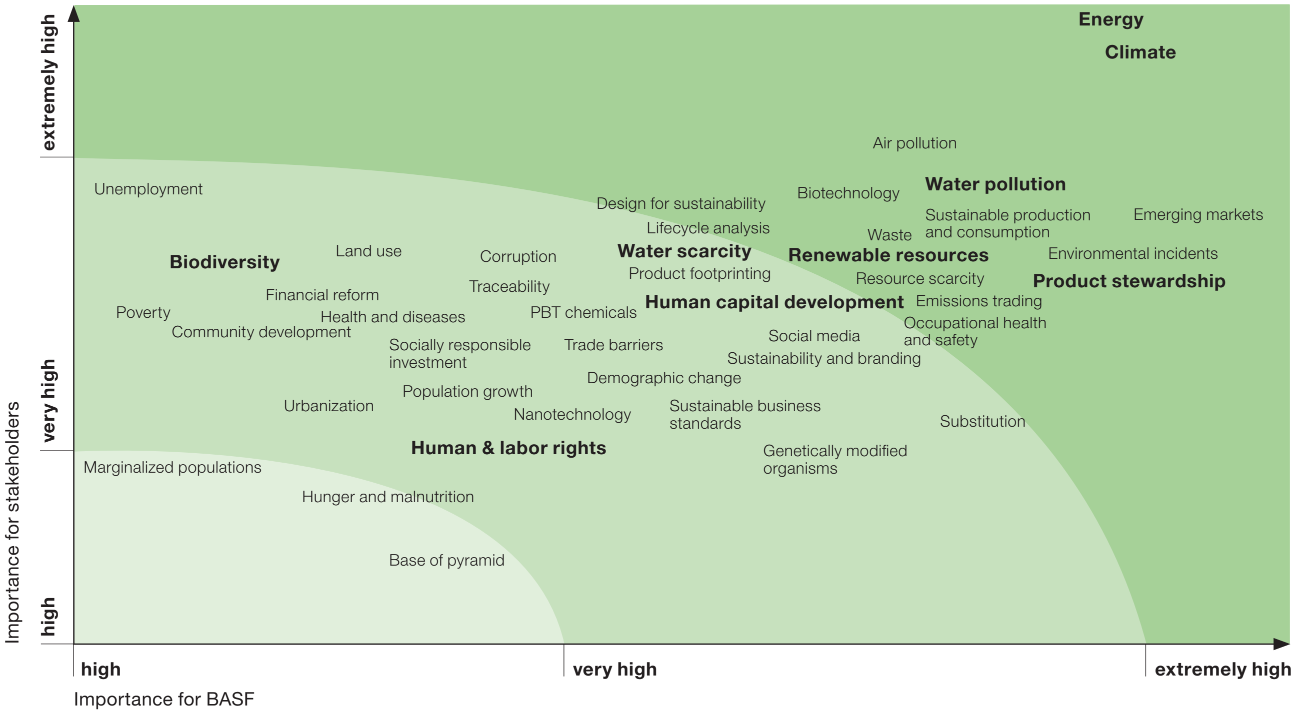
Sustainability management

- Sustainability strategically embedded into company as significant driver for growth
- Strategic responsibilities: seizing business opportunities, minimizing risks, establishing strong relationships with stakeholders

Stakeholder engagement

- BASF fosters ongoing exchange with its stakeholders
- Workshops conducted on sustainability
- BASF actively involved in local Global Compact networks

Materiality matrix
Identifying important sustainability issues



Materiality analysis and sustainability issues

In order to identify areas that could represent opportunities or risks for our business now or in the future, we analyze issues in terms of their relevance for society and for us. For BASF, a topic is of material interest if it is considered relevant from both our stakeholders' as well as our own perspective. For our materiality analysis in 2010, we surveyed several hundred external stakeholders with technical expertise worldwide, as well as specialists and managers from various functions within the company. The materiality matrix displays the material sustainability issues identified there. We subsequently evaluated their strategic significance and arranged them by priority. Top-priority issues were identified as energy and climate, water, renewable resources, product stewardship, human capital development, human and labor rights and biodiversity. Based on the materiality analysis, our sustainability management is continuously evolving. We plan to update our materiality matrix in 2013.

→ **For more on energy and climate, see page 100 onward**
→ **For more on water, see page 104 onward**
→ **For more on renewable resources and biodiversity, see page 93**
→ **For more on product stewardship, see page 98 onward**
→ **For more on human capital development, see page 39 onward**

Identifying and assessing important topics

– Sustainability issues identified based on materiality analysis
– Top-priority issues: energy and climate, water, renewable resources, product stewardship, human capital development, human and labor rights and biodiversity
– Continuous development of sustainability management based on materiality analysis

Human rights

As a founding member of the UN Global Compact, we are committed to our responsibility in accordance with the UN Guiding Principles on business and human rights. In 2012, we joined the Global Business Initiative on Human Rights and conducted dialogs with our stakeholders on our responsibility toward human rights. We systematically integrate human rights aspects into our corporate decision-making and take them into account in our investment decisions – for example, in the construction of new plants. In 2012, our external compliance hotlines received 74 calls pertaining to this topic. Misconduct was identified in 19 cases and countermeasures were taken.

→ **For more on human rights, visit basf.com/human_rights**
→ **For more on compliance, see page 129**

Integrating sustainability into core processes

In order to even better tap into business opportunities in accordance with our strategic principle "We drive sustainable solutions," we ensure that sustainability is embedded into the development and implementation of our business units' strategies and research projects. Our tools for this include our internationally recognized instruments for sustainability evaluation. Furthermore, we have integrated sustainability criteria into our auditing processes for investment decisions.

We offer our customers products and solutions that contribute to sustainable development. For example, BASF's Elastoflex® E-systems support lightweight vehicle design, helping to reduce energy consumption in the automotive industry. We are continuously developing our tools for comprehensive sustainability evaluation. With our Eco-Efficiency Analysis, we have been identifying critical parameters for improving the ecological and economical balance of our products and processes along the entire value chain since 1996. In addition, we use our Socio-Eco-Efficiency Analysis, SEEBALANCE®, to consider social aspects. The AgBalance® method, developed by BASF in 2011, analyzes and evaluates sustainability specifically in agricultural production. In 2012, for example, we helped farmers in North and South America to improve the sustainability of their corn (maize), cotton, soybean and sugarcane cultivation.

Our business units support our customers and suppliers in terms of sustainability. In 2012, we offered consultation to a total of 14 customers in the nutrition and feed industry in Europe, North and South America and Asia with SET (Sustainability, Ecoefficiency, Traceability), our BASF initiative for applied sustainability. SET applies sustainability analyses and strategies to concrete consumer products and makes sustainability in products measurable. This approach helps our customers stand out from the competition with products that make a greater contribution to sustainable development. For example, with our customer Westfleisch, we analyzed the carbon footprints of veal and beef products in 2012 and helped improve sustainability along the entire value chain.

In order to minimize risks, we set ourselves globally uniform environmental, safety, security, health protection, product stewardship and compliance standards as well as labor and social standards. We conduct internal audits on process and occupational safety as well as environmental and health protection. We review labor and social standards based on a three-part monitoring system. Ecological and social criteria are also relevant for us in the selection of our suppliers.

→ **For more on Responsible Care Management, see page 94**
→ **For more on labor and social standards, see page 43 and basf.com/labor_social_standards**
→ **For more on supply chain management, see page 92**

Human rights

- Responsibility toward human rights in line with UN Guiding Principles on business and human rights
- Member of Global Business Initiative on Human Rights
- Systematic integration of human rights aspects in our entrepreneurial decision-making
- External compliance hotlines receive 74 calls relating to human rights in 2012

Integrating sustainability into core processes

- Integration of sustainability into the development and implementation of business units' strategies and research projects
- Eco-Efficiency Analysis and SEEBALANCE® evaluate the sustainability of products and processes
- AgBalance® evaluates sustainability especially for agricultural production

Innovation

Meeting challenges, developing new business areas

Effective and efficient research and development are the foundations for innovations for a sustainable future. Our employees work in interdisciplinary teams to find solutions for almost all industry sectors. With innovative processes and products based on intelligent chemistry, we secure BASF's organic and profitable long-term growth.

Providing the growing world population with a sustainable supply of food, clean water and energy is one of the most urgent challenges of our time. Limited resources require innovations beyond existing solutions – here, chemistry adopts a key role.

Our innovative strength rests on our global team of highly qualified employees with various specializations. In 2012, the number of employees involved in research and development rose to around 10,500 (2011: 10,100).

Our knowledge and competence centers are the central research areas Advanced Materials & Systems Research, Biological & Effect Systems Research, Process Research & Chemical Engineering as well as BASF Plant Science. Together with the development units in our operating divisions, the research facilities in key regions, BASF New Business (formerly BASF Future Business) and BASF Venture Capital, they form the core of our global Know-How Verbund.

We have expanded our research and development activities as part of the "We create chemistry" strategy. Innovations based on chemistry require market-focused research and development that is aligned more closely than ever with the needs of our customers. We take account of this development with the optimization of our innovation management and organizational structures, a future-oriented project portfolio and the worldwide expansion of our research activities. We have oriented our research areas even better toward the operating units. Furthermore, we have equipped BASF New Business, which focuses primarily on identifying and tapping new business areas, with more authority and operational responsibility.

We continued to expand our research and development presence in Asia and North America in 2012. In Shanghai, China, we opened the Innovation Campus Asia Pacific, where we are mainly working on innovations for the construction, cosmetics and shoe industries. In a new research laboratory for white biotechnology and microbiology in Tarrytown, New York, we develop efficient biotechnological production processes and work on antimicrobial products for the medical technology, hygiene and health sectors. At a research laboratory for thermoplastic polyurethanes in Wyandotte, Michigan, we will explore new products for the American automotive, construction, sport and leisure industries, for example. In moving BASF Plant Science's headquarters to the United States, we will concentrate our future plant biotechnology research and development in Raleigh, North Carolina. We also operate important research sites for this business area in Ghent, Belgium, and in Berlin, Germany. → **For more on BASF Plant Science, see page 81**

Our global network with more than 600 excellent universities, research institutes and companies is also an important part of our Know-How Verbund. We cooperate with them in many different disciplines in order to achieve our ambitious growth goals. In 2012, we opened the first joint research laboratory with a scientific partner at a BASF site. At the Carbon Materials Innovation Center in Ludwigshafen, a team of scientists from the Max Planck Institute for Polymer Research and BASF is exploring innovative carbon-based materials. Graphene, for example – a modification of the element carbon – has unique properties: It is an excellent conductor for electricity and heat, is extremely chemically stable, ultralight, and very hard. Graphene is therefore attractive for many technological applications in the energy and electronics industries, such as solar cells and touch screens.

Innovation

- Approximately 10,500 research and development employees worldwide
- Research pipeline with around 3,000 projects
- €1,746 million in research and development expenses in 2012

Strategic focus

- Stronger focus on customer and market needs
- Future-oriented product portfolio
- Worldwide expansion of research and development centers, especially in Asia and North America
- More efficient innovation management

Our research pipeline included approximately 3,000 projects in 2012. We increased our spending on research and development by €141 million to €1,746 million (2011: €1,605 million). The operating divisions were responsible for 78% of total research and development expenditures. Another 22% was allocated to cross-divisional, strategic corporate research. Around one third of our research and development expenditure is principally invested in projects for increased energy efficiency and climate protection.

The number and quality of our patents attest to our power of innovation and long-term competitiveness. We registered around 1,170 new patents worldwide in 2012. We were once again a leader in the Patent Asset Index, a method which compares patent portfolios industry-wide. This shows BASF to be the most innovative company in the chemical industry worldwide.

→ **For a multi-year overview of research and development expenditures, see the Ten-Year Summary from page 227 onward**

Growth fields

Our research focus is derived from three major areas in which chemistry-based innovations will play a key role in the future: "resources, environment and climate," "food and nutrition" and "quality of life." Based on these topics, as well as on the seven key customer sectors derived from them – including energy, transportation and agriculture – we have defined more than ten growth fields for which we expect high sales potential in 2020.

In the **Water Solutions** growth field, for example, we research innovative solutions for water treatment, such as novel flocculants. We focus on nanotechnology as the key to innovation. Our Multibore® membranes, whose tiny pores measure around 20 nanometers, filter germs, bacteria and even viruses out of the water. This ultrafiltration method is used for applications such as purifying drinking water, surface water and industrial wastewater.

Key customer industries

Transportation	Construction	Consumer Goods	Health & Nutrition	Electronics	Agriculture	Energy & Resources
Growth fields[1]						
– Batteries for Mobility – Lightweight Composites – Heat Management Automotive	– Heat Management Construction	– Enzymes	– Medical Solutions	– Organic Electronics	– Plant Biotechnology – Functional Crop Care	– E-Power Management – Wind Energy – Water Solutions

Technology fields

Materials, Systems & Nanotechnology

Raw Material Change (Transportation, Construction, Consumer Goods); Raw Material Change (Energy & Resources)

White Biotechnology (Consumer Goods, Health & Nutrition); White Biotechnology (Agriculture, Energy & Resources)

[1] Including growth fields still under evaluation

Worldwide expansion of research and development

- Innovation Campus Asia Pacific in Shanghai, China: developing innovations for industries such as construction, cosmetics and shoes
- Two new research laboratories for white biotechnology and microbiology, as well as for thermoplastic polyurethanes, open in United States
- Research and development in plant biotechnology concentrated in Raleigh, North Carolina

Global network in science and industry

- Network with around 600 excellent universities, research institutes and companies
- Research laboratory for innovative carbon-based materials founded together with Max Planck Institute for Polymer Research

Sustainable mobility concepts such as electromobility require high-performance and affordable batteries. Therefore, in the **Batteries for Mobility** growth field, we are exploring all the system components of a battery, such as innovative cathode materials with a higher energy density and improved cost-benefit profile, or electrolytes for increased lifespan in lithium-ion batteries. As part of the HELion research project, we successfully tested components like cathode materials and electrolytes in batteries under real-life conditions. To create incentives for the development of high-performance energy storage, we presented the first "Science Award Electrochemistry" together with Volkswagen in 2012; the award, with a value of €50,000, honors excellent academic performance in this field.

The world population's increasing demand for food requires innovative concepts in agriculture. At around 70%, this sector is the largest consumer of process water. Our research in the **Functional Crop Care** division includes the more efficient use of this scarce resource. We benefit from our global Research Verbund, our product knowledge and our expertise in agriculture. We develop, for example, innovative technologies and products to control the distribution of moisture in the soil and optimize growth conditions for crops. In a greenhouse complex opened in 2012 at the Agricultural Center in Limburgerhof, we are investigating how plants react to stress factors such as lack of water and nutrients. With customized solutions, we will align our focus even more with the needs of farmers.

Technology fields

Various cross-sectional technologies provide the technological basis for developing the growth fields. We have grouped these into three technology fields: Materials, Systems & Nanotechnology, Raw Material Change and White Biotechnology.

The challenges of the future require intelligent solutions based on new systems and functional materials, which means that formulation and application expertise is increasing in significance. In the **Materials, Systems & Nanotechnology** technology field, our research includes special composites for lightweight automotive construction which are based on endless-fiber-reinforced plastics. As part of a concept study, an interdisciplinary team has successfully developed a convertible roof module with carbon-fiber-reinforced cover layers and a polyurethane foam core. The resulting module is more than 60% lighter than conventional steel constructions.

In the **Raw Material Change** technology field, we are searching for alternatives and supplements to crude oil as a raw material for the chemical industry. With natural gas, carbon dioxide and renewable resources, we aim to expand the raw material basis of our value chains in the long term. For example, our researchers managed to extract olefins from natural gas with the help of dehydration technologies. Olefins are used as a basic chemical in the production of numerous products such as solvents or surfactants. Thanks to a newly developed catalyst system, we can very efficiently transform the butane found in natural gas into the olefin butene. In Ludwigshafen, we are currently building a pilot plant to prove the effectiveness of the catalyst on a technical scale.

In the technology field **White Biotechnology**, we are researching methods and processes for the efficient and resource-saving production of chemical and biochemical products. Fermentation and biocatalysis increasingly represent competitive alternatives to chemical processes. Together with our cooperation partner, Purac, we are working on an economically and ecologically attractive fermentation process to produce bio-based succinic acid. The bacterium used here is able to create succinic acid out of renewable raw materials. Bio-based succinic acid is used in bioplastics and chemical intermediates, for example.

→ **For more on research and development, see basf.com/innovations**

Research focus areas

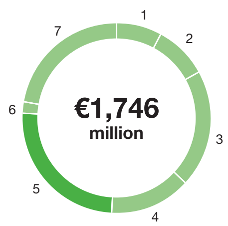
- More than ten growth fields with attractive sales potential in 2020, such as Water Solutions, Batteries for Mobility and Functional Crop Care
- Three technology fields provide technological basis:
  Materials, Systems & Nanotechnology: development of new systems, functional materials and nanotechnology
  Raw Material Change: alternatives and supplements to crude oil as a raw material
  White Biotechnology: methods and processes for the efficient and resource-saving production of chemical and biochemical products

Innovations in the segments

Innovations are an important success factor for BASF's long-term growth. In 2020, we aim to achieve sales of around €30 billion with new and improved products or applications that will have been on the market for less than 10 years.

Expenditure on research and development by segment

1	Chemicals	8%
2	Plastics	9%
3	Performance Products	20%
4	Functional Solutions	14%
5	Agricultural Solutions	25%
6	Oil & Gas	2%
7	Corporate research, Other	22%



Chemicals: Our research activities are focused on the development of innovative production processes that will make us even more competitive. In developing new products, we look at the needs of our customers and take advantage of the opportunities offered by value chains in the Verbund and the markets. We also never stop improving our existing products, applications and processes: For example, we are constantly working to make the production process for acrylic acid more efficient and conserve more resources. Thanks to the improvement of process parameters, catalysts and the downstream processing of acrylic acid, we have continually reduced the energy and raw materials used in production. Acrylic acid is an important precursor for a number of products, including superabsorbents, adhesive raw materials and coatings.

In addition, we are working on a production method for obtaining formic acid from carbon dioxide and hydrogen. Thanks to our expertise in catalysis and organic synthesis, we have developed a suitable catalyst which can be recovered in the process. We are currently testing this method – which can contribute to the meaningful use of CO_2 – for cost-effectiveness in a pilot plant. Our customers use formic acid in animal feed, for example, where it protects the feed and supports the health of the animal, or as a de-scaling agent in industrial cleaning.

Plastics: In 2012, we developed numerous innovative products and applications for customers in a wide variety of sectors. We now offer a substantially broadened range of engineering plastics which are approved for applications that come into contact with food and drinking water. The demanding requirements for these plastics include very low migration values and a high level of taste neutrality. The products from our Ultramid®, Ultradur® and Ultraform® lines whose names include the additional Aqua® brand can be used in shower heads, water meters and pipe joint fittings.

We have expanded our line of biodegradable plastics with the addition of ecovio® Mulch, a grade that can be used in the manufacture of mulch films for agriculture. Unlike conventional agricultural films, films made of ecovio® Mulch can be simply plowed under after the harvest without needing to be laboriously collected, cleaned, disposed of or recycled.

With coolpure 1.0, we have developed a concept refrigerator that is made entirely of polyurethane. Thanks to the versatility of this material, we have successfully combined functionality and material innovations with a futuristic design. For example, surfaces made of polyurethane can be produced in any form and color. The combination of different polyurethane materials also allows for modifications in the construction style, which enables already-efficient appliances to improve their energy efficiency by up to 4%. A total of ten different polyurethane materials were built into the concept refrigerator.

Performance Products: The success of the Performance Products segment is driven by product innovations. To this end, we focus on customer needs and market trends. We view sustainability as an opportunity to create value for customers and society using chemistry. With the acquisition of Cognis in 2010, we expanded our technology portfolio with expertise in the use of renewable resources. Cetiol® RLF, for example, is the first light emollient for cosmetic products that is obtained using an enzymatic process and is based entirely on renewable raw materials. As an ingredient in cosmetic formulations, Cetiol® RLF

Chemicals – Innovations

- Focus on innovative production processes to strengthen our competitiveness
- Continuous improvement of existing products, applications and processes
- Catalyst developed which enables production of formic acid from carbon dioxide and hydrogen

Plastics – Innovations

- Substantially broadened range of engineering plastics for applications that come into contact with food and drinking water
- ecovio® Mulch: biodegradable plastic for agricultural films
- Concept refrigerator coolpure 1.0 demonstrates diverse possible uses for polyurethane

ensures that the emulsion spreads easily and makes the skin feel light and pleasant. This product is especially suitable for sensitive skin.

Modern wind turbines demand a lot from their gear lubricants. With Emgard® Wind, we have developed an innovative high-performance gear lubricant oil that is also environmentally friendly: It not only protects heavy-duty components especially well from friction and corrosion damage, it is also made of more than 50% biodegradable ingredients.

The expertise of the Paper Chemicals and Performance Polymers divisions worked in optimal combination to develop the biopolymer ecovio® FS Paper – an exemplary demonstration of how we create value as one company. ecovio® FS Paper is entirely biodegradable, adheres very well to paper or cardboard and forms a barrier against oils, water-based liquids and flavors. Our customers can use it to produce compostable cups for warm or cold drinks, replacing traditional polyethylene coatings.

With the aid of a unique technology, we can produce highly concentrated omega-3 fatty acids at our new site in Callanish, Scotland. Highly concentrated omega-3 fatty acids are used in medicines to treat heart attacks and elevated blood lipids. Studies have also shown that these essential fatty acids can have a positive effect on, for example, heart health and mental fitness when taken as a dietary supplement and can therefore contribute to improving quality of life. Our innovative technology enables a cost-effective concentration of fatty acids with extraordinarily high purity.

Flat screens in mobile phones, laptops and modern televisions have become part of our daily life. BASF's color pigments, such as the newest generation of Irgaphor® Red pigments, determine the contrast ratio, brightness and color purity of these liquid crystal displays. The red pigments are also impressive in their very high temperature stability, which is important in the production of display screens. We will continue to work on improving the pigments' transparency in order to further reduce loss of light and therefore the energy consumption of mobile electronic devices and televisions.

Functional Solutions: In the Catalysts division, we have a research and development platform that is unique in the industry. We continuously expand our technological leadership through process and product innovations. In doing so, our focus is on the development of solutions and materials which save resources and can fulfill increasingly strict exhaust regulations. With MOF 210, we have developed a metal organic framework (MOF) that lends itself to efficient natural gas storage in vehicles thanks to its particularly large surface area. The highly porous crystal with the volume and weight of a sugar cube has the surface area of two soccer fields. In addition to storing natural gas, MOFs can also be applied in gas separation and purification.

Construction Chemicals aligns its research and development activities with local customers' needs and construction industry trends. Cost and resource efficiency are the focus of the division's research. Our new concrete admixtures in the Glenium® and Pozzolith® product lines improve the properties and increase the application possibilities of concrete that contains a high proportion of materials like fly ash and slag instead of cement. This kind of concrete is more environmentally friendly, as fewer natural resources are used in its production and less CO_2 is released.

In the Coatings division, we continually work on developing innovative coating systems and intelligent solutions in order to contribute to our customers' success. Our new CathoGuard® 800 coating protects car surfaces, edges and cavities from corrosion and stone chipping damage. Unlike most conventional varnishes, CathoGuard® 800 contains no tin and very few solvents. Furthermore, CathoGuard® 800 releases no hazardous air pollutants (HAPs), making it "HAPs-free" in accordance with U.S. environmental regulations. CathoGuard® 800 is already being used by several automobile manufacturers since it is ideal for integrated coating processes and compatible with the most modern pretreatment methods.

Performance Products – Innovations

- Cetiol® RLF: light emollient based on renewable resources for cosmetic products
- Emgard® Wind: high-performance and environmentally friendly gear lubricant for wind turbines
- Compostable drinking cups with ecovio® FS Paper
- Cost-effective production of highly concentrated omega-3 fatty acids
- Irgaphor® Red: innovative color pigments for screens

Functional Solutions – Innovations

- Catalysts: focus on resource-saving solutions and materials; development of metal organic framework materials for efficient natural gas storage
- Construction Chemicals: innovative concrete admixtures expand possible uses of concrete
- Coatings: CathoGuard® 800 coatings protect cars from corrosion and stone chipping damage

Agricultural Solutions: We are constantly investing in our development pipeline and working on new active ingredients, improved formulations and innovative system solutions. In 2012, we spent €430 million on research and development in the Crop Protection division, representing around 9% of sales for the segment.

We have continually increased the value of our crop protection pipeline in recent years. We were able to identify additional potential in 2012, as well. For products launched between 2010 and 2020, we now foresee a peak sales potential of €1,700 million. This represents an increase of €500 million compared with the value calculated one year ago, largely because the peak sales potential for the fungicide Xemium® doubled to more than €400 million. We successfully launched Xemium® into our core markets in Europe and North America. The acquisition of Becker Underwood likewise increased the value of our development pipeline. In addition, we are working on two herbicide tolerance projects.

We nearly achieved the previously-reported total peak sales potential of €1,600 million for market launches which took place between 2002 and 2009. These successfully established products will no longer be reported as a pipeline value in the future; however, we expect continuing strong sales growth for them, as well.

BASF Plant Science: We work together with a number of biotechnology companies, research institutes and universities worldwide. Together with Monsanto, we develop higher-yielding, more stress-tolerant corn (maize), soybean, canola (oil-seed rape), wheat and cotton plants. The world's first genetically engineered drought-tolerant corn was approved for cultivation in the United States at the end of 2011 and will be marketed starting 2013 under the brand name DroughtGard™ Hybrids. Selected farmers successfully tested the drought-tolerant corn in growing trials in 2012, a year marked by drought in the United States' corn belt. The data collected from these trials will serve as the basis for the commercial marketing of the product.

In view of the lack of acceptance of plant biotechnology in large parts of Europe, we moved the BASF Plant Science headquarters from Germany to the United States in 2012. Projects aimed exclusively at the European market were therefore discontinued.

Oil & Gas: Our research and development activities focus on reducing risks in exploration activities, increasing the recovery factor from reservoirs and developing technologies for reservoirs with harsh development and production conditions.

We have, for example, developed a biopolymer called Schizophyllan, which can increase a reservoir's recovery factor by up to 10%. Water thickened with Schizophyllan can be injected into the reservoir, bringing more oil to the surface as it can no longer easily bypass the natural resources. We are currently testing the biopolymer – produced by the fungus *Schizophyllum commune* – in a pilot project.

Outlook

With our "We create chemistry" strategy, we have laid the foundation for BASF's innovation-driven growth. We will continue to expand our research and development activities in the future, especially in Asia as well as North and South America. By 2020, we aim to conduct half of our research and development activities outside of Europe in order to gain on-location access to customers and their market knowledge, as well as to talent and innovation centers. We constantly evaluate promising new technology and growth fields for the innovations of tomorrow, making our contribution to a sustainable future.

Agricultural Solutions – Innovations

– €430 million in research and development expenditures in 2012 (9% of sales)
– Crop protection pipeline with peak sales potential of €1,700 million
– Successful market launch of fungicide Xemium® into core markets in Europe and North America
– BASF Plant Science: growing trials of DroughtGard™ Hybrids, a drought-tolerant corn variety, successful

Oil & Gas – Innovations

– Focus on risk reduction in exploration activities, increasing recovery factor from reservoirs and developing technologies for reservoirs with harsh conditions
– Development of biopolymer Schizophyllan for more effective oil recovery

Investments and acquisitions

In addition to innovations, investments and acquisitions will make a decisive contribution toward achieving our ambitious growth goals. We plan to intensify our capital expenditures in emerging markets. This organic growth will be complemented by targeted acquisitions.

From 2011 to 2020, we plan capital expenditures of €30 billion to €35 billion. More than a third of this amount will be invested in emerging markets in order to expand our local presence and benefit from the robust growth in these regions. Furthermore, we continue to develop our portfolio through acquisitions that promise above-average profitable growth and are innovation-driven. Both investments as well as acquisitions are prepared by interdisciplinary teams and are assessed using various criteria. In this way, we ensure that ecological and social matters are also included in decision-making in addition to strategic and economic considerations. We also continuously improve the energy efficiency of our production processes by investing in our plants.

Investments and acquisitions 2012 (million €)

	Investments	Acquisitions	Total
Intangible assets	109	1,073	1,182
Thereof goodwill	–	586	586
Property, plant and equipment	4,109	106	4,215
Total	**4,218**	**1,179**	**5,397**

Investments

In 2012, we invested €4,109 million in property, plant and equipment. Total investments therefore exceeded the previous year's level by €976 million. Our investments in 2012 focused on the Chemicals, Plastics, Performance Products and Oil & Gas segments.

In Ludwigshafen, we are building an integrated TDI facility with a capacity of 300,000 metric tons per year and expanding the plants for its associated precursors. Production is expected to begin at the end of 2014. TDI is an important basic chemical product that is used in particular for soft polyurethane foams.

Since November 2012, we have been producing cathode materials in Elyria, Ohio, for lithium-ion batteries for hybrid and electric cars. With this investment, we have made a significant step in the implementation of our strategy in the electromobility growth market.

The construction of the new MDI plant in Chongqing, China, and acrylic acid and superabsorbent production complex in Camaçari, Brazil, as well as the expansion of our Verbund site in Nanjing, China, are progressing. With these major investments, we are expanding our presence in the growth regions Asia and South America.

In the Oil & Gas segment, we invested primarily in field development projects in Norway and Russia in 2012. Moreover, we have agreed to assume further activities in these two countries with Statoil and Gazprom in 2013. This will result in additional investments.

→ For more on investments within the segments, see pages 58 to 89

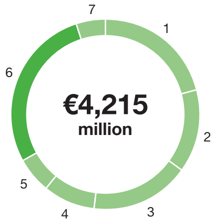
Acquisitions

We received €106 million worth of tangible fixed assets in 2012 by way of acquisitions. Additions to intangible assets including goodwill amounted to €1,073 million.

The largest individual acquisition in the reporting period was of Becker Underwood, headquartered in Ames, Iowa. The company is one of the leading global providers of technologies for biological seed treatment and seed treatment colors and

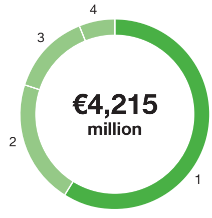
Additions to property, plant and equipment by segment in 2012

1	Chemicals	21%
2	Plastics	14%
3	Performance Products	17%
4	Functional Solutions	9%
5	Agricultural Solutions	6%
6	Oil & Gas	28%
7	Other (infrastructure, R+D)	5%



Additions to property, plant and equipment by region in 2012

1	Europe	59%
2	North America	21%
3	Asia Pacific	14%
4	South America, Africa, Middle East	6%



polymers, as well as products in the areas of biological crop protection, turf and horticulture, animal nutrition and landscape design. With this transaction, we have considerably strengthened our position on the market, particularly in the area of seed treatment. In order to take account of the growing significance of this business, we established a global strategic business unit in the Crop Protection division called Functional Crop Care. The unit merges our research, development and marketing activities in the areas of seed treatment, biological crop protection, plant health, and water and resource management with those of Becker Underwood, pooling and fortifying them.

In 2012, we strengthened our business in the strategic growth field Batteries for Mobility by means of several acquisitions. After acquiring a share in Sion Power, the market leader in lithium-sulfur battery development, in December 2011, we acquired the Ovonic Battery Company in February 2012. The U.S. company is a license provider for nickel metal hydride (NiMH) battery technologies; its products include cathode materials for this battery type. The purchase of Ovonic provides BASF with a leadership position in NiMH battery technology. We expanded our business with electrolyte formulations for lithium-ion batteries with the acquisition of the U.S.-based Novolyte Technologies. This transaction included the development, production and marketing of high-performance electrolyte formulations with production sites in the United States and in China. Moreover, BASF also acquired Merck's electrolyte activities. The acquisition includes a complete line of finished electrolyte formulations as well as a variety of additives for electrolytes used in producing lithium-ion batteries. Merck's research portfolio for novel electrolytes and additives is also part of the acquisition. We have grouped our activities in the field Batteries for Mobility together into the newly established Battery Materials business unit. In total, we spent around €230 million on acquisitions in this area in 2012.

We also foresee a globally growing market for highly concentrated omega-3 fatty acids which will benefit from increasing consumer awareness of their positive health effects. In order to expand our position in this market, we acquired the British company Equateq Ltd. in 2012, a producer of highly concentrated omega-3 fatty acids. Furthermore, we offered a public takeover bid to the shareholders of Pronova BioPharma ASA, headquartered in Lysaker, Norway. After around 98% of the shares were tendered to us, we concluded the transaction in January 2013, acquiring the remaining shares by way of a squeeze-out procedure. With this acquisition, we want to further bolster our position by uniting BASF's global market position and experience with Pronova's expertise in researching, developing and producing omega-3s.

The acquisition of the Mazzaferro Group's polyamide (PA) polymer business in Brazil contributed to the expansion of our production presence in emerging markets. This transaction includes production facilities for the PA-6 portfolio as well as compounds for engineering plastics, which will enable us to supply our South American customers with locally manufactured products faster and more flexibly.

The acquisition of ITWC Inc. in the United States supplements our offering of polyurethane products, systems and specialties in North America. ITWC specializes in the production of cast elastomer systems and polyester polyols.

→ **For more on acquisitions, see the Notes to the Consolidated Financial Statements from page 163 onward**

→ **For information on the divestiture of our fertilizer business, see the Notes on page 166**

Investments

– Total investments exceed previous year's level
– Construction begun on new TDI plant in Ludwigshafen
– Aim to intensify investments in emerging markets

Acquisitions

– Acquisition of Becker Underwood; activities grouped into Functional Crop Care business unit
– Enhancement of strategic growth field Batteries for Mobility with three acquisitions in 2012
– Strengthening of market position for omega-3 fatty acids

Customer relations

BASF's customer portfolio ranges from major global customers and medium-sized regional businesses to local workshops. We align our business models and sales channels to the respective customer groups and market segments. In line with our strategic principle, "We add value as one company," we aim to tightly pool our products and services in the future to even better meet the needs of customers from different sectors.

In the **classical chemicals business**, we mostly sell the chemicals produced in our Verbund in large quantities. These include basic products from the Chemicals and Plastics segments, such as sulfuric acid, plasticizers, caprolactam, TDI and products from the steam cracker. For these basic chemicals, our priority is on supplying customers reliably and cost-effectively. Marketing is carried out partly via e-commerce.

In the Performance Products segment in particular, we manufacture a broad range of **customized products** – from vitamins, personal care ingredients and color pigments to paper chemicals and plastic additives. In joint projects, we work closely together with our customers from an early stage in order to develop new products or formulations for a specific industry. This is how we contribute to customers' long-term success. A worldwide network of development laboratories allows us to quickly adapt our products to local needs.

We offer **functionalized materials and solutions** tailored to our customers' requirements primarily in the Plastics, Functional Solutions and Agricultural Solutions segments. These include, for example, engineering plastics, concrete additives, coatings and crop protection products. We enter into close partnerships with customers to develop innovations together which help them optimize their processes and applications. Our solid understanding of the entire value chain as well as our global setup and market knowledge are key success factors here.

→ **For information on customer relations in the Oil & Gas segment, see page 84 onward**

Industry orientation

We serve customers from many different sectors with a broad portfolio of diverse competencies, processes, technologies and products. In the future, we aim to more tightly pool our products and services in order to even better address the specific needs of our customer industries and bring innovations faster to the market.

For example, we grouped our battery activities together to form a new global business unit. By bundling expertise and resources, we position ourselves as a solution-oriented system provider for battery materials. Together with our customers, we can thus optimally control how various battery components work together and contribute to battery performance.

Yet not all business units can be arranged purely according to industry. That is why BASF creates sector-specific "industry teams," such as those for key customer industries like the automotive, construction and packaging industries, or for growth fields like wind energy. They pool expertise, knowledge and contacts across different units, sharpen our understanding of the value chains in customer industries and work on industry-specific solutions that often could not be developed within one operating division alone. In the Automotive Industry Team, for example, we work together with customers to find solutions for the mobility of the future. The team comprises representatives from divisions that supply products to the automotive industry, as well as experts from research and development and from the regions.

The closer alignment of our business to customers' needs is an important component of our "We create chemistry" strategy. Therefore, we aim to enhance our industry orientation both systematically and structurally in the future, as well.

Customer relations

- Classical chemicals business: reliable and cost-efficient supply
- Customized products: joint projects to develop products or formulations for a specific industry
- Functionalized materials and solutions: close partnerships to jointly develop innovations for better customer processes and applications

Industry orientation

- Enhanced bundling of our products and services to better conform to needs of customer industries
- Industry teams pool skills, knowledge and customer contacts across units
- Systematic and structured enhancement of our industry focus

Employees

Our employees are fundamental to achieving the goals of our "We create chemistry" strategy. We want to attract the right people and support them in their development within our company. To do so, we cultivate a working environment that inspires and connects people. It is founded on inclusive leadership based on mutual trust, respect and dedication to top performance.

Strategy

Our Best Team Strategy is derived from our corporate strategy and simultaneously contributes to its implementation. We want to form the best team. To do so, we put focus on three strategic areas: excellent people, excellent place to work and excellent leaders. We want to continue improving BASF's attractiveness on the labor market and sharpen our focus on employee development and life-long learning in all regions.

At the end of 2012, BASF had 113,262 employees (2011: 111,141); of these, 2,809 were apprentices[1] (2011: 2,565). The acquisitions of Becker Underwood and Novolyte Technologies in North America added to our employee headcount. Reductions in headcount resulted from, for example, the divestiture of our fertilizer activities in Antwerp, Belgium and Ottmarsheim, France, as well as of Relius Coatings GmbH & Co. KG's decorative paints business in Germany.

Number of employees by region (as of December 31)

	2012	%	Thereof women %
Europe	71,144	62.8	23.5
Thereof Germany	52,844	46.7	23.5
Thereof BASF SE	34,769	30.7	21.0
North America	16,917	14.9	22.6
Asia Pacific	18,128	16.0	27.2
South America, Africa, Middle East	7,073	6.3	25.4
Total	**113,262**	**100.0**	**24.1**

Competition for talent

In the worldwide competition for the best qualified employees and managers, we want to recruit the right employees in order to contribute to the demanding growth goals set out by our strategy. The use of social media is one way we are continuing to intensify our recruitment activities. We cultivate relationships with talented candidates by way of a Europe-wide talent pool; more than 100 of our employees have been recruited through these means since 2010. Our integrated marketing toward institutes of higher education in Germany was recognized with an award by the Trendence Institute in 2012. We expanded our college recruiting in North America in order to increase the diversity of our team, among other goals. In 2012, we introduced mentoring programs in almost all regions to support new coworkers.

Worldwide, the percentage of employees who left the company voluntarily during their first three years of employment was 1.3% on average. The rate of employee turnover was 0.5% in Europe, 1.4% in North America, 4.3% in Asia Pacific and 1.9% in South America, Africa, Middle East.

Vocational training

As of December 31, 2012, BASF was training 2,809 young people in around 60 occupations in 16 countries worldwide. We invested a total of around €84 million in vocational training in 2012 as well as approximately €22 million in the BASF Training Verbund as part of our social commitment. In 2012, 911 young people started apprenticeships at BASF SE and German Group companies, and 294 started in the BASF Training Verbund in cooperation with partner companies.

In order to cover our need for qualified employees, we will expand our own training capacities at the Ludwigshafen site and redesign the BASF Training Verbund. For training programs beginning in 2013, we offer 750 positions at BASF at the Ludwigshafen site and 250 positions in starter programs within the BASF Training Verbund. In the future, we will focus primarily on

Best Team Strategy

– Excellent people: We attract the right people and create space for their performance and personal development
– Excellent place to work: We cultivate a working environment that inspires and connects people
– Excellent leaders: We foster an inclusive leadership culture with mutual trust, respect and dedication to top performance

New hires 2012

	Total	Thereof women %
Europe	4,515	30.4
North America	1,604	25.7
Asia Pacific	2,232	34.8
South America, Africa, Middle East	780	38.8
Total	**9,131**	**31.4**

[1] At BASF, the apprenticeship program trains students for technical, scientific and business vocations as well as trade and craft professions.

projects preparing young people for apprenticeships. The BASF Training Verbund's dual-training system will no longer be offered in the future. After passing their final examination, 96% of the apprentices at BASF SE and 73% in the BASF Training Verbund received a job offer in 2012.

As part of the training and apprenticeship campaign in 2012, the German Group companies optimized their selection process for apprentices in order to obtain a comprehensive picture of candidates at the beginning of the application process.

→ **For more information, see basf.com/apprenticeship**

Number of employees by contract type (as of December 31)

	Total	Thereof women %
Permanent staff	107,775	23.3
Apprentices	2,809	31.5
Temporary staff	2,678	45.9

Personnel development and further training

The goal of our global Employee Development project is to establish employee development as a top priority within the company. We want to recognize and promote talent early on in order to maintain our leading position as a company and become even more attractive as an employer. In development dialogs, employees and managers share responsibility as they outline the prospects for professional development. These talks supplement the yearly performance review, in which employees and their supervisors agree on concrete training and development measures. Performance reviews are conducted annually in 98% of BASF Group companies. Our transparent internal job market offers employees the chance to apply directly for new positions.

Life-long learning and further training are important components of our employee development. We invested around €98 million for this purpose in 2012 (2011: €93 million). Our measures for further training are based on the specific learning needs of each of our employees. Local and international seminars enable the acquisition and exchange of knowledge and promote networking among employees. In 2012, more than 90,000 employees worldwide attended training programs, spending 3.4 days on average in professional development (2011: 3.4 days). A total of more than 106,000 seminar days took place at BASF SE, including at the Learning Center, in 2012.

In addition, we also offer a wide range of opportunities worldwide for independent learning via electronic media. We strengthened our in-company qualification program in 2012. Shift trainers play a central role in this, promoting employees' continuous professional development through individual learning assignments.

Managing demographic challenges

In order to face the challenges of demographic change, we create conditions which aim to ensure the employability of our personnel in all stages of life and secure a base of qualified employees. We support our employees and managers with workshops, health and sports programs, age-appropriate shaping of the workplace and demographic analyses. In 2012, for example, we concluded works council agreements at BASF SE for mobile working as well as for part-time working arrangements for family care.

→ **For more information, see basf.com/demographic_change**

What we expect from our managers

Our managers are seen as role models in implementing our strategy in their day-to-day business. This is why we align our expected leadership behavior with the principles and values laid out in our strategy. In 2012, we developed a mandatory qualification program in Germany for experienced managers, as well. There are also similar qualification programs for managers in Asia and in North and South America.

BASF employee age structure (as of December 31)

	Total	Thereof women %
Employees	113,262	24.1
Thereof up to and including 25 years	8,605	31.9
Thereof between 26 and 39 years	37,748	31.1
Thereof between 40 and 54 years	52,493	20.1
Thereof 55 years and older	14,416	15.5

BASF Group employee structure 2012 (as of December 31)

	Total	Thereof women %
Employees	113,262	24.1
Thereof professionals[1]	31,852	28.9
Thereof managers[2]	7,448	17.0

[1] Specialists and experts without disciplinary managerial responsibilities
[2] Employees with disciplinary managerial responsibilities

Employee and manager diversity

Diversity offers competitive advantages: for the power of innovation, for a better understanding of different markets and for team performance. We want to continue to strengthen the appreciation of diversity in our company as well as a culture of trusting cooperation across regions, countries and units. To do so, we have created a worldwide network of employees who serve as ambassadors of diversity and inclusion. Furthermore, unit-specific projects work to improve the inclusion of employees in heterogeneous teams and increase appreciation of differing personalities.

Diversity in management positions

	Total %
Non-German senior executives[1]	33.8
Senior executives with international experience	80.4

[1] The term "senior executives" refers to Management Levels 1 to 4, whereas Level 1 denotes the Board of Executive Directors. Individual employees can also attain senior executive status by virtue of special expertise.

The inclusion of diversity is therefore part of the global competency profile we use to assess and develop employees and managers. As an employer, we provide equal opportunities for all employees and are committed to the equal treatment of both men and women. At the end of 2012, the percentage of executive positions in the BASF Group held by women was 17% (2011: 16.2%). In a joint initiative with all 30 DAX-listed companies, BASF signed a voluntary commitment in 2011: In Germany, we aim to raise the percentage of women in executive positions from 9.8% (baseline 2010) to 15% by the end of 2020. At the end of 2012, the percentage of executive positions held by women in Germany was 11.9%.

In individual regions, we have enhanced various programs for managers on the inclusion of diversity. Continuing internationalization has also led us to update one of our goals: we aim to raise the percentage of senior executives with international experience from over 70% to over 80%.

→ **For more information, see basf.com/diversity**

Global Employee Survey

Our employees' opinions are important to us: The feedback they provided in our Global Employee Survey helps us do justice to our claim of creating a working environment that inspires and connects people. We conducted the first Global Employee Survey in 2008 and the second in 2012. Of the employees from around 80 countries who were invited to participate, 76% completed the survey, answering questions on topics such as leadership, employee development and change management. Good results were shown, particularly in the areas of high identification with the BASF brand, high commitment to the company and a positive evaluation of occupational safety. Our employees identified room for improvement in, for example, support for their career development, topics pertaining to work-life management, and dealing with change.

Following collection of the data, the next step involves discussion of the results between employees and management to identify potential areas of improvement. The follow-up process will be evaluated in the next Global Employee Survey, which we conduct on a regular basis.

Work-life balance

Part of a good working environment includes the worldwide expansion of our wide range of programs to better combine career and family. To compete for specialists, we are responding to the differing needs and life stages of our employees. We offer, for example, flexible working arrangements – which include flexible working hours, part-time employment and mobile working.

Our regional initiatives meet the needs of our employees at a local level. In this regard, we are expanding the capacity of company childcare at our site in Ludwigshafen from 70 to 250 children, and in Münster to 20 children. The childcare center in Kassel has the capacity for 14 children from six months to ten years of age. We are building centers for work-life management at our sites in Ludwigshafen and in Münster, where we will offer childcare, social and elder care counseling, and health and fitness programs.

Manager development

- "Inclusion of diversity" programs for managers enhanced in individual regions
- Percentage of executive positions in the BASF Group held by women at 17%
- Goal for proportion of senior executives with international experience updated from over 70% to over 80%

Work-life balance

	Total	Thereof women %
BASF SE employees	34,769	21.0
Thereof part-time (%)	10.6	69.8
Employees on parental leave	530	91.5
Return from parental leave	565	35.8

BASF Sozialberatung (BASF social counseling) provides support to employees who find themselves in difficult personal situations, helping them to maintain their employability. We have offered social counseling hotlines for employees in Asia and South Africa since 2011.

→ For more, see basf.com/worklife_balance

Personnel expenses, compensation and social benefits

In addition to market-oriented pay, BASF's total package also comprises social benefits, individual opportunities for development and a good working environment. The compensation of our employees worldwide is based on objective criteria. Compensation includes remuneration with fixed and variable components as well as social benefits that often exceed the legal requirements. These include company pension benefits, supplementary health insurance and share programs. In 2012, the BASF Group spent €9,089 million on wages and salaries, social security contributions and expenses for pensions and assistance (2011: €8,576 million). Personnel expenses rose by 6.0%, due particularly to the higher number of employees and to wage and salary increases, as well as to higher additions to provisions for our stock-price-based compensation program, the long-term incentive (LTI) program.

An analysis of all management-represented employees at our site in Ludwigshafen has shown that there is no systematic difference in compensation of women and men, provided the jobs and qualifications are comparable. The difference in income was found to be less than 1%.

Employees' share in the company's success

With variable compensation components, employees participate in the company's success and are rewarded for their individual performance. The same basic principles apply to all employees. The variable component is determined by the economic success of the BASF Group – measured by the return on assets – and the employee's individual performance.

The bonus payment for 2012 will once again reach a high level. In numerous Group companies, employees are able to purchase shares in BASF SE. The "*plus*" share program promotes the long-term participation of our employees in the company through incentive shares, allowing them to invest part of their compensation in BASF shares. In 2012, 20,362 employees around the world purchased 773,640 shares under the "*plus*" program.

Since 1999, BASF has offered its senior executives the opportunity to participate in a stock-price-based compensation program. This long-term incentive (LTI) program ties a proportion of their compensation to the long-term performance of BASF shares. In 2012, 92% of the approximately 1,200 senior executives eligible worldwide participated in the LTI program, investing up to 30% of their variable compensation.

→ For more, see the Notes from page 205 onward

Dialog with employee representatives

Open dialog with employee representatives is an important component of our company's actions. If restructuring leads to staff downsizing, we work with employee representatives to develop socially responsible implementation measures. This is done in accordance with the respective legal regulations and agreements reached.

For cross-border matters, the BASF Europa Betriebsrat (European Works Council) has been responsible for employees in Europe since 2008. Network meetings at which company and employee representatives meet regularly for discussions at a regional level take place in South America and Asia.

With our corporate strategy, we are committed to both success-oriented and value-oriented leadership. We once again met with our German employee representatives in 2012 in the "Wittenberg Dialogs" to discuss the Code of Responsible Conduct for Business, which focuses on strengthening the social market economy and encouraging responsible corporate action.

→ For more, see basf.com/employeerepresentation

BASF Group personnel expenses (million €)

	2012	2011	Change in %
Wages and salaries	7,355	6,856	7.3
Social security contributions and expenses for pensions and assistance	1,734	1,720	0.8
Thereof for pension benefits	427	465	(8.2)
Total personnel expenses	**9,089**	**8,576**	**6.0**

Employees' participation in company success

- "*plus*" share program encourages employees to make long-term investments through incentive shares: 20,362 employees purchased 773,640 BASF shares in 2012
- Compensation program ties a proportion of senior executives' compensation to the long-term performance of BASF shares: in 2012, 92% of eligible senior executives worldwide participated in the LTI program

Global labor and social standards

Compliance with national law and the core labor standards of the International Labor Organization (ILO) is the foundation of our social responsibility. Moreover, we aim to harmonize our working conditions worldwide with our voluntary commitments and the relevant ILO conventions and OECD Guidelines for Multinational Enterprises, as well as with local requirements such as industry standards. In countries where national laws, rules and customs do not comply with international standards, we are faced with the challenge of finding solutions – for example, together with employee representatives – that create value for people and our business.

We evaluate our adherence to our voluntary commitments using the three-pronged monitoring system implemented Group-wide. In 2012, our external compliance hotlines received 70 calls (6 inquiries and 64 complaints) relating to labor and social standards, of which 15 related to verifiable grievances.

The results of the annual survey conducted at our Group companies to examine their working conditions covered 100% of the employees within the BASF Group's scope of consolidation in 2012. If the survey evaluation indicates that our voluntary commitments are being insufficiently implemented, we investigate this information and introduce remedial measures. In order to improve our worldwide adherence to international labor and social standards, we carried out the annual regional risk analysis for our businesses in 2012.

→ **For more on labor and social standards, see basf.com/labor_social_standards**
→ **For more on our monitoring system, see page 22**
→ **For more on compliance, see page 129**

Survey of ILO core labor standards / human rights 2012[1]

	Process implemented		Effectiveness of the process	
Prevention of child labor	100%	Verification of age of employee when hired	100%	Employees are over 15 years of age when hired
Prevention of forced labor	100%	Employment contract based on employee's voluntary agreement	100%	Employees have a right to unilateral termination of the employment contract
Prevention of discrimination	100%	Personnel policies based on objective criteria		In 2012, we received 22 calls. Misconduct was identified in 3 cases and countermeasures were taken.
Employees' right to freedom of association	100%[2]	No company measures to fundamentally restrict freedom of association	93%	Employees are working at a company in which employee representation exists
Employees' right to collective bargaining	100%[2]	No company measures to fundamentally restrict freedom of collective bargaining	87%	Employees are working at a company in which working conditions are based on a collective contract and employee representation exists

[1] Data does not include Becker Underwood, a company which was acquired effective November 21, 2012.
[2] 1% of our employees are working in countries that have national legal restrictions with respect to freedom of association and collective bargaining.

Labor and social standards

– National law and International Labor Organization's core labor standards as minimum standard
– Evaluation of adherence to voluntary commitments through a Group-wide monitoring system
– We strive to ensure that our working conditions comply with ILO standards, OECD Guidelines for Multinational Enterprises and local requirements, such as industry standards

Social commitment

We take on social responsibility: We are involved in diverse projects worldwide, especially in the communities in which our sites are located. Our main focus is on access to education. In this way, we promote innovative capacity and future viability.

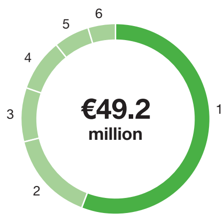
Strategy

In 2012, the BASF Group spent a total of €49.2 million on supporting projects (2011: €48.7 million). Of this amount, we donated 24% (2011: 24%). We support initiatives that reach out to as many people as possible and have long-lasting impact. We foster education, science, social projects, sports and cultural events in the communities around our sites. On a regional level, we work together with universities, schools and nonprofit organizations.

In 2012, the BASF Sozialstiftung, a charitable foundation based in Germany, was renamed "BASF Stiftung." We support this organization in its international projects with various U.N. organizations. BASF has been a strategic partner for the United Nations Human Settlements Programme, UN-HABITAT, since 2005.

BASF Group donations, sponsorship and own projects in 2012
(Million €)

1	Education	27.5	(56.0%)
2	Culture	7.6	(15.4%)
3	Social projects	4.5	(9.2%)
4	Science	4.3	(8.7%)
5	Sports	3.1	(6.3%)
6	Other	2.2	(4.4%)



Focus on education

In 2012, 64,440 children and young people in 35 countries visited our Kids' Labs and Teens' Labs. Turkey's Corporate Social Responsibility Association honored BASF's Kids' Lab project with its Best Practice Award. In Germany, these student labs were chosen in their fifteenth year of existence as a "Selected Landmark" in the "Germany – Land of Ideas" initiative. We were recognized by the Public Relations Society in North America in 2012 for our scientific education program, in which approximately 15,000 students have taken part since 2010.

We expanded the early-childhood education activities of our Education Initiative in 2012 with two modeling projects at the Schwarzheide site. In addition, we launched the "1, 2, 3 – An Eye on the Youngest" project at ten daycare centers in the Ludwigshafen and Speyer areas for the high-quality education and supervision of children up to three years old.

International projects

The BASF Stiftung supports youth development projects worldwide through UN-HABITAT's Urban Youth Fund. To improve the living situations of flood disaster victims in Pakistan in 2010, the BASF Stiftung, together with its partner, UN-HABITAT, assisted the local community in reconstructing destroyed houses in 2012. Since 2012, the foundation has been supporting an entrepreneurial education program together with UNESCO for students in eastern Africa in order to prevent threatening unemployment.

BASF and its employees contributed around €420,000 to the 2012 end-of-year donation campaign. The majority of these contributions went to the BASF Stiftung in support of the United Nations World Food Programme (WFP) school meals program in Cambodia, which provides children with school meals as well as take-home rations for their families. This ensures better educational opportunities for the children. Further donations support WFP's fight against hunger worldwide.

In 2012, BASF Corporation donated €195,000 ($250,000) to the Hurricane Sandy New Jersey Relief Fund for disaster relief and reconstruction after Hurricane Sandy in the United States. BASF Corporation matched employee donations for relief efforts up to €93,000 ($120,000).

→ **For more, see basf.com/international_donations**

Principles and criteria for support

– Support for projects that bring long-term benefits
– Fostering education, science, social projects, sports and cultural events in the communities around BASF sites
– We work together with expert partners such as the United Nations

Highlights 2012

– Education Initiative expanded
– End-of-year donation campaign collects €420,000
– BASF Corporation supports disaster relief efforts after Hurricane Sandy in the United States

Trends in the global economy

Worldwide economic growth was significantly weaker in 2012 than in the previous year. After a positive start to the year, the debt crisis intensified once again in several eurozone countries. Dampening influences on the global economy also came from the emerging markets, especially from China. In this environment, Japan's economic recovery proceeded more slowly than expected. At 2.2%, global gross domestic product therefore did not rise as sharply as it did in 2011 (+2.7%) or as we had originally forecast for 2012 (+2.7%).

The 2012 business year was characterized by unusually stark economic fluctuations. After showing positive development at the beginning of the year, leading economic indicators turned bleak as the year progressed. Investors and consumers were particularly unsettled by the intensification of the debt crisis in the eurozone. The situation on the capital markets stabilized after the European Central Bank's resolutions supporting the euro, ratifying the Fiscal Pact and setting up the European Stability Mechanism. Company and consumer behavior remained cautious, however, due to continuing real economic risks in the eurozone and United States.

Development by region

Gross domestic product decreased slightly in the **European Union** (2012: –0.3%; 2011: +1.6%). Development in the region was shaped by strict consolidation measures in several of the large member states. Gross domestic product shrank in Spain and Italy; it stagnated in France and the United Kingdom. Only Germany was largely able to detach itself from this development until the fall, when it, too, saw a significant slowdown in the business climate, in new orders and in the job market. Compared with the region as a whole, economic growth in Germany was nevertheless above average (2012: +0.7%; 2011: +3.1%).

In the **United States**, the economy grew slightly faster than in the previous year (2012: +2.2%; 2011: +1.8%). Consumer confidence rose over the course of the year, due in part to decreasing long-term unemployment rates. After extremely weak development in the real-estate market in 2011, housing investments picked up again in 2012, accompanied by supporting measures from the Federal Reserve. Unlike Europe, the U.S. economy was not burdened with sweeping measures to consolidate public budgets. The propensity to invest markedly declined, however, in light of anticipated austerity measures in 2013.

The effects of the European debt crisis were clearly noticeable in the export business of **Asia (excluding Japan)**. Gross domestic product in the region therefore grew at a slower rate than in the previous year (2012: +5.7%; 2011: +7.0%). In China, economic growth declined due to the lower demand for exports – especially from Europe – as well as to cautious investing activity (2012: +7.8%; 2011: +9.1%). Economic development weakened in India, as well, compared with the strong growth momentum of the previous years (2012: +5.1%; 2011: +7.9%).

In **Japan**, gross domestic product grew more slowly than expected (2012: +2.0%; 2011: –0.5%). The export business was increasingly hindered over the course of the year by the appreciation of the yen relative to the euro and weakening demand in Europe.

Weaker demand for raw materials dampened the economy in **South America** (2012: +2.4%; 2011: +4.5%). Brazil in particular posted an unexpectedly slow growth rate (+1.0%). However, economic growth in Brazil accelerated over the course of the year, boosted by interest rate decreases and government incentives.

→ **For the forecast for the economic environment in 2013, see page 116 onward**

Trends in the global economy in 2012

- Growth in global gross domestic product not as sharp as in previous year (+2.2%) and remains lower than our original forecast (+2.7%)
- Renewed intensification of debt crisis in several eurozone countries; dampening effects from emerging markets
- Extraordinarily large economic fluctuations throughout the year

Gross domestic product 2012
Real change compared with previous year

World	**2.2%**
European Union	(0.3%)
United States	2.2%
Asia (excl. Japan)	5.7%
Japan	2.0%
South America	2.4%

Trends in key customer industries

With an increase of only 2.4% in 2012, global industrial production remained significantly behind the previous year's growth level (+4.3%) and our forecast (+4.1%). Production growth decreased in both industrialized countries (2012: +0.5%; 2011: +2.1%) as well as in emerging markets (2012: +5.0%; 2011: +7.7%). This was primarily due to the recession in Europe and the slowdown of economic growth in Asia.

Growth in the **transportation** sector was significantly higher than in the previous year (2012: +7.0%; 2011: +4.4%). While production in the European Union fell by 2.0% due to weak demand for automobiles, the North American market grew by 12.6%. Significant recovery effects were posted in Japan (+17.1%) after the production outages of the previous year. Production also increased in the emerging markets of Asia (2012: +7.5%; 2011: +6.1%).

At 2.2%, the **energy and resources** sector grew somewhat faster than in 2011 (+1.7%). While resource use grew less quickly in the emerging markets than in the previous year, it once again increased slightly in the industrialized countries after a decline in 2011.

Growth in the **construction** sector declined to 2.2% in 2012 (2011: +3.1%). At 5.4%, construction activities in the emerging markets did not increase as sharply as in the previous year (+8.6%). Production stagnated in the industrialized countries (–0.2%); in Western Europe, it even declined by 5.2%. By contrast, the North American market recovered considerably (+5.9%). In Japan, the construction industry benefited from reconstruction after the previous year's natural disaster (+3.5%).

As a result of the recession in Europe and dampened economic development in Asia, growth declined substantially in the **consumer goods** industry (2012: +1.5%; 2011: +5.5%). Production in the electronics industry increased by only 2.5% (2011: +8.9%). While textile production in the emerging markets grew by 5.7%, it continued to decrease in the industrialized countries (–3.6%). The paper industry provided a similar picture: At 6.4%, production in the emerging markets rose considerably. In the industrialized countries, however, it fell by 2.3%.

The **electronics** industry grew at a slower rate compared with the previous year (2012: +2.8%; 2011: +3.4%). In the industrialized countries, production even decreased slightly in electronics for information and communication technology.

Growth declined to 2.0% in the **health and nutrition** sector (2011: +4.5%) due to weaker development in the food market (2012: +1.9%, 2011: +4.3%). Growth decelerated in the pharmaceutical industry, as well (2012: 2.3%, 2011: +5.2%).

Agriculture grew at approximately the same rate as in the previous year (2012: +1.9%; 2011: +2.0%). While production in the emerging markets of Southeast Asia increased by 3.8%, it declined by 5.1% in the United States as a result of the record drought. Eastern Europe (–2.2%) and South America (–0.9%) also posted production declines.

→ **For the forecast for the economic environment in 2013, see page 116 onward**

Growth in key customer industries in 2012
Real change compared with the previous year

Industries total	**OECD**	**0.5%**
	World	**2.4%**
Transportation	OECD	7.7%
	World	7.0%
Energy and resources	OECD	0.6%
	World	2.2%
Construction	OECD	(0.2%)
	World	2.2%
Consumer goods	OECD	(0.6%)
	World	1.5%
Electronics	OECD	2.3%
	World	2.8%
Health and nutrition	OECD	0.0%
	World	2.0%
Agriculture	OECD	(0.1%)
	World	1.9%

Development of industrial production in 2012

- At 2.4%, growth in global industrial production considerably below previous year's level (+4.3%)
- Main causes include recession in Europe and slowdown of economic momentum in Asia
- Significant growth in transportation sector (+7.0%)
- Substantial decline in growth in consumer goods industry (2012: +1.5%, 2011: +5.5%)

BASF sales by industry
Direct customers

>15%	Chemicals and plastics | Energy and resources
10–15%	Consumer goods | Transportation
5–10%	Agriculture | Construction
<5%	Health and nutrition | Electronics

Trends in the chemical industry

Global chemical production (excluding pharmaceuticals) grew by 2.6% in 2012 – significantly slower than in the previous year (+3.8%) and than our original forecast for 2012 (+4.1%). The upswing in demand expected for the second half of the year did not appear.

Compared with the previous year, growth in demand for products from the chemical industry (excluding pharmaceuticals) was significantly slower in 2012. This was largely attributable to weak economic development in the industrialized countries and restrained growth in many emerging markets. In anticipation of decreasing prices, many consumers of chemical products also showed caution in restocking their inventories.

After weak growth in the previous year (+1.7%), chemical production in the **European Union** declined by 1.4% in 2012. By the fourth quarter of 2011, production levels in Germany were already considerably below the year's average; this decline could not be made up for in the course of 2012, so that production fell by an average of 3.1% for the year. Substantial production declines were posted in Italy and the United Kingdom, as well.

In the **United States**, chemical production rose by 2.5%, representing a slight increase compared with 2011 (+1.5%). The chemical industry there benefited from low gas prices as well as from high demand, especially from the automotive industry.

As a result of the general economic slowdown, chemical production in **Asia (excluding Japan)** posted a weaker growth dynamic than in the previous year (2012: +7.7%; 2011: +9.0%). Production increased by 10.6% in China, the world's largest chemicals market; in India, it grew by only 1.3%.

In **Japan**, the chemical industry was unable to benefit as anticipated from reconstruction after the natural disaster in 2011; production declined by 4.5% (2011: –3.7%). The strong yen and high raw material costs impaired competitiveness on an international level. Substantial production cutbacks in key customer industries led to lower demand for input materials from the chemical industry.

At 1.9%, growth in chemical production in **South America** was weaker than in the past years (2011: +3.1%). In Brazil, production grew by only 1.4% due to slow growth in customer industries.

Chemical production (excluding pharmaceuticals) in 2012
Real change compared with previous year

World	**2.6%**
European Union	(1.4%)
United States	2.5%
Asia (excl. Japan)	7.7%
Japan	(4.5%)
South America	1.9%

At an annual average of just under $112 per barrel in 2012, the **crude oil price** of Brent blend was around the same high level as in the previous year. Prices fluctuated widely over the course of the year. At the beginning of 2012, the price of oil increased sharply as a result of tension in the Middle East as well as rising demand; it reached its highest monthly average in March ($125 per barrel). The price of oil subsequently fell to a monthly average of $96 per barrel in June. In the second half of the year, factors such as the European Union's embargo on oil from Iran led to a renewed increase in the price of crude oil.

Average monthly prices for the chemical raw material **naphtha** ranged over the course of the year from $1,065 per metric ton in March to $732 per metric ton in June. The average annual price of naphtha in 2012 was $937 per metric ton, comparable with the level of 2011.

The average annual price of natural gas in the United States was less than $3/mmbtu, a significantly lower level than in 2011 ($4/mmbtu). In the European Union, however, the average price of natural gas rose to more than $11/mmbtu, an increase of around 10% compared with 2011.

→ **For the forecast for the economic environment in 2013, see page 116 onward**

Trends in the chemical industry in 2012

- Growth in global chemical production (excluding pharmaceuticals) considerably slower than in previous year (2012: +2.6%; 2011: +3.8%)
- Increase in demand not as sharp as in 2011
- Chemical production in the European Union declines by 1.4%
- Price of Brent blend crude oil comparable with high level of previous year

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

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

Results of operations

Sales and earnings (million €)

		2012	2011	Change in %
Sales		78,729	73,497	7.1
Income from operations before depreciation and amortization (EBITDA)		12,516	11,993	4.4
EBITDA margin	%	15.9	16.3	–
Income from operations (EBIT) before special items		8,881	8,447	5.1
Income from operations (EBIT)		8,976	8,586	4.5
Financial result		(540)	384	.
Income before taxes and minority interests		8,436	8,970	(6.0)
Income before minority interests		5,222	6,603	(20.9)
Net income		4,879	6,188	(21.2)
Earnings per share	€	5.31	6.74	(21.2)
Adjusted earnings per share	€	5.71	6.26	(8.8)

Sales and earnings by quarter 2012 (million €)[1]

		1st quarter	2nd quarter	3rd quarter	4th quarter	2012
Sales		20,590	19,481	19,010	19,648	78,729
Income from operations before depreciation and amortization (EBITDA)		3,890	3,132	2,810	2,684	12,516
Income from operations (EBIT) before special items		2,532	2,490	2,070	1,789	8,881
Income from operations (EBIT)		3,120	2,229	2,002	1,625	8,976
Financial result		(73)	(112)	(114)	(241)	(540)
Income before taxes and minority interests		3,047	2,117	1,888	1,384	8,436
Net income		1,724	1,229	946	980	4,879
Earnings per share	€	1.88	1.34	1.03	1.06	5.31
Adjusted earnings per share	€	1.57	1.60	1.19	1.35	5.71

Sales and earnings by quarter 2011 (million €)[1]

		1st quarter	2nd quarter	3rd quarter	4th quarter	2011
Sales		19,361	18,461	17,607	18,068	73,497
Income from operations before depreciation and amortization (EBITDA)		3,365	3,015	2,709	2,904	11,993
Income from operations (EBIT) before special items		2,732	2,237	1,964	1,514	8,447
Income from operations (EBIT)		2,550	2,217	1,882	1,937	8,586
Financial result		830	(121)	(161)	(164)	384
Income before taxes and minority interests		3,380	2,096	1,721	1,773	8,970
Net income		2,411	1,454	1,192	1,131	6,188
Earnings per share	€	2.62	1.59	1.30	1.23	6.74
Adjusted earnings per share	€	1.94	1.75	1.52	1.05	6.26

[1] Quarterly results not audited

Sales

Sales rise, thanks especially to good business development in Agricultural Solutions segment, higher sales volumes in Oil & Gas segment and positive currency effects

+7 %

Sales (million €)

2012	**78,729**
2011	73,497
2010	63,873
2009	50,693
2008	62,304

We increased our sales and earnings in 2012. Sales rose by 7.1% to €78,729 million. This was primarily attributable to good business development in the Agricultural Solutions segment as well as to higher sales volumes in the Oil & Gas segment. Sales were additionally boosted by positive currency effects.

Income from operations improved by 4.5% and amounted to €8,976 million.

→ **For information on the economic environment in 2013, see page 116 onward**

Sales and income from operations

Economic development in 2012 was significantly weaker overall than in the previous year. Nevertheless, we increased our sales by 7.1%; significant contributing factors here were higher demand in the Agricultural Solutions segment and the Natural Gas Trading business sector as well as the continuous production of crude oil in Libya. By contrast, we posted a 3% decline in volumes in the chemicals business[1]. Currency effects led to sales increases in all operating divisions. The rise in income from operations was also primarily attributable to developments in the Agricultural Solutions and Oil & Gas segments. The divestiture of our fertilizer and styrenic plastics businesses led to a decline in sales in Other. Further acquisitions and divestitures had only a minor influence on the development of our sales and earnings.

Sales in the **Chemicals** segment increased mainly as a result of portfolio measures and positive currency effects. Lower volumes and sales prices reduced this increase. While sales volumes declined in the Petrochemicals division, the Inorganics and Intermediates divisions were able to raise volumes. Lower margins and plant shutdowns both led to a decline in income from operations.

Factors influencing sales BASF Group

	Change in million €	Change in %
Volumes	2,437	3
Prices	490	1
Currencies	2,751	4
Acquisitions and changes in the scope of consolidation	364	–
Divestitures	(810)	(1)
Total change in sales	**5,232**	**7**

We posted a sales increase in the **Plastics** segment. This was mainly the result of positive currency effects. Despite high demand from the automotive industry – especially in the first half of the year – sales volumes declined overall. We raised prices in some business areas, particularly in the Polyurethanes division; however, especially in polyamide precursors, we were not able to fully pass on increased raw material costs to the customer. This prevented income from operations in the Performance Polymers division from matching the level of the previous year. Significantly higher earnings in the Polyurethanes division were only partly able to compensate for this decline.

Sales in the **Performance Products** segment were above the level of 2011. With prices stable, positive currency effects more than offset reduced volumes. Income from operations did not match the level of the previous year, chiefly owing to lower plant capacity utilization and increased spending on research and development.

Sales rose in the **Functional Solutions** segment, predominantly as a result of positive currency effects and portfolio effects. While sales volumes fell overall, demand was high for our automotive coatings and mobile emissions catalysts. The sales contribution from precious metal trading declined. Income from operations for the segment rose, due in part to slightly decreased special charges.

Income from operations

– Earnings improve compared with previous year
– Significant increase, particularly in Agricultural Solutions and Oil & Gas segments

+5%

Income from operations (million €)

2012	**8,976**
2011	8,586
2010	7,761
2009	3,677
2008	6,463

[1] Our chemicals business includes the Chemicals, Plastics, Performance Products and Functional Solutions segments.

Business was very successful in the **Agricultural Solutions** segment. We raised our sales and earnings once again compared with the record levels of the previous year. This considerable sales growth is especially attributable to increased sales volumes in all regions and indications (fungicides, herbicides, insecticides and other). Positive currency effects and price increases also boosted sales. Despite the worldwide expansion of our business activities and the costs associated with it, we significantly improved income from operations.

Sales in the **Oil & Gas** segment increased significantly, driven by volumes and prices. Sales rose in the Exploration and Production business sector mainly as a result of the continuous production of crude oil in Libya. Volumes and sales prices also increased in the Natural Gas Trading business sector. Income from operations for the segment considerably exceeded the level of the previous year.

Sales in **Other** declined by €1,482 million to €4,793 million. This was primarily attributable to the contribution of the styrenic plastics business to the Styrolution joint venture, which is accounted for using the equity method, as well as to the divestiture of our fertilizer business. Income from operations in Other amounted to minus €267 million compared with €178 million in 2011. A lower currency result and the missing earnings contribution from the styrenic plastics business both contributed to this decline, along with the €174 million increase in expenses for the long-term incentive program. A positive earnings contribution of €645 million resulted from disposal gains on our fertilizer business, which were reported as a special item; in 2011, the contribution of our styrenic plastics business to the Styrolution joint venture resulted in disposal gains of €593 million.

EBIT after cost of capital amounted to €1,534 million. This means we once again earned a significant premium on our cost of capital.

Special items in income from operations

The positive balance of special items in income from operations fell from €139 million in 2011 to €95 million in 2012. In both years, disposal gains had a positive effect: In 2012, this resulted from the divestiture of our fertilizer business, and in the previous year from the transfer of our styrenic plastics business to the Styrolution joint venture. The divestiture of various other businesses led to special charges totaling €40 million in 2012 (2011: €86 million).

Special charges for various restructuring measures amounted to €273 million in 2012, representing an increase of €92 million compared with the previous year.

In 2012, special charges of €2 million arose from the integration of newly acquired businesses, after special charges of €240 million had been incurred in 2011, primarily for the Cognis integration.

Furthermore, other special charges totaling €235 million mainly include impairment charges on an oil field development project in Norway. In the previous year, special income of €53 million had resulted in particular from the settlement of legal disputes.

Financial result and net income

The financial result was minus €540 million, significantly below the previous year's value of €384 million. This was predominantly the result of special income of €887 million in income from participations that resulted from the sale of our stake in K+S Aktiengesellschaft in 2011. In the previous year, special items had improved the financial result by a total of €829 million. In 2012, a special charge of €88 million in the financial result arose from the market valuation of options for the disposal of our participation in the Styrolution joint venture. Income before taxes and minority interests therefore included special items totaling €7 million, compared with €968 million in the previous year.

At minus €573 million, the interest result matched the previous year's level. Income from participations accounted for using the equity method improved to €171 million. Other financial expenses and income fell to minus €170 million.

Income from operations

– Special income from divestiture of fertilizer business
– Lower special charges for integration costs
– Significant premium earned once again on cost of capital

Special items (million €)

	2012	2011
Integration costs	(2)	(240)
Restructuring measures	(273)	(181)
Divestitures	605	507
Other charges and income	(235)	53
Total reported in EBIT	**95**	**139**
Special items reported in financial result	(88)	829
Total reported in income before taxes	**7**	**968**

Income before taxes and minority interests declined from €8,970 million to €8,436 million. Return on assets therefore amounted to 14.6%, compared with 16.1% in the previous year.

Despite decreased income before taxes and minority interests, income taxes rose by €847 million to €3,214 million. The tax rate increased significantly, from 26.4% to 38.1%, as a result of the continuous production of oil in Libya. In 2011, non-compensable income taxes on oil production totaled €439 million due to the suspension of oil production in Libya; these taxes amounted to €1,880 million in 2012. Furthermore, gains from the 2011 sale of our shares in K+S Aktiengesellschaft were predominantly tax-free.

Income before minority interests fell by €1,381 million to €5,222 million. Minority interests declined from €415 million to €343 million. The sharpest decline was posted at BASF TOTAL Petrochemicals LLC in Port Arthur, Texas, due to the temporary shutdown and maintenance of the steam cracker.

Net income amounted to €4,879 million – a decline of €1,309 million. Earnings per share thus fell from €6.74 to €5.31.

→ **For more on the tax rate, see the Notes on page 176**

→ **For more on the accounting methods, see the Notes from page 151 onward**

Cash flow

At €6,733 million, cash flow from operating activities once again reached a high level. The decline of €372 million compared with 2011 was primarily the result of lower net income. The increase in capital tied up in higher inventories and receivables matched the level of the previous year.

Payments related to property, plant and equipment and intangible assets exceeded the previous year's level by €739 million. At €2,584 million, free cash flow was therefore €1,111 million lower than in the previous year.

Adjusted earnings per share

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

In 2012, adjusted earnings per share amounted to €5.71 compared with €6.26 in the previous year.

Adjusted earnings per share (million €)

	2012	2011
Income before taxes and minority interests	8,436	8,970
Special items	(7)	(968)
Amortization of intangible assets	690	789
Amortization of intangible assets contained in the special items	(75)	(97)
Adjusted income before taxes and minority interests	**9,044**	**8,694**
Adjusted income taxes	(3,440)	(2,513)
Adjusted income before minority interests	**5,604**	**6,181**
Adjusted minority interests	(356)	(432)
Adjusted net income	**5,248**	**5,749**
Weighted average number of outstanding shares (in thousands)	918,479	918,479
Adjusted earnings per share (€)	**5.71**	**6.26**

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

→ **For more information on the earnings per share according to IFRS, see the Notes on page 171**

Financial result and net income

- Financial result significantly below level of 2011: previous year had included special income from sale of our shares in K+S Aktiengesellschaft
- Tax rate increases considerably, mostly due to continuous oil production in Libya
- Net income declines

Earnings per share and cash flow

- Earnings per share decrease by €1.43 to €5.31
- Adjusted earnings per share decline by €0.55 to €5.71
- At €6,733 million, high level of cash provided by operating activities; year-on-year decline mainly due to lower net income
- Free cash flow of €2.6 billion below previous year's level as a result of higher expenditures for property, plant and equipment and intangible assets

Net assets

Assets

	December 31, 2012		December 31, 2011	
	Million €	%	Million €	%
Intangible assets	12,241	19.0	11,919	19.5
Property, plant and equipment	18,177	28.2	17,966	29.4
Investments accounted for using the equity method	2,045	3.2	1,852	3.0
Other financial assets	880	1.4	848	1.4
Deferred taxes	1,545	2.4	941	1.5
Other receivables and miscellaneous long-term assets	650	1.0	561	0.9
Long-term assets	**35,538**	**55.2**	**34,087**	**55.7**
Inventories	9,930	15.4	10,059	16.5
Accounts receivable, trade	10,138	15.8	10,886	17.8
Other receivables and miscellaneous short-term assets	3,504	5.5	3,781	6.2
Marketable securities	23	.	19	.
Cash and cash equivalents	1,777	2.8	2,048	3.3
Assets of disposal groups	3,417	5.3	295	0.5
Short-term assets	**28,789**	**44.8**	**27,088**	**44.3**
Total assets	**64,327**	**100.0**	**61,175**	**100.0**

Equity and liabilities

	December 31, 2012		December 31, 2011	
	Million €	%	Million €	%
Subscribed capital	4,364	6.8	4,379	7.2
Retained earnings	20,106	31.2	19,446	31.8
Other comprehensive income	110	0.2	314	0.5
Minority interests	1,224	1.9	1,246	2.0
Equity	**25,804**	**40.1**	**25,385**	**41.5**
Provisions for pensions and similar obligations	5,460	8.5	3,189	5.2
Other provisions	3,024	4.7	3,335	5.5
Deferred taxes	2,511	3.9	2,628	4.3
Financial indebtedness	9,113	14.1	9,019	14.7
Other liabilities	1,083	1.7	1,142	1.9
Long-term liabilities	**21,191**	**32.9**	**19,313**	**31.6**
Accounts payable, trade	4,696	7.3	5,121	8.4
Provisions	2,687	4.2	3,210	5.2
Tax liabilities	1,080	1.7	1,038	1.7
Financial indebtedness	4,242	6.6	3,985	6.5
Other liabilities	2,395	3.7	3,036	5.0
Liabilities of disposal groups	2,232	3.5	87	0.1
Short-term liabilities	**17,332**	**27.0**	**16,477**	**26.9**
Total equity and liabilities	**64,327**	**100.0**	**61,175**	**100.0**

Total assets amounted to €64,327 million, exceeding the previous year's level by €3,152 million.

Assets

Long-term assets grew by €1,451 million to €35,538 million. Intangible assets, including goodwill, rose by €322 million primarily as a result of acquisitions in 2012. Due to the higher amount of total assets, the proportion of intangible assets contained in total assets decreased from 19.5% at the end of 2011 to 19.0% as of December 31, 2012.

The value of tangible fixed assets rose by €211 million. At €4,215 million, additions to property, plant and equipment considerably exceeded depreciation. The creation of a disposal group for the natural gas trading business led to the reclassification of its tangible fixed assets, with a net value of €983 million, to short-term assets. With the increase in total assets, the percentage of total assets represented by property, plant and equipment decreased from 29.4% to 28.3%.

Higher provisions for pension obligations were primarily responsible for an increase of €604 million in deferred tax assets.

At €28,789 million, short-term assets exceeded the previous year's level by €1,701 million. This increase is mainly due to the reclassification of €1,081 million from long-term assets to assets of the disposal group formed in 2012. Reclassifications totaling €2,336 million from short-term assets to assets of the disposal group led to declines in inventories and trade accounts receivable as well as other receivables.

At €1,777 million, cash and cash equivalents were €271 million below the level of December 31, 2011.

Equity and liabilities

Equity grew by €419 million compared with the previous year. Net income amounted to €4,879 million, which exceeded dividend payments by €2,583 million. Equity was reduced by the recognition of €1,939 million in actuarial losses from pension obligations. The equity ratio declined to 40.1% (2011: 41.5%).

Long-term liabilities rose by €1,878 million compared with the end of 2011. This was mainly due to the increase of €2,271 million in provisions for pension obligations, which mainly resulted from reduced discount rates. Long-term financial indebtedness increased slightly to €9,113 million. With a total volume of around €1,450 million, three bonds due in 2013 were reclassified to short-term financial indebtedness. This was countered primarily by the issue of a €1 billion bond with a ten-year maturity, as well as the issue of a €750 million bond with a six-year maturity.

The rise in short-term liabilities is particularly attributable to the reclassification of €422 million from long-term liabilities to liabilities of disposal groups. Short-term financial indebtedness rose by €257 million; the increase, which resulted from the reclassification of bonds due in 2013 from long-term financial indebtedness as well as to greater use of the commercial paper program, was countered by the repayment of €2.8 billion in bonds due in 2012.

Liabilities of the disposal group for the natural gas trading business amounted to €2,232 million. The creation of the disposal group is mainly responsible for the decline in trade accounts payable and other short-term liabilities, as well as in short-term provisions.

Long and short-term financial indebtedness increased by a total of €351 million. Net debt rose to €11,578 million.

→ **For more on the composition and development of individual balance sheet items, see the Notes from page 178 onward**

→ **For more on the development of the balance sheet, see the Ten-Year Summary from page 227 onward**

→ **For more on the disposal group for the natural gas trading business, see the Notes on page 165**

Balance sheet

- Total assets exceed previous year's level by €3,152 million
- Long-term assets rise mainly as a result of acquisitions
- Creation of disposal group for natural gas trading business leads to decline in inventories, receivables and payables as well as short-term provisions
- Higher pension provisions due to lower discount rates

Net debt (million €)

	Dec. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	1,777	2,048
Financial indebtedness	13,355	13,004
Net debt	**11,578**	**10,956**

Financial position

Our value-based financing principles are aimed at securing liquidity at all times, limiting the risks associated with financing and optimizing our cost of capital. We preferably meet our external financing needs on international capital markets.

Financing policy and credit ratings

We aim for at least a solid A rating, which allows us unrestricted access to money and capital markets. Our financing measures are aligned with our operative business planning as well as the company's strategic direction and also ensure the financial flexibility to take advantage of strategic options.

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

For general corporate financing, we issued a six-year, €750 million bond in October 2012 with a fixed coupon of 1.5%, as well as a ten-year, €1 billion bond in December 2012 with a fixed coupon of 2%. With these transactions, which took place under our €15 billion Debt Issuance Program, BASF has secured itself long-term financing at attractive interest rates and extended the maturity profile of its financial indebtedness.

For short-term financing, we use our well-established commercial paper program, which has an issuing volume of up to $12.5 billion. On December 31, 2012, €1.29 billion worth of commercial paper was outstanding under this program. Firmly committed, syndicated credit facilities of $2.25 billion and €3 billion serve to cover the repayment of outstanding commercial paper, and can also be used for general company purposes. These credit lines were not used in the course of 2012. Our external financing is therefore largely independent of short-term fluctuations in the credit markets.

Off-balance-sheet financing tools, such as leasing, are of minimal importance for us. BASF Group's most important financial contracts contain no side agreements with regard to specific financial ratios (financial covenants) or compliance with a specific rating (rating trigger).

→ **For more on the financing tools used, see the Notes from page 197 onward**

With "A+/A-1/outlook stable" from rating agency Standard & Poor's and "A1/P-1/outlook stable" from Moody's, we have good credit ratings, also compared with competitors in the chemical industry. Standard & Poor's last confirmed our long-term rating on July 24, 2012; Moody's last confirmed our long-term rating on October 12, 2012, and pronounced the outlook stable. Both agencies maintained BASF's short-term ratings.

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

Cash flow statement

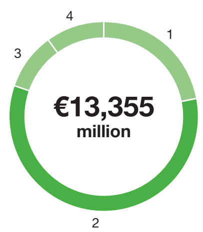
At €6,733 million, we once again attained a high level of **cash provided by operating activities** in 2012. The decline of €372 million compared with 2011 was primarily attributable to the lower net income. Additional capital tied down in net working capital matched the level of the previous year. Other items in 2012 predominantly comprised the reclassification of disposal gains from our fertilizer business, while in 2011, gains from the sale of our shares in K+S Aktiengesellschaft and on the disposal of our styrenic plastics business were reclassified to cash flow from investing activities.

Maturities of financial indebtedness (million €)

2018 and beyond	2,727
2017	829
2016	905
2015	3,299
2014	1,353
2013	4,242

Financing instruments (million €)

1	Bank loans[1]	2,961
2	Eurobonds	7,795
3	Commercial paper	1,288
4	Other bonds	1,311



[1] Including promissory notes

Cash used in investing activities amounted to €4,088 million. At €4,149 million, payments for property, plant and equipment and intangible assets were higher than both the level of depreciation and the level of 2011. In 2012, we received proceeds of €724 million from divestitures, compared with €665 million in the previous year. Expenses for acquisitions increased by €895 million compared with the previous year to €1,043 million. The higher cash inflow in financial investments and other items in 2011 was mainly attributable to cash received of €972 million from the sale of our shares in K+S Aktiengesellschaft.

→ **For more on investments and acquisitions, see page 36 onward**

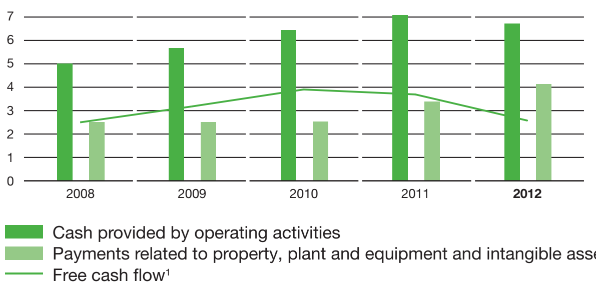
Cash used in financing activities amounted to €2,928 million, compared with €4,818 million in the previous year. This cash outflow resulted in particular from the payment of dividends in the amount of €2,296 million to shareholders of BASF SE and €345 million to minority shareholders in Group companies. The repayment of two bonds totaling €2,934 million and other financial liabilities was offset by the issue of three new bonds with a total volume of €1,750 million. We used an additional €1,288 million from BASF SE's commercial paper program.

Overall, cash and cash equivalents declined by €271 million compared with the previous year and amounted to €1,777 million as of December 31, 2012.

Statement of cash flows (million €)

	2012	2011
Net income	4,879	6,188
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,561	3,419
Changes in working capital	(955)	(906)
Miscellaneous items	(752)	(1,596)
Cash provided by operating activities	**6,733**	**7,105**
Payments related to property, plant and equipment and intangible assets	(4,149)	(3,410)
Acquisitions/divestitures	(319)	517
Financial investments and other items	380	1,155
Cash used in investing activities	**(4,088)**	**(1,738)**
Capital increases/repayments, share repurchases	(1)	32
Changes in financial liabilities	(286)	(2,372)
Dividends	(2,641)	(2,478)
Cash used in financing activities	**(2,928)**	**(4,818)**
Net changes in cash and cash equivalents	(283)	549
Cash and cash equivalents as of beginning of year and other changes	2,060	1,499
Cash and cash equivalents as of end of year	**1,777**	**2,048**

Cash flow (billion €)



[1] Cash provided by operating activities less payments related to property, plant and equipment and intangible assets

Financing and cash flows

– Financing principles remain unchanged
– "A" ratings confirmed
– High cash flow from operating activities once again in 2012
– Expenses increase for investments and acquisitions

Business review by segment

Segment overview (million €)

	Sales		Income from operations before depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
	2012	2011	2012	2011	2012	2011
Chemicals	13,824	12,958	2,409	3,188	1,717	2,441
Plastics	11,402	10,990	1,314	1,678	873	1,203
Performance Products	15,871	15,697	2,113	2,312	1,428	1,727
Functional Solutions	11,460	11,361	894	921	561	559
Agricultural Solutions	4,679	4,165	1,182	981	1,037	810
Oil & Gas	16,700	12,051	4,721	2,616	4,104	2,111
Other[1]	4,793	6,275	(117)	297	(839)	(404)
	78,729	**73,497**	**12,516**	**11,993**	**8,881**	**8,447**

Segment overview (million €)

	Income from operations (EBIT)		Assets		Capital expenditures[2]	
	2012	2011	2012	2011	2012	2011
Chemicals	1,718	2,442	7,299	6,920	920	622
Plastics	874	1,259	5,846	5,297	659	423
Performance Products	1,286	1,361	13,496	13,680	786	648
Functional Solutions	435	427	9,765	9,725	572	359
Agricultural Solutions	1,026	808	6,527	5,350	1,054	150
Oil & Gas	3,904	2,111	11,130	10,232	1,206	1,274
Other[1]	(267)	178	10,264	9,971	200	170
	8,976	**8,586**	**64,327**	**61,175**	**5,397**	**3,646**

[1] Information on the composition of Other can be found in the Notes to the Consolidated Financial Statements from page 168 onward.

[2] Additions to property, plant and equipment (thereof from acquisitions: €106 million in 2012 and €66 million in 2011) and intangible assets (thereof from acquisitions €1,073 million in 2012 and €141 million in 2011)

Contributions to total sales by segment

Chemicals	18%
Plastics	14%
Performance Products	20%
Functional Solutions	15%
Agricultural Solutions	6%
Oil & Gas	21%
Other	6%

Contributions to EBITDA by segment

Chemicals	19%
Plastics	11%
Performance Products	17%
Functional Solutions	7%
Agricultural Solutions	9%
Oil & Gas	38%
Other	(1%)

Sales (million €)[1]

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
Chemicals	3,484	3,276	3,348	3,392	3,556	3,168	3,436	3,122
Plastics	2,678	2,788	2,878	2,828	2,969	2,801	2,877	2,573
Performance Products	3,999	3,982	4,122	4,095	4,015	3,991	3,735	3,629
Functional Solutions	2,845	2,818	2,974	2,766	2,847	2,907	2,794	2,870
Agricultural Solutions	1,327	1,230	1,467	1,205	1,008	908	877	822
Oil & Gas	4,975	3,455	3,585	2,461	3,372	2,195	4,768	3,940
Other[2]	1,282	1,812	1,107	1,714	1,243	1,637	1,161	1,112
	20,590	**19,361**	**19,481**	**18,461**	**19,010**	**17,607**	**19,648**	**18,068**

Income from operations (EBIT) before special items (million €)[1]

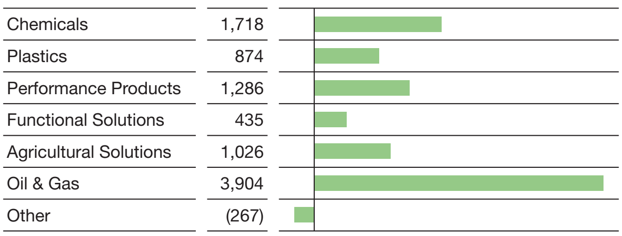
	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
Chemicals	467	765	436	674	459	621	355	381
Plastics	219	393	256	383	218	317	180	110
Performance Products	452	554	446	513	347	440	183	220
Functional Solutions	148	142	134	167	138	162	141	88
Agricultural Solutions	419	343	414	331	171	95	33	41
Oil & Gas	1,157	744	880	332	1,068	350	999	685
Other[2]	(330)	(209)	(76)	(163)	(331)	(21)	(102)	(11)
	2,532	**2,732**	**2,490**	**2,237**	**2,070**	**1,964**	**1,789**	**1,514**

Income from operations (EBIT) (million €)[1]

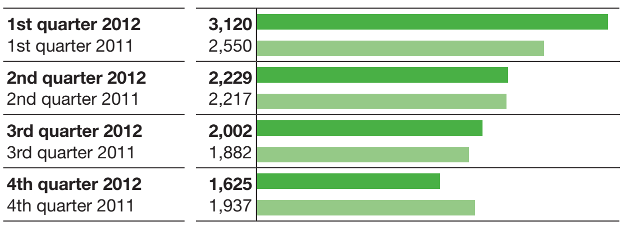
	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2012	2011	2012	2011	2012	2011	2012	2011
Chemicals	467	765	435	686	460	612	356	379
Plastics	230	393	256	383	218	315	170	168
Performance Products	429	407	382	456	325	403	150	95
Functional Solutions	169	142	134	165	138	161	(6)	(41)
Agricultural Solutions	419	343	414	331	169	95	24	39
Oil & Gas	1,157	744	800	332	1,068	350	879	685
Other[2]	249	(244)	(192)	(136)	(376)	(54)	52	612
	3,120	**2,550**	**2,229**	**2,217**	**2,002**	**1,882**	**1,625**	**1,937**

[1] Quarterly results not audited
[2] Information on the composition of Other can be found in the Notes to the Consolidated Financial Statements from page 168 onward.

EBIT by segment (million €)



EBIT BASF Group by quarter (million €)



Chemicals

Excellence in the Verbund, technology and cost leadership

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

With our production facilities, we form the core of the Verbund structure and supply the BASF segments with basic chemicals for the production of downstream products. We add value with innovations in processes and production, and invest in future markets to ensure the growth of the entire BASF Verbund. As a reliable supplier, we market our products to customers in downstream industries, primarily in the chemical, electronics, construction, textile, lumber, automotive, pharmaceutical and agrochemical industries. We continually improve our value chains and are strengthening our market position – particularly outside Europe – by way of innovations, capital expenditures and acquisitions as well as through collaborations in future markets.

We invest in research and development in order to develop new technologies and to make our existing technologies even more efficient. Cost leadership is among our most important competitive advantages. In order to achieve this, we concentrate on the critical success factors of the classical chemicals business: making use of economies of scale, the advantages of our Verbund and continuing optimization of access to raw materials, as well as reliable, cost-effective logistics. Furthermore, we are constantly improving our global production structures and aligning these even more closely with regional market requirements.

CUPUR® T
Coating additives for the 3-D integration of computer chips

Value for BASF	Value for our customers
25%	50%
Annual market growth from 2012 to 2020	**Reduction** in electroplating time

Value for BASF Mobile phones and tablet computers are becoming increasingly smaller and thinner. The arrangement of processors, sensors and memory chips must therefore be very compact: Fixed one on top of the other, they are linked together through tiny copper connections. The complex production of these 3-D structures is made possible by our CUPUR® T coating additives. By 2020, the market for these additives is expected to grow by around 25% per year.

Value for our customers The 3-D structures are around one thousand times larger than the conductors in the computer chips. Consequently, electroplating – that is, the step in which the components are interconnected using copper deposition – takes an hour, which is very long. This results in high production costs. Thanks to CUPUR® T, electroplating time is reduced by approximately 50% and chip integration becomes considerably more cost-effective for our customers.

Strategy

- Production of a broad range of basic chemicals and intermediates in integrated production facilities: the Verbund
- Supplying the value chains in the BASF Verbund and marketing our products to external customers
- Technology and cost leadership represent most important competitive advantages
- Success factors: economies of scale, Verbund advantages, optimization of access to raw materials, reliable and cost-effective logistics
- Continuous optimization of production structures

Products, customers and applications

Segment	Chemicals		
Division	**Inorganics**	**Petrochemicals**	**Intermediates**
Products	Basic products: ammonia, methanol, caustic soda, chlorine and standard alcoholates as well as sulfuric and nitric acid Specialties: chemicals for the semiconductor industry, salts, metal systems and metal organic compounds	Basic products: ethylene, propylene, butadiene, benzene, alcohols, solvents, plasticizers, alkylene oxides, glycols and acrylic monomers Specialties: special plasticizers such as Hexamoll® DINCH®, special acrylates	Basic products: butanediol and derivatives, alkylamines and alkanolamines, neopentylglycol, formic and propionic acid Specialties: specialty amines such as *tert*-Butylamine, gas scrubbing chemicals, hardeners for epoxy resin systems, vinyl monomers, acid chlorides, chloroformates, chiral intermediates
Customer industries and applications	Use within BASF Verbund Specialties for the electronic, pharmaceutical, automotive and other industries	Use within BASF Verbund Chemical and plastics industries; detergent, automotive, packaging and textile industries; production of paints, coatings and cosmetics as well as oilfield, construction and paper chemicals	Use within BASF Verbund Starting materials for coatings, plastics, pharmaceuticals, textile fibers, crop protection products as well as detergents and cleaners

Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Antwerp, Belgium	Construction: butadiene extraction		155,000	2014
Camaçari, Brazil	Construction: acrylic acid complex		160,000	2014
Geismar, Louisiana	Construction: formic acid plant		50,000	2014
Ludwigshafen, Germany	Replacement: nitric acid plants	n/a		2015
	Construction: ethylene pipeline[1]		n/a	2012
	Expansion: Hexamoll® DINCH® plant	100,000	200,000	2013
Nanjing, China	Construction: *tert*-Butylamine plant		n/a	2013

[1] Participation through investment in EPS Ethylen-Pipeline-Süd GmbH & Co. KG

Products

- Inorganics: basic products for our Verbund and specialties for the electronic, pharmaceutical, automotive and other industries
- Petrochemicals: broad range of basic products as well as specialties for the chemical and plastics industries, for example
- Intermediates: most comprehensive intermediates portfolio in the world, including starting materials for coatings, plastics, pharmaceuticals and crop protection products

Production capacities of significant products[1]

Product	Sites: Europe	North America	Asia Pacific	South America, Africa, Middle East	Annual capacity (metric tons)
Acrylic acid	X	X	X		1,190,000
Alkyl amines	X	X	X		250,000
Formic and propionic acid	X		X		255,000 150,000
Ammonia	X				1,525,000
Benzene	X	X	X		820,000
Butadiene	X	X	X		645,000
Butanediol equivalents	X	X	X		535,000
Chlorine	X				385,000
Ethanolamines and derivatives	X		X		400,000
Ethylene	X	X	X		3,375,000
Ethylene oxide	X	X	X		1,395,000
Formaldehyde condensate	X				750,000
Neopentyl glycol	X	X	X		165,000
Oxo-C4 alcohols (calculated as butyraldehyde)	X	X	X		1,495,000
PolyTHF®	X	X	X		250,000
Propylene	X	X	X		2,550,000
Plasticizers	X	X	X		660,000

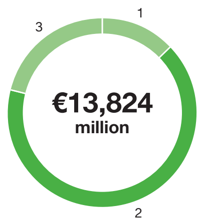
[1] All capacities included at 100%, including plants belonging to joint ventures

Sales – Chemicals (million €)

2012	**13,824**
2011	12,958
2010	11,377

Sales by division

1	Inorganics	13%
2	Petrochemicals	66%
3	Intermediates	21%



Segment data Chemicals (million €)

		2012	2011	Change in %
Sales to third parties		13,824	12,958	7
Thereof Inorganics		1,735	1,415	23
Petrochemicals		9,179	8,839	4
Intermediates		2,910	2,704	8
Intersegmental transfers		5,726	6,295	(9)
Sales including intersegmental transfers		19,550	19,253	2
Income from operations before depreciation and amortization (EBITDA)		2,409	3,188	(24)
EBITDA margin	%	17.4	24.6	–
Income from operations (EBIT) before special items		1,717	2,441	(30)
Income from operations (EBIT)		1,718	2,442	(30)
Income from operations (EBIT) after cost of capital		911	1,686	(46)
Assets		7,299	6,920	5
Research and development expenses		145	132	10
Additions to property, plant and equipment and intangible assets		920	622	48

In the Chemicals segment, sales to third parties grew by €866 million in 2012 to €13,824 million, despite lower volumes and prices. In addition to positive currency effects, portfolio effects were primarily responsible for this sales growth (volumes –3%, prices –2%, portfolio 8%, currencies 4%). Income from operations declined by €724 million to €1,718 million due to lower margins as well as to scheduled and unscheduled plant shutdowns.

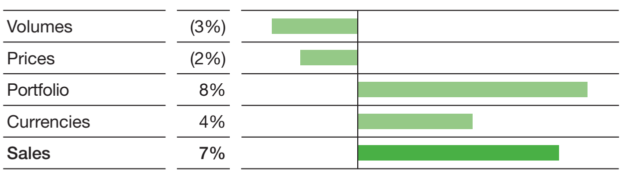
We strive to increase sales in 2013. With margins stable overall, we anticipate earnings above the level of 2012.

Inorganics

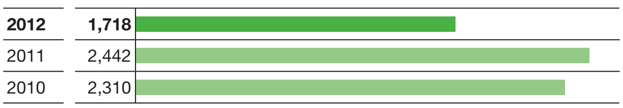
In the Inorganics division, our sales to third parties in 2012 increased by €320 million to €1,735 million (volumes 3%, prices 2%, portfolio 15%, currencies 3%). This was mainly due to positive portfolio effects from the divestiture of our fertilizer activities; since then, the supply of ammonia for fertilizer production has been reported as sales to third parties. In addition, increased demand – in particular from the electronics industry – was another major driver for this significant sales growth, along with positive currency effects and higher prices for basic products.

Income from operations declined as a result of the missing earnings contribution from the nitric acid plants sold in the fertilizer activities divestiture. Adjusted for this effect, earnings matched the very good level of the previous year, thanks as much to continuing high margins – especially for ammonia – as to our strict cost discipline.

Factors influencing sales – Chemicals



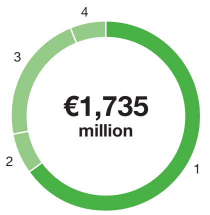
Income from operations – Chemicals (million €)



We expect moderately positive development in the business environment in 2013 and therefore anticipate higher sales volumes in several business areas. We aim to increase our sales, despite increasing pressure on prices. We anticipate earnings comparable with the level of 2012.

Inorganics – Sales by region
(Location of customer)

1	Europe	65%
2	North America	7%
3	Asia Pacific	22%
4	South America, Africa, Middle East	6%



Petrochemicals

In the Petrochemicals division, sales to third parties in 2012 rose by €340 million to €9,179 million, primarily due to portfolio measures (volumes –6%, prices –3%, portfolio 9%, currencies 4%). As a result of the establishment of the Styrolution joint venture on October 1, 2011, formerly internal product deliveries are now reported as sales to third parties. In addition to this portfolio effect, positive currency effects also compensated for lower volumes and sales prices.

Continuing uncertainty about further economic development had a negative impact on our market environment. The market for petrochemical products grew considerably more slowly than in the previous year, especially in Asia.

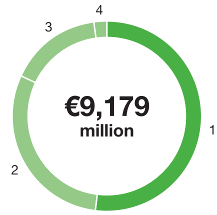
Weak market development, high product availability and increased raw material costs had a negative effect on our margins; in most product lines, they remained below the very good level of the previous year – in some cases, significantly. Income from operations declined as a result.

In Camaçari, Brazil, we began construction of an acrylic acid plant in 2012 with an intended annual capacity of 160,000 metric tons. We plan to construct a comparable facility in China, as well. In Port Arthur, Texas, we made the use of raw materials more flexible in order to take better advantage of the lower gas prices in the United States.

With volumes stable, we expect sales to rise in 2013 thanks to higher prices. Earnings are likely to exceed the previous year's level.

Petrochemicals – Sales by region
(Location of customer)

1	Europe	52%
2	North America	30%
3	Asia Pacific	16%
4	South America, Africa, Middle East	2%



Inorganics

- Sales grow significantly, mainly due to positive portfolio effects
- Earnings decrease as a result of divestiture of our fertilizer activities
- **Outlook 2013:** Sales increase thanks to higher volumes in several business areas; earnings at 2012 level

Petrochemicals

- Sales rise; portfolio effects and positive currency effects compensate for lower volumes and sales prices
- Lower margins lead to decline in earnings
- **Outlook 2013:** sales growth from higher prices; earnings above prior-year level

Intermediates

In the Intermediates division, sales to third parties in 2012 amounted to €2,910 million, representing an increase of €206 million compared with the previous year (volumes 4%, prices –2%, portfolio 1%, currencies 5%). Particularly in the second and third quarters, demand for intermediates was higher than in 2011, especially in Asia. A strong U.S. dollar and the acquisition of Novolyte Performance Materials additionally boosted sales growth.

We were able to significantly increase sales and volumes in the butanediol and derivatives product line; however, scheduled plant shutdowns in Geismar, Louisiana, and Ludwigshafen raised our costs in this area. Greater availability in all regions led to pressure on margins, particularly for amines and polyalcohols.

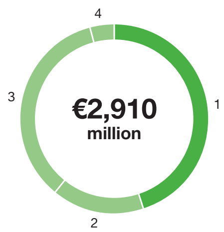
Despite higher volumes overall, income from operations did not match the very high level of the previous year. This was mostly due to higher fixed costs as a result of the startup of new plants, the acquisition of Novolyte and the renovation of production facilities.

We increased our annual global capacity for the production of the intermediate PolyTHF® from 185,000 metric tons to 250,000 metric tons. Furthermore, we began construction of a formic acid plant in Geismar, Louisiana, in 2012, which will strengthen our Production Verbund in North America.

We anticipate renewed sales growth in 2013, particularly in the product lines for polyalcohols and acids, as well as butanediol and derivatives. We aim to offset pressure on margins by reducing fixed costs and to achieve earnings at the level of 2012.

Intermediates – Sales by region
(Location of customer)

1	Europe	45%
2	North America	16%
3	Asia Pacific	35%
4	South America, Africa, Middle East	4%



Intermediates

- Sales grow thanks to strong U.S. dollar, increased demand and acquisition of Novolyte Performance Materials
- Higher availability leads to pressure on margins, especially for amines and polyalcohols
- Earnings below very good prior-year level due to higher fixed costs
- **Outlook 2013:** Increase in sales, particularly in polyalcohols and acids as well as butanediol and derivatives; earnings at 2012 level

Plastics

Energy-efficient products and system solutions for our customers

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

We concentrate on activities which allow us to stand out from market competitors and offer us profitable growth opportunities. Our customers are primarily in the construction, automotive, electronics and furniture industries. Thanks to the versatility of our products, we can offer innovative solutions that substitute conventional materials in a wide variety of applications.

In doing so, we fulfill our customers' sustainability requirements with wide-ranging products and solutions. Our system solutions support lightweight construction, helping to reduce energy demand in the automotive industry as well as in the use of wind power to generate electricity. With our products for insulation materials, we help customers to efficiently insulate buildings, thus reducing energy consumption for heating and cooling and minimizing carbon emissions. Furthermore, we offer a range of biodegradable plastics with our line of ecovio® products.

We are positioning ourselves to grow faster than the market and become less dependent on the cyclicality of individual industries. We work closely with our customers – with the aim of offering the best solutions in terms of cost and functionality.

Elastoflex® E-Systems

Lighter components in vehicle trunks with intelligent polyurethane systems

Value for BASF
From 2012 to 2016

15%

Annual sales growth for Elastoflex® E-Systems in their main application in vehicle trunks

Value for our customers
Around

40%

Weight reduction while maintaining excellent mechanics and functional integration

Value for BASF More and more, our Elastoflex® E-systems are replacing conventional materials like wood and reinforced thermoplastics in vehicle trunks. The market for these systems has grown by double-digit percentage rates in the last five years. We aim to raise our sales with Elastoflex® E-systems by around 15% each year from 2012 to 2016.

Value for our customers Lighter components play a crucial role in decreasing automotive emissions. With their intelligent combination of fiberglass, polyurethane and paper honeycomb, Elastoflex® E-systems are around 40% lighter than the materials which are normally used. In addition to their excellent mechanical properties, polyurethane systems also allow the easy integration of special features into the floor of the trunk, such as retaining rings or slots for attachments.

Strategy

- Energy-efficient products and innovative system solutions as alternatives to conventional materials
- Close cooperation with our customers in order to offer the best solutions in terms of cost and functionality

Products

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

Products, customers and applications

Segment	Plastics	
Division	**Performance Polymers**	**Polyurethanes**
Products	Basic products: Caprolactam, adipic acid, hexamethylenediamine (HMD), polyamides, foams (Styropor®/Styrodur®), compounded polyamides (Ultramid®) and polybutylene terephthalate (Ultradur®), Ultraform® Specialties: Basotect®, ecoflex®, ecovio®, Ultrason®, Neopor®, E-por®, Neopolen®, Palusol®	Basic products: MDI, TDI, polyols, propylene oxide Specialties: Polyurethane systems, specialty elastomers (Cellasto®, Elastollan®)
Customer industries and applications	Automotive (engineering plastics for multiple components), electrical (engineering plastics for switches, plugs and casings), construction (insulation foams), packaging (extruded polymers, Styropor®), textile (polyamides, monofilaments)	Furnishings (foams), construction (insulation foams), automotive (basic products and specialty elastomers), household appliances (basic products, e.g., for refrigerator insulation), shoe soles and upper materials (basic products and specialty elastomers)

Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Chongqing, China	Construction: MDI complex		400,000	2014
Ludwigshafen, Germany	Expansion: Neopor®	45,000	Global: 805,000 [1]	2013
	Expansion: Styrodur®	7,000	Global: 50,000	2012
	Expansion: polyamides	20,000	Global: 720,000	2012
	Construction: TDI plant		300,000	2014
Shanghai, China	Expansion: compounding plant for engineering plastics	57,000	Global: 590,000	2014
Yeosu, South Korea	Expansion: MDI plant	60,000	250,000	2012
	Construction: Ultrason® plant		6,000	2013

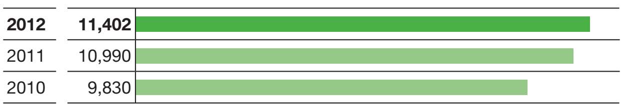
1 Comprises all EPS types (expandable polystyrene)

Production capacities of significant products

	Sites				
Product	**Europe**	**North America**	**Asia Pacific**	**South America, Africa, Middle East**	**Annual capacity (metric tons)**
Isocyanate	X	X	X		1,840,000
Polyamide	X	X			720,000
Polyamide precursors	X	X			1,070,000
Propylene oxide	X		X		925,000[2]

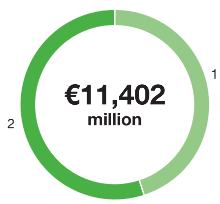
2 Of which 800,000 metric tons are for polyurethane applications. Contains the full capacity of three joint venture companies for the production of propylene oxide in Belgium, the Netherlands and Singapore, in which BASF has a 50% stake and which are proportionally consolidated in the Group Consolidated Financial Statements.

Sales – Plastics (million €)



Sales by division

1	Performance Polymers	45%
2	Polyurethanes	55%



Segment data Plastics (million €)

		2012	2011	Change in %
Sales to third parties		11,402	10,990	4
Thereof Performance Polymers		5,110	5,138	(1)
Polyurethanes		6,292	5,852	8
Intersegmental transfers		619	694	(11)
Sales including intersegmental transfers		12,021	11,684	3
Income from operations before depreciation and amortization (EBITDA)		1,314	1,678	(22)
EBITDA margin	%	11.5	15.3	–
Income from operations (EBIT) before special items		873	1,203	(27)
Income from operations (EBIT)		874	1,259	(31)
Income from operations (EBIT) after cost of capital		250	674	(63)
Assets		5,846	5,297	10
Research and development expenses		157	149	5
Additions to property, plant and equipment and intangible assets		659	423	56

In the Plastics segment, our sales to third parties grew by €412 million to €11,402 million (volumes –3%, prices 2%, portfolio 1%, currencies 4%). This was mainly due to positive currency effects. We also raised prices in some business areas. Especially in the first half of 2012, we posted high demand from the automotive industry; however, this weakened in Europe in the second half of the year. At €874 million, income from operations was €385 million below the level of the previous year. This is particularly the result of lower margins for polyamide precursors.

In 2013, we aim to improve sales and earnings mainly through higher sales volumes.

Performance Polymers

At €5,110 million, sales to third parties were €28 million below the level of the previous year (volumes –5%, prices –1%, portfolio 1%, currencies 4%). Positive currency effects almost fully compensated for lower sales volumes. While we raised prices in some specialties thanks to good demand, we were unable to implement extensive price increases for polyamide precursors despite higher raw material costs.

Competition intensified in the textile industry, especially due to the startup of new production facilities for polyamide precursors in China. Volumes therefore declined in this business area. By contrast, our business with polymers for extrusion applications developed very successfully. The continuing weakness of the private construction sector, especially in southern Europe, impaired sales volumes for foams, which stagnated overall. In North America and Asia, we posted high demand from the automotive industry for our engineering plastics. Demand slowed in Europe in the second half of the year.

Income from operations did not match the level of 2011. This decline was particularly due to the weaker business environment for polyamide precursors and the resulting lower margins.

Factors influencing sales – Plastics

Volumes	(3%)
Prices	2%
Portfolio	1%
Currencies	4%
Sales	**4%**

Income from operations – Plastics (million €)

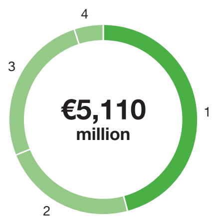
2012	**874**
2011	1,259
2010	1,273

In 2012, we purchased Mazzaferro's polyamide polymer business. By producing locally in Brazil, we are expanding our position in engineering plastics and polyamide polymers in South America. With the acquisition of PET foam technology from B.C. Foam S.p.A. in Italy, we have broadened our range of wind power applications and strengthened our expertise for the automotive, aviation and shipbuilding industry.

For 2013, we expect higher sales than in the previous year. Reinforcing our market position and opening up further applications will contribute to increasing sales. In order to continue our profitable growth strategy in the long term, we will increase spending on research and development and restructure our Styropor® business. Despite these higher costs, we aim for a significant improvement in income from operations.

Performance Polymers – Sales by region
(Location of customer)

1	Europe	46%
2	North America	23%
3	Asia Pacific	26%
4	South America, Africa, Middle East	5%



Polyurethanes

Driven by currencies and prices, sales to third parties in the Polyurethanes division rose by €440 million to €6,292 million (volumes –1%, prices 4%, currencies 5%). While we were able to achieve sales increases in almost all product lines in North America and Asia, sales in Europe declined due to lower volumes.

In the first half of the year, demand grew from the automotive industry; however, it weakened in the second part of the year, particularly in Europe. We posted significantly lower demand from the construction sector in southern Europe.

We successfully expanded our business with specialties. Supported by production outages among our competitors in Asia and North America, we were able to raise sales prices and improve margins. Mostly because of higher margins for TDI, income from operations considerably exceeded the level of 2011.

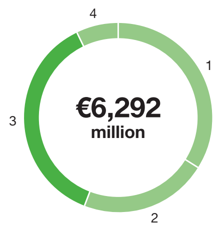
At the end of 2012, we started the construction of a TDI production plant in Ludwigshafen with an annual capacity of 300,000 metric tons per year. In addition to economies of scale, this investment will enable highly efficient integration within our Verbund. Production is expected to begin at the end of 2014.

As the leading supplier of polyurethane solutions, we are continually expanding our global network of system houses. We have 39 system houses that offer complete solutions which range from technical service for our customers to swift local support in the development of individual solutions. We began operations at our system houses in Tianjin, China, and St. Petersburg, Russia, in October 2012. With the acquisition of ITWC in Malcom, Iowa, we gained an additional system house in North America. Furthermore, we are planning to construct a polyurethane system house in Chongqing, China, and a production site in Dahej, India.

We anticipate an unchanged market environment for 2013. Compared with 2012, we expect our sales and earnings to rise.

Polyurethanes – Sales by region
(Location of customer)

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



Performance Polymers

- Sales below previous year's level; lower sales volumes almost fully offset by positive currency effects
- Earnings decline, due especially to weaker business environment for polyamide precursors
- **Outlook 2013:** sales increase; significant earnings improvement despite higher costs

Polyurethanes

- Sales rise based on prices and currency effects
- Earnings significantly above level of 2011, particularly as a result of higher margins for TDI
- Continuous expansion of our system house network
- **Outlook 2013:** increase in sales and earnings

Performance Products
Innovative and customer-focused

The Performance Products segment consists of the Dispersions & Pigments, Care Chemicals, Nutrition & Health, Paper Chemicals and Performance Chemicals divisions. Our innovative solutions enhance the performance of industrial and consumer products all over the world. With our customized products, our customers can make their production processes more efficient or give their products improved application properties.

We take on the challenges arising from important future issues, especially population growth: scarce resources, strains on the environment and climate, greater demand for food and the desire for better quality of life. In doing so, we focus on research and development and maintain close relationships to leading companies in our key customer industries. We position ourselves globally in order to reliably supply customers in all regions. We invest in the development of innovations through which our products and processes, as well as our customers' applications and processes, contribute to sustainability by enabling, for example, the more efficient use of resources.

Customer-specific specialties make up a major part of our product range. These products create additional value for our customers, which allows them to stand out from the competition. We develop new solutions together with our customers and strive for long-term partnerships which create profitable growth opportunities for both sides.

We employ a different business model for standard products, such as vitamins or dispersions for paper coatings. Here, efficient production setups, backward integration in our Production Verbund's value chains, capacity management, and technology and cost leadership are all essential. We support our customers by being a reliable supplier with consistent product quality, a good price/performance ratio and lean processes.

Kollicoat® IR Tablet Coatings
Easily and efficiently processed tablet coatings for the pharmaceutical industry

Value for BASF

25%

Growth in annual sales volumes from 2008 to 2012

Value for our customers
Up to

60%

Lower costs for tablet coating material and processing

Value for BASF In the past five years, we have increased annual sales volumes of Kollicoat® IR by 25% on average. Kollicoat® IR makes tablets more resistant to environmental influences, such as heat or moisture. Yet they still dissolve perfectly in the stomach, releasing the active ingredients contained in the tablet.

Value for our customers Compared with conventional tablet coatings, Kollicoat® IR can be much more simply and quickly processed – reducing coating time, for example. At the same time, much less material is required for a proper tablet coating. Our customers thus save up to 60% of their costs.

Strategy

- Customized products enable our customers to make their production processes more efficient and improve their products' application properties
- Global presence ensures reliable supply to customers in all regions
- Specialties: innovation, close relationships with leading customer companies, application and development expertise
- Standard products: efficient production structures, backwards integration in Production Verbund's value chains, technology and cost leadership

Products, customers and applications

Segment	Performance Products				
Division	Dispersions & Pigments	Care Chemicals	Nutrition & Health	Paper Chemicals	Performance Chemicals
Products	Polymer dispersions, pigments, resins, high-performance additives, formulation additives	Ingredients for products for skin and hair cleansing and care, such as skin care oils, cosmetic active ingredients, polymers and UV filters Ingredients for detergents and cleaners in household, institution or industry, such as surfactants, chelating agents, polymers and products for optical effects Solvents for agricultural formulations and products for metal surface treatments Superabsorbents for the hygiene sector	Additives for the food and feed industries, such as vitamins, carotenoids, sterols, enzymes, emulsifiers and omega-3 fatty acids Flavors and fragrances, such as geraniol, citronellol and linalool Active ingredients and excipients for the pharmaceutical industry, such as caffeine, ibuprofen and pseudoephedrine as well as binders and coatings for tablets, synthesizing pharmaceutical substances and intermediates for our customers	Dispersions for paper coating, functional chemicals, process chemicals, kaolin minerals	Antioxidants, light stabilizers, pigments and flame retardants for plastic applications Fuel additives and polyisobutene, antifreeze and brake fluids, lubricants, lubricant additives and base oils Process chemicals for the extraction of oil, gas, metals and minerals Chemicals and package solutions for water treatment Auxiliary agents for the production and treatment of leather and textiles
Customer industries and applications	Coatings and finishes, products for the construction industry, adhesives, fiber bonding, electronic specialties	Ingredients for hygiene, personal care, home care and industrial & institutional cleaning businesses as well as for applications in the chemical industry	Food and feed industries, flavor and fragrance industry and pharmaceutical industry	Paper industry, packaging made of paper	Plastics processing industry, fuel and lubricant industry, oil and gas industry, municipal and industrial water treatment, leather and textile industry

Products

- Dispersions & Pigments: raw materials for the formulation of coatings, printing and packaging inks, varnishes, adhesives and construction materials
- Care Chemicals: ingredients for hygiene, personal care, home care and industrial & institutional cleaning businesses as well as for applications in the chemical industry
- Nutrition & Health: products for the food and feed industries, the flavor and fragrance industry and the pharmaceutical industry
- Paper Chemicals: paper industry, packaging made of paper
- Performance Chemicals: wide range of customized products for industrial applications

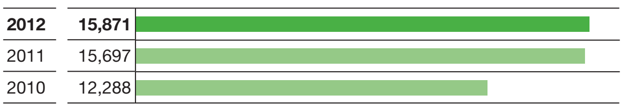
Capital expenditures

Location	Project	Additional annual capacity through expansion (metric tons)	Total annual capacity (metric tons)	Startup
Ankleshwar, India	Construction: paper dyes	n/a	n/a	2012
Antwerp, Belgium	Expansion: superabsorbents	25,000	n/a	2012
Bahrain	Construction: plastic additive formulations		16,000	2012
Callanish, United Kingdom	Expansion: highly concentrated omega-3 fatty acids	n/a	n/a	2012
Camaçari, Brazil	Construction: superabsorbents		60,000	2014
Dahej, India	Construction: dispersions		n/a	2014
	Construction: surfactants		n/a	2014
Durban, South Africa	Construction: dispersions	n/a	n/a	2012
Freeport, Texas	Construction: dispersions		n/a	2014
Huizhou, China	Construction: dispersions (XSB and acrylate)		100,000	2012
Jiangsu, China	Construction: polymerization polyvinylamines		n/a	2014
Ludwigshafen, Germany	Expansion: polyvinylamines	n/a	n/a	2013
	Expansion: vinyl formamide	n/a	n/a	2014
	Expansion: methane sulfonic acid	20,000	30,000	2012
	Construction: L-menthol	n/a	n/a	2012
Nanjing, China	Construction: cationic polyacrylamides		20,000	2012
	Construction: quaternized cationic monomers (DMA3/DMA3Q)		40,000	2012
	Construction: superabsorbents		60,000	2014

Production capacities of significant products

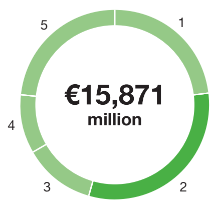
	Sites				
Product	Europe	North America	Asia Pacific	South America, Africa, Middle East	Annual capacity (metric tons)
Anionic surfactants	X	X	X	X	550,000
Citral	X				40,000
Chelating agent	X	X		X	120,000
Methanesulfonic acid	X				30,000
Nonionic surfactants	X	X	X		630,000
Organic pigments	X	X	X	X	n/a
Polyisobutene	X		X		215,000
Superabsorbents	X	X	X		470,000

Sales – Performance Products (million €)



Sales by division

1	Dispersions & Pigments	23%
2	Care Chemicals	31%
3	Nutrition & Health	13%
4	Paper Chemicals	10%
5	Performance Chemicals	23%



Segment data Performance Products (million €)

		2012	2011	Change in %
Sales to third parties		15,871	15,697	1
Thereof Dispersions & Pigments		3,677	3,509	5
Care Chemicals		4,957	5,174	(4)
Nutrition & Health		1,959	1,862	5
Paper Chemicals		1,634	1,623	1
Performance Chemicals		3,644	3,529	3
Intersegmental transfers		456	490	(7)
Sales including intersegmental transfers		16,327	16,187	1
Income from operations before depreciation and amortization (EBITDA)		2,113	2,312	(9)
EBITDA margin	%	13.3	14.7	–
Income from operations (EBIT) before special items		1,428	1,727	(17)
Income from operations (EBIT)		1,286	1,361	(6)
Income from operations (EBIT) after cost of capital		(238)	(119)	(100)
Assets		13,496	13,680	(1)
Research and development expenses		345	330	5
Additions to property, plant and equipment and intangible assets		786	648	21

In the Performance Products segment, sales to third parties rose by €174 million to €15,871 million in 2012. With prices stable, positive currency effects were able to more than offset lower sales volumes (volumes –2%, prices 0%, currencies 3%). Income from operations declined by €75 million to €1,286 million. This was primarily attributable to lower capacity utilization and increased research spending.

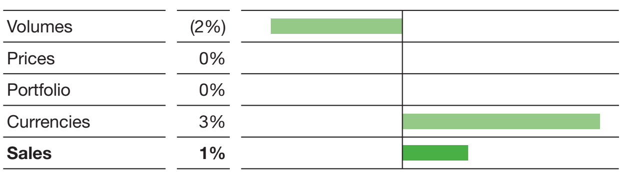
We aim to increase sales in 2013 despite a market environment that remains challenging. In particular, business expansion in growth markets is expected to contribute to this. Earnings are also expected to rise as a result of our strict cost discipline and repositioning measures, as well.

Dispersions & Pigments

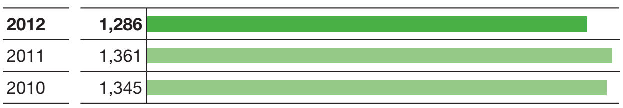
Our sales to third parties rose by €168 million compared with the previous year to reach €3,677 million, mostly driven by currency effects (volumes 2%, prices –1%, currencies 4%). While demand in North America was high and sales volumes recovered considerably in Asia Pacific in the second half of the year, volumes declined in Europe, especially in pigments.

In the dispersions business area, sales were at the level of the previous year. Strong demand in the Asia Pacific region as well as positive currency effects compensated for the pressure on volumes and prices in Europe, which increased over the course of the year. In pigments, however, sales fell as a result of lower demand in Asia Pacific in the first half of the year as well as weaker demand in Europe throughout the year. The divestiture of our offset printing inks business (IMEX) also reduced sales growth. In resins and additives, we benefited from greater demand.

Factors influencing sales – Performance Products



Income from operations – Performance Products (million €)

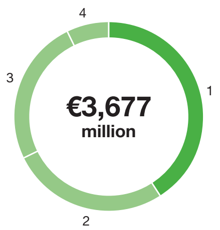


Income from operations was below the level of 2011. Fixed costs grew, especially in pigments, owing to currency effects and lower capacity utilization.

We expect demand for our products to continue to grow in 2013, particularly in Asia Pacific and North America. In Europe, however, we do not anticipate a recovery in demand. We aim to increase sales overall. We also strive to raise our earnings level. Our site optimization measures and the continued restructuring of our pigments business area will contribute to this.

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

1	Europe	41%
2	North America	27%
3	Asia Pacific	25%
4	South America, Africa, Middle East	7%



Care Chemicals

Sales to third parties in the Care Chemicals division decreased by €217 million to €4,957 million compared with the previous year. Lower sales volumes were primarily responsible for this decline. The stronger U.S. dollar only partly offset these lower volumes (volumes –6%, prices –1%, currencies 3%).

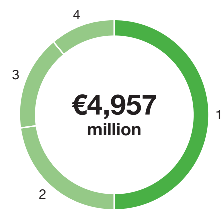
A difficult market environment and high uncertainty on the market dampened demand. Continuing high raw material prices for crude-oil-based products also contributed to cautious buying behavior and our customers' tendency to keep inventory levels low. Volumes declined particularly in standard products and in the formulation technologies business area. By contrast, we were able to further expand our specialties business with major customers. In the hygiene business area, we raised sales volumes after successfully expanding capacity in Freeport, Texas, and Antwerp, Belgium. Prices declined for laurics-based standard products. This resulted from both the difficult market environment and from passing on falling raw material costs. In our remaining portfolio, however, we were able to raise prices. Our capacity utilization decreased because of lower overall demand.

Despite significantly lower special charges for the Cognis integration compared with 2011, income from operations did not match the level of the previous year. This was mostly due to falling margins as a result of the difficult market environment.

In 2013, we strive to increase sales in all business areas. We want to improve earnings through strict cost management and measures to increase efficiency.

Care Chemicals – Sales by region
(Location of customer)

1	Europe	49%
2	North America	24%
3	Asia Pacific	15%
4	South America, Africa, Middle East	12%



Dispersions & Pigments

- Sales above level of previous year due to higher volumes and currency effects
- Earnings decline as a result of higher fixed costs
- **Outlook 2013:** sales growth thanks in part to higher demand from Asia Pacific and North America; earnings increase

Care Chemicals

- Sales fall primarily as a result of lower volumes
- Earnings decline due to weaker margins
- **Outlook 2013:** sales higher than in previous year; earnings improvement supported by strict cost management and measures to increase efficiency

Nutrition & Health

In the Nutrition & Health division, our sales to third parties increased by €97 million to €1,959 million (volumes 3%, prices –1%, currencies 3%). This growth is mainly attributable to rising sales volumes as well as positive currency effects.

With demand largely stable, we were able to improve sales volumes in all business areas and almost all regions. Volumes showed the strongest growth in South America and in the aroma chemicals business. In some product lines, we were unable to keep up with demand; this was due to already fully utilized capacities as well as a shortage of key raw materials. Because of the drought in the Midwestern United States, many farmers reduced their livestock levels, which led to weaker demand in the animal feed business starting in the middle of 2012. Our sales prices overall were slightly below those of the previous year; price increases in other business areas were able to lessen the declines in vitamins resulting from continued intense competition.

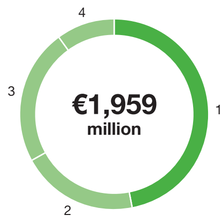
Despite positive sales volume development, income from operations did not match the level of 2011. We were only partly able to pass on higher raw material costs to our customers, which put pressure on margins. Furthermore, fixed costs increased owing to negative currency exchange effects and higher research spending.

In May 2012, we acquired Equateq Ltd., a producer of highly concentrated omega-3 fatty acids, further strengthening our business with these products for the pharmaceutical and dietary supplement industry. The public takeover bid was successful for the Norwegian company Pronova BioPharma ASA, a leading provider of omega-3 fatty acids. We completed the transaction in January 2013.

We aim to once again increase sales and volumes in 2013. We expect growth momentum in all business areas and regions. The market launch of new products such as highly concentrated omega-3 fatty acids for pharmaceutical applications is expected to contribute to this sales increase. With slightly improved margins, we strive to raise earnings.

Nutrition & Health – Sales by region
(Location of customer)

1	Europe	47%
2	North America	20%
3	Asia Pacific	23%
4	South America, Africa, Middle East	10%



Paper Chemicals

We increased sales to third parties in the Paper Chemicals division by €11 million to €1,634 million in 2012. After portfolio optimization and restructuring measures in Europe and North America, overall sales volumes were slightly down year-on-year. Nevertheless, positive currency effects more than compensated for negative volumes development and declining prices (volumes –2%, prices –1%, currencies 4%).

We achieved a significant sales increase in VFA-based cationic polymers, a product line that allows paper manufacturers to improve the efficiency of their paper machines and simultaneously reduce fiber and energy costs.

Due to strict cost management as well as to restructuring measures, we substantially reduced fixed costs compared with the previous year. With margins stable, we were able to considerably improve income from operations.

We anticipate a difficult economic environment for the paper industry in 2013, as well. Electronic media will continue to displace printed media and paper, making further consolidations

Nutrition & Health

- Sales grow thanks primarily to increased sales volumes and positive currency effects
- Earnings down due to higher fixed and raw material costs
- Acquisition of Equateq Ltd. and Pronova BioPharma ASA strengthens business with omega-3 fatty acids
- **Outlook 2013:** increased sales and volumes; higher earnings with slightly improved margins

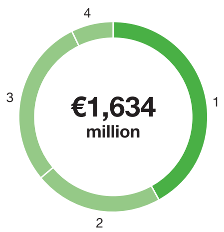
Paper Chemicals

- Sales rise as a result of positive currency effects
- Considerable earnings growth thanks to sharply decreased fixed costs
- **Outlook 2013:** sales improvement targeted; earnings above previous year's level

necessary in the paper industry. However, we expect continued stable market growth for paper packaging materials. Here, we have observed a trend toward paper packaging based on biodegradable raw materials. We have therefore established a unit which will primarily offer biodegradable barrier coatings. There are good growth opportunities in the Asian market, where we will continue to promote the expansion of our regional production network. We aim to increase sales in 2013. The startup of several production plants will lead to higher fixed costs. Nevertheless, we strive to improve earnings by growing significantly faster than the market, with margins remaining stable overall.

Paper Chemicals – Sales by region
(Location of customer)

1	Europe	42%
2	North America	22%
3	Asia Pacific	29%
4	South America, Africa, Middle East	7%



Performance Chemicals

Compared with 2011, we increased sales to third parties in the Performance Chemicals division by €115 million to €3,644 million. This was largely due to higher sales prices and the stronger U.S. dollar (volumes –4%, prices 3%, currencies 4%).

The slight recovery in demand we had expected did not materialize, which was a result of lower growth rates in the United States and China in addition to the weaker macroeconomic environment in Europe, which particularly impaired our business with plastic additives. Only in the oilfield and mining chemicals business area were we able to achieve considerably higher sales volumes.

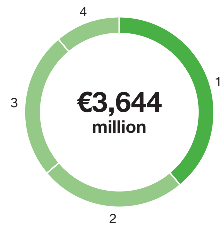
Income from operations grew significantly. This was mostly due to higher prices, the stronger U.S. dollar and our measures to reduce fixed costs. Insurance payments for damage caused by the earthquake and tsunami in Japan in 2011 also boosted our earnings development.

In our plastic additives business, we want to get even closer to our customers in fast-growing regions; to this end, we began construction of a production plant for antioxidants in Singapore. We strengthened our business with water treatment chemicals through the integration of inge watertechnologies AG and the creation of a customer-focused platform.

In 2013, we expect sales and volumes to rise, thanks in part to the startup of new production facilities – such as plants for polyacrylamide in Nanjing, China, or for customer-specific antioxidant formulations in Bahrain. We anticipate growth in our customer industries, particularly in the automotive, oilfield, mining and water treatment sectors. We aim to improve earnings through further price differentiation and measures to improve efficiency.

Performance Chemicals – Sales by region
(Location of customer)

1	Europe	39%
2	North America	25%
3	Asia Pacific	25%
4	South America, Africa, Middle East	11%



Performance Chemicals

- Sales rise thanks mainly to higher sales prices and stronger U.S. dollar
- Earnings improvement due in part to measures to reduce fixed costs
- **Outlook 2013:** Sales above prior year's level, due in part to higher sales volumes; earnings increase owing to further price differentiation and improvement in efficiency

Functional Solutions

Customer-specific products and system solutions

The Functional Solutions segment comprises the Catalysts, Construction Chemicals and Coatings divisions. They develop tailor-made system solutions and innovative products for specific sectors and customers, in particular for the automotive, electrical, chemical and construction industries. Our portfolio ranges from catalysts, battery materials, coatings and concrete additives to construction systems such as tile adhesives and decorative paints.

We use BASF's expertise as the world's leading chemical company to develop innovative products and technologies in close cooperation with our customers. Our specialties and system solutions enable customers to stand out from the competition.

One focus of our strategy is the ongoing optimization of our product portfolio and structures in accordance with different regional market requirements as well as trends in our customer industries. For example, we drive solutions for the electric mobility of tomorrow. We established the global Battery Materials business unit in 2012 and strengthened it by means of acquisitions, investments and the startup of a production facility for cathode materials.

We aim to assure our leading market position in Europe, to profitably expand our position in the North American market and to selectively extend our activities in the growth regions of Asia, South America, Eastern Europe and the Middle East.

Green Sense® Concrete

Performance package for more economical and environmentally friendly concrete

Value for BASF

15%

Annual sales growth since 2011 in high-performance concrete admixtures in North America

Value for the environment

Approximately

24%

Fewer greenhouse gas emissions since 2011 through the use of Green Sense® concrete in North America

Value for BASF Demand is growing for systems for sustainable construction. With Green Sense® Concrete, we offer a unique performance package that enables our customers to optimize their concrete mixtures with regard to environmental friendliness, performance and production costs. This also pays off for BASF: In North America, we increased our sales of high-performance concrete admixtures by an average of 15% per year in 2011 and 2012.

Value for the environment Thanks to our expertise in concrete technology, we can formulate concrete mixtures for our customers that contain a high proportion of recycled materials. This significantly decreases the carbon footprint and environmental impact of buildings. Since 2011, the use of Green Sense® Concrete in North America has led to savings of around 24% in greenhouse gases and approximately 23% in energy in the production process compared with conventional concrete mixtures.

Strategy

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

Products

- Catalysts: automotive and process catalysts, battery materials, precious and base metal services
- Construction Chemicals: solutions for building structure and envelopes, interior construction and infrastructure
- Coatings: coatings solutions for automotive and industrial applications, decorative paints

Products, customers and applications

Segment	Functional Solutions		
Division	**Catalysts**	**Construction Chemicals**	**Coatings**
Products	Automotive and process catalysts Battery materials Precious and base metal services	Concrete admixtures, cement additives, underground construction solutions, flooring systems, sealants, repair products, high-performance mortars and grouts, tile-laying systems, exterior insulation and finishing systems, expansion joints, wood preservatives	Coatings solutions for automotive and industrial applications Decorative paints
Customer industries and applications	Automotive and chemical industries, refineries, battery manufacturers Solutions for the protection of air quality as well as the production of fuels, chemicals, plastics and battery materials	Cement and concrete producers, construction companies, craftsmen, builders' merchants Solutions for building envelopes and structure, interior construction in residential and commercial buildings, and for infrastructure	Automotive industry, body shops, steel industry, painting businesses and private consumers

Capital expenditures

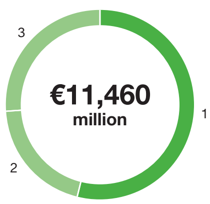
Location	Project	Startup
Caojing, China	Construction: undercoatings	2014
Clermont de l'Oise, France	Construction: coating resins	2012
Elyria, Ohio	Construction: battery materials	2012
Kazan, Russia	Construction: concrete admixtures	2013
Ludwigshafen, Germany	Construction: special zeolites	2014
Podolsk, Russia	Construction: concrete admixtures	2012
Środa Śląska, Poland	Construction: mobile emissions catalysts	2014
Various sites in Europe	Construction: training centers for automotive refinish coatings	2013

Sales – Functional Solutions (million €)

2012	**11,460**
2011	11,361
2010	9,703

Sales by division

1	Catalysts	54%
2	Construction Chemicals	20%
3	Coatings	26%



Segment data Functional Solutions (million €)

		2012	2011	Change in %
Sales to third parties		11,460	11,361	1
Thereof Catalysts		6,184	6,380	(3)
Construction Chemicals		2,315	2,181	6
Coatings		2,961	2,800	6
Intersegmental transfers		204	195	5
Sales including intersegmental transfers		11,664	11,556	1
Income from operations before depreciation and amortization (EBITDA)		894	921	(3)
EBITDA margin	%	7.8	8.1	–
Income from operations (EBIT) before special items		561	559	.
Income from operations (EBIT)		435	427	2
Income from operations (EBIT) after cost of capital		(657)	(599)	(10)
Assets		9,765	9,725	.
Research and development expenses		243	192	27
Additions to property, plant and equipment and intangible assets		572	359	59

Sales to third parties in the Functional Solutions segment increased by €99 million in 2012 to €11,460 million. This was primarily attributable to positive currency and portfolio effects (volumes –3%, prices –2%, portfolio 2%, currencies 4%). While sales volumes declined overall, demand was high for our automotive coatings and mobile emissions catalysts. Income from operations rose by €8 million to €435 million, partly as a result of the slight decrease in special charges.

For 2013, we expect higher demand especially from the automotive industry. We anticipate sales and earnings exceeding the level of 2012.

Catalysts

Compared with the previous year, sales in the Catalysts division decreased by €196 million to €6,184 million (volumes –5%, prices –7%, portfolio 4%, currencies 5%). This was particularly due to the reduced contribution from precious metal trading as a result of lower prices and volumes. By contrast, acquisitions to expand our new Battery Materials business unit had a positive effect on sales.

We were able to increase sales volumes for our mobile emissions catalysts, primarily in Asia Pacific and North America. By contrast, volumes fell in Europe owing to the weak economy. While demand for cars declined significantly in Europe, it grew in North and South America as well as in the emerging markets of Asia. Demand remained high for heavy duty diesel-engine vehicles in Europe and North America.

Sales increased significantly for chemical catalysts, which was primarily attributable to greater demand and positive currency effects.

Factors influencing sales – Functional Solutions

Volumes	(3%)
Prices	(2%)
Portfolio	2%
Currencies	4%
Sales	**1%**

Income from operations – Functional Solutions (million €)

2012	**435**
2011	427
2010	457

Sales in precious metal trading fell by €316 million due to lower prices and volumes, amounting to €2,544 million.

Despite the overall favorable market environment and increases in our productivity, income from operations declined in 2012. This was predominantly due to higher raw material costs and costs for the new Battery Materials business unit.

We expect to significantly raise sales in 2013. This growth will likely be boosted by higher demand from the automotive and chemical industries. Furthermore, we assume prices will increase for precious and base metals. Our programs for improving operational excellence will continue to help reduce our costs and improve efficiency. We aim to significantly exceed the earnings level of 2012.

Catalysts – Sales by region
(Location of customer)

1	Europe	34%
2	North America	29%
3	Asia Pacific	26%
4	South America, Africa, Middle East	11%

Construction Chemicals

We increased sales to third parties in the Construction Chemicals division by €134 million to €2,315 million in 2012. This was primarily attributable to positive currency effects (volumes –1%, prices 2%, portfolio 1%, currencies 4%).

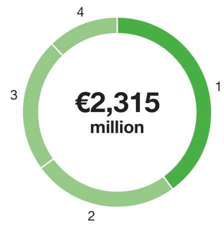
Business varied widely from region to region: In North America, we were able to significantly raise our sales thanks to improved market conditions. We considerably increased sales in northern Europe, as well, as a result of the strong construction sector. By contrast, we posted declining demand for our products in the key German and French markets. The construction industry's situation continued to worsen in southern Europe; our sales therefore declined significantly. In the Middle East, particularly in Saudi Arabia, we increased our sales thanks in part to positive development in construction activity. Sales rose considerably in China due to the acquisition of Ji'Ning Hock Mining & Engineering Equipment Company Ltd. in 2011. With improved market conditions, we also raised sales volumes in Japan.

Income from operations was below the level of the previous year. This decline was largely the result of high special charges from measures to improve our competitiveness. Improved margins and strict fixed-cost management were unable to compensate for these one-time effects.

We expect the following developments in our key markets in 2013: In North America, the construction industry will grow moderately. We anticipate continued robust growth in the construction industry in Brazil, Russia, Turkey, Saudi Arabia and the emerging markets of Asia. We assume construction activity will be weak in central Europe; the market situation in southern Europe will probably not improve, either. Our sales will likely decrease in 2013 due to portfolio effects. After high special charges in 2012, we strive to significantly increase our earnings.

Construction Chemicals – Sales by region
(Location of customer)

1	Europe	40%
2	North America	25%
3	Asia Pacific	23%
4	South America, Africa, Middle East	12%



Catalysts

- Sales fall, particularly as a result of price and volume-related lower contribution from precious metal trading
- Earnings decline, especially because of higher raw material costs and costs for new Battery Materials unit
- **Outlook 2013:** significant sales growth; earnings considerably above previous year's level

Construction Chemicals

- Sales rise as a result of positive currency effects, higher sales prices and portfolio measures
- Earnings down owing to special charges from measures to improve competitiveness
- **Outlook 2013:** portfolio effects lead to decline in sales; significant earnings increase

Coatings

We increased our sales to third parties in 2012 by €161 million to €2,961 million (volumes 0%, prices 5%, currencies 1%). Weaker sales volumes in parts of Europe were offset by higher demand in Asia and North America. In particular, sales volumes for our automotive coatings grew overall. Favorable market conditions in the global automotive industry, particularly in the first half of the year, contributed substantially to sales growth. We raised sales prices in all business areas due to further increases in raw material costs.

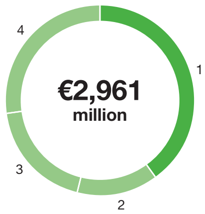
Our business with automotive coatings was very successful thanks to growing demand in Asia and North America. However, sales volumes in Europe were slightly below the previous year's level on account of declining demand from southern Europe. Automotive refinish coatings also saw decreased demand in Europe. However, we were able to more than offset this decline with increased volumes in Asia as well as higher sales prices in North America. In the industrial coatings business, we benefited in Europe from strong demand for coil coatings from the Russian steel industry as well as from the emerging markets for coatings for wind turbine rotor blades. In our decorative paints business, we raised sales volumes in South America in the premium segment, compensating for a volumes decline in other segments. Sales fell in Europe, however, due to a weaker market and the divestiture of our business with Relius® decorative paints.

Income from operations rose considerably. This was mostly the result of lower special charges in comparison with 2011. The expansion of our business activities in Asia as well as increased research spending were largely responsible for fixed costs above the level of the previous year. This rise in fixed costs was partly offset by programs to increase efficiency. We were not able to fully pass on higher raw materials costs to the market.

For 2013, we anticipate high demand from the automotive industry, primarily in China and North America. Demand will likely also continue to increase for decorative paints in South America. Furthermore, we particularly expect higher demand from the emerging markets and from Russia. Development will likely be weaker, however, in the market for automotive refinish coatings in Europe. Overall, we anticipate sales exceeding the level of 2012. Supported by programs to increase efficiency, we aim to considerably increase earnings. Together with our customers, we will strengthen and continue to expand our presence in the growth markets of Asia and Eastern Europe, especially in China, India and Russia.

Coatings – Sales by region
(Location of customer)

1	Europe	40%
2	North America	14%
3	Asia Pacific	19%
4	South America, Africa, Middle East	27%



Coatings

- Sales increase, especially as a result of higher sales prices
- Earnings significantly above prior-year level, primarily because of lower special charges
- **Outlook 2013:** sales above level of previous year; considerable earnings improvement supported by programs to increase efficiency

Agricultural Solutions
Innovations for the health of crops

The Agricultural Solutions segment consists of the Crop Protection division. We develop and produce innovative active ingredients and formulations for the improvement of crop health and yields, and market them worldwide.

BASF Plant Science conducts research in the field of plant biotechnology.

Crop Protection – Strategy

Our strategy has been developed based on long-term market trends. To meet the needs of a growing world population, we need to increase crop yields. Since arable farmland is limited, this is only possible with the help of innovations. In order to secure our future growth, we rely on a clear and long-term innovation strategy. We offer our customers a broad portfolio of integrated solutions, continuously invest in our active ingredients pipeline and develop improved formulations. In addition, we make targeted investments in core markets and intensify our investments in growth markets.

We acquired Becker Underwood in November 2012. The company, based in the United States, is one of the leading global providers of technologies for biological seed treatment and seed treatment colorants and polymers, as well as products for biological crop protection. As part of the acquisition, we have established the Functional Crop Care global business unit. The unit merges our existing research, development and marketing activities in the areas of seed treatment, biological crop protection, plant health, and water and resource management with those of Becker Underwood, thereby fortifying them.

Through this acquisition, we will further expand our strategic partnerships with seed companies, also benefiting from the technological competence of BASF Plant Science. We work together with various divisions within BASF to develop solutions that go beyond conventional crop protection measures, helping farmers to secure and increase their yields.

AgCelence®
Umbrella brand for our products in the crop health market segment

Value for BASF	Value for our customers
More than	Up to
20%	10%
Average annual growth in sales volumes from 2008 to 2012	**Increase in yield** according to crop type

Value for BASF Under the AgCelence® umbrella brand, we offer products for the health of crops which range from seed treatment to foliar applications. Between 2008 and 2012, we increased our sales with AgCelence® products by more than 20% each year on average.

Value for our customers With the help of AgCelence®, plants are more resistant to stress factors such as heat or drought and grow better. Farmers benefit from higher and more secure yields: Depending on the type of crop, yield increases of up to 10% can be attained with AgCelence®.

Investments

In 2012, we invested €170 million in property, plant and equipment. A major portion of this total consisted of investments to expand production capacity for our F 500® fungicide as well as for an important precursor for the fungicide Xemium®, launched in the previous year. Furthermore, we raised the research and development capacities of our sites in Raleigh, North Carolina, and Limburgerhof, Germany.

Strategy

- Clear and long-term innovation strategy ensures future growth
- Targeted investments in core and growth markets
- Development of solutions that go beyond conventional crop protection measures

Acquisition of Becker Underwood

- Becker Underwood is a leading global provider of technologies for biological seed treatment and seed treatment colorants and polymers, as well as products for biological crop protection
- Establishment of Functional Crop Care global business unit
- Expansion of strategic partnerships with seed companies

Products, customers and applications

Segment	Agricultural Solutions				
Indications and sectors	**Fungicides**	**Herbicides**	**Insecticides**	**Seed treatments**	**Pest control**
Application	Protecting crops from harmful fungal attacks; improving plant health	Reduction of nutrient and water deprivation caused by weeds	Combating insect pests in agriculture	Treating and protecting seeds and young plants from fungal diseases and harmful insects	Non-agricultural applications: public health, professional pest control, landscape maintenance
Product examples	Products for fungicidal applications: Boscalid, F 500®, Xemium® Products for plant health: AgCelence® (umbrella brand)	Kixor®, Dicamba, Pendimethalin, Imazamox Topramezone	Fipronil, Alpha-cypermethrin, Chlorfenapyr, Teflubenzuron	Standak® Top, BioStacked®	Termidor® to protect against termite infestation

To be able to meet the ongoing high demand for our innovative crop protection products in the future, we will continue to invest in our production capacities for the synthesis and formulation of active ingredients. To do this, we plan an average investment volume of around €300 million annually over the next few years.

BASF Plant Science
Plant biotechnology at BASF

BASF Plant Science is one of the world's leading suppliers of plant biotechnology for agriculture. Around 840 employees at sites in the United States, Canada, Belgium and Germany help farmers meet the growing demand for increased agricultural productivity as well as better nutrition. BASF invests more than €150 million per year to accomplish this. Research and development expenses, sales, earnings and all other data pertaining to BASF Plant Science are not included in the Agricultural Solutions segment; they are reported in Other.

With a pioneering platform for gene discovery, BASF Plant Science has specialized in the development of plant characteristics such as higher yield, drought tolerance or disease resistance. Our goal is to optimize crops so that farmers can achieve greater and secure yields. In this way, we make an important contribution to the secure supply of food for the growing world population. We also contribute to sustainable agriculture because the cultivation of these plants significantly reduces the amount of land, water and energy required to produce each metric ton of harvested crops.

In view of the lack of acceptance of plant biotechnology in large parts of Europe, we moved the BASF Plant Science headquarters to the Research Triangle Park site near Raleigh, North Carolina, in 2012. This brings us closer to our principle markets in North and South America.

We will expand our fungal resistance research platform by adding corn as a target crop. At the same time, research activities in nutritionally enhanced corn will be stopped and the European approval processes for the Fortuna, Amadea and Modena potato projects will be discontinued.

→ **For more on innovations in BASF Plant Science, see page 35**

Products

– Fungicides, herbicides, insecticides for the protection of plants against fungal diseases, weeds and harmful insects
– Seed treatments to protect seeds and young plants
– Products for pest control

BASF Plant Science

– BASF's plant biotechnology company with around 840 employees worldwide
– Pioneering gene discovery platform
– Development of crops with clear advantages for famers, consumers and the environment
– 2012: Company headquarters move to Research Triangle Park site near Raleigh, North Carolina

Segment data Agricultural Solutions[1] (million €)

		2012	2011	Change in %
Sales to third parties		4,679	4,165	12
Intersegmental transfers		29	27	7
Sales including intersegmental transfers		4,708	4,192	12
Income from operations before depreciation and amortization (EBITDA)		1,182	981	20
EBITDA margin	%	25.3	23.6	–
Income from operations (EBIT) before special items		1,037	810	28
Income from operations (EBIT)		1,026	808	27
Income from operations (EBIT) after cost of capital		384	242	59
Assets		6,527	5,350	22
Research and development expenses		430	412	4
Additions to property, plant and equipment and intangible assets		1,054	150	.

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

In 2012, we increased our sales to third parties by €514 million to €4,679 million, mainly as a result of higher sales volumes. This considerable sales growth was additionally boosted by positive currency effects and higher prices. Thanks to the successful development of our business, income from operations rose by €218 million to reach a new record level of €1,026 million.

We will continue our successful innovation strategy in 2013 as well, and aim for a renewed improvement in sales and earnings.

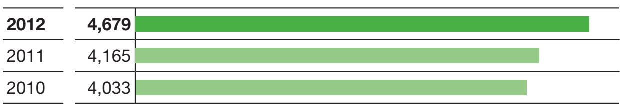
Crop Protection

Business was very successful in the Crop Protection division in 2012. At €4,679 million, sales to third parties were €514 million higher than in the previous year (volumes 6%, prices 1%, currencies 5%). We were able to increase sales volumes in all indications and regions. Positive currency effects and higher sales prices also contributed to this considerable sales growth.

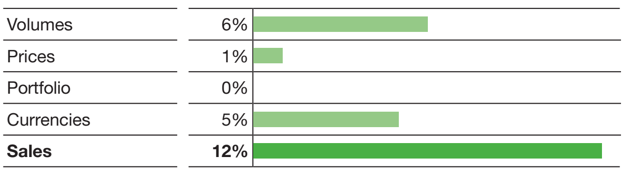
In **Europe**, sales rose by €161 million compared with the previous year to €1,820 million. This growth was mostly attributable to high demand for our fungicides and herbicides. We successfully launched the new fungicide Xemium® in our core markets in Western Europe. In herbicides, we posted strong demand in Eastern Europe for our herbicide tolerance system, Clearfield®. We were able to raise sales volumes for canola (oil-seed rape) herbicides in Western Europe. Higher sales prices additionally supported sales development.

Sales in **North America** grew by €143 million to €1,108 million. This was especially due to the stronger U.S. dollar and to higher prices. Our business with herbicides based on the active ingredient Kixor® as well as with imidazolinone herbicides saw particularly successful development. We were also able to increase our sales with fungicides, despite the drought in the Midwestern United States.

Sales – Agricultural Solutions (million €)



Factors influencing sales – Agricultural Solutions



In **Asia**, sales improved by €38 million to €525 million thanks to higher volumes and positive currency effects. This increase was the result of our successful herbicide business in India as well as high demand for products based on the fungicide F 500®. The weaker season in Japan dampened sales growth.

At €1,226 million, sales to customers in **South America** in 2012 exceeded the level of the previous year by €172 million, despite the drought in the first half of the year. Increased demand for fipronil-based insecticides and for F 500® served as a particular growth driver. Positive currency effects also contributed to this increase in sales.

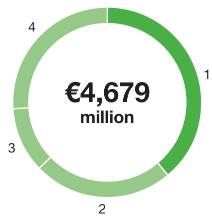
We continued the expansion of our business activities worldwide in 2012. Despite the costs associated with this, income from operations surpassed the previous year's level by €218 million to reach €1,026 million. This significant growth was primarily attributable to higher sales volumes and positive currency effects.

The acquisition of Becker Underwood in November 2012 affords us access to the growth market for biological crop protection products, which represent a supplement to conventional chemical crop protection methods. Through this addition to our product range, we are also further expanding our strategic partnerships with seed treatment companies.

In 2013, we expect the market environment to remain positive. We anticipate prices for agricultural products that continue to be above historical averages, yet which show high volatility. In addition to agricultural commodity prices and weather conditions, the exchange rates of important currencies will play a key role in our business development. In view of the acquisition of Becker Underwood and the resulting expansion of our product range for biological crop protection products, we aim to once again increase sales and earnings in 2013 compared with the high levels of the previous year.

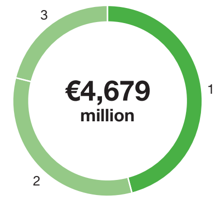
Crop Protection – Sales by region
(Location of customer)

1	Europe	39%
2	North America	24%
3	Asia Pacific	11%
4	South America, Africa, Middle East	26%



Crop Protection – Sales by indication

1	Fungicides	45%
2	Herbicides	34%
3	Insecticides and other	21%



Income from operations – Agricultural Solutions (million €)

2012	**1,026**
2011	808
2010	749

Crop Protection

- Sales improve considerably as a result of increased volumes in all regions and indications as well as positive currency effects and higher prices
- Earnings rise significantly
- Access to growth market for organic crop protection products through acquisition of Becker Underwood
- **Outlook 2013:** increased sales and earnings targeted in continuing positive market environment

Oil & Gas

Exploration and production of crude oil and natural gas; Trading, transport and storage of natural gas

BASF's oil and gas activities are bundled in the Wintershall Group. Wintershall and its subsidiaries operate in the business sectors Exploration & Production and Natural Gas Trading.

Meeting the sharply increasing energy demands of a growing world population is one of the central global challenges. Natural gas and crude oil will continue to be important sources of energy in the future. That is why we invest in the exploration and production of oil and gas, concentrating on Europe, North Africa, South America and Russia as our main production regions. We are also increasingly active in the Middle East and the Caspian Sea region.

We aim to grow by means of innovative technologies as well as through selected cooperations. In 2012, we began a collaboration with ADNOC, the national oil company of Abu Dhabi. This is an important step for us toward a greater presence in the Middle East. Furthermore, we have agreed on the acquisition of three producing fields in the Norwegian North Sea as part of an asset swap with Statoil. This transaction, planned for the middle of 2013, will considerably strengthen our exploration and production activities there.

In 2012, we likewise continued to develop our collaboration with Gazprom, our partner for many years. As part of an asset swap, we will receive 25% plus one share in two additional blocks of the Achimov Formation in the Urengoy Field in Western Siberia in 2013, subject to approval by the appropriate authorities. In return, Gazprom will receive Wintershall's share of the natural gas trading and storage business – which was previously jointly operated – as well as a share of 50% in Wintershall Noordzee B.V. In this way, we continue to advance our joint production at the well head.

Importing natural gas through pipelines will be of great significance in securing Europe's supply in the future, as well; therefore, in addition to the exploration and production of gas in and around Europe, we also contribute to the creation of the necessary transport infrastructure.

Schizophyllan
Biopolymer that enables increased crude oil production

Value for BASF	Value for the environment
Up to 10%	100%
Higher oil recovery factor from reservoirs	**Biodegradable**

Value for BASF In the production of crude oil, water is often injected into reservoirs to improve extraction. Water thickened with Schizophyllan can displace more crude oil, increasing the recovery factor from a deposit by up to 10%. Although Schizophyllan is biodegradable, our laboratory trials have also shown it to be extremely resistant to salt and heat.

Value for the environment Schizophyllan, which is produced by a fungus, is fully biodegradable. We are currently testing the biopolymer in a pilot project in a deposit with a depth of approximately 1,300 meters.

Handling crude oil and natural gas requires special measures for the protection of people and the environment. Aware of this responsibility, we carefully inspect the potential impact before the start of our activities. Together with experts, contractors and relevant stakeholders, we develop methods and implement measures to be able to use resources even more efficiently and minimize the impact on the environment. In so doing, we act in accordance with international agreements, local regulations and our own high standards.

Strategy

- Oil and gas activities bundled into Wintershall Group
- Pursuit of our growth strategy through exploration, targeted acquisitions, strategic partnerships, expansion of technical expertise
- Important contribution to securing Europe's natural gas supply

Exploration & Production

- Wintershall strengthens portfolio and becomes one of the leading producers in Norway
- Intensification of cooperation with Gazprom in upstream activities in Russia and the North Sea
- Successful exploration activities

Exploration & Production

Europe: The Mittelplate oil field in the North Sea tidal flats is the cornerstone of our oil production in Germany. We and our partner, RWE-DEA, each own a 50% stake in this field, the largest known oil deposit in the country. We are currently testing our biopolymer, Schizophyllan, in a pilot project to increase recovery rates from the Bockstedt oil field.

Wintershall Noordzee B.V. is one of the largest producers of natural gas in the southern North Sea, producing 1.2 billion cubic meters annually. The K18-Golf field in the Dutch North Sea began production in February 2012.

Activities in Norway and the United Kingdom play an increasingly significant role in our portfolio. In addition to the swap of assets, the cooperation with the Norwegian company Statoil, agreed upon in October 2012, provides for joint research on increased recovery from crude oil reservoirs as well as on unconventional hydrocarbon reservoirs. With the acquisition of shares in the producing fields Brage, Gjøa and Vega, planned for the middle of 2013, Wintershall will increase its daily production in Norway from around 3,000 barrels of oil equivalent (BOE) to just under 40,000 BOE. In return, Statoil will receive a cash consideration in addition to a share in the Edvard Grieg development project.

We further strengthened our resource base through successful exploration: According to initial estimates, we were able to confirm hydrocarbons in amounts ranging from 60 million to 160 million BOE with the Skarfjell wildcat well in the northeastern section of the North Sea.

Russia: The Yuzhno Russkoye natural gas field in Western Siberia has been operating at plateau production since 2009. We participate with a 35% interest in the economic rewards of this field. Wintershall holds a stake of 50% in the development of Block IA of the Achimov formation in the Urengoy field. Within the scope of the full field development, the first production wells started up here in November 2012.

In 2012, we agreed on the joint development of two additional blocks in the Achimov deposits together with Gazprom. We will receive 25% plus one share in Blocks IV and V, with the possibility to increase our shareholding in the future. Production is expected to start in 2016.

North Africa / Middle East: In Libya, we operate eight oil fields in the onshore concessions 96 and 97. After resuming crude oil production in October 2011, we were able to raise production in 2012 significantly faster than expected. We achieved an average daily production rate of more than 80,000 BOE. Furthermore, we have a stake in the Al Jurf field off the coast of Libya.

In June 2012, we signed an agreement in Abu Dhabi with ADNOC and the Austrian oil and gas company OMV on the appraisal of the Shuweihat sour gas and condensate field.

South America: We hold shares in a total of 15 onshore and offshore fields in Argentina. In the Neuquén Basin, we continued our technology projects to explore the potential for shale gas and oil in the Aguada Pichana, Bandurria and San Roque blocks. The Argentinian government issued a decree toward the further regulation of the energy sector, which will negatively affect our activities, as well. We hold shares in three exploration blocks in Chile.

→ **For more on the risks for our oil and gas business arising from the regulation of the Argentinian energy sector, see page 111**
→ **For more on current reserves, see pages 88 and 210**

Natural Gas Trading

The activities in this business sector conducted together with Gazprom predominantly belong to the W & G Beteiligungs-GmbH & Co. KG (W & G, formerly WINGAS GmbH & Co. KG) Group. We changed our Group structure in 2012 in order to comply with the tightened unbundling requirements set forth by the amended German Energy Act (EnWG). W & G primarily assumes holding and financing responsibilities and holds the shares in the Baltic Sea Pipeline Link (OPAL) and the North European Gas Pipeline (NEL). The natural gas trading, gas transport and gas storage sectors function as subsidiaries under the umbrella of the holding.

Natural Gas Trading

- Complete transfer of previously jointly operated natural gas trading and storage business to Gazprom
- Further expansion of European natural gas infrastructure
- Participation in offshore section of South Stream pipeline, from Russia through Black Sea to southeastern Europe

Important developments in 2012

- Second Nord Stream pipeline and sections of the North European Gas Pipeline begin operations
- Construction continues at the Jemgum natural gas storage facility
- Transfer of gas trading to WINGAS GmbH and gas storage to astora GmbH & Co. KG in accordance with legal regulations

Capital expenditures

Location	Project	Total capacity	Completion
Germany	Construction of NEL onshore pipeline link to Nord Stream pipeline	20 billion m^3	2012[2]/2013
Jemgum, Germany	Startup and expansion of natural gas storage facility	approx. 1 billion m^3	2013[2]/2016
North Sea, Norway	Development of Knarr field	20 million BOE[1]	2014[2]
	Development of Maria field	20 million BOE[1]	2017[2]
	Development of Edvard Grieg (Luno) field	30 million BOE[1]	2015[2]
Siberia, Russia	Achimgaz, development of Achimov horizon in the Urengoy gas and condensate field	70 million BOE[1]	2008[2]/2018

[1] BOE = Barrel oil equivalent
[2] Year of startup

Natural gas trading: Natural gas trading has been carved out to the newly established WINGAS GmbH. WINGAS markets natural gas from various sources to Germany and other European countries. Its main customers are municipal utilities and regional gas suppliers as well as larger industrial firms and power plants. Furthermore, WINGAS is also active on spot trading markets.

As part of the agreed-upon asset swap, we will completely transfer our shares in WINGAS and in the natural gas trading firms in Berlin and in Zug, Switzerland, to Gazprom in 2013.

Gas transport: Our Germany-wide gas pipeline network, with a length of approximately 2,300 kilometers, is operated by GASCADE Gastransport GmbH (formerly WINGAS TRANSPORT GmbH). OPAL Gastransport GmbH operates the OPAL natural gas pipeline.

NEL, operated by NEL Gastransport GmbH, began operations at the end of 2012 with a transport capacity of around 20%. The necessary rerouting of a 40-kilometer stretch of pipeline south of Hamburg resulting from a lawsuit is expected to be completed by the end of 2013. NEL will then attain its full transport capacity of around 20 billion cubic meters of natural gas per year.

In addition, the second Nord Stream pipeline began operations. Nord Stream AG, operator of the offshore pipeline, is consolidated in the BASF Group Consolidated Financial Statements according to the equity method. The shareholders in Nord Stream are: Gazprom (51%), Wintershall (15.5%) and E.ON (15.5%), as well as N.V. Nederlandse Gasunie and GDF Suez (9% each). With a total capacity of 55 billion cubic meters of natural gas per year, the Nord Stream pipeline helps strengthen supply security in Europe.

South Stream Transport B.V. will develop, construct and operate the offshore section of the South Stream pipeline through the Black Sea. Apart from Gazprom (50%) and Wintershall (15%), other shareholders in this company are Eni (20%) and EdF (15%). The gradual expansion to a total annual capacity of 63 billion cubic meters of natural gas is expected to begin at the end of 2015.

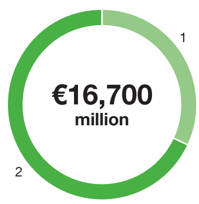
Gas storage: Gas storage activities were transferred from WINGAS to astora GmbH & Co. KG in 2012. Important components of the storage portfolio include the natural gas storage facility in Rehden, Germany – the largest in Western Europe – and a share in the natural gas storage facility in Haidach, Austria. Work is progressing on the Jemgum natural gas storage facility in northern Germany, which is expected to begin partial operations in 2013. As part of the agreed-upon asset swap, we will transfer our gas storage activities to Gazprom in 2013.

Sales – Oil & Gas (million €)

2012	**16,700**
2011	12,051
2010	10,791

Sales by division

1	Exploration & Production	32%
2	Natural Gas Trading	68%



Segment data Oil & Gas[1] (million €)

		2012	2011	Change in %
Sales to third parties		16,700	12,051	39
Thereof Exploration & Production		5,330	3,182	68
Natural Gas Trading		11,370	8,869	28
Intersegmental transfers		1,143	1,015	13
Sales including intersegmental transfers		17,843	13,066	37
Income from operations before depreciation and amortization (EBITDA)		4,721	2,616	80
Thereof Exploration & Production		4,057	2,042	99
Natural Gas Trading		664	574	16
EBITDA margin	%	28.3	21.7	–
Income from operations (EBIT) before special items		4,104	2,111	94
Thereof Exploration & Production		3,622	1,686	115
Natural Gas Trading		482	425	13
Income from operations (EBIT)		3,904	2,111	85
Thereof Exploration & Production		3,422	1,686	103
Natural Gas Trading		482	425	13
Income from operations (EBIT) after cost of capital[2]		884	667	33
Assets		11,130	10,232	9
Thereof Exploration & Production		5,841	5,315	10
Natural Gas Trading		5,289	4,917	8
Exploration expenses		222	184	21
Additions to property, plant and equipment and intangible assets		1,206	1,274	(5)
Income taxes on oil-producing operations non-compensable with German corporate income tax		1,880	439	328
Net income[3]		1,201	1,064	13

1 Supplementary information on the Oil & Gas segment can be found from page 210 onward.
2 In the Oil & Gas segment, non-compensable foreign income taxes for oil production are deducted.
3 Information on the net income of the Oil & Gas segment can be found in the reconciliation reporting Oil & Gas in the Notes to the Consolidated Financial Statements on page 169.

Factors influencing sales – Oil & Gas

Volumes	29%
Prices/currencies	10%
Portfolio	0%
Sales	**39%**

Income from operations – Oil & Gas (million €)

2012	**3,904**
2011	2,111
2010	2,334

In the Oil & Gas segment, sales to third parties in 2012 rose by €4,649 million to €16,700 million, driven by higher volumes and prices (volumes 29%, prices/currencies 10%). Income from operations grew by €1,793 million to €3,904 million. This was mainly the result of the continuous production of crude oil in Libya, which had been suspended there from February to October 2011. Net income also grew; at €1,201 million, it exceeded the level of the previous year by €137 million.

Our planning for 2013 is based on an average oil price of $110 per barrel and a U.S. dollar exchange rate of $1.30 per euro. We strive to increase sales and earnings, primarily through higher production volumes.

Exploration & Production

We improved sales in the Exploration & Production business sector by €2,148 million to €5,330 million. This significant growth is primarily attributable to the continuous production of crude oil in Libya. There, we were able to increase the daily production rate faster than expected, thanks to higher availability of the export pipeline. Production volumes were once again at more than 80% compared with the production level before the unrest in the spring of 2011.

At just under $112 per barrel, the average price for Brent crude oil remained around the same level as 2011. The stronger U.S. dollar, however, led to an increase of €7 per barrel in euro terms, resulting in an oil price of €87 per barrel.

Our crude oil and natural gas production rose by 27% to 144 million barrels of oil equivalent (BOE) as a result of the developments in Libya.

Because of the significantly increased contribution from Libya, income from operations amounted to €3,422 million, exceeding the previous year's level by €1,736 million. This included €1,880 million in income taxes on oil production in Libya that are non-compensable with German corporate income tax, an increase of €1,441 million.

In 2012, we completed the drilling of 20 exploration and appraisal wells in the search for new oil and natural gas deposits, of which 10 were successful. Exploration expenses rose by €38 million to €222 million compared with the previous year.

Proven crude oil and natural gas reserves totaled 1,157 million BOE at the end of 2012, matching the level of the previous year. We replenished 100% of the volumes produced in 2012. The reserve-to-production ratio is 9 years (2011: 11 years). This is based on Wintershall's share of production in 2012 and refers to the reserves at year-end.

We expect our sales and earnings in 2013 to rise, mainly as a result of higher production volumes in Russia, Norway and Libya.

Oil & Gas segment

- Sales increase considerably due to higher volumes and prices
- Earnings improve significantly thanks to continuous production of crude oil in Libya; net income also rises substantially
- Oil price in 2013 expected to remain around previous year's level; planning based on the following annual average assumptions: oil price of $110 per barrel, euro/dollar exchange rate of $1.30 per euro
- **Outlook 2013:** sales and earnings above previous year's level, mainly driven by volumes

Natural Gas Trading

As a result of higher volumes and prices, sales to third parties in 2012 rose by €2,501 million to €11,370 million. Overall sales volumes of 471 billion kilowatt hours were significantly above the level of the previous year. In business outside Germany, we increased our volumes by 23% to 226 billion kilowatt hours. WINGAS sold 9% of its volumes to BASF Group companies outside of the Oil & Gas segment.

Income from operations improved by €57 million to €482 million. This substantial earnings increase was largely supported by higher contributions from the transport business due to the first full year of operation for the Baltic Sea Pipeline Link (OPAL). The significance of oil-price-indexed procurement volumes continued to decrease in 2012. Prices rose slightly on spot markets over the course of the year. Pressure remained high on margins, which we were able to counteract with optimization measures in our purchasing. Earnings from the natural gas trading business matched the level of the previous year.

Lower price levels and weaker sales margins will likely lead to a decline in sales and earnings in 2013.

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

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

Exploration & Production

- Sales and earnings improve considerably, primarily thanks to continuous crude oil production in Libya
- Crude oil and natural gas production increase
- **Outlook 2013:** volumes-driven increase in sales and earnings

Natural Gas Trading

- Sales rise significantly due to higher gas volumes and sales prices
- Earnings increase considerably, based mostly on higher contribution from transport business
- **Outlook 2013:** decline in sales and earnings owing to lower prices and weaker sales margins

Regional results

Regions (million €)

	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
	2012	2011	Change in %	2012	2011	Change in %	2012	2011	Change in %
Europe	45,665	41,036	11	42,882	39,124	10	6,746	5,668	19
Thereof Germany	32,718	28,816	14	15,885	14,705	8	4,542	3,249	40
North America	14,599	14,727	(1)	14,460	13,995	3	964	1,314	(27)
Asia Pacific	13,916	13,316	5	14,927	14,410	4	905	1,133	(20)
South America, Africa, Middle East	4,549	4,418	3	6,460	5,968	8	361	471	(23)
	78,729	**73,497**	**7**	**78,729**	**73,497**	**7**	**8,976**	**8,586**	**5**

Europe

In 2012, companies headquartered in Europe recorded a significant increase in sales compared with the strong previous year: Sales grew by 11% to €45,665 million. In the chemicals business, sales increased by 3% to reach €24,259 million.

We significantly increased our sales in the Chemicals segment. In addition to higher volumes, this was primarily the result of sales to companies in the Styrolution joint venture, which was established on October 1, 2011. In the Plastics and Performance Products segments, however, lower volumes led to a decline in sales. Sales in the Functional Solutions segment decreased, mainly on account of the lower contribution from precious metal trading. The Agricultural Solutions segment saw positive development, achieving a sales increase driven by sales volumes as well as prices. Sales rose significantly in the Oil & Gas segment, which was predominantly attributable to the continuous production of crude oil in Libya[1]; production there had been shut down from February to October 2011. Higher prices additionally boosted sales growth.

Income from operations amounted to €6,746 million, an improvement of 19% compared with 2011. The substantially higher contributions from the Oil & Gas and Agricultural Solutions segments were able to more than offset lower earnings from the chemicals business, which fell by €892 million to €2,466 million.

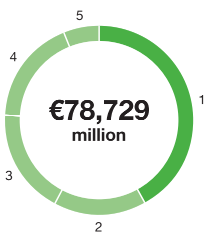
In line with the "We create chemistry" strategy, we reinforced our intersegmental cooperation in Europe in 2012, placing the focus on our strategic growth fields and key customer industries. For example, we expanded our industry-based initiative for wind energy. We continued to strengthen our presence in Russia in order to better develop the market.

North America

At €14,599 million, sales for companies headquartered in North America were 1% below the level of 2011. While we posted a decrease in sales in the Chemicals segment, sales rose considerably in the Plastics and Agricultural Solutions segments, thanks in particular to positive currency effects. In local-currency terms, sales were 8% lower than in the previous year.

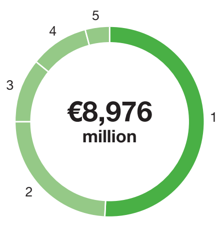
Sales by region (by location of company)

1	Germany	42%
2	Europe (excl. Germany)	16%
3	North America	18%
4	Asia Pacific	18%
5	South America, Africa, Middle East	6%



Income from operations by region

1	Germany	51%
2	Europe (excl. Germany)	24%
3	North America	11%
4	Asia Pacific	10%
5	South America, Africa, Middle East	4%



[1] Crude oil production in Libya is operated by branches belonging to European BASF companies; sales and earnings from these activities are therefore reported in the region Europe.

Income from operations decreased by 27% to €964 million, mostly as a result of the lower contribution from the Chemicals segment. Because of higher raw material costs, earnings in the Functional Solutions segment did not match the good level of 2011. However, we achieved a significant earnings increase in the Performance Products and Agricultural Solutions segments.

We made progress in implementing our regional strategy for North America in 2012, as well, which centers on an even stronger orientation toward customers and markets. We are concentrating on innovation, attractive customer and market segments and cross-business initiatives. At the same time, we are increasing our operational excellence through ongoing improvements. In 2012, we moved the headquarters of the Pharma Ingredients & Services business unit from Switzerland to Florham Park, New Jersey, in order to strengthen our presence in the North American pharmaceuticals market. In the course of the strategic reorientation of BASF Plant Science, we moved the company headquarters to Raleigh, North Carolina.

Asia Pacific

Companies headquartered in the Asia Pacific region increased sales by 5% to €13,916 million in 2012. Sales volumes rose despite the difficult business environment; we recorded high demand in the Chemicals and Agricultural Solutions segments in particular. Positive currency effects boosted sales growth, while lower prices reduced sales. In local-currency terms, sales declined by 3%.

Income from operations fell by 20% to €905 million. This was mostly due to weaker margins in the Chemicals segment.

In line with the "We create chemistry" strategy, we strive to grow on average two percentage points faster than the Asia Pacific chemical market each year. For this, a strong market and customer orientation is indispensable. This is why we established three additional industry teams in 2012: Food & Agriculture; Electronic & Electric; and Mining. We achieved double-digit sales growth with the Asian automotive industry in 2012 thanks to the close cooperation between our Automotive Industry Team and key customers. An important step toward the internationalization of our research and development activities is the Innovation Campus Asia Pacific, which we opened in November 2012 in Shanghai, China. Furthermore, we are continuing to optimize our cost structures.

South America, Africa, Middle East

Compared with 2011, sales for companies in the region rose by 3% to €4,549 million. Sales were 3% above the previous year's level in local-currency terms, as well.

We were able to increase sales in South America. In the Agricultural Solutions segment, demand continued to grow for our innovative crop protection products. We strengthened our business with engineering plastics and polyamide polymers by purchasing the Mazzaferro Group's polyamide polymer business in 2012.

Sales decreased for companies in Africa due to the lower contribution from the Catalysts division. After the political unrest in 2011, we were able to significantly increase sales in North Africa in 2012. Sales in the Middle East exceeded the level of the previous year despite the uncertain political situation.

Income from operations in the region declined by 23% to €361 million, predominantly as a result of the lower contribution from the Oil & Gas segment in Argentina.

We have developed a new growth strategy for the Middle East, which we aim to implement starting in 2013. Our local presence in Africa was further expanded as part of our Africa strategy.

Regional trends

- Europe: cross-divisional cooperation strengthened; expansion of industry-based initiative for wind energy
- North America: concentration on innovation, cross-business initiatives and attractive customer and market segments; headquarters of Pharma Ingredients & Services business unit move to Florham Park, New Jersey
- Asia Pacific: three additional industry teams established: Food & Agriculture, Electronic & Electric, and Mining; Innovation Campus Asia Pacific opens in Shanghai, China
- South America, Africa, Middle East: acquisition of Mazzaferro Group's polyamide polymer business in South America; strengthening of local presence in line with Africa strategy

Supply chain management

Our suppliers are an important component of our value chain. For BASF, sustainability-oriented management of our suppliers is a significant factor for growth and added value. Together with our suppliers, we aim to create value and minimize risks.

Strategy

Both new and existing suppliers are selected and evaluated not only on the basis of economic criteria, but also on environmental, social and corporate governance (ESG) standards. Our Supplier Code of Conduct is based on internationally recognized guidelines, such as the principles of the United Nations' Global Compact Initiative, the International Labor Organization (ILO) conventions and Responsible Care. The Code of Conduct comprises environmental protection and compliance with human and labor rights, as well as antidiscrimination and anticorruption policies.

In 2012, BASF purchased a total of around 30,000 different raw materials from more than 6,000 suppliers.

Sustainability standards

We aim to further minimize supply chain risks and provide information on the opportunities offered by sustainable business practices. In 2012, we recruited more participants for the "1+3" project begun in 2006, in which suppliers pledge to pass on our sustainability standards to at least three of their cooperation partners in the supply chain. We provided sustainability training to 134 employees in procurement around the world in 2012.

Supplier audits

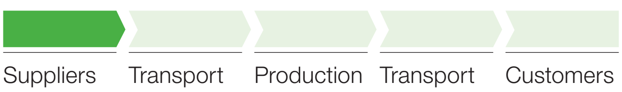
Depending on risk potential, we conduct on-site supplier audits. Risk matrices help us to identify high-risk suppliers based on country and product risks. Based on this risk analysis, we conducted onsite audits of a total of 210 raw material suppliers in 2012 to assess environmental, health and safety issues. If we discover a need for improvement, we call for corrective actions. We perform a follow-up audit a few months later. If we do not register improvement, we terminate the business relationship. This occurred in six cases in 2012.

To check their compliance with international labor and social standards, new suppliers from non-OECD countries are required to submit a self-assessment. A total of around 750 suppliers received our questionnaire for this purpose in 2012, and it was completed by around 70%. In order to do business with us, a company must complete and sign the questionnaire, and no key issues – such as the elimination of child labor – may remain unresolved. Should we suspect that labor and social standards are not being met, we reserve the right to conduct an external audit and, if necessary, we refrain from a business relationship with that supplier. If we find that certain products show room for improvement in the area of sustainability, the supply chain is subject to an intense analysis. This enables us to provide suppliers with concrete recommendations.

BASF participates in the "Together for Sustainability" initiative of the leading chemical companies to standardize suppliers' self-assessments and auditing worldwide. The initiative has developed a globally uniform supplier questionnaire, as well as standardized criteria for supplier audits and examination processes, in order to simplify the retrieval of sustainability-related information, especially for suppliers.

→ **For more on supply chain management, see basf.com/supplychain**

Stations along the value chain[1]



Suppliers

- Code of Conduct for suppliers includes environmental protection and compliance with human and labor rights, antidiscrimination and anticorruption policies
- Around 30,000 different raw materials purchased from more than 6,000 suppliers

[1] The graphic depicts the different stations along the value chain. The topics in each chapter address the station shown in dark green.

Raw materials

The conservation of resources along the value chain is one of our fundamental principles. We make an important contribution with our Verbund concept, our innovative products and the use of renewables. In the search for alternative raw materials, we rely on solutions that contribute to sustainability.

Strategy

The Verbund system is an important component of our resource efficiency concept: The by-products of one plant often serve as feedstock elsewhere, thus helping us to use raw materials more efficiently. Some of our most important raw materials are naphtha, natural gas, methanol, ammonia and benzene. We investigate the use of renewable resources in our Verbund system and are involved in the responsible cultivation and utilization of renewables in numerous projects along the value chain.

Renewable resources

In 2012, around 3% of the raw materials we purchased worldwide were from renewable resources. BASF is intensifying research and development activities for products and production processes based on renewable raw materials. For example, with our partner, Purac, we are developing a method for the production of succinic acid using renewable resources, making succinic acid an economical and ecological alternative to petrochemical raw materials for our customers.

In 2012, we invested in the technology company Renmatix, which is working on producing industrial sugar from wood-based biomass. With this investment, we aim to further promote the use of renewable resources. Furthermore, we signed a contract with Cargill and Novozymes on the joint development of technologies to produce acrylic acid from renewable resources. One of the main applications of bio-based acrylic acid is in the production of superabsorbents for the hygiene industry.

Together with Cargill and the German governmental agency for international cooperation, we continued our project in 2012 for the economical, environmentally friendly and socially responsible production of coconut oil in the Philippines. Our goal is to develop and implement sustainability standards for the certification and production of this oil. As a member of the Roundtable on Sustainable Palm Oil (RSPO), BASF is involved in projects which include the conservation of biodiversity in the cultivation of palm oil. By 2015, we aim to use palm and palm kernel oil only from agriculture certified according to sustainability criteria.

Mineral raw materials

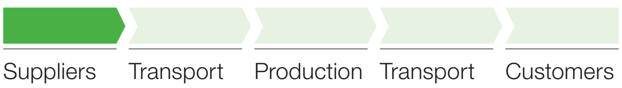
In 2012, we once again performed an analysis to find out if we use "conflict minerals." To our current knowledge, this is not the case. Our suppliers have confirmed to us that they do not source their minerals from the Democratic Republic of Congo or its neighboring countries. We investigate the origins of the minerals we use and reserve the right to conduct an external audit and, if necessary, terminate our business relationship with that supplier. Through a standardized questionnaire, new suppliers must disclose to us in advance if their products contain conflict minerals.

Biodiversity

In 2012, we investigated our sites around the world to discover which are located near internationally protected areas: 2% of our production sites (excluding oil and gas) border directly on a Ramsar Site, and none of our production sites borders on a UNESCO protected area. We have not determined any effects of our activities on biodiversity in these areas in 2012.

Together with cooperation partners, we develop measures that enable the coexistence of biological diversity and modern agriculture. We promote the protection of biodiversity in local initiatives; for example, at our site in Guaratinguetá, Brazil, we are involved in the renaturation of a river landscape.

Stations along the value chain



Renewable resources

- Around 3% of raw materials purchased worldwide in 2012 were from renewable resources
- Method being developed to produce succinic acid from renewable raw materials
- BASF aims to use palm and palm kernel oil exclusively from certified sustainable cultivation by 2015

Responsible Care Management System

We act responsibly as an integral part of society. We never compromise on the safety and security of our employees, contractors and neighbors as well as our facilities, transportation and products. Our Responsible Care Management System sets out the framework for our voluntary commitments.

Strategy

BASF's Responsible Care Management System comprises the global rules, standards and procedures for environmental and health protection, safety and security for the various stations along our value chain. Our regulations cover the transportation of raw materials, the activities at our sites and warehouses, the distribution of our products and our customers' application of the products. Concrete specifications for implementing these measures are laid out in binding directives. These describe the relevant responsibilities, requirements and assessment methods. We regularly conduct audits to monitor our performance and progress. We use the findings from these audits for continual improvement.

We set ourselves ambitious goals for environmental and health protection, safety and security. Our guidelines and requirements are constantly updated. In 2012, we enacted two new global Group directives for energy and for emergency response, and defined new worldwide requirements for occupational safety as well as for safety in transportation and storage.

We assess risks in all areas ranging from research and production to logistics, and how these could affect the environment, the surrounding community or the safety and security of our employees. In our databases, we document accidents, near-misses and safety-related incidents at our sites as well as on our transportation routes. We also gather data on incidents involving external contractors working for BASF. Collecting and evaluating incident data on a global basis helps us to systematically learn from mistakes and accumulate knowledge gained through experience.

Audits

Regular audits help ensure uniformly high standards within the BASF Group for environmental and health protection, safety and security. We carry out audits at BASF sites and at companies in which BASF is a majority shareholder. We have defined our regulations for Responsible Care audits in a global Group directive. During our audits, we create an environmental, safety and security profile which shows if our performance with regard to environment, safety and security is sufficient to properly address the existing hazard potential. If this is not the case, we agree on measures and conduct follow-up audits on their implementation soon afterward. Our internal audit system complies with the standards for external auditing procedures ISO 19011 and OHSAS 18001. Worldwide, 196 BASF production sites are certified in accordance with ISO 14001 (2011: 179).

In 2012, 112 environmental, safety and security audits were carried out in the BASF Group at 74 sites. We audited 42 sites with respect to occupational medicine and health protection.

→ **For more on Responsible Care, see basf.com/responsible-care_e**

→ **For more on occupational safety and health protection, see page 96 onward and basf.com/occupational_safety**

Costs and provisions for environmental protection in the BASF Group (million €)

	2012	2011
Operating costs for environmental protection	910[1]	850
Investments in new and improved environmental protection plants and facilities[2]	272[3]	190
Provisions for environmental protection measures and remediation[4]	617	659

[1] Increase due to higher expenses for the operation of facilities for environmental protection and for proportionate costs of environmental protection in plants

[2] Investments comprise end-of-pipe measures as well as integrated environmental protection measures.

[3] Increase mainly due to higher investments in production facilities of BASF SE

[4] Values shown refer to December 31 of the respective year.

Stations along the value chain

Group directives and requirements

- New Group directives for energy and emergency response
- New global requirements for occupational safety, transportation safety and warehouse safety

Safety, security and health

Transportation and storage

Our regulations and measures for transportation and warehouse safety comprise the delivery of raw materials, the storage and distribution of chemical products among BASF sites and customers, and the transportation of waste from our sites to the disposal facilities.

Strategy

We have set out global directives for the transportation and storage of chemical products both in our own warehouses as well as in rented facilities. In order to make the storage of goods – especially sensitive ones – even safer, we defined a new requirement in 2012. Moreover, we implemented a further global requirement in 2012 for the consistent assessment of transportation safety in deep-sea tankers.

Our goal is to reduce the worldwide number of transportation accidents per 10,000 shipments by 70% to 0.17 accidents compared with 2003. In 2012, we reduced the number of yearly transportation accidents to 0.24 per 10,000 shipments compared with 0.56 in 2003 (2011: 0.18), representing a decrease of 57%. The number of product spillages during shipment in 2012 amounted to 0.25 per 10,000 shipments (2011: 0.30).

Accident prevention and assistance

We stipulate worldwide requirements for our logistics service providers and assess them with regard to safety and quality. In 2012, we assessed around 500 companies around the world. For these evaluations, our experts use both our own assessment tools as well as internationally approved schemes, such as the European Safety and Quality Assessment System. If we find out that our standards are not being met, we discuss this with our logistics service providers and ensure that the necessary measures for improvement are immediately introduced.

For the transportation of raw materials with high hazard potential, we conduct a risk assessment for alternative transportation routes as early as in the construction stage of a new plant or after an acquisition. In this way, we can select suitable transportation routes and the necessary technical equipment together with our suppliers. For example, we conducted risk assessments in 2012 for the rail transportation of ethylene oxide in North America as well as for the transportation of benzene in China. If an incident occurs despite all preventive measures, we provide swift and specially coordinated assistance worldwide. Our transportation safety advisors are involved in these processes and procedures, and they subsequently evaluate all of the information. More than 150 employees are active around the world as trained transportation safety advisors. They collaborate within a global network, helping us to establish proper measures and to avoid incidents in the future.

2020 Goal
Reduce transportation accidents

–70%

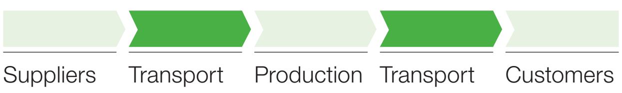
We aim to reduce the worldwide number of transportation accidents per 10,000 shipments by 70% compared with 2003.

Activities in external networks

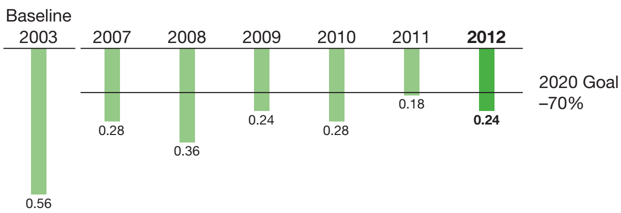
We are actively involved in external networks which quickly provide information and assistance in emergencies. These include the German Transport Accident Information and Emergency Response System (TUIS), in which BASF plays a coordinating role. In 2012, we provided assistance to other companies in around 250 cases. Furthermore, we participated in the creation of an online database for public emergency response in 2012 which helps first responders and authorities to reach TUIS experts and special emergency task forces even faster. We apply the experience we have gathered in working with TUIS to set up similar systems in other countries. In Asia, for example, we are working on a regional risk matrix and defining requirements for emergency assistance and information procedures in case of accidents.

→ **For more, see basf.com/distribution_safety and basf.com/emergency_response**

Stations along the value chain



Transportation accidents per 10,000 shipments
(Reduction compared with baseline 2003: –57%)



Production

At our sites, we never compromise on safety. For occupational safety and health protection, we rely on comprehensive preventive measures as well as on the involvement of all employees and contractors. Our global safety and security concepts serve to protect our employees, contractors and neighbors as well as to prevent property damage and protect information and company assets. They help prevent production stoppages and damage to the environment.

Global goals

We have set ourselves demanding goals for occupational safety and health protection. By 2020, we want to reduce the number of work-related accidents per million working hours by 80% to 0.65 work-related accidents compared with baseline 2002. We measure our performance in health protection using the Health Performance Index (HPI). The HPI comprises five components: confirmed occupational diseases, medical emergency planning, first aid, preventive medicine and health promotion. Each contributes a maximum of 0.2 to the total score. The highest possible score is 1.0. Our goal is to reach a value of more than 0.9 every year.

Occupational safety

We promote and monitor safety at work through risk assessments, safety rules, seminars and audits. In addition to routine safety briefings, we provided around 13,000 employees with intensive training in occupational safety in 2012. In 2012, 1.7 work-related accidents per million working hours occurred at BASF sites, representing a slight decrease compared with the previous year (2011: 1.9). Compared with baseline 2002, the lost-time injury rate declined by 48%. There were 2.4 work-related accidents per million working hours for contractors in 2012 (2011: 2.4).

Unfortunately, there was one fatal work-related and one fatal commuting accident at BASF SE in 2012. One employee suffered a fatal traffic accident while on a business trip in Kazakhstan in June. In September, an employee died in a traffic accident on the way home from work in Ludwigshafen.

We stick to our ambitious 2020 goal to decrease the rate of work-related accidents by 80% compared with 2002. To do so, we rely especially on the commitment of our employees and on clearly defined safety rules: More than 60,000 employees at around 400 BASF sites took part in our worldwide safety initiative in 2012, participating in workshops and exchanging safety-related experiences. Furthermore, we defined global requirements in 2012 for incident management and implementing regular safety inspections of all facilities and workplaces.

→ **For more on occupational safety, see basf.com/occupational_safety**

Health protection

Our global health management serves to promote and protect the health and productivity of our employees. Contributing to this were numerous emergency planning and health promotion measures in 2012. Worldwide standards for occupational medicine and health protection within BASF are specified in a directive that is implemented by a global network of experts. We regularly conduct occupational medical audits to monitor our performance.

In 2012, we enhanced our Health Performance Index, and have reported since then on confirmed occupational diseases instead of on the number of reported cases of occupational disease, as in 2011. With an HPI of 0.89 in 2012, we have not yet been able to fulfill the ambitious goal of exceeding 0.9 each year.

In order to instruct our employees in the health-conscious management of noise sources, we offered a health promotion campaign for hearing protection at more than 400 sites in 2012. This included conducting hearing tests for the early identification of hearing impairments. In 2012, around 40,000 employees participated in this health campaign. Starting in 2013, we plan to offer worldwide health checks with consultations on excess weight, diabetes, high blood pressure and musculoskeletal disorders.

→ **For more on occupational medicine, health promotion campaigns and the HPI, see basf.com/health_protection**

Stations along the value chain

Health protection

- Around 40,000 employees participate in health promotion campaign for hearing protection in 2012
- Worldwide health checks planned for 2013 with consultations on excess weight, diabetes, high blood pressure and musculoskeletal disorders

2020 Goal
Reduce work-related accidents[1] (Baseline 2002)

–80%

Annual Goal
Health Performance Index

>0.9

[1] Per million working hours

Process safety

When designing a new facility, we apply a five-step review system from conception to startup that takes into account the most important safety, security, environmental and health protection aspects in order to incorporate them early on and observe and review them in every stage of planning. We use a risk matrix to assess risks regarding their estimated probability and potential impact, and determine appropriate protective measures. In addition, more than 5,000 employees around the world received training in process safety in 2012.

In 2012, we continued the project begun in 2011 to investigate our plants' safety concepts in order to constantly improve the safety of our production facilities worldwide. With this initiative, we are reviewing the implementation of our safety concepts as well as the consistent application of our risk matrix in all plants with medium to high risk potential within ten years. Incidents at our sites which led to fires, explosions or the release of substances are recorded and evaluated in detail. This allows us to compare the causes of incidents on a global level and further optimize our processes.

→ **For more on process safety, see basf.com/process_safety**

Hazard prevention and site security

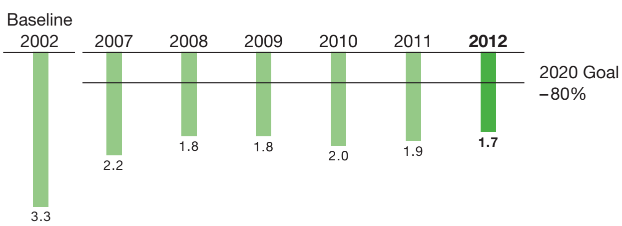
With our emergency response concepts, we are prepared for potential incidents. This includes specific emergency response plans for our production facilities. Depending on the situation, we involve joint venture companies, partners and suppliers as well as cities, communities and neighboring companies in this process. Our central emergency response supports local emergency response units around the world and around the clock. In order to even better prevent hazards to safety, security, health and the environment, we implemented a new directive in 2012 which stipulates global guidelines and measures for hazard prevention and emergency response.

Our emergency systems are checked regularly – for example, in drills with our employees, contractors and local authorities. In 2012, we integrated our dispatch centers in Europe even further and included the Schwarzheide site in the emergency response system. This allows us to work more closely across different sites, and to deal with alerts within the network more quickly and reliably.

In 2012, we continued to implement our requirements for preventive measures to protect our sites worldwide from third-party interference, and enhanced our training program for the protection of knowledge and sensitive information. These measures aim to ensure extensive protection for employees and the company against, for example, criminal behavior or the loss of knowledge. Human rights aspects related to site security, such as the right to liberty and security of person, form a part of the global qualification requirements for our security personnel. We verified their implementation in all regions in 2012. We have included the consideration of human rights as a mandatory element in all new contracts with contractors involved in site security. Particularly for investments and projects in emerging markets, we analyze potential risks to the safety, security and health of our employees and base our decision-making on safety and security-related aspects.

→ **For more on emergency response, see basf.com/emergency_response**

Lost time injuries per million working hours
(Reduction from baseline 2002: –48%)



Process safety

- Most important safety, security, environmental and health protection aspects monitored from conception to startup
- More than 5,000 employees receive training in process safety in 2012

Products

For us, product stewardship does not end at the factory gates: We review the safety of our products from research to production and finally to our customers' use of the products. We work continually to ensure that our products pose no risk to people or the environment when they are used responsibly and in the manner intended.

Strategy

We ensure uniformly high standards for product stewardship worldwide and our voluntary initiatives go beyond legal requirements. We monitor the implementation of our guidelines with regular audits.

We provide extensive information on our chemical products to our customers and the public with safety data sheets in more than 30 languages. This is achieved with the help of a global database containing continuously updated environmental, health and safety data on all our substances and products. Our global emergency hotline network provides information around the clock. We offer our customers needs-based training in the safe use of our products, such as crop protection products or chemicals for the production of plastics.

With our global goals for risk assessment, we are supporting the implementation of initiatives such as the Global Product Strategy (GPS) of the International Council of Chemical Associations (ICCA). GPS is establishing worldwide standards and best practices to improve the safe management of chemical substances. Internationally, we are also involved in workshops and training seminars in developing countries and emerging markets. In 2012, for example, we instructed chemical industry representatives in Chile, Russia, South Africa, South Korea, and Vietnam on GPS. In order to facilitate public access to information, BASF is involved in the setup of an ICCA online portal, in which we provide around 350 GPS safety summaries.

→ **For more on GPS, see basf.com/gps_e**

2020 Goal
Risk assessment of all products

>99% Risk assessment of all products that we sell in quantities of more than one metric ton per year

Global goals

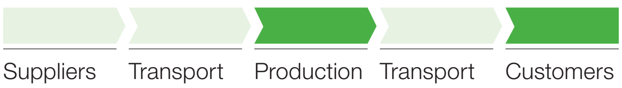
By 2020, we will review our risk assessments for all substances and mixtures BASF sells worldwide in quantities of more than one metric ton per year. We already reached 45% of this goal in 2012. The risk associated with using a substance is the combination of its hazardous properties and its potential exposure to people and the environment.

REACH and other legal requirements

We worked on the second registration phase of REACH in 2012. By the registration deadline of May 31, 2013, we will have registered around 600 substances produced or imported in quantities between 100 and 1,000 metric tons per year with the European Chemicals Agency (ECHA). We expect that the cost of implementing REACH will continue to average around €50 million per year.

When it comes to REACH, we are in close contact with our customers and suppliers. Another way in which BASF contributes to international chemical safety is through our support of the United Nations' initiative to implement a Globally Harmonized System (GHS) of Classification and Labeling of Chemicals. In 2012, we introduced these new legal requirements for our sales products in Malaysia, South Africa and Switzerland; in Australia, Thailand and the United States, we began their implementation. → **For more on auditing of suppliers, see page 92**

Stations along the value chain



Product stewardship

- We review the safety of our products from research to production and finally to our customers' use of the products
- Global directives with uniformly high standards
- Workshops on global product strategy conducted with chemical industry representatives in Chile, Russia, South Africa, South Korea, and Vietnam

Ecological and toxicological testing

Before launching products on the market, we subject them to a variety of ecological and toxicological testing. We apply the most current scientific knowledge in the research and development of our products. We conduct animal studies only when it is absolutely necessary. In some cases, animal studies are stipulated by REACH and other national legislation outside the European Union in order to obtain more information on the properties and effects of chemical products.

We adhere to the specifications laid down by the German Animal Welfare Act as well as the requirements of the Association for Assessment and Accreditation of Laboratory Animal Care – the highest standard for laboratory animals in the world. We are continuously developing alternative and complementary methods, and put these into practice whenever possible and accepted by the authorities. BASF invested €3.1 million for this in 2012. For tests where it is not permissible or possible to use alternative methods, we are working to further optimize our procedures. We use alternative and complementary methods in more than a third of our tests. Currently, 26 alternative methods are being used in our labs and another 12 are in the development stage. We have, for example, developed a test strategy that allows us to predict the contact allergenic effects of substances on humans. We will apply this test strategy to classify around 500 substances in the second and third registration phases of REACH, enabling us to further avoid animal testing.

→ **For more on alternative methods, visit basf.com/alternative_methods**

Management of new technologies

New technologies such as plant biotechnology or nanotechnology offer solutions for key societal challenges – for example, in the areas of climate protection or health and nutrition. We engage in open dialog with our stakeholders on opportunities and risks and inform in a transparent manner.

Our Nanotechnology Code of Conduct sets out principles for using nanomaterials. Over the last few years, we have conducted more than 100 toxicological and ecotoxicological studies and participated in around 27 different projects related to safety research. The NanoGEM project, for example, investigates the lifecycle of functionalized nanoparticles and nanocomposite material. In Europe, we participate in endeavors like the MARINA joint project of the European Union Commission to establish reference methods and a test strategy for nanomaterials safety.

We launched a joint safety research project in 2012 with the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and the Federal Institute for Occupational Safety and Health (BAuA). The goal of the study is to explore the long-term effects of various nanomaterials. We published the results of our safety research in around 40 professional periodicals as well as online. Moreover, we enhanced our internal risk management in 2012, defining, for example, new requirements for the handling of nanomaterials. Furthermore, in a global Group directive, we added new requirements for identifying nanomaterials.

In the use of biotechnology, we follow the code of conduct of "EuropaBio," the European association for biotechnology industries. We continued to improve our product safety activities in the field of biotechnology in 2012, enabling us to minimize potential risks even more efficiently and ensure that all standards and national laws are met. Our internal risk management is based on the protection of people, animals and the environment. In 2012, we implemented the "Project Risk Score Card" system, which monitors the risks of dealing with biotechnology. It ensures compliance with standards and transparent processes at BASF.

→ **For more on nanotechnology and the Nanotechnology Code of Conduct, see basf.com/nanotechnology**

Use of animal studies

- Ecological and toxicological testing before our products are launched on the market
- Use of alternative and complementary methods wherever possible and accepted by the authorities
- Approximately €3.1 million invested in 2012 in the development of alternative methods

New technologies

- New technologies offer solutions for societal challenges, such as climate protection, health and nutrition
- Enhanced internal risk management for the use of nanomaterials
- Continued improvement of product safety activities in the field of biotechnology

Environment

Energy and climate protection

We are committed to energy efficiency and global climate protection. We make an important contribution with our efforts to further reduce emissions along our value chain, as well as with our climate protection products. The conservation of resources is also one of our fundamental principles. We use efficient technologies to generate steam and electricity as well as energy-efficient production processes, and have implemented comprehensive energy management.

Strategy

We want to reduce greenhouse gas emissions in our production and along the entire value chain. We have been performing measures such as those for the reduction of nitrous oxide in our production since as early as 1997. These have been implemented to a large extent, along with our major projects for the efficient generation and use of steam and electricity. Comparisons with European emissions trading benchmarks show that our chemical plants operate at above-average efficiency. Around 50% of BASF Group emissions in 2012 resulted from steam and electricity generation in our power plants as well as in our energy suppliers' power plants. We want to further reduce these emissions with the help of numerous smaller measures and projects to increase energy efficiency. To do so, we rely on energy management which helps us to analyze and continue improving energy efficiency at our plants.

As a company in an energy-intensive industry, our success also depends on the long-term security and competitiveness of our energy supplies. We implemented a Group directive in 2012 that aims to further improve the reliable and economical supply and use of energy at our sites. It contains requirements for the efficient use of energy and the preparation of energy concepts as well as for the verification of supply reliability.

We offer our customers solutions that help reduce greenhouse gas emissions and improve energy efficiency. About a third of our annual research spending goes toward the development of these products and processes.

Our climate protection activities are based on comprehensive emissions controlling. We report on greenhouse gases in accordance with the Greenhouse Gas Protocol Standard, as well as the sector-specific standard for the chemical industry published in 2013, which we helped develop as part of a working group for the World Business Council for Sustainable Development. According to the Carbon Disclosure Project, we are among the ten leading companies in the world in climate protection.

→ **For more on emission certificates, see page 110 onward**

→ **For more on climate protection, see basf.com/climate_protection**

2020 Goals
BASF operations excluding Oil & Gas (baseline 2002)

Reduce greenhouse gas emissions[1]	Increase energy efficiency
–40%	+35%

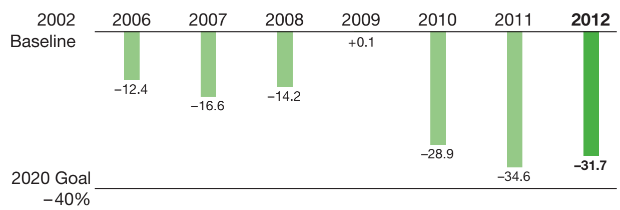
Natural gas transport (baseline 2010)
We aim to reduce greenhouse gas emissions per unit and distance of transported gas by 10%.

[1] Per metric ton of sales product

Global goals

By 2020, we aim to reduce our greenhouse gas emissions per metric ton of sales product by 40% compared with baseline 2002. We already achieved a reduction of 31.7% in 2012 (2011: 34.6%). Since 1990, we have been able to lower our greenhouse gas emissions from BASF operations (excluding Oil & Gas) by 45% and reduce specific emissions by 73% overall. By 2020, we want to improve the energy efficiency of our production processes by 35% compared with 2002. In 2012, we were able to achieve an increase of 19.3% (2011: 25.7%). Our increase in energy efficiency and our reduction of specific greenhouse gas

Reduction of greenhouse gas emissions per metric ton of sales product in BASF operations excluding Oil & Gas (in %)



Strategy

- Major projects for reduction of nitrous oxide emissions and efficient generation and use of steam and electricity
- Around one-third of annual research spending used in development of products and processes for climate protection and energy efficiency

BASF Group's greenhouse gas emissions according to the Greenhouse Gas Protocol* (1,000 metric tons of CO_2 equivalents)

BASF operations including Oil & Gas	GWP factor **	2002	2010	2011	2012
Scope 1					
CO_2 (carbon dioxide)	1	14,634	18,787	18,488	18,115
N_2O (nitrous oxide)	310	6,407	1,862	1,124	868
CH_4 (methane)	21	244	94	105	80
HFC (hydrofluorocarbons)***	140-11,700	61	82	85	85
SF_6 (sulfur hexafluoride)	23,900	0	3	2	1
Scope 2					
CO_2	1	5,243	4,402	4,879	4,479
Total		**26,589**	**25,230**	**24,683**	**23,628**
Sale of energy to third parties (Scope 1)****					
CO_2	1	347	484	1,116	1,059
Total		**26,936**	**25,714**	**25,799**	**24,687**
Offsets (certificates sold)*****		**0**	**0**	**175**	**0**
Total including offsets		**26,936**	**25,714**	**25,974**	**24,687**

* BASF reports separately on direct and indirect emissions from the purchase of energy. Scope 1 emissions encompass both direct emissions from production and generation of steam and electricity, as well as direct emissions from the generation of steam and electricity for sale. Scope 2 emissions comprise indirect emissions from the purchase of energy for BASF use.

** GWP factor: Global warming potential of the individual gases expressed as a factor of CO_2 emissions

*** Calculated using the GWP factors of the individual components (Intergovernmental Panel on Climate Change 1995)

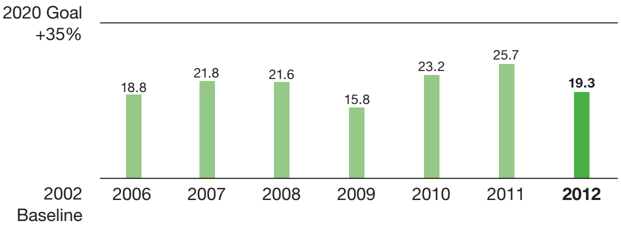
**** Also includes sales to BASF Group companies and joint ventures; as a result, emissions reported under Scope 2 can be reported again in some cases

***** Voluntary Carbon Units (VCU) certificates from measures to reduce emissions, which were sold to third parties

emissions were both lower compared with the previous year; this was a result of portfolio measures such as the carve-out of our styrenic plastics business at the end of 2011, as well as longer plant downtimes for maintenance and reduced plant capacity utilization in 2012.

In the oil and gas business, we achieved our goal of stopping the continuous flaring of gases associated with crude oil production in routine operations at all oil production sites by the end of 2012. As a result, we can prevent the emission of around two million metric tons of greenhouse gases per year. In 2012, we surpassed our 2020 goal of reducing carbon emissions per amount and distance of transported natural gas by 10% compared with 2010 in the natural gas transportation business: Through the startup of particularly energy-efficient pipelines, we were able to achieve a reduction of 22.1%. With increasing pipeline capacity utilization and the associated higher energy demand, specific emissions will rise in the future.

Increase in energy efficiency of production processes in BASF operations excluding Oil & Gas[1] (in %)



[1] Deviation from Reports 2008 to 2011 due to correction of previous years' energy efficiency parameter as a result of reclassification of natural gas usage

Goals

- Reduction of greenhouse gas emissions by 31.7% compared with baseline 2002 achieved
- Energy efficiency increased by 19.3%
- Continuous flaring of gases associated with crude oil production stopped in routine operations

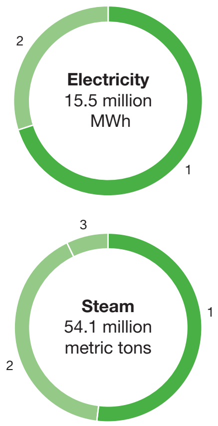
Energy supply of the BASF Group 2012

Electricity supply

1	Internally generated	70%
2	Purchased	30%

Steam supply

1	Internally generated	52%
2	Waste heat	41%
3	Purchased	7%



Fossil and residual fuels used for power generation in power plants of the BASF Group

84%	**Natural gas**	34.0 million MWh
1%	**Heating oil**	0.6 million MWh
2%	**Coal**	0.9 million MWh
13%	**Residual fuels**	5.2 million MWh
Total:		40.7 million MWh

Energy supply and efficiency

We use highly efficient combined heat and power (CHP) plants to provide our energy. With this CHP technology, we can meet more than 70% of our electricity needs. In 2012, it allowed us to save more than 12 million MWh of fossil fuels compared with separate methods of generating steam and electricity, preventing 2.5 million metric tons of carbon emissions. The Verbund system is an important component of our energy efficiency concept. Waste heat from one plant's production process is used as energy in other plants. In this way, we saved around 17 million MWh in 2012, which corresponds to 3.4 million metric tons' worth of prevented carbon emissions.

We installed a turbine for the expansion of natural gas at one of our facilities at the Ludwigshafen site in 2012. This allows the energy released by the reduction of gas pressure to be used in electricity generation. In order to raise employee awareness on the topic of energy efficiency, we created a brochure with tips for saving energy in daily activities and offered consultation on energy and renovation for the home as a part of our energy efficiency campaign.

We rely on locally available energy sources for the supply of energy at our sites. Especially in the growing Asian market, we and our energy suppliers must make use of coal as an energy source to a certain extent, since the more climate-friendly natural gas is not available in sufficient quantities and at competitive prices.

We are exploring the use of renewable energies. These can only become a permanent part of our energy mix if they are competitive in terms of supply security and cost. With numerous research projects, we contribute to increasing the efficiency of technologies for the use of renewable energy sources.

Key indicators for climate protection and energy in BASF operations excluding Oil & Gas

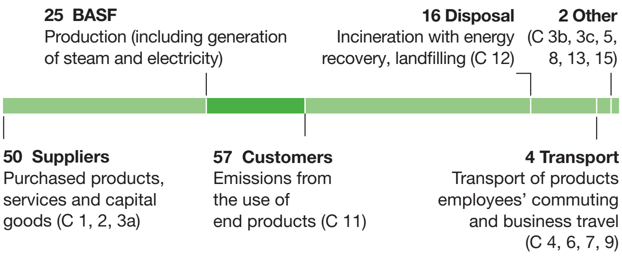
	Baseline 2002	2010	2011	2012
Greenhouse gas emissions[1] (million metric tons of CO_2 equivalents)	24.713	23.774	23.247	22.240
Specific greenhouse gas emissions (metric tons of CO_2 equivalents per metric ton of sales product)	0.897	0.638	0.587	0.613
Primary energy demand[2] (million MWh)	55.759	61.261	63.769	61.535
Energy efficiency (metric tons of sales product per MWh)	0.494	0.608	0.621	0.589

[1] Scope 1 and Scope 2 according to the Greenhouse Gas Protocol Standard, excluding emissions from the generation of steam and electricity for sale to third parties
[2] Primary energy used in BASF's plants as well as in the plants of our energy suppliers to cover energy demand for production processes

Our corporate carbon footprint

BASF is the only industrial company worldwide to have published a comprehensive corporate carbon footprint since 2008, and we are constantly updating the basis for our calculations. We report on all emissions along the value chain and show the volume of emissions prevented through the use of our climate protection products. We plan our climate protection activities along the value chain based on our corporate carbon footprint. At the Ludwigshafen site, for example, we started up a new intermodal transportation terminal in 2012. This will enable us to continue the switch to transporting our goods by rail, saving up to 100,000 metric tons of transportation-related carbon emissions per year.

Greenhouse gas emissions along the BASF value chain in 2012[1]
(in million metric tons of CO_2 equivalents)



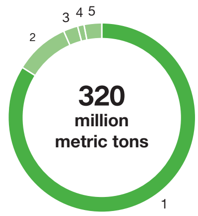
[1] According to Greenhouse Gas Protocol, Scope 1, 2 and 3 (categories within Scope 3 shown in parentheses)

We have defined climate protection products as those product groups which, compared with the alternatives, avoid greenhouse gas emissions over their entire life cycle – from production and use to disposal – and whose ecoefficiency is at least as good as that of the alternatives. The use of climate protection products we sold in 2012 reduces our customers' emissions by 320 million metric tons of CO_2 (2011: 330 million metric tons). The slight decrease compared with the previous year is due to lower sales volumes for our climate protection products in 2012. Our goal is to continuously increase the contribution of these products to climate protection.

→ **For more information on our emissions reporting, see basf.com/corporate_carbon_footprint**

Prevention of greenhouse gas emissions through the use of BASF products by sector (in million metric tons of CO_2 equivalents)

1	Housing and construction	269
2	Industry	30
3	Transport	8
4	Agriculture	4
5	Other	9



Opportunities with climate protection products

In 2012, we generated sales of around €7.2 billion (9% of BASF Group sales) with our climate protection products (2011: €6.7 billion), such as building insulation materials and plastic components for the automotive industry. Organic growth in these product lines and targeted research activities are expected to further increase our sales with climate protection products.

Elastopir®, for example, is an insulation material made of BASF's polyurethane plastic which helps lower buildings' heating and cooling needs as well as their energy costs. In the automotive industry, BASF's plastics Elastoskin® and Elastoflex® contribute to making vehicles lighter and reducing their energy consumption.

Corporate carbon footprint

– Comprehensive reporting on greenhouse gas emissions along the value chain
– Use of climate protection products sold in 2012 reduces our customers' emissions by 320 million metric tons of CO_2

Climate protection products

– Around €7.2 billion in sales from climate protection products in 2012
– Organic growth and targeted research expected to further increase sales with climate protection products

Water

We use water as a coolant, solvent and cleaning agent, as well as to produce our products. We are committed to responsible water use along the entire value chain. To this end, we have set ourselves global goals.

Strategy

We aim to use water as sparingly as possible and further reduce emissions to water. For this, we have set out a Group directive with globally applicable standards. Water quality and availability vary substantially from region to region. We want to introduce sustainable water management at production sites in water stress areas. In order to continue improving our processes and identify further potential for environmental protection, especially in water use, we established a globally active group of experts in 2012.

We analyze water risks in the supply chain. We offer our customers solutions that help them to purify water, use it more efficiently and reduce pollution. We started up a new water treatment chemicals plant at the site in Nanjing, China, in 2012. Furthermore, we invested in NanoH_2O in 2012, a U.S. company that produces membranes which aid in desalinizing seawater.

Global goals

We have set ourselves the goal of reducing emissions to water of organic substances and nitrogen by 80% by 2020 compared with baseline 2002; we want to reduce emissions of heavy metals by 60%.

Our goal is, by 2020, to reduce the withdrawal of drinking water from supply sources for production by half compared with baseline 2010. In 2012, we were able to reduce this amount by 23.2%.

We pursue the goal of establishing sustainable water management at all sites in water stress areas by 2020 by applying the European Water Stewardship (EWS) standard set down by the European Water Partnership (EWP). We will introduce this voluntary industrial standard initially at our European sites in water stress areas. In total, around 22% of our production sites were located in water stress areas in 2012, and around 6.9% of our total water supply was abstracted from these areas.

2020 Goals
Water

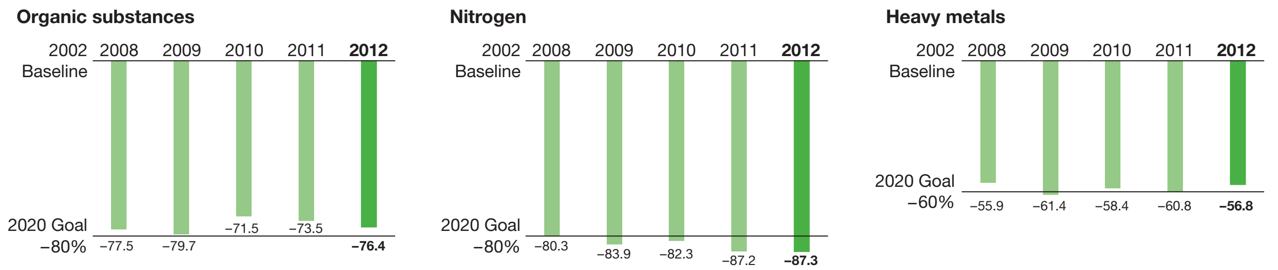
Less drinking water in production processes (Baseline 2010)	Sustainable water management in water stress areas
–50%	100%

Fewer emissions
We want to reduce emissions of organic substances and nitrogen to water by 80% and of heavy metals by 60% compared with baseline 2002.

Reducing emissions further

Around 190 million cubic meters of wastewater were discharged from BASF production sites in 2012 (2011: 192 million cubic meters). At 2,800 metric tons (2011: 2,900 metric tons), emissions of nitrogen (N total) to water have been reduced by 87.3% compared with 2002. Around 21,600 metric tons of organic substances were emitted in BASF wastewater (2011: 24,300 metric tons), representing a reduction of 76.4% since 2002. Our wastewater contained 26 metric tons of heavy metals (2011: 24 metric tons), representing a worldwide reduction of 56.8% compared with 2002. The higher amount of heavy metal emissions compared with the previous year was largely the result of production increases at the Ludwigshafen site. Phosphorus emissions amounted to 366 metric tons (2011: 391 metric tons).

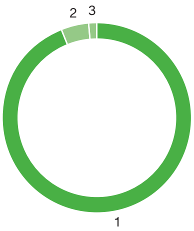
Reduction of emissions to water (in %)



Water in the BASF Group in 2012 (million cubic meters per year)

Water supply → **Water use** → **Water discharge**

Water supply



1	Surface water	1,891 (94.1%)
2	Groundwater	95 (4.7%)
3	Drinking water	23 (1.2%)

Total: 2,009

Water use

88% **Cooling**
– Closed-circuit cooling 4,044
– Flow cooling 1,706

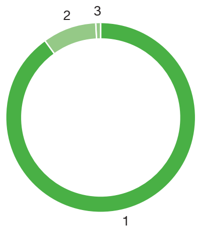
12% **Production**[1]
249

Total: 5,998

Water discharge

1	Cooling water (uncontaminated)	1,706 (90.0%)
2	Wastewater from production	174 (9.2%)
3	Graywater	16 (0.8%)

Total: 1,896[2]



[1] Total from production processes, graywater, rinsing and purification in production
[2] The difference between the volume of water supplied and discharged is mainly attributable to evaporation losses during closed-circuit cooling.

To avoid unanticipated emissions, we will review our water protection concepts at all production sites by 2015. We plan to additionally invest around €4 million in improving wastewater analytics at the Ludwigshafen site. This will enable us to identify any unanticipated emissions at an even earlier stage.

Furthermore, we also want to minimize the risk of water contamination from our products. We have participated in the roundtable *Zusammenarbeit von Wasserversorgung und Agrarchemie* (Water Supply and Agricultural Chemistry Cooperation) since 2009, which aims to prevent the contamination of drinking water with crop protection products. Within the framework of this cooperation, a monitoring database was set up for Germany which comprises around 8,000 water retrieval points. In 2012, this data helped us to identify affected drinking water catchment areas and develop initial measures to address the issue.

Water use

We recirculate water as much as possible in order to withdraw less from supply sources. We have recooling plants at our larger sites to reduce the temperature of the cooling water before it is discharged back into a body of water. In 2012, we began construction on a new recooling facility in Ludwigshafen in order to release as little heat as possible into the Rhine River, even at higher production volumes.

The supply, treatment, transportation and recooling of water is associated with a high demand for energy. By applying diverse measures, we aim to keep energy needs as low as possible.

→ **For more, see basf.com/water**

Use of water

– Global goals for reducing drinking water in production and for sustainable water management
– Investment in U.S.-based company NanoH$_2$O, which produces membranes for desalinizing seawater
– Additional €4 million in investments planned for wastewater analytics at Ludwigshafen site
– Construction begun on additional recooling plant in Ludwigshafen

Air and soil

We want to further reduce emissions to air from our production and prevent waste. We have set ourselves standards for doing so in a global directive. If no recovery options are available, we dispose of waste in a correct and environmentally responsible manner.

Emissions to air

Regular monitoring of our emissions to air is a part of environmental management at BASF. In addition to greenhouse gases, we also measure emissions of other pollutants into the atmosphere. Our reporting does not take into consideration air pollutant emissions from oil and gas operations due to their substantial fluctuation during exploration phases.

2020 Goal
Reduce emissions of air pollutants

–70% We aim to reduce air pollutants from our chemical plants by 70% compared with 2002.

By 2020, we aim to decrease absolute emissions of air pollutants from our chemical plants worldwide by 70% in comparison with baseline 2002. In 2012, the decline was 63.1%; we reduced emissions to 31,580 metric tons (2011: 59.9%; 34,364 metric tons). Emissions of ozone-depleting substances as defined by the Montreal Protocol totaled 44 metric tons in 2012 (2011: 62 metric tons), while emissions of heavy metals totaled 3 metric tons (2011: 3 metric tons).

We offer our customers products that enable them to reduce emissions of air pollutants. For example, we develop catalysts for diesel engines that reduce both nitrogen oxides as well as particulate emissions in traffic.

Waste management

We aim to prevent and reduce waste. We regularly carry out audits to inspect external waste management plants and ensure that our hazardous waste is correctly disposed of. In 2012, we began creation of a central database to collect data on our contaminated sites worldwide. This will enable us to stipulate a global standard for the responsible and environmentally sound management of contaminated sites.

At a landfill at the Ludwigshafen site in 2012, we began comprehensive remediation work for the long-term prevention of pollutant discharge into groundwater. In the selection of appropriate measures for site remediation, we work on solutions for the challenge of balancing different interests – for example, costs, the protection of nature and climate and increased transportation volumes.

Waste management, BASF Group (million metric tons)

	2010	2011	2012
Total waste generation[1]	**2.00**[3]	**2.11**[3]	**2.24**
Thereof from oil and gas exploration	0.06	0.08	0.16
Waste recovered	**0.90**	**0.96**	**0.92**
Recycled	0.27	0.26	0.27
Thermally recovered	0.63	0.69	0.65
Waste disposed of	**1.10**[3]	**1.15**[3]	**1.32**
In underground landfills	0.09[3]	0.10[3]	0.11
In surface landfills	0.53[3]	0.48[3]	0.65
Through incineration	0.47[3]	0.57	0.56
Classification of waste for disposal[2]			
Non-hazardous waste	0.43[3]	0.43	0.41
Hazardous waste	0.67[3]	0.72[3]	0.91
Transported hazardous waste	0.21	0.30	0.33

1 Comprises all production waste and hazardous waste from construction activities.
2 The classification of waste into hazardous and non-hazardous waste is performed according to local regulations.
3 The deviation from Reports 2010 and 2011 is predominantly due to the retroactive inclusion of waste from construction activity at the Ludwigshafen site.

Emissions to air (in metric tons)
Air pollutants from BASF operations excluding Oil & Gas

	2002[1]	2009	2010	2011	2012
CO (carbon monoxide)	46,208	3,549	3,964	4,419	4,352
NO_x (total NO_2 (nitrogen dioxide) + NO (nitrogen monoxide), calculated as NO_2)	15,045	11,767	12,764	13,003	12,279
NMVOCs (non-methane volatile organic compounds)	15,005	5,050	5,550	6,127[2]	6,251
SO_x (total various sulfur oxides)	6,633	4,884	4,934	4,483	3,451
Dust	1,734	3,126	3,537	3,069	2,863
NH_3/other (NH_3 (ammonia) and other inorganic substances)	994	2,914	3,191	3,263	2,383
Total	**85,619**	**31,290**	**33,940**	**34,364**[2]	**31,580**

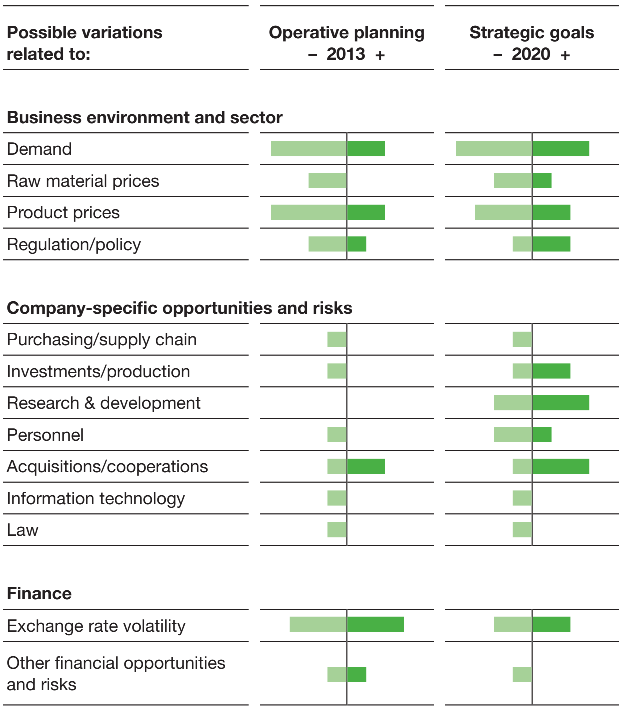
1 Baseline
2 The deviation from the Report 2011 is due to the retroactive inclusion of emissions from a former Cognis site.

Opportunities and risks report

The goal of BASF's risk management is to identify and evaluate opportunities and risks as early as possible and to take appropriate measures in order to seize opportunities and limit business losses. The aim here is to avoid risks that pose a threat to BASF's continued existence and to make improved managerial decisions to create lasting value.

We understand risk to be any event that can negatively impact the achievement of our short-term operational or long-term strategic goals. We define opportunities as possible successes that exceed our defined goals.

Short and long-term effects on earnings of key opportunity and risk factors



Overall assessment

We still expect the global economy to continue to grow in the next two years. However, the sovereign debt crises in Europe and the United States as well as possibly decelerating economic growth in China all pose considerable risks. A new global economic crisis could result if market uncertainty continues or demand is impaired more strongly than anticipated by extensive fiscal austerity measures. Important opportunities and risks for our earnings are also associated with uncertainty regarding the development of key customer industries and raw material prices, as well as volatility in foreign currency exchange rates and margins.

According to our assessment, there continue to be no significant individual risks that pose a threat to the continued existence of the BASF Group. The same applies to the sum of individual risks, even in the case of another global economic crisis.

Risk management process

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

Organization and responsibilities

- Risk management is the responsibility of the Board of Executive Directors, which also determines the processes for approving investments, acquisitions and divestitures.
- The Board of Executive Directors is supported by the corporate divisions Finance, Strategic Planning & Controlling and Legal, Taxes & Insurance, as well as the Corporate Controlling unit and the Chief Compliance Officer. They coordinate the risk management process at Group level and provide the structure and appropriate methodology. Opportunity and risk management is thus integrated in the strategy, planning and budgeting processes.

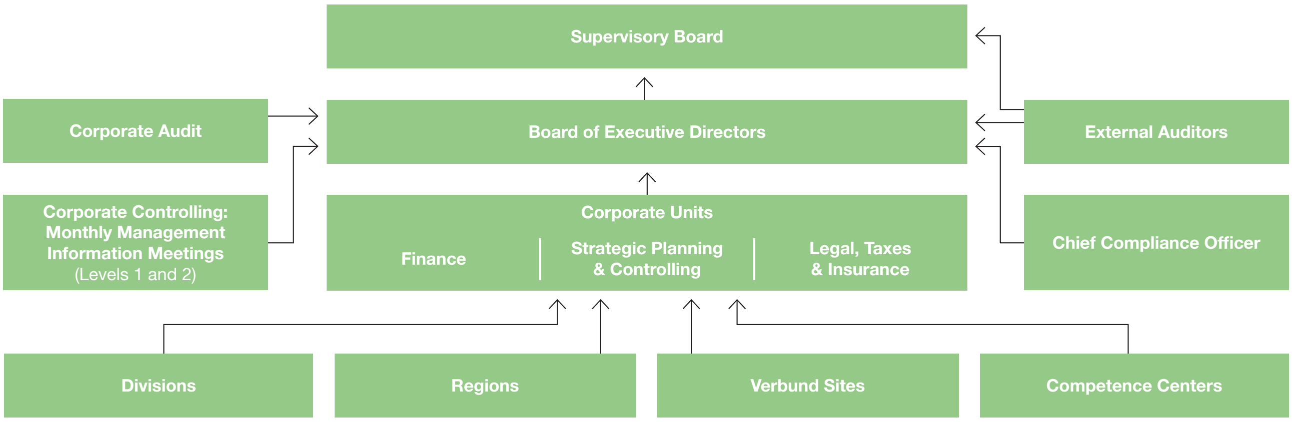
Strategy and goals

- Detect opportunities and risks as early as possible
- Take measures to limit business losses
- Avoid risks that threaten the company's continued existence
- Support managerial decisions

Overall assessment

- Most significant causes of opportunities and risks are the development of the economy and important customer industries as well as the development of raw material prices and volatility in exchange rates and margins
- Considerable risks arise from the sovereign debt crises in Europe and the United States
- No threat to continued existence of BASF Group

Organization of BASF Group's risk management



- A network of risk managers in the business and central units advances the implementation of appropriate risk management practices in daily operations.
- The management of specific opportunities and risks is largely delegated to the business units and is steered at a local level. Risks relating to exchange rates and raw material prices are an exception. In this case, there is an initial consolidation at a Group-wide level before derivative hedging instruments, for example, are used.
- The internal auditing unit is responsible for regularly auditing the risk management system to be established by the Board of Executive Directors in accordance with Section 91 (2) of the German Stock Corporation Act. Furthermore, as part of its monitoring of the Board of Executive Directors, the Supervisory Board considers the effectiveness of the risk management system. An external auditor evaluates the establishment and suitability of an early detection system for risks.

Instruments

- The Risk Management Process Manual, applicable throughout the Group, forms the framework for risk management and is adapted by the business units to suit their particular business conditions.
- A catalog of opportunity and risk categories helps to identify all relevant opportunities and risks as comprehensively as possible.
- Standardized evaluation and reporting tools are available for the identification and evaluation of risks. The aggregation of opportunities, risks and sensitivities at the division and Group level using a Monte Carlo simulation helps us to identify effects and trends across the organization.
- Company management is informed about operational opportunities and risks (observation period of up to one year) in the monthly management report produced by the Corporate Controlling unit. In addition, the corporate divisions Strategic Planning & Controlling and Finance provide information twice a year about the aggregated opportunity/risk exposure of the BASF Group. Furthermore, if a new individual risk is identified

Internal control and risk management system with regard to the Group financial reporting process

- Uniform, Group-wide guidelines set accounting policies, processes and dates
- Strict adherence to the principles of segregation of duties and dual control and regulation of access rights
- Annual evaluation of the control environment and relevant processes at significant companies and service units using a central risk catalog

which bears reputational risks or has a more than €10 million impact on earnings, it must be immediately reported.
– As part of our strategy development, the Strategic Planning unit conducts strategic opportunity/risk analyses with a ten-year assessment period. These analyses are annually reviewed during the course of the strategic controlling and are adapted if necessary.

When BASF was included in the Dow Jones Sustainability Index in September 2012, the company once again received special recognition for its risk management system.

Significant features of the internal control and risk management system with regard to the Group financial reporting process

The Consolidated Financial Statements are prepared by a unit in the corporate division Finance. BASF Group's accounting process is based on a uniform accounting guideline that sets out accounting policies and the significant processes and deadlines on a Group-wide basis. There are binding directives for the internal reconciliations and other accounting operations. Standard software is used to carry out the accounting processes for the preparation of the individual financial statements as well as for the Consolidated Financial Statements. There are clear rules for the access rights of each participant in these processes.

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

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

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

In a centralized selection process, companies and units are identified that are exposed to particular risks, that have a material impact on the Consolidated Financial Statements of the BASF Group or that provide service processes. The selection process is conducted annually. In the relevant companies and units, one person is given responsibility to coordinate and monitor the execution of the steps.

The annual evaluation process consists of the following steps:

– Evaluation of the control environment

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

– Identification of control activities

In order to mitigate the risks to the financial reporting process listed in our central risk catalog, corresponding control activities are conducted.

– Assessment of the control activities

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

Risk management process

– Integrated process with standardized tools for identifying, assessing and reporting opportunities and risks
– Decentralized management of specific opportunities and risks
– Aggregation at Group level
– Regular reporting on operational and strategic opportunity/risk exposure

Annual evaluation process

– Evaluation of the control environment
– Identification of the control activities
– Assessment of the control activities
– Monitoring of control weaknesses
– Internal confirmation of the internal control system

– Monitoring of control weaknesses
The managers responsible receive reports on any control weaknesses identified and their resolution, and an interdisciplinary committee investigates their relevance for the BASF Group. The Board of Executive Directors is informed once control weaknesses have been identified that have a considerable impact on the financial reporting.
– Internal confirmation of the internal control system
The managing director and chief financial officer responsible for each consolidated Group company confirm to the Board of Executive Directors of BASF SE at the end of the annual cycle the effectiveness of the internal control system with regard to accounting as well as the accuracy and reliability of financial reporting.

Short-term opportunities and risks

Demand fluctuation due to volatility in market growth: The development of our sales markets is one of the strongest drivers of opportunities and risks. More details on our assumptions regarding short-term growth rates for the global economy, regions and key customer industries, such as the chemicals, automotive and construction sectors, can be found from pages 116 to 118. In accordance with this baseline scenario, we are planning to achieve volume growth in our chemicals business in nearly all segments. In addition to the baseline scenario, we also consider risk scenarios. These include, for example, an intensification of the sovereign debt crises in Europe and the United States, which would dampen private demand and limit the ability of businesses to get refinancing. There could also be strong negative effects on consumer and industrial demand from extensive fiscal austerity measures in the form of tax increases and cuts to government spending. In these risk scenarios, a demand-driven decline in oil prices can be expected; the dollar/euro exchange rate would remain at a similar level to that in the baseline scenario as both the United States and Europe are exposed to similar debt-related risks.

Gas consumption can fluctuate due to colder or warmer winter weather, which has positive or negative effects on the performance of our gas trading business. Similarly, growing seasons that are wet and warm, or dry and cold, have positive or negative effects on our crop protection business.

Margin volatility due to fluctuating raw material prices and/or product oversupply/shortage: We generally anticipate stable margins in 2013. For some products and value chains, however, there is likely to be pressure on margins, which would have a negative effect on our earnings.

The average oil price (Brent crude) in 2012 was around $112 per barrel, slightly higher than in the previous year. For 2013, we anticipate an average oil price of $110 per barrel. We therefore expect the price level of the raw materials and petrochemical basic products that are important to our business to remain high. If there were a considerable decline in demand, this could lead to significant narrowing of our margins and the need to write down inventories.

The influence of the oil price is reduced through the contribution of our Oil & Gas business. Earnings in this business rise by around €30 million for every $1 increase in the average annual barrel price of Brent crude.

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

In the third E.U. emissions trading period, which begins in 2013, all CO_2 certificates for industrial electricity generation will have to be purchased. For chemical production, on the other hand, the number of certificates allocated free-of-charge is based on very ambitious benchmarks. As a result of the above-average efficiency in our production facilities, we expect allocation for our chemical plants to be nearly sufficient. However, due

Development of demand

– Development of demand in sales markets one of strongest drivers of opportunities and risks
– Possible negative effects on demand due to intensification of sovereign debt crises and extensive fiscal austerity measures

Margin volatility

– Oversupply expected to lead to lower margins in some value chains
– Raw material costs remain high
– If demand declines, increasing risk that raw material costs cannot be passed on to the market

to the auctioning of 100% of certificates for electricity generation, we expect that, overall, the BASF Group will face an undersupply of certificates; the number of certificates we need each year ranges in the low end of the single-digit millions. The extent to which this can negatively affect the global competitiveness of our European sites depends on the trading price of these CO_2 certificates. These effects will likely be limited by national financial compensatory measures for energy-intensive production facilities competing at a global level.

Other risks for us include further regulation, for example, for the use of chemicals as well as the intensification of geopolitical tensions, the destabilization of political systems and the imposition of trade barriers (for example, Chinese restrictions on exports of rare earths or OPEC quotas for oil production). We are closely observing the political situation in Argentina that led to the partial nationalization of YPF S.A. and the intensification of foreign exchange restrictions, in order to be able to react quickly and appropriately. However, we do not currently see an acute threat to our activities there.

On the other hand, regulatory decisions also offer opportunities that we want to seize: As a result of Germany's decision to phase out the use of nuclear power, as well as global programs to support the expansion of renewable energy and measures to increase energy efficiency, we expect higher demand for our products. Our building insulation materials are used to increase energy efficiency in housing and office buildings. Furthermore, we offer a diverse range of solutions for the construction and operation of wind turbines, such as intermediates, coatings and foams for rotor manufacturing as well as construction chemicals for the base and supports. Our catalysts business benefits from the tightening of emissions regulations.

Delivery bottlenecks resulting from interruptions in production or the supply chain and raw material shortages: We try to prevent unscheduled plant shutdowns by adhering to high technical standards and continuously improving our plants. We limit the effects of unscheduled shutdowns through diversification within our global production Verbund.

We minimize procurement risks through our broad portfolio, our global purchasing activities and the purchase of additional quantities of raw materials on spot markets. If possible, we avoid procuring raw materials from a single supplier. When this cannot be avoided, we try to foster competition or we knowingly enter into this relationship and assess the consequences of potential non-delivery. We continuously monitor the credit risk of important business partners, both customers as well as suppliers.

Information technology risks: BASF relies on a number of IT systems in order to carry out its day-to-day operations. The non-availability of critical IT systems and applications can have a direct impact on production and logistic processes. If data are lost or manipulated, this can negatively affect process safety and the accuracy of our financial reporting. Unauthorized access to sensitive data, such as personnel records, competition-related information or research results, can result in legal consequences or jeopardize our competitive advantage.

To minimize such risks, BASF has implemented application-specific measures such as stable and redundantly designed IT systems, backup processes, virus and access protection and encryption systems as well as integrated, Group-wide standardized IT infrastructure and applications. The systems used for information security are continuously tested and updated. In addition, our employees receive regular training on information and data protection. IT-related risk management is conducted using Group-wide regulations for organization and application, as well as an internal control system based on these regulations.

Regulation

- Emissions trading: risk of additional costs due to need to purchase certificates
- Opportunities arising from regulatory decisions: higher demand for products to increase energy efficiency

Delivery bottlenecks

- Avoidance of unplanned shutdowns through high technical standards and diversification within our global production Verbund
- Procurement risks minimized by a broad portfolio, global purchasing activities and careful selection of suppliers

Litigation and claims: In order to assess the risks from current legal disputes and proceedings and any potential need to recognize provisions, we prepare our own analysis and assessment of the circumstances and claims considered. In addition, in individual cases, we consider the results of comparable proceedings and independent legal opinions. Furthermore, we make assumptions regarding the probability of claims being successful and their potential financial impact. The actual costs can deviate from these estimates.

We use an internal control system to limit risks from potential wrongdoing or legal infringements. For example, we try to avoid patent and licensing disputes whenever possible with the help of extensive clearance research. As part of our Group-wide Compliance Program, our employees receive regular training.

→ **For more on our Group-wide Compliance Program, see page 129**

Financial opportunities and risks

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

Exchange rate volatility: Our competitiveness on global markets is influenced by fluctuations in exchange rates. For BASF's purchasing, opportunities and risks arise in particular when the U.S. dollar exchange rate fluctuates. A full-year rise in the value of the U.S. dollar/euro exchange rate by $0.01 would result in an increase of around €50 million in BASF's earnings, assuming other conditions remain the same.

On the production side, we mitigate foreign currency risks by having local production sites in the respective currency zones.

Foreign currency risks result from the translation of receivables, liabilities and other monetary items in accordance with IAS 21 at the closing rate into the functional currency of the respective Group company. In addition, we incorporate planned purchase and sales transactions in foreign currencies in our financial foreign currency risk management. These risks are hedged using derivative instruments, if necessary.

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

In addition to market interest rates, BASF's financing costs are determined by the credit risk premiums to be paid. These are mainly influenced by our credit rating and the market conditions at the time of issue. In the short to medium term, BASF is largely protected from the possible effects on its interest result thanks to the well-balanced maturity profile of its financial debt.

Risks from metal and raw materials trading: In the catalysts business, BASF employs commodity derivatives for precious metals and trades precious metals on behalf of third parties and on its own account. In addition, we use our knowledge of the markets for crude oil and oil products to generate earnings from the trade of raw materials. To address specific risks associated with these trades, which are not part of our operating business, we set and continuously monitor limits with regard to the type and size of the deals concluded.

Litigation and claims

- Limitation of legal risks with the help of an internal control system
- Estimate of monetary effects from legal disputes and proceedings as realistic as possible
- Regular employee training as part of Group-wide Compliance Program

Financial opportunities and risks

- Exchange rate volatility
- Interest rate risks
- Risks from metal and raw materials trading
- Liquidity risks
- Risk of asset losses
- Impairment risks
- Risks from pension obligations

Liquidity risks: Risks from fluctuating cash flows are recognized in a timely manner as part of our liquidity planning. We have access to extensive liquidity at any time thanks to our good ratings, our unrestricted access to the commercial paper market and committed bank credit lines. In the short to medium term, BASF is largely protected against potential refinancing risks thanks to our balanced maturity profile for financial indebtedness as well as diversification in various financial markets.

→ **For more on financial risks, see the Notes to the Consolidated Financial Statements from page 197 onward**
→ **For more on the maturity profile, see the Notes to the Consolidated Financial Statements from page 192 onward**

Risk of asset losses: We limit country-specific risks with measures based on internally determined country ratings, which are continuously updated to reflect changing environment conditions. We selectively use export credit insurance and investment guarantees to limit specific country-related risks. We lower credit risks for our financial investments by engaging in transactions only with banks with good credit ratings and by adhering to fixed limits. The credit ratings are continuously monitored and the limits are adjusted accordingly. We reduce the risk of default on receivables by continuously monitoring the creditworthiness and payment behavior of our customers and by setting appropriate credit limits. Due to the global activities and diversified customer structure of the BASF Group, there are no major concentrations of credit default risk. Risks are also limited through the use of credit insurance and bank guarantees.

Impairment risks: The risk of an asset impairment occurs if the assumed interest rate in an impairment test increases or the predicted cash flows decline. In the current business environment, we consider the risk of impairment of individual assets such as customer relationships, technologies and brands, as well as goodwill, to be low.

Long-term incentive program for executives: Our executives have the opportunity to participate in a stock-price-based compensation program. The need for provisions for this program varies according to the development of the BASF share price; this leads to a corresponding increase or decrease in personnel costs.

Risks from pension obligations: We predominantly finance company pension obligations externally through separate plan assets. In addition to the large pension plans of our Group companies in North America, the United Kingdom and Switzerland, this applies particularly to BASF Pensionskasse VVaG and BASF Pensionstreuhand e.V. in Germany. To address the risk of underfunding due to market-related fluctuations in plan assets, we have investment strategies that align return and risk optimization to the structure of the pension obligations. Stress scenarios are also simulated regularly by means of portfolio analyses. Furthermore, new employees are almost always offered defined contribution plans. An adjustment to the interest rates used in discounting pension obligations leads immediately to changes in stockholders' equity.

Long-term opportunities and risks

Long-term demand development: In our "We create chemistry" strategy, we expect chemical production (excluding pharmaceuticals) to grow worldwide by an average of 4.0% annually until 2020, faster than global gross domestic product and also more rapidly than in the previous 10 years. We want our sales to increase significantly faster, by an average of 6% annually. We plan to accomplish this with our market-oriented and innovative portfolio, which we will further strengthen in coming years through investments in new production capacity, R&D activities and acquisitions. Our ambitious goal for 2020 is thus to reach sales of €115 billion and we expect to increase income from operations before depreciation and amortization (EBITDA) to €23 billion.

Exchange rate volatility

- Exchange rate volatility a significant risk factor; sales-side opportunities and risks in particular from U.S. dollar exchange rate fluctuations
- Production-related foreign currency risks limited by having local sites
- Net position in foreign-currency-denominated receivables and liabilities as well as planned foreign-currency transactions hedged with derivatives

Risk of asset losses

- Export credit insurance and investment guarantees to hedge country-related risks
- Reduction of credit risks through credit checks and transaction limits
- No concentration of default risks on receivables at any individual business partner
- Use of credit insurance and bank guarantees

If the continuing sovereign debt crises result in a longlasting stagnation in the markets of the West, these goals could prove to be too ambitious. As a result of our high degree of diversification across various customer industries and regions, we would still expect our growth to be above the market average, even under these conditions.

→ **For more on the "We create chemistry" strategy, see page 20 onward**

Development of the competitive and customer landscape: We expect competitors from emerging markets to become increasingly important in the coming years. Furthermore, we anticipate that many raw material suppliers will broaden their value chains. We are addressing this risk through active portfolio management. We exit markets where risks outweigh opportunities, and in which we do not see satisfactory opportunities to stand out from our competitors in the long term. For example, we concluded the sale of our fertilizer business in 2012 and for 2013, we are planning to dispose of our natural gas trading and storage business as part of an asset swap with Gazprom.

In order to remain competitive, we continuously improve our operational excellence. Our strategic excellence program, STEP, also contributes to this. Starting at the end of 2015, we expect STEP's more than 100 individual projects to contribute around €1 billion to our earnings each year.

In order to achieve long-term profitable growth, our research and business focus is on highly innovative business areas, which we sometimes enter into through strategic cooperative partnerships.

Innovation: We are observing a trend toward more sustainability in our customer industries. We want to take advantage of the resulting opportunities with innovations – particularly in the growth fields we have identified. These include Batteries for Mobility, Functional Crop Care to improve agricultural efficiency, solutions for water treatment and technologies for the use of renewable energy (wind, solar thermal and photovoltaic power).

New products launched on the market between 2011 and 2020 are expected to contribute €30 billion to sales in 2020. To achieve this goal, we also aim to invest around 3% of our sales (excluding Oil & Gas) in research and development. We also address the risk of the technical or economic failure of research and development projects by maintaining a balanced and diversified project portfolio, as well as through professional project management (R&D controlling)

We optimize the effectiveness and efficiency of our research activities through our global Know-How Verbund as well as through collaboration with partners and customers. Furthermore, in a program and project management process, we continuously review the chances of success and the underlying assumptions of research projects; this review includes all phases from idea generation to product launch. The trust of customers and consumers is essential for the successful introduction of new technologies. That is why we enter into dialog with stakeholders at an early stage of development.

→ **For more on innovation, see page 30 onward**

Portfolio development through investments: We expect the increase in chemical production in emerging markets in the coming years to be significantly above the global average. This will create opportunities that we want to exploit by expanding our presence in these economies; therefore, at least one-third of our investment volume between 2013 and 2020 will be spent in emerging markets.

Long-term development

- Annual average growth of 4% in global chemical production expected; growth risks if long-lasting stagnation results from sovereign debt crises
- BASF aims for above-average growth
- Active portfolio management: taking advantage of opportunities with targeted investments in production capacity, R&D activities and acquisitions; minimizing risks with divestitures

Innovation

- Major component of our growth strategy
- Risks minimized through Know-How Verbund as well as continuous review of efficiency, chances of success and operating environment of research projects
- Ongoing dialog with partners and customers to improve chances of success

Our decisions on the type, size and locations of our investment projects are based on assumptions related to the long-term development of markets, margins and costs, as well as raw material availability and country, currency and technology risks. Opportunities and risks arise when real developments deviate from our assumptions, particularly with respect to demand development and competition intensity.

In the implementation phase, we make use of our experience in project management and controlling, in order to minimize technical risks as well as the risk of cost overruns or missed deadlines. → For more on our investment plans, see page 120 onward

Acquisitions: In the future, we will continue to refine our portfolio through acquisitions that promise above-average profitable growth, are innovation-driven and offer added value for our customers while reducing the cyclicality of our earnings.

The evaluation of opportunities and risks already plays a significant role during the assessment of potential acquisition targets. A detailed analysis and quantification are conducted as part of due diligence. Examples of risks include increased staff turnover, delayed realization of synergies, and the assumption of obligations that were not precisely quantifiable in advance. If our expectations in this regard are not fulfilled, risks could arise, such as the need to impair intangible assets; however, there could also be opportunities, for example, from additional synergies. → For more on our acquisitions, see page 36 onward

Recruitment and long-term retention of qualified employees: Global competition for highly qualified employees and managers has grown in recent years; in the medium to long term, this will likely be further intensified by demographic change. As a result, there is an increased risk that job vacancies cannot be filled with suitable applicants, or only after a delay.

Business could be negatively affected in the medium and long term by the loss of expertise in North America and Europe due to disproportionately high retirement numbers, as well as by the challenge arising from additional recruitment demand in Asia as a result of our targeted growth. We address these risks with our global programs Generations@Work and Diversity + Inclusion, the Employee Development project, employer branding and a greater emphasis on human capital development as well as additional regional initiatives. With these measures, we increase BASF's attractiveness as an employer and retain our employees in the long term.

→ For more on the individual initiatives and our goals, see page 39 onward

Sustainability: BASF is committed to integrating environmental protection and socially responsible conduct into its business activities. Infringements of our voluntary commitments and legal violations also represent a reputational risk and could lead to operational or strategic risks. Before acquiring a company, we take into account its focus on sustainability and we consider this in the acquisition process. We use the results of our global issue management for sustainability to initiate change processes in the company in order to be prepared for any potential risks and to exploit opportunities. We have established global monitoring systems which also include our supply chain – these enable us to ensure adherence to laws and our voluntary commitments in the areas of environment, safety, security and health as well as to labor and social standards. In order to assure society's acceptance of our business activities, we engage in ongoing dialog with relevant stakeholders. The Nano Dialog Forum is an example. Ultimately, however, residual risks remain in all entrepreneurial activities which even comprehensive risk management cannot exclude.

→ For more on monitoring tools, see page 22

Investments

- Investment decisions on the basis of assumptions regarding development of markets, margins and costs, as well as raw material availability and country, currency and technology risks
- Opportunities and risks from deviations from expectations
- Risks in project implementation minimized by making use of experience in project management and controlling

Personnel

- Intensified global competition for highly-qualified specialist and management candidates
- Danger of loss of expertise from numerous retirements
- More effective personnel recruitment and retention with the help of various measures

Economic environment in 2013

The global economy is likely to grow at a rate of 2.4% in 2013, slightly faster than in 2012 (+2.2%). However, we continue to expect a volatile environment. Austerity measures to improve public finances will continue to dampen demand in the eurozone and the United States. Worldwide economic growth will be bolstered, however, by low interest rates and government stimulus measures in the emerging markets. We anticipate a gradual decline in economic uncertainty and an increase in investor and consumer confidence. For 2013, we assume an average oil price of $110 per barrel and an exchange rate of $1.30 per euro.

Outlook for gross domestic product 2013
(Real change compared with previous year)

World	**2.4%**
European Union	0.3%
United States	1.8%
Asia (excl. Japan)	6.5%
Japan	1.0%
South America	3.7%

Trends in gross domestic product 2013–2015
(Average annual real change)

World	**2.8%**
European Union	1.1%
United States	2.1%
Asia (excl. Japan)	6.7%
Japan	1.2%
South America	4.1%

We anticipate only slight growth (+0.3%) in the **European Union** in 2013. The recessionary trends in southern Europe will likely slow down and put less of a strain on European trading partners' export business than in the previous year. We expect the stricter consolidation measures in France to have a negative impact on economic growth. In this environment, the German economy will develop only marginally better (+0.9%) than in 2012. In our forecast, we do not anticipate a re-escalation of the sovereign debt crisis in the eurozone. In the medium term, we expect average annual economic growth of 1.1% for the European Union.

We assume that gross domestic product will grow by 1.8% in the **United States** in 2013 – approximately the same rate as in the previous year – despite the dampening effects of fiscal policy. Growth had already been weakened in 2012 by the anticipation of austerity measures in public budgets. The real estate market will likely continue to stabilize, due in part to the Federal Reserve's support program for the mortgage market. Under these conditions, we expect the job market to sustain its gradual improvement. We predict that the U.S. economy will grow by around 2.1% per year in the medium term.

Economic growth in **Asia (excluding Japan)** is expected to gain some momentum in 2013 (+6.5%). After the previous year's slowdown, we foresee that the economy in China will once again pick up speed. Expansive fiscal and monetary stimulus measures will support this growth. In light of the gradually improving economic situation in Europe, foreign trade will also contribute more substantially to economic growth in the region. In the medium term, we expect average annual economic growth of 6.7% for the emerging markets of Asia.

For 2013, we anticipate the following economic conditions:

- At 2.4%, world economic growth slightly exceeds level of previous year
- Austerity measures to improve public finances dampen demand in eurozone and United States
- Growth supported by low interest rates and government stimulus measures in emerging markets
- Slight growth in gross domestic product in European Union (+0.3%)
- U.S. growth slightly below previous year's level (+1.8%); growth gains some momentum in Asia (excluding Japan) (+6.5%); growth stabilizes in Japan (+1.0%); growth accelerates significantly in South America (+3.7%)
- Oil price averages $110 per barrel for the year
- Average exchange rate of $1.30 per euro

We predict that growth in **Japan** will once again stabilize in 2013 (+1.0%), partly as a result of economic stimulus measures from the government. The export sector is likely to see positive development. With Japan's expansive monetary policy and the expected alleviation of the eurozone crisis, the yen will presumably depreciate, increasing Japanese exporters' competitiveness in the eurozone. We anticipate annual growth of 1.2% for Japan in the medium term.

We expect economic growth in **South America** to significantly accelerate in 2013 (+3.7%). We assume that government investment programs and interest rate decreases will further support the economic upturn in Brazil. Demand for raw materials is likely to increase in conjunction with the slight recovery predicted for the global economy. In the medium term, we forecast that South America will grow at an annual rate of 4.1%.

Outlook for key customer industries

Global industrial production is expected to grow slightly faster in 2013 (+3.4%) than in 2012. We anticipate a slight revival in growth of around one percentage point in both the industrialized countries as well as the emerging markets.

We forecast weaker growth in the **transportation** sector and assume that the decline in European automobile production will continue at a reduced rate. In the United States, the catch-up effects that provided for strong growth in 2012 will taper off. In the emerging markets of Asia, however, we expect a similarly robust increase in demand as in the previous year.

The global **energy and resources** sector will likely post solid growth in 2013, comparable with the level of 2012.

The **construction** industry is expected to grow somewhat faster in 2013 than in the previous year. In the emerging markets, the construction sector will likely continue its robust growth; the focus here will be on investment in infrastructure. We assume that the decline in European construction activity will decelerate. In Germany, low interest rate levels will bolster housing construction. For the United States, we expect a slight slowdown in production growth; however, we predict that the moderate recovery in the U.S. housing market will continue, and that the construction industry will be stimulated by the Federal Reserve's support program for the mortgage market.

We expect the **consumer goods** industry to grow faster in 2013 than in 2012. For the electrical industry, we predict slightly higher growth rates in the industrialized countries as well as in the emerging markets. The decline in textile industry production in the industrialized countries will presumably slow down, while production in the emerging markets of Asia will increase slightly. For the paper industry, we forecast stagnation in the industrialized countries and a moderate pickup in growth in the emerging markets.

After cautious investor behavior in the industrialized countries in 2012, we expect considerably faster growth once more in the **electronics** industry in 2013. Production growth is likely to significantly accelerate in southeast Asia. For Japan and the United States, we expect moderate growth in production.

In the **health and nutrition** segment, we anticipate robust growth in 2013, somewhat higher than in the previous year.

Depending on climatic conditions, we also expect solid production growth in worldwide **agriculture** in 2013.

We expect the following developments in key customer industries in 2013:

- Growth in global industrial production (+3.4%) slightly above previous year's level
- Transportation: growth slower than in 2012
- Energy and resources: growth at prior-year level
- Construction: somewhat faster growth due to gradual stabilization of European construction sector and to infrastructure investments in emerging markets
- Consumer goods: faster growth; electrical industry grows slightly in industrialized countries and emerging markets
- Electronics: considerably stronger growth
- Health and nutrition: slightly higher growth rates
- Agriculture: continuing solid growth

Outlook for the chemical industry

We expect global chemical production (excluding pharmaceuticals) to recover in 2013 (+3.6%), putting it back on the growth track expected for the medium term. After the previous year's near-stagnation in production in the industrialized countries, we anticipate slight growth for 2013 (+0.9%). We expect growth in the emerging markets to remain strong (+6.8%).

Chemical production in the **European Union** is likely to grow only slightly (+0.3%), owing in part to minimal growth in industrial production overall. We forecast continuing production declines in the southern European countries. In Germany, however, chemical production is expected to grow moderately. In the medium term, we assume average annual growth of around 1.0% in European chemical production.

The chemical industry in the **United States** will benefit once again from low gas prices in 2013. However, we anticipate slower growth in the automotive industry, a key customer for chemical products. Growth in the construction industry will also be somewhat weaker than in 2012. We anticipate slower growth overall in the U.S. chemical industry (+1.9%). In the medium term, we forecast annual growth of 2.3%.

In **Asia (excluding Japan)**, chemical production in 2013 (+8.1%) will probably somewhat exceed the previous year's pace of growth. After an economic slowdown in China in 2012, we expect additional growth stimulus from sectors like the construction, automotive, electronics and consumer goods industries. In the medium term, we predict annual growth of around 7.8%.

After the previous year's considerable production declines in **Japan**, we expect only slightly negative growth 2013 (–0.6%). We assume that growth will pick up over the course of the year. In the medium term, we expect an annual growth rate of 0.7%.

Chemical production in **South America** will presumably grow significantly faster in 2013 (+3.7%) than in the previous year. We expect an economic upswing in Brazil, which will lead to increased demand for chemical products, especially in the construction and agricultural sectors. In the medium term, we anticipate average annual growth of 3.9%.

Outlook chemical production 2013 (excl. pharmaceuticals)
(Real change compared with previous year)

World	**3.6%**
European Union	0.3%
United States	1.9%
Asia (excl. Japan)	8.1%
Japan	(0.6%)
South America	3.7%

Trends chemical production 2013–2015 (excl. pharmaceuticals)
(Average annual real change)

World	**4.0%**
European Union	1.0%
United States	2.3%
Asia (excl. Japan)	7.8%
Japan	0.7%
South America	3.9%

We expect the following developments in the chemical industry in 2013:

- Recovery in global chemical production (+3.6%)
- European Union: only slight growth in the chemical industry (+0.3%)
- United States: chemical industry grows by 1.9%, somewhat slower than in previous year, due primarily to weaker growth in automotive and construction industries
- Asia (excluding Japan): faster growth (+8.1%); growth stimulus primarily from construction, automotive, electronics and consumer goods industries
- Japan: stabilization (–0.6%) after significant production declines in previous year
- South America: growth considerably faster than in previous year (+3.7%); economic upswing expected for Brazil

Outlook

Profitable growth with the "We create chemistry" strategy

The global economy is likely to grow slightly faster in 2013. However, we continue to expect a volatile environment. We anticipate an upturn in the chemical industry, primarily supported by strong growth in the emerging economies.

Excluding the effects of acquisitions and divestitures, we strive to increase our sales volumes in 2013. We want to exceed the 2012 levels in sales and income from operations. The expected increase in demand, together with our measures to improve operational excellence and raise efficiency, will contribute to this. We aim to earn a high premium on our cost of capital once again in 2013.

As presented in detail on pages 116 to 118, we anticipate a slight increase in global economic growth (+2.4%) and an upturn in global chemical production (+3.6%) for 2013. In our forecast, we assume an average oil price of $110 per barrel, and an average exchange rate of $1.30 per euro. In view of the opportunities and risks described on pages 107 to 115, we want to once again increase sales and earnings.

We have applied international accounting standards IFRS 10 and 11 since January 1, 2013. As a result, some companies which were previously fully consolidated and several which were proportionally consolidated will now be accounted for in the BASF Group Financial Statements using the equity method. In our forecast, we have applied the previous consolidation method in order to ensure comparability with the prior year. Overall, the application of IFRS 10 and 11 will lead to lower reported sales and income from operations, especially in the Oil & Gas segment. Net income will not be significantly influenced by the change in accounting standards. We will adjust the prior-year figures for future reporting periods. The qualitative statements made in our forecast remain valid.

→ **For more on IFRS 10 and 11, see the Notes on page 159**

The following sales and earnings forecast for the segments is based on the BASF Group segment structure which was effective until December 31, 2012.

→ **For more on the organization of the BASF Group since January 1, 2013, see Events After the Reporting Period on page 122**

Sales and earnings forecast for the segments

In the **Chemicals** segment, we aim to raise our sales in 2013 compared with the previous year. We expect all divisions to contribute to this increase. In the Inorganics division, we anticipate higher sales volumes in several business areas, while sales will likely be bolstered by price increases in the Petrochemicals division. We forecast sales growth in the Intermediates division, particularly in the product lines for polyalcohols and acids, as well as butanediol and derivatives. Overall, we predict earnings above the level of the previous year thanks to a higher contribution from the Petrochemicals division.

For 2013, we will strive to improve sales in the **Plastics** segment. Additional applications for our products will likely contribute to this. In the Performance Polymers division, we will raise spending on research and development and restructure our business with Styropor®. Despite these increased expenses, we expect earnings for the entire segment to be above the level of 2012.

In the **Performance Products** segment, we assume that the market environment will remain challenging in 2013. We nevertheless aim to increase sales in all divisions, particularly by expanding our business in growth markets. We predict stronger demand in the Dispersions & Pigments division, primarily in Asia Pacific and North America. We anticipate higher sales volumes in the Nutrition & Health and Performance Chemicals divisions, as well. We want to improve earnings for the segment, for example through repositioning measures and strict cost discipline. We assume that all divisions will contribute to this increase.

Outlook 2013

The global economy will likely grow slightly faster in 2013 than in 2012. However, we continue to expect a volatile environment. Excluding the effects of acquisitions and divestitures, we strive to increase our sales volumes in 2013. We want to exceed the 2012 levels[1] in sales and income from operations. An expected increase in demand and our measures to improve operational excellence and raise efficiency will contribute to this. We aim to earn a high premium on our cost of capital once again in 2013.

[1] The application of international accounting standards IFRS 10 and 11 as of January 1, 2013, will lead to lower reported sales and income from operations for the BASF Group. The qualitative statements made in the forecast also remain valid on this basis.

Forecast by segment (million €)

	Sales		Income from operations (EBIT)	
	2012	**Forecast 2013**	**2012**	**Forecast 2013**
Chemicals	13,824	Increase	1,718	Increase
Plastics	11,402	Increase	874	Increase
Performance Products	15,871	Increase	1,286	Increase
Functional Solutions	11,460	Increase	435	Increase
Agricultural Solutions	4,679	Increase	1,026	Increase
Oil & Gas	16,700	Increase	3,904	Increase
Other	4,793	Decline	(267)	Decline
BASF Group	**78,729**	**Increase**	**8,976**	**Increase**

We aim to increase sales in the **Functional Solutions** segment. In the Catalysts division, we forecast a significant rise in sales, supported by stronger demand as well as higher prices for precious and base metals. The Coatings division will likely also see a demand-driven sales increase. By contrast, we expect a sales decline in the Construction Chemicals division due to portfolio effects. We strive to increase earnings in all divisions in the segment.

In the **Agricultural Solutions** segment, we will continue our successful innovation strategy in 2013. With volatility remaining high, prices for agricultural commodities will probably stay above the historical average. We expanded our product portfolio in the biological crop protection area with the acquisition of Becker Underwood in 2012. On this basis, we expect an increase in sales and earnings.

For 2013, we assume an average oil price of $110 per barrel and an exchange rate of $1.30 per euro. We strive to increase sales and earnings in the **Oil & Gas** segment compared with the high level of the previous year. In the Exploration & Production business sector, we aim to improve sales and earnings primarily by means of higher production volumes. By contrast, we predict a decline in sales and earnings in the Natural Gas Trading business sector due to a lower price level and weaker sales margins.

Sales and earnings in **Other** are expected to decrease in 2013, based primarily on the divestiture of our fertilizer business in the first quarter of 2012. The disposal gains had made a significant positive contribution to earnings in Other.

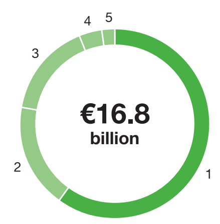
→ **More information on our expectations for business development in the segments and divisions can be found on pages 58 to 89**

Planned capital expenditures by segment 2013–2017

1	Chemicals	20%
2	Plastics	12%
3	Performance Products	17%
4	Functional Solutions	6%
5	Agricultural Solutions	6%
6	Oil & Gas	25%
7	Other (infrastructure, R+D)	14%

Planned capital expenditures by region 2013–2017

1	Europe	60%
2	North America	18%
3	Asia Pacific	16%
4	South America, Africa, Middle East	4%
5	Site alternatives currently being investigated	2%



Investment planning

To enhance our chemical activities, we plan capital expenditures of €30 billion to €35 billion between 2011 and 2020; more than a third of this sum will be invested in emerging markets in order to further strengthen our presence in these fast-growing regions.

In particular, we are already planning or carrying out the following major projects:

- Construction of a TDI plant in Ludwigshafen, Germany
- Expansion of the vinyl formamide plant in Ludwigshafen, Germany
- Construction of a butadiene extraction plant in Antwerp, Belgium
- Construction of a catalysts plant in Środa Śląska, Poland
- Expansion of the production and formulation capacities for fungicides in Germany and the United States
- Construction of a formic acid plant in Geismar, Louisiana
- Expansion of our Verbund site in Nanjing, China (joint venture with Sinopec)
- Construction of an MDI plant in Chongqing, China
- Establishment of a new production site for surfactants and dispersions in Dahej, India
- Construction of a production complex for acrylic acid and superabsorbents in Camaçari, Brazil

In the Oil & Gas segment, our investments of around €4 billion by 2017 will focus mainly on the development of proven gas and oil deposits in Russia, Norway and Argentina, as well as the exploration of new oil and gas reserves.

We plan investments totaling up to €4.5 billion in 2013, particularly for the major projects named above.

Dividends

We stand by our ambitious dividend policy and offer our shareholders an attractive dividend yield. We continue to aim to increase our dividend each year, or at least maintain it at the previous year's level.

→ **Information on the proposed dividend can be found from page 12 onward**

Financing

We will continue to adhere to our financing principles in 2013. Our goals are securing liquidity at all times, limiting the risks associated with financing and optimizing our cost of capital. We aim to maintain at least a solid A rating.

Cash outflows are expected to result from the scheduled repayment of bonds with a total volume equivalent to around €1,450 million. To refinance mature bonds and to optimize our maturity profile, we will continue to issue medium to long-term corporate bonds and make use of our commercial paper program. Our access to the capital markets allows us to benefit from attractive conditions for flexible financing for the BASF Group.

→ **Information on our financing principles can be found on page 54**

Expectations for 2014

We expect that sales and earnings will also increase in 2014, provided the economic upswing continues. We aim to continue growing two percentage points above global chemical production.

Key investments in 2013

- Construction of TDI plant in Ludwigshafen, Germany
- Construction of MDI plant in Chongqing, China
- Construction of production complex for acrylic acid and superabsorbents in Camaçari, Brazil
- Development of Edvard Grieg oil deposit in Norwegian North Sea
- Field development of Achimov formation in Siberia, Russia

Dividends and financing

- Annual year-on-year dividend increase targeted
- Aim to maintain a minimum rating of a solid A
- Flexible use of attractive capital market conditions; continued issue of medium to long-term bonds and use of commercial paper program

Events after the reporting period

Optimization of our organizational structure

We have optimized our organizational structure in order to better serve customer industries and further increase our operational and technological excellence. The changes, which became effective as of January 1, 2013, reflect our "We create chemistry" strategy. By combining product lines that share the same business model, we can sharpen our focus on the respective success factors.

The businesses in the Plastics segment, which has been dissolved, now belong to the Chemicals and the **Functional Materials & Solutions** (formerly Functional Solutions) segments. The Functional Materials & Solutions segment is made up of the Catalysts, Construction Chemicals, Coatings and Performance Materials divisions.

The new **Performance Materials** division includes the innovative plastics from the former divisions of the Plastics segment. Performance Materials is geared toward key customer industries such as the automotive, construction, electric and electronic sectors. Its product groups comprise polyurethane systems, engineering plastics, thermoplastic polyurethanes, Cellasto®, biopolymers, functional foams, Styropor®, Neopor®, Styrodur® and epoxy systems.

In the **Chemicals** segment, we will continue to concentrate on developing BASF's Production Verbund profitably in the future. We have aligned the segment's divisions – Petrochemicals, Monomers and Intermediates – even more closely along the value chains.

We have expanded the **Petrochemicals** division to include propylene oxide, thus bringing all important propylene derivatives together with other steam cracker derivatives. In the new **Monomers** division, we have grouped together most of the product lines from the previous Inorganics division, along with many of the high-volume monomers and basic polymers from the former Plastics segment. The new division's products comprise MDI, TDI, caprolactam, adipic acid, hexamethylenediamine (HMD), polyamides 6 and 6,6, ammonia, nitric acid, sulfur products, chlorine products, melamine, glues and impregnating resins as well as electronic chemicals. In the **Intermediates** division, we primarily concentrate on the C1 (methane) value chain. Its product lines include amines, butanediol and its derivatives, polyalcohols, organic acids and specialties.

The other segments remain unchanged. At the end of March 2013, we will restate the figures for 2012, taking into account the new segment structure and the application of IFRS 10 and 11. At the same time, we will also publish outlooks for the segments according to the new structure.

→ **For more information on IFRS 10 and 11, see the Outlook on page 119 and the Notes to the Consolidated Financial Statements on page 159**

Acquisition of Pronova BioPharma ASA

In January 2013, we concluded the acquisition of Pronova BioPharma ASA, a provider of omega-3 fatty acids, strengthening our business with these products for the pharmaceutical and dietary supplement industries.

→ **For more on the acquisition of Pronova BioPharma ASA, see page 37**

BASF structure as of January 1, 2013

Segments

Chemicals	Performance Products	Functional Materials & Solutions	Agricultural Solutions	Oil & Gas
Divisions				
– Petrochemicals – Monomers – Intermediates	– Dispersions & Pigments – Care Chemicals – Nutrition & Health – Paper Chemicals – Performance Chemicals	– Catalysts – Construction Chemicals – Coatings – Performance Materials	– Crop Protection	– Oil & Gas (Exploration & Production, Natural Gas Trading)

Optimization of organizational structure

- Sharper focus on customer industries and operational and technological excellence
- Combination of product lines which share the same business model
- Plastics segment dissolved
- Creation of new Performance Materials division in Functional Materials & Solutions segment
- Performance Materials division bundles innovative plastics from former divisions of Plastics segment
- Integration of remaining activities from Plastics segment into Monomers and Petrochemicals divisions
- Closer alignment of the Chemicals segment's three divisions along value chains

Corporate Governance

3

Corporate governance

Corporate governance refers to the entire system for managing and supervising a company. This includes the organization, values, corporate principles and guidelines as well as internal and external control and monitoring mechanisms. Effective and transparent corporate governance guarantees that BASF is managed and monitored in a responsible manner focused on value creation. This fosters the confidence of our domestic and international investors, the financial markets, our customers and other business partners, employees and the public in the company.

Management and supervision

BASF has the legal form of a European Company (Societas Europaea, SE). The legal foundations of its corporate constitution are primarily the SE Council Regulation of the European Union, the German SE Implementation Act and the German Stock Corporation Act. The fundamental elements of BASF SE's corporate governance system correspond to the proven principal components of the German Aktiengesellschaft's corporate constitution: these are the two-tier system consisting of BASF's Board of Executive Directors and the Supervisory Board, the equal representation of shareholders and employees in the Supervisory Board and the shareholders' rights of co-administration and supervision at the Shareholders' Meeting.

Direction and management by the Board of Executive Directors

Under the two-tier management system of BASF SE, the Board of Executive Directors is responsible for the management of the company, and represents BASF SE in business undertakings with third parties. BASF's Board of Executive Directors is strictly separated from the Supervisory Board: A member of the Board of Executive Directors cannot simultaneously be a member of the Supervisory Board. The Board of Executive Directors agrees on the BASF Group's corporate goals and strategic alignment. It also manages and monitors the business units of the BASF Group through the planning and setting of the corporate budget, the allocation of resources and management capacities, the monitoring and decision-making regarding significant individual measures and the control of the operational management. The Board's actions and decisions are aligned with the company's best interests. It is committed to the goal of sustainably increasing the company's value. Among the Board's responsibilities is the preparation of the consolidated and individual financial statements of BASF SE. Furthermore, it must ensure that the company's activities comply with legal requirements and internal corporate directives. Decisions that are reserved for the Board as a whole by law, through the Board of Executive Directors' Rules of Procedure or through resolutions adopted by the Board, are made based on a simple majority. In the case of a tied vote, the casting vote is given by the Chairman of the Board. However, the Chairman of the Board does not have the right to veto the decisions of the Board of Executive Directors. Members of the Board of Executive Directors are authorized to make decisions individually in their assigned areas of responsibility. The Board can set up Board Committees to consult and decide on individual issues; these must include at least three members of the Board of Executive Directors.

The Board of Executive Directors informs the Supervisory Board regularly, without delay and comprehensively, of all issues important to the company with regard to planning, business development, risk situation, risk management and compliance. Furthermore, the Board of Executive Directors coordinates the company's strategic approach with the Supervisory Board. The Statutes of BASF SE define certain transactions that require the Board of Executive Directors to obtain the Supervisory Board's approval prior to their conclusion. Such cases include the acquisition and disposal of enterprises and parts of enterprises, the issue of bonds or comparable financial instruments; however, this is only necessary if the acquisition or disposal price or the amount of the issue in an individual case exceeds 3% of the equity reported in the last approved Consolidated Financial Statements of the BASF Group.

→ **The members of the Board of Executive Directors, including their areas of responsibility and memberships on the supervisory bodies of other companies, are listed on page 130. Compensation of the Board of Executive Directors is described in detail in the Compensation Report on pages 133 to 136.**

Supervision of company management by the Supervisory Board

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

Together with the SE Council Regulation, the relevant statutory foundations for the size and composition of the Supervisory Board are the Statutes of BASF SE and the Agreement Concerning the Involvement of Employees in BASF SE (Employee Participation Agreement). The latter was signed on November 15, 2007 by the company management and the representatives of the BASF Group's European employees upon the conversion of BASF Aktiengesellschaft into BASF SE. The Codetermination Act, which is the relevant statutory foundation regarding the size and composition of the Supervisory Board of a German Aktiengesellschaft, does not apply to the SE.

→ **For more on the Statutes of BASF SE and the Employee Participation Agreement, see basf.com/investor/cg_e**

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

→ **The members of the Supervisory Board of BASF SE, including their membership on the supervisory bodies of other companies, are listed on pages 131 and 132. Compensation of the Supervisory Board is described in detail in the Compensation Report on pages 136 and 137.**

One important concern of good corporate governance is that seats on the responsible corporate bodies, the Board of Executive Directors and the Supervisory Board, are appropriately filled according to the following criteria: professional and personal qualifications, the diversity of the board members and the independence of the Supervisory Board. Seats on the Board of Executive Directors and Supervisory Board should be filled with members who ensure a well-balanced consideration of all the knowledge, skills and personal qualifications necessary to manage and supervise BASF as a large, globally operating, capital market-oriented company in the chemical industry.

On October 21, 2010, the Supervisory Board agreed upon **objectives for the composition of the Supervisory Board** in accordance with Section 5.4.1 of the German Corporate Governance Code; in its meeting of December 20, 2012, an objective was added for the number of independent Supervisory Board members. According to these objectives, the Supervisory Board shall be composed in such a way that the members as a group possess **knowledge, ability and expert experience**

- In the management of an internationally operating company,
- In cross-industry value creation along different value chains,
- In the application of accounting principles and internal control procedures, and
- In the field of technical and scientific innovations in the chemical sector and associated industries as well as in the sectors using chemical products.

With regard to **diversity**, the Supervisory Board shall consider a variety of professional and international experience as well as the participation of women. At least two women shall belong to the Supervisory Board. With regard to **independence**, the Supervisory Board aims to ensure that all Supervisory Board members are independent as defined by the terms of the Code. Individuals who may have a conflict of interest shall not be nominated for election to the Supervisory Board. The same applies to candidates who will have reached the age of 70 by the day of the election.

→ **For more on the objectives for the composition of the Supervisory Board, see the Report of the Supervisory Board on pages 138 to 141**

In accordance with these objectives, the Shareholders' Meeting voted on May 6, 2011, to approve the Supervisory Board's nomination of Anke Schäferkordt as a member of the Supervisory Board. As a result, there are two women among the twelve members of the Supervisory Board. We are committed to maintaining or, if possible, raising the proportion of women at the next scheduled election to the Supervisory Board in 2014. The Nomination Committee will include both appropriately qualified women and candidates with international experience in its selection process. We firmly believe the current formation of the Supervisory Board already fulfills the objectives agreed on by the Supervisory Board regarding its composition.

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

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

The **Personnel Committee**'s duties include, preparing the appointment of members to the Board of Executive Directors by the Supervisory Board and the employment contracts to be entered into with members of the Board of Executive Directors. When making recommendations on appointments to the Board of Executive Directors, the Personnel Committee takes into account their professional qualifications, international experience and leadership skills as well as long-term succession planning, diversity and, in particular, the appropriate consideration of women. It also prepares the resolutions made by the Supervisory Board with regard to the system and determination of the amount of compensation paid to members of the Board of Executive Directors. The committee comprises Supervisory Board Chairman Dr. h.c. Eggert Voscherau (chairman), Supervisory Board Vice Chairmen Michael Diekmann and Robert Oswald, as well as Michael Vassiliadis.

The **Audit Committee** prepares the negotiations and resolutions of the Supervisory Board for the approval of the Financial Statements and Consolidated Financial Statements, and discusses the quarterly and first-half financial reports with the Board of Executive Directors prior to their publication. It also deals with monitoring the financial reporting process, the annual audit, the effectiveness of the internal control system, the risk management system, and the internal auditing system as well as compliance issues. The Audit Committee is also responsible for business relations with the company's external auditor: It prepares the Supervisory Board's proposal to the Shareholders' Meeting regarding the selection of an auditor, monitors the auditor's independence, defines the focus areas of the audit together with the auditor, negotiates auditing fees and establishes the conditions for the provision of the auditor's non-audit services. The Audit Committee is authorized to request any information that it deems necessary from the auditor or Board of Executive Directors. It can also view all of BASF's business documents and examine these and all other assets belonging to BASF. The Audit Committee can also engage experts such as auditors or lawyers to carry out these inspections. The members of this committee are Max Dietrich Kley (chairman), Ralf-Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis. Max Dietrich Kley has particular knowledge and experience in the application of accounting principles and internal audit procedures, as he was Chief Financial Officer of BASF Aktiengesellschaft until April 2003.

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

Shareholders' rights

Shareholders exercise their rights of co-administration and supervision at the Shareholders' Meeting. The Shareholders' Meeting elects half of the members of the Supervisory Board and, in particular, decides on the formal discharge of the Board of Executive Directors and the Supervisory Board, the distribution of profits, capital measures, the authorization of share buybacks, changes to the Statutes and the selection of the auditor.

Each BASF SE share represents one vote. All of BASF SE's shares are registered shares. Shareholders are obliged to have themselves entered with their shares into the company share register and to provide the information necessary for registration in the share register according to the German Stock Corporation Act. There are no registration restrictions and there is no limit to the number of shares that can be registered to one shareholder. Only the persons listed in the share register are entitled to vote as shareholders. Listed shareholders may exercise their voting rights at the Shareholders' Meeting either personally, through a representative of their choice or through a company-appointed proxy authorized by the shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has fully implemented the principle of "one share, one vote."

All shareholders entered in the share register are entitled to participate in the Shareholders' Meetings, to have their say concerning any item on the agenda and to request information about company issues insofar as this is necessary to make an informed judgment about the item on the agenda under discussion. Registered shareholders are also entitled to file motions pertaining to proposals for resolutions made by the Board of Executive Directors and Supervisory Board at the Shareholders' Meeting and to contest resolutions of the Shareholders' Meeting. Shareholders who hold at least €100,000 of the company's share capital are entitled to request that additional items be added to the agenda of the Shareholders' Meeting.

German Corporate Governance Code

BASF accords great importance to good corporate governance. Therefore, BASF supports the German Corporate Governance Code, which is regarded as an important tool in the capital market-focused continuing development of corporate governance and control, and advocates responsible corporate governance that focuses on sustainably increasing the value of the company.

BASF SE follows all recommendations of the German Corporate Governance Code in its most recently revised version of May 2012. This also applies to the Code's new recommendations regarding the independence and compensation of the Supervisory Board. The objective for the composition of the Supervisory Board is for seats to be filled exclusively by persons considered independent according to the regulations and criteria of the Code. The Supervisory Board of BASF SE receives annual compensation made up of fixed and performance-related components. The Supervisory Board's performance-related compensation component is aligned with the sustainable growth of the company insofar as the earnings per share required to attain the same variable compensation increase annually. This creates an incentive to devote particular attention to the company's long-term development and sustainably increase its enterprise value in the shareholders' interests.

In the same manner, BASF fulfills nearly all of the non-obligatory suggestions of the German Corporate Governance Code. We have not implemented the suggestion to enable shareholders to follow the proceedings of the entire Shareholders' Meeting online. The Shareholders' Meeting is publicly accessible via online broadcast until the end of the speech by the Chairman of the Board of Executive Directors. The subsequent discussion of items on the agenda is not accessible online in order to preserve the character of the Shareholders' Meeting as a meeting attended by our shareholders on-site.

→ **The joint Declaration of Conformity 2012 by the Board of Executive Directors and Supervisory Board of BASF SE is rendered on page 142**

→ **For more on the Declaration of Conformity 2012, an overview of the implementation of the Code's suggestions and the German Corporate Governance Code, see basf.com/governance_e**

Disclosure according to Section 315(4) of the German Commercial Code and the explanatory report of the Board of Executive Directors according to Section 176(1) Sentence 1 of the German Stock Corporation Act

As of December 31, 2012, the subscribed capital of BASF SE was €1,175,652,728.32, divided into 918,478,694 registered shares with no par value. Each share shall, at a Shareholders' Meeting, entitle the holder to one vote. Restrictions on the right to vote or transfer shares do not exist. The same rights and duties apply to all shares. According to the Statutes, shareholders are not entitled to receive share certificates. There are neither different classes of shares nor shares with preferential voting rights (golden shares).

The appointment and dismissal of members of the Board of Executive Directors is legally governed by the regulations in Article 39 of the SE Council Regulation, Section 16 of the SE Implementation Act and Sections 84, 85 of the German Stock Corporation Act, as well as Article 7 of the BASF SE Statutes. According to these regulations, members of the Board of Executive Directors are appointed and dismissed by the Supervisory Board. The members of the Board of Executive Directors are appointed for a maximum of five years, and reappointments are permissible. The Supervisory Board can dismiss a member of the Board of Executive Directors if there is serious cause to do so. Serious cause includes, in particular, a gross breach of the duties pertaining to the Board of Executive Directors and a vote of no confidence at the Shareholders' Meeting. The Supervisory Board decides on appointments and dismissals according to its own dutiful discretion.

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

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

At the Annual Shareholders' Meeting on April 27, 2012, the Board of Executive Directors was authorized to purchase up to 10% of the shares existing at the time of the resolution (10% of the company's share capital) until April 26, 2017. At the discretion of the Board of Executive Directors, the purchase can take place on the stock exchange or by way of a public purchase offer directed to all shareholders. The Board of Executive Directors is authorized to sell the repurchased company shares (a) through a stock exchange, (b) through a public offer directed to all shareholders and – with the approval of the Supervisory Board – to third parties, (c) for a cash payment that is not significantly lower than the stock exchange price at the time of sale and (d) for contributions in kind, particularly in connection with the acquisition of companies, parts of companies or participations in companies or in connection with mergers. In the cases specified under (c) and (d), the shareholders' subscription right is excluded. The Board of Executive Directors is furthermore authorized to redeem the shares bought back and to reduce the share capital by the proportion of the share capital accounted for by the redeemed shares.

Publicly traded bonds issued by BASF SE grant the bearer the right to request early repayment of the bonds at nominal value if one person – or several persons acting in concert – hold or acquire a BASF SE share volume after the time of issuance which corresponds to more than 50% of the voting rights (change of control), and one of the rating agencies named in the bond's terms and conditions withdraws its rating of BASF SE or the bond, or reduces it to a non-investment grade rating within 120 days after the change-of-control event.

→ **For more on bonds issued by BASF SE, see basf.com/investor/bonds_e**

In the event of a change of control, members of the Board of Executive Directors shall, under certain additional conditions, receive compensation (details of which are listed in the Compensation Report on page 136). A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF SE and its subsidiaries who are classed as senior executives (*Obere Führungskräfte*) will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the occurrence of a change of control, provided the employee has not given cause for the termination. The employee whose service contract has been terminated in such a case will receive a maximum severance payment of 1.5 times the annual salary (fixed component) depending on the number of months that have passed since the change-of-control event.

The remaining specifications stipulated in Section 315(4) of the German Commercial Code refer to situations that are not applicable to BASF SE.

Directors' and Officers' liability insurance

BASF SE has taken out liability insurance that covers the activities of members of the Board of Executive Directors and the Supervisory Board (D&O insurance). This policy provides for the level of deductibles for the Board of Executive Directors as prescribed by Section 93(2)3 of the German Stock Corporation Act and for the level of deductibles for the Supervisory Board as recommended in Section 3.8, Paragraph 3 of the German Corporate Governance Code.

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

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

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

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

In 2012, a total of five purchases and one disposal by members of the Board of Executive Directors and the Supervisory Board and members of their families subject to disclosure were reported as Directors' Dealings, involving between 112 and 17,000 BASF shares. The price per share was between €53.88 and €64.78. The volume of the individual trades was between €7,002.24 and €1,002,541.00. The disclosed share transactions are published on the website of BASF SE.

→ **For more on directors' dealings in 2012, see basf.com/governance/sharedealings_e**

Compliance

Our Group-wide Compliance Program aims to ensure adherence to legal regulations and the company's internal guidelines. With the statement "We strictly adhere to our compliance standards," we have integrated compliance into our "We create chemistry" strategy. The employee codes of conduct we have established around the world firmly embed these mandatory standards into day-to-day business activities.

Based on worldwide standards, our Group companies have created codes of conduct for the regions, taking into account local laws and rules. These codes are binding for all employees in the respective countries. In 2012, we updated our codes of conduct and united these under one global Code of Conduct. This will replace the regional codes in 2013 and be implemented for all company employees worldwide, enabling us to ensure adherence to our high standards in an even more consistent manner.

Our efforts are principally aimed at preventing violations from the outset. To this end, all employees are required within a prescribed time frame to take part in basic compliance training, refresher courses and special tutorials dealing with, for example, antitrust law or trade control regulations. In 2012, more than 49,000 employees worldwide took part in a total of around 71,000 hours of compliance training.

We particularly encourage our employees to proactively and promptly seek guidance in cases of doubt. For this, they can consult not only their supervisors but also numerous specialist departments and company compliance officers. We have also set up 46 hotlines worldwide which our employees can turn to anonymously. BASF's Chief Compliance Officer (CCO) manages the implementation of the program, supported by more than 100 compliance officers worldwide. The CCO regularly reports to the Board of Executive Directors on progress in the program's implementation as well as on any significant findings; furthermore, the CCO reports to the Supervisory Board's Audit Committee in at least one of its meetings each year on the status of the Compliance Program as well as any major developments. In the event of significant incidents, the Audit Committee is immediately informed by the Board of Executive Directors.

BASF's Corporate Audit department monitors adherence to compliance principles. In 2012, 92 Group-wide audits of this kind were performed (2011: 75). If violations occur despite preventive measures, we investigate and rectify these as quickly as possible. In 2012, 308 calls and emails were received by our external hotlines. These related to topics ranging from questions about personnel management to the handling of company property and information on the behavior of business partners. We launch an investigation into all cases of suspected misconduct that we become aware of. Confirmed violations are penalized and can lead to dismissal. In doing so, we make sure to take necessary action in accordance with consistent company criteria. This includes the possible involvement of the public authorities.

In 2012, we included compliance for the first time as a topic in our Global Employee Survey. The results confirm that our employees are upholding compliance standards in their day-to-day business. The positive employee feedback spurs us to constantly enhance our compliance culture.

In 2012, we continued the investigation of our suppliers in terms of compliance with corporate governance standards and performed the first comprehensive environmental, social and corporate governance audits. In addition, our Supplier Code of Conduct was fundamentally revised in order to make our expectations even more transparent worldwide.

We support the respect of human rights and the fight against corruption outside of our company, as well. We are a founding member of the U.N. Global Compact as well as a member of Transparency International Deutschland and the Partnering Against Corruption Initiative (PACI) of the World Economic Forum, and assist in the implementation of these organizations' objectives. As a member of the U.N. Global Compact LEAD, we also report in accordance with the Blueprint for Corporate Sustainability Leadership. This action plan comprises concrete sets of measures to support the U.N.'s sustainability goals, addressing topics such as transparency and stakeholder engagement.

Management and Supervisory Boards

Board of Executive Directors

There were eight members on the Board of Executive Directors of BASF SE as of December 31, 2012.

Dr. Kurt Bock
Chairman of the Board of Executive Directors
Degree: Business Administration; 54 years old; 22 years at BASF

Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications & Government Relations; Global Executive Human Resources; Investor Relations; Compliance

First appointed: 2003

Term expires: 2016

Dr. Martin Brudermüller
Vice Chairman of the Board of Executive Directors
Degree: Chemistry; 51 years old; 25 years at BASF

Responsibilities: Performance Materials; Market & Business Development Asia Pacific; Regional Functions & Country Management Asia Pacific; Corporate Technology & Operational Excellence

First appointed: 2006

Term expires: 2016

Comparable German and non-German controlling bodies:
Styrolution Holding GmbH (Vice Chairman of the Advisory Board)

Dr. Hans-Ulrich Engel
Degree: Law; 53 years old; 24 years at BASF

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

First appointed: 2008

Term expires: 2016

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
BASF Personal Care and Nutrition GmbH (member of the Supervisory Board)

Michael Heinz
Degree: Business Administration (MBA); 48 years old; 27 years at BASF

Responsibilities: Dispersions & Pigments; Care Chemicals; Nutrition & Health; Paper Chemicals; Performance Chemicals; Advanced Materials & Systems Research; Perspectives

First appointed: 2011

Term expires: 2014

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
BASF Coatings GmbH (member of the Supervisory Board)
BASF Personal Care and Nutrition GmbH (Chairman of the Supervisory Board)

Dr. Andreas Kreimeyer
Degree: Biology; 57 years old; 27 years at BASF

Responsibilities: Crop Protection; Coatings; Biological & Effect Systems Research; Plant Science; BASF New Business; Region South America

First appointed: 2003

Term expires: 2015

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
BASF Coatings GmbH (Chairman of the Supervisory Board since April 28, 2012)
Wintershall Holding GmbH (member of the Supervisory Board until April 27, 2012

Dr. Harald Schwager
Degree: Chemistry; 52 years old; 25 years at BASF

Responsibilities: Oil & Gas; Construction Chemicals; Procurement; Region Europe

First appointed: 2008

Term expires: 2016

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Wintershall Holding GmbH (Chairman of the Supervisory Board)
Wintershall AG (Chairman of the Supervisory Board)

Comparable German and non-German controlling bodies:
Nord Stream AG (member of the Shareholders' Committee)
South Stream Transport Services AG (until December 5, 2012: South Stream Transport AG) (member of the Administrative Council since April 12, 2012)
South Stream Transport B.V. (member of the Board of Directors since November 14, 2012)

Wayne T. Smith (since April 27, 2012)
Degrees: Chemical Engineering, Business Administration (MBA); 52 years old; 9 years at BASF

Responsibilities: Petrochemicals; Monomers; Intermediates; Process Research & Chemical Engineering

First appointed: 2012

Term expires: 2015

Margret Suckale
Degrees: Law, Business Administration (MBA); 56 years old; 4 years at BASF

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

First appointed: 2011

Term expires: 2014

Comparable German and non-German controlling bodies:
BASF Antwerpen N.V. (Chairwoman of the Administrative Council)

The following member left the Board of Executive Directors upon conclusion of the Annual Shareholders' Meeting on April 27, 2012:

Dr. Stefan Marcinowski

Responsibilities: Crop Protection; Coatings; BASF Plant Science; Biological & Effect Systems Research; Region South America

First appointed: 1997

Term expires: 2012

Supervisory Board memberships (excluding internal memberships):
DWS Investment GmbH (member of the Supervisory Board)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Wintershall Holding GmbH (member of the Supervisory Board until April 27, 2012)
BASF Coatings GmbH (Chairman of the Supervisory Board until April 27, 2012)

Supervisory Board

In accordance with the Statutes, the Supervisory Board of BASF SE comprises twelve members. Pursuant to Section 35 Paragraph 1 of the Act on the Participation of Employees in a European Company (*SE-Beteiligungsgesetz* – "SEBG") and the Agreement Concerning the Involvement of Employees in BASF SE (Employee Participation Agreement) signed on November 15, 2007 by company management and the representatives of BASF Group's European employees, seats on the board are accorded following the principle of parity. The six shareholder representatives on the Supervisory Board of BASF SE are elected by the Shareholders' Meeting. By way of derogation from Section 40 (2) of the Council Regulation (EC) No. 2157/2001, the six employee representatives are not elected by the Shareholders' Meeting, but appointed by the representative body of the employees, the BASF Europa Betriebsrat, in accordance with the Employee Participation Agreement. The term of office of the Supervisory Board commenced following the Annual Shareholders' Meeting on April 30, 2009, in which the shareholder representatives on the Supervisory Board were elected. It terminates upon conclusion of the Annual Shareholders' Meeting which resolves on the discharge of members of the Supervisory Board for the fourth complete financial year after the term of office commenced; this is the Annual Shareholders' Meeting in 2014. On May 6, 2011, the Annual Shareholders' Meeting elected Anke Schäferkordt as a member of the Supervisory Board to succeed Stephen K. Green, who resigned his Supervisory Board membership at the close of December 16, 2010. Anke Schäferkordt had already been appointed to the Supervisory Board, effective December 17, 2010, upon request of the Chairman of the Supervisory Board, by decision of the Ludwigshafen district court on November 18, 2010. The Supervisory Board comprises the following members:

Dr. h.c. Eggert Voscherau, Wachenheim, Germany

Chairman of the Supervisory Board of BASF SE

Former Vice Chairman of the Board of Executive Directors of BASF SE

Supervisory Board memberships (excluding internal memberships):
Hochtief AG (member of the Supervisory Board until June 30, 2012)

Comparable German and non-German controlling bodies:
Zentrum für Europäische Wirtschaftsforschung GmbH (Centre for European Economic Research) (ZEW) (Vice Chairman of the Supervisory Board)

Michael Diekmann, Munich, Germany

Vice Chairman of the Supervisory Board of BASF SE

Chairman of the Board of Management of Allianz SE

Supervisory Board memberships (excluding internal memberships):
Linde AG (Vice Chairman of the Supervisory Board)
Siemens AG (member of the Supervisory Board)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Allianz Deutschland AG (member of the Supervisory Board)
Allianz Asset Management AG (Chairman of the Supervisory Board)

Comparable German and non-German controlling bodies:
Allianz France S.A. (Vice Chairman of the Administrative Council)
Allianz S.p.A. (member of the Administrative Council)

Robert Oswald, Altrip, Germany

Vice Chairman of the Supervisory Board of BASF SE

Chairman of the Works Council of the Ludwigshafen site of BASF SE and Chairman of the Joint Works Council of the BASF Group

Ralf-Gerd Bastian, Neuhofen, Germany

Member of the Works Council of the Ludwigshafen site of BASF SE

Wolfgang Daniel, Heidelberg, Germany

Vice Chairman of the Works Council of the Ludwigshafen site of BASF SE

Prof. Dr. François Diederich, Zurich, Switzerland

Professor at the Swiss Federal Institute of Technology, Zurich

Franz Fehrenbach, Stuttgart, Germany

Chairman of the Supervisory Board of Robert Bosch GmbH

Supervisory Board memberships (excluding internal memberships):
Stihl AG (member of the Supervisory Board since July 1, 2012)

Comparable German and non-German controlling bodies:
Robert Bosch Corporation (member of the Board of Directors)

Max Dietrich Kley, Heidelberg, Germany

Lawyer

Supervisory Board memberships (excluding internal memberships):
SGL Carbon SE (Chairman of the Supervisory Board)
HeidelbergCement AG (member of the Supervisory Board)

Anke Schäferkordt, Cologne, Germany

Member of the Executive Board of Bertelsmann SE & Co. KGaA

Chief Executive Officer of RTL Television GmbH

Supervisory Board memberships (excluding internal memberships):
Software AG (member of the Supervisory Board)

Denise Schellemans, Kalmthout, Belgium

Full-time trade union delegate

Ralf Sikorski, Wiesbaden, Germany

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

Supervisory Board memberships (excluding internal memberships):
Villeroy & Boch AG (member of the Supervisory Board)
Villeroy & Boch Fliesen GmbH (member of the Supervisory Board)
Steag Power Saar GmbH (Vice Chairman of the Supervisory Board)
Steag New Energies GmbH (Vice Chairman of the Supervisory Board)
KSBG Kommunale Verwaltungsgesellschaft mbH (Vice Chairman of the Supervisory Board)

Michael Vassiliadis, Hannover, Germany

Chairman of the Mining, Chemical and Energy Industries Union

Supervisory Board memberships (excluding internal memberships):
K+S Aktiengesellschaft (Vice Chairman of the Supervisory Board)
Henkel AG & Co. KGaA (member of the Supervisory Board)
Steag GmbH (Vice Chairman of the Supervisory Board)
Evonik Industries AG (Vice Chairman of the Supervisory Board since September 1, 2012)

Compensation report

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

Compensation of the Board of Executive Directors

This report meets the disclosure requirements of the German Commercial Code, supplemented by the additional requirements based on the German Act on Disclosure of Management Board Remuneration (*Vorstandsvergütungs-Offenlegungsgesetz*) as well as the German Act on the Appropriateness of Management Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung*), and is aligned with the recommendations of the German Corporate Governance Code.

Based on a proposal by the Personnel Committee (see page 126), the Supervisory Board (see page 131) determines the amount and structure of compensation of members of the Board. The amount of compensation is determined by the company's size and financial position, as well as the performance of the Board of Executive Directors. Globally operating companies based in Germany and Europe serve as a reference. A review of the structure and amount of compensation of Board members takes place at regular intervals.

The compensation of Board members comprises:

1. A fixed annual salary,
2. An annual variable bonus,
3. A stock price-based long-term incentive (LTI) program,
4. Non-monetary compensation and other additional compensation in varying amounts, and
5. Company pension benefits.

The compensation of the Board of Executive Directors is designed to promote sustainable corporate development. It is marked by a pronounced variability in relation to the performance of the Board of Executive Directors and BASF Group's return on assets.

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.

2. The annual variable compensation (variable bonus) is based on the performance of the entire Board and the return on assets. The return on assets is also used to determine the variable compensation of all other employee groups.

   In order to assess the sustainable performance of the Board of Executive Directors, each year the Supervisory Board sets a target agreement with the entire Board of Executive Directors that primarily contains medium and long-term goals.

   The Supervisory Board assesses the achievement of goals in relation to the last three years. A performance factor with a value between 0 and 1.5 is determined on the basis of the goal achievement ascertained by the Supervisory Board. The variable bonus for the prior fiscal year is payable after the Annual Shareholders' Meeting.

   Board members, like other employee groups, may contribute a portion of their annual variable gross bonus into a deferred compensation program. For members of the Board of Executive Directors, as well as for all other senior executives of the German BASF Group, the maximum amount that can be contributed to this program is €30,000. Board members have taken advantage of this offer to varying degrees.

3. A share-price-based remuneration program (the long-term incentive, or LTI, program) exists for members of the Board of Executive Directors. It is also offered to all other senior executives of BASF Group. Members of the Board of Executive Directors are subject to a stricter set of rules than are contained in the general program conditions: They are required to participate in the program with at least 10% of their gross bonus. This mandatory investment consisting of BASF shares is subject to a holding period of four years. For any additional voluntary investment of up to 20% of the gross bonus, the general holding period of two years applies. Members of the Board of Executive Directors may only exercise their options at least four years after they have been granted (vesting period). For further details on the LTI program, see page 205.

4. Non-monetary compensation and other additional compensation include: delegation allowances, accident insurance premiums and other similar benefits, as well as the personal use of, or benefit from, communication equipment, company cars and security measures made available by the company. The members of the Board did not receive loans or advances from the company in 2012.

5. For details on the company pension benefits, see page 135.

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

Total compensation of the Board of Executive Directors (thousand €)

		Non-performance-related compensation		Performance-related compensation		Options granted		
	Year	Fixed salary	Non-monetary compensation and other additional compensation	Variable bonus[1]	Total cash compensation	Number	Market value at option grant date	Total compensation (cash compensation plus options granted)
Dr. Kurt Bock Chairman (since May 6, 2011)	**2012**	**1,200**	**142**	**3,174**	**4,516**	**56,004**	**770**	**5,286**
	2011	1,044[2]	504[3]	2,948	4,496	29,460	757	5,253
Dr. Martin Brudermüller Vice Chairman (since May 6, 2011)	**2012**	**868**[2]	**719**[3]	**2,111**	**3,698**	**41,184**	**566**	**4,264**
	2011	767[2]	691[3]	2,158	3,616	29,460	757	4,373
Dr. Hans-Ulrich Engel	**2012**	**708**[2]	**773**[3]	**1,587**	**3,068**	**33,876**	**466**	**3,534**
	2011	635[2]	525[3]	1,769	2,929	29,460	757	3,686
Michael Heinz (since May 6, 2011)	**2012**	**600**	**335**	**1,587**	**2,522**	**25,860**	**355**	**2,877**
	2011	391	148	1,179	1,718	9,912	255	1,973
Dr. Andreas Kreimeyer	**2012**	**600**	**93**	**1,587**	**2,280**	**33,876**	**466**	**2,746**
	2011	600	144	1,769	2,513	29,460	757	3,270
Dr. Stefan Marcinowski (until April 27, 2012)	**2012**	**198**	**31**	**516**	**745**	**27,952**	**384**	**1,129**
	2011	600	111	1,769	2,480	29,460	757	3,237
Dr. Harald Schwager	**2012**	**600**	**104**	**1,587**	**2,291**	**33,876**	**466**	**2,757**
	2011	600	119	1,769	2,488	29,460	757	3,245
Wayne T. Smith (since April 27, 2012)	**2012**	**375**	**314**[3]	**1,076**	**1,765**	**10,748**	**148**	**1,913**
	2011	–	–	–	–	–	–	–
Margret Suckale (since May 6, 2011)	**2012**	**600**	**139**	**1,587**	**2,326**	**26,092**	**359**	**2,685**
	2011	391	52	1,179	1,622	7,148	184	1,806
Total	**2012**	**5,749**	**2,650**	**14,812**	**23,211**	**289,468**	**3,980**	**27,191**
Total	2011	5,662[4]	2,384[4]	16,309[4]	24,355[4]	268,884[4]	6,910[4]	31,265[4]

1 The basis for the variable bonus is the return on assets adjusted for special items and the performance factor. These include all contributions made to the deferred compensation program.

2 Payment is made in local currency based on a theoretical net salary in Germany (on a pro rata basis, where applicable).

3 Includes payments to cover additional costs of transfers, such as assumption of prevailing local rental fees.

4 Prior-year figures include compensation for members who left the Board of Executive Directors in 2011.

The options granted led to expenses (personnel expense) in 2012. This personnel expense refers to the sum of all options from the LTI programs 2004 to 2012. It is calculated as the difference in the value of the options on December 31, 2012, compared with the value on December 31, 2011, considering the options exercised and granted in 2012. The value of the options is based primarily on the development of the BASF share price and its outperformance compared with the benchmark indices specified for the LTI programs 2004 to 2012.

The personnel expenses reported below are purely accounting figures which do not equate with the actual cash gains should options be exercised. Each member of the Board may decide on the timing and scope of the exercise of options of the individual years, while taking into account the general terms and conditions and ceilings of the LTI program. The personnel expenses for the year 2012 relating to all options issued were as follows: Dr. Kurt Bock €4,525 thousand (2011: €182 thousand); Dr. Martin Brudermüller €5,355 thousand (2011: €182 thousand); Dr. Hans-Ulrich Engel €3,741 thousand (2011: €517 thousand); Michael Heinz €1,661 thousand (2011: €748 thousand); Dr. Andreas Kreimeyer €3,134 thousand (2011: €346 thousand); Dr. Harald Schwager €3,839 thousand (2011: €385 thousand); Wayne T. Smith €698 thousand; and Margret Suckale €532 thousand (2011: €107 thousand).

→ **For more on the LTI program, see page 42 and page 205 onward**

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

Pension benefits

Annual pension units are accrued for the members of the Board ("Board Performance Pension"). The method of determination of the amount of the pension benefits generally corresponds to that used for the other senior executives of the German BASF Group. The method is designed such that both the performance of the company and the progression of the individual Board member's career significantly affect the pension entitlement.

The annual pension benefits accruing to Board members in a given reporting year (pension unit) are composed of a fixed and a variable component. The fixed component is calculated by multiplying the annual fixed compensation above the Social Security Contribution Ceiling by 32% (contribution factor). The resulting amount is converted into a lifelong pension using actuarial factors based on an actuarial interest rate (5%), the probability of death, invalidity and bereavement (Heubeck-Richttafeln, 2005G) and an assumed pension increase (at least 1.0% per annum). This is the amount that is payable upon retirement. The variable component of the pension unit depends on the return on assets in the reporting year and the performance factor, which is also decisive for the bonus. The fixed and the variable components together result in the acquired pension unit for the reporting year. The sum of the pension units accumulated over the reporting years determines the respective Board member's pension benefit in the event of a claim. The pension benefit takes effect at the end of service upon reaching retirement age of 60 years, or disability or death. Pension payments are reviewed on a regular basis and adjusted by at least 1% each year.

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

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

The service costs attributable to 2012 include costs for BASF Pensionskasse VVaG as well as for the Performance Pension and are as follows: Dr. Kurt Bock €818 thousand (2011: €760 thousand); Dr. Martin Brudermüller €570 thousand (2011: €566 thousand); Dr. Hans-Ulrich Engel €462 thousand (2011: €485 thousand); Michael Heinz €418 thousand (2011: €226 thousand); Dr. Andreas Kreimeyer €476 thousand (2011: €497 thousand); Dr. Stefan Marcinowski €159 thousand (2011: €500 thousand); Dr. Harald Schwager €441 thousand (2011: €465 thousand); Wayne T. Smith €318 thousand; and Margret Suckale €408 thousand (2011: €256 thousand).

The present value of pension benefits (defined benefit obligation) is an accounting figure for the entitlements that the Board members have accumulated in their years of service at BASF. The defined benefit obligations up to and including 2012 are as follows: Dr. Kurt Bock €13,083 thousand (2011: €8,647 thousand); Dr. Martin Brudermüller €8,991 thousand (2011: €5,768 thousand); Dr. Hans-Ulrich Engel €7,018 thousand (2011: €4,620 thousand); Michael Heinz €5,246 thousand (2011: €3,136 thousand); Dr. Andreas Kreimeyer €11,081 thousand (2011: €7,943 thousand); Dr. Harald Schwager €6,596 thousand (2011: €4,277 thousand); Wayne T. Smith €488 thousand; and Margret Suckale €1,817 thousand (2011: €975 thousand).

End of service benefits

In the event that a member of the Board of Executive Directors retires from employment before the age of 60, either because their appointment was not extended or was revoked for an important reason, they are entitled to pension benefits if they have served on the Board for at least ten years or if the time needed to reach legal retirement age is less than ten years. The company is entitled to offset compensation received for any other work done against pension benefits until the legal retirement age is reached.

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

If a Board member's position is revoked within one year following a change-of-control event, the Board member will receive the contractually agreed payments for the remaining contractual term of office as a one-off payment (fixed compensation and variable bonus). Furthermore, the Board member may receive the fair value of the option rights acquired in connection with the LTI program within a period of three months or may continue to hold the existing rights under the terms of the program. For the determination of the accrued pension benefits from the "Board Performance Pension," the time up to the regular expiry of office is taken into consideration.

There is a general limit on severance pay (severance payment cap) for all Board members. Accordingly, payments made to a Board member upon premature termination of their contract, without serious cause, may not exceed the value of two years' compensation nor compensate more than the remaining term of the contract. The severance payment cap is to be calculated on the basis of the total compensation for the past full financial year and, if appropriate, also the expected total compensation for the current financial year. If membership of the Board of Executive Directors is terminated prematurely as the result of a "Change of Control," the payments may not exceed 150% of the severance compensation cap.

Former members of the Board of Executive Directors

Total compensation for previous Board members and their surviving dependents amounted to €23.7 million in 2012 (2011: €12.8 million). This figure also contains payments that previous Board members have themselves financed through the deferred compensation program and personnel expense for the year 2012 relating to options that previous members of the Board still hold from the time of their active service period. The continuation of the options that have not yet been exercised at the time of retirement, along with the continuation of the associated holding period for individual investment in BASF shares under the conditions of the program, is intended in order to particularly emphasize how sustainability is incorporated into the compensation for the Board members. Pension provisions for previous Board members and their surviving dependents amounted to €142.3 million (2011: €116.1 million).

Compensation of Supervisory Board members

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

Each member of the Supervisory Board receives an annual fixed compensation of €60,000 and a performance-related variable compensation for each full €0.01 by which the earnings per share of the BASF Group, as declared in the BASF Group Consolidated Financial Statements for the year for which the remuneration is paid, exceeds the minimum earnings per share. The minimum earnings per share figure for the year 2012 is €1.55. The performance-related variable remuneration is €800 for each full €0.01 of earnings per share up to an earnings per share of €2.30, €600 for each further €0.01 of earnings per share up to an earnings per share of €2.80, and €400 for each €0.01 beyond this. The performance-related variable compensation is limited to a maximum amount of €120,000. The minimum earnings per share and the corresponding thresholds shall increase by €0.05 for each subsequent financial year. Based on the earnings per share of €5.31 published in the BASF Group Consolidated Financial Statements 2012, the performance-related compensation reached the maximum amount of €120,000. The chairman of the Supervisory Board receives two-and-a-half times and a vice chairman one-and-a-half times the compensation of an ordinary member.

Members of the Supervisory Board who are members of a committee, except for the Nomination Committee, shall receive a further fixed compensation for this purpose in the amount of €12,500. For the Audit Committee, the further fixed compensation shall be €50,000. The chairman of a committee shall receive twice and a vice chairman one-and-a-half times the further fixed compensation.

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

Total compensation of the Supervisory Board of the company for the activity in 2012, including the attendance fees, was €3.0 million (2011: €3.0 million). The compensation of the individual Supervisory Board members is as follows:

Compensation of the Supervisory Board of BASF SE (thousand €)

	Fixed compensation		Performance-related variable compensation		Payment for committee memberships		Total compensation	
	2012	2011	2012	2011	2012	2011	2012	2011
Dr. h.c. Eggert Voscherau, Chairman[1]	150.0	150.0	300.0	300.0	25.0	25.0	475.0	475.0
Michael Diekmann, Vice Chairman[2]	90.0	90.0	180.0	180.0	12.5	12.5	282.5	282.5
Robert Oswald, Vice Chairman[2]	90.0	90.0	180.0	180.0	12.5	12.5	282.5	282.5
Ralf-Gerd Bastian[4]	60.0	60.0	120.0	120.0	50.0	50.0	230.0	230.0
Wolfgang Daniel	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Prof. Dr. François Diederich	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Franz Fehrenbach[4]	60.0	60.0	120.0	120.0	50.0	50.0	230.0	230.0
Max Dietrich Kley[3]	60.0	60.0	120.0	120.0	100.0	100.0	280.0	280.0
Anke Schäferkordt	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Denise Schellemans	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Ralf Sikorski	60.0	60.0	120.0	120.0	–	–	180.0	180.0
Michael Vassiliadis[2, 4]	60.0	60.0	120.0	120.0	62.5	62.5	242.5	242.5
Total	870.0	870.0	1,740.0	1,740.0	312.5	312.5	2,922.5	2,922.5

[1] Chairman of the Personnel Committee
[2] Member of the Personnel Committee
[3] Chairman of the Audit Committee
[4] Member of the Audit Committee

Compensation for Supervisory Board membership and membership of Supervisory Board committees is payable after the Annual Shareholders' Meeting, which approves the Consolidated Financial Statements upon which the variable compensation is based. Accordingly, compensation relating to the year 2012 will be paid following the Annual Shareholders' Meeting on April 26, 2013.

In 2012, as in 2011, the company paid the Supervisory Board member Prof. Dr. François Diederich a total of CHF 38,400 (2012: approximately €31,900; 2011: approximately €31,200) plus value-added taxes and out-of-pocket expenses for consulting work in the area of chemical research based on a consulting contract approved by the Supervisory Board.

Beyond this, no other Supervisory Board members received any compensation in 2012 for services rendered personally, in particular, the rendering of advisory and agency services.

→ **For more on share ownership by members of the Board of Executive Directors and the Supervisory Board, see page 128**

Report of the Supervisory Board

Dear Shareholder,

Despite the difficult situation in the chemical market worldwide, BASF can look back on a successful year, with sales and earnings levels which, overall, tie into the very good levels of 2011. In view of the development of the global economy and the continuing effects of the debt crisis on the economic situation in Europe, this was by no means a given. A crucial element of both this and future success is the ability to recognize new, fast-growing business areas, and to develop innovative products and solutions for them to offer our customers. With its “We create chemistry” strategy, BASF is turning even more in this direction, without neglecting its proven strengths.

The Board of Executive Directors continued to demonstrate impressive company leadership in 2012. The high-quality, interconnected work of the entire team of the Board of Executive Directors and employees was once again crucial to BASF’s success. Again and again, maintaining continuity while embracing change has proven to be one of BASF’s great strengths.

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

In 2012, the Supervisory Board of BASF SE exercised its duties as required by law and the Statutes with the utmost care. We regularly monitored the management of the Board of Executive Directors and provided advice on the company’s strategic development and important individual measures, about which the Supervisory Board was thoroughly informed by the Board of Executive Directors. This occurred in the form of written and verbal reports on business policies and the business situation, as well as the company’s performance, profitability, global HR policy and planning with regard to finances, capital expenditures and human resources at BASF SE and its major subsidiaries. Information was also provided as to any deviations of business performance from planning. The Supervisory Board discussed in detail the reports from the Board of Executive Directors, and also discussed prospects for the company and its individual business areas with the Board of Executive Directors. Outside of Supervisory Board meetings, the Chairman of the Supervisory Board also regularly requested information from the Chairman of the Board of Executive Directors regarding current developments and items relevant to the company. The Supervisory Board was always involved at an early stage in decisions of major importance. The Supervisory Board discussed and voted on all of those individual measures taken by the Board of Executive Directors, which by law or the Statutes required the approval of the Supervisory Board. In 2012, this included:

- The transfer of shares in the natural gas trading and storage companies previously jointly operated with Gazprom, along with a share in Wintershall Noordzee B.V. which conducts crude oil and natural gas exploration and production in the southern North Sea, in return for an additional share in the natural gas and condensate fields in Western Siberia from Gazprom;
- The swap with Statoil comprising oil and gas fields in the Norwegian North Sea with a cash consideration from Wintershall to Statoil; and
- The acquisition of the U.S. company Becker Underwood.

Supervisory Board meetings

The Supervisory Board held five meetings in the 2012 reporting year. With the exception of one meeting in which one member did not participate, all twelve Supervisory Board members attended the Supervisory Board meetings in 2012. The members of the Supervisory Board elected by shareholders and those elected by the employees prepared for the meetings in separate preliminary discussions.

In all of its meetings, the Supervisory Board discussed the further development of the BASF Group’s business activities through acquisitions, divestitures and investment projects. One of the focus areas comprised the Oil & Gas segment’s important agreements with Gazprom and Statoil on intensive collaboration in the exploration and production of natural gas and crude oil in Western Siberia and the Norwegian North Sea. The agreement with Gazprom will further expand the already very successful and unique cooperation in the exploration and production of natural gas in Russia. In return, BASF will withdraw from the natural gas trading business by completely transferring its shares in the WINGAS companies. The agreement with Statoil provides the Oil & Gas segment with an additional strong base in the production of oil and gas. Another topic surrounded the Agricultural Solutions segment, with the acquisition of Becker Underwood and its biological seed treatment technologies, as well as the investment in extensive expansions of the production facilities for the fast-growing Fungicide F 500®. The ultimately successful takeover bid for Pronova BioPharma ASA – with which BASF will further expand its business with products for health and nutrition – comprised a further discussion point.

Dr. h.c. Eggert Voscherau

“Maintaining continuity while embracing change has proven again and again to be one of BASF’s great strengths.”

In addition to dealing with strategically significant individual measures, the Supervisory Board also addressed BASF’s strategy and long-term business prospects in individual regions and business areas. In the meeting of July 19, 2012, we intensively discussed the Board of Executive Directors’ strategic objectives for sustainability, technology, innovation, industry orientation and employees, derived from the “We create chemistry” strategy adopted in 2011. Furthermore, we requested information on the strategy and development of the Petrochemicals division. In the meeting of December 20, 2012, we were presented with the 2025 Strategy for the Asia Pacific region, which we thoroughly discussed.

In four Supervisory Board meetings, examples of innovations were used to inform us about research and development topics and the development of future markets, and we discussed these with the Board of Executive Directors. These examples included innovative pigments for liquid crystal displays and biopolymers for use as oilfield chemicals. At the meeting of December 20, 2012, we discussed and approved the Board of Executive Directors’ operative and financial planning for 2013. In addition, we once again empowered the Board of Executive Directors to procure necessary financing in 2013.

The Supervisory Board thoroughly considered the personnel issues concerning the Board of Executive Directors during the meeting of December 20, 2012. Based on preparations conducted by the Personnel Committee, we advised the Board of Executive Directors on its objectives for 2013, agreed on these with them, and determined the Board of Executive Directors’ performance evaluation. Together with the return on assets of the BASF Group, this evaluation is essential in ascertaining the performance-related component of the compensation of the Board of Executive Directors.

Committees

BASF SE’s Supervisory Board has a total of three committees: 1) the committee for personnel affairs of the Board of Executive Directors and the granting of loans in accordance with Section 89 (4) of the German Stock Corporation Act (Personnel Committee), 2) the Audit Committee and 3) the Nomination Committee. Following each Committee meeting, the chairmen of the Committees reported in detail about the meetings and the activities of the Committees at the next meeting of the Supervisory Board.

The **Personnel Committee** comprises Supervisory Board Chairman Dr. h.c. Eggert Voscherau (chairman), Supervisory Board Vice Chairmen Michael Diekmann and Robert Oswald, and Supervisory Board member Michael Vassiliadis. The Personnel Committee met on December 19, 2012. In this meeting, it thoroughly discussed the Board of Executive Directors’ 2012 performance evaluation and the level of their goal achievement, as well as the Supervisory Board’s target agreements with the Board of Executive Directors for 2013, and dealt with the topic of succession planning for the Board of Executive Directors. The Committee made recommendations to the Supervisory Board regarding the first two points mentioned. The Supervisory Board adopted the recommended proposals at its meeting on December 20, 2012.

The **Audit Committee** consists of Supervisory Board members Max Dietrich Kley, Ralf Gerd Bastian, Franz Fehrenbach and Michael Vassiliadis. The Chairman of the Audit Committee is Max Dietrich Kley, who has also been appointed Audit Committee Financial Expert. The Audit Committee is responsible for all the tasks of an audit committee listed in Section 107 Paragraph (3) Sentence 2 of the German Stock Corporation Act and in subsection 5.3.2 of the German Corporate Governance Code in its most recent version of May 15, 2012. The Audit Committee met five times in the reporting period. All committee members attended all committee meetings. Following each Committee meeting, the Chairman of the Audit Committee reported on the agenda items and audit work of the Committee at the subsequent Supervisory Board meeting. The core duties were to review BASF SE's Financial Statements and Consolidated Financial Statements, as well as to discuss the quarterly and first-half financial reports with the Board of Executive Directors prior to their publication. Other important activities included advising the Board of Executive Directors on accounting issues and the internal control system. The topics internal auditing system and compliance in the BASF Group were each a focus at one meeting of the Audit Committee. In these meetings, the head of the Corporate Audit department and the Chief Compliance Officer reported to the Audit Committee and answered its questions. In its meeting of July 23, 2012, the Audit Committee charged KPMG – the auditor elected at the Annual Shareholders' Meeting – with the audit for the 2012 reporting year and agreed on the auditing fees. The focus areas for the annual audit were discussed and defined together with the auditor. The Audit Committee approved certain non-audit services and authorized the Board of Executive Directors to engage KPMG for such services. The authorization of each service applies for one reporting year and is limited in amount. Other services provided by the auditor must be individually approved by the Audit Committee. Furthermore, the Audit Committee recommended to the Supervisory Board that KPMG once again be nominated as the auditor at the Annual Shareholders' Meeting 2013.

The members of the **Nomination Committee** are the members of the Supervisory Board elected at the Annual Meeting: Dr. h.c. Eggert Voscherau, Prof. Dr. François Diederich, Michael Diekmann, Franz Fehrenbach, Max Dietrich Kley and Anke Schäferkordt. The Nomination Committee is responsible for preparing candidate proposals for the election of those Supervisory Board members who are elected by the Shareholders' Meeting. The Nomination Committee is guided by the objectives for the composition of the Supervisory Board that were adopted by the Supervisory Board in 2010, revised in 2012 and adjusted to conform to the new recommendations made by the German Corporate Governance Code. There was no occasion for a meeting of the Nomination Committee in 2012, since no new appointments to the Supervisory Board were pending and the next regular election will not take place until 2014.

Corporate governance and Declaration of Conformity

In 2012, the Supervisory Board again addressed in detail the corporate governance standards applied by BASF and their implementation in the company. The Supervisory Board particularly addressed the changes to the German Corporate Governance Code adopted by the Code Commission in May 2012. The main topics of the consultation included the determination of concrete goals for the number of independent Supervisory Board members and the question as to the point at which a Supervisory Board member is considered independent according to the German Corporate Governance Code, and which conditions exclude independence. After intensive discussion, the Supervisory Board adopted the objective for all Supervisory Board members to be independent in accordance with Section 5.4.2 of the German Corporate Governance Code. This includes the assumption that neither election as employee representative nor membership on the Board of Executive Directors more than two years in the past exclude the classification as independent when taken in isolation. On this basis, the Supervisory Board has determined that all of its current members can be considered independent. The Supervisory Board has affirmed that there are no conflicts of interest for its members.

At its meeting of December 20, 2012, the Supervisory Board approved the joint Declaration of Conformity by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act, and carried out assessments of efficiency and independence. BASF complies with the recommendations of the German Corporate Governance Code in its version of May 15, 2012, without exception. The entire Declaration of Conformity is provided on page 142 and is also available to shareholders on BASF's website. The Corporate Governance Report of the BASF Group provides extensive information on BASF's corporate governance. It also includes the compensation report, containing full details on the compensation for the Board of Executive Directors and the Supervisory Board.

Annual Financial Statements of BASF SE and Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditor elected by the Annual Shareholders' Meeting for the 2012 reporting year, has audited the Financial Statements of BASF SE and the BASF Group Consolidated Financial Statements, including the Management's Analysis and the accounting records from which they were prepared, and have approved them free of qualification. Furthermore, the auditor certified that the Board of Executive Directors had taken the measures incumbent on it under Section 91 (2) of the German Stock Corporation Act in an appropriate manner. In particular, it had instituted an appropriate information and monitoring system that met the needs of the company and appeared suitable, both in design and application in practice, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditor's reports were sent in a timely manner to every member of the Supervisory Board. The auditor attended the accounts review meeting of the Audit Committee on February 20, 2013, as well as the accounts meeting of the Supervisory Board on February 21, 2013, and reported on the main findings of the audit. The auditor also provided detailed explanations of the reports on the day before the accounts meeting of the Supervisory Board.

The Audit Committee reviewed the Financial Statements and Management's Analysis at its meeting on February 20, 2013, and discussed them in detail with the auditor. The Chairman of the Audit Committee gave a detailed account of the preliminary review at the Supervisory Board meeting on February 21, 2013. On the basis of this preliminary review by the Audit Committee, the Supervisory Board has examined the Financial Statements and Management's Analysis of BASF SE for 2012, the proposal by the Board of Executive Directors for the appropriation of profit as well as the Consolidated Financial Statements and Management's Analysis for the BASF Group for 2012. We have reviewed, acknowledged and approved the auditor's reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objection to the management and submitted reports.

At the Supervisory Board's accounts meeting on February 21, 2013, we approved the Financial Statements of BASF SE and the Consolidated Financial Statements of the BASF Group prepared by the Board of Executive Directors, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €2.60 per share.

Thanks

The Supervisory Board thanks the management and all employees of the BASF Group worldwide for the work they performed in 2012.

Ludwigshafen, February 21, 2013

The Supervisory Board

Dr. h.c. Eggert Voscherau
Chairman of the Supervisory Board

Declaration of Conformity 2012
of the Board of Executive Directors and the Supervisory Board of BASF SE

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

1. The recommendations of the Government Commission on the German Corporate Governance Code as amended on May 26, 2010 published by the Federal Ministry of Justice on July 2, 2010 in the official section of the electronic Federal Gazette have been complied with since the submission of the last Declaration of Conformity on December 15, 2011.

2. The recommendations of the Government Commission on the German Corporate Governance Code as amended on May 15, 2012 published by the Federal Ministry of Justice on June 18, 2012 in the official section of the electronic Federal Gazette are complied with and will be complied with.

Ludwigshafen, dated December 20, 2012

The Supervisory Board
of BASF SE

The Board of Executive Directors
of BASF SE

Consolidated Financial Statements

4

Statement by the Board of Executive Directors
and assurance pursuant to Sections 297(2), 315(1) of the German Commercial Code (HGB)

The Board of Executive Directors of BASF SE is responsible for preparing the Consolidated Financial Statements and Management's Analysis of the BASF Group.

The Consolidated Financial Statements for 2012 were prepared according to the International Financial Reporting Standards (IFRS), which are published by the International Accounting Standards Board (IASB), London, and have been endorsed by the European Union.

In order to ensure the adherence of the Consolidated Financial Statements of the BASF Group and Management's Analysis to the applicable accounting rules, and the accuracy of reporting, we have established effective internal control systems.

The adherence to uniform, Group-wide accounting and reporting standards, and the reliability and effectiveness of our control systems are continually audited throughout the Group by our internal audit department. The risk management system we have set up is designed to identify material risks in a timely manner, thus enabling the Board of Executive Directors to take appropriate defensive measures as required.

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

Ludwigshafen, February 20, 2013

Dr. Kurt Bock
Chairman of the Board of Executive Directors

Dr. Martin Brudermüller
Vice Chairman of the Board of Executive Directors

Dr. Hans-Ulrich Engel
Chief Financial Officer

Michael Heinz

Dr. Andreas Kreimeyer

Dr. Harald Schwager

Wayne T. Smith

Margret Suckale

Auditor's report

We have audited the Consolidated Financial Statements prepared by BASF SE, Ludwigshafen am Rhein, Germany, comprising the statement of income, statement of income and expense recognized in equity, balance sheet, statement of cash flows, statement of equity and the notes to the Consolidated Financial Statements, together with the Management's Analysis for the business year from January 1 to December 31, 2012. The preparation of the Consolidated Financial Statements and the Management's Analysis in accordance with IFRSs as adopted by the European Union, and the additional requirements of German commercial law pursuant to Section 315a(1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Management's Analysis based on our audit. In addition, we have been instructed to express an opinion as to whether the Consolidated Financial Statements comply with full IFRS.

We conducted our audit of the Consolidated Financial Statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW).

Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the Management's Analysis are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the Management's Analysis are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Management's Analysis. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRSs as adopted by the E.U., the additional requirements of German commercial law pursuant to Section 315a(1) HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Management's Analysis is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 20, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Joachim Schindler
Wirtschaftsprüfer

Hans-Dieter Krauß
Wirtschaftsprüfer

Statement of income
BASF Group

Statement of income (million €)

	Explanations in note	2012	2011
Sales	[4]	78,729	73,497
Cost of sales	[6]	(58,022)	(53,986)
Gross profit on sales		**20,707**	**19,511**
Selling expenses	[6]	(7,644)	(7,323)
General and administrative expenses	[6]	(1,392)	(1,315)
Research and development expenses	[6]	(1,746)	(1,605)
Other operating income	[7]	1,722	2,008
Other operating expenses	[8]	(2,671)	(2,690)
Income from operations	**[4]**	**8,976**	**8,586**
Income from companies accounted for using the equity method		171	48
Other income from participations		75	966
Other expenses from participations		(43)	(30)
Interest income		179	189
Interest expense		(752)	(763)
Other financial income		930	909
Other financial expenses		(1,100)	(935)
Financial result	**[9]**	**(540)**	**384**
Income before taxes and minority interests		**8,436**	**8,970**
Income taxes	[10]	(3,214)	(2,367)
Income before minority interests		**5,222**	**6,603**
Minority interests	[11]	(343)	(415)
Net income		**4,879**	**6,188**
Earnings per share (€)	**[5]**	**5.31**	**6.74**
Dilution effect	[5]	–	(0.01)
Diluted earnings per share (€)	**[5]**	**5.31**	**6.73**

Statement of income and expense recognized in equity
BASF Group

Statement of income and expense recognized in equity (million €)

	2012	2011
Income before minority interests	**5,222**	**6,603**
Actuarial gains/losses and asset ceiling for defined benefit assets	(2,813)	(763)
Foreign currency translation adjustment	(211)	186
Fair value changes in available-for-sale securities	7	(1,014)
Cash flow hedges	12	(71)
Hedges of net investments in foreign operations	2	5
Revaluation due to acquisition of majority of shares	(3)	(2)
Deferred taxes	863	196
Minority interests	(9)	(2)
Total income and expense recognized directly in equity	**(2,152)**	**(1,465)**
Total income and expense for the period	**3,070**	**5,138**
Thereof BASF SE	2,736	4,725
minority interests	334	413

Development of income and expense recognized directly in equity of shareholders of BASF SE (million €)

	Retained earnings	Other comprehensive income						Total income and expense recognized directly in equity
	Actuarial gains/losses; asset ceiling	Foreign currency translation adjustment	Fair value changes in available-for-sale securities	Cash flow hedges	Hedges of net investments in foreign operations	Revaluation due to acquisition of majority of shares	Total of other comprehensive income	
As of January 1, 2012	**(2,108)**	**373**	**10**	**(71)**	**(2)**	**4**	**314**	**(1,794)**
Additions	(2,813)	–	7	–	–	–	7	(2,806)
Releases	–	(211)	–	12	2	(3)	(200)	(200)
Deferred taxes	874	3	–	(14)	–	–	(11)	863
As of December 31, 2012	**(4,047)**	**165**	**17**	**(73)**	**–**	**1**	**110**	**(3,937)**
As of January 1, 2011	**(1,526)**	**190**	**1,009**	**(3)**	**(7)**	**6**	**1,195**	**(331)**
Additions	(763)	186	–	(71)	–	–	115	(648)
Releases	–	–	(1,014)	–	5	(2)	(1,011)	(1,011)
Deferred taxes	181	(3)	15	3	–	–	15	196
As of December 31, 2011	**(2,108)**	**373**	**10**	**(71)**	**(2)**	**4**	**314**	**(1,794)**

Balance sheet
BASF Group

Assets (million €)

	Explanations in note	December 31, 2012	December 31, 2011
Intangible assets	[13]	12,241	11,919
Property, plant and equipment	[14]	18,177	17,966
Investments accounted for using the equity method	[15]	2,045	1,852
Other financial assets	[15]	880	848
Deferred tax assets	[10]	1,545	941
Other receivables and miscellaneous long-term assets	[17]	650	561
Long-term assets		**35,538**	**34,087**
Inventories	[16]	9,930	10,059
Accounts receivable, trade	[17]	10,138	10,886
Other receivables and miscellaneous short-term assets	[17]	3,504	3,781
Marketable securities		23	19
Cash and cash equivalents		1,777	2,048
Assets of disposal groups	[2]	3,417	295
Short-term assets		**28,789**	**27,088**
Total assets		**64,327**	**61,175**

Equity and liabilities (million €)

	Explanations in note	December 31, 2012	December 31, 2011
Subscribed capital	[18]	1,176	1,176
Capital surplus	[18]	3,188	3,203
Retained earnings	[19]	20,106	19,446
Other comprehensive income	[19]	110	314
Equity of shareholders of BASF SE		**24,580**	**24,139**
Minority interests		1,224	1,246
Equity		**25,804**	**25,385**
Provisions for pensions and similar obligations	[21]	5,460	3,189
Other provisions	[22]	3,024	3,335
Deferred tax liabilities	[10]	2,511	2,628
Financial indebtedness	[23]	9,113	9,019
Other liabilities	[23]	1,083	1,142
Long-term liabilities		**21,191**	**19,313**
Accounts payable, trade		4,696	5,121
Provisions	[22]	2,687	3,210
Tax liabilities	[10]	1,080	1,038
Financial indebtedness	[23]	4,242	3,985
Other liabilities	[23]	2,395	3,036
Liabilities of disposal groups	[2]	2,232	87
Short-term liabilities		**17,332**	**16,477**
Total equity and liabilities		**64,327**	**61,175**

Statement of cash flows
BASF Group

Statement of cash flows[1] (million €)

	2012	2011
Net income	4,879	6,188
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	3,561	3,419
Changes in inventories	(640)	(1,239)
Changes in receivables	(1,122)	(45)
Changes in operating liabilities and other provisions	807	378
Changes in pension provisions, defined benefit assets and other non-cash items	(314)	(68)
Net gains from disposal of long-term assets and securities	(438)	(1,528)
Cash provided by operating activities	**6,733**	**7,105**
Payments related to intangible assets and property, plant and equipment	(4,149)	(3,410)
Payments related to financial assets and securities	(144)	(346)
Payments related to acquisitions	(1,043)	(148)
Proceeds from divestitures	724	665
Proceeds from the disposal of long-term assets and securities	524	1,501
Cash used in investing activities	**(4,088)**	**(1,738)**
Capital increases/repayments and other equity transactions	(1)	32
Proceeds from the addition of financial liabilities	5,005	2,306
Repayment of financial liabilities	(5,291)	(4,678)
Dividends paid		
To shareholders of BASF SE	(2,296)	(2,021)
To minority shareholders	(345)	(457)
Cash used in financing activities	**(2,928)**	**(4,818)**
Net changes in cash and cash equivalents	**(283)**	**549**
Effects on cash and cash equivalents		
From foreign exchange rates	10	9
From changes in scope of consolidation	2	(3)
Cash and cash equivalents at the beginning of the year	**2,048**	**1,493**
Cash and cash equivalents at the end of the year	**1,777**	**2,048**

[1] More information on the Statement of cash flows can be found in the Management's Analysis (Financial Position) from page 54 onward. Other information on cash flows can be found in Note 28 on page 204.

Statement of equity
BASF Group

Statement of equity (million €)

	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Other comprehensive income[1]	Equity of shareholders of BASF SE	Minority interests	Total equity
January 1, 2012	**918,478,694**	**1,176**	**3,203**	**19,446**	**314**	**24,139**	**1,246**	**25,385**
Effects of acquisitions achieved in stages	–	–	–	–	–	**–**	(5)	**(5)**
Dividend paid	–	–	–	(2,296)	–	**(2,296)**	(345)[2]	**(2,641)**
Net income	–	–	–	4,879	–	**4,879**	343	**5,222**
Income and expense recognized directly in equity	–	–	–	(1,939)	(204)	**(2,143)**	(9)	**(2,152)**
Changes in scope of consolidation and other changes	–	–	(15)[3]	16	–	**1**	(6)	**(5)**
December 31, 2012	**918,478,694**	**1,176**	**3,188**	**20,106**[4]	**110**[5]	**24,580**	**1,224**	**25,804**
January 1, 2011	**918,478,694**	**1,176**	**3,216**	**15,817**	**1,195**	**21,404**	**1,253**	**22,657**
Effects of acquisitions achieved in stages	–	–	–	34	–	**34**	(2)	**32**
Effects of change of control	–	–	–	–	–	**–**	2	**2**
Dividend paid	–	–	–	(2,021)	–	**(2,021)**	(457)[2]	**(2,478)**
Net income	–	–	–	6,188	–	**6,188**	415	**6,603**
Income and expense recognized directly in equity	–	–	–	(582)	(881)	**(1,463)**	(2)	**(1,465)**
Changes in scope of consolidation and other changes	–	–	(13)[3]	10	–	**(3)**	37	**34**
December 31, 2011	**918,478,694**	**1,176**	**3,203**	**19,446**	**314**	**24,139**	**1,246**	**25,385**

1 Details are provided in the overview “Development of income and expense recognized directly in equity of shareholders of BASF SE” on page 147.
2 Including profit and loss transfers
3 Granting of BASF shares under the employee share program “*plus*”
4 An amount recognized directly in equity of minus €5 million from actuarial gains and losses was related to the natural gas trading disposal group as of December 31, 2012.
5 An amount of minus €4 million recognized directly in equity related to the natural gas trading disposal group as of December 31, 2012.

1 – Summary of accounting policies

1.1 – Group accounting principles

Accounting standards applied: The Consolidated Financial Statements of BASF SE as of December 31, 2012, have been prepared in accordance with International Financial Reporting Standards (IFRS) and Section 315a (1) of the German Commercial Code (HGB). BASF SE is a publicly-listed corporation based in Ludwigshafen am Rhein. Its official address is Carl-Bosch-Str. 38, 67056 Ludwigshafen am Rhein, Germany.

The individual financial statements of the companies included in the Consolidated Financial Statements of the BASF Group (hereinafter referred to as "consolidated companies") are prepared as of the balance sheet date of the Consolidated Financial Statements. All of the binding IFRSs in the fiscal year 2012 as well as the pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) were applied. IFRSs are applied as soon as they have been endorsed by the European Union.

The accounting policies that have been applied are the same as those in 2011, with the exception of any changes required by the application of new or revised standards and interpretations. In 2012, there were no significant changes for BASF in this regard.

The Consolidated Financial Statements are prepared in euros, and all amounts, including the figures for previous years, are given in million euros unless otherwise indicated.

On February 18, 2013, the Consolidated Financial Statements were prepared and authorized for release by the Board of Executive Directors and will be submitted for approval by the Audit Committee to the Supervisory Board of BASF SE at its meeting on February 21, 2013.

Scope of consolidation: The Consolidated Financial Statements include BASF SE as well as all material subsidiaries. BASF controls these companies or exercises a majority of the voting rights, either directly or indirectly.

Material, jointly controlled entities are included on a proportional consolidation basis.

Associated companies are accounted for using the equity method. These are companies over which the Company can exercise a significant influence over the operating and financial policies, and are neither subsidiaries nor jointly controlled entities. In general, this applies to companies in which BASF has an interest of 20% to 50%.

Subsidiaries whose business is dormant or of low volume and that are insignificant for the presentation of a true and fair view of the net assets, financial position and results of operations as well as the cash flows are not consolidated. These companies are carried at amortized cost and are written down in the case of an impairment. The aggregate assets and equity of these subsidiaries amount to less than 1% of the corresponding value at Group level.

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

Transactions between consolidated companies as well as intercompany profits resulting from sales and services rendered between consolidated companies are eliminated in full; for jointly controlled entities, they are proportionally eliminated. Material intercompany profits related to companies accounted for using the equity method are eliminated.

Capital consolidation at the acquisition date is based on the purchase method. Initially, all assets, liabilities and additional intangible assets that are to be capitalized are valued at fair value. Finally, the acquisition cost is compared with the proportional share of the net assets acquired at fair value. The resulting positive differences are capitalized as goodwill. Negative differences are reviewed once more, then recognized directly in profit or loss.

The incidental acquisition costs of a business combination are recognized in the income statement.

Translation of foreign currency financial statements: The translation of foreign currency financial statements depends on the functional currency of the consolidated companies. For companies whose functional currency is not the euro, translation into the reporting currency is based on the closing rate method: Balance sheet items are translated into euros at closing rates on the balance sheet date; expenses and income are translated into euros 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 eurozone or U.S. dollar zone, the euro or U.S. dollar is the functional currency.

Selected exchange rates (1 EUR equals)

	Closing rates		Average rates	
	Dec. 31, 2012	Dec. 31, 2011	2012	2011
Brazil (BRL)	2.70	2.42	2.51	2.33
China (CNY)	8.22	8.16	8.11	9.00
Great Britain (GBP)	0.82	0.84	0.81	0.87
Japan (JPY)	113.61	100.20	102.49	110.96
Malaysia (MYR)	4.03	4.11	3.97	4.26
Mexico (MXN)	17.18	18.05	16.90	17.29
Russia (RUB)	40.33	41.77	39.93	40.88
Switzerland (CHF)	1.21	1.22	1.21	1.23
South Korea (KRW)	1,406.23	1,498.69	1,447.69	1,541.23
United States (USD)	1.32	1.29	1.28	1.39

1.2 – Accounting policies

Assets

Goodwill is only written down if there is an impairment. Impairment testing takes place once a year and whenever 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, the cash-generating units are predominantly the business units, or in certain cases, the divisions. The recoverable amount is the higher of fair value less costs to sell and the value in use. Value in use is generally determined using the discounted cash flow method. Impairment testing relies upon the cash-generating unit's long-term earnings forecasts, which are based on economic trends.

The weighted average cost of capital (WACC) based on the Capital Asset Pricing Model plays an important role in impairment testing. The WACC is made up of the risk-free interest rate, the country-specific tax rates, the beta of the BASF share as well as assumptions as to the spread for credit risk and the market risk premium for the cost of equity. Additional important assumptions are the forecasts for the detailed planning period and the terminal growth rates used.

→ **For more information, see Note 13 from page 178 onward**

If the impairment loss is equal to or 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 impairments are reported under other operating expenses.

Acquired intangible assets are valued at cost less scheduled straight-line amortization, except for goodwill and intangible assets with indefinite useful lives. The useful life is determined using the period of the underlying contract and the period of time over which the intangible asset is expected to be used. Impairments are recognized if the recoverable amount of the asset is lower than the carrying amount. The recoverable amount is the higher of either fair value less costs to sell and the value in use. Impairments are reversed if the reasons for the impairment no longer exist.

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

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

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

In addition to those costs directly attributable to the asset, costs of internally generated intangible assets also include an appropriate allocation of overhead costs. Borrowing costs are capitalized if they relate to the period over which the asset is generated and they are material.

The weighted-average useful lives of intangible assets amounted to:

Average amortization in years

	2012	2011
Distribution, supply and similar rights	13	13
Product rights, licenses and trademarks	17	17
Know-how, patents and production technologies	13	13
Internally generated intangible assets	5	5
Other rights and values	7	6

The estimated useful lives and amortization methods chosen are based on historical values, plans and estimates. These estimates also consider the period and distribution of future cash inflows. The depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

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

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

The cost of self-constructed plants includes direct costs, appropriate allocations of material and manufacturing costs, and a share of the general administrative costs of the divisions involved in the construction of the plants. Borrowing costs that are incurred during the period of construction are capitalized.

Expenditures related to scheduled maintenance turnarounds of large-scale plants are separately capitalized as part of the asset and depreciated using the straight-line method over the period until the next planned turnaround. The costs for the replacement of components are recognized as assets when an additional future benefit is expected. The book value of the replaced components is derecognized. The costs for maintenance and repair as part of normal business operations are recognized as an expense.

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

Average depreciation in years

	2012	2011
Buildings and structural installations	20	22
Machinery and technical equipment	10	10
Long-distance natural gas pipelines	25	25
Miscellaneous equipment and fixtures	7	7

The estimated useful lives and amortization methods applied are based on historical values, plans and estimates. These estimates also consider the period and distribution of future cash inflows. The depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Impairments are recognized if the recoverable amount of the asset is lower than the carrying amount. The evaluation is based on the present value of the expected future cash flows. An impairment is recognized for the difference between the carrying amount and the value of discounted future cash flows. If the reasons for the impairment no longer exist, the write-downs are reversed accordingly.

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

Leases: In accordance with IAS 17, leasing contracts are classified as either finance or operating leases. Assets 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 substantially transfers 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 must be divided into principal and interest components. The principal component reduces the outstanding liability, while the interest component represents an interest expense. Depreciation takes place over the shorter of the useful life of the asset or the period of the lease.

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

BASF acts as a lessor for finance leases in a minor capacity only.

Borrowing costs: If the production phase of intangible assets or the construction phase of property, plant and equipment extends beyond a period of one year, the interest incurred on borrowed capital directly attributable to that asset is capitalized as part of the cost of that asset. Borrowing costs are capitalized up to the date the asset is ready for its intended use. The borrowing costs are calculated based on a rate of 4.5%, which is adjusted on a country-specific basis. All other borrowing costs are recognized as an expense in the period in which they are incurred.

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

Investments accounted for using the equity method: The carrying amounts of these companies are adjusted annually based on the pro rata share of net income, dividends and other changes in equity. Should there be indications of a permanent reduction in the value of an investment, an impairment is recognized in the income statement.

Inventories are carried at cost. If the listed, market or fair value of the sales product which forms the basis for the net realizable value is lower, then this is applied and an impairment is recognized. The net realizable value is based on the selling price in the ordinary course of business less the estimated costs of completing and selling the product.

In addition to direct costs, cost of conversion includes an appropriate allocation of production overhead costs based on normal utilization rates of the production plants, provided that they are related to the production process. Pensions, social services and voluntary social benefits are also included, as well as allocations for administrative costs, provided they relate to the production. Borrowing costs are not included in cost of conversion.

Valuation adjustments on inventories result from price declines in sales products and age of inventory.

For the valuation of inventories in the precious metals trading business, the Company applies the exception for commodity broker-traders under IAS 2. Accordingly, inventories held exclusively for trading purposes are to be measured at fair value. Changes in value are recognized in profit or loss.

Deferred taxes: Deferred taxes are recorded for temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes as well as for tax loss carryforwards and unused tax credits. This also comprises temporary differences arising from business combinations, with the exception of goodwill. Deferred tax assets and liabilities are calculated according to country-specific tax rates. Any changes to the tax rate enacted or substantively enacted on or before the balance sheet date are taken into consideration. The tax rate for corporations based in Germany is 29%. Deferred tax assets are offset against deferred tax liabilities provided they are related to the same taxation authority. Surpluses of deferred tax assets are only recognized provided that the tax benefits are likely to be realized. The valuation of deferred tax assets depends on the estimated probability of a reversal of the temporary differences and the ability to utilize tax loss carryforwards and unused tax credits. This depends on whether future taxable profits will exist during the period in which temporary differences are reversed and in which tax loss carryforwards and unused tax credits can be claimed. Based on experience and the expected development of taxable income, it is assumed that the benefit of deferred tax assets recognized will be realized. The valuation of deferred tax assets is based on internal projections of the future earnings of the particular Group company.

Changes made to deferred tax assets or liabilities are recorded as deferred tax expense or income if the transaction or event on which they are based is not recognized directly in equity. Deferred tax assets and liabilities for those effects which have been recognized in equity are also recorded outside profit and loss.

No deferred tax liabilities are recognized for differences between the proportional IFRS equity and the taxable book value of participations when a reversal of these differences is not expected in the foreseeable future. Deferred tax liabilities are recognized for dividend distributions which are planned for the following year if these distributions lead to a reversal of the temporary differences.

→ **For more information, see Note 10 from page 175 onward**

Financial instruments

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

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

If there is objective evidence of a permanent impairment of a financial instrument that is not measured at fair value through profit or loss, an impairment loss is recognized.

If the reason for the impairment of loans and receivables as well as held-to-maturity financial instruments no longer exists, the impairment is reversed up to the amortized cost and recognized in profit or loss. Impairments on financial instruments are booked in separate accounts.

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

- **Financial assets and liabilities at fair value through profit or loss** consist of derivatives and other trading instruments. At BASF, this valuation category only includes derivatives. Derivatives are reported in miscellaneous assets or other liabilities. BASF does not make use of the fair value option under IAS 39. The calculation of fair values is based on market parameters or valuation models based on such parameters. In some exceptional cases, the fair value is calculated using parameters which are not observable on the market.
- **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. This valuation category includes 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 recognized in income are generally made at amortized cost using the effective interest method.

If there is objective evidence for an impairment of a receivable or loan, an individual valuation allowance is made. When assessing the need for a valuation allowance, regional and sector-specific conditions are considered. In addition, use is made of internal and external ratings as well as the assessments of debt collection agencies and credit insurers, when available. A substantial portion of receivables is covered by credit insurance. Bank guarantees and letters of credit are used to a limited extent. Valuation allowances are only recognized for those receivables which are not covered by insurance or other collateral. The valuation allowances for receivables whose insurance includes a deductible cannot exceed the amount of the deductible. Impairments are based on historical values relating to customer solvency and the age, period overdue, insurance policies and customer-specific risks. In addition, a valuation allowance must be recognized when the contractual conditions which form the basis for the receivable or loan are changed through renegotiation in such a way that the present value of the future cash flows decreases.

Receivables for which no objective indication for an impairment exists may be impaired based on historical default rates. In addition, valuation allowances are made on receivables based on transfer risks for certain countries.

If, in a subsequent period, the amount of the valuation allowance decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized write-down is to be reversed through profit or loss. Reversals of valuation allowances may not exceed amortized cost. Loans and receivables are derecognized when they are definitively found to be uncollectible.

- **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 matches the nominal value in most cases. Subsequent measurement is carried out at amortized cost, using 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 as well as short- and long-term securities reported under the item other financial assets. The valuation is carried out at fair value. Changes in fair value are recognized directly in equity under the item other comprehensive income and are only recorded in profit or loss when the assets are disposed of or have been impaired. Subsequent reversals are recognized directly in equity (other comprehensive income). Only in the case of debt instruments are reversals up to the amount of the original impairment recognized in profit or loss; reversals above this amount are recognized directly in equity. If the fair value of available-for-sale financial assets drops below acquisition costs, the assets are impaired if the decline in value is significant and can be considered lasting. The fair values are determined using market prices. Participations whose fair value cannot be reliably determined are carried at acquisition cost and are written down in the case of an impairment. When determining the value of these participations, the acquisition costs constitute the best estimate of their fair value. This category of participations includes investments in other affiliated companies, investments in other associated companies and shares in other participations, provided that these shares are not publicly traded. There are no plans to sell significant stakes in these participations.
- **Financial liabilities which are not derivatives** are initially measured at fair value, which normally corresponds to the amount received. Subsequent measurement is carried out at amortized cost, using the effective interest method.
- **Cash and cash equivalents** consist primarily of cash on hand and bank balances.

There were no reclassifications from one valuation category to another in 2012 and 2011.

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

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

Financial guarantees of the BASF Group are contracts that require compensation payments to be made to the guarantee holder if a debtor fails to make payment when due under the terms of the financial guarantee. Financial guarantees are measured at fair value upon initial recognition. In subsequent periods, financial guarantees are carried at the higher of amortized cost or the best estimate of the present obligation on the financial reporting date.

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

To hedge the translation risk from the net investment in a foreign subsidiary, BASF uses hedge accounting in individual cases (**hedge of a net investment in a foreign operation**). The effective portion of the hedge is recognized in equity. If the foreign operation is disposed of, these amounts are reclassified to profit and loss. The ineffective portion of the hedge is immediately recognized in profit or loss.

When **fair value hedges** are used, the asset or liability is hedged against the risk of a change in fair value, with changes in the market value of the derivative financial instruments recognized in the income statement. Furthermore, the book value of the underlying transaction is adjusted by the profit or loss resulting from the hedged risk, offsetting the effect in the income statement.

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 changes in the value of the underlying transactions.

Debt

Provisions for pensions and similar obligations: Provisions for pensions are based on actuarial computations made according to the projected unit credit method, which applies valuation parameters that include: future developments in compensation, pensions and inflation, the expected performance of plan assets, employee turnover and the life expectancy of beneficiaries. The resulting obligations are discounted on the balance sheet date using the market yields on high-quality corporate fixed-rate bonds with an AA rating. Actuarial gains and losses are recognized directly in retained earnings. They result from the difference between the actual development in pension obligations and pension assets and the assumptions made at the beginning of the year as well as from the updating of actuarial assumptions.

Similar obligations, especially those arising from commitments by North American Group companies to pay the healthcare costs and life insurance premiums of retired staff and their dependents, are included in pension provisions.

The calculation of pension provisions is based on actuarial reports.

→ **For more information on provisions for pensions and similar obligations, see Note 21 from page 187 onward**

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

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

Provisions are established for certain environmental protection measures and risks if the measures are considered likely as a result of present legal or constructive obligations arising from a past event. Provisions for restoration obligations primarily concern the filling of wells and the removal of production facilities upon the termination of production in the Oil & Gas segment. The present value of the obligation increases the cost of the respective asset when it is initially recognized.

Other provisions also include expected charges for the rehabilitation of contaminated sites, the recultivation of landfills, the removal of environmental contamination at existing production or storage facilities and other similar measures. If BASF is the only responsible party that can be identified, the provision covers the entire expected claim. At sites operated together with one or more partners, 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 official obligations.

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

Provisions are recognized for expected severance payments or similar personnel expenses as well as for demolition expenses and other charges related to the closing 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 recognized in their full amount and the wage and salary payments due during the passive phase of agreements are accrued in installments.

→ **For more information on provisions for the long-term incentive program, see Note 29 from page 205 onward**

Other provisions also cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the Company takes into consideration the facts related to each case, the size of the claim, claims awarded in similar cases and independent expert advice as well as assumptions regarding the probability of a successful claim and the range of possible claims. The actual costs can deviate from these estimates. → **For more information, see Note 25 on page 196**

The probable amount required to settle long-term provisions is discounted if the effect of discounting is material. In this case, the provision is recognized at present value. Assumptions must be made in determining the discount rate used for calculating long-term provisions. Financing costs related to the compounding of provisions in subsequent periods are shown in other financial results.

Other accounting policies

Revenue recognition: Revenues from the sale of goods or the rendering of services are recognized upon the transfer of ownership and risk to the buyer. They are valued at the fair value of the consideration received. Sales are reported without sales tax. Expected rebates and other trade discounts are either accrued or deducted. Provisions are made according to the principle of individual valuation to cover probable risks related to 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. In the trading of precious metals and their derivatives with broker-traders, where there is usually no physical delivery, revenues are recorded on a net basis. Revenues from the natural gas trading activities of a project company consolidated by BASF are also recorded on a net basis.

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

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

Foreign currency transactions: The cost of assets acquired in foreign currencies and revenue from sales in foreign currencies are recorded at the exchange rate on the date of the transaction. Foreign currency receivables and liabilities are valued at the exchange rates on the balance sheet date. Foreign exchange gains or losses resulting from the translation of assets and liabilities are reported as other operating expenses or other operating income under other financial income or expenses; for available-for-sale financial assets, they are reported in other comprehensive income.

Oil and gas exploration: Exploration and development expenditures 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.

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

Production costs include all costs incurred to operate, repair and maintain the wells as well as the associated plant and ancillary production equipment, including the associated depreciation.

Exploration expenses relate exclusively to the Oil & Gas segment and include all costs related to areas with unproven oil or gas deposits. These include costs for the exploration of areas with possible oil or gas deposits, among others. Costs for geological and geophysical investigations are always reported under exploration expenses. In addition, this item includes write-offs for exploration wells which did not encounter proven reserves. Scheduled depreciation of successful exploratory drilling is reported under cost of sales.

Exploratory drilling is generally reported under construction in progress until its success can be determined. When the presence of hydrocarbons is proven such that the economic development of the field is probable, the costs remain capitalized as suspended well costs. At least 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 in question is written off. When reserves are proven and the development of the field begins, the exploration wells are reclassified as machinery and technical equipment.

An Exploration and Production Sharing Agreement (EPSA) is a type of contract in crude oil and gas concessions whereby the expenses and profits from the exploration, development and production phases are divided between the state and one or more exploration and production companies using defined keys. The revenue BASF is entitled to under such contracts is reported as sales.

Provisions for required restoration obligations associated with oil and gas operations concern the filling of wells and the removal of production facilities upon the termination of production. When the obligation arises, the provision is initially measured at the present value of the future restoration costs. An asset of the same value is capitalized as part of the carrying amount of the plant concerned and is depreciated along with the plant. Interest on the provision is accrued annually until the time of the planned restoration.

The unit of production method is used to depreciate assets from oil and gas exploration at the field or reservoir level. Depreciation is generally calculated on the basis of proven, developed reserves in relation to the production of the period.

In the natural gas trading business, long-distance natural gas pipelines are depreciated using the straight-line method. The weighted-average depreciation period amounted to 25 years in 2012 and 2011. The intangible asset from the marketing contract for natural gas from the Yuzhno Russkoye natural gas field is amortized based on BASF's share of the produced and distributed volumes.

Intangible assets in the Oil & Gas segment relate primarily to exploration and drilling rights. During the exploration phase, these are not subject to scheduled amortization but are tested for impairment annually. When economic success is determined, the rights are amortized in accordance with the unit of production method.

Groups of assets and liabilities held for sale and 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; this does not apply to assets which do not fall under the valuation principles of IFRS 5. Scheduled depreciation of long-term assets is suspended.

→ **Further information on the assets and liabilities of the disposal group can be found in Note 2 on page 165**

Use of estimates and assumptions 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. Specific estimates or assumptions used in individual accounting or valuation methods are disclosed in their respective sections. They are based on the circumstances and estimates on the balance sheet date and affect the reported amounts of income and expenses during the reporting periods. These assumptions affect the determination 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. Although uncertainty is appropriately incorporated in the valuation factors, actual results can 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. Assumptions are used to determine the 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. 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. External appraisals are used for the purchase price allocation of material acquisitions. Valuations in the course of business combinations are based on existing information as of the acquisition date.

Impairment tests on assets are carried out whenever certain triggering events indicate that an impairment may be necessary. External triggering events include, for example, changes in customer industries, technologies used and economic downturns. Internal triggering events for an impairment include lower product profitability, planned restructuring measures or physical damage to assets.

Impairment tests are based on a comparison of the carrying amount and the recoverable amount. The determination of value in use requires the estimation and discounting of cash flows. The estimation of cash flows and the assumptions used consider all information available on the respective balance sheet date on the future development of the operating business. Actual future developments may vary.

IFRSs and IFRICs not yet to be considered in the preparation of the Consolidated Financial Statements

The effects on the BASF Group of the IFRSs and IFRICs not yet in force or not yet endorsed by the European Union in the fiscal year 2012 were reviewed, and are shown in the overview on the following page. Other new standards or interpretations and amendments of existing standards and interpretations will have no material impact on BASF. Implementing the standards before endorsement by the European Union is not planned.

Overview of impact of IFRSs and IFRICs not yet to be considered in the preparation of the Consolidated Financial Statements

Standard/ Interpretation	Published by IASB	Implementation date stipulated by IASB	E.U. endorsement published	Anticipated impact on BASF
IFRS 9 Financial Instruments	Nov. 12, 2009	Jan. 1, 2015	Postponed	As the first phase of the project to replace IAS 39 Financial Instruments - Recognition and Measurement, this standard introduces new classes, classification criteria and assessment criteria for financial instruments. In addition, on October 28, 2010, new requirements under IFRS 9 were published on the accounting for financial liabilities and the derecognition of financial instruments. In particular, these changes will affect those financial liabilities that were optionally measured at fair value. On November 28, 2012, a draft of the limited changes under IFRS 9 Recognition and Measurement was published. Furthermore, a staff draft of the hedge accounting section was published on September 7, 2012, which contains the future accounting rules for hedging transactions. The potential impact on BASF is currently being analyzed.
IFRS 10 Consolidated Financial Statements	May 12, 2011	Jan. 1, 2013	Dec. 29, 2012	IFRS 10 replaces the provisions of IAS 27 Consolidated and Separate Financial Statements, which regulates the preparation of consolidated financial statements, as well as SIC-12 Consolidation – Special Purpose Entities. In contrast to IAS 27, this standard is geared more strongly towards the economic situation as opposed to the legal conditions. IFRS 10 contains a new definition of “control,” which is to be applied in determining the companies to be consolidated. “Control” now comprises three elements: decision-making power, variable returns and the ability to use decision-making power to affect the variable returns. The new definition of control as well as the rules regarding principal-agent relationships will also lead to a change in the scope of consolidation at BASF. Upon the application of the new standard by BASF from January 1, 2013, four companies, including Wintershall AG, will be accounted for using the equity method rather than fully consolidated. The impact on BASF Group is described below under IFRS 11.
IFRS 11 Joint Arrangements	May 12, 2011	Jan. 1, 2013	Dec. 29, 2012	The standard regulates the accounting of joint arrangements. Depending on the type of rights and obligations resulting from the arrangements, IFRS 11 differentiates between joint ventures and joint operations. While shares in joint ventures are accounted for using the equity method, for joint operations the proportional share of assets, liabilities, income and expenses are reported. BASF currently consolidates joint ventures proportionally. BASF will apply the standard from January 1, 2013, and report the equity result as part of EBIT. Upon the application of the new standard, 14 companies will be accounted for using the equity method rather than proportionally consolidated. Applying IFRS 10 and 11 to the figures from the year 2012 would have resulted in a decrease in sales of €6,600 million (of which Wintershall AG: €2,741 million) and a decline in EBIT of €2,404 million (of which Wintershall AG: €2,331 million). The reclassification of the equity income of associated companies would have partially offset this, leading to an increase in EBIT of €171 million. Net income would have remained nearly unchanged. → **For financial information on proportionally consolidated companies, see Note 2 from page 161 onward**
IFRS 12 Disclosure of Interests in Other Entities	May 12, 2011	Jan. 1, 2013	Dec. 29, 2012	This new standard, which BASF has applied since January 1, 2013, requires more extensive disclosures with respect to fully consolidated companies and companies which are not included in the Consolidated Financial Statements, i.e., the reasons why they were fully consolidated or excluded. This change will impact the Notes to the Consolidated Financial Statements of the BASF Group.
IFRS 13 Fair Value Measurement	May 12, 2011	Jan. 1, 2013	Dec. 29, 2012	IFRS 13 will replace the individual regulations governing the determination of fair value. This standard does not introduce any significant new valuation requirements but does require additional notes. The potential impact on BASF is currently being analyzed.
Amendments to IAS 28 Investments in Associates and Joint Ventures	May 12, 2011	Jan. 1, 2013	Dec. 29, 2012	The provision of IAS 28 governing the use of the equity method will be expanded by the adoption of IFRS 11; in the future, it will also have to be used on shares in jointly controlled entities.
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	June 16, 2011	July 1, 2012	June 6, 2012	Components of other comprehensive income (OCI) that under certain circumstances are to be reclassified in the profit and loss statement will have to be shown separately from those components which can never be reclassified. If the change to IAS 1 were applied to the 2012 annual financial statements, the income and expenses recognized in equity would include minus €201 million in items which in the future will be reclassified to the income statement – of which minus €11 million would be deferred taxes. → **“Statement of income and expense recognized in equity” on page 147**
IAS 19 (revised) Employee Benefits	June 16, 2011	Jan. 1, 2013	June 6, 2012	The most significant change of IAS 19 requires that experience-based adjustments and effects from changes of actuarial assumptions, reported as actuarial gains and losses, will have to be recognized immediately in other comprehensive income. The previous option between immediate reporting in profit and loss, reporting in equity or delayed reporting according to the corridor method will be abolished. The amendment will not have an effect on BASF because actuarial gains and losses are already recorded directly in equity. Changes in the benefit levels with retroactive effect on past service which result from plan amendments are no longer to be amortized over the vesting period; instead they are to be recognized immediately in profit or loss in the year of the plan amendment. The application of this accounting policy will lead to a reduction of around €3 million in BASF’s EBIT in 2013. Additionally, asset returns on plan assets recognized in profit or loss will no longer be calculated according to expectations but will instead be equal to the discount rate applied for pension obligations. The application of this accounting method will lead to a reduction of around €100 million in BASF’s financial result in 2013. Due to the changed definition of termination benefits and the resulting change in accounting policy for early-retirement agreements, a reduction in EBIT of around €7 million is expected in 2013. → **For more information, see Note 21 from page 187 onward** The revised IAS 19 also requires more detailed disclosure.

2 – Scope of consolidation

2.1 – Changes in scope of consolidation

In 2012, the scope of consolidation for the Consolidated Financial Statements encompassed 330 companies (2011: 316). Of this number, 36 companies were first-time consolidations (2011: 26). Since the beginning of 2012, 22 companies were deconsolidated due to merger, sale or immateriality (2011: 49).

First-time consolidations in 2012 comprised:

- A total of 12 companies in conjunction with the acquisition of the Becker Underwood Group
- Four companies as a result of the acquisition of Novolyte
- And an additional 20 companies which had previously not been consolidated, which are registered in Germany, the United States, the Netherlands, the United Kingdom, Belgium, France, China, Brazil, Ukraine, South Korea and Bahrain.

First-time consolidations in 2011 comprised:

- A total of four companies in conjunction with the acquisition of inge watertechnologies AG and inge GmbH
- 11 companies as a result of carving out the styrenics activities as of January 1, 2011. These companies were removed from the scope of consolidation as of October 1, 2011 along with two other companies due to their transfer into Styrolution Holding GmbH, which is accounted for using the equity method
- An additional 11 companies which had previously not been consolidated, which were registered in Germany, China, South Korea, Belgium, Canada and Panama.

A list of companies included in the Consolidated Financial Statements and a list of all companies in which BASF SE has a participation as required by Section 313 (2) of the German Commercial Code is provided in the List of Shares Held.

→ **For more information, see Note 3 on page 167 and basf.com/en/investor/cg**

Scope of consolidation

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	2012	2011
As of January 1	192	70	38	67	19	316	339
Thereof proportionally consolidated	12	1	3	9	–	24	21
First-time consolidations	17	4	12	4	3	36	26
Thereof proportionally consolidated	–	–	–	–	–	–	3
Deconsolidations	11	2	2	8	1	22	49
Thereof proportionally consolidated	1	–	1	–	–	2	–
As of December 31	**198**	**72**	**48**	**63**	**21**	**330**	**316**
Thereof proportionally consolidated	11	1	2	9	–	22	24

Overview of impact of changes to the scope of consolidation (excluding acquisitions and divestitures)

	2012		2011	
	Million €	%	Million €	%
Sales	**251**	**0.3**	**108**	**0.1**
Long-term assets	48	0.1	(67)	(0.2)
Thereof property, plant and equipment	54	0.3	44	0.2
Short-term assets	10	.	140	0.5
Thereof cash and cash equivalents	3	0.1	(3)	(0.1)
Assets	**58**	**0.1**	**73**	**0.1**
Equity	6	.	(28)	(0.1)
Long-term liabilities	12	0.1	6	.
Thereof financial indebtedness	.	.	2	.
Short-term liabilities	40	0.2	95	0.6
Thereof financial indebtedness	.	.	47	1.2
Total equity and liabilities	**58**	**0.1**	**73**	**0.1**
Contingent liabilities and other financial obligations	20	0.2	12	0.2

2.2 – Proportionally and at-equity consolidated companies

Proportionally consolidated jointly controlled entities 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, Russia, joint ventures with Gazprom through which gas trading activities and the production of natural gas and condensate in Siberia are operated
- ELLBA C.V., Rotterdam, the Netherlands, and ELLBA Eastern Private Ltd., Singapore, which are operated jointly with Shell and produce propylene oxide and styrene monomers
- BASF DOW HPPO Production B.V.B.A., Antwerp, Belgium, which is operated jointly with The Dow Chemical Company to produce propylene oxide
- BASF-YPC Company Ltd., a joint venture between BASF and Sinopec, which operates the Verbund site in Nanjing, China
- N.E. Chemcat Corporation, Tokyo, Japan, which is operated jointly with Sumitomo Metal Mining
- Heesung Catalysts Corporation, Seoul, South Korea, which is operated jointly with Heesung.

As of September 1, 2012, the jointly controlled entity Sabina Petrochemicals LLC, Port Arthur, Texas, merged with the subsidiary BASF FINA Petrochemicals Limited Partnership. The name of the merged company was changed to BASF TOTAL Petrochemicals LLC. The company is fully consolidated in the Consolidated Financial Statements.

In 2012, 14 companies were accounted for using the equity method (2011: 13). The following associated companies of major significance have been accounted for using the equity method:

- Solvin Group (BASF stake: 25%)
- CIMO Compagnie industrielle de Monthey S.A., Monthey, Switzerland (BASF stake: 50%)
- Nord Stream AG, Zug, Switzerland (BASF stake: 15.5%)
- OAO Severneftegazprom, Krasnoselkup, Russia (BASF stake: 25%; share of economic rewards: 35%)
- Shanghai Lianheng Isocyanate Co. Ltd., Shanghai, China (BASF stake: 35%)
- Styrolution Holding GmbH, Frankfurt am Main, Germany (BASF stake: 50%).

The higher sales and earnings at associated companies of major significance resulted in particular from the first-time full-year reporting of the figures of Styrolution Holding GmbH and the increase in business activities at Nord Stream AG.

A complete listing of all proportionally consolidated companies and companies accounted for using the equity method is available in the List of Shares Held.

→ **For more information, see Note 3 on page 167 and basf.com/en/investor/cg**

Financial information on proportionally consolidated companies (BASF stake)

Million €	2012	2011
Income statement information		
Sales	6,373	5,749
Income from operations	324	345
Income before taxes and minority interests	323	371
Net income	277	284
Balance sheet information		
Long-term assets	1,609	1,674
Thereof property, plant and equipment	1,442	1,498
Short-term assets	1,542	1,642
Thereof marketable securities, cash and cash equivalents	151	133
Total assets	**3,151**	**3,316**
Equity	1,524	1,617
Long-term liabilities	634	556
Thereof financial indebtedness	409	349
Short-term liabilities	993	1,143
Thereof financial indebtedness	149	154
Total equity and liabilities	**3,151**	**3,316**
Contingent liabilities and other financial obligations	704	285
Statement of cash flows		
Cash provided by operating activities	486	395
Cash used in investing activities	(189)	(194)
Cash used in financing activities	(274)	(234)
Net changes in cash and cash equivalents	23	(33)

Financial information on associated companies of major significance accounted for using the equity method (Complete financial statements; 100%)

Million €	2012	2011
Income statement information		
Sales	9,513	4,100
Income from operations	848	330
Income before taxes and minority interests	572	254
Net income	452	206
BASF's share of net income	144	69
Balance sheet information		
Long-term assets	12,216	11,739
Thereof property, plant and equipment	10,257	9,949
Short-term assets	3,196	3,483
Thereof marketable securities, cash and cash equivalents	979	448
Total assets	**15,412**	**15,222**
Equity	5,561	5,574
Long-term liabilities	7,708	7,196
Thereof financial indebtedness	6,075	5,996
Short-term liabilities	2,143	2,452
Thereof financial indebtedness	858	937
Total equity and liabilities	**15,412**	**15,222**
BASF's share of equity	1,781	1,786

2.3 – Acquisitions and divestitures

Acquisitions

In 2012, BASF acquired the following activities:

- On February 13, 2012, BASF acquired the Ovonic Battery Company, headquartered in Rochester Hills, Michigan. Ovonic is a license provider for nickel metal hydride (NiMH) battery technologies and produces cathode active materials (CAMs) for batteries. Furthermore, the company operates a research facility for battery materials in Troy, Michigan. Ovonic holds numerous patents and patent applications worldwide in the area of NiMH technology. The company was incorporated into the newly established Battery Materials business unit, a part of the Catalysts division.
- BASF acquired B.C. Foam S.p.A.'s polyethylene terephthalate (PET) foams business, headquartered in Volpiano, Italy, effective February 29, 2012. The acquisition comprises production facilities and industrial property rights. PET foams are primarily used in wind turbine rotor blades. Moreover, high-quality PET foam panels are in demand in the automotive and aviation industries, as well as in shipbuilding. The acquired business has become part of the Performance Polymers division.
- On April 25, 2012, BASF acquired the energy storage activities of Novolyte Technologies LP, headquartered in Cleveland, Ohio, which focus on developing, producing and marketing performance electrolyte formulations for lithium-ion batteries. These activities will continue operations as part of BASF's Battery Materials unit. BASF also acquired the performance materials business from Novolyte Holdings LP, which has been integrated into the Intermediates division. As part of the acquisition, BASF is continuing the joint venture in Nantong, China, operated by Novolyte and its Korean partner, Foosung Co., Ltd. Foosung is a global producer of the high-purity specialty salt lithium hexafluorophosphate ($LiPF_6$), an important material for manufacturing lithium-ion battery electrolytes. These electrolytes are key components in the fast-growing market for lithium-ion batteries for automotive, consumer and industrial applications.
- BASF concluded the acquisition of the Brazilian Mazzaferro Group's polyamide polymer business on May 2, 2012. The transaction comprises the site and production facilities for the polyamide-6 product range, as well as engineering plastics compounds at São Bernardo do Campo. BASF integrated the acquired activities into its existing engineering plastics and polyamide polymer business within the Performance Polymers division. The materials are used mainly in automotive and electrical applications.
- On May 8, 2012, BASF acquired Equateq Ltd., a producer of highly concentrated omega-3 fatty acids based in Callanish, United Kingdom. With this acquisition, BASF is expanding the Nutrition & Health division's portfolio of omega-3 products for the pharmaceutical and dietary supplement industries. Equateq's proprietary technology allows flexible formulation of omega-3 fatty acids at exceptional purity levels.
- BASF purchased ITWC Inc.'s business, headquartered in Malcom, Iowa, on July 1, 2012. The transaction, which primarily comprises cast elastomer systems and polyester polyols, complements BASF's offering of polyurethane products, systems and specialties in North America. The business has been integrated into the Polyurethanes division. Typical applications for cast elastomers include industrial tires and rollers for on-site transportation, conveyer belts and pulleys.
- Effective as of November 21, 2012, BASF acquired the Becker Underwood Group, which has its headquarters in Ames, Iowa. Becker Underwood is one of the leading global providers of technologies for biological seed treatment and seed treatment colors and polymers, as well as products in the areas of biological crop protection, turf and horticulture, animal nutrition and landscape design. The company has 479 employees and 10 production sites worldwide. Most of the Becker Underwood businesses will join the newly established Functional Crop Care global business unit as part of BASF's Crop Protection division. Within this new unit, BASF will merge its existing research, development and marketing activities in the areas of seed treatment, biological crop protection, plant health, as well as water and resource management with those of Becker Underwood. Becker Underwood's animal nutrition business will be integrated into BASF's Nutrition & Health division. The purchase price of the shares on the acquisition date amounted to the equivalent of €748 million.

The following shows an overview of the preliminary book and fair values of the assets and liabilities acquired with the purchase of Becker Underwood as of November 21, 2012.

Preliminary purchase price allocation for Becker Underwood acquisition in 2012 (million €)

	Historical carrying amount	Fair value adjustments	Fair value at time of acquisition
Long-term assets	**158**	**243**	**401**
Property, plant and equipment	24	6	30
Goodwill	60	(60)	–
Other intangible assets	55	252	307
Financial assets and other long-term assets	19	45	64
Short-term assets	**108**	**6**	**114**
Inventories	27	6	33
Accounts receivable, trade	53	–	53
Cash on hand/bank balance	10	–	10
Other short-term assets	18	–	18
Assets	**266**	**249**	**515**
Long-term liabilities	**19**	**117**	**136**
Deferred tax liabilities	17	117	134
Other liabilities	2	–	2
Short-term liabilities	**130**	**–**	**130**
Financial indebtedness	86	–	86
Other liabilities	44	–	44
Liabilities	**149**	**117**	**266**
Net assets	**117**	**132**	**249**
Goodwill			**499**
Total purchase price			**748**

Goodwill represents the assets which are not separable when conducting the purchase price allocation. It primarily relates to the employee know-how and synergies from the integration of the acquired businesses as well as, to a lesser extent, the combination of functional units. Becker Underwood contributed €19 million to sales and less than €1 million to net income in fiscal year 2012. The purchase price allocation for Becker Underwood should be regarded as preliminary. In accordance with IFRS, the purchase price allocation may be finalized within one year of the acquisition date.

– On December 5, 2012, BASF made a public takeover bid to the shareholders of Pronova BioPharma ASA, headquartered in Lysaker, Norway, for all shares in return for a cash payment of NOK 12.50 per share. By the end of the extended offer period on January 18, 2013, BASF was tendered 97.7% of all shares at an increased offer price of NOK 13.50 per share. The remaining shares were acquired on January 31, 2013, by means of a squeeze-out procedure with the previously tendered shares and the transaction was concluded. The total purchase price amounted to the equivalent of €526 million. Including net financial liabilities, the enterprise value of Pronova amounts to the equivalent of €672 million.

BASF acquired the following businesses in 2011:

– On August 16, 2011, BASF completed the acquisition of inge watertechnologies AG and inge GmbH, Greifenberg, Germany, a specialist for ultrafiltration technology. This acquisition gave BASF access to the technology and market for ultrafiltration, a method of treating drinking water, process water, wastewater and seawater using special Multibore® membranes.
– In October 2011, BASF founded BASF Hock Mining Chemical (China) Company Limited (BASF Hock) together with Ji'Ning Hock Mining & Engineering Equipment Company Limited (Hock). BASF holds a majority share of 75% in BASF Hock. In December 2011, the company acquired Hock's business activities in the area of chemical injection and cavity filling products for coal mining and other underground applications.
– Additionally, on November 25, 2011, BASF completed its acquisition of 50% of Zandvliet Power N.V., a jointly controlled entity with the Belgian company Electrabel that runs the combined heat and power (CHP) plant at the BASF site in Antwerp, Belgium.

The following overview shows the effects of the preliminary purchase price allocations of the acquisitions conducted in 2012 and 2011 as of the acquisition date.

Effects of acquisitions in the year of acquisition

	2012		2011	
	Million €	%	Million €	%
Long-term assets	**1,259**	**3.5**	**213**	**0.6**
Goodwill	586	9.2	50	0.8
Other intangible assets	487	8.3	91	1.5
Property, plant and equipment	106	0.6	66	0.4
Financial assets	70	2.4	–	–
Other assets	10	0.2	6	0.4
Short-term assets	**167**	**0.6**	**23**	**0.1**
Thereof cash and cash equivalents	12	0.7	1	0.1
Assets	**1,426**	**2.2**	**236**	**0.4**
Equity	**4**	**.**	**10**	**.**
Long-term liabilities	**211**	**1.0**	**56**	**0.3**
Thereof financial indebtedness	–	–	–	–
Short-term liabilities	**156**	**0.9**	**21**	**0.1**
Thereof financial indebtedness	86	2.0	–	–
Total equity and liabilities	**371**	**0.6**	**87**	**0.1**
Payments for acquisitions	**1,055**		**149**	

Assets and liabilities of disposal groups

– On November 14, 2012, BASF and Gazprom agreed to swap assets of equal value. Subject to the approval by the relevant authorities, the transaction is to be completed by the end of 2013 and financially retroactive to April 1, 2013. Under the agreement, BASF will receive 25% plus one share in the blocks IV and V in the Achimov formation of the Urengoy natural gas and condensate field in Western Siberia, with the possibility to increase this shareholding in the future. According to the development plan, blocks IV and V have total hydrocarbon resources of 274 billion cubic meters of natural gas and 74 million metric tons of condensate. A total annual plateau production of at least 8 billion cubic meters of natural gas is expected from the two blocks. Start of production is planned for 2016. In return, BASF will completely transfer its share in the jointly operated natural gas trading and storage business to its partner Gazprom. This includes the 50% shares in the natural gas trading companies WINGAS GmbH and Wintershall Erdgas Handelshaus GmbH & Co. KG, including their subsidiaries, and shares in the natural gas storage facilities in Rehden and Jemgum, Germany, and in Haidach, Austria. Gazprom will also receive a 50% share in the activities of Wintershall Noordzee B.V., which is active in the exploration and production of oil and gas in the southern North Sea (the Netherlands, the United Kingdom and Denmark). The assets and liabilities of the activities to be transferred were reclassified into a disposal group at year-end 2012.

The values of the disposal group are shown in the following table:

Natural gas trading disposal group (million €)

	Dec. 31, 2012
Intangible assets	92
Property, plant and equipment	983
Inventories	692
Accounts receivable, trade	1,457
Positive fair values of derivatives	39
Other receivables and miscellaneous assets	140
Cash and cash equivalents	14
Assets of the disposal group	**3,417**
Provisions for pensions and similar obligations	21
Other provisions	523
Accounts payable, trade	1,402
Negative fair values of derivatives	45
Other liabilities	241
Liabilities of the disposal group	**2,232**
Net assets	**1,185**

In 2012, the companies included in the natural gas trading disposal group contributed €11,385 million to BASF Group sales.

Divestitures

In 2012, BASF divested the following activities:

- As of January 31, 2012, BASF sold its 50% share in the jointly controlled entity PEC-Rhin S.A., Ottmarsheim, France, to its joint venture partner GPN, Courbevoie, France. PEC-Rhin owns and operates production facilities for calcium ammonium nitrate and ammonium nitrate fertilizers, as well as production facilities for the intermediates ammonia and nitric acid. The net assets that had been reported as part of the fertilizer disposal group were deconsolidated as of the date of sale. The following table shows the calculation of gains on the disposal of BASF's share in PEC-Rhin:

Profit realization from the deconsolidation of PEC-Rhin (million €)

Proceeds from divestiture	34
Disposed net assets as part of the disposal group[1]	(13)
Reinstated receivables and payables, realized intercompany profits	4
Disposal gains	**25**

- The sale of BASF's fertilizer activities in Antwerp, Belgium, to EuroChem, Moscow, Russia, which had been agreed upon on September 27, 2011, was completed on March 31, 2012, after approval was granted by anti-trust authorities. The sale comprises production facilities for calcium ammonium nitrate and ammonium nitrate fertilizers, NPK fertilizers (nitrogen, phosphate, potassium), nitrophosphoric acid and three related nitric acid plants. The sale resulted in the transfer of 330 employees. The following table shows the assets and liabilities disposed as a result of the sale to EuroChem as of the date of disposal:

Fertilizer disposal group (excluding PEC-Rhin) as of the date of disposal (million €)

Disposed assets as part of the disposal group[1]	237
Disposed liabilities as part of the disposal group[1]	(33)
Net assets	**204**

BASF's proceeds from the divestiture amounted to €670 million. In addition, EuroChem will pay BASF a cash compensation of €175 million in the period from 2012 to 2016. The fair value of this compensation on the date of disposal amounted to €162 million.

In addition to the disposed assets and liabilities from the disposal group, the disposal gains were reduced by other effects resulting from contractual adjustment clauses and expenses resulting from the divestiture. In the segment reporting, the entire fertilizer business was reported under Other. The following overview shows the individual components of the calculation of disposal gains:

Profit realization from the sale of fertilizer activities (excluding PEC-Rhin) (million €)

Proceeds from divestiture	670
Compensation claim	162
Disposed net assets as part of the disposal group[1]	(204)
Other effects of the divestiture	(8)
Disposal gains	**620**

[1] On December 31, 2011, the assets and liabilities of the fertilizer business were reported separately as part of the disposal group.

- On August 30, 2012, BASF concluded the sale of its offset printing inks business (IMEX), announced on March 15, 2012, to Quantum Kapital AG, headquartered in St. Gallen, Switzerland. The divestiture covers all offset printing inks activities as well as the transfer of all employees at the site in Maastricht, the Netherlands, assigned to the business. The business had been part of the Dispersions & Pigments division.
- As of November 30, 2012, BASF completed the divestiture of the decorative paints business of Relius Coatings GmbH & Co. KG, Oldenburg, Germany, and of the participation in Relius France S.A.S., Ostwald, France. The business had been part of the Coatings division. The buyer, PROSOL Lacke + Farben GmbH, based in Aschaffenburg, Germany, acquired the Memmingen site as well as around 30 distribution points in Germany and France.
- As of December 19, 2012, BASF sold its Capcure® brand curative business to Gabriel Performance Products LLC, based in Ashtabula, Ohio. The business had been part of the Dispersions & Pigments division.

In 2011, BASF divested the following activities:

- On April 1, 2011, N.E. Chemcat Corporation, Tokyo, Japan, an entity jointly controlled by BASF and Sumitomo Metal Mining, sold the business with chemicals for surface treatment and electroplating to Metalor, an international group based in Switzerland. The divested business activities included solutions for precious metals as well as apparatus engineering for electroplating applications, which were primarily sold to customers in the electrical industry.
- On April 8, 2011, BASF divested its surface technologies business for thermal spray coatings, which had been acquired as part of the Engelhard acquisition in 2006. The business was sold to North American firm Metal Improvement Company LLC, a subsidiary of Curtiss Wright Corporation, based in New Jersey.
- On August 31, 2011, the bisomer monomer business and the conventional contact lens business of Cognis were divested to GEO Specialty Chemicals Inc. In this way, BASF fulfilled the condition set down by the European Commission for its approval of the Cognis acquisition. The transaction included production facilities in Hythe, United Kingdom.

– On October 1, 2011, BASF transferred its styrenics disposal group activities to Styrolution, a joint venture founded with INEOS at this time. The 50% share held by BASF is accounted for using the equity method in the Consolidated Financial Statements. BASF does not intend to hold this share permanently. To determine the disposal gain, Styrolution was measured at fair value on the basis of discounted cash flows as of October 1, 2011. At this time, the styrenics disposal group was deconsolidated as a disposed net asset. In connection with the founding of Styrolution, BASF received a cash consideration of €600 million as compensation for the value difference between the businesses contributed by both joint venture partners. The reported disposal gain of €593 million was determined in accordance with the regulations set out by the Standing Interpretations Committee Interpretation (SIC-13). This amount equals the cash consideration less the mutual compensation claims. The initial at-equity book value of the participation in Styrolution, adjusted according to SIC-13, was €734 million.

The following overview shows the effects of the divestitures in 2012 and 2011 on the consolidated balance sheet. The line item sales reflects the year-on-year decline resulting from divestitures. The impact on equity relates mainly to gains and losses from divestitures.

Effects of divestitures in the year of divestiture

	2012		2011	
	Million €	%	Million €	%
Sales	(810)	(1.1)	(361)	(0.5)
Long-term assets	84	0.2	728	2.1
Thereof property, plant and equipment	(16)	(0.1)	(13)	(0.1)
Short-term assets	(263)	(0.9)	(735)	(2.7)
Thereof cash and cash equivalents	(7)	(0.4)	(2)	(0.1)
Assets	(179)	(0.3)	(7)	.
Equity	400	1.6	586	2.3
Long-term liabilities	154	0.7	148	0.8
Thereof financial indebtedness	(1)	.	–	–
Short-term liabilities	(2)	.	(74)	(0.4)
Thereof financial indebtedness	–	–	–	–
Total equity and liabilities	552	0.9	660	1.1
Proceeds from divestitures	731		667	

3 – List of Shares Held of the BASF Group in accordance with Section 313(2) of the German Commercial Code

List of Shares Held

The list of consolidated companies and the complete list of all companies in which BASF SE has a participation as required by Section 313(2) of the German Commercial Code is an integral component of the audited Consolidated Financial Statements submitted to the electronic Federal Gazette. It is also published online. → basf.com/en/investor/cg

4 – Reporting by segment and region

BASF's worldwide business is conducted by 15 operating divisions that are divided into six segments for reporting purposes on the basis of similar products, production processes and customer industries.

Chemicals consists of the Inorganics, Petrochemicals and Intermediates divisions. We produce a wide variety of basic chemicals and intermediates for both internal and external customers in our integrated production facilities.

Plastics, consisting of the Performance Polymers and Polyurethanes divisions, offers a variety of engineering plastics and the associated system solutions and services.

The Performance Products segment offers innovative and specific system solutions for numerous processing industries. These include, for example, the plastics processing industry, the paper industry, the food and animal feed industry, producers of hygiene products, users of oil field and mining chemicals as well as leather and textiles processors. The segment Performance Products consists of the Dispersions & Pigments, Care Chemicals, Nutrition & Health, Paper Chemicals and Performance Chemicals divisions.

Functional Solutions comprises the Catalysts, Construction Chemicals and Coatings divisions. In this segment, we bundle tailor-made system solutions and innovative products for specific industries, in particular for the automotive, chemical and construction sectors.

The Agricultural Solutions segment corresponds to the Crop Protection division, which primarily offers crop protection products that guard against fungal diseases, insects and weeds.

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

→ **For more on the segments, see the Management's Analysis from page 58 onward**

Activities not assigned to a particular division are reported in Other. These include the sale of other raw materials, engineering and other services, rental income and leases. The fertilizer activities were also reported under Other until their disposal in the first quarter of 2012. The sales and earnings of the styrenics business, which BASF transferred to the Styrolution joint venture as of October 1, 2011, were included in Other for the first nine months of 2011. The participation in Styrolution is accounted for using the equity method in the Consolidated Financial Statements.

→ **For more information, see Note 2 from page 161 onward**

Group corporate costs consist of the expenses for steering the BASF Group and are not allocated to the segments, but rather reported under Other.

With our corporate research, which is also reported under Other, we develop cross-division and cross-segment growth fields and ensure the long-term competence of BASF with regard to technology and methods, including plant biotechnology.

Earnings from currency conversion reported under Other include earnings not allocated to the segments from the hedging of forecasted sales, from currency positions that are macro-hedged as well as from the conversion of financial liabilities. In addition, Other also includes income and expenses from the BASF long-term incentive (LTI) program as well as the results of the hedging of raw material price risks that were not allocated to the segments.

Transfers between the segments are almost always executed at market-based prices. Assets, as well as their depreciation and amortization, are allocated to the segments 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 €)

	2012	2011
Corporate research costs	(391)	(348)
Costs of the corporate headquarters	(255)	(246)
Styrenics, fertilizers, other businesses	826	997
Foreign currency results, hedging and other measurement effects	(460)	(199)
Miscellaneous income and expenses	13	(26)
	(267)	**178**

The decline in income from operations in Other is particularly due to the lack of an earnings contribution from the styrenics business. Furthermore, the €299 million in expenses arising from the long-term incentive program were €174 million higher than in 2011 as a result of the development of the stock price.

Earnings in Other in 2012 contained gains of €645 million on the disposal of the fertilizer business. In the previous year, this item had contained the disposal gain of €593 million from the styrenics business. The foreign currency result under Other decreased compared with the previous year.

Miscellaneous income and expenses in 2012 included income of €75 million arising from the adjustment of pension plans and similar obligations; in 2011 this item contained €68 million in income from the repeal of a fine imposed on the former Ciba by the E.U. in 2009.

→ **For more on the disposal gains from the styrenics business and the fertilizer business, see Note 2.3 from page 166 onward**

Assets of Other (million €)

	2012	2011
Assets of businesses included under Other	2,317	2,272
Financial assets	2,925	2,700
Deferred tax assets	1,545	941
Cash and cash equivalents/marketable securities	1,800	2,067
Defined benefit assets	43	128
Miscellaneous receivables/prepaid expenses/ assets of the disposal group not allocated to operations	1,634	1,863
	10,264	**9,971**

The reconciliation reporting Oil & Gas reconciles the income from operations in the Oil & Gas segment with the contribution of the segment to the net income of the BASF Group.

The Oil & Gas segment's miscellaneous earnings relate to income and expenses not included in the segment's income from operations, the interest result as well as the other financial result.

The increase in income from operations and higher income taxes are attributable to the continuous oil production in Libya throughout 2012.

The rise in income from participations resulted in part from higher profits at OAO Severneftegazprom (SNG), Krasnoselkup, Russia, which is accounted for using the equity method. SNG holds the production license to the Yuzhno Russkoye natural gas field in Western Siberia. BASF has a 35% share in the commercial success of the field.

Reconciliation reporting Oil & Gas (million €)

	2012	2011
Income from operations	**3,904**	**2,111**
Income from participations	112	100
Other income	(131)	(92)
Income before taxes and minority interests	**3,885**	**2,119**
Income taxes	2,428	896
Thereof income taxes on oil-producing operations non-compensable with German corporate income tax	1,880	439
Income before minority interests	**1,457**	**1,223**
Minority interests	256	159
Net income	**1,201**	**1,064**

Segments 2012 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	13,824	11,402	15,871	11,460	4,679	16,700	5,330	4,793	78,729
Change (%)	6.7	3.7	1.1	0.9	12.3	38.6	67.5	(23.6)	7.1
Intersegmental transfers	5,726	619	456	204	29	1,143	3	134	8,311
Sales including intersegmental transfers	19,550	12,021	16,327	11,664	4,708	17,843	5,333	4,927	87,040
Income from operations	1,718	874	1,286	435	1,026	3,904	3,422	(267)	8,976
Change (%)	(29.6)	(30.6)	(5.5)	1.9	27.0	84.9	103.0	.	4.5
Assets	7,299	5,846	13,496	9,765	6,527	11,130	5,841	10,264	64,327
Thereof goodwill	24	148	1,906	2,060	1,870	325	325	52	6,385
intangible assets	116	105	1,859	1,528	424	1,759	1,740	65	5,856
property, plant and equipment	3,665	2,499	3,990	1,858	785	4,508	2,194	872	18,177
Debt	2,684	1,893	4,372	2,408	1,485	3,692	1,571	21,989	38,523
Research and development expenses	145	157	345	243	430	32	32	394	1,746
Additions to property, plant and equipment and intangible assets	920	659	786	572	1,054	1,206	800	200	5,397
Amortization of intangible assets and depreciation of property, plant and equipment	691	440	827	459	156	817	635	150	3,540
Thereof impairments	–	6	38	89	–	200	200	2	335

Segments 2011 (million €)

	Chemicals	Plastics	Performance Products	Functional Solutions	Agricultural Solutions	Oil & Gas	Thereof Exploration & Production	Other	BASF Group
Sales	12,958	10,990	15,697	11,361	4,165	12,051	3,182	6,275	73,497
Change (%)	13.9	11.8	27.7	17.1	3.3	11.7	(16.7)	7.2	15.1
Intersegmental transfers	6,295	694	490	195	27	1,015	2	411	9,127
Sales including intersegmental transfers	19,253	11,684	16,187	11,556	4,192	13,066	3,184	6,686	82,624
Income from operations	2,442	1,259	1,361	427	808	2,111	1,686	178	8,586
Change (%)	5.7	(1.1)	1.2	(6.6)	7.9	(9.6)	(12.1)	.	10.6
Assets	6,920	5,297	13,680	9,725	5,350	10,232	5,315	9,971	61,175
Thereof goodwill	25	122	1,946	2,023	1,410	389	389	47	5,962
intangible assets	89	104	2,079	1,645	165	1,806	1,760	69	5,957
property, plant and equipment	3,500	2,353	3,844	1,718	669	5,062	2,246	820	17,966
Debt	1,849	1,349	3,321	2,309	1,123	3,267	1,335	22,572	35,790
Research and development expenses	132	149	330	192	412	23	23	367	1,605
Additions to property, plant and equipment and intangible assets	622	423	648	359	150	1,274	692	170	3,646
Amortization of intangible assets and depreciation of property, plant and equipment	746	419	951	494	173	505	356	119	3,407
Thereof impairments	87	4	131	109	–	–	–	14	345

Regions 2012 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	42,882	15,885	14,460	14,927	6,460	78,729
Change (%)	9.6	8.0	3.3	3.6	8.2	7.1
Share (%)	54.5	20.2	18.4	19.0	8.2	100.0
Location of companies						
Sales	45,665	32,718	14,599	13,916	4,549	78,729
Sales including interregional transfers	52,454	38,145	17,032	14,383	4,743	88,612
Income from operations	6,746	4,542	964	905	361	8,976
Assets	37,632	23,133	13,369	9,434	3,892	64,327
Thereof property, plant and equipment	10,416	6,866	3,735	3,199	827	18,177
Additions to property, plant and equipment and intangible assets	2,611	1,589	1,840	629	317	5,397
Amortization of intangible assets and depreciation of property, plant and equipment	2,239	1,127	664	530	107	3,540
Employees as of December 31	71,144	52,844	16,917	18,128	7,073	113,262

Regions 2011 (million €)

	Europe	Thereof Germany	North America	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	39,124	14,705	13,995	14,410	5,968	73,497
Change (%)	17.8	20.3	8.6	15.2	13.1	15.1
Share (%)	53.3	20.0	19.0	19.6	8.1	100.0
Location of companies						
Sales	41,036	28,816	14,727	13,316	4,418	73,497
Sales including interregional transfers	47,347	33,974	17,057	13,796	4,652	82,852
Income from operations	5,668	3,249	1,314	1,133	471	8,586
Assets	36,058	21,337	12,209	9,492	3,416	61,175
Thereof property, plant and equipment	10,700	6,853	3,483	3,098	685	17,966
Additions to property, plant and equipment and intangible assets	2,467	1,462	504	551	124	3,646
Amortization of intangible assets and depreciation of property, plant and equipment	2,036	1,204	795	463	113	3,407
Employees as of December 31	70,664	52,049	16,167	17,342	6,968	111,141

5 – Earnings per share

Earnings per share

		2012	2011
Net income	million €	4,879	6,188
Weighted-average number of outstanding shares	1,000	918,479	918,479
Earnings per share	**€**	**5.31**	**6.74**
Diluted earnings per share	€	5.31	6.73

In accordance with IAS 33, a potential dilutive effect must be considered in the diluted earnings per share for those BASF shares which will be granted in the future as a part of the BASF employee participation program “*plus*.” This applies regardless of the fact that the necessary shares are acquired by third parties on the market on behalf of BASF, and the fact that there are no plans for the issuance of new shares. For 2012, there was no dilutive effect.

6 – Functional costs

Under the cost-of-sales method, functional costs incurred by the operating functions are determined on the basis of cost center accounting. The functional costs contain in particular the personnel costs, depreciation and amortization accumulated on the underlying final cost centers as well as allocated costs within the cost accounting cycle. Operating expenses that cannot be allocated to the functional costs are reported as other operating expenses.

→ **For more on other operating expenses, see Note 8 on page 173**

Cost of sales

Cost of sales includes all production and purchase costs of the Company's own products as well as merchandise which have been sold in the period.

Selling expenses

Selling expenses include in particular marketing and advertising costs, freight costs, packaging costs, distribution management costs, commissions and licensing costs.

General and administrative expenses

General and administrative expenses primarily include the costs of the central units, the costs of managing business units and divisions as well as costs of general management, the Board of Executive Directors and the Supervisory Board.

Research and development expenses

Research and development expenses contain the costs arising in research projects as well as the necessary license fees for the research activities.

→ **For more on research and development expenses by segment, see Note 4 on page 170**

7 – Other operating income

Million €	2012	2011
Reversal and adjustment of provisions	121	170
Revenue from miscellaneous revenue-generating activities	145	207
Income from foreign currency and hedging transactions	73	170
Income from the translation of financial statements in foreign currencies	32	42
Gains on the disposal of property, plant and equipment and divestitures	701	666
Gains on the reversal of allowances for business-related receivables	60	77
Other	590	676
	1,722	**2,008**

The **reversal and adjustment of provisions** was primarily related to closures and restructuring measures, employee obligations, risks from lawsuits and damage claims as well as various other items as part of the normal course of business. Provisions were reversed or adjusted if the circumstances on the balance sheet date were such that utilization was no longer expected or expected to a lesser extent.

Revenue from miscellaneous revenue-generating activities primarily included income from rentals, property sales, catering operations, cultural events and logistics services.

Income from foreign currency and hedging transactions concerned foreign currency transactions, the measurement at fair value of receivables and payables in foreign currencies as well as currency derivatives and other hedging transactions.

Income from the translation of financial statements in foreign currencies included gains arising from the translation of subsidiaries outside of the eurozone that use the euro as their functional currency.

Gains on the disposal of property, plant and equipment and divestitures arose in particular from the sale of the fertilizer activities, which resulted in gains of €645 million. In the previous year, this item contained €593 million from the transfer of the styrenics business into the Styrolution joint venture.

Gains on the reversal of allowances for business-related receivables resulted mainly from the settlement in 2012 of receivables for which a valuation allowance had been recorded.

Other income contained legal settlements of €19 million in 2012 and €186 million in 2011. Further income in 2012 was due to payments related to the earnings in the fertilizer business, gains from precious metal trading, insurance refunds, curtailment of various pension plans, reversal of impairments on property, plant and equipment, and a number of other items.

8 – Other operating expenses

Million €	2012	2011
Restructuring measures	197	233
Environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization	215	203
Valuation adjustments on intangible assets and property, plant and equipment	377	366
Costs from miscellaneous revenue-generating activities	146	220
Expenses from foreign-currency and hedging transactions as well as market valuation	554	399
Losses from the translation of the financial statements in foreign currencies	54	56
Losses from the disposal of property, plant and equipment and divestitures	47	40
Oil and gas exploration expenses	222	184
Expenses from the addition of valuation allowances for business-related receivables	81	124
Expenses from the use of inventories measured at market value and the derecognition of obsolete inventory	179	233
Other	599	632
	2,671	**2,690**

In 2012, expenses for **restructuring measures** were primarily related to the site in Grenzach, Germany, in the amount of €47 million, and a site in France in the amount of €17 million. Further restructuring at several sites in the Performance Chemicals and Construction Chemicals divisions amounted to €24 million and €37 million, respectively. In 2011, expenses of €157 million related to the Cognis integration.

Further expenses were related to **environmental protection and safety measures, costs of demolition and removal, and planning expenses related to capital expenditures that are not subject to mandatory capitalization** according to IFRS. Expenses for demolition, removal and project planning totaled €169 million in 2012 and €128 million in 2011. These related in particular to the Ludwigshafen site. Furthermore, there were additions of €24 million to environmental provisions in 2012 for the remediation of landfills at several sites in North America. In 2011, expenses of €50 million arose from the remediation of landfills at various sites in Europe.

Valuation adjustments on intangible assets and property, plant and equipment of €200 million were related to impairment charges on a Norwegian oil field development project. Other valuation adjustments were recognized in the Construction Chemicals division for marketing and trademark rights amounting to €71 million and for property, plant and equipment at several sites amounting to €13 million. In 2011, impairments of €83 million related to property, plant and equipment in the Petrochemicals division at the site in Port Arthur, Texas, and impairments of €79 million related to Relius' decorative paints business, which has since been sold. Furthermore, impairments also included €46 million for assets taken over as part of the Cognis acquisition and €54 million for property, plant and equipment in the Paper Chemicals division at a site in the United States.

Costs from miscellaneous revenue-generating activities were related to the respective items presented in other operating income. → For more information, see Note 7 on page 172

Expenses from foreign-currency and hedging transactions as well as market valuation concerned foreign currency translations of receivables and payables as well as changes in the fair value of currency derivatives and other hedging transactions. In addition, expenses of €299 million resulted from the long-term incentive program (LTI program) owing to the rise in the share price. In 2011, expenses of €125 million resulted from the LTI program.

In 2012, **losses from the disposal of property, plant and equipment and divestitures** in the amount of €17 million arose from the sale of assets at several sites in North America. In 2011, losses of €12 million resulted from the sale of individual businesses and plants at the site in Hythe, United Kingdom.

Expenses from the addition of valuation allowances for business-related receivables declined in comparison to the previous year. This was due to the recognition of valuation allowances for receivables from an insolvent customer in the Oil & Gas segment in 2011.

Expenses from the use of inventory measured at market value and the derecognition of obsolete inventory were attributable to the use of inventory measured at market value during the Cognis acquisition amounting to €58 million in 2011.

Other expenses were the result of a legal settlement reached in the United States, the implementation of various projects and the recognition of provisions for onerous contracts. Further expenses related to REACH as well as to a number of other items. In addition, other expenses in 2011 resulted from the cost of a settlement reached in a further legal dispute in the United States.

9 – Financial result

Million €	2012	2011
Income from companies accounted for using the equity method	**171**	**48**
Income from participations in affiliated and associated companies	41	56
Income from the disposal of participations	17	890
Income from profit transfer agreements	14	15
Income from tax allocation to participating interests	3	5
Other income from participations	**75**	**966**
Losses from loss transfer agreements	(23)	(7)
Write-downs on/losses from the sales of participations	(20)	(23)
Other expenses from participations	**(43)**	**(30)**
Interest income from cash and cash equivalents	171	177
Interest and dividend income from securities and loans	8	12
Interest income	**179**	**189**
Interest expenses	**(752)**	**(763)**
Write-ups of/profits from the sale of securities and loans	1	1
Expected income from plan assets to cover pensions and similar obligations	819	819
Income from plan assets to cover other long-term personnel obligations	42	14
Income from the capitalization of borrowing costs	68	73
Miscellaneous financial income	–	2
Other financial income	**930**	**909**
Write-downs on/losses from the disposal of securities and loans	(18)	(3)
Interest accrued on pension obligations and other similar obligations	(853)	(833)
Expenses from/interest accrued on other long-term employee obligations	(58)	(32)
Interest accrued on other long-term liabilities	(61)	(67)
Miscellaneous financial expenses	(110)	–
Other financial expenses	**(1,100)**	**(935)**
Financial result	**(540)**	**384**

The increase in **income from companies accounted for using the equity method** resulted primarily from the adoption of the equity method for Styrolution Holding GmbH as of the fourth quarter of 2011 and from higher income at Nord Stream AG since the start-up of the first pipeline in fall 2011. The previous year also included negative earnings effects from the application of the equity method for the South Korean Heesung Catalysts Corporation for the last time.

→ **For more information, see Note 2 from page 160 onward**

Income from the disposal of participations declined; in 2011, this item primarily included the gain of €887 million from the sale of 19.7 million shares in K+S Aktiengesellschaft.

The interest result matched the level of the previous year. The decrease in **interest income** is mainly attributable to lower income from interest rate swaps. The repayment of two bonds led to lower **interest expenses**.

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

Miscellaneous financial expenses in 2012 included effects from the market valuation of options for the disposal of BASF's share in the Styrolution joint venture amounting to minus €88 million.

10 – Income taxes

Million €	2012	2011
Corporate income tax, solidarity surcharge and trade taxes (Germany)	453	340
Foreign income tax	3,146	1,420
Taxes for prior years	(329)	28
Current tax expense	**3,270**	**1,788**
Deferred tax expense (+)/income (–)	(56)	579
Income taxes	**3,214**	**2,367**
Thereof income taxes on oil-producing operations	2,243	520
Other taxes as well as sales and consumption taxes	342	344
Tax expense	**3,556**	**2,711**

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

Million €	2012	2011
Germany	1,908	3,343
Foreign oil production branches of German companies	2,417	564
Foreign	4,111	5,063
	8,436	**8,970**

In Germany, a uniform corporate income tax rate of 15.0% as well as a solidarity surcharge of 5.5% thereon 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 represented. In 2012, the weighted average tax rate amounted to 13.3% (2011: 12.9%). The profits of foreign Group companies are assessed using the tax rates applicable in their respective countries.

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

For German Group companies, deferred taxes were calculated using a uniform 29.0% rate.

For foreign Group companies, deferred taxes were calculated using the tax rates applicable in the individual foreign countries. These rates averaged 23.0% in 2012 and 28.5% in 2011.

Income taxes on foreign oil-producing operations are compensable up to the level of the German corporate income tax on this foreign taxable income. The non-compensable amount is shown separately in the following table. Non-compensable foreign income taxes for oil production amounting to €1,880 million were calculated using a corporate income tax rate of 15.0%.

Other taxes include real estate taxes and other comparable taxes of €96 million in 2012, and €95 million in 2011; they are allocated to the appropriate functional costs.

Changes in valuation adjustments for deferred tax assets for tax loss carryforwards resulted in an expense of €4 million in 2012 and in an expense of €10 million in 2011.

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

	2012		2011	
	Million €	%	Million €	%
Income before taxes and minority interests	8,436	–	8,970	–
Expected tax based on German corporate income tax (15%)	1,265	15.0	1,346	15.0
Solidarity surcharge	10	0.1	8	0.1
German trade tax	233	2.8	334	3.7
Foreign tax-rate differential	327	3.9	684	7.6
Tax-exempt income	(108)	(1.3)	(366)	(4.1)
Non-deductible expenses	80	0.9	60	0.7
Income after taxes of companies accounted for using the equity method	(26)	(0.3)	(7)	(0.1)
Taxes for prior years	(329)	(3.9)	28	0.3
Foreign income taxes on oil-producing operations non-compensable with German corporate income tax	1,880	22.3	439	4.9
Deferred tax liabilities for the future reversal of temporary differences associated with shares in participations	(26)	(0.3)	(23)	(0.2)
Other	(92)	(1.1)	(136)	(1.5)
Income taxes/effective tax rate	**3,214**	**38.1**	**2,367**	**26.4**

For planned dividend distributions of Group companies and planned disposals, the resulting future income taxes and withholding taxes are recognized as deferred tax liabilities as long as they are expected to lead to a reversal of temporary differences. A planning horizon of one year was assumed for planned dividend distributions. A decrease in planned dividend distributions led to deferred tax income of €26 million in 2012 (2011: deferred tax expense of €23 million).

The increase in non-compensable foreign income taxes for oil-producing operations is attributable to full-year oil production in Libya.

The taxes for prior years primarily contain reversals of long-term tax provisions.

The decrease in the foreign tax-rate differential was chiefly attributable to lower earnings contributions from Norway and North America.

Deferred tax assets and liabilities (million €)

	Deferred tax assets		Deferred tax liabilities	
	2012	2011	2012	2011
Intangible assets	154	184	1,846	1,840
Property, plant and equipment	312	304	1,957	2,127
Financial assets	15	18	83	99
Inventories and accounts receivable	325	343	651	732
Provisions for pensions and similar obligations	2,087	1,246	500	459
Other provisions and liabilities	802	1,056	54	59
Tax loss carryforwards	572	620	–	–
Other	228	163	286	181
Netting	(2,866)	(2,869)	(2,866)	(2,869)
Valuation allowances for deferred tax assets	(84)	(124)	–	–
Thereof for tax loss carryforwards	(54)	(107)	–	–
Total	**1,545**	**941**	**2,511**	**2,628**
Thereof short-term	587	392	265	404

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 and unused tax credits. 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 leads primarily 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.

Undistributed earnings of subsidiaries resulted in temporary differences of €7,946 million in 2012 (2011: €5,281 million) for which deferred tax liabilities were not recognized, as they are either not subject to taxation on payout or they are expected to be reinvested for indefinite periods of time.

The regional distribution of tax loss carryforwards is as follows:

Tax loss carryforwards (million €)

	Tax loss carryforwards		Deferred tax assets	
	2012	**2011**	**2012**	**2011**
Germany	12	17	1	2
Foreign	2,585	2,808	517	511
	2,597	**2,825**	**518**	**513**

German tax losses may be carried forward indefinitely. Foreign tax loss carryforwards exist primarily in the regions North America and Europe. Valuation allowances on deferred tax assets were recognized for tax loss carryforwards of €9 million.

In 2011, valuation allowances on deferred tax assets were recognized for tax loss carryforwards of €48 million.

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

Tax obligations (million €)

	2012	**2011**
Tax provisions	440	434
Tax liabilities	640	604
	1,080	**1,038**

11 – Minority interests

Million €	**2012**	**2011**
Minority interests in profits	381	420
Minority interests in losses	(38)	(5)
	343	**415**

Lower minority interests in profits arose in particular at BASF PETRONAS Chemicals Sdn. Bhd., Malaysia. After a positive earnings contribution in the previous year from BASF TOTAL Petrochemicals LLC in Port Arthur, Texas, scheduled maintenance measures and unscheduled shutdowns of the steam cracker led to minority interests in losses in 2012. Higher minority interests in profits resulted primarily from natural gas trading companies as well as from Gazprom's stake in the German Wintershall subsidiary that holds production and exploration rights in Libya.

→ **For more information on minority interests in consolidated companies, see Note 20 on page 187**

12 – Personnel expenses and employees

Personnel expenses

Personnel expenses increased by 6.0%, from €8,576 million in 2011 to €9,089 million in 2012. This was chiefly attributable to the higher number of employees, wage and salary increases, and higher additions to provisions for the stock-price-based compensation program (long-term incentive program) due to higher fair values as well as to the larger number of outstanding options.

Personnel expenses (million €)

	2012	**2011**
Wages and salaries	7,355	6,856
Social security contributions and expenses for pensions and assistance	1,734	1,720
Thereof for pension benefits	427	465
	9,089	**8,576**

Number of employees

The number of employees was 113,262 as of December 31, 2012 (December 31, 2011: 111,141).

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 112,388 in 2012 and 110,403 in 2011.

Average number of employees

	Fully consolidated companies		Proportionally consolidated companies		BASF Group	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Europe	70,902	70,180	315	450	71,217	70,630
Thereof Germany	52,498	51,395	16	15	52,514	51,410
North America	16,216	16,104	498	497	16,714	16,601
Asia Pacific	16,140	15,143	3,317	3,139	19,457	18,282
South America, Africa, Middle East	7,065	6,933	–	–	7,065	6,933
BASF Group	**110,323**	**108,360**	**4,130**	**4,086**	**114,453**	**112,446**
Thereof apprentices	2,464	2,236	–	2	2,464	2,238
temporary staff	2,913	2,766	86	134	2,999	2,900

13 – Intangible assets

The **goodwill** of BASF is allocated to 31 cash-generating units which are defined either on the basis of business units or on a higher level.

The annual impairment testing took place in the fourth quarter of the year on the basis of the cash-generating units. The recoverable amount was determined using the value in use; this was done using five-year plans and their respective cash flows which had been approved by corporate management. For the time period after the fifth year, a terminal value is calculated using a forward projection from the last detailed planning year. In accordance with IAS 36, the applied growth rates do not factor in capacity-increasing investments for which no cash outflows have taken place. The planning is based on experience, current performance and management's best possible estimates on the future development of individual parameters such as raw material prices and profit margins. Market assumptions regarding, for example, economic development and market growth are included based on external macroeconomic sources as well as sources specific to the industry.

The weighted average cost of capital rate after tax required for the impairment tests is determined using the Capital Asset Pricing Model. It comprises a risk-free rate, the market risk premium and the spread for the credit risk. The calculation also takes into account the capital structure and the volatility of the BASF share in comparison to the capital market (beta) as well as the average tax rate of each cash-generating unit. The impairment tests were conducted assuming a weighted average cost of capital rate between 6.82% and 7.01% (2011: 7.03% to 7.27%). For the cash-generating unit Exploration & Production in the Oil & Gas division, a cost of capital rate of 8.39% was applied (2011: 8.49%), which takes country-specific risks into account.

In determining the value in use of a cash-generating unit, BASF anticipates that a reasonably possible change in key assumptions will not lead to the carrying amount exceeding its respective recoverable amount. An exception is made for the goodwill of the Construction Chemicals division in the Functional Solutions segment, which arose from the acquisition of Degussa Bauchemie in the 2006 financial year. Earnings in the Construction Chemicals division are influenced by the growth of the construction industry, the focus on attractive market segments and the measures introduced to improve efficiency. The weighted average cost of capital rate used for the impairment testing of the cash-generating unit Construction Chemicals was 6.91% (2011: 7.18%). Construction Chemicals currently has a value in use that exceeds the carrying amount by around €518 million. The recoverable amount would equal the carrying amount of the unit if the weighted average cost of capital rate rose by 0.99 percentage points.

In 2012, the impairment tests resulted in no impairment losses on goodwill.

The impairment tests in the financial year 2011 resulted in impairment losses on goodwill totaling €11 million. These impairments occurred in relation to the sale of the European decorative paints business, which was part of the Coatings division in the Functional Solutions segment.

Goodwill of cash-generating units (million €)

	2012		2011	
Cash-generating unit	Goodwill	Growth rates[1]	Goodwill	Growth rates[1]
Crop Protection division	1,870	2.0%	1,410	2.0%
Catalysts division	1,366	2.0%	1,322	2.0%
Construction Chemicals division	691	1.5%	698	1.5%
Personal Care Ingredients in the Care Chemicals division	440	2.0%	461	2.0%
Pigments in the Dispersions & Pigments division	368	2.0%	371	2.0%
Exploration & Production in the Oil & Gas division	325	0.0%	389	0.0%
Other cash-generating units	1,325	0.0–2.0%	1,311	0.0–2.0%
Goodwill as of December 31	**6,385**		**5,962**	

1 Growth rates of impairment tests to determine terminal values in accordance with IAS 36

Development of intangible assets 2012 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technologies	Internally generated intangible assets	Other rights and values[2]	Goodwill	Total
Cost							
Balance as of January 1, 2012	4,829	1,628	2,002	81	611	5,962	15,113
Changes in scope of consolidation	7	2	8	3	1	14	35
Additions	5	19	22	20	43	–	109
Additions from acquisitions	45	37	176	–	229	586	1,073
Disposals	(382)	(273)	(261)	(12)	(149)	(6)	(1,083)
Transfers	(44)	6	12	–	(19)	(64)	(109)
Exchange differences	(7)	(2)	(16)	–	(10)	(107)	(142)
Balance as of December 31, 2012	4,453	1,417	1,943	92	706	6,385	14,996
Accumulated valuation adjustments							
Balance as of January 1, 2012	1,446	604	773	49	322	–	3,194
Changes in scope of consolidation	2	1	4	–	1	–	8
Additions	402	64	141	17	66	–	690
Disposals	(382)	(271)	(259)	(11)	(140)	–	(1,063)
Transfers	(34)	3	–	–	(14)	–	(45)
Exchange differences	(18)	(1)	(6)	–	(4)	–	(29)
Balance as of December 31, 2012	1,416	400	653	55	231	–	2,755
Net carrying amount as of December 31, 2012	**3,037**	**1,017**	**1,290**	**37**	**475**	**6,385**	**12,241**

2 Including licenses to such rights and values

In connection with the acquisition of Becker Underwood in 2012, there were additions of €806 million to intangible assets, of which €499 million were to goodwill.

The acquisition of the energy storage business of Novolyte Technologies LP resulted in additions of €134 million to intangible assets, of which €55 million were to goodwill.

Concessions for oil and gas production under the category product rights, licenses and trademarks with a net carrying amount of €497 million in 2012 (2011: €498 million) authorize the exploration and production of oil and gas in certain areas. Some of these rights entail obligations to deliver a portion of the production output 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 intangible assets to assets of disposal groups.

→ **For more on the disposal group, see Note 2 from page 165 onward**

In **Other rights and values**, the line item transfers includes the market value adjustments of emission rights recognized directly in equity as of the balance sheet date.

Disposals primarily concerned the derecognition of fully amortized intangible assets.

In 2012, impairments of €75 million were recognized. Impairments are reported under other operating expenses. A significant share of the impairments occurred in conjunction with the restructuring of the Construction Chemicals division (Functional Solutions segment) in Europe and were related to distribution, supply and similar rights and trademarks. There were no material reversals of impairments in 2012.

Development of intangible assets 2011 (million €)

	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technologies	Internally generated intangible assets	Other rights and values[1]	Goodwill	Total
Cost							
Balance as of January 1, 2011	4,791	1,699	1,967	83	819	5,873	15,232
Changes in scope of consolidation	8	(2)	–	–	–	–	6
Additions	77	155	72	17	74	52	447
Disposals	(113)	(195)	(55)	(22)	(238)	(15)	(638)
Transfers	36	(28)	5	4	(46)	10	(19)
Exchange differences	30	(1)	13	(1)	2	42	85
Balance as of December 31, 2011	4,829	1,628	2,002	81	611	5,962	15,113
Accumulated valuation adjustments							
Balance as of January 1, 2011	1,140	693	635	47	472	–	2,987
Changes in scope of consolidation	–	(2)	–	–	–	–	(2)
Additions	369	132	175	16	86	11	789
Disposals	(113)	(191)	(44)	(17)	(237)	(11)	(613)
Transfers	29	(24)	–	3	(1)	–	7
Exchange differences	21	(4)	7	–	2	–	26
Balance as of December 31, 2011	1,446	604	773	49	322	–	3,194
Net carrying amount as of December 31, 2011	**3,383**	**1,024**	**1,229**	**32**	**289**	**5,962**	**11,919**

[1] Including licenses to such rights and values

In connection with the acquisition of inge watertechnologies AG and inge GmbH, there were additions of €21 million to intangible assets and of €50 million to goodwill in 2011. Additions of €70 million to intangible assets resulted from the acquisition of business activities in the area of chemical injection and cavity filling products from Hock.

Transfers under **goodwill** resulted from the adjustment of the preliminary purchase price allocation related to the acquisition of Cognis.

In **Other rights and values**, the line item transfers includes the market value adjustments of emission rights recognized directly in equity as of the balance sheet date.

Disposals primarily concerned the derecognition of fully amortized intangible assets.

In 2011, impairments of €114 million were recognized, which included €11 million in goodwill. Impairments are reported under other operating expenses. A significant share of the impairments occurred in conjunction with the sale of the European decorative paints business.

There were no material reversals of impairments in 2011.

14 – Property, plant and equipment

Development of property, plant and equipment 2012 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Construction in progress	Total
Cost					
Balance as of January 1, 2012	8,934	42,443	3,177	2,849	57,403
Changes in scope of consolidation	19	189	11	29	248
Additions	272	1,079	229	2,529	4,109
Additions from acquisitions	34	60	4	8	106
Disposals	(130)	(635)	(142)	(12)	(919)
Transfers	(47)	(855)	106	(1,963)	(2,759)
Exchange differences	(86)	(228)	(25)	(17)	(356)
Balance as of December 31, 2012	8,996	42,053	3,360	3,423	57,832
Accumulated depreciation					
Balance as of January 1, 2012	5,068	31,753	2,591	25	39,437
Changes in scope of consolidation	11	177	7	–	195
Additions	289	2,205	204	152	2,850
Disposals	(92)	(583)	(135)	(1)	(811)
Transfers	(71)	(1,703)	3	(12)	(1,783)
Exchange differences	(39)	(175)	(19)	–	(233)
Balance as of December 31, 2012	5,166	31,674	2,651	164	39,655
Net carrying amount as of December 31, 2012	**3,830**	**10,379**	**709**	**3,259**	**18,177**

Additions to property, plant and equipment in 2012 amounted to €4,215 million. Additions to property, plant and equipment resulting from acquisitions totaled €106 million, primarily due to the acquisition of Novolyte in the United States and China. Further investments related especially to the construction of a TDI plant in Ludwigshafen, Germany; the construction of an MDI plant in Chongqing, China; the construction of oil and gas production facilities and wells in Europe; the expansion of the MDI plant in Antwerp, Belgium; and the purchase of a new administrative building in Florham Park, New Jersey.

The amounts recorded under transfers were primarily related to property, plant and equipment that was reclassified into the natural gas trading disposal group.

→ **For more on the disposal group, see Note 2 on page 165**

In 2012, impairments of €260 million were recognized in depreciation. A significant portion of the impairments were related to a Norwegian oil field development project.

Changes in the scope of consolidation related primarily to the first-time full consolidation of hte Aktiengesellschaft.

In 2012, BASF exercised a purchase option for a plant site in China, which led to the reversal of a previous impairment of a purchase option. This €24 million reversal is included under transfers.

Development of property, plant and equipment 2011 (million €)

	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Construction in progress	Total
Cost					
Balance as of January 1, 2011	8,793	39,849	3,045	3,045	54,732
Changes in scope of consolidation	24	57	8	18	107
Additions	112	1,000	145	1,942	3,199
Disposals	(108)	(591)	(127)	(51)	(877)
Transfers	6	1,669	79	(2,132)	(378)
Exchange differences	107	459	27	27	620
Balance as of December 31, 2011	8,934	42,443	3,177	2,849	57,403
Accumulated depreciation					
Balance as of January 1, 2011	4,918	30,086	2,482	5	37,491
Changes in scope of consolidation	5	11	5	8	29
Additions	299	2,114	195	10	2,618
Disposals	(73)	(547)	(119)	–	(739)
Transfers	(125)	(238)	8	–	(355)
Exchange differences	44	327	20	2	393
Balance as of December 31, 2011	5,068	31,753	2,591	25	39,437
Net carrying amount as of December 31, 2011	**3,866**	**10,690**	**586**	**2,824**	**17,966**

Additions to property, plant and equipment in 2011 amounted to €3,199 million. Additions to property, plant and equipment resulting from acquisitions totaled €66 million, primarily from BASF's stake in the combined heat and power (CHP) plant of Zandvliet Power N.V., Antwerp, Belgium. Further investments related particularly to: the construction of the intermodal transportation terminal in Ludwigshafen, Germany; the construction of a new oleum/sulfuric acid plant in Antwerp, Belgium; the construction of natural gas pipelines in Europe (particularly OPAL and NEL); and the construction of a production plant for methylamines in Geismar, Louisiana.

The amounts recorded under transfers were primarily related to the fertilizer activities. Property, plant and equipment belonging to the fertilizer activities were reclassified to assets of disposal groups.

In 2011, impairments of €231 million were recognized in depreciation. A significant portion of the impairments related to production facilities in the Petrochemicals division at the site in Port Arthur, Texas, as well as to property, plant and equipment in the Paper Chemicals division at a site in the United States.

Changes in the scope of consolidation related primarily to Heesung Catalysts Corporation, which was proportionally consolidated for the first time.

There were no reversals of impairments recorded in 2011.

15 – Investments accounted for using the equity method and other financial assets

Investments accounted for using the equity method (million €)

	2012	2011
Balance as of January 1	1,852	1,328
Changes in scope of consolidation	–	(138)
Additions	33	774
Disposals	–	–
Transfers	143	(86)
Exchange differences	17	(26)
Balance as of December 31	2,045	1,852
Accumulated valuation adjustments	**–**	**–**
Net carrying amount as of December 31	**2,045**	**1,852**

Other financial assets (million €)

	2012	2011
Investments in other affiliated companies	306	308
Investments in other associated companies	132	82
Shares in other participations	152	164
Participations	**590**	**554**
Loans to affiliated companies	37	80
Loans to associated companies	107	72
Other loans	111	102
Loans	**255**	**254**
Long-term securities	**35**	**40**
	880	**848**

In 2012, additions to investments accounted for using the equity method resulted from a capital increase at Lucura Versicherungs AG as well as from the acquisition of Novolyte Technologies LP.

The establishment of Styrolution resulted in additions of €734 million in 2011.

BASF has a stake of 15.5% and continues to exercise significant influence over Nord Stream AG, as BASF's approval is required for relevant board resolutions.

The changes in the scope of consolidation in 2011 resulted from the acquisition of additional shares in the Heesung Catalysts Corporation, which has subsequently been proportionally consolidated.

In 2012, impairments on participations of €5 million were recognized.

16 – Inventories

Million €	2012	2011
Raw materials and factory supplies	2,800	2,922
Work-in-process, finished goods and merchandise	7,018	7,034
Advance payments and services-in-process	112	103
	9,930	**10,059**

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

Inventories are valued using the weighted average cost method. Impairments are reversed if the reasons for the impairments no longer apply.

Write-downs on inventories amounted to €23 million in 2012 and €8 million in 2011.

Of the total inventory, €2,362 million was valued at net realizable value in 2012 (2011: €2,154 million).

17 – Receivables and miscellaneous assets

Other receivables and miscellaneous assets (million €)

	2012		2011	
		Thereof short-term		Thereof short-term
Receivables from affiliated companies	272	272	279	279
Receivables from associated companies and other participating interests	134	130	449	443
Loans and interest receivables	2	2	19	19
Derivatives with positive fair values	436	337	561	545
Receivables from finance leases	21	–	22	2
Insurance compensation received	11	11	72	59
Other	514	274	614	437
Other receivables which qualify as financial instruments	**1,390**	**1,026**	**2,016**	**1,784**
Prepaid expenses	234	194	222	198
Defined benefit assets	43	–	128	–
Tax refund claims	1,026	999	825	792
Employee receivables	60	51	54	37
Precious metal trading positions	960	960	723	723
Other	441	274	374	247
Other receivables which do not qualify as financial instruments	**2,764**	**2,478**	**2,326**	**1,997**
Total	**4,154**	**3,504**	**4,342**	**3,781**

In 2012, the change in **receivables from associated companies and other participating interests** resulted primarily from compensation payments and loan repayments from Styrolution companies.

The decline in **derivatives with positive fair values** mainly relates to the reclassification of the derivatives belonging to the disposal group.

In 2012, **prepaid expenses** included prepayments for operating expenses of €86 million (2011: €67 million) as well as prepayments for insurance premiums of €26 million (2011: €22 million).

Defined benefit assets decreased, as the increase in pension obligations exceeded the increase in pension assets.

Tax refund claims were primarily related to corporate income tax and sales tax.

Precious metal trading positions primarily comprise physical positions and precious metal accounts as well as long positions in precious metals, which are largely hedged through sales or derivatives. The rise in precious metal trading positions is attributable to higher precious metal prices and larger inventories.

The item **Other** primarily includes financial receivables as well as rents and deposits.

Valuation allowances for doubtful receivables 2012 (million €)

	Balance as of January 1, 2012	Additions recognized in income	Reversals recognized in income	Additions not recognized in income	Reversals not recognized in income	Balance as of December 31, 2012
Accounts receivable, trade	425	81	60	10	69	387
Other receivables	46	–	1	2	34	13
	471	**81**	**61**	**12**	**103**	**400**

Valuation allowances for doubtful receivables 2011 (million €)

	Balance as of January 1, 2011	Additions recognized in income	Reversals recognized in income	Additions not recognized in income	Reversals not recognized in income	Balance as of December 31, 2011
Accounts receivable, trade	398	121	74	25	45	425
Other receivables	111	8	3	1	71	46
	509	**129**	**77**	**26**	**116**	**471**

In comparison to the previous year, there was no expected major payment default by a customer in 2012 and therefore there was a decline in additions to valuation allowances recognized in income.

A portion of receivables is covered by credit insurance.

The changes recognized in income contained individual valuation allowances, group-wise individual valuation allowances and valuation allowances due to transfer risks.

The changes not recognized in income were primarily related to changes in the scope of consolidation, translation adjustments and derecognition of uncollectible receivables.

Even in the current economic environment, BASF does not note any material changes in the credit quality of its receivables. In 2012, after being individually assessed for impairment, valuation allowances of €50 million were recognized for trade accounts receivable (reversals: €36 million) and €1 million were reversed for other receivables, which were recognized in income. In 2011, after being individually assessed for impairment, valuation allowances of €91 million were recognized for trade accounts receivable (reversals: €40 million) and €8 million for other receivables (reversals: €3 million). Contractual conditions of receivables were not renegotiated to any major extent in 2012 and 2011.

Overdue trade accounts receivables which have not been individually assessed for impairment were included in credit insurance policies in the amount of €156 million on December 31, 2012 (December 31, 2011: €281 million).

Aging analysis of trade accounts receivable (million €)

	2012		2011	
	Gross value	Valuation allowances	Gross value	Valuation allowances
Not yet due	9,194	99	10,050	84
Past due less than 30 days	605	3	627	23
Past due between 30 and 89 days	170	7	179	11
Past due more than 90 days	556	278	455	307
	10,525	**387**	**11,311**	**425**

As of December 31, 2012, there were no material other receivables classified as financial instruments that were overdue and for which no valuation allowance was made.

18 – Capital and reserves

Authorized capital

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

Capital surplus

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

19 – Retained earnings and other comprehensive income

Million €	2012	2011
Legal reserves	431	383
Other retained earnings	19,675	19,063
	20,106	**19,446**

Transfers between the line item legal reserves and the line item other retained earnings increased legal reserves by €48 million in 2012 and lowered them by €30 million in 2011.

The acquisition of shares in companies which BASF already controls or includes as a jointly controlled entity in the Consolidated Financial Statements is treated as a transaction between shareholders, as long as this does not lead to a change in the consolidation method. Additional interests in BASF Pakistan (Private) Ltd., Karachi, Pakistan, and in the jointly controlled entity Sabina Petrochemicals LLC, Houston, Texas, were acquired in 2011. The amount of €34 million resulting from the difference between the acquisition price and the proportional value of the net assets received was netted against retained earnings. There were no transactions of this type in 2012.

The offsetting of actuarial gains and losses resulted in a decrease in retained earnings of €1,939 million in 2012 and a decrease of €582 million in 2011.

Payment of dividends

In accordance with the resolution of the Annual Shareholders' Meeting on April 27, 2012, BASF SE paid a dividend of €2.50 per share from the retained profit of the 2011 fiscal year. With 918,478,694 shares entitled to dividends, this amounts to a total dividend payout of €2,296,196,735.00.

Other comprehensive income

In accordance with IFRS, certain expenses and income have been recorded in other comprehensive income. These include translation adjustments, the valuation of securities at fair value, changes in the fair value of derivatives held to hedge future cash flows and net investments in a foreign operation and effects from the revaluation of assets and liabilities due to acquisition of a majority interest.

Translation adjustments

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

Valuation of securities at fair value

For fully and proportionally consolidated companies, as well as those companies which are accounted for using the equity method, changes in value of available-for-sale securities in excess of their acquisition costs are accounted for in other comprehensive income, without impacting the income statement, until the securities are disposed of. Upon disposal, the changes accumulated in other comprehensive income are recognized in the income statement.

The decrease of €1,014 million in 2011 is primarily due to the sale of shares in K+S Aktiengesellschaft.

Cash flow hedges

Derivatives are used to hedge future cash flows. The effective portion of the change in value of these derivatives is recognized in equity. This also comprises equity effects from the hedging of future cash flows at companies accounted for using the equity method.

Hedging future cash flows at Nord Stream AG, Zug, Switzerland, a company accounted for using the equity method, resulted in a change of minus €35 million in 2012 and of minus €44 million in 2011.

Hedges of net investments in foreign operations

Hedge accounting can be used to hedge the translation risk from the net investment in a foreign operation. Effects recorded in equity are recognized in the income statement upon sale of the operation or return of the investment.

Revaluation due to acquisition of majority of shares

Until 2008, effects from the revaluation of net assets were recorded in equity when they arose due to the acquisition of a majority of shares in a previously proportionally consolidated company. Additional depreciation of these revalued assets leads to a reversal of the corresponding item in equity; this does not affect income.

20 – Minority interests

		2012		2011	
Group company	Partner	Equity stake (%)	Million €	Equity stake (%)	Million €
WINGAS GmbH, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	243	49.98	241
GASCADE Gastransport GmbH, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	123	49.98	139
WINGAS Holding GmbH, Kassel, Germany	Gazprom Group, Moscow, Russia	49.98	40	49.98	38
Wintershall AG, Kassel, Germany	Gazprom Group, Moscow, Russia	49.00	171	49.00	148
BASF India Ltd., Mumbai, India	Shares are publicly traded	26.67	41	26.67	39
BASF PETRONAS Chemicals Sdn. Bhd., Shah Alam, Malaysia	PETRONAS (Petroliam Nasional Bhd.), Kuala Lumpur, Malaysia	40.00	113	40.00	117
BASF Sonatrach PropanChem S.A., Tarragona, Spain	SONATRACH, Algiers, Algeria	49.00	38	49.00	48
BASF TOTAL Petrochemicals LLC, Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.00	216	40.00	262
Shanghai BASF Polyurethane Company Ltd., Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China, and Sinopec Shanghai GaoQiao Petrochemical Corporation, Shanghai, China	30.00	92	30.00	84
Other			147		130
			1,224		1,246

21 – Provisions for pensions and similar obligations

In addition to state pension plans, most employees are entitled to Company pension benefits from either defined contribution or defined benefit plans. Benefits generally depend on years of service, contributions or compensation, and take into consideration the legal framework of labor, tax and social security laws of the countries where the companies are located. To limit the risks of changing market conditions as well as demographic developments, employees have been almost exclusively offered defined contribution plans in recent years.

For BASF SE and German Group companies, a basic level of benefits is provided by BASF Pensionskasse VVaG, a legally independent funded plan which is financed by contributions of employees and the employer and the return on assets. BASF SE will ensure the necessary contributions to adequately finance the benefits promised by BASF Pensionskasse VVaG.

Some of the benefits financed via the BASF Pensionskasse VVaG are subject to adjustments that must be borne by its member companies to the extent that these cannot be borne by BASF Pensionskasse VVaG due to the regulations imposed by the German supervisory authority. At BASF SE, occupational pension commitments that exceed the basic level of benefits are financed under a contractual trust arrangement by BASF Pensionstreuhand e.V.; at German Group companies, these benefits are almost exclusively financed via pension provisions. In the case of non-German subsidiaries, defined pension benefits are covered in some cases by pension provisions, but mainly by external insurance companies or pension funds.

The measurement date for the pension plans is set as December 31. The most recent actuarial mortality tables are used, which in Germany are derived from the BASF Group population.

The valuations using the projected unit credit method in accordance with 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	
	2012	2011	2012	2011
Discount rate	3.50	5.00	3.46	4.34
Projected increase in wages and salaries	2.75	2.75	3.51	3.71
Projected pension increase	2.00	2.00	0.63	0.70

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

	Germany		Foreign	
	2012	2011	2012	2011
Discount rate	5.00	5.00	4.34	4.74
Projected increase in wages and salaries	2.75	2.75	3.71	3.79
Projected pension increase	2.00	1.75	0.70	1.00
Expected return on plan assets	5.28	5.28	5.66	5.49

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

Similar obligations for North American Group companies from assuming health care and life insurance costs for retired employees and their dependents were measured using actuarial principles and are included in the overall value. The assumed rate of increase in health care costs is 8.0% per year (2011: 8.0%) until 2012, followed by a straight-line reduction until a rate of increase of 5.0% is reached in 2018 (2011: 5.0%). A change in the underlying rate of increase in health care costs by one percentage point would have the following effects:

Sensitivity of health care costs (million €)

	Increase by one percentage point	Decrease by one percentage point
Accumulated post-employment benefit obligation	12	(11)
Effect on pension cost	1	(2)

The assumptions regarding the overall expected long-term rate of return are based on forecasts of expected individual asset class returns and the desired portfolio structure. The forecasts are based on long-term historical average returns and take into consideration the current yield level and the inflation trend. In 2012, 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 assessments 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	
	2013	2012	2011
Shares	27	29	28
Bonds	61	61	63
Property	5	4	4
Other	7	6	5
Total	**100**	**100**	**100**

Development of defined benefit obligation (million €)

	2012	2011
Defined benefit obligation as of January 1	18,613	17,695
Service cost	259	250
Interest cost	853	832
Benefits paid	(931)	(914)
Participants' contributions	56	55
Actuarial gains/losses	3,539	464
Plan amendments and other changes	(210)	5
Exchange differences	(58)	226
Defined benefit obligation as of December 31	**22,121**	**18,613**

The actuarial losses of €3,539 million in the pension obligations are due to the considerable reduction in the average weighted discount rate necessitated by the development of the capital markets.

Development of plan assets (million €)

	2012	2011
Plan assets as of January 1	15,572	15,226
Expected return on plan assets	819	818
Actuarial gains/losses	726	(328)
Employer contributions	270	180
Participants' contributions	56	55
Benefits paid	(584)	(560)
Other changes	(101)	2
Exchange differences	(19)	179
Plan assets as of December 31	**16,739**	**15,572**

The actual return on plan assets amounted to €1,545 million in 2012, and €490 million in 2011. On December 31, 2012, plan assets contained securities issued by BASF Group companies with a market value of €21 million (December 31, 2011: €27 million). The market value of the properties of legally independent pension funds rented to BASF Group companies amounted to €57 million on December 31, 2012, and €48 million on December 31, 2011.

Since 2010 there has been an agreement between BASF SE and BASF Pensionskasse about the granting of profit participation capital with a nominal value of €80 million, which is used to strengthen the latter's financing. No material transactions took place between the legally independent pension funds and BASF Group companies in 2012.

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

	2012	2011
Plan assets as of December 31	16,739	15,572
Less defined benefit obligation as of December 31	22,121	18,613
Funded status	**(5,382)**	**(3,041)**
Unrecognized past service cost	(35)	(19)
Asset ceiling in accordance with IAS 19.58	–	(1)
Net obligation recognized on the balance sheet	**(5,417)**	**(3,061)**
Thereof defined benefit assets	43	128
provisions for pensions and similar obligations	(5,460)	(3,189)

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 €2,813 million in 2012 and €792 million in 2011 were recognized directly in retained earnings. Since the introduction of this accounting policy in 2004, total actuarial losses of €5,785 million have been recognized directly in retained earnings, not taking deferred taxes into account.

Current funding situation of the pension plans (million €)

	2012		2011	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
Unfunded pension plans	2,438	–	2,157	–
Partially funded pension plans	17,926	14,939	10,633	9,620
Total of pension plans that are not fully funded	**20,364**	**14,939**	**12,790**	**9,620**
Fully funded pension plans	1,757	1,800	5,823	5,952
	22,121	**16,739**	**18,613**	**15,572**

The shift between plans that are partially funded and those that are fully funded was attributable to the increase of the defined benefit obligation of individual plans, which resulted in particular from the considerable reduction in the discount rate.

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

	2012	2011	2010	2009	2008
Defined benefit obligation	22,121	18,613	17,695	15,264	11,814
Thereof impact of experience adjustments	7	33	21	(2)	36
Plan assets	16,739	15,572	15,226	13,810	10,325
Thereof impact of experience adjustments	726	(328)	569	1,120	(2,163)
Funded status	**(5,382)**	**(3,041)**	**(2,469)**	**(1,454)**	**(1,489)**

Expected payments resulting from pension obligations existing as of December 31, 2012 (million €)

2013	966
2014	977
2015	1,003
2016	1,058
2017	1,086
2018 until 2022	5,841

Composition of expenses for pension plans (million €)

	2012	2011
Service cost	259	250
Amortization of past service cost	(2)	(6)
Gains/losses from curtailments and settlements	(75)	5
Expenses for defined benefit plans charged to income from operations	**182**	**249**
Expenses for defined contribution plans charged to income from operations	245	216
Expenses for pension benefits charged to income from operations	**427**	**465**
Interest cost	853	832
Expected return on plan assets	(819)	(818)
Expenses for pension benefits in the financial result	**34**	**14**

In 2012, contributions to public pension plans were €557 million (2011: €550 million).

The estimated contribution payments for defined benefit plans for 2013 are €239 million.

22 – Other provisions

Million €	2012	Thereof short-term	2011	Thereof short-term
Restoration obligations	816	8	983	18
Environmental protection and remediation costs	617	125	659	150
Employee obligations	1,925	1,273	1,876	1,395
Sales and purchase risks	635	626	665	651
Restructuring measures	198	154	198	180
Litigation, damage claims, guarantees and similar commitments	171	78	190	90
Other	1,349	423	1,974	726
	5,711	**2,687**	**6,545**	**3,210**

Restoration obligations primarily relate to the estimated costs for the filling of wells, the removal of production equipment after the end of production and the removal of natural gas pipelines. The decline in long-term provisions for restoration obligations resulted in particular from the reclassification of provisions into the natural gas trading disposal group.

Provisions for **environmental protection and remediation costs** cover expected costs for rehabilitating contaminated sites, recultivating landfills, removal of environmental contamination at existing production or storage sites and similar measures. In addition, provisions are recognized in connection with the allocation of emission certificates from the German Emissions Trading Authority or other similar bodies in the European Union. The decrease in short-term provisions for environmental protection measures and remediation costs is largely due to the return of emission certificates used in Germany and Belgium and the utilization for ongoing remediation work at various sites.

Provisions for **employee obligations** include obligations for the granting of long-service bonuses, anniversary payments, variable compensation including the associated social security contributions, and other accruals as well as provisions for early retirement programs for employees nearing retirement.

→ **For more information on provisions for the long-term incentive program, see Note 29 from page 205 onward**

The **sales and purchase risks** provisions include warranties, product liability, customer rebates and other price reductions, sales commissions and provisions for expected losses on committed purchases as well as provisions for onerous contracts. The decline was due to the reclassification of provisions into the natural gas trading disposal group.

The **restructuring measures** provisions include severance payments to employees as well as expected costs for site closures, including the costs for demolition and similar measures.

Provisions for **litigation, damage claims, guarantees and similar commitments** include the expected costs of litigation, obligations under damage claims, and other guarantees.

Other includes long-term tax provisions as well as further present obligations and accruals. The decline is due to the reversal of long-term tax provisions and a reclassification of accruals for outstanding invoices into trade accounts payable.

The following table shows the development of other provisions by category. **Other changes** include transfers into the liabilities of the disposal group, changes in the scope of consolidation, currency effects and the reclassification of obligations to liabilities when the amount and timing of these obligations become known.

Development of other provisions in 2012 (million €)

	January 1, 2012	Additions	Accrued interest	Utilization	Reversals	Other changes	December 31, 2012
Restoration obligations	983	83	46	(28)	(5)	(263)	816
Environmental protection and remediation costs	659	99	3	(123)	(4)	(17)	617
Employee obligations	1,876	1,598	20	(1,399)	(66)	(104)	1,925
Sales and purchase risks	665	624	–	(416)	(88)	(150)	635
Restructuring measures	198	108	1	(97)	(22)	10	198
Litigation, damage claims, guarantees and similar commitments	190	36	3	(31)	(17)	(10)	171
Other	1,974	346	1	(504)	(391)	(77)	1,349
	6,545	**2,894**	**74**	**(2,598)**	**(593)**	**(611)**	**5,711**

23 – Liabilities

Financial indebtedness (million €)

			Carrying amounts based on effective interest method	
	Nominal value (million, currency of issue)	Effective interest rate	2012	2011
3.375% Euro Bond 2005/2012 of BASF SE	1,400	3.42%	–	1,400
3.75% Euro Bond 2009/2012 of BASF SE	1,350	3.97%	–	1,356
4.5% Euro Bond 2006/2016 of BASF SE	500	4.62%	498	498
4.25% Euro Bond 2009/2016 of BASF SE	200	4.40%	199	199
5.875% GBP Bond 2009/2017 of BASF SE	400	6.04%	487	475
4.625% Euro Bond 2009/2017 of BASF SE	300	4.69%	299	299
1.5% Euro Bond 2012/2018 of BASF SE	750	1.63%	745	–
2% Euro Bond 2012/2022 of BASF SE	1,000	2.16%	986	–
6% Euro Bond 2008/2013 of BASF Finance Europe N.V.	1,250	6.15%	1,248	1,247
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	1,000	5.09%	999	998
5% Euro Bond 2007/2014 of BASF Finance Europe N.V.	250	4.83%	251	251
3.625% CHF Bond 2008/2015 of BASF Finance Europe N.V.	200	3.77%	165	164
5.125% Euro Bond 2009/2015 of BASF Finance Europe N.V.	1,500	5.30%	1,494	1,492
5.125% Euro Bond 2009/2015 of BASF Finance Europe N.V.	500	4.38%	508	511
4.5% Euro Medium Term Note 2009/2016 of BASF Finance Europe N.V.	150	4.56%	150	150
3.25% CHF Bond 2006/2012 of Ciba Spezialitätenchemie Finanz AG	225	3.32%	–	184
4.875% Euro Bond 2003/2018 of Ciba Spec. Chem. Finance Luxemburg S.A.	477	4.88%	418	409
USD Commercial Paper	1,700		1,288	–
Other bonds			659	667
Bonds and other liabilities to the capital markets			**10,394**	**10,300**
Liabilities to credit institutions			2,961	2,704
			13,355	**13,004**

Breakdown of financial indebtedness by currency (million €)

	2012	2011
Euro	9,601	10,411
U.S. dollar	2,007	752
Chinese renminbi	670	557
British pound	574	560
Brazilian real	183	144
Swiss franc	165	347
Turkish lira	36	40
Indian rupee	30	16
South Korean won	25	51
South African rand	–	39
Other	64	87
	13,355	**13,004**

Maturities of financial indebtedness (million €)

	2012	2011
Following year 1	4,242	3,985
Following year 2	1,353	1,513
Following year 3	3,299	1,964
Following year 4	905	2,234
Following year 5	829	1,541
Following year 6 and thereafter	2,727	1,767
	13,355	**13,004**

Bonds and other liabilities to the capital markets

Other bonds consist primarily of industrial revenue and pollution control bonds of the BASF Corporation group that are used to finance investments in the United States. Both the weighted-average interest rate of these bonds as well as their weighted-average effective interest rate amounted to 2.2% in 2012 and 2011. The average residual term amounted to 199 months as of December 31, 2012 (December 31, 2011: 211 months).

Liabilities to credit institutions

In order to finance investments in natural gas infrastructure, €996 million was borrowed at an interest rate of 2.16% by W & G Beteiligungs GmbH. The weighted-average interest rate on loans was 3.4% in 2012 (2011: 4.4%).

BASF SE had committed and unused credit lines with variable interest rates amounting to €4,705 million as of December 31, 2012 (December 31, 2011: €4,739 million).

Other liabilities

The decline in other liabilities in 2012 is partially due to negative fair values of derivatives concluded to hedge against currency fluctuations and rising raw material prices.

In 2012, other liabilities included the non-consolidated share of liabilities to proportionally consolidated companies amounting to €286 million (2011: €259 million), of which miscellaneous liabilities accounted for €100 million (2011: €96 million). Further miscellaneous liabilities to participations accounted for using the equity or cost method amounted to €277 million in 2012 (2011: €258 million).

→ **For more information on financial risks and derivative financial instruments, see Note 26 from page 197 onward**

→ **For more information on leasing liabilities, see Note 27 on page 203**

Other liabilities (million €)

	2012		2011	
	Short-term	Long-term	Short-term	Long-term
Liabilities on bills	19	–	46	4
Liabilities to partners in jointly controlled entities	197	426	221	431
Derivative instruments with negative fair values	182	239	582	176
Liabilities from finance leases	11	62	10	50
Accrued interest on bonds and other loans	164	37	202	1
Miscellaneous liabilities	696	46	786	90
Other liabilities which qualify as financial instruments	**1,269**	**810**	**1,847**	**752**
Advances received on orders	290	–	272	–
Liabilities related to social security	150	17	152	23
Employee liabilities	299	185	299	159
Deferred income	200	39	128	173
Miscellaneous liabilities	187	32	338	35
Other liabilities which do not qualify as financial instruments	**1,126**	**273**	**1,189**	**390**
Total	**2,395**	**1,083**	**3,036**	**1,142**

Secured liabilities (million €)

	2012	2011
Liabilities to credit institutions	3	3
Miscellaneous liabilities	13	20
	16	**23**

Liabilities to credit institutions were secured primarily with registered land charges. There are no secured contingent liabilities.

24 – Contingent liabilities and other financial obligations

The contingent liabilities listed below are stated at nominal value:

Contingent liabilities (million €)

	2012	2011
Bills of exchange	4	8
Thereof to affiliated companies	–	–
Guarantees	76	153
Thereof to affiliated companies	23	19
Warranties	63	103
Collateral granted on behalf of third-party liabilities	4	4
	147	**268**

Guarantees declined compared with the previous year because BASF S.A., Brazil, reduced the guarantees it provided for its customers in conjunction with sales transactions.

BASF has a stake of 15.5% in the project company Nord Stream AG, Zug, Switzerland, whose purpose is to construct and operate a natural gas pipeline through the Baltic Sea from Vyborg, Russia, to Greifswald, Germany. The construction of the second pipeline was completed in 2012. The Nord Stream pipeline has thus attained its full transport capacity of 55 billion cubic meters of natural gas per year.

In conjunction with the project financing, the lending banks were issued two guarantees which were limited to BASF's proportional stake in the project. BASF was released from the first guarantee in 2012. It is assumed that no claims will be made against the outstanding guarantee.

In accordance with the provisions of Section 17 of the Republic of Ireland Companies (Amendments) Act 1986, BASF SE gives irrevocable guarantees with respect to the liabilities, as referred to in Section 5(c)(ii) of that Act, of the subsidiary company BASF Ireland Ltd., Dublin, Republic of Ireland. As of December 31, 2012, the liabilities of BASF Ireland Ltd. totaled €19 million.

Other financial obligations (million €)

	2012	2011
Construction in progress	6,682	5,280
Thereof purchase commitments	2,184	969
for the purchase of intangible assets	10	14
Obligation arising from long-term leases (excluding finance leases)	1,604	1,801
Payment and loan commitments and other financial obligations	4	7
	8,290	**7,088**

Assets used under long-term leases

Assets used under long-term leases primarily concern buildings and IT infrastructure.

→ **For more information on leasing liabilities, see Note 27 on page 203**

Obligations arising from long-term leases (Excluding finance leases) (million €)

2013	648
2014	258
2015	195
2016	121
2017	92
2018 and thereafter	290
	1,604

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 mainly relate to long-term supply contracts with customers with terms between one and 19 years.

The Company purchases raw materials via long-term contracts and on spot markets. The fixed purchase obligations of long-term purchase contracts with a remaining term of at least one year as of December 31, 2012, are as follows:

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

	BASF Group excluding the disposal group	Disposal group
2013	5,080	8,672
2014	4,050	6,748
2015	3,498	6,357
2016	2,761	6,464
2017	2,289	7,101
2018 and thereafter	8,745	105,830
	26,423	**141,172**

The purchase obligations from natural gas and raw material supply contracts of the natural gas trading disposal group are separately reported in the above table on account of their importance.

25 – Risks from litigation and claims

Since 2005, numerous class action and individual lawsuits have been filed in U.S. and Canadian courts against urethane and polyurethane producers, including BASF SE and BASF Corporation. It was alleged that sales of TDI, MDI and polyether polyols had violated antitrust laws on price fixing. At the end of 2007, the U.S. Department of Justice ceased its inquiry into alleged price fixing. In 2011 and 2012, BASF concluded all proceedings (except for two dormant U.S. cases) with settlements totaling slightly more than $100 million.

BASF S.A., Brazil, and Shell are defendants in several individual lawsuits and one class action lawsuit regarding existing and potential health damage to former employees and contractors' employees, their families and descendants due to their employment at a site in Paulinia, Brazil, which was significantly contaminated by the production of crop protection products. BASF acquired the site from American Cyanamid in 2000, who had in turn acquired it from Shell in 1995. The contamination stems from the period before 2000. In August 2010, BASF S.A. and Shell were jointly ordered to pay damages, including for medical treatment and personal suffering, equivalent to approximately €490 million, not including interest. The appeal against this first-instance judgment was rejected on April 4, 2011. On August 13, 2012, BASF S.A.'s review appeal against this decision was accepted by the highest labor court in Brazil. However, the matter has not yet been decided. BASF S.A. and Shell are in settlement talks with the plaintiffs. BASF S.A. filed a recourse claim against Shell on March 30, 2011. On December 20, 2012, BASF S.A. and Shell signed a settlement agreement in this matter.

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

26 – Supplementary information on financial instruments

26.1 – Financial risks

Market risks

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

The foreign currency risk exposure corresponds to the net amount of the nominal volume of the primary and the derivative financial instruments which are exposed to currency risks. In addition, planned purchase and sales transactions of the respective following year are included, if they fall under the currency risk management system. Opposite positions in the same currency are offset against each other.

The sensitivity analysis is conducted by simulating a 10% depreciation in all currencies against the respective functional currency. The effect on BASF's income before taxes and minority interests would have been minus €288 million as of December 31, 2012, and minus €243 million as of December 31, 2011. The effect from the items designated under hedge accounting would have increased the equity of the shareholders of BASF SE before income taxes by €89 million on December 31, 2012 (2011: a decrease of €5 million). This refers to transactions in U.S. dollars and British pounds. The currency exposure amounted to €1,848 million on December 31, 2012 (December 31, 2011: €1,574 million).

Exposure and sensitivity by currency (million €)

	Exposure 2012	Sensitivity 2012	Exposure 2011	Sensitivity 2011
U.S. dollar	1,540	(149)	1,706	(237)
Other	308	(50)	(132)	(11)
Total	**1,848**	**(199)**	**1,574**	**(248)**

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

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

The variable interest exposure, which also includes fixed-rate bonds set to mature in the following year, amounted to minus €3,787 million as of December 31, 2012, compared with minus €4,070 million as of December 31, 2011. An increase in all relevant interest rates by one percentage point would have raised income before taxes and minority interests by €8 million as of December 31, 2012 and reduced income before taxes and minority interests by €10 million as of December 31, 2011. The sensitivity of the equity of the shareholders of BASF SE to changes in interest rates is not material.

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

	2012		2011	
	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
Loans	229	26	218	36
Securities	52	6	35	5
Financial indebtedness	10,743	2,612	11,012	1,992

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

	2012		2011	
	Nominal value	Fair value	Nominal value	Fair value
Interest rate swaps	**1,000**	**(41)**	**2,711**	**48**
Thereof payer swaps	1,000	(41)	1,361	39
receiver swaps	–	–	1,350	9
Combined interest and cross currency swaps	**797**	**94**	**722**	**34**
Thereof fixed rate	797	94	722	34

Options for disposal of participations: BASF and INEOS have agreed upon options for BASF's withdrawal from the joint venture Styrolution. These options are classified as derivatives according to IAS 39. A significant risk variable which is decisive for the valuation of both options is the value of the company. An additional negative impact on earnings of €45 million would have resulted had the value of Styrolution been 10% higher as of December 31, 2012 (2011: €26 million). Had the company value been 10% lower as of December 31, 2012, increased earnings of €46 million would have resulted (2011: €33 million). Furthermore, in accordance with the valuation model, the value of the options is influenced by the multiples of the peer group as well as their volatility.

Commodity price risks: Some of BASF's divisions are exposed to strong fluctuations in raw material prices. These result primarily from the following raw materials: naphtha, propylene, benzene, lauric oils, 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 on oil products, in the Natural Gas Trading business sector. 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, is hedged using derivative instruments. This is mainly done using forward contracts which are settled by either entering into offsetting contracts or by delivering the precious metals.
- In the Crop Protection division, the sales prices of products are sometimes coupled to the price of certain agricultural commodities. To hedge the resulting risks, derivatives on agricultural commodities are concluded.
- Furthermore, BASF utilizes electricity derivatives on a limited scale.

In addition, BASF holds limited unhedged precious metal and oil product positions, which can also include derivatives, for trading on its own account. The value of these positions is exposed to market price volatility and is subject to constant monitoring.

In connection with CO_2 emissions trading, various types of CO_2 certificates are purchased and sold using forward contracts. The goal of these transactions is to benefit from market price differences. These deals are settled by physical delivery. As of December 31, 2012, there were no deals outstanding.

By holding commodity derivatives and precious metal trading positions, BASF is exposed to price risks. 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. The value-at-risk calculation is based on a confidence interval of 95% and a holding period of one day. A confidence interval of 95% means that there is a 95% probability that the maximum loss does not exceed the value at risk within a one-day period. The value-at-risk calculation for precious metals is based on a confidence interval of 99%. BASF uses the variance-covariance approach.

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

Exposure to commodity derivatives (million €)

	2012		2011	
	Exposure	Value at Risk	Exposure	Value at Risk
Crude oil, oil products and natural gas	(212)	(2)	(259)	13
Precious metals	33	1	31	2
CO_2 emission certificates	–	–	4	1
Electricity	24	.	–	–
Agricultural commodities	(148)	.	(209)	1
	(303)	**(1)**	**(433)**	**17**

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

→ **For more information regarding financial risks and BASF's risk management, see the chapter "Opportunities and risks report" in the Management's Analysis from page 107 onward**

Default and credit risk

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

→ **For more information on credit risks, see Note 17 from page 184 onward**

Liquidity risks

BASF promptly recognizes any risks from cash flow fluctuations as part of the liquidity planning. BASF has ready access to sufficient liquid funds from our ongoing commercial paper program and confirmed lines of credit from banks.

26.2 – Maturity analysis

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

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

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

Maturities of contractual cash flows from financial liabilities 2012 (million €)

	Bonds and other liabilities to the capital market	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities	Total
2013	3,127	1,585	182	919	5,813
2014	1,504	170	4	75	1,753
2015	2,323	1,145	2	21	3,491
2016	988	67	–	19	1,074
2017	896	44	1	17	958
2018 and thereafter	2,830	126	–	430	3,386
	11,668	**3,137**	**189**	**1,481**	**16,475**

Maturities of contractual cash flows from financial liabilities 2011 (million €)

	Bonds and other liabilities to the capital market	Liabilities to credit institutions	Liabilities resulting from derivative financial instruments	Miscellaneous liabilities	Total
2012	3,410	1,117	532	973	6,032
2013	1,805	750	18	83	2,656
2014	1,516	119	6	21	1,662
2015	2,324	745	22	22	3,113
2016	956	59	–	22	1,037
2017 and thereafter	1,840	125	–	425	2,390
	11,851	**2,915**	**578**	**1,546**	**16,890**

26.3 – Classes and categories of financial instruments

For trade accounts receivable, other receivables and miscellaneous assets, loans, cash and cash equivalents, as well as trade accounts payable and other liabilities, the carrying amount approximates the fair value. Participations which are not traded on an active market and whose fair value could not be reliably determined are recognized at amortized cost and are reported under other financial assets.

The carrying amount of participations which are traded on an active market and therefore recognized at fair value amounted to €1 million as of both December 31, 2012 and December 31, 2011. They are included under the line item shares in other participations. → **For more information, see Note 15 on page 183**

The carrying amount of financial indebtedness amounted to €13,355 million on December 31, 2012 (December 31, 2011: €13,004 million). The fair value of financial indebtedness amounted to €14,260 million at the end of 2012 (end of 2011: €13,819 million). The fair value of financial indebtedness is determined on the basis of interbank interest rates. The difference between carrying amounts and fair values results primarily from changes in market interest rates.

Carrying amounts and fair values of financial instruments as of December 31, 2012 (million €)

	Carrying amount	Total carrying amount within scope of application of IFRS 7	Valuation category in accordance with IAS 39[2]	Fair value	Thereof fair value level 1[3]	Thereof fair value level 2[4]	Thereof fair value level 3[5]
Participations[1]	590	590	Afs	1	1	–	–
Receivables from finance leases	21	21	n.a.	21	–	–	–
Loans	255	255	LaR	255	–	–	–
Accounts receivable, trade	10,138	10,138	LaR	10,138	–	–	–
Derivatives without hedging relationships	348	348	aFVtPL	348	11	336	1
Derivatives with hedging relationships	88	88	n.a.	88	–	88	–
Other receivables and miscellaneous assets[6]	3,697	933	LaR	933	–	–	–
Securities	58	58	Afs	58	58	–	–
Cash and cash equivalents	1,777	1,777	LaR	1,777	1,777	–	–
Total assets	**16,972**	**14,208**		**13,619**	**1,847**	**424**	**1**
Bonds	9,106	9,106	AmC	10,011	–	–	–
Commercial paper	1,288	1,288	AmC	1,288	–	–	–
Liabilities to credit institutions	2,961	2,961	AmC	2,961	–	–	–
Liabilities from finance leases	73	73	n.a.	73	–	–	–
Accounts payable, trade	4,696	4,696	AmC	4,696	–	–	–
Derivatives without hedging relationships	370	370	aFVtPL	370	5	129	236
Derivatives with hedging relationships	51	51	n.a.	51	–	51	–
Other liabilities[6]	2,984	1,585	AmC	1,585	–	–	–
Total liabilities	**21,529**	**20,130**		**21,035**	**5**	**180**	**236**

Carrying amounts and fair values of financial instruments as of December 31, 2011 (million €)

	Carrying amount	Total carrying amount within scope of application of IFRS 7	Valuation category in accordance with IAS 39[2]	Fair value	Thereof fair value level 1[3]	Thereof fair value level 2[4]	Thereof fair value level 3[5]
Participations[1]	554	554	Afs	1	1	–	–
Receivables from finance leases	22	22	n.a.	22	–	–	–
Loans	254	254	LaR	254	–	–	–
Accounts receivable, trade	10,886	10,886	LaR	10,886	–	–	–
Derivatives without hedging relationships	526	526	aFVtPL	526	91	421	14
Derivatives with hedging relationships	35	35	n.a.	35	–	35	–
Other receivables and miscellaneous assets[6]	3,759	1,433	LaR	1,433	–	–	–
Securities	59	59	Afs	59	59	–	–
Cash and cash equivalents	2,048	2,048	LaR	2,048	2,048	–	–
Total assets	**18,143**	**15,817**		**15,264**	**2,199**	**456**	**14**
Bonds	10,300	10,300	AmC	11,115	–	–	–
Commercial paper	–	–	AmC	–	–	–	–
Liabilities to credit institutions	2,704	2,704	AmC	2,704	–	–	–
Liabilities from finance leases	60	60	n.a.	60	–	–	–
Accounts payable, trade	5,121	5,121	AmC	5,121	–	–	–
Derivatives without hedging relationships	713	713	aFVtPL	713	49	503	161
Derivatives with hedging relationships	45	45	n.a.	45	–	45	–
Other liabilities[6]	3,360	1,781	AmC	1,781	–	–	–
Total liabilities	**22,303**	**20,724**		**21,539**	**49**	**548**	**161**

1 The difference between carrying amount and fair value results from participations measured at acquisition cost, for which the fair value could not be reliably determined (2012: €589 million; 2011: €553 million).
2 Afs: available-for-sale; LaR: loans and receivables; aFVtPL: at-fair-value-through-profit-or-loss; AmC: amortized cost; a more detailed description of the categories can be found in Note 1 from page 151 onward.
3 Determination of the fair value based on quoted, unadjusted prices on active markets.
4 Determination of the fair value based on parameters for which directly or indirectly quoted prices on active markets are available.
5 Determination of the fair value based on parameters for which there is no observable market data.
6 Not including separately shown derivatives as well as receivables and liabilities from finance leases

Derivatives whose fair value is calculated using parameters not observable on the market (level 3) only include the options agreed upon with INEOS regarding the sale of BASF's share in Styrolution Holding GmbH. The sale and purchase options are shown on the balance sheet under other long-term receivables or other long-term liabilities. As of December 31, 2012, the market value of these options amounted to minus €235 million and to minus €147 million as of December 31, 2011. The resulting difference of €88 million was recorded in the financial result.

Net gains and losses of financial instruments comprise the results of valuations, the amortization of discounts, the recognition and reversal of impairments, results from the translation of foreign currencies as well as interest, dividends and all other effects on the earnings resulting from financial instruments. The line 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 reclassification of valuation effects from equity on the sale of the securities and participations.

The net losses from loans and receivables relate primarily to results from the translation of foreign currencies.

→ **The gains and losses from the valuation of securities and participations recognized in the equity of the shareholders of BASF SE are shown in the Statement of income and expense recognized in equity on page 147**

Net gains and losses from financial instruments (million €)

	2012	2011
Loans and receivables	(445)	399
Thereof interest result	87	121
Available-for-sale financial assets	1	871
Thereof interest result	2	4
Liabilities measured at amortized cost	(636)	(822)
Thereof interest result	(529)	(556)
Financial instruments at fair value through profit or loss	190	(193)

26.4 – Derivative instruments and hedge accounting

The use of derivative instruments

The Company is exposed to foreign-currency, interest-rate and commodity-price risks during the normal course of business. In addition, publicly listed financial assets are also exposed to share price risks. These risks are hedged through a centrally determined strategy employing derivative instruments. In addition, derivative instruments are used to replace primary financial instruments, such as fixed-interest securities. Hedging is only employed for underlying positions from the operating business, cash investments, financing and the net investment in a foreign operation as well as for 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. To minimize the default risk on derivatives with positive market values, transactions are exclusively conducted with creditworthy banks and partners and are subject to predefined credit limits.

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

The fair values of derivative financial instruments are calculated using valuation models which use input parameters observable on the market. Exceptions to this are some commodity derivatives, whose valuation is based directly on market prices and the options agreed upon with INEOS, whose fair values are determined based on parameters not observable on the market.

Fair value of derivative instruments (million €)

	2012	2011
Foreign currency forward contracts	99	(264)
Foreign currency options	78	64
Foreign currency derivatives	**177**	**(200)**
Thereof designated hedging instruments as defined by IAS 39 (hedge accounting)	47	6
Interest rate swaps	(41)	48
Thereof designated hedging instruments as defined by IAS 39 (hedge accounting)	–	9
Combined interest and cross currency swaps	94	34
Interest derivatives	**53**	**82**
Options for disposal of participations	**(235)**	**(147)**
Commodity derivatives	**14**	**68**
Thereof designated hedging instruments as defined by IAS 39 (hedge accounting)	(10)	(25)
Derivative financial instruments	**9**	**(197)**
Thereof natural gas trading disposal group	(6)	–

Cash flow hedge accounting

Some of the planned purchases of naphtha are 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 initially recognized directly in equity. Gains and losses from hedges are included in cost of sales at the point in time at which the hedged item is recognized in the consolidated statement of income.

Cash flow hedge accounting is applied in the Natural Gas Trading business sector for swaps on crude oil concluded in order to hedge price risks from purchase contracts for natural gas. The purchase contracts have variable prices and the price formula is coupled with the oil price. This hedging is attributable to the disposal group for the natural gas trading business.

Furthermore, cash flow hedge accounting is used to a minor extent for natural gas purchases.

The majority of the planned transactions and their effect on earnings occur in the year following the balance sheet date. A small part relates to the period between 2014 and 2015. In 2012, effective changes in the fair value of hedging instruments of minus €4 million (2011: minus €26 million) were recognized in the equity of the shareholders of BASF SE. In 2012, €16 million was derecognized from the equity of shareholders of BASF SE and recorded as an expense in cost of sales. In 2011, there was a gain of €5 million in this regard. The ineffective part in the change in value of the hedge amounted to less than €1 million in 2012 (2011: minus €4 million). This amount was reported in the income statement in cost of sales, in other operating income and in other operating expenses.

In 2004 and 2005, fair value changes from forward interest-rate swaps entered into to hedge interest-rate risks from the refinancing of an expiring bond were recognized directly in equity using cash flow hedge accounting. The hedge was closed in 2005 as a new bond was issued to refinance the expiring bond. The new bond was due in 2012. Over the maturity of the bond, the changes in fair value of interest rate swaps recognized in the equity were reclassified proportionally from equity of the shareholders of BASF SE to the consolidated statement of income. In 2012, €3 million (2011: €8 million) was derecognized from other comprehensive income and recorded as interest expense.

Cash flow hedge accounting is applied for the effects of foreign currency derivatives contained in supply contracts. These effects are attributable to the disposal group for the natural gas trading business. The impact on earnings from the underlying transactions occurs primarily in 2013, with a smaller impact in the period between 2014 and 2015. In 2012, the effective change in values of the hedges was minus €46 million (2011: €10 million), which was recognized in the equity of the shareholders of BASF SE. In 2012, the amounts derecognized from the equity of shareholders of BASF SE increased cost of sales by €49 million (2011: decrease of €16 million). There were no ineffective parts.

Since 2012, cash flow hedge accounting has also been used for some planned sales denominated in U.S. dollars. The impact on earnings from the underlying transactions will occur in 2013. In 2012, the effective change in values of the hedges was €25 million and was recognized in the equity of the shareholders of BASF SE. A total of €4 million was derecognized from the equity of shareholders of BASF SE and was booked in expenses from foreign currency transactions. There were no ineffective parts.

Fair value hedge accounting

In order to hedge interest rate risks, BASF converted the 3.75% fixed-interest rate euro bond of BASF SE (nominal volume €1,350 million) into a variable-rate bond using interest rate swaps. The bond and the derivatives were designated as a fair value hedge. The bond and the hedge both matured in October 2012. In 2011, a gain of €8 million resulted from the hedging instrument. The book value of the bond was adjusted in 2011 for €8 million of interest rate-related losses. These effects were completely reversed in 2012.

Hedge of a net investment in a foreign operation

The currency translation risk from an investment in a foreign operation was hedged using foreign currency forward contracts. Due to a capital reduction during the reporting year, the hedging relationship was ended. Hedging resulted in a loss of €2 million, which was recorded in expenses from foreign currency transactions. In the previous year, the hedge was completely effective and increased the equity of the shareholders of BASF SE by €5 million.

27 – Leasing

Leased assets

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

Leased assets (million €)

	2012		2011	
	Acquisition cost	Net book value	Acquisition cost	Net book value
Land, land rights and buildings	44	25	47	27
Machinery and technical equipment	102	39	218	60
Miscellaneous equipment and fixtures	37	12	64	13
	183	**76**	**329**	**100**

Liabilities from finance leases (million €)

	2012			2011		
	Minimum lease payments	Interest portion	Leasing liability	Minimum lease payments	Interest portion	Leasing liability
Following year 1	24	5	19	28	7	21
Following year 2	22	5	17	21	6	15
Following year 3	16	4	12	18	5	13
Following year 4	13	2	11	13	4	9
Following year 5	8	2	6	13	3	10
More than 5 years	37	16	21	52	19	33
	120	**34**	**86**	**145**	**44**	**101**

In 2012 and in 2011, no additional lease payments arising from contractual obligations for finance leases were recognized in expenses in excess of the minimum lease payments for finance leases.

In 2012, leasing liabilities were not offset by any significant minimum lease payments from sub-leases.

In addition, BASF is a lessee under operating lease contracts. The resulting lease commitments totaling €1,604 million in 2012 (2011: €1,801 million) are due in the following years:

Commitments from operating lease contracts (million €)

	Nominal value of the future minimum lease payments	
	December 31, 2012	December 31, 2011
Less than 1 year	648	620
1–5 years	666	731
More than 5 years	290	450
	1,604	**1,801**

In 2012, commitments due to operating lease contracts of less than one year included leases of precious metals of €325 million (2011: €334 million). These metals were immediately leased to third parties. The other leasing commitments were offset by expected minimum lease payments from sub-leases of €8 million in 2012 (2011: €9 million).

In 2012, minimum lease payments of €336 million were included in income from operations (2011: €313 million). In both 2012 and 2011, income from operations also included conditional lease payments of €2 million. Furthermore, €3 million in lease payments from sub-leases was included in income from operations in both 2012 and 2011.

BASF as lessor

BASF acts as a lessor for finance leases in a minor capacity only. Receivables on finance leases were €21 million in 2012 (2011: €22 million).

In 2012, minimum lease payments arising from operating leases had a nominal value of €338 million within one year (2011: €345 million) and of €71 million for more than one year (2011: €42 million).

In 2012, precious metal accounts of €917 million (2011: €813 million) were held for customers whose metals are stored physically at BASF.

28 – Statement of cash flows and capital structure management

Statement of cash flows

Cash provided by operating activities includes the following cash flows:

Million €	2012	2011
Income tax payments	3,549	1,710
Interest payments	574	588
Dividends received	82	188

Interest payments comprise interest received of €173 million (2011: €179 million) and interest paid of €747 million (2011: €767 million). The cash flows also include €233 million in benefits paid (2011: €233 million) which are covered by contractual trust arrangements.

Capital structure management

The aim of capital structure management is to maintain the financial flexibility needed to continually develop BASF's business portfolio and take advantage of strategic opportunities. The objectives of the Company's financing policy are to secure liquidity, limit financial risks and optimize the cost of capital by means of an appropriate capital structure. The capital structure is oriented to the needs of the operational business and BASF's "We create chemistry" strategy.

Capital structure management focuses on meeting the requirements needed to ensure a solid A rating and unrestricted access to capital markets; these include dynamic debt and equity ratio requirements. The capital structure of BASF is managed using selected financial ratios, within the framework of our financial management. Equity as reported on the balance sheet amounted to €25,804 million as of December 31, 2012 (December 31, 2011: €25,385 million). The equity ratio was 40.1% on December 31, 2012 (December 31, 2011: 41.5%).

BASF prefers to access external financing via the capital markets. A commercial paper program is used for short-term financing, while corporate bonds are used for financing in the medium and long-term. These are issued in euros and other currencies with different maturities. This ensures a balanced maturity profile, a diverse range of investors and more advantageous financing conditions for BASF. In 2012, BASF issued a six-year €750 million bond and a ten-year €1 billion bond.

As part of its interest rate risk management, BASF pursues a strategy of reducing the Group's interest expense by turning selected capital market liabilities with fixed interest into variable-rate receiver swaps.

Currently, BASF has the following ratings:

	December 31, 2012		December 31, 2011	
	Moody's	Standard & Poor's	Moody's	Standard & Poor's
Long-term financial indebtedness	A1	A+	A1	A+
Short-term financial indebtedness	P-1	A-1	P-1	A-1
Outlook	stable	stable	stable	stable

Standard & Poor's most recently confirmed BASF's long-term rating on July 24, 2012. Moody's confirmed BASF's long-term rating on October 12, 2012, and rated the outlook as stable. BASF's short-term ratings were confirmed by both agencies.

BASF continues to aim for at least a solid A rating, which ensures unrestricted access to financial and capital markets.

→ **For more information on financing policy and the Statement of cash flows, see the Management's Analysis from page 54 onward**

29 – Stock-price-based compensation program and BASF incentive share program

Stock-price-based compensation program

In 2012, BASF continued its stock-price-based compensation program known as the long-term incentive (LTI) program for senior executives of the BASF Group. This program has been in place since 1999. Approximately 1,200 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program. This program provides for the granting of virtual options, which are settled in cash when exercised.

Participation in the LTI program is voluntary. In order to take part in the program, a participant must make a personal investment: A participant must hold BASF shares amounting to 10% to 30% of his or her individual variable compensation for a two-year period from the granting of the option (holding period). The number of shares to be held is determined by the amount of variable compensation and the weighted-average market price for BASF shares on the first business day after the Annual Shareholders' Meeting, which was €62.66 on April 30, 2012.

The participant receives four option rights per invested share. Each option consists of two parts, right A and right B, which may be exercised if defined thresholds have been met: The threshold of right A is met if the price of the BASF share has increased by more than 30% in comparison to the base price (absolute threshold). The value of right A will be the difference between the market price of BASF shares on the exercise date and the base price; it is limited to 100% of the base price. Right B may be exercised if the cumulative percentage performance of BASF shares exceeds (relative threshold) the percentage performance of the MSCI World Chemicals Index[SM] (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 the computed nominal value of BASF shares. The options were granted on July 1, 2012, and may be exercised following a two-year vesting period, between July 1, 2014, and June 30, 2020. During the exercise period, there are certain times (closed periods) during which the options may not be exercised. Each option right can only be exercised in full, meaning that it may only be exercised if one of the performance targets is achieved and may only be exercised once, i.e., if only one performance target is met and that option is exercised, the other option right lapses. The maximum gain for a participant is limited to 10 times the original individual investment. Option rights are non-transferable and are forfeited if the option holders no longer work for BASF or have sold part of their individual investment before the expiry of the two-year vesting period. They remain valid in the case of retirement. For the members of the Board of Executive Directors, the long-term orientation of the program is significantly strengthened compared to the conditions applying to the other participants. The members of the Board of Executive Directors are required to participate in the LTI program with at least 10% of their gross bonus. In view of this binding personal investment (in the form of BASF shares), an extended holding period of four years applies. Under the LTI program, members of the Board of Executive Directors may only exercise their options at least four years after they have been granted (vesting period).

The 2005 to 2011 programs were structured in a similar way to the LTI program 2012.

The models used in the valuation of the option plans are based on the arbitrage-free valuation model according to Black-Scholes. In order to better reflect the rational behavior of the participants when exercising their options, the modeling method was changed from a Monte Carlo simulation to a binomial model in 2012. The change in the valuation model resulted in a €24 million increase in the provision as of December 31, 2012. Had the binomial model been used as of December 31, 2011, the provision would have been €30 million higher.

Fair value of options and parameters used as of December 31, 2012[1]

		LTI program of the year	
		2012	2011
Fair value	€	41.22	41.51
Dividend yield	%	3.51	3.51
Risk-free interest rate	%	0.91	0.70
Volatility BASF share	%	28.41	29.90
Volatility MSCI Chemicals	%	19.54	20.64
Correlation BASF share price: MSCI Chemicals	%	79.86	79.94

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

As of December 31, 2012, the fair values and the valuation parameters relate to the LTI programs 2012 and 2011. For the programs from preceding years, corresponding fair values were computed and valuation parameters were used.

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

The number of options granted amounted to 2,651,612 in 2012 (2011: 2,357,424).

As a result of a resolution by the Board of Executive Directors in 2002 to settle options in cash, options outstanding from the programs 2005 to 2012 were valued with the fair value as of the balance sheet date December 31, 2012. This amount is recognized proportionally as a provision over the respective vesting period. This provision increased from €269 million as of December 31, 2011, to €411 million as of December 31, 2012, due to higher fair values of the options as well as to the increased number of outstanding options. The utilization of provisions amounted to €157 million in 2012 (2011: €267 million). Personnel expenses amounted to €299 million in 2012 and €125 million in 2011.

The total intrinsic value of exercisable options amounted to €269 million as of December 31, 2012, and €167 million as of December 31, 2011.

BASF incentive share program

All employees are entitled to participate in the “*plus*” incentive share program, with the exception of those senior executives entitled to participate in the LTI program. The “*plus*” program was introduced in 1999 and is currently offered in Germany, other European countries and Mexico. Each participant must make an individual investment in BASF shares from his or her variable compensation. For every ten BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and ten years of holding the BASF shares. As a rule, the first and second block of ten shares entitles the participant to receive one BASF share at no extra cost in each of the next ten years.

The right to receive free BASF shares lapses if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement. The number of free shares to be granted has developed as follows:

Number of free shares to be granted

	2012	2011
As of January 1	2,985,154	3,085,075
Newly acquired entitlements	564,595	512,745
Bonus shares issued	(537,833)	(511,338)
Lapsed entitlements	(120,980)	(101,328)
As of December 31	**2,890,936**	**2,985,154**

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 on the grant date amounted to €47.61 for the 2012 program, and €53.29 for the 2011 program.

The fair value of the free shares to be granted is recognized as an expense and booked capital surplus over the period until the shares are issued.

Personnel expenses of €21 million were recorded in 2012 for the BASF incentive share program (2011: €17 million).

30 – Compensation for the Board of Executive Directors and Supervisory Board of BASF SE

Million €	2012	2011
Non-performance-related and performance-related cash compensation for the Board of Executive Directors	23.2	24.4
Market value of options granted to the Board of Executive Directors in the fiscal year as of the grant date	4.0	6.9
Total compensation for the Board of Executive Directors	**27.2**	**31.3**
Service costs for members of the Board of Executive Directors	4.1	3.8
Compensation for the Supervisory Board	3.0	3.0
Total compensation for former members of the Board of Executive Directors and their surviving dependents	23.7	12.8
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	142.3	116.1
Guarantees assumed for members of the Board of Executive Directors and the Supervisory Board	–	–

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

Moreover, the members of the Board of Executive Directors were granted 289,468 options under the long-term incentive (LTI) program in 2012.

The options of active and former members of the Board resulted in personnel expenses of €37.5 million in 2012. In 2011, the options resulted in expenses of €7.6 million.

A member of the Board of Executive Directors had a remaining debt of €97,000 in building loans from the BASF Pensionskasse VVaG as of December 31, 2011; this amount was fully repaid in 2012.

→ **For more information on the compensation of members of the Board of Executive Directors, see the Compensation Report from page 133 onward**

→ **For more information on the members of the Supervisory Board and Board of Executive Directors, including their memberships on other boards, see page 130 onward**

31 – Related-party transactions

IAS 24 requires the disclosure of transactions with related parties.

A related party is a person or entity where the BASF Group can exercise influence or significant influence, or which is controlled by the BASF Group. In particular, this comprises non-consolidated subsidiaries, jointly controlled entities, associated companies and other participations.

The following table shows the volume of business with related parties that are consolidated at amortized cost, accounted for using the equity method or are proportionally consolidated.

Million €	2012			2011		
	Sales	Accounts receivable, trade	Accounts payable, trade	Sales	Accounts receivable, trade	Accounts payable, trade
Non-consolidated subsidiaries	632	179	64	878	205	47
Jointly controlled entities	941	119	195	673	84	170
Associated companies and other participations	3,671	268	34	1,994	467	64

Sales from jointly controlled entities related primarily to sales with Heesung Catalysts Corporation, Seoul, South Korea; Ellba C.V., Rotterdam, the Netherlands; Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany; and Ellba Eastern Private Ltd., Singapore. The non-consolidated share of the sales with these companies amounted to €710 million in 2012 and €422 million in 2011.

Sales with associated companies and other participations resulted primarily from the business with VNG–Verbundnetz Gas Aktiengesellschaft, Leipzig, Germany; Erdgas Münster GmbH, Münster, Germany; and the Styrolution Group. The non-consolidated portion of the sales with these companies amounted to €3,518 million in 2012 and €1,834 million in 2011. As a result of the establishment of the Styrolution joint venture on October 1, 2011, sales with companies in the Styrolution Group which were previously recorded as internal sales are now reported as third-party sales with related parties.

As in the previous year, there were no significant valuation allowances in 2012 for trade accounts receivable from related parties.

There were no reportable related party transactions with members of the Board of Executive Directors or the Supervisory Board and their related parties in 2012.

→ **For more information on subsidiaries, jointly controlled entities, associated and affiliated companies, see the List of Shares Held of the BASF Group on page 167**

→ **For more information on the Board of Executive Directors and the Supervisory Board, see Management and Supervisory Boards and Compensation Report from page 130 onward**

32 – Services provided by the external auditor

BASF Group companies have used the following services from KPMG:

Million €	2012	2011
Annual audit	22.8	24.6
Thereof domestic	7.6	7.4
Audit-related services	0.6	0.6
Thereof domestic	0.2	0.2
Tax consultation services	.	.
Thereof domestic	–	–
Other services	0.1	0.2
Thereof domestic	.	0.1
	23.5	25.4

The line item annual audit related to expenses for the audit of the Consolidated Financial Statements of the BASF Group as well as the legally required financial statements of BASF SE and its consolidated subsidiary companies and jointly controlled entities.

33 – Declaration of Conformity with the German Corporate Governance Code

Statement of compliance according to Section 161 AktG (Stock Corporation Act)

The annual Declaration of Conformity with the German Corporate Governance Code according to Section 161 of the German Stock Corporation Act was signed by the Board of Executive Directors and the Supervisory Board of BASF SE on December 20, 2012, and is published online at:

→ **basf.com/governance_e**

Supplementary Information on the Oil & Gas Segment

5

Supplementary Information on the Oil & Gas Segment (Unaudited)

The following tables provide supplemental information on the Exploration & Production business sector of the Oil & Gas segment. In the absence of detailed disclosure rules in this area under IFRS, the Group has elected to voluntarily disclose the following information, which would have been required under SFAS No. 69 (Disclosure of Oil and Gas Producing Activities) and by the Securities and Exchange Commission. In order to present economically meaningful reporting of the cooperation with Gazprom in the Yuzhno Russkoye and Achimgaz projects, several modifications have been made to SFAS 69. BASF has an interest of 35% in the economic rewards of the Yuzhno Russkoye field through Severneftegazprom (SNG), the company which holds the production license. SNG is accounted for using the equity method. A project company, which is fully consolidated, was established for these operations. For the Achimgaz project, in which BASF has an interest of 50%, full field development was begun after the successful completion of the pilot phase in 2011.

In the following overviews, BASF's stake in both projects is included under "Russia." In addition, the values for SNG, which is accounted for using the equity method, are presented separately.

All fully consolidated subsidiaries are included with 100%. If other investors have a stake in these companies, their share is presented separately. This relates to a stake in a German Wintershall subsidiary which was part of the asset swap with Gazprom in 2007. This company holds the production and exploration rights to the Libyan onshore concessions 96 and 97.

The following table provides an overview of the most important differences between the information given for the Exploration & Production business sector in the Consolidated Financial Statement of the BASF Group and the supplemental information for the Oil & Gas segment.

	BASF reporting	Supplementary information on Oil & Gas
Other activities in Exploration & Production (e.g., trading business and joint venture services)	included	not included
Activities accounted for using the equity method (Severneftegazprom and Wolgodeminoil)	earnings from the equity method included in financial result	included
Corporate overhead costs and financing costs	included	not included

The regions include the following countries with operating activities:

Region	Exploration & Production	Exploration
Russia/Caspian Sea region	Russia	
Rest of Europe	United Kingdom, the Netherlands, Norway	Denmark
North Africa/ Middle East	Libya	Abu Dhabi, Qatar, Mauritania
South America	Argentina	Chile

Statistical information on the concession areas or the number of wells is not given due to its limited informative value.

Oil and gas reserves

Proven oil and gas reserves are the estimated volumes of crude oil, natural gas and condensate that are shown by geological and engineering data with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions. Accordingly, reserve estimates could be materially different from the quantities of oil and natural gas that are ultimately recovered. To reduce uncertainties, Wintershall uses independent, internationally recognized reserve auditors to perform recurring reserves audits of its major oil and gas fields.

The tables on the following pages show the estimated net quantities as of December 31, 2011 and 2012, of the Company's proven oil and gas reserves and proven developed oil and gas reserves as well as changes in estimated proven reserves as a result of production and other factors.

Oil 2012

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proven developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)	**61**	**10**	**40**	**258**	**24**	**393**
Revisions and other changes	3	–	15	5	(1)	22
Extensions and discoveries	–	9	1	–	–	10
Purchase/sale of reserves	–	–	–	–	–	–
Production	7	1	4	34	3	49
Proven reserves as of December 31	**57**	**18**	**52**	**229**	**20**	**376**
Minority interests	–	–	–	105	–	105
Proven reserves after minority interests	**57**	**18**	**52**	**124**	**20**	**271**
Thereof at-equity companies	–	–	12	–	–	12
Proven reserves after minority interests and at-equity companies	**57**	**18**	**40**	**124**	**20**	**259**
Minority interests in production	*–*	*–*	*–*	*16*	*–*	*16*
Proven developed reserves as of December 31	*47*	*3*	*31*	*209*	*13*	*303*

Gas 2012

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proven developed and undeveloped gas reserves as of January 1, billion standard cubic feet (BSCF)[1]	**225**	**110**	**3,761**	**190**	**1,097**	**5,383**
Revisions and other changes	8	41	350	(1)	147	545
Extensions and discoveries	–	23	13	–	–	36
Purchase/sale of reserves	–	–	–	–	–	–
Production	28	45	330	21	142	566
Proven reserves as of December 31	**205**	**129**	**3,794**	**168**	**1,102**	**5,398**
Minority interests	–	–	–	82	–	82
Proven reserves after minority interests	**205**	**129**	**3,794**	**86**	**1,102**	**5,316**
Thereof at-equity companies	–	–	3,215	–	–	3,215
Proven reserves after minority interests and at-equity companies	**205**	**129**	**579**	**86**	**1,102**	**2,101**
Minority interests in production	*–*	*–*	*–*	*11*	*–*	*11*
Proven developed reserves as of December 31	*177*	*87*	*3,492*	*133*	*737*	*4,626*

[1] The natural gas volumes can be converted with the factor 6 BSCF per MMBOE (million barrels of oil equivalent).

Oil 2011

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proven developed and undeveloped oil reserves as of January 1, millions of barrels (MMbbl)	**54**	**4**	**9**	**268**	**27**	**362**
Revisions and other changes	14	3	–	–	–	17
Extensions and discoveries	–	5	–	–	–	5
Purchase/sale of reserves	–	–	32	–	–	32
Production	7	2	1	10	3	23
Proven reserves as of December 31	**61**	**10**	**40**	**258**	**24**	**393**
Minority interests	–	–	–	118	–	118
Proven reserves after minority interests	**61**	**10**	**40**	**140**	**24**	**275**
Thereof at-equity companies	–	–	8	–	–	8
Proven reserves after minority interests and at-equity companies	**61**	**10**	**32**	**140**	**24**	**267**
Minority interests in production	*–*	*–*	*–*	*5*	*–*	*5*
Proven developed reserves as of December 31	*43*	*3*	*21*	*237*	*19*	*323*

Gas 2011

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proven developed and undeveloped gas reserves as of January 1, billion standard cubic feet (BSCF)[1]	**249**	**101**	**3,645**	**195**	**1,210**	**5,400**
Revisions and other changes	7	26	2	–	30	65
Extensions and discoveries	–	20	–	–	–	20
Purchase/sale of reserves	–	–	428	–	–	428
Production	31	37	314	5	143	530
Proven reserves as of December 31	**225**	**110**	**3,761**	**190**	**1,097**	**5,383**
Minority interests	–	–	–	93	–	93
Proven reserves after minority interests	**225**	**110**	**3,761**	**97**	**1,097**	**5,290**
Thereof at-equity companies	–	–	3,335	–	–	3,335
Proven reserves after minority interests and at-equity companies	**225**	**110**	**426**	**97**	**1,097**	**1,955**
Minority interests in production	*–*	*–*	*–*	*3*	*–*	*3*
Proven developed reserves as of December 31	*199*	*100*	*3,501*	*153*	*895*	*4,848*

[1] The natural gas volumes can be converted with the factor 6 BSCF per MMBOE (million barrels of oil equivalent).

Operating income from oil and gas-producing activities

Operating income represents only those revenues and expenses directly associated with Wintershall's oil and gas production. These amounts do not include financing costs (such as interest expenses) or corporate overhead costs and do not correspond to the contributions to the Oil & Gas segment. The differences in sales compared to the segment reporting results from sales for merchandise and services. Estimated income taxes were computed using local applicable income tax rates.

2012 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Sales crude oil (incl. condensate and LPG)	519	130	127	2,943	150	3,869
Sales natural gas	157	316	898	7	228	1,606
Local duties (royalties, export, etc.)	113	2	155	118	88	476
Total sales (net of duties)	**563**	**444**	**870**	**2,832**	**290**	**4,999**
Production costs	115	146	72	232	94	659
Exploration expenses	10	192	14	43	16	274
Depreciation, amortization and impairment	70	350	32	61	46	559
Other	9	52	15	7	32	115
Operating income before taxes	**359**	**(296)**	**737**	**2,489**	**103**	**3,392**
Income taxes	104	(262)	143	2,309	29	2,323
Operating income after taxes	**255**	**(34)**	**594**	**180**	**74**	**1,069**
Minority interests	–	–	–	86	–	86
Operating income after taxes and minority interests	**255**	**(34)**	**594**	**94**	**74**	**983**
Thereof at-equity results	–	–	109	–	–	109
Operating income after taxes, minority interests and at-equity results	**255**	**(34)**	**485**	**94**	**74**	**874**

2011 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Sales crude oil (incl. condensate and LPG)	489	118	115	839	168	1,729
Sales natural gas	170	244	760	1	228	1,403
Local duties (royalties, export, etc.)	118	2	91	32	99	342
Total sales (net of duties)	**541**	**360**	**784**	**808**	**297**	**2,790**
Production costs	110	116	68	104	82	480
Exploration expenses	16	144	7	36	9	212
Depreciation, amortization and impairment	57	70	33	80	46	286
Other	7	6	17	24	(8)	46
Operating income before taxes	**351**	**24**	**659**	**564**	**168**	**1,766**
Income taxes	102	(23)	130	571	27	807
Operating income after taxes	**249**	**47**	**529**	**(7)**	**141**	**959**
Minority interests	–	–	–	21	–	21
Operating income after taxes and minority interests	**249**	**47**	**529**	**(28)**	**141**	**938**
Thereof at-equity results	–	–	100	–	–	100
Operating income after taxes, minority interests and at-equity results	**249**	**47**	**429**	**(28)**	**141**	**838**

Costs incurred in oil and gas property acquisition, exploration and development activities

Costs incurred represent amounts capitalized or charged against income as incurred in connection with oil and gas property acquisition, exploration and development activities.

2012 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Acquisitions	–	–	–	–	–	–
Exploration and technology	25	311	20	98	24	478
Development	78	233	117	35	38	501
Total net costs	**103**	**544**	**137**	**133**	**62**	**979**

2011 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Acquisitions	–	–	–	–	–	–
Exploration	19	212	12	54	15	312
Development	83	202	37	8	30	360
Total net costs	**102**	**414**	**49**	**62**	**45**	**672**

Capitalized costs relating to oil and gas producing activities

Capitalized costs represent total expenditures on proven and unproven oil and gas properties with related accumulated depreciation and amortization.

2012 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proven properties	732	1,178	2,447	1,444	1,015	6,816
Unproven properties	58	903	17	157	32	1,167
Other equipment	705	875	4	45	–	1,629
Total gross assets	**1,495**	**2,956**	**2,468**	**1,646**	**1,047**	**9,612**
Accumulated depreciation	1,048	1,730	408	981	734	4,901
Total net assets	**447**	**1,226**	**2,060**	**665**	**313**	**4,711**

2011 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Proven properties	678	928	2,272	1,414	970	6,262
Unproven properties	37	915	10	103	33	1,098
Other equipment	660	728	4	40	–	1,432
Total gross assets	**1,375**	**2,571**	**2,286**	**1,557**	**1,003**	**8,792**
Accumulated depreciation	985	1,368	392	922	691	4,358
Total net assets	**390**	**1,203**	**1,894**	**635**	**312**	**4,434**

Capitalized exploration well-drilling costs: Suspended well costs

Exploratory drilling costs are capitalized until the drilling of the well is complete. If hydrocarbons are found, and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. If proven reserves of oil or natural gas are determined and development is sanctioned, the relevant expenditure is transferred to machinery and technical equipment. Unsuccessful exploration wells are impaired in exploration expenses.

The following table indicates the changes to the company's capitalized exploration well-drilling costs.

Capitalized exploration well-drilling costs (million €)[1]

	2012	2011
As of January 1	**314**	**254**
Additions pending determination of proven reserves	277	120
Capitalized exploratory well costs charged to expense	(75)	(26)
Reclassifications to wells, facilities and equipment	(30)	(34)
As of December 31	**486**	**314**

[1] Only fully consolidated companies

The following table provides an aging of capitalized well costs, the amounts capitalized and, on the last line, the number of suspended exploration wells.

Capitalized exploration well-drilling costs (million €)[1]

	2012	2011
Wells for which drilling is not complete	**172**	**33**
Wells capitalized less than one year	78	63
Wells capitalized more than one year	236	218
Total	**486**	**314**
Number of suspended wells	**40**	**32**

[1] Only fully consolidated companies

Standardized measure of discounted future net cash flows relating to proven oil and gas reserves (SMOG)

The following information has been prepared in accordance with SFAS 69 and the regulations of the Securities and Exchange Commission, which require the standardized measure of discounted future cash flows based on sales prices, costs and statutory interest rates. The proven reserves are valued at the average price calculated from the prices on the first day of the month. The values calculated in this way are subject to a 10% annual discount rate.

The projection should not be viewed as a realistic estimate of future cash flows. It does not take into account planned transactions such as the asset swaps with Statoil and Gazprom agreed upon for 2013. BASF will receive the producing fields Brage, Gjøa and Vega from Statoil. In return, Statoil will receive a share in the Edvard Grieg development project as well as financial compensation. From Gazprom, we will receive 25% plus a share in two additional Achimov Formation blocks in the Urengoy Field in Western Siberia, subject to approval by the appropriate authorities. Gazprom will receive the entire natural gas trading and storage business – which was previously jointly operated – as well as a share of 50% in Wintershall Noordzee B.V. Furthermore, the total value of future net cash flows should not be interpreted as representing the current enterprise value.

Material revisions of estimates of proven reserves may occur in the future, development and production of the reserves may not occur in the period assumed, actual prices realized are expected to vary significantly from those used and actual costs may also vary.

The company's investment and operating decisions are not based on the information presented below, but on a wide range of reserve estimates, and on different price and cost assumptions from those reflected in this information.

Beyond the above considerations, the "standardized measure of future net cash flows" is also not directly comparable with asset balances appearing elsewhere in the Consolidated Financial Statements because any such comparison would require a reconciling adjustment.

Standardized measure of discounted future cash flows 2012 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Future revenues	4,667	2,386	9,661	19,011	2,125	37,850
Future production/development costs	1,997	2,134	1,862	3,677	1,094	10,764
Future income taxes	625	131	1,295	12,782	245	15,078
Future net cash flows	2,045	121	6,504	2,552	786	12,008
Discounted to present value at a 10% annual rate	742	96	2,472	850	332	4,492
Standardized measures of discounted future cash flows	**1,303**	**25**	**4,032**	**1,702**	**454**	**7,516**
Minority interests	–	–	–	704	–	704
Standardized measures of discounted future cash flows after minority interests	**1,303**	**25**	**4,032**	**998**	**454**	**6,812**
Thereof at-equity companies	–	–	933	–	–	933
Standardized measures of discounted future cash flows after minority interests and at-equity companies	**1,303**	**25**	**3,099**	**998**	**454**	**5,879**

Standardized measure of discounted future cash flows 2011 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Future revenues	4,671	1,519	7,989	19,765	1,985	35,929
Future production/development costs	1,914	1,127	1,260	3,320	989	8,610
Future income taxes	666	255	1,062	13,780	109	15,872
Future net cash flows	2,091	137	5,667	2,665	887	11,447
Discounted to present value at a 10% annual rate	764	(18)	2,223	892	339	4,200
Standardized measures of discounted future cash flows	**1,327**	**155**	**3,444**	**1,773**	**548**	**7,247**
Minority interests	–	–	–	738	–	738
Standardized measures of discounted future cash flows after minority interests	**1,327**	**155**	**3,444**	**1,035**	**548**	**6,509**
Thereof at-equity companies	–	–	832	–	–	832
Standardized measures of discounted future cash flows after minority interests and at-equity companies	**1,327**	**155**	**2,612**	**1,035**	**548**	**5,677**

Summary of changes in standardized measure of discounted future net cash flows 2012 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Balance as of January 1	**1,327**	**155**	**3,444**	**1,773**	**548**	**7,247**
Sales and transfers of oil and gas produced, net of production costs	(448)	(305)	(865)	(2,609)	(196)	(4,423)
Net changes in price and in development and production costs	140	120	971	996	(50)	2,177
Extension, discoveries and improved recovery, less related costs	–	(133)	37	–	–	(96)
Revisions of previous quantity estimates	89	131	332	(46)	236	742
Development costs incurred during the period	78	171	117	35	37	438
Changes in estimated future development costs	(62)	(187)	(235)	(46)	(83)	(613)
Purchase/sale reserves	–	–	–	–	–	–
Net change in income taxes	21	50	(144)	564	(94)	397
Accretion of discounts	159	28	375	1,035	56	1,653
Other	(1)	(5)	–	–	–	(6)
Balance as of December 31	**1,303**	**25**	**4,032**	**1,702**	**454**	**7,516**
Minority interests	–	–	–	704	–	704
Standardized measures of discounted future cash flows (SMOG) after minority interests	**1,303**	**25**	**4,032**	**998**	**454**	**6,812**
Thereof at-equity companies	–	–	933	–	–	933
Standardized measure of discounted future cash flows after minority interests and at-equity companies	**1,303**	**25**	**3,099**	**998**	**454**	**5,879**

Summary of changes in standardized measure of discounted future net cash flows 2011 (million €)

	Germany	Rest of Europe	Russia, Caspian Sea region	North Africa, Middle East	South America	Total
Balance as of January 1	**786**	**61**	**2,821**	**1,800**	**535**	**6,003**
Sales and transfers of oil and gas produced, net of production costs	(432)	(249)	(784)	(710)	(214)	(2,389)
Net changes in price and in development and production costs	600	195	956	2,667	163	4,581
Extension, discoveries and improved recovery, less related costs	–	6	–	–	–	6
Revisions of previous quantity estimates	413	250	31	25	61	780
Development costs incurred during the period	83	153	36	8	28	308
Changes in estimated future development costs	(19)	(132)	(31)	7	(80)	(255)
Purchase/sale reserves	–	–	395	–	–	395
Net change in income taxes	(196)	(135)	(206)	(2,504)	1	(3,040)
Accretion of discounts	93	6	226	480	54	859
Other	(1)	–	–	–	–	(1)
Balance as of December 31	**1,327**	**155**	**3,444**	**1,773**	**548**	**7,247**
Minority interests	–	–	–	738	–	738
Standardized measures of discounted future cash flows (SMOG) after minority interests	**1,327**	**155**	**3,444**	**1,035**	**548**	**6,509**
Thereof at-equity companies	–	–	832	–	–	832
Standardized measure of discounted future cash flows after minority interests and at-equity companies	**1,327**	**155**	**2,612**	**1,035**	**548**	**5,677**

Overviews

6

Glossary

A

AgBalance®

AgBalance® is an assessment methodology developed by BASF for the holistic measurement and analysis of sustainability in agriculture and food production. Economic, ecological and social indicators are employed to create specific recommendations for sustainable production methods. AgBalance® received independent validation from global auditors in 2011.

Audits

Audits are a strategic tool for managing standards. During a site or plant audit, clearly defined criteria are used to create a profile for topics pertaining to environment, safety or health, for example.

B

Back-up line

A back-up line is a confirmed line of credit that can be drawn upon in connection with the issue of commercial paper if market liquidity is not sufficient, or for the purpose of general corporate financing. It is one of the instruments BASF uses to ensure it is able to make payments at all times.

Barrel of oil equivalent (BOE)

A barrel of oil equivalent (BOE) is an international standard for comparing the thermal energy of different fuels. It is equal to one barrel of crude oil, or 6,000 cubic feet or 169 cubic meters of natural gas.

Base of the pyramid

The base (or bottom) of the pyramid refers to the lowest income group in the world economic pyramid. The concept is used to describe business models which actively target this demographic as, for example, customers, suppliers or distributors – thus combining the pursuit of entrepreneurial opportunities with endeavors to improve quality of life.

Biocatalysis

Biocatalysis is the use of enzymes as biological catalysts for the targeted application, acceleration or control of chemical reactions. The high selectivity of enzyme catalysts allows for simplified processes and lower production costs.

Biotechnology

Biotechnology includes all processes and products that use living organisms, for example bacteria and yeasts, or their cellular constituents.

C

CO_2 equivalents

CO_2 equivalents are units for measuring the effect of greenhouse gas emissions. A factor known as the global warming potential (GWP) shows the effect of the individual gases compared with CO_2 as the reference value.

Coil coatings

Coil coatings are specialty coatings that can be applied to steel and aluminum bands creating a composite material that incorporates the traits of the metal and the coating material. The composite material is especially resistant to corrosion and can be easily formed. Coil coating sheets are mainly used in the construction industry.

Commercial paper program

The commercial paper program is a framework agreement between BASF and banks regarding the issuing of debt obligations on the financial market (commercial paper). The commercial paper is issued under a rolling program for which the terms can be determined individually. This requires a good rating.

Compliance

Compliance is an important element of corporate governance. It refers to the company's behavior in accordance with laws, guidelines and voluntary codices.

Conflict minerals

Conflict minerals describe minerals listed in the U.S. Conflict Minerals Trade Act. These include tantalite (coltan), cassiterite (tin ore), wolframite, gold, and their derivatives, by which conflicts in the Democratic Republic of Congo or neighboring states are financed.

Consumer goods sector

The consumer goods sector includes, for example, the textiles and leather industry, the electrical industry and domestic appliance manufacturing, as well as the paper industry and the personal care and cleaners sector.

D

Dow Jones Sustainability World Index (DJSI World)

The Dow Jones Sustainability World Index (DJSI World) is a worldwide sustainability index which lists the top 10% of the 2,500 largest companies that appear in the Dow Jones Global Index in terms of economic, ecological and social criteria.

E

EBIT

Earnings before interest and taxes (EBIT) – at BASF, EBIT corresponds to income from operations.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) – at BASF, EBITDA corresponds to income from operations before depreciation and amortization.

EBITDA margin

The EBITDA margin is the margin that we earn on sales from our operating activities before depreciation and amortization. It is calculated as income from operations before depreciation and amortization as a percentage of sales.

EBIT after cost of capital

EBIT after cost of capital is calculated by deducting the cost of capital from the EBIT of the operating divisions. The cost of capital thereby reflects the shareholders' expectations regarding return (in the form of dividends or share price increases) and interest payable to creditors. If the EBIT after cost of capital has a positive value, we have earned a premium on our cost of capital.

Eco-Efficiency Analysis

The Eco-Efficiency Analysis is a method for the evaluation of products and processes with respect to economic and environmental issues. The aim is to compare products with regard to profitability and environmental performance.

Emerging markets
According to our definition, emerging markets comprise the region Asia Pacific (excluding Japan, Australia and New Zealand), South and Central America, Eastern Europe, the Middle East and Africa.

Equity method
The equity method is an accounting technique used in the Consolidated Financial Statements to include BASF's investments in companies over which it has significant influence. The book value of the investment changes depending on the equity of the company in question.

European Water Stewardship (EWS) Standard
The European Water Stewardship Standard enables businesses and agriculture to assess the sustainability of their water management practices. The criteria are: water abstraction volumes, water quality, conservation of biodiversity and water governance. The EWS Standard was developed together with NGOs, governments and businesses.

Exploration
Exploration refers to the exploration and investigation of an area in the search for mineral resources such as crude oil or natural gas. The exploration process involves using suitable geophysical processes to find structures that may contain oil and gas then proving a possible find by means of exploratory drilling.

F

Fermentation
Fermentation is the transformation of organic substances by means of enzymes, bacteria, yeasts or fungi. When these microorganisms are optimized through biotechnological processes, fermentation can serve as an alternative to chemical processes that is both efficient and conserves resources.

Field development
Field development is the term for the installation of production facilities and the drilling of production wells for the commercial exploitation of oil and natural gas deposits.

Formulation
Formulation describes the combination of one or more active substances with excipients like emulsifiers, stabilizers and other non-active components in order to improve the applicability and effectiveness of various products, such as cosmetics, pharmaceuticals, agricultural chemicals, paints and coatings.

Free cash flow
Free cash flow is cash provided by operating activities less payments related to property, plant and equipment and intangible assets.

G

Global Product Strategy (GPS)
The Global Product Strategy aims to establish global product stewardship standards and practices for companies. The program, initiated by the International Council of Chemical Associations (ICCA), strives to ensure the safe handling of chemicals by reducing existing differences in risk assessment.

Greenhouse Gas Protocol (GHG Protocol)
The Greenhouse Gas Protocol, used by companies from different sectors, NGOs and governments, is a globally recognized standard to quantify and manage greenhouse gas emissions. The reporting standards and recommendations for the implementation of projects to reduce emissions are jointly developed by companies, governments and NGOs under the guidance of the World Resources Institute and the World Business Council for Sustainable Development.

H

Health Performance Index (HPI)
The Health Performance Index (HPI) is an indicator developed by BASF to provide a more detailed insight into the application of health management. It comprises five components: confirmed occupational diseases, medical emergency planning, first aid, preventive medicine and health promotion.

I

IAS
IAS stands for International Accounting Standards (see also IFRS).

IFRS
The International Financial Reporting Standards (until 2001: International Accounting Standards, IAS) are developed and published by the International Accounting Standards Board (IASB), headquartered in London, United Kingdom. In accordance with the IAS Regulation, the application of IFRS has been mandatory for listed companies headquartered in the European Union since 2005.

ILO Core Labor Standards
The ILO Core Labor Standards are laid out in a declaration of the International Labor Organization (ILO). It comprises eight conventions which set minimum requirements for decent working conditions. BASF has a Group-wide system to monitor employees' and suppliers' adherence to these labor standards.

ISO 14001
ISO 14001 is an international standard developed by the International Organization for Standardization (ISO) that determines the general requirements for an environmental management system for voluntary certification.

ISO 19011
ISO 19011 is an international standard developed by the International Organization for Standardization (ISO) that determines requirements for audits of quality management and environmental management systems.

J

Joint venture
We define joint ventures as all activities in which other partners besides BASF hold a stake. The accounting method applied for those activities depends on the circumstances of the respective investment.

M

Materiality analysis

BASF uses materiality analysis to analyze and evaluate societal interest in sustainability topics as well as their potential significance for the company. The aim is to develop strategies at an early stage to address potential new risks and opportunities.

MDI

MDI stands for diphenylmethane diisocyanate and is one of the most important raw materials for the production of the plastic polyurethane. This plastic is used for applications ranging from the soles of high-tech jogging shoes, to car shock-absorbers, refrigerator insulation and even insulation for buildings.

Migration

In chemistry, migration refers to the movement of molecules on the surface of plastics or in surrounding materials. Plastics with low migration values hinder or prevent the migration of, for example, additives, which makes them especially suitable for applications that come into contact with food or drinking water.

Monitoring system

Monitoring systems and tools serve to measure and ensure the adherence to standards. One area that is monitored is our voluntary commitments, such as the adherence to human rights and internationally recognized labor standards.

MSCI World Chemicals Index

The MSCI World Chemicals Index is a stock index that includes the world's biggest chemical companies. It measures the performance of the companies in the index in their respective national currencies, thus considerably reducing currency effects.

N

Nanomaterials

Definitions vary worldwide for nanomaterials. For regulatory purposes, BASF supports the definition given by the International Council of Chemical Associations (ICCA). This states that nanomaterials are solid, particulate substances which are intentionally manufactured and have a weight-based cutoff of either 10 weight% or more of nano-objects or 50 weight% or more of aggregates or agglomerates consisting of nano-objects.

Naphtha

Naphtha is petroleum that is produced during oil refining. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.

NMVOC (non-methane volatile organic compounds)

VOCs (volatile organic compounds) are organic substances that, at low temperatures, are present in the air as gas. These include some hydrocarbons, alcohols, aldehydes and organic acids. NMVOCs are VOCs from which methane is excluded.

O

OHSAS 18001

The Occupational Health and Safety Assessment Series (OHSAS) comprises, among other things, the standard OHSAS 18001 which includes a management system for occupational safety. This system can be integrated into an existing quality and environmental protection management system and certified accordingly.

P

Patent Asset Index

The Patent Asset Index measures the strength of a company's patent portfolio. It is made up of two factors: (1) portfolio size (the number of worldwide active patent families) and (2) competitive impact, which is the combination of technology relevance and market coverage (weighted by market size).

PBT chemicals

PBT chemicals are substances that fulfill the three following criteria: (1) persistent – they remain in the environment for long periods of time and degrade either slowly or not at all; (2) bioaccumulative – they build up or accumulate in an organism's tissue or the food chain; (3) toxic – they are poisonous. PBT chemicals are considered Substances of Very High Concern by the European chemicals directive, REACH.

PolyTHF®

THF stands for tetrahydrofuran and is a starting compound for Polytetrahydrofuran (PolyTHF®). PolyTHF® is an important component in the production of elastomer fibers, which are used in sports clothing, for example.

R

Ramsar Site

Ramsar Sites were defined in the Ramsar Convention of 1971. These are protected Wetlands of International Importance, such as lagoons, moors, lakes, rivers and marshlands.

REACH

REACH is a European Union regulatory framework for the registration, evaluation and authorization of chemicals.

Responsible Care

Responsible Care refers to a worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, health and safety.

Retention

There are two applications for generated profits: distribution to shareholders or retention in the company.

Return on assets

Return on assets describes the return we make on the average assets employed during the year. It is calculated as income before taxes and minority interests plus interest expenses as a percentage of average assets.

S

SEEBALANCE®

SEEBALANCE® refers to the Socio-Eco-Efficiency Analysis developed by BASF. This analysis considers the three dimensions of sustainability: environment, economy and society. This tool allows the assessment of environmental impact and costs as well as the societal impacts of products and processes.

Seed treatment products

Seed treatment products include crop protection agents and are applied with specific technologies directly onto the seed. This protects crops in the emerging stages against fungal diseases and harmful insects.

Special items
Special items describe one-time charges or one-time income that significantly affect the earnings of a segment or the BASF Group. Special items include, for example, charges arising from restructuring measures or earnings from divestitures.

Spot market (cash market)
A spot market is a market where an agreed deal including delivery, acceptance and payment occurs immediately, in contrast to forward contracts, where the delivery, acceptance and payment occurs at a point in time after the conclusion of the deal.

Stakeholders
Stakeholders are persons or groups whose interests are interlinked with those of a company in a variety of ways. BASF's stakeholders include shareholders, business partners, employees, neighbors and society.

Steam cracker
A steam cracker is a plant in which steam is used to "crack" naphtha (petroleum) or natural gas. The resulting petrochemicals are the starting materials used to produce most of BASF's products.

Styrene
The precursor styrene is primarily for captive use (backward integration). Styrenic plastics are used in many areas, for example, in the construction, packaging, automotive, electrical and leisure industries.

Substitution
Substitution refers to the use of one substance in place of another in order to reduce risks to people and/or the environment in a specific application.

Sustainability
The objective of sustainable development is to meet the economic, environmental and social needs of society without harming the development opportunities of future generations.

Swap
A swap is an agreement between two parties to exchange goods or payment flows in the future. In an interest swap, a fixed (variable) interest rate is exchanged for a floating (fixed) rate for an agreed nominal amount.

T

TDI
Toluene diisocyanate is a starting material for the production of polyurethane. It is used primarily in the automotive industry (for example, in seat cushions and interiors) and the furniture industry (for example, for flexible foams for mattresses or cushioning, or in wood coating).

TUIS
TUIS is a German transport accident information and emergency response system jointly operated by around 130 chemical companies. The member companies can be reached by the public authorities at any time and provide assistance over the telephone, expert on-site advice or special technical equipment.

U

UNESCO protected area
UNESCO protected areas, or World Heritage Sites, are natural sites of exceptional value. These important habitats can be home to endangered plant and animal species.

V

Value chain
A value chain describes the successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

Verbund
In the BASF Verbund, production facilities, energy flow, logistics and infrastructure are intelligently networked with each other in order to increase production yields, save resources and energy and reduce logistics costs. A significant factor in the Verbund concept is the Know-How Verbund, in which BASF employees engage in worldwide exchange and expert knowledge is pooled in technology platforms.

W

Water stress areas
Water stress areas are areas in which water represents a scarce resource, and where people abstract more than 60 percent of the water available. The most important factors leading to water scarcity are: low precipitation, high temperatures, low air humidity, unfavorable soil properties and high water abstraction rates.

White biotechnology
White biotechnology is an area of biotechnology, also called industrial biotechnology, that uses microorganisms and/or enzymes to produce chemical products that are utilized in many levels of the value chain in the chemical industry. This involves, for example, the biotechnological production of chiral intermediates.

Index

Registered trademarks[1]

AgBalance	reg. trademark of BASF
AgCelence	reg. trademark of BASF
Aqua	reg. trademark of BASF
BASOTECT	reg. trademark of BASF
BioStacked	reg. trademark of BASF
CAPCURE	reg. trademark of Gabriel Performance Products LLC
CathoGuard	reg. trademark of BASF
CELLASTO	reg. trademark of BASF
CETIOL	reg. trademark of BASF
CLEARFIELD	reg. trademark of BASF
CUPUR	reg. trademark of BASF
DINCH	reg. trademark of BASF
DroughtGard	reg. trademark of Monsanto Technology LLC
ECOFLEX	reg. trademark of BASF
ECOVIO	reg. trademark of BASF
ELASTOFLEX	reg. trademark of BASF
ELASTOLLAN	reg. trademark of BASF
ELASTOPIR	reg. trademark of BASF
ELASTOSKIN	reg. trademark of BASF
EMGARD	reg. trademark of BASF
E-por	reg. trademark of BASF
F 500	reg. trademark of BASF
GLENIUM	reg. trademark of BASF
GREEN SENSE	reg. trademark of BASF
HEXAMOLL	reg. trademark of BASF
IRGAPHOR	reg. trademark of BASF
KIXOR	reg. trademark of BASF
KOLLICOAT	reg. trademark of BASF
LifeStraw	reg. trademark of Vestergaard Frandsen S.A.
MULTIBORE	reg. trademark of BASF
NEOPOLEN	reg. trademark of BASF
NEOPOR	reg. trademark of BASF
PALUSOL	reg. trademark of BASF
POLYTHF	reg. trademark of BASF
POZZOLITH	reg. trademark of BASF
RELIUS	reg. trademark of Prosol Lacke + Farben GmbH
RESPONSIBLE CARE	reg. trademark of Conseil Européen de l'Industrie Chimique
SEEBALANCE	reg. trademark of BASF
STANDAK	reg. trademark of BASF
STYRODUR	reg. trademark of BASF
STYROPOR	reg. trademark of BASF
TERMIDOR	reg. trademark of BASF
TINOSORB	reg. trademark of BASF
ULTRADUR	reg. trademark of BASF
ULTRAFORM	reg. trademark of BASF
ULTRAMID	reg. trademark of BASF
ULTRASON	reg. trademark of BASF
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1 Trademarks are not necessarily registered in all countries.

Ten-year summary

Million €		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales and earnings[1]											
Sales		33,361	37,537	42,745	52,610	57,951	62,304	50,693	63,873	73,497	78,729
Income from operations before depreciation and amortization (EBITDA)		5,110	7,685	8,233	9,723	10,225	9,562	7,388	11,131	11,993	12,516
Income from operations (EBIT)		2,658	5,193	5,830	6,750	7,316	6,463	3,677	7,761	8,586	8,976
Income before taxes		2,168	4,347	5,926	6,527	6,935	5,976	3,079	7,373	8,970	8,436
Income before minority interests		976	2,133	3,168	3,466	4,325	3,305	1,655	5,074	6,603	5,222
Net income		910	2,004	3,007	3,215	4,065	2,912	1,410	4,557	6,188	4,879
Capital expenditures, depreciation and amortization[1]											
Additions to property, plant and equipment and intangible assets		3,415	2,163	2,523	10,039	4,425	3,634	5,972	5,304	3,646	5,397
Thereof property, plant and equipment		2,293	2,022	2,188	4,068	2,564	2,809	4,126	3,294	3,199	4,215
Depreciation and amortization of property, plant and equipment and intangible assets		2,452	2,492	2,403	2,973	2,909	3,099	3,711	3,370	3,407	3,540
Thereof property, plant and equipment		1,951	2,053	2,035	2,482	2,294	2,481	2,614	2,667	2,618	2,850
Number of employees											
At year-end		87,159	81,955	80,945	95,247	95,175	96,924	104,779	109,140	111,141	113,262
Annual average		88,167	85,022	80,992	88,160	94,893	95,885	103,612	104,043	110,403	112,388
Personnel expenses[1]		**5,891**	**5,615**	**5,574**	**6,210**	**6,648**	**6,364**	**7,107**	**8,228**	**8,576**	**9,089**
Research and development expenses[1]		**1,105**	**1,173**	**1,064**	**1,277**	**1,380**	**1,355**	**1,398**	**1,492**	**1,605**	**1,746**
Key data[1]											
Earnings per share[6, 7]	€	0.81	1.83	2.87	3.19	4.16	3.13	1.54	4.96	6.74	5.31
Cash provided by operating activities[2]		4,878	4,634	5,250[3]	5,940	5,807	5,023	5,693	6,460	7,105	6,733
EBITDA margin	%	15.3	20.5	19.3	18.5	17.6	15.3	14.6	17.4	16.3	15.9
Return on assets	%	7.4	13.2	17.7	17.5	16.4	13.5	7.5	14.7	16.1	14.6
Return on equity after tax	%	6.0	12.9	18.6	19.2	22.4	17.0	8.9	24.6	27.5	20.4
Appropriation of profits											
Net income of BASF SE[4]		1,103	1,363	1,273	1,951	2,267	2,982	2,176	3,737	3,506	2,880
Transfer to retained earnings[4]		334	449	–	–	–	–	–	–	–	–
Dividend		774	904	1,015	1,484	1,831	1,791	1,561	2,021	2,296	2,388
Dividend per share[6]	€	0.70	0.85	1.00	1.50	1.95	1.95	1.70	2.20	2.50	2.60
Number of shares as of December 31[5, 6]	**million**	**1,113.3**	**1,080.9**	**1,028.8**	**999.4**	**956.4**	**918.5**	**918.5**	**918.5**	**918.5**	**918.5**

1 Since 2005, the accounting and reporting of the BASF Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated in accordance with IFRS. The figures for the years up to and including 2003 were prepared according to German GAAP.
2 Includes the change in reporting from 2009 onward of the effects of regular extensions of U.S. dollar hedging transactions
3 Before external financing of pension obligations
4 Calculated in accordance with German GAAP
5 After deduction of repurchased shares earmarked for cancellation
6 In the second quarter of 2008, we conducted a two-for-one stock split. The previous years' figures for earnings per share, dividend per share and number of shares have been adjusted accordingly.
7 Adjusted for special items and impairment of intangible assets, earnings per share were €5.71 in 2012 and €6.26 in 2011.

Balance sheet (German GAAP)

Million €	**2003**
Intangible assets	3,793
Property, plant and equipment	13,070
Financial assets	2,600
Fixed assets	**19,463**
Inventories	4,151
Accounts receivable, trade	4,954
Other receivables	3,159
Deferred taxes	1,247
Marketable securities	147
Cash and cash equivalents	481
Current assets	**14,139**
Total assets	**33,602**
Subscribed capital	1,425
Capital surplus	2,983
Paid-in capital	4,408
Retained earnings	12,055
Currency translation adjustment	(972)
Minority interests	388
Equity	**15,879**
Pensions and other long-term provisions	6,205
Tax and other short-term provisions	2,982
Provisions	**9,187**
Financial indebtedness	3,507
Accounts payable, trade	2,056
Other liabilities	2,973
Liabilities	**8,536**
Provisions and liabilities	**17,723**
Thereof long-term liabilities	10,285
Total equity and liabilities	**33,602**

Balance sheet (IFRS)

Million €	2004	2005	2006	2007	2008	2009	2010	2011	2012
Intangible assets	3,607	3,720	8,922	9,559	9,889	10,449	12,245	11,919	12,241
Property, plant and equipment	13,063	13,987	14,902	14,215	15,032	16,285	17,241	17,966	18,177
Investments accounted for using the equity method	1,100	244	651	834	1,146	1,340	1,328	1,852	2,045
Other financial assets	938	813	1,190	1,952	1,947	1,619	1,953	848	880
Deferred taxes	1,337	1,255	622	679	930	1,042	1,112	941	1,545
Other receivables and miscellaneous long-term assets	473	524	612	655	642	946	653	561	650
Long-term assets	**20,518**	**20,543**	**26,899**	**27,894**	**29,586**	**31,681**	**34,532**	**34,087**	**35,538**
Inventories	4,645	5,430	6,672	6,578	6,763	6,776	8,688	10,059	9,930
Accounts receivable, trade	5,861	7,020	8,223	8,561	7,752	7,738	10,167	10,886	10,138
Other receivables and miscellaneous short-term assets	2,133	1,586	2,607	2,337	3,948	3,223	3,883	3,781	3,504
Marketable securities	205	183	56	51	35	15	16	19	23
Cash and cash equivalents	2,086	908	834	767	2,776	1,835	1,493	2,048	1,777
Assets of disposal groups	–	–	–	614	–	–	614	295	3,417
Short-term assets	**14,930**	**15,127**	**18,392**	**18,908**	**21,274**	**19,587**	**24,861**	**27,088**	**28,789**
Total assets	**35,448**	**35,670**	**45,291**	**46,802**	**50,860**	**51,268**	**59,393**	**61,175**	**64,327**
Subscribed capital	1,383	1,317	1,279	1,224	1,176	1,176	1,176	1,176	1,176
Capital surplus	3,028	3,100	3,141	3,173	3,241	3,229	3,216	3,203	3,188
Retained earnings	11,923	11,928	13,302	14,556	13,250	12,916	15,817	19,446	20,106
Other comprehensive income	(60)	696	325	174	(96)	156	1,195	314	110
Minority interests	328	482	531	971	1,151	1,132	1,253	1,246	1,224
Equity	**16,602**	**17,523**	**18,578**	**20,098**	**18,722**	**18,609**	**22,657**	**25,385**	**25,804**
Provisions for pensions and similar obligations	4,124	1,547	1,452	1,292	1,712	2,255	2,778	3,189	5,460
Other provisions	2,376	2,791	3,080	3,015	2,757	3,289	3,352	3,335	3,024
Deferred taxes	948	699	1,441	2,060	2,167	2,093	2,467	2,628	2,511
Financial indebtedness	1,845	3,682	5,788	6,954	8,290	12,444	11,670	9,019	9,113
Other liabilities	1,079	1,043	972	901	917	898	901	1,142	1,083
Long-term liabilities	**10,372**	**9,762**	**12,733**	**14,222**	**15,843**	**20,979**	**21,168**	**19,313**	**21,191**
Accounts payable, trade	2,372	2,777	4,755	3,763	2,734	2,786	4,738	5,121	4,696
Provisions	2,364	2,763	2,848	2,697	3,043	3,276	3,324	3,210	2,687
Tax liabilities	644	887	858	881	860	1,003	1,140	1,038	1,080
Financial indebtedness	1,453	259	3,695	3,148	6,224	2,375	3,369	3,985	4,242
Other liabilities	1,641	1,699	1,824	1,976	3,434	2,240	2,802	3,036	2,395
Liabilities of disposal groups	–	–	–	17	–	–	195	87	2,232
Short-term liabilities	**8,474**	**8,385**	**13,980**	**12,482**	**16,295**	**11,680**	**15,568**	**16,477**	**17,332**
Total equity and liabilities	**35,448**	**35,670**	**45,291**	**46,802**	**50,860**	**51,268**	**59,393**	**61,175**	**64,327**

GRI and Global Compact Index

The complete GRI Index with core and additional indicators as well as the ten principles of the Global Compact can be found at
→ **basf.com/gri_gc_e**

Global Compact Principles	GRI Indicator	Subject	Page
	Strategy and profile		
1–10	1.1	Chief executive statement	8–9
	1.2	Description of key impacts, risks and opportunities	20–31, 35–36, 38–40, 45–47, 80, 84–93, 98, 100, 107–115, 119–121
	2.1–2.10	Organizational profile, structure, markets	Cover, 5, 13–16, 18–19, 24, 30–31, 35–39, 44, 48–52, 56–60, 64–70, 73, 75–76, 80–81, 84–86, 90–91, 100–101, 116–122, 124, 163, 168, 226
	3.1–3.4	Report profile	Cover, 4–5
	3.5–3.13	Report scope and boundary, assurance	Cover, 4–6, 19, 27–28, 55, 145, 230
1–10	4.1–4.7	Corporate governance	8–11, 15, 22, 27, 41–42, 124–126, 129–138, 205–206
1–10	4.8–4.13	Guidelines and policies, codes of conduct, commitments to external initiatives	4–6, 14, 20–29, 39–44, 84, 92–100, 104–106, 108, 112, 114–115, 124, 127, 129
	4.14–4.17	Stakeholder engagement	5, 15, 20, 27–30, 32, 38–42, 44, 84–85, 90–93, 95–99, 102, 104–105, 114–115, 129
	Economic performance		
1,4,6,7	**Management approach**		18–24, 26, 48–57, 107–115, 143–208
	EC1	Direct economic value generated and distributed	12–14, 16, 23–24, 26, 31, 35–36, 39–40, 42, 44, 48–53, 55–58, 61, 64, 66, 68, 71, 75–77, 80–82, 87, 90–91, 145–150, 175, 177, 205–206
7,8,9	EC2	Financial implications due to climate change	27, 29, 31,103, 110
	EC3	Coverage of benefit plan obligations	40, 42, 156–157, 187–191
	EC6	Local suppliers	92
6	EC7	Local hiring	24,41
	EC8	Development and impact of investments for public benefit	27–28, 39–40, 44
	Environmental performance		
7,8,9	**Management approach**		18, 20–23, 25, 27–29, 84, 92–106, 127, 129
8,9	EN1–EN2	Materials used	18, 20, 36, 68, 92–93, 102, 104–106
8,9	EN3–EN7	Energy	18, 25, 31–34, 36, 75, 81, 100–103, 105–106
8,9	EN8–EN10	Water	25, 81, 104–105
8	EN11–EN15	Biodiversity	29, 81, 84–85, 93, 103
7,8,9	EN16–EN20	Emissions	18, 20, 25, 33–34, 36, 64, 75, 93, 101–102, 106
8	EN21	Wastewater	104–105
8	EN22	Waste	106
8	EN23	Spills	25, 104
7,8,9	EN26–EN27	Products and services	22, 29, 31–36, 64, 75, 84, 93–95, 97, 100–101, 103–106
	EN28	Compliance	196
7,8,9	EN29, EN30	Transport and environmental protection expenditures	29, 31–32, 94–95, 98–100, 103, 105–106
	Social performance		
	Labor practice and labor quality		
1,3,6	**Management approach**		20–25, 28, 39–43, 96–97, 129
1,3,6	LA1–LA5	Employment	30, 39–43, 115, 177–178
1	LA7–LA8	Occupational health and safety	25, 40–41, 43, 94–98
	LA10–LA11	Training and education	24, 26–27, 40–41, 95–96, 129
1,6	LA13	Composition of governance bodies	24, 40–41
1,6	LA14	Equal employment	22, 24, 41–43
6	LA15	Maternity leave	41

Global Compact Principles	GRI Indicator	Subject	Page
	Human rights		
1,2,3,4,5,6	**Management approach**		20–23, 28–29, 42–43, 92–93, 95, 129
1,2,3,4,5,6	HR1	Significant investment agreements	22, 29, 97
1,2,3,4,5,6	HR2	Screening of suppliers	92, 97, 129
1,2,3,4,5,6	HR3	Training	129
1,2,6	HR4	Non–discrimination	29, 43, 129
1,2,3	HR5	Freedom of association, collective bargaining	43, 92, 129
1,2,4,5	HR6–HR7	Child labor, forced labor, compulsory labor	43, 92, 129
1,2	HR8	Training of security personnel	97
1,2,3,4,5,6	HR10	Assessment	22, 43, 92, 94, 129
1,2,3,4,5,6	HR11	Remediation	29, 43
	Society		
10	**Management approach**		20–23, 27, 43–44, 124–142, 196
	SO1, SO9, SO10	Community	27, 44, 93–94, 97, 129
10	SO2–SO4	Corruption	22, 129
1–10	SO5–SO8	Public policy	27
	Product responsibility		
1,8	**Management approach**		22, 25, 27–29, 33–35, 38, 94–99, 129
1,7	PR1	Customer health and safety	25, 29, 32, 34–35, 38, 64, 92–95, 98–99, 103
8	PR3	Product and service	34–35, 98–99
	PR6	Marketing communication	44, 129

Since 2003, BASF has been participating in the feedback meetings of the Global Reporting Initiative (GRI) and has been working to further develop the guidelines together with experts from industry, non-governmental organizations, analysts and financial auditors. GRI aims to improve the comparability of sustainability reporting. We reported on the basis of the GRI for the first time in our Corporate Report 2003. Since 2005, we have been supporting the Global Reporting Initiative as an Organizational Stakeholder. This report has been aligned with the indicators of the current GRI guideline G3.1.

This short index shows where to find information on the GRI core and additional indicators as well as topics relevant to the principles of the Global Compact in this report. An extended overview is available online at basf.com/gri_gc_e. The online index contains all GRI reporting elements as well as all GRI core and additional indicators and shows where details are to be found in our printed and online reporting. We also give a brief explanation if no data is available for a given indicator.

→ **More information on GRI can be found at www.globalreporting.org**

Statement GRI Application Level Check

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **BASF SE** has presented its report "BASF Report 2012" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 15 February 2013

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

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GRI REPORT
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The "+" has been added to this Application Level because BASF SE has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

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***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 7 February 2013. GRI explicitly excludes the statement being applied to any later changes to such material.*

Selected prizes and awards

Carbon Disclosure Project

Carbon Disclosure Leadership Index and Carbon Performance Leadership Index

In 2012, BASF again achieved the top ranking in the Materials & Energy sector in the Carbon Disclosure Leadership Index. BASF was also once again included in the Carbon Performance Leadership Index, which assesses companies' performance in dealing with climate change.

Dow Jones Sustainability Index

BASF share included in DJSI World for twelfth consecutive year

BASF shares were again included in the Dow Jones Sustainability World Index (DJSI World) in 2012. The company received particular recognition for its commitment in the areas of climate strategy and risk and crisis management, as well as human capital development.

China Green Companies Top 100

BASF honored for its commitment

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

LEED (Leadership in Energy and Environmental Design)

BASF honored for sustainable construction

BASF's new North American headquarters in Florham Park, New Jersey, was awarded the highest LEED certification in 2012, making it one of a total of five construction projects in the United States to have achieved the Double Platinum rating. The classification system for sustainable buildings defines standards in the areas of site concept, water and energy consumption, building materials and interior construction.

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Forward-looking statements

This report contains forward-looking statements. These statements are based on current estimates and projections of BASF management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results, performance or achievements of BASF to be materially different from those that may be expressed or implied by such statements. Such factors include those discussed in the Opportunities and Risks Report from page 107 to 115. We do not assume any obligation to update the forward-looking statements contained in this report.

Annual Shareholders' Meeting 2013 / Interim Report 1st Quarter 2013

April 26, 2013

Interim Report 1st Half 2013

July 25, 2013

Interim Report 3rd Quarter 2013

Oct. 25, 2013

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Contact

General inquiries
Phone: +49 621 60-0

Corporate Media Relations
Jennifer Moore-Braun, Phone: +49 621 60-99123

Corporate Sustainability Relations
Thorsten Pinkepank, Phone: +49 621 60-41976

Investor Relations
Magdalena Moll, Phone: +49 621 60-48230

Internet
www.basf.com

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