

**BASF Polyurethanes U.K. Limited**

**Directors' report and financial  
statements**

**Registered number 702844  
31 December 2010**

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**REPORT AND FINANCIAL STATEMENTS**

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**REPORT AND FINANCIAL STATEMENTS**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

Mr W Stegh	(Chairman - German)	
Dr U Hartwig	(German)	
Mr C R Dunn	(British)	Retired 30 August 2010
Mr P Robinson	(British)	Appointed 01 September 2010
Mr T Jensen	(Danish)	

**SECRETARY**

Mr S Hatton

**REGISTERED OFFICE**

BASF Polyurethanes U K Limited  
Alfreton Trading Estate  
Wimsey Way  
Somercotes  
Alfreton  
Derbyshire  
DE55 4NL

**BANKERS**

HSBC Bank plc  
City of London Corporate Office  
PO Box 125  
27-32 Poultry  
London  
EC2P 2BX

**SOLICITORS**

Evershed, Wells & Hind  
1 Royal Standard Place  
Nottingham

**AUDITORS**

KPMG LLP  
St James' Square  
Manchester  
M2 6DS

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

### **PRINCIPAL ACTIVITIES**

The principal activity of the company continues to be the manufacture and sale of polyurethane systems to customers in the UK and Ireland

### **BUSINESS PERFORMANCE**

#### **Strategic Objectives**

The company continued to pursue its strategy, as an integral part of the BASF Polyurethanes group, to develop polyurethane systems to meet the needs of the markets in the UK and Ireland. By closely monitoring market trends and forthcoming legislation, we align our sales, technical and product development resources to the future needs of the market

#### **Trends and Factors affecting Performance**

The measures taken in 2009 to address the dramatic downturn of the business, resulting from the global financial crisis, stood the company in good stead to take advantage of the upturn in 2010, which is reflected in the excellent sales and profitability performance. The extent and speed of recovery of the business was greater than had been anticipated, nevertheless, we were able to adapt to the challenges placed upon us by the customer base

We continued to work very hard on cost management and working capital, and made particular progress in the areas of inventory control and receivables. At the same time, we continued to assess opportunities to improve efficiency and evaluate investments aimed at securing the longer term profitability of the company

The threat still exists from certain sectors of the market to switch away from buying polyurethane systems, and to become self-formulators themselves. We remain confident that we can demonstrate the advantages to customers of purchasing a fully supported system product

#### **External Environment and Industry Changes affecting Performance**

Whilst traditional manufacturing industries have largely migrated out of the UK (eg footwear, domestic appliances), other new markets are opening up, and we are well positioned to take advantage of the opportunities they bring. Legislative measures aimed at addressing the issue of climate change, for example, will increase our scope in certain key application fields, for which we have the relevant products already in our portfolio. Furthermore, technological advancements in the energy sector have also given rise to additional markets for us, where we have already established a foothold, and for which we will continue to develop new systems

### **RISK AND UNCERTAINTY**

#### **Commercial Risk**

The speed of recovery from the global recession has had some impact on the supply / demand balance of raw materials, increasingly so towards the end of the last year. This has resulted in increasing lead-times and prices for many raw materials. We have been successful in passing some of these cost increases on to the market

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**KEY PERFORMANCE INDICATORS**

The following KPIs are seen as the most significant to the business in the short, medium and long term:

**Financial**

Operating profit as a percentage of turnover 9.0% in the year (2009 6.8%)  
DSO (Days of debtors sales outstanding) 49 days (2009 55 days)  
DIV (Days of inventory) 26 days (2009 33 days)

**Non Financial**

The Company has several non financial indicators to monitor plant performance including production volume measures, 'right first time' levels and non conforming stock levels targets

**Employee Involvement**

The Company continued to develop the performance management system, in order to further increase the transparency of the system for all the employees. Employees are directly involved in the process of setting company, team and personal objectives, as well as regular review meetings to measure progress towards our goals.

Regular site briefings are held, at which we share information about the company's performance and discuss measures aimed at improving efficiency and business results. Employees' basic pay and bonus payments are directly linked to their own personal contribution, as well as to the overall success of the company and the group.

**Supplier Payment policy**

The company pays its suppliers in accordance with agreed terms of business.

**Political and charitable donations**

There were no political or charitable donations during 2010, (charitable donations in 2009 of £701)

**Review of developments and future prospects**

The Company has continued to look for opportunities in segments where it has a low market share as well as investing in new segments of both the Insulation and Specialties businesses. Whilst the move of major formulated system customers to self-formulation impacts on the volumes sold, the directors believe that the Company can continue to replace this business over the longer term.

**Dividends and transfers to reserves**

The profit after taxation for the financial year amounted to £2,818,000 (2009 £1,684,000). A Dividend of £2,500,000 has been paid in this year (2009 £1,000,000).

**DIRECTORS AND THEIR INTERESTS**

The directors of the company, who served during year, are as follows:

Mr C R Dunn	(Managing Director)	Retired 30 August 2010
Mr P Robinson	(Managing Director)	Appointed 01 September 2010
Mr W Stegh	(German) (Chairman)	
Dr U Hartwig	(German)	
Mr T Jensen	(Danish)	

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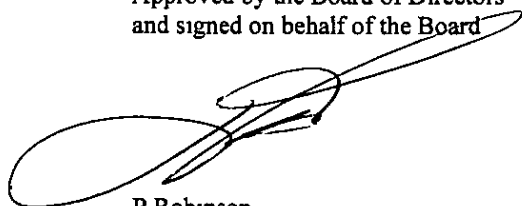
**DISCLOSURE OF INFORMATION TO THE AUDITORS**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**AUDITORS**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

Approved by the Board of Directors  
and signed on behalf of the Board

A handwritten signature in black ink, appearing to be 'P Robinson', written over a horizontal line.

P Robinson  
Director

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for proper adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities



KPMG LLP  
St James' Square  
Manchester  
M2 6DS  
United Kingdom

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BASF POLYURETHANES U.K. LIMITED**

We have audited the Financial Statements of BASF Polyurethanes U K Limited for the year ended 31 December 2010 set out on pages 8 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.




**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BASF POLYURETHANES U.K. LIMITED** *(continued)*

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

 13 July 2011

**David Bills (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
St James' Square  
Manchester  
M2 6DS

**BASF POLYURETHANES U.K. LIMITED**  
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**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2010**

	Note	2010 £'000	2009 £'000
<b>TURNOVER FROM CONTINUING OPERATIONS</b>	2	44,642	35,424
Cost of sales		(35,506)	(28,881)
Gross profit		<u>9,136</u>	<u>6,543</u>
Distribution costs		(4,724)	(3,765)
Administrative expenses		(406)	(366)
		<u>(5,130)</u>	<u>(4,131)</u>
<b>OPERATING PROFIT FROM CONTINUING OPERATIONS</b>	4	4,006	2,412
<b>OTHER</b>			
Interest receivable and similar income	6	5	6
Interest payable and similar charges	5	(1)	(26)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>4,010</u>	<u>2,392</u>
Tax on profit on ordinary activities	7	(1,192)	(708)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u><u>2,818</u></u>	<u><u>1,684</u></u>

All amounts relate to continuing activities

The notes on pages 11 to 20 form part of the Financial Statements

**Statement of Total Recognised Gains and Losses**  
**For the year ended 31 December 2010**

The company has no recognised gains or losses other than the profit for the financial year and the preceding year

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**BALANCE SHEET at 31 December 2010**

	Note	2010 £'000	2009 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	2,493	2,781
<b>CURRENT ASSETS</b>			
Stocks	10	2,772	2,231
Debtors (including £NIL (2009 £19,955) due after more than one year)	11	8,147	6,255
Cash at bank and in hand		163	135
		11,082	8,621
<b>CREDITORS: amounts falling due within one year</b>	12	(7,532)	(5,675)
<b>NET CURRENT ASSETS</b>		3,550	2,946
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		6,043	5,727
<b>CREDITORS: amounts falling due after more than one year</b>	13	(33)	(35)
		6,010	5,692
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	2,250	2,250
Profit and loss account		3,760	3,442
<b>Shareholder's funds</b>		6,010	5,692

The notes on pages 11 to 20 form part of the financial statements

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

P Robinson  
Director



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**RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS**  
**Year ended 31 December 2010**

	2010 £'000	2009 £'000
<b>Profit for the financial year</b>	2,818	1,684
<b>Dividend Paid</b>	(2,500)	(1,000)
<b>Net addition (reduction) to shareholder's funds</b>	<u>318</u>	<u>(684)</u>
<b>Opening shareholder's funds</b>	<u>5,692</u>	<u>5,008</u>
<b>Closing shareholder's funds</b>	<u><u>6,010</u></u>	<u><u>5,692</u></u>

## **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2010**

### **1. ACCOUNTING POLICIES**

#### **Basis of preparation**

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. The particular accounting policies adopted are described below. Except where stated below these have been applied consistently throughout the current and preceding year.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of BASF Societas Europaea, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

#### **Going Concern**

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 and 3.

The company has considerable financial resources with long-term relationships with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current economic outlook.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Accounting convention**

The financial statements are prepared under the historical cost convention.

#### **Turnover**

Turnover for the year represents the invoice value, excluding value added tax, of goods and services supplied to customers, and commission received.

#### **Tangible fixed assets**

Depreciation is not provided on freehold land or assets in the course of construction. On other assets it is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Buildings	3% per annum
Plant, machinery, fixtures, fittings, tools and equipment	10% to 25% per annum

#### **Stocks**

Stocks are valued at the lower of cost, determined on a weighted average basis, and net realisable value. Cost represents cost of materials, labour and appropriate overheads.

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**1. ACCOUNTING POLICIES (continued)**

**Deferred taxation**

Deferred taxation is provided on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Foreign exchange**

Assets and liabilities stated in foreign currencies are translated into sterling at the exchange rates ruling at the year end. Exchange profits and losses realised on trading transactions are included in the trading results.

**Pension costs**

The company makes pension contributions to the BASF UK Group Pension Scheme on behalf of its employees. Pension costs to the group's defined contribution pension scheme are charged to the profit and loss account as incurred.

The company has adopted FRS17. This is a multi-employer scheme and the company is unable to identify its share of the underlying assets and liabilities. Contributions are charged to the profit and loss account as they become payable.

**Research and Development**

All Research and Development expenditure is charged to the Profit and Loss Account in the year it is incurred.

**Government grants**

Government grants are accounted for by setting up a deferred credit account and releasing this to the profit and loss account over the useful lives of the assets to which the grants relate.

**Leases**

Rentals are charged to the profit and loss in equal annual amounts over the lease term.

**2. TURNOVER**

The turnover of the company arose principally in the United Kingdom and from the principal activity of the company.

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	2010 £'000	2009 £'000
<b>Directors' emoluments</b>		
Remuneration	335	153
Pension costs – defined contribution	39	48
	<u>374</u>	<u>201</u>

The above amounts do not include any gains made on the exercise of share options. No directors exercised share options in the period (2009 Nil).

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**3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

	No	No
Number of directors for which the company is contributing to Defined contribution scheme	<u>2</u>	<u>1</u>
<b>Average number of persons employed</b>		
Production	23	21
Sales and technical	23	21
Administration	<u>8</u>	<u>9</u>
	<u>54</u>	<u>51</u>
	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	2,739	2,192
Social security costs	286	249
Pension costs	<u>212</u>	<u>218</u>
	<u>3,237</u>	<u>2,659</u>

**4. OPERATING PROFIT**

	2010	2009
	£'000	£'000
<b>Operating profit is after charging/(crediting):</b>		
Depreciation		
Owned assets	386	431
Research and Development	723	515
Rentals under operating leases		
Other operating leases	47	52
Exchange gains / (losses)	19	42
Amortisation of government grants	(2)	(2)
Auditors' remuneration - audit fees	<u>19</u>	<u>18</u>

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**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	2010 £'000	2009 £'000
Loans repayable within five years	<u>1</u>	<u>26</u>
Interest payable relates to group loans		

**6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	2010 £'000	2009 £'000
Receivable from group undertaking	5	6
Other	<u>-</u>	<u>-</u>
	<u>5</u>	<u>6</u>

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**a) Analysis of charge in the period**

	2010 £'000	2009 £'000
<b>Current tax:</b>		
United Kingdom corporation tax at 28% (2009 28%) based on the profit for the year	1,224	726
Adjustment in respect of prior years	<u>-</u>	<u>-</u>
<b>Total current tax (note 7b)</b>	<u>1,224</u>	<u>726</u>
<b>Deferred tax (note 14):</b>		
Timing differences, origination and reversal	(31)	(21)
Adjustments in respect of prior years	<u>(1)</u>	<u>3</u>
<b>Total deferred tax</b>	<u>(32)</u>	<u>(18)</u>
	<u>1,192</u>	<u>708</u>



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**7. TAX ON PROFIT ON ORDINARY ACTIVITIES** *(continued)*

**b) Factors affecting tax charge for the period**

A reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the company's future current tax charge accordingly [and the deferred tax [asset/liability] at 31 December 2011 has been calculated at this reduced rate]

In the period since the year end it was announced that the UK Corporation tax rate will reduce to 26% with effect from 1 April 2011. This additional reduction in the UK Corporation tax rate had not been substantively enacted at the balance sheet date and as such no further adjustment to current or deferred tax has been made for the year ended 31 December 2011.

It has not yet been possible to quantify the full anticipated effect of future tax reductions, although this will further reduce the company's future current tax charge accordingly.

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	4,010	2,392
Standard rate of corporation tax at 28% (2009 28%)	1,123	670
<b>Factors affecting charge:</b>		
Disallowable expenses	6	8
Fixed asset timing differences	51	53
Other short term timing differences	4	(5)
Changes in tax rates and laws	-	-
Adjustment in respect of prior years	40	-
<b>Current tax charge for the year (note 7a)</b>	<b>1,224</b>	<b>726</b>

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (28%). The differences are explained below.

**8. DIVIDENDS**

	2010 £'000	2009 £'000
Final dividend	2,500	1,000
Interim paid £nil per ordinary share (2009 £nil)		

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**9. TANGIBLE FIXED ASSETS**

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Assets in the course of construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2010	3,957	5,955	1,708	-	11,620
Additions	-	7	18	73	98
Disposals	-	-	(9)	-	(9)
At 31 December 2010	3,957	5,962	1,717	73	11,709
<b>Accumulated depreciation</b>					
At 1 January 2010	1878	5375	1586	-	8839
Charge for the year	176	145	65	-	386
Disposals	-	-	(9)	-	(9)
At 31 December 2010	2,054	5,520	1,642	-	9,216
<b>Net book value</b>					
At 31 December 2010	1,903	442	75	73	2,493
At 31 December 2009	2,079	580	122	-	2,781

**10. STOCKS**

	2010 £'000	2009 £'000
Raw materials and consumables	1,764	1,379
Work in progress	-	-
Finished goods and goods for resale	1,008	852
	<u>2,772</u>	<u>2,231</u>

**11. DEBTORS**

	2010 £'000	2009 £'000
Trade debtors	5,511	5,903
Amounts owed by group undertakings	2,498	207
Other debtors	24	33
Prepayments and accrued income	24	54
Deferred tax asset (note 14)	90	58
	<u>8,147</u>	<u>6,255</u>

Included within other debtors is £Nil (2009 £19,955) due in more than one year. All other amounts are due within one year.

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**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2010 £'000	2009 £'000
Trade creditors	867	501
Amounts owed to group undertakings	4,663	3,997
Current corporation tax	1,032	457
Other taxes and social security	321	224
Accruals and deferred income	649	496
	<u>7,532</u>	<u>5,675</u>

**13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2010 £'000	2009 £'000
Accruals and deferred income	<u>33</u>	<u>35</u>

Accruals and deferred income includes £26,005 (2009 £27,793) due after more than five years

**14. DEFERRED TAX**

	2010 £'000	2009 £'000
Deferred tax asset (see note 11)	<u>(90)</u>	<u>(58)</u>
<b>Deferred tax</b>		
Balance at 1 January	(58)	(40)
Profit and loss account	<u>(32)</u>	<u>(18)</u>
Balance at 31 December	<u>(90)</u>	<u>(58)</u>

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**14. DEFERRED TAX (continued)**

The amounts of deferred taxation provided and unprovided are as follows

	Provided 2010 £'000	Provided 2009 £'000	Not provided 2010 £'000	Not provided 2009 £'000
Capital allowances in excess of depreciation	(39)	(9)	-	-
Short-term timing differences	(51)	(49)	-	-
	<u>(90)</u>	<u>(58)</u>	<u>-</u>	<u>-</u>

**15. CALLED UP SHARE CAPITAL**

	2010 £'000	2009 £'000
Authorised, allotted and fully paid 2,250,000 ordinary shares of £1 each	<u>2,250</u>	<u>2,250</u>

**16. FINANCIAL COMMITMENTS**

	2010 £'000	2009 £'000
<b>Capital commitments</b>		
Contracted but not provided	<u>5</u>	<u>-</u>

**Operating lease commitments**

At 31 December 2010, annual commitments under non-cancellable operating leases are as follows

	Other 2010 £'000	Other 2009 £'000
Operating leases which expire		
Within one year	-	11
In the second to fifth years inclusive	<u>38</u>	<u>41</u>
	<u>38</u>	<u>52</u>

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**17. PENSION SCHEME**

The company participates in the BASF (UK) Group Pension Scheme, which all permanent employees of BASF companies in the UK are eligible to join. There are two sub-schemes, one is of the defined benefit type while the other is a defined contribution plan which the company introduced on 6 April 1998 for future employees. Employees who were already members of the existing scheme were offered the opportunity to transfer to the new plan, which forms a separate section of the existing scheme. Assets are held in separate trustee administered funds.

The charge to the profit and loss account in respect of the pension scheme was £2,299,000 (2009 £16,849,000), of which £nil (2009 nil) contributions are outstanding at the balance sheet date.

The BASF (UK) Pension Scheme ("Scheme") is a multi-employer scheme covering all BASF companies in the UK. BASF PLC is unable to identify its share of the underlying assets (and liabilities) of the Scheme because the assets are not separately assigned to the individual members. The assets of the scheme are invested on an aggregated basis with no identification of assets relating to an individual employer. A proportion of the liability within the scheme for deferred and pensioner members relates to employers who no longer participate in the scheme. Contributions are set for the scheme as a whole rather than reflecting the actuarial characteristics of the employees of the individual employer. Splitting the scheme in these circumstances would have to be done in an arbitrary manner and would therefore not reflect a realistic value. As a result the company has taken advantage of the exemption permitted by FRS 17 not to bring the assets and liabilities of the scheme onto the company balance sheet.

FRS17, under the multi-employer accounting rules, requires the company to account for its defined benefit scheme as a defined contribution scheme. The future contributions of the company will be affected by the deficit on the group scheme, details of which are disclosed below.

The BASF (UK) Group Pensions Scheme had a deficit, measured on an FRS17 basis of £6.7 million as at 31 December 2010. The gross liabilities of the scheme are £401.3 million. The main assumptions used in the calculation of this deficit are summarised below.

	As at 31 December 2010	As at 31 December 2009
Assumptions		
Discount Rate	5.50%pa	5.75%pa
Price inflation	3.00%pa	3.75%pa
Salary increases	4.50%pa	4.75%pa

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**Pension increases in payment**

Pre April 1997 service – guaranteed *	3.40%pa	3.50% pa
Pre April 1997 service – discretionary *	** 0% - 2.00% pa	** 0% - 2.25% pa
April 1997 – May 2005 Service	3.40%pa	3.50% pa
Post May 2005 service	2.30%pa	2.25% pa

\* *Some sections of the Pension Scheme provide guaranteed increases on this element of pension, others provide discretionary increases*

\*\* *0% for 1 year (in line with the recovery period agreed for the funding of the Pension Scheme), 2% thereafter*

The contribution rate for the defined scheme has been set at 10.6% based on the latest valuation performed at 31 December 2007

During the year BASF Plc made a special contribution of £nil (2009 £15,000,000) to the BASF Group Pension Scheme. This payment was made to address the funding deficit which was identified and agreed with the Trustees of the pension scheme.

**18. ULTIMATE AND IMMEDIATE PARENT COMPANIES**

The immediate parent company is BASF Polyurethanes GmbH and the ultimate parent company is BASF Societas Europaea ("BASF SE"). These companies are registered in Germany. Copies of BASF SE's consolidated financial statements may be obtained from BASF Societas Europaea, D67056 - Ludwigshafen, Germany.

**19. RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption for 90% plus subsidiaries as stated in FRS 8 to exclude disclosure of transactions between such parties.