



# **Shaping the Future**

## Corporate Report 2005

## Key data BASF Group

Economic data*		2005	2004	Change in %
Sales	Million €	42,745	37,537	13.9
Sales by region (location of customer)				
Europe	Million €	23,755	21,343	11.3
Thereof Germany	Million €	8,865	7,382	20.1
North America (NAFTA)	Million €	9,479	8,182	15.9
Asia Pacific**	Million €	6,500	5,309	22.4
South America, Africa, Middle East**	Million €	3,011	2,703	11.4
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	Million €	8,233	7,685	7.1
Income from operations (EBIT) before special items	Million €	6,138	5,230	17.4
Income from operations (EBIT)	Million €	5,830	5,193	12.3
Income before taxes and minority interests	Million €	5,926	4,347	36.3
Net income	Million €	3,007	2,004	50.0
Earnings per share	€	5.73	3.65	57.0
Earnings per share in accordance with U.S. GAAP	€	5.83	3.39	72.0
Dividend per share	€	2.00	1.70	17.6
Equity ratio	%	49.1	46.8	–
Return on assets	%	17.7	13.2	–
Research and development expenses***	Million €	1,064	986	7.9

Environmental data		2005	2004	Change in %
Operating costs for environmental protection facilities	Million €	623	624	–0.2
Investments in environmental protection	Million €	78	115	–32.2
Emissions of greenhouse gases (CO <sub>2</sub> equivalent)	Million metric tons/year	24.8	27.6	–10.1
Emissions to air (air pollutants)	Thousand metric tons/year	50.9	54	–5.7
Emissions to water, organic substances	Thousand metric tons/year	44.2	86.7	–49.0
Emissions to water, nitrogen	Thousand metric tons/year	8.8	18.6	–52.7
Emissions to water, heavy metals	Metric tons/year	45	47	–4.3
Transportation accidents	Per 10,000 shipments	0.47	0.5	–6.0
Number of environmental and safety audits		83	88	–5.7

Social data		2005	2004	Change in %
Employees as of December 31	Number	80,945	81,955	–1.2
Trainees as of December 31	Number	2,330	2,610	–10.7
Personnel costs*	Million €	5,574	5,615	–0.7
Donations and sponsoring	Million €	56.8	37.8	50.3
Annual bonus	% of Group companies	75	81	–
Lost time accidents	Per million working hours	1.8	1.9	–5.3
Number of occupational medicine and health protection audits		31	38	–18.4

\* Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated accordingly. Detailed explanations of the first application of IFRS can be found in Note 3 to the Consolidated Financial Statements on page 106 onward of the separately published Financial Report.

\*\* Effective January 1, 2005, companies in Asia are reported in the region "Asia Pacific." South America, which was previously reported separately, is now reported together with the geographic regions Africa and Middle East in the region "South America, Africa, Middle East."

\*\*\* Starting in 2005, expenses in the Oil & Gas segment related to exploration for oil and gas deposits and to dry holes are recorded as other operating expenses rather than as research and development expenses. The previous year's figures have been restated accordingly.

## **BASF's Segments**

---

### **Chemicals**

The synergy potential of our Verbund ensures our competitiveness in producing organic and inorganic basic chemicals and intermediates. Integrated production plants, innovative processes and the advantages of modern large-scale plants help us achieve our goal of cost leadership. We participate in the major growth markets by constructing new Verbund sites. We enhance our portfolio with higher-value products through innovations and acquisitions.

---

### **Plastics**

BASF is a globally leading supplier of plastics – the eco-efficient materials of the future. In standard plastics, we have a portfolio of focused product lines and highly efficient marketing processes. In our business with specialties, we offer a wide range of high-value products, system solutions and processes. In close cooperation with our customers, we constantly extend this range and add new applications.

---

### **Performance Products**

Our innovative systems from performance chemistry contribute to the comfort and safety of many everyday products, from cars, paper and construction materials to detergents and babies' diapers. We want to be the key contact for our customers. Our success is based on new products, system solutions and applications that we develop in close cooperation with our customers. Our key to success is our powerful research and development organization to solve our partners' problems quickly, flexibly and in line with their needs.

---

### **Agricultural Products & Nutrition**

Products from this segment protect crops and thus safeguard harvests. We have further strengthened our competitiveness with new crop protection products. We offer our customers in the nutrition, pharmaceutical and cosmetic industries a broad range of high-value fine chemicals. Innovative solutions strengthen our good position. Our research in plant biotechnology focuses on solutions for effective agriculture, healthier nutrition and plants to make products more efficiently.

---

### **Oil & Gas**

As the largest German producer of oil and gas, we benefit in exploration and production from our many years of experience and our focus on areas that are rich in oil in Europe, North Africa, South America as well as Russia and the Caspian Sea area. Together with our partner Gazprom, we are making use of the opportunities that are arising from increasing demand and from the liberalization of the European gas markets.

Cover photo:

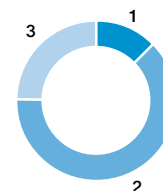
Captain Ben Haozhi (left), ship vetting expert, and Michael Dries, director logistics at BASF-YPC Company Limited, Nanjing, China

## Segment key data

Million €	2005	2004	Change in %
Sales	8,103	7,020	15.4
Income from operations (EBIT) before special items	1,488	1,377	8.1
Income from operations (EBIT)	1,326	1,284	3.3

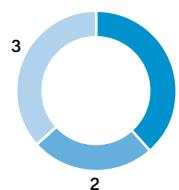
## Sales by division

Million €		%
1 Inorganics	1,017	12.6
2 Petrochemicals	5,084	62.7
3 Intermediates	2,002	24.7
	<b>8,103</b>	<b>100.0</b>



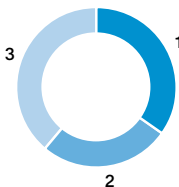
Million €	2005	2004	Change in %
Sales	11,718	10,532	11.3
Income from operations (EBIT) before special items	1,031	752	37.1
Income from operations (EBIT)	1,015	694	46.3

Million €		%
1 Styrenics	4,518	38.6
2 Performance Polymers	2,909	24.8
3 Polyurethanes	4,291	36.6
	<b>11,718</b>	<b>100.0</b>



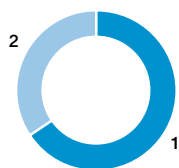
Million €	2005	2004	Change in %
Sales	8,267	8,005	3.3
Income from operations (EBIT) before special items	890	850	4.7
Income from operations (EBIT)	863	1,128	-23.5

Million €		%
1 Performance Chemicals	2,889	34.9
2 Coatings	2,180	26.4
3 Functional Polymers	3,198	38.7
	<b>8,267</b>	<b>100.0</b>



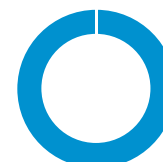
Million €	2005	2004	Change in %
Sales	5,030	5,147	-2.3
Income from operations (EBIT) before special items	693	763	-9.2
Income from operations (EBIT)	623	658	-5.3

Million €		%
1 Agricultural Products	3,298	65.6
2 Fine Chemicals	1,732	34.4
	<b>5,030</b>	<b>100.0</b>



Million €	2005	2004	Change in %
Sales	7,656	5,263	45.5
Income from operations (EBIT) before special items	2,410	1,653	45.8
Income from operations (EBIT)	2,410	1,643	46.7

Million €		%
Oil & Gas	7,656	100.0



## **WHO WE ARE**

BASF is the world's leading chemical company:

The Chemical Company. Our portfolio ranges from chemicals, plastics, performance products, agricultural products and fine chemicals to crude oil and natural gas. As a reliable partner to virtually all industries, our intelligent system solutions and high-value products help customers to be more successful.

## **WHAT WE ACHIEVE**

Our goal is to use our products and services to successfully shape the future of our customers, business partners and employees. In doing so, we aim to grow profitably and consistently increase the value of our company.

## **HOW WE SHAPE THE FUTURE**

We develop new technologies and use them to open up additional market opportunities. We combine economic success with environmental protection and social responsibility. This is our contribution to a better future for us and for coming generations.

# Contents

## The Company

- 3 Milestones
- 4 Letter from the Chairman of the Board of Executive Directors
- 6 Board of Executive Directors
- 8 Our Strategy
- 10 Our Values
- 12 Our Goals
- 14 Dialogue with Our Stakeholders
- 15 Political Dialogue

## Nanjing Feature Story

- 18 When Two Are Better Than One

## Shareholders

- 24 Creating Value for Our Shareholders
- 26 BASF Shares
- 28 Finance and Value-based Management
- 31 Value Added Statement 2005

## Business Partners

- 34 Helping Our Customers to be More Successful
- 38 Results of Operations by Segment
- 38 Chemicals
- 40 Plastics
- 42 Performance Products

- 44 Agricultural Products & Nutrition
- 46 Oil & Gas
- 48 Business Opportunities Thanks to Sustainability
- 49 Transporting Our Products Safely

## Employees

- 52 Opportunities for Our Employees Worldwide
- 58 Safety for Employees and Partners
- 59 Protecting and Promoting Health

## Neighbors and Society

- 62 Ensuring Opportunities through Education
- 65 Social Responsibility

## Environment

- 70 Eco-efficient Processes and Products
- 72 Sustainably Improving Environmental Protection and Safety
- 73 Efficient Processes for Companies and the Environment
- 77 More Knowledge about Our Products
- 78 Assurance
- 79 GRI Index
- 80 Glossary
- Index, BASF on the Web (inside back cover)

**ABOUT THIS REPORT** The present Corporate Report provides information on all three dimensions of sustainable development. You can find additional information and data on the Internet at [corporate.basf.com/corporate\\_report](http://corporate.basf.com/corporate_report). Our reporting is based on the international recommendations of the Global Reporting Initiative (GRI) and we are actively involved in the discussions to develop this initiative (see also page 79). All data and calculations are based on international standards.

The information on **earnings and financial data** in this report are based on the Consolidated Financial Statements of the BASF Group and the Management's Analysis published in BASF's Financial Report. Starting in 2005, the accounting and reporting of BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated. Detailed explanations of the first application of IFRS can be found in BASF's Financial Report (see also Note 3 to the Consolidated Financial Statements on page 106 onward). Reconciliation of income and equity of the remaining significant deviations to U.S. GAAP is described in the Notes to the Consolidated Financial Statements.

Our **environmental and safety data** are based on the recommendations of the European Chemical Industry Council (CEPIC). In the area of emissions and energy, we cover approximately 98 percent of all emissions from our production sites worldwide. Emissions from joint ventures are reported according to the stake held by BASF. Data

on occupational accidents are collected worldwide for both production sites and non-production sites; for the first time in 2005, we were able to present global accident statistics for employees of suppliers and service providers at our sites. The number of accidents at sites operated by joint ventures are recorded and reported in full.

Unless otherwise stated, further **data on social responsibility** relate to all consolidated Group companies included in the Financial Report. As of December 31, 2005, the data cover all BASF Group employees.

The report provides an appropriate and balanced picture of the BASF Group's material sustainability aspects. We developed the key contents of this report based on our dialogue with stakeholders and in the light of internal processes. The report was developed by BASF's Sustainability Center and further specialist units and written by the unit Communications BASF Group. All information was derived from official BASF documents or was requested from the relevant competence centers or regions. The contents of the report have been reviewed by the responsible specialists and approved by the Board of Executive Directors of BASF Aktiengesellschaft. As in previous years, parts of this report and our reporting processes were subject to scrutiny by an independent third party. Their local audits took place at Wintershall's headquarters in Kassel, Germany, as well as at BASF sites in Bangpoo, Thailand, and Tarragona, Spain. The assurance statement is reproduced on page 78.

## Milestones

### January

BASF acquires the global electronic chemicals business of Merck KGaA, Germany, for €270 million. The acquisition makes BASF a leading supplier of electronic chemicals for the rapidly growing semiconductor and flat screen industries.

BASF starts to establish a regional shared service center in Kuala Lumpur, Malaysia. The center will provide services in the areas of finance and accounting, information technology and human resources for BASF Group companies in 15 countries in Asia Pacific.

Together with eight other companies, BASF founds the "Knowledge Factory." The initiative focuses on education and supporting startup companies.

BASF and its employees donate a total of €3.8 million to help the survivors of the tsunami in southeast Asia.

### February

BASF is the world's most admired chemical company according to a poll conducted by the U.S. business magazine *FORTUNE*.

### March

BASF creates a European shared service center, BASF Services Europe GmbH, in Berlin. More than 500 people will be employed in the areas of finance and accounting as well as human resources.

In Caojing, China, BASF starts operations at the world's largest production plant for polytetrahydrofuran (PolyTHF®), a starting material for textiles. The plant improves proximity to customers and supply security in Asia.

BASF acquires all shares in BASF NOF Coatings Ltd. in Tokyo, Japan, formerly a 50-50 joint venture between BASF and the Japanese NOF Corporation.

### April

BASF celebrates its 140th anniversary.

BASF and the Russian gas company Gazprom announce that they will extend their cooperation along the entire value adding chain – from production and transportation through to marketing of natural gas in Europe.

The German Chamber of Public Accountants presents BASF with its German Environmental Reporting Award (DURA) for the best sustainability report.

### May

BASF and Shell Chemicals sell their 50-50 joint venture Basell, one of the world's leading manufacturers of polyolefins, for €4.4 billion.

### June

A highly efficient combined heat and power (CHP) plant is inaugurated at BASF's Ludwigshafen site.

The U.S. Environmental Protection Agency honors BASF Coatings with its Presidential Green Chemistry Challenge Award for an eco-efficient UV-curable coating.

### July

After three years, the Ludwigshafen Site Project is completed successfully, permanently reducing costs at the production site by €480 million.

### August

BASF announces its plans to expand the capacity of the naphtha steam cracker at its Antwerp site to 1.08 million metric tons per year in 2007. The capacity expansion will involve an investment of around €200 million.

### September

Together with its Chinese partner Sinopec, BASF officially inaugurates its new Verbund site in Nanjing, China. The new site is the largest individual investment in BASF's 140-year history, with the two partners investing a total of \$2.9 billion.

BASF receives an award for its 2004 corporate reporting. It was ranked "best annual report" by the German business magazine *manager magazin*.

BASF shares are included in the Dow Jones Sustainability Index (DJSI World) – the world's most important sustainability index – for the fifth year in succession.

### October

Effective October 1, BASF acquires the Swiss fine chemicals company Orgamol to strengthen its pharma solutions business.

BASF Aktiengesellschaft announces that it will pay approximately €3.7 billion into a newly established Contractual Trust Arrangement by the end of 2005 to finance pension obligations to its employees and pensioners.

BASF Corporation announces its plans to reduce annual costs in North America by a further \$150 million by mid-2007. This brings the total cost reductions for the program started in 2003 to \$400 million per year.

### November

German Technical Cooperation (GTZ) publishes a study of the economic, environmental and social impact of BASF's direct investments in Nanjing, China. The study concludes that the investments represent best practices in the Chinese chemical industry.

German business magazine *manager magazin* names Dr. Jürgen Hambrecht and his Board colleagues Manager of the Year 2005 and pays tribute to the achievement of all BASF employees.

BASF announces its plans to increase spending on research and development to €1,150 million in 2006 and to create an additional 180 positions for scientists in its Research Verbund.

### December

Construction work starts on the North European Gas Pipeline (NEGP). At the same time, a new German-Russian joint venture, North European Gas Pipeline Company, is created by Gazprom, BASF and E.ON.

BASF Plant Science obtains exclusive license rights for technologies to optimize genetic plant traits from the Belgian biotechnology company CropDesign. The focus lies on improving the yield and drought resistance of agricultural crops.

BASF buys back shares for €1,435 million in 2005 with the aim of reducing its stockholders' equity.

To expand its portfolio through forward integration in innovative, high-growth markets, BASF plans to acquire Degussa's construction chemicals business and tenders an offer to acquire the U.S. catalyst manufacturer Engelhard Corporation.



*Dear readers,*

BASF is shaping the future – and has been doing so successfully for more than 140 years. The past year was the best ever in the history of our company. We are proud of this achievement. Our success is rooted in the long-term strategy we have been pursuing for many years, as well as the enormous dedication of every member of our team. I sincerely thank all BASF employees for this exceptional outcome.

I would like to invite you to inform yourselves about our economic performance and our social and environmental activities by reading our Corporate Report 2005. Challenging tasks lie ahead, but as a strong team, BASF aims to address these issues and find the best answers to the important questions of the future together with our partners – our customers, our shareholders and society.

**ACHIEVING PROFITABLE GROWTH** Our strategy of profitable growth continues to be successful – despite weak growth in our home market in Europe. In 2005, we increased sales by 14 percent to €42.7 billion. As a result, we grew faster than the market and earned a higher premium on our cost of capital. You can read more about our positive financial results in our Financial Report, which is published in conjunction with this Corporate Report.

What factors helped us to create this value? In 2005, we enhanced our efficiency and effectively reduced our costs even further. One example is the Ludwigshafen Site Project, which will permanently reduce costs by €480 million per year. In North America, we reached our savings goal of \$250 million ahead of schedule. Now, our goal is to cut our annual costs by a total of \$400 million by 2007. We are implementing similar measures in the other regions to strengthen our competitiveness and safeguard jobs with a future.

A major step on our path to profitable growth has been the successful start of operations at our new Verbund site in Nanjing, China, in summer 2005. This joint venture with our Chinese partner Sinopec is the largest single investment in BASF's history. We now have the advantage of being able to supply customers in the region directly, thus extending our strong position in the rapidly growing Asian market.

Secure supplies of energy and raw materials are an important part of shaping the future in a responsible manner. By investing in the development of Siberian gas fields and in the construction of the North European Gas Pipeline with our partner Gazprom, we are also creating additional growth potential. At the same time, we are helping to ensure long-term energy supplies to Europe.

In order to grow successfully, we will build on our strengths and continuously optimize our portfolio. In 2005, for example, we acquired Merck's electronic chemicals business, purchased the fine chemicals company Orgamol, and sold our share in the polyolefins producer Basell.

**CREATING LONG-TERM VALUE** We want to continue to shape the future and create long-term value for our business partners. Therefore, we are developing innovative products and intelligent solutions and services for our customers worldwide.

Our researchers and developers around the world work to ensure that we can offer our customers those solutions that will give them a competitive edge. We are thus planning to expand our global research and development activities and to further increase expenditures in this area in 2006. Furthermore, we are developing new business opportunities in five growth clusters: energy management, raw materials change, nanotechnology, plant biotechnology and white (industrial) biotechnology. To sharpen our competitive edge, we have established a network of approximately 1,300 research partnerships worldwide.



Yet in the end, only the best team is able to create long-term value. We want to remain at the forefront of innovation and customer orientation. To do this, we are implementing appropriate training and education programs for our employees. Every member of BASF's team understands the importance of continuous personal development, of learning from one another, and encouraging each other to become even better. All team members contribute their personal strengths and professional and cultural experience. This diversity helps us to better understand our customers' needs. In this way, we can develop the best ideas for our products and solutions to make our customers even more successful.



Dr. Jürgen Hambrecht  
Chairman of the Board of Executive Directors

**SHAPING A SUSTAINABLE FUTURE** For BASF, sustainable development always means taking responsibility for human beings and the environment. We are steadily coming closer to achieving our ambitious goals for environmental protection, health and safety. This can also clearly be seen in Nanjing, where a study presented by German Technical Cooperation (GTZ) in November 2005 described the new BASF site as exemplary to Chinese industry in terms of safety and social and environmental responsibility for the region and its inhabitants. You can read more about our sustainable development activities in this report.

In 2006, our prospects are promising. Having made BASF significantly more competitive in recent years, we now want to further supplement our portfolio. Our goal is to acquire businesses that are even more customer-oriented and driven by innovation and growth. For example, we have tendered offers to acquire the U.S. catalyst company Engelhard Corporation as well as Degussa's construction chemicals business.

As you can see, we are strengthening our company to master the challenges ahead. Our goal is to continue to grow profitably, and our strategy BASF 2015 and our four strategic guidelines describe the path we are taking and will continue to follow in the future:

- Earn a premium on our cost of capital
- Help our customers to be more successful
- Form the best team in industry
- Ensure sustainable development

I am convinced that we will continue to be successful on this path.

2006 is the year of the Soccer World Cup in Germany, BASF's home country. I am sure that all of our employees will be cheering on their respective teams. But we all agree on one thing: We will also be keeping our eye firmly on the ball to ensure that BASF remains the world champion in the chemical industry. I would like to invite you to get to know BASF and see how we will shape the future as the world's leading chemical company – The Chemical Company.

Dr. Jürgen Hambrecht  
Chairman of the Board of Executive Directors



## Board of Executive Directors



**Peter Oakley**, 53, economist, with BASF for 29 years. Agricultural Products; Fine Chemicals; Specialty Chemicals Research; Plant Biotechnology Research.

**Dr. Martin Bruder Müller**, 44, chemist, with BASF for 18 years. (Appointed to the Board of Executive Directors effective January 1, 2006. Responsible for Asia as of April 2006).

**Dr. Kurt Bock**, 47, business economist, with BASF for 15 years. Finance; Global Procurement & Logistics; Information Services; Corporate Controlling; Corporate Audit; South America.

**Klaus Peter Löbbe**, 59, economist, with BASF for 39 years. Coatings; North America (NAFTA).

**Dr. Jürgen Hambrecht**, 59, chemist, with BASF for 30 years. Chairman of the Board of Executive Directors. Legal, Taxes & Insurance; Strategic Planning & Controlling; Executive Management & Development; Communications BASF Group; Investor Relations.



**Eggert Voscherau**, 62, economist, with BASF for 37 years. Vice Chairman of the Board of Executive Directors and Industrial Relations Director. Human Resources; Environment, Safety & Energy; Occupational Medicine & Health Protection; Europe; Ludwigshafen Verbund Site; BASF Antwerpen N.V.

**Dr. John Feldmann**, 56, chemist, with BASF for 18 years. Oil & Gas; Styrenics; Performance Polymers; Polyurethanes; Polymer Research.

**Dr. Stefan Marcinowski**, 53, chemist, with BASF for 27 years. Research Executive Director. Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; Corporate Engineering; University Relations & Research Planning; BASF Future Business GmbH.

**Dr. Andreas Kreimeyer**, 50, biologist, with BASF for 20 years. Performance Chemicals; Functional Polymers; Asia.

As of February 24, 2006

## Strategies for Value-adding Growth

**Chemistry offers enormous opportunities. It stands for the future that we are actively shaping. We are expanding our strengths and making our portfolio more resilient toward cyclicalities and oil price fluctuations. We are concentrating on our core activities: in our chemical businesses, in agricultural products and nutrition, and in oil and gas. We are innovative and act sustainably to ensure that we will still be the world's leading chemical company in the future.**

Innovations are crucial for profitable growth. We are therefore strengthening our global research and development activities. We have combined the important technology-driven issues of the future in five "growth clusters": energy management, raw material change, nanotechnology, plant biotechnology and white (industrial) biotechnology. Interdisciplinary cooperation is the key to success. We want to use the potential offered by these broad-spectrum technologies to open up new and attractive business opportunities for our customers and ourselves.

For example, we are already one of the world's leading companies in the field of nanotechnology, which we use in many applications such as polymer dispersions, pigments and catalysts.

BASF is one of the world's leading companies with regard to research and development in the field of plant biotechnology. We aim to shape this attractive market of the future using our powerful technology platform. Our research activities in this area focus on more efficient agriculture, healthier nutrition, and plants as "green factories" to produce specific chemical substances.

By expanding white biotechnology, we aim to use our expertise in the areas of enzyme catalysis and fermentative manufacturing processes to develop new products and processes outside the current key areas of fine chemicals and intermediates. You can read more about our research activities on page 35 onward.

### Our four strategic guidelines

Four strategic guidelines describe our path to the future:

- Earn a premium on our cost of capital
- Help our customers to be more successful
- Form the best team in industry
- Ensure sustainable development

We align our activities with these four guidelines. They are inextricably linked with one another, and their combination makes us successful.

### Earn a premium on our cost of capital

We earn a premium on our cost of capital to increase the value of BASF. To achieve this goal, we have been expanding on our value-based management strategy. Earnings before interest and taxes (EBIT) after cost of capital is now the key performance and management indicator for our operating divisions and business units.

We measure every business decision and our performance on the basis of how it influences earnings after cost of capital in the short and long term. As a result, all of our employees help us to improve cost structures, use our capital more efficiently and grow profitably. Read more on page 30.

### Help our customers to be more successful

We are there wherever our customers are. We invested in good time in growth markets and are now active in all important markets worldwide. In order to grow profitably, we need to understand our customers' businesses as well as our own and offer unique value propositions. To achieve this, we need the best employees who work closely with our customers to identify their needs and come up with intelligent solutions. We then select the best business models suited to our customers' needs. This ensures the success of our customers and our own success. Read more on page 34 onward.

### Form the best team in industry

We can remain at the forefront in the long term only if we have the best team in industry – our highly qualified and dedicated employees. We offer local and international development opportunities, as well as pay linked to individual and company performance to attract the best specialists worldwide. We greatly value personal development, self-learning and managers who act as role models. Our dialogue-oriented management culture plays an important part in this regard. It is shaped by our Values and by BASF's Leadership Compass. As a global company, we build on the professional and cultural experience of each of our team members. This diversity helps us to better understand our customers' needs. In this way, we can develop the best ideas for our products and solutions to make our customers even more successful. Read more on page 52 onward.



In 2005, BASF presented a special award for outstanding teamwork during the construction of the Verbund site in Nanjing, China.

### Ensure sustainable development

For BASF, sustainable development means combining long-term economic success with environmental protection and social responsibility. Sustainability is therefore a crucial aspect when we develop new products and processes. The necessary strategies are developed and monitored by BASF's Sustainability Council and implemented with the support of regional networks. In 2005, we decided to focus on four key areas – climate change and energy, renewable raw materials, corporate social responsibility, and Responsible Care®. We systematically identify opportunities and risks in these four areas.

We combine our expertise in this area in our Expert Services Sustainability, thus contributing to the sustainable success of our customers. Read more on page 48 and on page 70 onward.



## Our Values

**We have formulated clear principles for the way we want to achieve our strategic goals. We have a sound system of Values for all our activities by which we measure ourselves. This is the basis for our long-term economic success.**

### **Six Values describe our philosophy and the way in which we want to achieve our goals:**

- Sustainable profitable performance
- Innovation for the success of our customers
- Safety, health and environmental protection
- Personal and professional competence
- Mutual respect and open dialogue
- Integrity

This system of Values has been laid down in written Values and Principles that can be found on the Internet at [corporate.basf.com/values](http://corporate.basf.com/values). Each Value is explained by Principles that describe how we want to act on a day-to-day basis. In 2004, we again underlined our commitment to internationally recognized labor and social standards as well as the repudiation of child and forced labor and started to systematically monitor compliance with these standards at all our sites. We have introduced annual surveys at all sites. Compliance is also important in our customers' business relations because of the greater focus on transparency throughout the entire supply chain.

### **Living our Values day to day**

Executives in particular are expected to act as role models for social and ethical issues. The target agreement process is a key management tool for establishing the principles for our activities in the BASF Group in a binding manner: The Values and Principles form part of the targets agreed with all BASF Group executives.

Employees who are responsible and who act with integrity are essential for BASF's success. This is why we view our Values not just as a standard for our activities, but also as an important aspect of risk management.

### **Our Compliance Program**

Our Value "Integrity" is reflected in BASF's Compliance Program. We introduced Codes of Conduct based on our Values and Principles throughout the BASF Group in 2000. These take into account legislation at the national level as well as the functions and cultural environment of each Group company. Codes of Conduct now apply to almost all our employees. A few exceptions exist at joint ventures and for a transition phase at new Group companies. The Codes of Conduct lie at the heart of BASF's comprehensive Compliance Program. The aim of the Compliance Program is to integrate the Codes of Conduct in the awareness and everyday activities of all employees by providing a combination of information and training. This is done primarily through regular, systematic training programs. For example, employees in purchasing, marketing and sales receive training in antitrust legislation. The necessary training material is available on BASF's intranet, as is the interactive training program e-clip (Electronic Competition Law Instruction Program).

Where appropriate, the Codes of Conduct are supplemented by guidelines and other information, for example on gifts and invitations. If they are uncertain of the legal situation, all employees can also seek advice from their managers, from the responsible unit, or from the Human Resources and Legal departments. Questions can also be raised via confidential telephone hotlines. Backup communication on the subject of compliance and regular monitoring by the Corporate Audit department provide the program with further support.

In January 2004, BASF became one of the first German companies to appoint a Chief Compliance Officer, who is responsible for managing and developing the program Group-wide.

### Management system and networks for sustainability

We expect all our employees to give their personal commitment to our Values and Principles, and we use a number of management systems to achieve this. In 2001, we established a Sustainability Council to ensure that the entire BASF Group is aligned with the principles of sustainable development. The Council is headed by Eggert Voscherau, Vice Chairman of BASF's Board of Executive Directors. We have also created regional networks in Asia, Europe, and North and South America to ensure the successful implementation of our strategy worldwide. You can find out more about our management structures for sustainability at [corporate.basf.com/sd-management\\_e](http://corporate.basf.com/sd-management_e).

Specialist units support the implementation of our Values. For example, our safety, health and environmental protection activities are organized within a worldwide network managed by the Environment, Safety & Energy competence center. You can find out more at [corporate.basf.com/rc-center](http://corporate.basf.com/rc-center).

### Our commitment to social responsibility

We are committed to high standards both within the company and in the societal environment. In keeping with our role as a good corporate citizen, we strive to contribute to the protection and wide recognition of human rights in our spheres of influence. Our social responsibility principles are based on:

- the basic rights set forth in the United Nations' Universal Declaration of Human Rights,
- the International Labor Organizations core labor standards,
- OECD Guidelines for Multinational Enterprises, and
- the 10 principles of the Global Compact.

BASF is a founding member of the UN's Global Compact initiative, which was established in 2000. You can read our current progress report on the Internet at [corporate.basf.com/global\\_compact\\_e](http://corporate.basf.com/global_compact_e). We act according to the following principles and also help our suppliers and business partners to do so:

- We ensure that our labor conditions conform to international standards.
- We provide our employees with compensation and benefits based on local market conditions and on individual as well as company performance.
- We do not tolerate discrimination based on nationality, gender, religion or other any other personal characteristics. BASF strives to maintain good-faith relationships with elected employee representatives.

- We observe internationally recognized labor standards and orient ourselves toward the customs of the respective countries.
- We condemn all kinds of child labor as well as forced labor or compulsory labor.

We are also a member of Transparency International, a nongovernmental organization that has set global standards in the fight against corruption. We also support this fight at the local level.

### Corporate governance

We follow the recommendations of the German Corporate Governance Code in its revised versions of 2003 and 2005 with a few exceptions. These are listed in the 2005 Compliance Statement by the Board of Executive Directors and the Supervisory Board in the Financial Report, which is published separately. The Compliance Statement and the German Corporate Governance Codex are also available on our website at [corporate.basf.com/governance\\_e](http://corporate.basf.com/governance_e).

We provide information on the members of the Board of Executive Directors and the Supervisory Board as well as remuneration details on pages 76 to 79 of our Financial Report.

Because BASF's shares are listed on the New York Stock Exchange (NYSE), BASF is also subject to U.S. capital market legislation, including the Sarbanes-Oxley Act (SOX) of 2002, as well as the regulations of the U.S. Securities and Exchange Commission (SEC) and the NYSE. To ensure that these extensive new regulations are observed, the Supervisory Board has, for example, implemented a Code of Conduct for financial issues that supplements the company's general Code of Conduct. Furthermore, Section 404 of SOX was implemented and the internal control processes for financial reporting were uniformly documented throughout the BASF Group in a new, separate IT system. We have implemented Section 404 of SOX successfully and one year earlier than required by the SEC. Implementation of SOX 404 was associated with significantly higher expenses for documentation and review requirements. You can find further details on page 73 of our Financial Report.









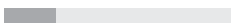
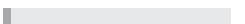


## Our Goals

### Earnings

Premium on cost of capital	2005 goal	Status at year-end 2005	Information on page
Earn an EBIT of at least 10% assets of the operating divisions	At least €2.8 billion	We earned a premium of €2,354 million on our cost of capital of €2.8 billion.	30

### Environment, Safety and Product Stewardship

Reduce emissions from chemical operations (baseline 2002)	2012 goals	Status at year-end 2005	Information on page
Emissions of greenhouse gases per metric ton of sales product	-10%	 -10.9%	73
Emissions of air pollutants	-40%	 -40.5%	75
Emissions to water, organic substances	-60%	 -51.7%	75
Emissions to water, nitrogen	-60%	 -60.5%	75
Emissions to water, heavy metals	-30%	 -26.2%	75
Occupational safety (baseline 2002)	2012 goal	Status at year-end 2005	Information on page
Reduce lost time accidents	-80%	 -46%	58
Distribution safety (baseline 2003)	2012 goal	Status at year-end 2005	Information on page
Reduce transportation accidents	-70%	 -16%	49
Product stewardship	2008 goal	Status at year-end 2005	Information on page
Complete the minimum data sets for all chemical substances handled by BASF in quantities of more than 1 metric ton per year		We have completed about 98% of data sets in Germany.	77
New goal: Health protection (baseline 2004)	2012 goal	Status at year-end 2005	Information on page
Reduce occupational diseases	-80%	 -2.5%	59

## Social Responsibility

Senior executives (baseline 2003)	2005 goal	Status at year-end 2005	Information on page
Increase the proportion of non-German senior executives from 30% to 35%	+5%	Unchanged at 30%	55
Significantly increase the proportion of female senior executives from the current level of 5.2%		Increased to 6%	55
Form the best team in industry	2005 goal	Status at year-end 2005	Information on page
Develop and introduce new global personnel tools to support our strategic guideline	Implement internationally uniform content for performance evaluation and selected training measures for executives	Management training programs have been updated to take account of the BASF Leadership Compass. The Global Competence Framework has been redefined to support individual development.	55, 57
Personnel systems and remuneration	2006 goal	Status at year-end 2005	Information on page
Introduce a mandatory system for assessing functions for the BASF Group	Evaluate functions, e.g., in North and South America and at the Ludwigshafen site	A mandatory assessment system has been introduced in Asia and Europe (with the exception of Germany).	53
Social performance assessment	2006 goal	Status at year-end 2005	Information on page
Ensure that internationally recognized labor and social standards are transparent and reviewable at all sites	Establish an employee hotline for labor and social standards	An annual survey of international labor and social standards has been established.	10, 53

## Dialogue with Our Stakeholders

**We are convinced that dealing with a wide range of stakeholder groups openly and in good faith can contribute significantly to our long-term success. The more we actively integrate our stakeholders in dialogue, projects and partnerships, the greater the confidence they place in our business activities.**

As the world's leading chemical company, we want to create value for all those groups whose interests are diversely linked with those of our company: our shareholders, business partners, employees, neighbors and society. Our business brings us constantly into contact with partners who place a wide range of demands on us. We take these demands seriously and face up to them.

We have structured the present Corporate Report according to our major stakeholder groups. In five sections, we report how we shaped the future with our partners in the past year and how we will continue to do so.

Our specialist units conduct regular surveys to evaluate relations with our stakeholders. Last year, employee surveys were held at 34 percent of BASF Group companies. The results are used to develop our company further. Our business units perform regular international customer surveys in Europe, North America and Asia to find out more about the demands of our customers. The results show us where we can do better and differentiate ourselves from our competitors.

### Long-term projects and partnerships

We strengthen relations with our stakeholders through partnerships and projects. We have established Community Advisory Panels (CAPs) at our sites worldwide to foster regular and close dialogue with our neighbors. In 2005, we established a new CAP in Ulsan, Korea. Worldwide, there are currently 56 CAPs at BASF sites, and others are being planned.

We are active in sustainability networks worldwide. For example, we cooperate with numerous organizations and associations such as econsense and the British Forum for the Future. In Asia, we are establishing a new sustainability network and have founded the China Business Council for Sustainable Development in Beijing together with 10 other companies. In Brazil, BASF and other companies are involved in an initiative with two NGOs – AccountAbility and attitude – with the goal of integrating corporate social responsibility into the business strategies of all companies that operate in the country. This project is unique in South America.

We also participate in the World Bank Climate Fund (see also page 74) and are a member of the United Nations' Global Compact initiative, which aims to align the global economy with the principles of sustainable development. You can find more details on the Internet at [corporate.basf.com/globalization](http://corporate.basf.com/globalization).

### Dialogue with our stakeholders in China

We are very actively involved in the debate on the effects of foreign direct investment (FDI). In 2005, we commissioned an FDI study from German Technical Cooperation (GTZ) to investigate the influence of our direct investment at our Verbund site in Nanjing, China, on the local community. Government representatives, neighbors and BASF employees were interviewed to determine the economic, environmental and social impact of our investment on the region. The results are positive: We exceed international standards in the areas of health protection, occupational safety and distribution safety, and we create and secure jobs in the region. The study also served to promote dialogue with important stakeholders. In November, we discussed the results of the study with neighbors and local authority representatives in Nanjing. This was followed by an initial public discussion at an international stakeholder workshop. At the end of November, we also presented the study and its results at the Global Compact Summit in Shanghai.

---

You can find further examples at [corporate.basf.com/sustainability\\_reg](http://corporate.basf.com/sustainability_reg).

## Political Dialogue

One of the tasks of the political process is to shape the basic conditions for how companies operate. Ultimately, this also determines their success. Our key message to politicians is that they ensure that these conditions promote competitiveness and innovation because BASF and its customers need to be competitive and innovative in order to remain successful. This is why we try to find viable solutions in an active and constructive dialogue with all relevant political levels. Along with employment and social issues, trade, education and research policies, we are particularly interested in the following topics:

### European chemicals policy (REACH)

BASF closely followed and supported the reform of European chemicals legislation (REACH). We actively contributed to alternative proposals for workable legislation that satisfies the objectives of improving the protection of human health and the environment while enhancing the competitiveness of the industry. We put forward our proposals in discussions with political representatives, industry associations and stakeholders. We are now working on pilot projects with the European Commission and other companies to ensure the smooth implementation of REACH.

### Energy policy

BASF favors an energy policy that meets the demands of both economic and environmental policy. Our objective must be to guarantee long-term energy supplies and a high level of supply security at competitive prices, while taking adequate account of environmental protection. In order to use limited fossil resources carefully, it is important to generate and utilize energy efficiently, making unreserved and optimal use of all technologies available. Renewable sources of energy that are economically realistic will become increasingly important. Subsidies at the expense of energy prices must be avoided.

### Renewable raw materials

In order to conserve fossil resources, renewable raw materials should be used wherever this is technically and economically realistic. We believe the greatest potential lies in energy and fuel generation, but wider use in the manufacture of chemical products could also be economically useful. BASF has been successfully using renewable raw materials for a long time. Plant biotechnology, in particular, can significantly improve the use of renewable raw materials. Fresh momentum to promote the use of renew-

able raw materials is to be welcomed. Large scale substitution of petrochemicals is not currently possible.

### Plant biotechnology

Plant biotechnology offers enormous opportunities in terms of economic growth and jobs. Positive political signals are needed at the E.U. level and in the individual member states to further its agricultural use in Europe. The European Commission has created a clear legal framework for the development and responsible use of this technology. In order to promote research and application at a practical level, appropriate innovation-friendly legislation is needed at the national level.

### Nanotechnology

Nanotechnology is a crucial technology that enables us to offer our customers new products and products with improved properties. We believe that companies, scientists and politicians have a common duty to create the right conditions for society's acceptance of nanotechnology on a broad basis. Only then will we really be able to use the opportunities it offers. We are also conducting research into related safety issues, for example via the E.U.'s Nanosafe 2 project and the German Education and Research Ministry's Nanocare project.

### Corporate social responsibility

As a company, we are part of society and we fulfill our social and environmental responsibility in our spheres of influence. Corporate social responsibility (CSR) has long been part of our strategy. It stands for the implementation of sustainability at the corporate level. CSR includes the monitoring and limitation of risks and aims to promote existing business areas and create new ones. A clear link with our business operations is a prerequisite for CSR, as is the transparent dialogue with our stakeholders.

---

Further details are available at [corporate.basf.com/dialogue](http://corporate.basf.com/dialogue).





> What makes us successful worldwide?



装车点7

2







## >> Partnership

For us, thinking in a spirit of partnership is the key to successful business. This is how we build bridges between different corporate cultures and lifestyles. Belgian production director Luc Guns and chemical engineer Zhou Huan from BASF-YPC Company Limited (BYC) practice this philosophy in their everyday work, always focusing on mutual success. An outstanding example is the successful start of operations at our new Verbund site in Nanjing, China, in 2005 – the largest individual investment in the history of our company.





26-year-old chemical engineer Zhou Huan has been working at the Nanjing Verbund site for two years. She was one of the first people to be recruited from outside the joint venture companies BASF and YPC by production director Luc Guns.

## When Two Are Better Than One

**Working on the banks of the mighty Yangtze river should be an inspiring proposition at any time. After all, the Yangtze is the longest river in Asia and the third largest in the world. It has inspired many books and poems and ensures the existence of millions of people in China.**

For Michael Dries, head of logistics at BYC, though, his affection for the Yangtze runs especially deep – 10 meters deep to be exact. The BASF-YPC Company Limited (BYC) petrochemical Verbund site in Nanjing may sit 300 kilometers inland, but at that depth the river is still deep enough to be perfectly navigable for major ocean-going vessels. “Last week we had our first 27,000 ton ship dock here,” says Dries, head of logistics at BYC.

Today, Dries and Ben Haozhi – ship inspector for transportation safety at BYC – are doing a routine inspection of one of the many ships that traverse the Yangtze each week in order to dock at BYC. Before it is allowed to sail, Ben will have conducted a series of rigorous BASF-enforced environmental and safety checks ensuring it is in fit shape to transport the company’s valuable but often volatile cargo. Once cleared, the ship will join hundreds of other vessels, trucks and trains that together carry the fruits of BYC to companies throughout China.

Welcome to the world of Verbund, Sino-style. The \$2.9 billion joint venture with Sinopec has been nearly 10 years in the making (six of those in the negotiation stages!). Sinopec is one of three state-owned petrochemical companies and produces two-thirds of petrochemicals in China. BASF’s joint venture partner is Yangzi Petrochemical Co., Ltd. (YPC), Sinopec’s largest petrochemicals subsidiary.

The project can arguably be seen as the most ambitious direct investment ever undertaken by a foreign chemical company in China. Today, the 220-hectare site produces 1.7 million metric tons of high-quality chemicals and polymers per year for the rapidly growing Chinese market. BYC’s products serve downstream industrial customers, making them part of the very fabric of modern Chinese society.

The challenges for both joint venture partners are immense. Marrying different technologies, different expertise, differing approaches to working practices and vastly different cultures into one joint workforce that can leverage the strengths of both companies is a Herculean task of planning, management and diplomacy. Either company – market leaders in their own right – would have been forgiven for thinking at times, is this really worth it? Yet it is a testament to both companies’ commitment to partnership

that BYC is already considered a success just one year after startup.

By 2010, BASF expects Asia Pacific to contribute 20 percent to Group sales and earnings in its chemicals businesses, with 70 percent of Asian sales coming from local production. To do so means balancing the three areas of sustainable development: the economy, society and the environment.

The first – economic success – is clear. What is equally important is that BYC applies the same stringent environmental standards as at other BASF sites worldwide. These standards then demonstrate best practices for Chinese industry. In this way, BYC's economic success bears fruit for both the local community and Chinese society as a whole.

To help evaluate the company's sustainable development commitment, BASF commissioned German Technical Cooperation (GTZ) in 2005 to conduct a sustainable development study on the impact of BASF's direct investment in Nanjing. Its central findings read like this: "In general it can be stated that BYC in Nanjing takes the topic of sustainable development very seriously. Municipal institutions in Nanjing stated that the standards of BYC exceeded compliance with World Bank standards, regulations in the People's Republic of China and international standards."

### Where east meets west

Dr. Bernd Blumenberg, in many ways, is the father of the Nanjing operation. At six foot four inches, the 59-year-old German native can be an imposing figure if he chooses (and undoubtedly a useful man to have on your side in any negotiation). When it comes to project management in Nanjing, "a western way with a Chinese characteristic is probably best," he says. It is a cosmopolitan description that also fits his character, having spent a decade immersing himself in Chinese culture.

Nanjing was the perfect location for the BYC project. Nanjing and Luhe district, where BYC is situated, lie at the heart of China's fastest growing chemical market. That means the BYC joint venture is both close to its customers and its suppliers – the ideal logistical setup for implementing BASF's Verbund production methods that optimize the efficient use of energy and resources. The BYC site is part of the Nanjing Chemical Industry Park (NCIP), where a large YPC facility is also located. As a result, both companies have been able to optimize their processes, for example, in the areas of energy supplies and production. In addition, the companies share the existing infrastructure and utilities and jointly use water supplies, wastewater

treatment and ethylene storage facilities. Meanwhile, another Sinopec subsidiary, Jinling Petrochemical Co., Ltd. (JPC), primarily supplies BYC with naphtha, a feedstock needed to run the centerpiece of its operations, an ethylene steam cracker with an annual capacity of 600,000 metric tons.

Before taking on the Nanjing project, Blumenberg enjoyed a long and varied career with BASF, but nothing prepared him for the challenges of bringing out the best of two world-class petrochemical companies. Having helped negotiate the joint venture, he then oversaw a four-year construction phase that drew together 15,000 workers from 22 countries. "Managing this setup was not easy – it took an entire year for the management team to be truly integrated," he says.

Blumenberg's second-in-command, vice president and general manager, You Houping, joined BYC in September 2005 after a rapid career with Sinopec, and he brings a great deal of expertise to the joint venture. You describes how both companies have worked hard to develop common goals and common interests. BASF, he says, needed a strong strategic partner to build a bigger presence in China. Sinopec provided a path to that growth and, in exchange, BASF offered Sinopec the technological and management expertise that the Chinese company sought. "Verbund can provide a good description of the benefits of this partnership," says You.



Combining the best of two cultures: Dr. Bernd Blumenberg and You Houping head the BYC joint venture in Nanjing, China.



### Safety first

“We have a saying in China, ‘When a boy courts a girl the idea is to have a baby,’” says You. And what a baby. BYC was a multi-billion dollar baby from the moment it was born. What it grows up to be will be keenly monitored by other companies, and its future success depends very much on the complementing efforts of both partners to combine their resources, technology, employees and markets.

That commitment brings many headaches and growing pains – differing approaches to health, safety and environmental protection being one of the central discussions now that BYC is in production. “We do maintenance differently. Everyone thinks they do this better but we’re convinced that BASF does this best,” says Blumenberg. BASF and YPC have stringent health, safety and maintenance procedures. “The main challenge we face is getting BASF’s philosophy across,” says Luc Guns, production director for low-density polyethylenes and ethylene glycol.

BYC doesn’t have its own delivery drivers or shipping line, so it relies on outside contractors to deliver its goods. Transporting chemicals is a major environmental and logistical concern for BASF in every part of the world where it operates. Many BYC employees have actively embraced BASF’s higher safety standards. That’s good for the overall operation of the joint venture and is having a positive knock-on effect in the local business community.



Ships are only allowed to transport BYC products following strict checks by Captain Ben Haozhi (center).

A number of contractors understand that adapting to BASF’s standards will make them the front-runners in a transportation sector that is tightening its safety and environmental controls. “We’ve laid the groundwork for other companies here on safety and regulations,” says Dries.

### Community care

Dong Wang primary school is an hour’s drive north from the BYC plant in the rural heart of Luhe district. It’s morning playtime and the kids, smartly dressed and packed full of energy, are careering around the playground, oblivious to the biting winter wind. Dong Wang is one of the schools that BYC has chosen to support as part of its education support program. In this instance, BYC has helped build a multimedia classroom and a computer lab featuring 30 PCs that 500 students, between six and 12 years of age, use to learn IT. The school has its own website and a series of online classroom forums where students can interact with each other and their teachers. The computer education “provides the conditions for pupils in rural areas like ours to have the same facilities as pupils in the cities,” says headmaster Zhu Fuping.

Taking an active role in the local community is an important company responsibility in China, part of a tradition that dates back centuries. BASF’s understanding of its civic role has played a big part in diffusing any suspicions local people had about the arrival of a large foreign multinational.

“Dr. Blumenberg was always in contact with us during the planning and construction of the plant,” says Gu Kunlin, deputy director of the environmental bureau for Nanjing, as he sips from his cup of green tea. “As a result,” he says, “the concerns of the local community were all addressed, which eased any misunderstanding. It is a good model for other companies.”

A central concern was the environmental impact of such a large-scale plant. The petroleum and chemical industry comes with many risks. As Gu puts it: “We have a big task in Nanjing to make sure that the local environment doesn’t deteriorate with rapid development.”



Shen Qing from BYC (left) works with Zhu Fuping on BYC's education support program at Dong Wang school.

In this regard, the arrival of BASF's environmental practices must seem like a breath of fresh air for Luhe district. When GTZ conducted its 2005 sustainable development study, it took particular note of BYC's new gas-fired power plant, a change from the coal plants that currently dominate China's industrial landscape. GTZ also acknowledged BYC's safety and maintenance standards as well as the implementation of its Responsible Care® system. Overall, GTZ came to the conclusion that BYC was offering and implementing innovative environmental management strategies for the petrochemical industry.

### Investing in the future

Few in Nanjing doubt that BYC will continue to lead in this part of China's chemical corridor. But will BYC's success translate into real gains for Nanjing's population and its businesses? That, after all, is one of the benchmarks of sustainable development and successful foreign direct investment.

Since the startup of the Verbund site, some 1,500 workers work at the site, and most were already employed by YPC prior to launch. It's unlikely that BYC will be a large-scale creator of additional jobs for many years, yet the potential economic knock-on effects of the Verbund operation are enormous. On the one hand, the local authorities will gain tax revenue from the joint venture over the coming decades. On the other hand, more outside contractors will also benefit as the site expands. But perhaps the greatest benefit to the Nanjing economic community will come from BYC's effect on its whole supply chain. Or, as Blumenberg puts it: "We don't only succeed for ourselves. We also want to make our customers more successful."

One of them is Wang Nianmin, president of Jinling Petrochemical Corporation Plant No. 1, another Sinopec subsidiary and a major downstream customer of the 2-ethylhexanol that BYC produces. Wang has been working with BASF products since 1985. BYC helps him and the greater Nanjing petrochemical industry to open up new markets. "BYC has a wide range of products that we can use. The joint venture will provide potential opportunities for its neighbors and for the whole industry," he says.

The chance for BYC to be a catalyst for China's economic development excites Zhang Daben, chairman of YPC. Zhang points out that YPC places a high premium on sustainable development, especially in terms of the company's environmental stewardship. One of the benefits of Verbund, he says, is that BYC can rely on YPC's high-quality wastewater treatment facilities: "YPC is an exemplary company with good environmental protection."

Ultimately, the BYC partnership can only make YPC and BASF stronger, both companies agree. "YPC is one of the key petrochemical businesses in Chinam and it has its own advantages," says Zhang. "BASF, as we also know, is a very big company with unique technical abilities. Our cooperation helps BASF increase its market advantages in China and creates a win-win situation for both companies," he adds.

Though it's still early days, it seems that BASF's investment in China's petrochemical industry is already having multiple effects. For every shipment of chemical goods that is produced and transported around the country, a little part of BASF's technological expertise, environmental stewardship and social investment also filters into the Chinese economy.

That, after all, is how successful sustainable development is supposed to work.





> What determines our course?







## >> Foresight

**Building on strengths to create value for our shareholders: That's the principle according to which we conduct our business. To meet the challenges of tomorrow's markets, we strategically optimize our portfolio – for example, through the acquisition of Merck's electronic chemicals business. As a result, we have also become a reliable system supplier for our customers in this area. Gesine Schönrogge from AMD and Erwin Dähn, BASF, already consider their cooperation to be very successful.**





Werner Freimann and Gesine Schönrogge from AMD – a leading manufacturer of microprocessors – value close cooperation with partners like Erwin Dähn from BASF (right).

## Creating Value for Our Shareholders

**“We are successfully growing in innovative markets,” says Erwin Dähn, key account manager at BASF. Dähn and his team ensure supplies of our electronic chemicals to AMD’s microprocessor factories in Dresden, Germany. BASF secured a strong position in Europe and Asia in this growth market by acquiring Merck’s electronic chemicals business. We are now expanding on this position in accordance with our strategy of building on strengths and ensuring successful growth through acquisitions. This benefits our shareholders and other stakeholders.**

By optimizing our portfolio in this way, we are now one of the leading system suppliers for the electronics industry – an innovative area with above-average growth rates. We have strengthened our competence in chemistry with Merck’s experience in purification, formulation and analysis. As a result, we are well positioned in a rapidly growing industry that offers development opportunities for all partners.

Gesine Schönrogge, responsible for ensuring the supply of chemicals at AMD in Dresden, Germany, is very satisfied with the combination of flexibility and stability that BASF offers. “We use BASF’s chemicals in the production of semiconductors. I’m convinced by both the quality of the products as well as the cooperation with BASF.”

### Investing in growth markets

BASF invests in organic growth and new technologies and strengthens its position in growth markets. In fall 2005, we inaugurated our new Verbund site in Nanjing, China. This investment – the largest ever in the history of BASF – puts us in an even better position to supply our customers in the rapidly growing Chinese market from local production. With our investments to develop gas fields in Siberia and in the construction of the North European Gas Pipeline, we promote our profitable growth and contribute to secure energy supplies in Europe.

## Dividend

€

2005	2.00
2004	1.70
2003	1.40
2002	1.40
2001	1.30

## Continuous portfolio optimization

BASF works continuously to optimize its portfolio. In the past decade, we have divested businesses with sales of €12 billion. In 2005, for example, we sold our stake in polyolefins manufacturer Basell. In turn, we have strengthened our portfolio in the last 10 years with high-growth, innovation-driven businesses with sales of €8 billion. Examples in 2005 include Merck's electronic chemicals business and the fine chemicals company Orgamol.

By optimizing our portfolio we reduce our cyclicality, strengthen profitable businesses and thus create the conditions needed to ensure that we earn a premium on our cost of capital in the future.

## Ambitious dividend policy and share buybacks increase shareholder value

The Board of Executive Directors and the Supervisory Board are proposing to increase the dividend from €1.70 to €2.00 per share. BASF thus continues to pursue an ambitious dividend policy and aims to increase its dividend further in the future.

In 2005, we further reduced our stockholders' equity by buying back shares for a total of €1,435 million. Since the beginning of 1999, we have bought back a total of 123.5 million shares for €5.4 billion, reducing the number of shares by 19.8 percent in the past seven years.

Our company's success benefits our shareholders: In the past 10 years, BASF shares have performed significantly better than important share indices.

## Investment in BASF shares – average annual performance

2005	26.2 %
	27.1 %
	24.3 %
2001 – 2005	9.7 %
	–3.4 %
	–3.6 %
1996 – 2005	18.2 %
	9.1 %
	11.2 %

■ BASF  
■ DAX 30  
■ EURO STOXX 50



Modern control systems at microprocessor manufacturer AMD supply process chemicals for the production of semiconductors.



## BASF Shares

In 2005, BASF shares again performed very well, increasing in value by 26.2 percent. As a result, BASF shares outperformed the Dow Jones EURO STOXX<sup>SM</sup> 50 Total Return Index, which rose 24.3 percent. Germany's DAX 30 index rose 27.1 percent in the same period. In recent years, long-term investors have profited from the strong performance of BASF shares. Shareholders who invested €1,000 in BASF shares at the end of 1995 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of the holding to €5,343 after 10 years. This increase of 434 percent is equivalent to an average annual return of 18.2 percent and is considerably higher than the corresponding return for the EURO STOXX 50 (11.2 percent) and DAX 30 (9.1 percent).

### Dividend of €2.00 and further buybacks to increase shareholder value

The Board of Executive Directors and the Supervisory Board are proposing to increase the dividend from €1.70 to €2.00 per share. As a result, the total amount payable will be €1,029 million, based on the number of qualifying shares as of December 31, 2005. On the basis of the per share dividend and the year-end price, BASF shares provided an attractive dividend yield of 3.09 percent in 2005. We aim to increase our dividend further in the future.

In 2005, BASF Aktiengesellschaft bought back 26.06 million shares on the stock exchange for a total of €1,435 million and an average price of €55.05 per share. BASF Aktiengesellschaft had 515 million shares outstanding as of December 31, 2005 and its market capitalization was €33.3 billion with a year-end share price of €64.71. Since the beginning of 1999, we have bought back a total of 123.5 million shares for €5.4 billion. As a result, we have reduced the number of shares by 19.8 percent in the past seven years. We plan to buy back additional shares in the future in order to reduce our high equity ratio.

## Highlights

- Proposal to increase dividend to €2.00 per share.
- BASF shares rose in value by 26.2 percent in 2005.
- BASF Aktiengesellschaft bought back shares for €1,435 million in 2005.

### BASF shares included in important indices

The price of BASF shares forms part of the calculation of German and international indices.

In 2005, BASF shares were also included in the Dow Jones Sustainability Index World for the fifth year in succession and remained a member of the FTSE 4 Good Index. Inclusion in such sustainability indices is a sign that we are recognized internationally as a successful company that is managed according to the principles of sustainability.

### Weighting of BASF shares in important indices as of December 31, 2005

	%
DAX 30	5.9
DJ STOXX 50	1.2
DJ EURO STOXX 50	1.9
DJ Chemicals	6.1
MSCI World Index	0.2
S&P Global 100	0.5

### Broad base of international shareholders:

#### 100 percent free float

At the beginning of 2006, BASF had approximately 460,000 shareholders.

The development of our shareholder structure reflects the increasing interest of international investors in BASF shares. At the beginning of 2006, non-German investors held 55 percent of BASF's share capital compared with 52 percent in 2004. British and American investors are particularly well represented, accounting for 17 percent and 14 percent of the share capital, respectively.

Institutional investors – for example banks and investment companies – hold 72 percent of the share capital; 28 percent is held by private investors. This distribution has changed little in recent years.

In many countries we offer share purchase programs to encourage our employees to become shareholders and thus co-owners of BASF.

<b>Key BASF share data</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Year-end price (€)	41.75	36.08	44.58	53.00	64.71
Year high (€)	50.45	49.80	44.58	53.00	65.33
Year low (€)	31.00	32.90	28.41	40.49	50.11
Year average (€)	44.66	42.37	38.52	45.18	57.13
Daily trade in shares <sup>1</sup>					
– million €	108.54	129.67	127.20	121.74	153.98
– million shares	2.48	3.09	3.33	2.71	2.70
Number of shares as of December 31 (million shares)	583.40	570.32	556.64	541.24	515.06
Market capitalization as of December 31 (billion €)	24.36	20.58	24.82	28.69	33.33
Earnings per share <sup>2</sup> (€)	9.72 <sup>3</sup>	2.60	1.62	3.65	5.73
Dividend per share (€)	1.30	1.40	1.40	1.70	2.00
Dividend yield <sup>4</sup> (%)	3.11	3.88	3.14	3.21	3.09
Payout ratio <sup>2</sup> (%)	12.94	52.46	85.05	45.11	34.22
Price-earnings ratio <sup>2, 4</sup> (P/E ratio)	4.30	13.88	27.52	14.52	11.29
<b>Key data for BASF ADRs<sup>5</sup></b>					
Year-end price (\$)	37.91	38.22	55.75	72.02	76.48
Year high (\$)	46.73	46.85	55.75	72.02	77.26
Year low (\$)	28.80	32.40	32.00	48.42	63.68
Year average (\$)	40.05	39.90	43.81	56.39	70.91
Daily trade in shares					
– million \$	2.36	3.08	4.54	4.03	8.99
– thousand shares	59.98	78.73	105.32	71.80	126.81

<sup>1</sup> Average, Xetra trading

<sup>2</sup> Starting in 2005, the accounting and reporting of BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated accordingly. The change in accounting and reporting of the BASF Group is explained in detail in Note 3 to the Consolidated Financial Statements on page 106 onward of our separately published Financial Report.

<sup>3</sup> Including extraordinary income of €9.92 per share

<sup>4</sup> Based on year-end share price

<sup>5</sup> BASF shares are traded on the New York Stock Exchange in the form of ADRs (American Depositary Receipts). Each BASF ADR is equivalent to one BASF share.

## Investor Relations:

### Close dialogue with the capital markets

Our corporate strategy aims to create value sustainably. We support this strategy through regular and open communication with all capital market participants. To help institutional investors assess the business situation and the further development of our company, we held more than 360 individual meetings in Germany and abroad in 2005. We considerably increased the number of events for private investors in 2005. The presentations on the company are available on the Internet at [www.basf.com/share](http://www.basf.com/share).

BASF's investor relations team received a number of awards in 2005. For example, we were ranked number one in the Thomson Extel survey for the best investor relations activities of all European companies and by the specialist magazine *Institutional Investor* for the best investor relations work in the chemical industry.

You can reach BASF's investor relations team by phone at +49 621 60-48230 or by e-mail at [investorrelations@basf.com](mailto:investorrelations@basf.com).

## Finance and Value-based Management

**BASF's business developed very successfully in 2005. We increased sales and earnings despite substantially higher raw material prices and the subdued economic environment in our home market, Europe. We increased income from operations by €637 million. This earnings growth of 12.3 percent compared with our very strong performance in 2004 was due primarily to price increases for many products in our portfolio and to continued restructuring measures.**

### Sales

Sales in 2005 rose 13.9 percent compared with the previous year to €42,745 million. Higher sales volumes were achieved mainly in the Chemicals and Oil & Gas segments. We were also able to implement price increases in almost all areas of our portfolio. The appreciation of the U.S. dollar had only a minor overall impact on sales. Companies in the Asia Pacific region generated significantly higher sales, one reason being the startup of the plants at our new Verbund site in Nanjing, China.

### Income from operations

Compared with 2004, we increased income from operations by €637 million to €5,830 million. The increase in earnings was primarily due to higher prices for our products in almost all segments.

The Plastics segment especially increased its earnings substantially despite the high volatility of raw material prices. Higher oil prices also led to significantly higher earnings in our Oil & Gas segment.

In addition, restructuring measures introduced in previous years paid off: Earnings were boosted by the Ludwigshafen Site Project, which was completed this year. We also reduced costs in North America (NAFTA) earlier than expected.

### Income before taxes and minority interests

Compared with the previous year, income before taxes and minority interests rose by €1,579 million to €5,926 million in 2005.

In 2005, the return on assets as a percentage of income before taxes (plus interest expenses) increased to 17.7 percent, compared with 13.2 percent in the previous year.

### Net income/earnings per share

Net income was €3,007 million in 2005. This represents an increase of €1,003 million, or 50 percent, compared with 2004.

Earnings per share in 2005 were €5.73 compared with €3.65 in the previous year.

### Sales and earnings\*

Million €	2005	2004	Change in %
Sales	42,745	37,537	13.9
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	8,233	7,685	7.1
Income from operations (EBIT) before special items	6,138	5,230	17.4
Income from operations (EBIT)	5,830	5,193	12.3
Income from operations (EBIT) as a percentage of sales	13.6	13.8	–
Financial result	96	–846	.
Income before taxes and minority interests	5,926	4,347	36.3
Net income	3,007	2,004	50.0
Net income as a percentage of sales	7.0	5.3	–
Earnings per share (€)	5.73	3.65	57.0
Net income in accordance with U.S. GAAP	3,061	1,863	64.3
Earnings per share in accordance with U.S. GAAP (€)	5.83	3.39	72.0

\* Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated accordingly. Detailed explanations of the first application of IFRS can be found in Note 3 to the Consolidated Financial Statements on page 106 onward of our separately published Financial Report.





BASF staff from production and administration in São Paulo, Brazil, learn the principles of value-based management in a business game.

### Proposed appropriation of profit

BASF Aktiengesellschaft achieved net income of €1,273 million. Including profit carried forward from 2004 of €15 million, profit retained was €1,288 million. At the Annual Meeting on May 4, 2006, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €2.00 per qualifying share. If shareholders approve this proposal, the total dividend payable on qualifying shares as of December 31, 2005 will be €1,029 million.

### Balance sheet structure

BASF's total assets increased slightly by €222 million. The increased working capital due to higher sales was offset by the transfer of €3.7 billion in liquid funds into a Contractual Trust Arrangement (CTA) (see page 54 for further details).

Inventories increased by €785 million to €5,430 million as a result of the expansion of business and higher raw material prices. Trade accounts receivable rose by €1,159 million as a result of higher sales and currency effects.

Stockholders' equity increased by €921 million, mainly due to our high earnings and, to a lesser extent, to positive currency effects. The equity ratio was 49.1 percent compared with 46.8 percent in 2004.

Long-term liabilities declined by €610 million to €9,762 million. Long-term financial indebtedness rose as a result of the issue of the 3.375 percent Euro Bond with a volume of €1.4 billion by BASF Aktiengesellschaft. Because of the CTA, however, the ratio of long-term liabilities to total liabilities declined to 27.4 percent from 29.3 percent in 2004.

Short-term liabilities changed only slightly. Financial indebtedness declined primarily as a result of the repayment of BASF Aktiengesellschaft's €1.25 billion 5.75 percent Euro Bond.

### Statement of cash flows

At €5,250 million, cash provided by operating activities before external financing of pension obligations was high in 2005, primarily as a result of the significant increase in earnings. This represents a rise of 13.3 percent compared with the very strong level in 2004.

We further reduced net working capital despite a higher volume of business.

We spent €1,948 million on additions to tangible and intangible assets. As a result, capital expenditures were again substantially below the level of depreciation and amortization.

### Statement of cash flows

Million €	2005	2004
Cash provided by operating activities	5,250*	4,634
Cash used in investing activities	706	1,233
Cash used in financing activities	2,108	1,836

\* Before external financing of pension obligations

In 2005, cash used in financing activities was €2,108 million compared with €1,836 million in 2004. We spent a total of €1,435 million to buy back 26.06 million shares at an average price of €55.05 per share. €982 million was paid in dividends and profit transfers in 2005. Of this amount, €904 million, or €1.70 per share, was for dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2004. Shareholders of fully or proportionately consolidated companies received €78 million.

### Value-based management at BASF

Our goal is to further increase BASF's value by earning a premium on our cost of capital. Value-based management is therefore one of the key elements of our strategy BASF 2015. In 2005, we continued to implement our value-based management concept throughout the BASF Group. In doing so, we are taking a comprehensive approach that includes all functions within the company and encourages all employees to think and act in an entrepreneurial manner.

### 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.

The BASF Group must achieve an EBIT of at least 10 percent on its operating assets to satisfy the returns expected by providers of equity and debt, and to cover standardized tax expenses.

### Calculation of the cost of capital percentage

The cost of capital percentage before interest and taxes of 10 percent corresponds to a weighted average cost of capital (WACC) of approximately 6 percent after taxes. The WACC calculation is an internationally recognized method of determining a company's cost of capital. The return desired by shareholders and interest rates on debt capital are determined and weighted according to their share of total capital. We calculate our cost of equity on the basis of the market value of BASF shares. The cost of capital percentage is reviewed annually.

### Value-based management in target agreements

Value-based management is only successful if it is firmly rooted in the company and rigorously implemented. An important factor in ensuring its successful implementation is achieved by linking it directly to performance-related pay. We achieve this through target agreements with our employees.

### Premium of €2,354 million on our cost of capital

EBIT after cost of capital is calculated by subtracting income taxes for oil production that are noncompensable with German taxes (€1,072 million) and the cost of capital (€2,811 million) from the BASF Group's EBIT (€5,830 million). Finally, the EBIT for activities not assigned to the segments (minus €407 million) is added, since this is already provided for in the cost of capital percentage. Based on average operating assets of €28.1 billion for the segments in 2005, we achieved an EBIT after cost of capital of €2,354 million. We thus created corresponding value for our shareholders.

### Value-based management throughout the company

We provide our employees worldwide with relevant information on value-based management. Our goal is to make them more aware of business contexts, thus enabling them to personally create value.

We use established learning tools such as an interactive Web-based program, a business simulation game specially adapted for BASF, and a tailor-made range of seminars on value-based management. In 2006, we plan to integrate value-based management even more extensively in our company: Around 8,000 employees worldwide in specialist and managerial positions will exchange their experience with specific approaches to value-creation in cross-functional groups. In addition, we will provide practice-oriented training on value-based management for employees from non-business backgrounds.

The various value drivers that are used by our units throughout the world are available to all our employees in a Good Practice database.

## Value Added Statement 2005

**The value added statement enables us to show the social component of sustainable development in a more transparent manner. It shows the social added value that the company creates through its activities. Value added is calculated as the company's business performance minus advance payments such as cost of materials and depreciation and amortization. The resulting amount is distributed to BASF's stakeholders including employees, shareholders and the state.**

In 2005, BASF's value added amounted to €12,035 million and increased by 15 percent compared with 2004.

The majority of value added was distributed to our employees in the form of wages, salaries, social benefits, pensions and so on.

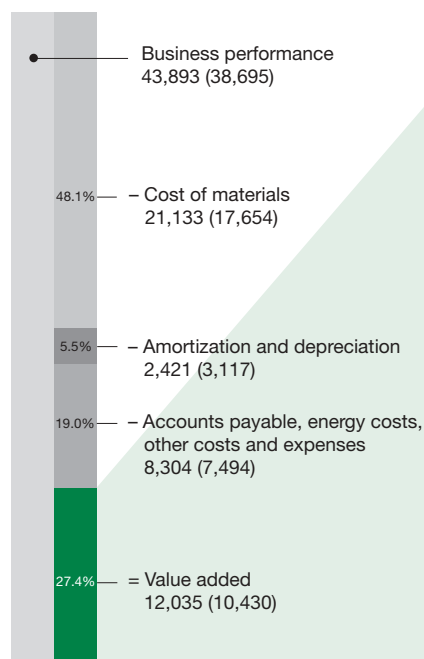
As a result of our strong business performance and the increase in net income in 2005, we are proposing to increase our dividend to €2.00 per share. The total amount payable to shareholders will therefore be €1,029 million based on the number of qualifying shares as of December 31, 2005.

Another large share of value added went to the state in the form of taxes. Unlike donations and sponsoring, it is the governments of the countries in which we operate and not the company that decides how this money is spent. The item "Company" refers to retained earnings.

In 2005, BASF spent a total of €56.8 million on donations, sponsoring and funding for our own projects. This amount is contained in "other expenses." Further details on donations and sponsoring can be found on page 66. Further information on the taxes paid by BASF can be found at [corporate.basf.com/taxes](http://corporate.basf.com/taxes).

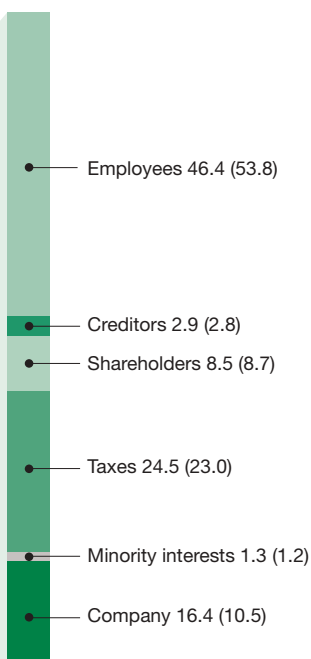
### Creation of value added

(Million €, previous year's figures in brackets)



### Use of value added

(Percent, previous year's figures in brackets)









> What is essential for the partnerships of the future?



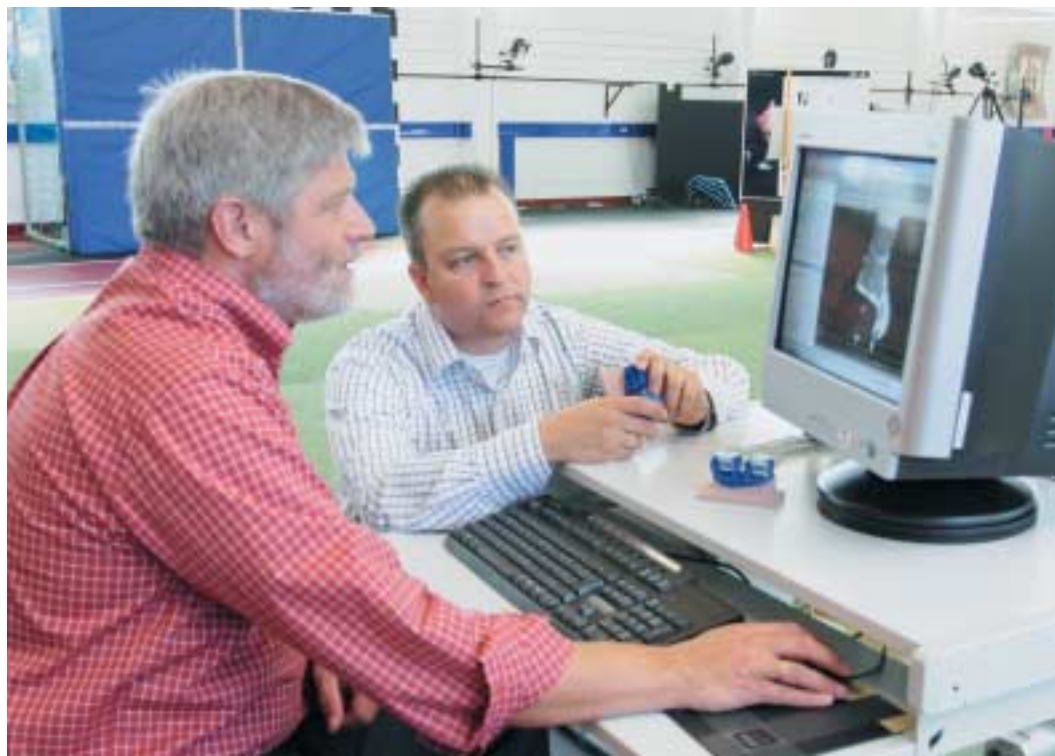




## >> Pioneer spirit

Developing new forms of cooperation together with our partners: That's the right way into the future for us. This is also the goal pursued by Martin Vallo from BASF Elastogran and Klaus Knörr from the adidas Innovation Team. The new generation of sports shoes with its 3D shock-absorbing system is one of the many successes we have achieved through close cooperation.





Close work between Martin Vallo, BASF Elastogran, and Klaus Knorr, adidas (left), enabled the development of a high-value polyurethane sole for an innovative sports shoe with a three-dimensional shock-absorber system.

## Helping Our Customers to be More Successful

**“BASF helps us to become even more successful. The company always succeeds in developing exactly the right solutions to make our products even better,” says Klaus Knörr, head of materials development in the adidas Innovation Team. The latest example is a new generation of sports shoes. Innovative products supplied by BASF’s subsidiary Elastogran revolutionized the geometry of the sole to produce a structure with superior cushioning. We therefore succeeded in developing the first shoe with a three-dimensional impact absorption system. And this generation of shoes sets new standards in material and color – thanks to BASF.**

The shoes are now available in various color combinations for running, tennis or basketball. For more than 20 years, we have successfully helped adidas to develop sports shoes, clothing and accessories in a close and trusting partnership. For instance, we developed the ClimaCool sports shoe with its innovative ventilation system together with adidas. “We listen to what our customers want and support them with our know-how to help them become even more successful in their markets,” says Martin Vallo, key account manager for adidas contact at Elastogran.

### Creating value for our customers

Our cooperation with adidas is an example of how we successfully supply tailored solutions and make our customers more successful. Our products, system solutions and services create value for our customers, increasing both their competitiveness and ours. Continuous communication is a crucial aspect. Our business units therefore conduct market analyses, customer surveys and customer focus groups on a regular basis.

In 2005, we developed the “perspectives” forum to give marketing and sales employees a better understanding of the changing needs of our customers and their markets and enable them to tap into new business opportunities.

### Customer-focused business models

Our strong customer focus is one of the key factors for our competitive success. We gear our business models to meet our customers’ needs and requirements. Depending on what a customer needs, our role may be limited to supplying mass-produced goods. At the other end of the spectrum, we may be a fully integrated partner in the value chain with responsibility for conducting processes at the customer’s facilities. The automotive industry is a good example. For instance, we have assumed responsi-

bility for the entire coating process at Renault's plant in Novo Mesto, Slovenia. We're not paid per kilo of paint supplied but according to the number of perfectly coated vehicles. We have practiced this form of close partnership for years with a number of carmakers including Volkswagen, Nissan and DaimlerChrysler.

Our customers appreciate our commitment, as shown by numerous awards. For example, BASF is the only chemical company ever to receive the Bosch Supplier Award, conferred in 2005 for the supply of plastics. In the United States, our customer Toyota honored us with their "Excellence Award in Quality" for outstanding quality and reliability.

#### **Speed and efficiency with e-commerce**

In the case of many of our products, speed and efficiency in the ordering process are important criteria for customers. Our solution is e-commerce. Our electronic marketplace for plastics is a good example: PlasticsPortal, as it is called, offers quick and easy ordering round the clock, as well as a range of useful services and information. In 2005, we increased e-commerce sales in our Plastics segment to over €3 billion. For 2006, we have now set ourselves the goal of achieving more than 30 percent of sales excluding oil and gas via e-commerce.

#### **More transparent logistics**

To ensure that our customers get their products on time, we operate a transparent delivery chain stretching from receipt of the order at BASF to delivery of the product to the customer's premises. A computer-aided system called Supply Chain Event Manager supports the process. At any given time, the system allows our employees to see where a particular shipment is. Delays can be recognized quickly and resolved. This system will enable us to provide an even more efficient delivery service for our customers in the future.

#### **Innovation through research**

Our global technology platforms – Polymer Research, Specialty Chemicals Research, Chemicals Research & Engineering, and Plant Biotechnology Research – form the heart of our Know-how Verbund. Last year, nearly 5,000 scientists and technicians were involved in research at our sites in Ludwigshafen and Limburgerhof alone. A further 2,000 employees worldwide carry out market-driven research and development in close cooperation with the

respective operating units. Our Know-how Verbund is further strengthened by almost 1,300 cooperations with universities, leading scientists at research institutes, startups and industry partners worldwide.

In 2005, we spent €1,064 million on research and development. To ensure that our research is closely based on market and customer requirements, about 80 percent of research and development spending is provided and managed by our business units. Twenty percent is funded centrally and is used, for example, for research into plant biotechnology.

#### **Promoting technologies of the future**

Our activities in topics of great importance for the future are divided into five growth clusters: energy management, raw material change, nanotechnology, plant biotechnology and white (industrial) biotechnology. Interdisciplinary and international cooperation is essential in realizing the potential of these technologies of the future. Between 2006 and 2008, we plan to invest €800 million in these five clusters.

We are one of the world's leading nanotechnology companies. We want to strengthen this position by further intensifying our research activities in this area. We are opening a center of excellence for nanostructured surfaces in Singapore in early 2006. The move strengthens our research network in Asia, which currently includes 13 regional development centers.



Rigorous biomechanical tests measure the shoe's shock-absorbing system and the effects on the runner's body.



In March 2005, we started work on the E.U. research project AMBIO (Advanced Nanostructured Surfaces for the Control of Biofouling) in collaboration with more than 30 partners. The project aims to develop nanostructured surfaces to address the problem of biofouling in an environmentally compatible manner. Biofouling is the technical term for the adhesion of organisms to surfaces in aquatic environments. Ships with fouled hulls, for example, require 40 percent more fossil fuels than unfouled vessels.

Since 2003, we have been cooperating with the *Institut de Science et d'Ingénierie Supramoléculaires* (ISIS) in Strasbourg, France, which is headed by the chemistry Nobel laureate Jean-Marie Lehn. We have our own research lab in Strasbourg, where our researchers are developing nanostructured polymers. These include novel foams that produce significantly better thermal insulation than conventional insulating materials.

BASF is also one of the world's leading companies in the area of plant biotechnology research and development. We aim to shape this attractive future market with our strong technology platform. Our research work focuses on more efficient agriculture and plants as "green factories" to produce specific chemical substances. Other focuses of research include plants for healthier nutrition such as those with enhanced contents of vitamins or omega-3 fatty acids (see page 44). Biotechnological processes offer resource-saving and cost-effective alternatives to chemical syntheses. But we need a rational basis to use the potential of biotechnology. This is why we do what we can to increase the acceptance for this promising technology, especially in Europe.



Combining academic and industrial research: Professor Jean-Marie Lehn, founder of ISIS (left), and Dr. Volker Schädler, BASF.

### Construction and housing

Many of our products are used in applications for construction and housing. High energy prices call for innovative concepts for the sustainable refurbishment of old buildings and the construction of new low-energy buildings. Almost three-quarters of the approximately 34 million housing units in Germany consume an annual average of approximately 20 liters (52 gallons) of heating oil per square meter of living space. BASF's real estate company LUWOGHE has shown that both heating costs and CO<sub>2</sub> emissions can be slashed. In BASF's *Alte Kolonie* housing project in Ludwigshafen, we completely modernized the internal insulation of a building that is more than 100 years old. If all old buildings in Germany were refurbished to optimize energy consumption, it would reduce CO<sub>2</sub> emissions by 90 million metric tons. This figure corresponds to one-third of Germany's contribution to the Kyoto target.

We also use this low-energy construction system for new buildings. In fact, LUWOGHE recently built 46 "one-liter" townhouses in the Brunck district of Ludwigshafen. These houses consume an annual average of just one liter of heating oil per square meter of living space. Our insulating material Neopor® plays a significant role here. Compared with conventional insulating materials, Neopor offers a significantly superior thermal insulation capacity and requires fewer raw materials. This saves money and resources.

We also promote low-energy construction in other countries. Together with local partners, we built the first one-liter house in Korea in 2005. The Paterson Showhouse in New Jersey, part of the BASF Better Home, Better Planet campaign, is also based on low-energy construction methods and technologies. It shows just what energy-efficient construction can achieve.

### Mobility

The world is becoming more mobile all the time. This makes it all the more important to lower fuel consumption, emissions and costs by using environmentally friendly products. We make a significant contribution with numerous innovations in the area of mobility.

For many years, we have been one of the leading suppliers to the motor fuel industry thanks to the fuel additives that we market worldwide under the brand name Keropur®. This is now also the case in China. Forecasts indicate that car production alone is likely to grow an annual 8 percent in China until 2015, so the use of environmentally friendly fuel-saving technologies is all the more important.

BASF Coatings was the first company to use water-based paints to coat cars in China. The first car coated using this technology in China rolled off the production line in 2005. BASF is also actively involved in the German Chinese Sustainable Fuel Partnership project (GCSFP). The aim of the partnership is to develop alternative and sustainable supply and technology concepts in the mobility sector. The project involves numerous companies as well as the German and Chinese governments.

AdBlue™ is helping to reduce emissions from trucks. We developed this product in cooperation with European truck makers and the motor fuel industry to comply with new emission limits that came into force in Europe in 2005. AdBlue is an ultrapure urea solution that is injected into the exhaust system and helps to reduce emissions of nitrogen oxides. Vehicles fitted with selective catalytic reduction technology that use AdBlue emit 85 percent less nitrogen oxides and 40 percent less soot – a major economic and environmental benefit.

Our nanocubes have also helped to promote innovation in the mobility sector. These cubes containing nano-sized spaces have an extremely high storage capacity and are the hydrogen storage systems of the future. Our scientists are developing these gas storage systems in collaboration with Professor Omar M. Yaghi of the University of Michigan. In the future, hydrogen-based fuel cells may offer an alternative to combustion engines in the automotive industry.

### Agriculture and nutrition

Our agricultural products help farmers to meet the rising demand for high-quality, healthy food. Our fungicides boscalid and F 500® are just two examples. F 500 was nominated for the German Future Award 2005 – a first for a crop protection product. It offers protection from fungal diseases that cause serious damage in soybeans, cereals, fruits and grapes. Harvest quality and yields are thus higher. Boscalid is also a broad-spectrum fungicide that provides optimum support in the production of specialty crops such as fruits, vegetables, grapes and horticultural plants. The new mechanism of action introduced into these crops by this novel active ingredient helps to prevent the development of resistance to existing agents.

BASF products are also used with success in the post-harvest period, for example to help fruits and vegetables stay fresh longer. Our polymer FreshSeal is dissolved in



The Büttel-Herz family has been living in one of the new one-liter houses in Ludwigshafen since September 2005.

water and sprayed onto the harvested produce. The protective seal preserves moisture and prevents the harvested crop from becoming dry and discolored. Because the produce does not lose its freshness during transport, harvesting can be delayed until the crop is fully ripe.

### Health

As one of the world's leading vitamin suppliers, we support numerous projects to counteract vitamin deficiency. More than 800 million people in the world today suffer from vitamin A deficiency, prompting our initial decision to supply vitamin A for a UNICEF program. We now help local food producers, especially in developing countries, to add vitamin A optimally to staple foods. This ensures the intake of a consistent dose, and is a more sustainable approach than providing the vitamin in the form of vitamin capsules.

An example from another area shows the diversity of our health-protection efforts. To combat malaria, we have developed special mosquito nets under the brand name Interceptor®. The yarn in the nets is treated with a polymer containing our rapid-action insecticide Fendona®. The nets, which are planned for launch in mid-2006, continue to provide reliable protection from insects that transmit malaria even after repeated laundering.

## Chemicals

Our Chemicals segment consists of the Inorganics, Petrochemicals and Intermediates divisions. The product portfolio ranges from plasticizers, solvents, glues and impregnating resins to electronic chemicals. The most important customers for this segment's products are to be found in the chemical industry and in the pharmaceutical, construction, textile and automotive industries.

### 2005 business review

Sales reached the record level of €8,103 million. We increased income from operations again by 3.3 percent compared with the exceedingly strong level in 2004. Earnings grew despite the hurricanes in the United States and additional costs for the startup of our plants in China. It was mostly possible to pass on higher raw material prices to customers due to continuing strong demand in many product lines.

### Inorganics

We increased sales primarily as a result of the acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany, in April 2005. This significantly strengthened BASF's market position in Europe and Asia.

Income from operations in 2005 was slightly higher than the previous year's already high level. Higher natural gas prices, particularly in the second half of 2005, resulted in slightly lower earnings from methane-based products. However, this was offset by improvement in earnings from basic inorganic chemicals.

### Innovations for the future: Chemicals

Plasticizers prevent PVC from becoming brittle and rigid. There has recently been repeated debate on whether these substances cause health risks. BASF takes these concerns very seriously. Since 1997, we have been actively involved in the broad-based research project Sustainable Plasticizers, which aims to develop alternatives to traditional products. With Hexamoll® DINCH® we have developed an innovative plasticizer that is particularly suitable for sensitive applications such as medical devices, toys and food contact uses.

Hexamoll DINCH has an excellent toxicological and ecotoxicological profile compared to other plasticizers. To date, we have invested almost €5 million in intensive testing. As a result, Hexamoll DINCH is the most thoroughly tested new plasticizer on the market. Customers can process it using their existing equipment – another powerful competitive advantage.

After the registration processes were completed, we started marketing Hexamoll DINCH widely in 2005. One application for the new plasticizer is in transfer devices for enteral nutrition via nasal or gastric tubes. One of the largest producers of such feeding sets, Pfrimmer Nutricia, has now switched its entire production to Hexamoll DINCH and sees the use of this innovative plasticizer as a decisive competitive advantage.

### Sales by division

Million €				
2005	12.6%	62.7%	24.7%	8,103
2004	12.0%	59.7%	28.3%	7,020
	Inorganics	Petrochemicals	Intermediates	

### Income from operations

Million €	
2005	1,326
2004	1,284



### Petrochemicals

All product lines contributed to significantly higher sales. Sales growth for cracker products, in particular, was higher than average in view of increased prices for crude oil and naphtha. Sales of alkylene oxides and glycols as well as plasticizers and solvents also increased thanks to strong demand.

Income from operations exceeded the very high level recorded in 2004. Raw material prices were considerably higher and very volatile, with record highs for crude oil and naphtha. We were largely able to pass on these increases to our customers in the form of higher prices.

Capacity utilization rates at our plants were very high in 2005 overall. In the fall of 2005, however, hurricanes forced us to shut down our plants in the Gulf of Mexico for several weeks.

### Intermediates

In line with our “value before volume” strategy, we offset lower sales volumes compared with 2004 thanks to price increases in all regions and nearly all product lines.

Income from operations was lower than in 2004 due to special items. In the first half of 2005, raw material costs remained overall constant, and numerous price increases led to significantly improved margins. After the hurricanes in the Gulf of Mexico in the third quarter of 2005, however, the prices of almost all important raw materials rose dramatically worldwide. Costs for the startup of six new plants in China also negatively impacted earnings in the second half of the year. Income from operations was also impaired by special charges: In particular, provisions for the restructuring and partial closure of the site in Feluy, Belgium, and the closure of plants for THF and PolyTHF® in Yokkaichi, Japan.



Innovative catalysts enable emission-free production of cyclohexane at a new plant at the Ludwigshafen site.

### Segment outlook

In 2006, we expect business to remain stable, with our new plants in Asia contributing significantly to business. Earnings will, above all, be negatively impacted by scheduled plant shutdowns for inspections and maintenance. We also expect raw material costs to remain high and energy costs to increase. In 2006, we nevertheless aim to match the previous year's strong earnings.

You can find further information and data on pages 37-39 of our Financial Report and on the Internet at [corporate.basf.com/chemicals](http://corporate.basf.com/chemicals).

### Capital expenditures

Million €		
2005		639
2004		601

### Research and development

Million €		
2005		114
2004		98

## Plastics

**We are one of the world's leading suppliers of plastics. This segment consists of the three operating divisions Styrenics, Performance Polymers and Polyurethanes. Our plastics are used, for example, in a variety of industries: in vehicles and machines, in electrical goods and medical devices, and in construction.**

### 2005 business review

We increased sales by €1,186 million to €11,718 million. We further increased income from operations by €321 million to €1,015 million. By raising prices in the Performance Polymers and Polyurethanes divisions, we further improved sales and earnings despite high and volatile raw material costs. Only the Styrenics division fell short of the previous year's high earnings, even though sales remained stable.

All divisions continued to optimize their business models. Here, we are working closer with customers to implement their ideas for new products and applications. Price increases were necessary to pass on higher raw material costs. As a result, demand in the second half of 2005 was lower than originally forecast. Our margins therefore came under pressure and softened slightly, especially toward the end of the year.

### Styrenics

Sales remained at the previous year's level despite a decline in demand. Income from operations was considerably below last year's high level. In contrast to 2004, we were able to pass on further increases in raw material costs to customers only after a considerable delay. The high volatility of benzene and styrene prices negatively impacted earnings.

We have consistently proceeded to reorient our business models. Since the start of 2005, we have combined specialties in a single global unit.

We have reached important milestones in the restructuring of our business in North America (NAFTA). The

### Innovations for the future: Plastics

In cooperation with Hamburg-Harburg University of Technology, BASF's subsidiary Elastogran has developed an innovative process for coastal protection. Elastocoast®, which consists of a versatile specialty polyurethane, can be used to construct extremely robust protective structures known as revetments. Thanks to its enormous stability, Elastocoast offers a completely new means of protecting coastlines and riverbanks.

Conventional stone ballast is coated with a thin film of Elastocoast, which creates a highly resistant bond between the individual stones. The result is a permeable but extremely stable protection against storms and water. At the same time, the system of gaps between the stones is preserved, absorbing the energy of waves and maintaining a habitat for flora and fauna. Elastocoast revetments offer a number of advantages including better stability, simple application and environmental compatibility, in particular compared to traditional processes using concrete or bitumen.

Sections of coastline strengthened with Elastocoast have survived severe storms and frost without damage in various test phases. Further extensive scientific tests have been started in the north of the island of Sylt in the North Sea, which is one of the most heavily eroded sections of the German coastline. Here, wind speeds can reach up to 150 kilometers per hour (nearly 100 mph) and conventional revetments are quickly destroyed.

measures carried out in 2005 included the divestiture of the polystyrene business together with the site in Joliet, Illinois and the transfer of Styropor® production from South Brunswick, New Jersey, to Altamira, Mexico.

### Sales by division

Million €				
2005	38.6%	24.8%	36.6%	11,718
2004	42.2%	24.6%	33.2%	10,532
	Styrenics	Performance Polymers	Polyurethanes	

### Income from operations

Million €	
2005	1,015
2004	694

### Performance Polymers

Sales rose €322 million to €2,909 million in 2005. We increased income from operations despite persistently high raw material prices. In particular, the earnings growth was due to substantial price increases, especially for polyamides and intermediates.

We expanded our engineering plastics business worldwide. In Asia, we increased compounding capacities in Pasir Gudang, Malaysia, and in Pudong, China. Additionally, we are building a new PBT plant in Kuantan, Malaysia, together with our Japanese partner Toray Industries Inc. This plant is scheduled to start operations in mid-2006.

We acquired the company Leuna-Miramid GmbH, in Leuna, Germany, strengthening our position in engineering plastics in Europe.

By acquiring the North American business of LATI USA Inc., we consolidated our market position in this region. The restructuring measures underway in this region will continue.

### Polyurethanes

Sales rose by €796 million to €4,291 million in 2005. The strongest growth was recorded in the Asia Pacific region. We improved income from operations compared with 2004. This was mainly due to sales prices, which rose during the course of the year. Significantly higher raw material and energy costs did, however, impact our business.

In 2005, our capital expenditures again focused on Asia: The production facility for the basic materials MDI and TDI, which we are building with partners in Caojing, China, is scheduled to start operations in summer 2006.

The additional capacities will be used to meet the constantly rising demand in Asia, and in China in particular. In addition, this facility will provide the necessary starting materials for the production of specialties in Pudong, China, which is planned for 2007.



Our new Permaskin® technology for coating wood, plastic or metal replaces labor-intensive and costly wet coatings.

At our Verbund site in Antwerp, Belgium, we raised production capacity for MDI from 360,000 to 450,000 metric tons per year in 2005 in order to meet increased demand.

### Segment outlook

In view of the startup costs for our new plants and the ongoing volatility of raw material costs for styrenics and fiber intermediates, we aim to at least match the 2005 earnings level.

You can find further information and data on pages 40-42 of our Financial Report and on the Internet at [corporate.basf.com/plastics](http://corporate.basf.com/plastics).

### Capital expenditures

Million €		
2005		490
2004		473

### Research and development

Million €		
2005		135
2004		136

## Performance Products

The Performance Products segment is made up of the operating divisions Performance Chemicals, Coatings and Functional Polymers. We produce a wide range of innovative products and system solutions based on performance chemistry that our customers use in the production of cars, paper, packaging, construction materials, adhesives, textiles, leather, hygiene articles, detergents and coatings.

### 2005 business review

2005 was another successful year for the Performance Products segment despite further increases in raw material costs and a challenging market environment in some business areas. Our Verbund structure and our strong position in Asia again had a positive impact.

In 2005, sales climbed €262 million to €8,267 million. This more than offset the decline in sales due to the sale of the printing systems business in November 2004. The sales growth was due mainly to rigorously implemented price increases.

Income from operations before special items increased by €40 million to €890 million, building on last year's strong level. This was primarily achieved by significantly better margins for functional polymers. On the other hand, income from operations declined by €265 million because the gain from the sale of the printing systems business was recorded in 2004.

### Performance Chemicals

Sales declined as a result of the divestiture of the printing systems business in 2004 but rose in terms of ongoing business in all regions due to higher prices. Significantly higher sales compared with 2004 were posted, in particular for performance chemicals for detergents and formula-tors as well as for the automotive and oil industries.

### Innovations for the future: Performance Products

Thanks to an innovative technology, BASF has succeeded in altering the properties of wood to make it harder, dimensionally stable and more durable. This gives domestic woods properties that were previously only offered by tropical hardwoods. Belmadur® Wood is therefore of interest in a wide variety of high-value applications such as flooring, window frames and outdoor furniture. Because our technology makes pine and beech as durable as teak, Belmadur Wood offers an alternative in applications that were previously restricted to tropical hardwoods. As a result, we are making an important contribution to resource preservation because domestic woods are the products of sustainable forestry. As such, they are available in sufficient quantities and at affordable prices.

In Europe, we started working with our first system partners for Belmadur in 2005. With our help, they will develop and market innovative products based on Belmadur Wood.

The positive earnings trend in these two business units contrasted with lower income from operations for performance chemicals for coatings, plastics and specialties as well as for leather. On the other hand, our restructuring measures enabled us to improve earnings in performance chemicals for textiles despite the persistently difficult environment.

### Sales by division

Million €				
2005	34.9%	26.4%	38.7%	8,267
2004	40.3%	25.3%	34.4%	8,005

Performance Chemicals Coatings Functional Polymers

### Income from operations

Million €	
2005	863
2004	1,128

## Coatings

Sales increased by €158 million to €2,180 million. In all regions, sales increased in local currency terms.

Significantly higher raw material costs put pressure on our margins. As a result, earnings were lower than in 2004. Positive currency effects offset the impact of stagnation in the automotive industry only to a limited extent. We increased both volumes and sales of automotive (OEM) and automotive refinish coatings. We continued with our measures to optimize our portfolio and restructure the industrial coatings business unit. In East Asia, we strengthened our business by acquiring the remaining shares in our Japanese joint venture BASF NOF Coatings.

Higher raw material costs depressed our margins in the automotive coatings business unit. This was compounded by the impact of sluggish growth in the automotive industry in Europe and North America (NAFTA).

We continued to expand our system supplier concept for reducing the total cost of coating processes for customers.

In the refinish coatings business, earnings remained at last year's level, although margins were lower because of changes in the product mix and higher raw material costs. We achieved above-average increases in exports to Eastern Europe.

In the architectural coatings business in South America, we strengthened our market leadership with our Suvini<sup>®</sup> brand and improved earnings.

## Functional Polymers

The significant increase in sales by €443 million was primarily the result of passing on higher raw material costs to our customers. We also increased sales volumes considerably, in particular for adhesives raw materials and acrylic monomers. Higher sales volumes of acrylic monomers resulted from the start of operations at our plants in Nanjing, China.



BASF's fuel additives are in demand worldwide thanks to their positive effects on engine performance.

In Europe, we suffered losses in dispersions for paper finishing as a result of the long industrial dispute in the Finnish paper industry. We discontinued our business with dispersions for the carpet industry in Europe because of the unsatisfactory earnings situation.

Income from operations was significantly higher than in 2004. All product lines, especially acrylic monomers, contributed to this thanks to high capacity utilization of cost-efficient plants.

## Segment outlook

We expect slightly higher sales in 2006. In a challenging market environment, we aim to post higher earnings compared with the strong level in 2005.

You can find further information and data on pages 43-45 of our Financial Report and on the Internet at [corporate.basf.com/performance\\_products](http://corporate.basf.com/performance_products).

## Capital expenditures

Million €		
2005		347
2004		304

## Research and development

Million €		
2005		214
2004		217



## Agricultural Products & Nutrition

This segment consists of the operating divisions **Agricultural Products** and **Fine Chemicals**. Products from our **Agricultural Products** division protect crops from fungi, insects and weeds, and improve crop quality and yields. We also offer a range of products for non-agricultural pest control applications. Plant biotechnology is another focus of our research activities.

In our **Fine Chemicals** division, we manufacture vitamins, aroma chemicals, UV absorbers and other high-value products that are widely used in the nutrition, pharmaceutical and cosmetic industries.

### 2005 business review: Agricultural Products

At €3,298 million, sales were lower than in 2004. Sales in Europe declined due to persistently dry weather in parts of southern Europe. However, our business in the Central and Eastern European growth markets developed positively. We successfully expanded our business in North America (NAFTA), where sales rose by 9 percent to €946 million. Here, our product **Headline®**, which contains the active ingredient **F 500®**, made a major contribution. In South America, sales declined. This was mainly due to conditions in Brazil, where persistently dry weather reduced harvests, and the appreciation of the real put our export-oriented customers under considerable pressure.

We increased income from operations by €79 million to €681 million. Higher demand for our innovative products offset the negative impact of lower sales and scheduled rises in research and development expenses. We generated special income from the sale of three active ingredients as a result of portfolio optimization measures.

### Division outlook

Assuming normal seasonal conditions in 2006, we expect to increase sales and maintain earnings at last year's strong level.

### Innovations for the future: Agricultural Products & Nutrition

Omega-3 fatty acids have positive health benefits. Because the human body cannot produce them in sufficient quantities, we have to obtain them through our diet. This is usually in the form of oils obtained from fatty fish. BASF's plant biotechnology company, **BASF Plant Science**, is working to produce these fatty acids in plants by incorporating genes from mosses and algae into the genome of oilseed plants. The oil would then be used in foods that are already enriched with omega-3 fatty acids, for example dairy products.

One goal of **BASF Plant Science** is to use biotechnology to increase the yield of important crops such as corn (maize), wheat and soybeans. To do this, it is essential to know which genes govern the desired plant properties. Plant characteristics such as crop yields and resistance to poor weather conditions are largely genetically determined. Genes influence, for example, the extent to which plants can survive a drought. In 2005, **BASF Plant Science** successfully expanded its portfolio of characterized genetic traits by signing a broad license and research cooperation with the Belgian biotech company **CropDesign**. This gives us a clear competitive advantage in developing higher yield crops.

### Sales by division

Million €			
2005	65.6%	34.4%	5,030
2004	65.2%	34.8%	5,147

■ Agricultural Products ■ Fine Chemicals

### Income from operations

Million €	
2005	623
2004	658

### 2005 business review: Fine Chemicals

In 2005, sales fell by €61 million to €1,732 million. We achieved further profitable growth in the product lines fat-soluble vitamins and organic acids, which are used in animal nutrition, and aroma chemicals. Business with lysine and vitamin C was significantly negatively impacted due to falling prices. Regulatory changes for the active ingredient pseudoephedrine in the U.S. pharmaceuticals market led to lower sales in the Pharma Solutions unit. Sales were also reduced by the disposal of the Cramlington production site in the United Kingdom, which still contributed to business in 2004.

In addition to the decline in sales prices, earnings were negatively affected by increasingly higher prices for raw materials and energy in the course of the year. We introduced a restructuring program in view of the unsatisfactory earnings trend. One-time charges related to this program largely accounted for special items. The largest individual items involved the closure of the vitamin C plant in Grenaa, Denmark, and a reduction in the workforce at the production site in Minden, Germany.

Effective October 1, 2005, we acquired the Orgamol Group with sites in Switzerland and France. This acquisition will enable us to expand the high-growth contract manufacturing business.

### Division outlook

On the basis of the measures we are taking, we expect higher sales and earnings in 2006.

You can find further information and data on pages 46-48 of our Financial Report and on the Internet at  
[corporate.basf.com/agro](http://corporate.basf.com/agro)  
[corporate.basf.com/nutrition](http://corporate.basf.com/nutrition)  
[corporate.basf.com/biotechnology](http://corporate.basf.com/biotechnology)



BASF's innovative fungicide boscalid is used predominantly in specialty crops such as vines.

### Capital expenditures

Million €		
2005		296
2004		253

### Research and development

Million €		
2005		373
2004		362

## Oil & Gas

**Our oil and gas business is conducted through our wholly owned subsidiary Wintershall – the largest German producer of crude oil and natural gas. Our production and exploration activities focus on Europe, North Africa, South America, Russia and the Caspian Sea area.**

### 2005 business review

Sales increased significantly due to the considerable rise in oil prices, increases in crude oil and natural gas production, as well as the expansion of the natural gas business.

In the exploration and production business sector, net sales in 2005 increased by €1,017 million to €3,499 million. The average reference price of crude oil (Brent) rose compared with the previous year by \$16 per barrel to \$55 per barrel. On a euro basis, this represents a rise of €13 per barrel to €44 per barrel. Crude oil and natural gas production rose by 3.1 percent to 112 million barrels of oil equivalent. This was mainly due to an increase in crude oil and associated gas production volumes in Libya. In 2004, our production in Libya was temporarily restricted by OPEC resolutions. Natural gas production was expanded in Argentina and the Netherlands.

Sales in our natural gas trading business sector rose by €1,376 million to €4,157 million as a result of increased volumes and prices. Gas volumes overall increased by 8.6 percent to 330.2 billion kilowatt hours. In Germany, WINGAS again grew faster than the market and acquired new customers, in particular in the power station sector. We expanded our marketing activities in Belgium, the United Kingdom, the Czech Republic and Austria.

Income from operations rose €767 million to €2,410 million. Income from operations in the exploration and production business sector, which is included in this amount, increased by €791 million to €2,094 million, mainly as a result of higher prices. Income from operations includes income taxes on oil production in North Africa and the Middle East of €1,072 million that are noncompensable with German corporate income tax. These taxes are reported as income tax.

### Innovations for the future: Oil & Gas

We operate the Mittelplate drilling and production island, one of the most modern production facilities in Europe, together with RWE-Dea. The facility in the Wadden Sea, 7 kilometers (4 miles) from the coast of northern Germany, is specially designed to allow operations in this environmentally sensitive area. We have now connected the Mittelplate field to treatment facilities at the Dieksand land station via a pipeline that was commissioned in October 2005.

Construction of the pipeline was a particular challenge for the consortium because it was laid through the Wadden Sea nature reserve. Taking this into account, we discussed the plans extensively and constructively with the relevant authorities and environmental associations. The work was also monitored by external consultants for safety and environmental protection. The horizontal drilling technology used reduced the impact on the tidal flats to a minimum. Each year, the new pipeline will eliminate about 2,000 barge journeys that were previously used to transport crude oil from the drilling and production island to the refinery.

As a result of new boreholes, the lack of meteorological restrictions, and transport through the pipeline, production will increase to around 1.5 million metric tons of crude oil per year. This will reduce the total production life of the Mittelplate field by about 10 years. All of these measures significantly improve the oil field's environmental balance.

### Segment sales

Million €		
2005		7,656
2004		5,263

### Income from operations

Million €		
2005		2,410
2004		1,643

Income from operations from natural gas trading declined by €24 million to €316 million. Our buying and selling prices largely depend on the price of crude oil. However, the time lag between changes is longer for selling prices than for buying prices. The continuous increase in oil prices over a long time therefore impaired our trading margin during the reporting period.

Additions to tangible assets mainly involved exploration and production activities in Germany, the Netherlands, Libya and Argentina. In 2005, 16 wildcat and appraisal wells were drilled in the search for new oil and natural gas deposits, 11 of which were successful. As a result, we replenished 52 percent of the volumes drilled in 2005. In the natural gas trading sector, we invested primarily in expanding our infrastructure.

To further extend our long-standing cooperation with our Russian partner Gazprom, we signed a memorandum of understanding covering the entire value-adding chain – from production and transportation through to natural gas trading. Under the terms of the memorandum of understanding, Gazprom is to increase its stake in WINGAS. The Yuzhno-Russkoye field in Western Siberia is to be developed jointly. It is also planned to jointly construct the North European Gas Pipeline (NEGP) through the Baltic Sea. Following startup, which is scheduled for 2010, WINGAS is to obtain up to 9 billion cubic meters of gas per year for the next 25 years from the new pipeline.

In our Achimgaz joint venture with Gazprom, roads and construction site work for the drilling and production facilities have been largely completed. This joint venture will produce natural gas and condensate from the Achimov deposit of the Urengoy gas field in western Siberia.



WINGAS helps ensure secure gas supplies to Europe via the long-distance STEGAL pipeline through eastern Germany.

### Segment outlook

In 2006, we expect average prices for crude oil to remain high. We aim to increase sales and earnings in 2006 as a result of the planned expansion of natural gas production and natural gas trading activities.

You can find further information and data on pages 49-50 of our Financial Report and on the Internet at [corporate.basf.com/oil-gas](http://corporate.basf.com/oil-gas).

### Capital expenditures

Million €		
2005	<div style="width: 624px;"></div>	624
2004	<div style="width: 388px;"></div>	388

## Business Opportunities Thanks to Sustainability

**Sustainable enterprise is the basis for long-term success – both for us and our customers. Our customers also need to create a balance between economic, environmental and social issues. We help them in this, putting at their disposal our extensive expertise in the fields of Responsible Care® and Sustainable Development. This is part of our strategy of helping to make our customers more successful. We offer a number of sustainability tools such as our Expert Services Sustainability (ESS), to which our eco-efficiency analysis belongs.**

ESS combines our expertise in the areas of energy, health, sustainability, product stewardship, safety and environmental protection, and allows us to provide our customers with tailor-made packages. Our services range from consultancy in waste disposal to eco-efficiency analysis and training in distribution safety. For Fuchs Petrolub AG in Mannheim, Germany, for example, we organized a workshop on the new European chemical legislation REACH. BASF's experts gave employees from this long-term key customer practical tips on how to prepare for the legislation and discussed the new registration process for chemical substances. Our customer considered the event to provide true added value.



Mirian Zanchetta, BASF (r), coordinates eco-efficiency analyses for Marina Rossi from Braskem, Espaço ECO's first customer.

We have now successfully completed more than 50 ESS projects. For example, we helped a customer in Malaysia to solve a problem involving soil contamination and advised tanneries in Russia on how to optimize their wastewater treatment. You can find additional information on ESS at [corporate.basf.com/\\_services\\_sustainability\\_e](http://corporate.basf.com/_services_sustainability_e).

### Eco-efficiency analysis

Our eco-efficiency analysis is an important evaluation tool for sustainability. It helps our customers to decide which products and processes are most suitable for their applications, both in commercial and environmental terms. We have now carried out more than 250 such analyses for our customers. For instance, we examined the economic and environmental advantages associated with the use of reusable and disposable dishes. In February 2005, we received the Design for Sustainability Award for this project from the Society of Plastics Engineers.

The inclusion of social criteria is the next step in the development of our eco-efficiency analysis. The result is SEEbalance®, a socio-eco-efficiency analysis that includes criteria such as the number of employees and trainees, occupational diseases and work-related accidents, capital expenditures and expenditures for research, wages and salaries. We are currently testing this evaluation tool in a practical setting. You can find more on BASF's eco-efficiency analysis and SEEbalance at [corporate.basf.com/eco-efficiency](http://corporate.basf.com/eco-efficiency).

### Espaço ECO

Latin America's first eco-efficiency center – the Espaço ECO foundation – was inaugurated in June 2005 in São Bernardo do Campo, Brazil. Here, BASF provides companies and public organizations throughout South America with its expertise and technology in the fields of eco-efficiency, environmental education and reforestation in collaboration with German Technological Cooperation (GTZ) as well as local partners. Experts from Espaço ECO conduct eco-efficiency analyses at companies and provide advice on implementing strategies for better sustainable products and processes. The first eco-efficiency analysis was commissioned by the Brazilian chemical company Braskem. The Espaço ECO foundation receives support from BASF's competence center for eco-efficiency in Ludwigshafen.



## Transporting Our Products Safely

**Our customers expect the products they have ordered to be delivered punctually and in the correct amount and quality. Products therefore have to be transported, stored and handled safely. This is also part of our social responsibility.**

### 2012 goal

We aim to reduce the rate of transportation accidents worldwide per 10,000 shipments by 70 percent compared with 2003.

To achieve this goal, we depend on reliable logistics partners, global standards and effective organization. In 2005, there were 0.47 transportation accidents per 10,000 shipments (2004: 0.5). This value is based on the accidents reported to us by our logistics partners.

### Uniform standards worldwide

BASF has globally binding standards for the transportation and storage of chemical products. These standards are listed in the BASF Transportation and Distribution Safety Guide. Our global network of safety distribution officers plays an important role in implementing these standards. These experts ensure that national and international regulations are observed for all shipments. We have introduced this function throughout the BASF Group even though it is mandatory only in Europe. In addition, we established a system to monitor our own processes involving hazardous goods based on the German monitoring system in 2005.

### Safety through checks and training

One of our key tools for comprehensive safety is the Safety and Quality Assessment System (SQAS), which applies to overland transport in Europe. This standardized assessment system for carriers was developed by members of the European Chemical Industry Council (CEFIC). We use SQAS reports to identify staff training levels, response times during emergencies, equipment carried by vehicles and whether carriers have security plans in place. Only when we are sure that logistics companies have satisfied all our requirements do we entrust them with our products. In 2005, we started a systematic audit of the logistics companies we use in Asia. To do this, we introduced our own system: the Road Safety Assessment (RSA), which is largely identical to the SQAS system in Europe. We presented RSA at a seminar on distribution safety and hazard prevention that we held in China with the State Administration of Work Safety (SAWS).

Furthermore, BASF experts reported on how we review the safety of logistics companies at our site in Nanjing. The seminar also provided information on hazardous goods legislation in Europe as well as the implementation and use of the German Transport and Accident and Emergency Response System (TUIS). Following the seminar, BASF and SAWS signed a letter of intent to cooperate more closely in the area of distribution safety. In Surat Thani province, Thailand, we organized a three-day seminar on hazard prevention during the transportation of chemicals for members of the local police and fire services as well as medical personnel. The participants were trained how to respond in the event of an accident involving chemical products. Since July 2005, we have also been involved in a program with the Thai government to help small and medium-sized companies to establish a safety management program for chemical products in Bangpoo.

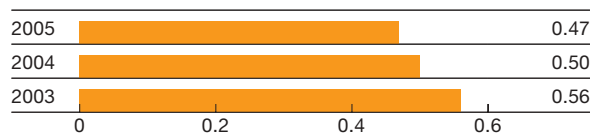
### Responding to accidents swiftly

A swift and appropriate response is essential whenever accidents occur while chemicals are being transported. This is why we belong to networks that supply information and help in emergencies. These include TUIS and the International Chemical and Environmental (ICE) initiative. In addition, we have established a global network of emergency contact numbers and control centers that we plan to expand. These systems exist primarily in Europe as well as in North and South America. Regular training exercises ensure that the necessary standards are maintained and help to improve processes. We are also establishing similar networks in Asia.


### Transportation accidents

per 10,000 shipments

(reduction compared with baseline 2003: -16%)





A full-body photograph of a person standing on a sandy beach, looking through binoculars. The person is wearing a bright yellow zip-up sweater with the year '1956' printed on the chest and white shorts. They are barefoot, and their feet are in the sand. The background consists of a calm blue ocean meeting a clear blue sky at the horizon. The text '> What makes us interesting to employees?' is overlaid on the left side of the image.

> What makes us interesting to employees?







## >> Opportunities

We know that a company's success depends above all on the performance of each team member. We therefore promote the individual strengths of our employees. Rosana Passos de Pádua, head of the Treasury department at our site in São Paulo, Brazil, benefited from a wide range of development opportunities in her long career at BASF. She now wants to offer such opportunities to her younger colleague Marina Maria Igreja.







Rosana Passos de Pádua (left) has been working for BASF for 19 years and has a team of 25 employees. She passes on her experience to financial analyst Marina Maria Igreja.

## Opportunities for Our Employees Worldwide

**“I have been encouraged to develop according to my strengths since my very first day at BASF,” – this is the firm conviction of Rosana Passos de Pádua. The head of the Treasury department at the São Paulo site in Brazil sees this as a key factor for the company’s success. In her work, she particularly values the good cooperation within her team. What she especially appreciates about BASF as an attractive employer are the challenging tasks and the wide range of opportunities it offers its employees, as well as performance-related pay.**

At the annual performance review, tasks, mutual expectations and future career development opportunities are discussed in detail. This last point is of particular importance for Passos de Pádua because she tries to provide her employees with the same chances that she received at the beginning of her career – employees like Marina Maria Igreja. She has been working in Passos de Pádua’s team for two years and is impressed by her boss’s skills – both professionally and personally. “She always has an open ear, and that spurs us on to perform even better.”

### **Our goal: The best team in industry**

As the best team in industry, we ensure our long-term success. We place particular importance on a dialogue-oriented management culture, diversity, an international team culture, and giving employees the opportunity and responsibility to engage in further training. This is how we implement our strategic guidelines: We support the long-term success of our customers, ensure the sustainable development of BASF, and earn a premium on our cost of capital.

We respond to the global competition for highly skilled professionals by offering a wide range of benefits so that we remain an attractive employer for our employees. Our success factors include attractive duties and responsibilities, performance-related pay, extensive training programs and international development opportunities for employees. An open dialogue and a strong team culture – both within and across countries and regions – are important to us. The BASF Group’s management culture is characterized by our underlying Values and Principles and our Leadership Compass (see page 55).

### Training and education guarantee opportunities

Training and educating employees is becoming increasingly important in the light of global competition. And to face up to this competition, we need employees who continually extend their training to match our needs. We therefore support independent and practice-oriented learning – both on and off the job. The most recent example: Our Learning Center at the Ludwigshafen site opened in November 2005. In an exceptional learning environment, our employees can acquire further training under the guidance of experts with the aid of state-of-the-art learning tools, including e-learning programs. BASF invested around €2 million in this project. In spring 2006, we will start offering a broad range of training measures via our European Learning Portal. Measures will include e-learning modules that employees can use independently to improve their language skills. English and German will be offered initially, and other languages are to follow.

In 2005, we spent €122.8 million worldwide on education and training (2004: €128.8 million). In total, more than 65,100 employees participated in at least one training course in 2005 (2004: 65,500). These employees took part in training programs on an average of 3.8 days (2004: 3.9). We are also looking at ways of using e-learning more extensively.

### Worldwide standards assure transparency

BASF's global presence demands global personnel systems that also take account of the particular needs of local employees. Our human resources work therefore includes both Group-wide standards and culture-specific solutions for sites and regions.

We have set ourselves the goal of further standardizing our personnel systems. For example, we are introducing a mandatory job evaluation system, and have already done so in Asia and Europe (excluding Germany). The system applies to all positions at BASF below the senior executive level. We use this system to analyze and rate all functions in terms of eight criteria, including professional, social or decision-making competence. This standardization creates transparency and allows comparisons across the organization. Management thus receives information for the strategic use and planning of human resources, for instance during acquisitions.

We want to achieve transparency and verifiability of internationally recognized labor and social standards at all our sites. To this end, we have translated the standards into uniform and easily understood language. We use these definitions as a basis for an annual survey of man-

agement at BASF Group companies to check that the standards are observed.

### Open dialogue with employee representatives

To further enhance cooperation with European employee representatives, BASF established a European works council – Euro Dialog – as far back as 1995. In 2005, for example, the Euro Dialog repeatedly discussed the creation of a European shared service center in Berlin. Updates on the status of the project were provided, and steps to be taken in the event of consequences for the workforce were discussed. In the other regions, such as South America and Asia, companies also work together with employee representatives in a constructive dialogue.

### Employees worldwide

At the end of 2005, BASF had 80,945 employees and 2,330 trainees worldwide. As in the previous year, Group-wide measures to maintain and increase our competitiveness were the main reasons for the decline in our workforce by 1,010 positions in 2005.

In order to make the necessary structural reforms in a socially responsible manner, we made use of partial retirement programs in Germany. Further measures involved severance packages and part-time working arrangements. In 2005, we again trained more young people in Germany than we needed for our own requirements, thus providing them with a career perspective. Moreover, we strongly support training measures in the vicinity of our sites. Further information is available on page 64.

Work commissioned from third parties also ensured jobs for approximately 17,400 employees at companies that provide services and technical support at our sites.



At the annual "Taste Fest" at BASF's site in Southfield, Michigan, employees try out culinary specialties from a variety of countries.

### Our social responsibility

In order to provide our employees with attractive and fair market compensation, we supplement their salaries with social benefits. BASF offers its employees various models, such as share programs, company pension plans and additional health insurance. In 2004, BASF adopted International Pension Principles that apply to the entire BASF Group and set the framework for company pensions. Based on these principles, numerous pension plans were modified in 2005 to limit financial risk while still maintaining the long-term viability of the pension commitments made to employees.

Group-wide expenditures on salaries, wages, social security contributions and expenses for pensions and assistance amounted to €5,574 million in 2005, 0.7 percent less than in the previous year.

We operate in all regions of the world and assume responsibility as an employer on an international and local scale. BASF's importance to its employees extends far beyond the salary it pays. It is supplemented by farsighted models developed together with employee representatives and designed to enhance competitiveness and thus safeguard sustainable jobs. We also support the specific recruitment and training of local employees.

Our Integration unit in Ludwigshafen is another example of our social responsibility as an employer. For 60 years, we have been providing severely disabled employees with positions that suit their abilities.

### External financing for pensions

With effect from the end of 2005, BASF Aktiengesellschaft has paid approximately €3.7 billion into a newly established Contractual Trust Arrangement (CTA) under the name BASF Pensionstreuhand e.V. This money will be used solely to finance pension obligations to the company's employees and pensioners. As a result, virtually all company benefits that exceed those of BASF Pensionskasse VVaG will be financed externally. The creation of the CTA at BASF will have no effect on the benefit levels for employees and pensioners of BASF; the pensions will also continue to be paid by BASF.

### Number of employees by regions\*

	2005	2005 %	2004 %
Europe	56,614	69.9	70.2
Thereof Germany	45,620	56.4	56.9
Thereof BASF Aktiengesellschaft	34,143	42.2	43.1
North America (NAFTA)	9,826	12.1	12.9
Asia Pacific	9,669	12.0	10.9
South America, Africa, Middle East	4,836	6.0	6.0
	<b>80,945</b>	<b>100.0</b>	<b>100.0</b>

\* Effective January 1, 2005, companies in Asia are reported in the region "Asia Pacific." South America, which was previously reported separately, is now reported together with the geographic regions Africa and Middle East in the region "South America, Africa, Middle East."

### Personnel costs BASF Group\*

	Million €	Change in %
Wages and salaries	4,533	-0.6
Social security contributions and expenses for pensions and assistance	1,021	-1.4
Thereof for pension benefits	242	6.1
	<b>5,574</b>	<b>-0.7</b>

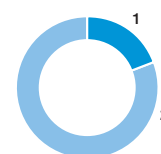
\* Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated accordingly. Detailed explanations of the first application of IFRS can be found in Note 3 to the Consolidated Financial Statements on page 106 onward of the separately published Financial Report.

### Workforce profile 2005

(Previous year's figures in brackets)

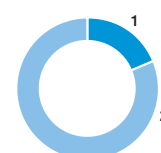
#### All employees

1	Women	19.8%	(19.4%)
2	Men	80.2%	(80.6%)



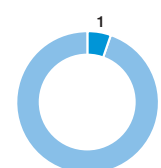
#### Management and professionals

1	Women	19.3%	(18.8%)
2	Men	80.7%	(81.2%)



#### Senior Executives\*

1	Women	6.1%	(5.4%)
2	Men	93.9%	(94.6%)



\* Senior Executives are defined as all managerial staff appointed by the Board of Executive Directors.

### Diversity as a competitive advantage

In all markets where BASF is active, we aim to be an attractive employer and to provide our customers with contacts who are used to dealing with diverse requirements. We therefore view diversity as a clear competitive edge in the global economy. By diversity we mean that all employees have the same opportunities at our company, regardless of their sex, nationality, educational background or cultural heritage. The decisive criterion is the qualifications of those under consideration, since we always select candidates for positions based on qualifications, not quotas. We are convinced that diversity creates openness – to cultural and demographic changes within the company and to the needs and wishes of our customers. A diverse workforce is also more innovative: Diverse cultural backgrounds, individual perspectives, experience, ways of thinking and approaches help us to address challenges faster and more creatively.

For 2005, we had set ourselves the goal of increasing the proportion of non-Germans and women among our senior executives. The proportion of women in top management positions rose to 6 percent, although the proportion of non-German senior executives remained unchanged at 30 percent. We remain committed to increasing the proportion of women and non-German employees.

Internationalization is one of the focuses of our personnel development. At many sites, intercultural training courses promote the integration of employees from other countries. Such programs are offered by over 68 percent of Group companies (2004: 77 percent).

Regional project teams play a key role in promoting diversity. They have devised various measures that we have now integrated into management processes and individual development processes. In Brazil, for instance, we created a special diversity manual for managers in 2005. Our managerial team worldwide has a common value system: our Values and Principles and the Leadership Compass. This describes what our senior executives undertake to achieve: clarity and a sense of reality, performance and speed, enthusiasm and inspiration, as well as strategic and operational leadership. All of our senior executives must be equally familiar with each of the four directions in order to successfully lead their teams.

### Promoting strengths through diversity



BASF has Walter Ohrbom to thank for more than 90 patents that form the basis for many modern coating systems. Most of these patents enable environmentally friendlier, simpler and safer use. Ohrbom's goal is 100 patents by 2008. His colleagues value his creativity and ability to solve problems. A BASF employee of many years, he suffers from dyslexia, a reading and writing disability. Ohrbom's team accepts this and works to support his strengths. He told his story as part of the "My BASF Story" series produced for BASF's 140th anniversary in 2005. His and other stories can be found at [corporate.basf.com/basf-story](http://corporate.basf.com/basf-story).

In February 2005, the BASF Corporation in North America received awards for special efforts in the area of diversity for the first time. For example, the Team prize went to the employee group Southfield Women and Business Issues for its contribution to diversity in numerous initiatives. The team organizes regular discussion groups, lectures and training courses with the aim of increasing diversity consciousness and professional competence.



### Promoting ways to reconcile career and family

Helping employees to reconcile career and family is an important aspect of our sustainable human resources policy. To facilitate parents' rapid re-entry into the workforce, we opened the LuKids daycare center in Ludwigshafen in June 2005. In cooperation with an external agency, the center offers daycare for children aged between 6 months and 3 years of age, and construction of a further daycare center has already begun. BASF's subsidiary Wintershall has had its own day care concept since 2001 and received two awards in 2005 alone for its family-friendly personnel policies.

In 2005, more than 13,000 employees were offered daycare facilities provided by BASF Group companies or a contribution toward the cost of external daycare. Many employees in Germany work part-time during their parental leave, which may last up to three years. In Ludwigshafen alone, 27 percent of 519 employees on parental leave worked part time in 2005. BASF Aktiengesellschaft received an award from the nonprofit Hertie Foundation for its family-friendly personnel policies in 2005.

### More individual work schedules

Flexibility is becoming increasingly important. This is why we offer our employees in Germany individual part-time work models, which can be customized to meet personal and company needs.

Since 2004, exempt employees of BASF Aktiengesellschaft in Ludwigshafen have been able to arrange their lifetime working hours more flexibly by accumulating fixed or variable salary components in a special account. The assets that accumulate in the account are invested in interest-bearing capital market products, and can be used at a later date to reduce lifetime working hours. Why do we do this? We want to offer both our employees and the company more flexibility with our future-oriented model because Germany's partial retirement law will expire by 2009 at the latest, and the statutory retirement age will be raised gradually to 67.

### Ensuring competitive jobs

In 2004, company management and employee representatives signed an agreement that provides clear perspectives for employment at the main production site in Ludwigshafen. Under the "Stability through Change" agreement, the number of employees of BASF Aktiengesellschaft will be approximately 32,000 (2005: 34,143). This target figure will remain in force until 2010, although the exact headcount may be adjusted depending on natural fluctuation; enforced redundancies will be avoided.

The Ludwigshafen Site Project has helped ensure competitive jobs. This project was successfully concluded in 2005 after three years. In order to secure the long-term competitiveness of the Ludwigshafen site, it was necessary to reduce fixed costs. We have achieved this goal, reducing costs permanently by €480 million per year. The close cooperation between the employee representatives and the company throughout the project was one of the factors contributing to its success, as were the numerous discussion panels at which employees were actively involved in the process. New instruments for human resources work were also introduced as part of this project. Annual reviews are now compulsory for all employees, and non-exempt employees are also set to receive a personal bonus payment.

### Ensuring the comparability of sites

Between 2005 and 2009, BASF plans to spend a total of around €6 billion on capital expenditures, modernization and plant maintenance in Ludwigshafen. This is a clear commitment to Germany as a location for jobs. At the same time, global competition demands that we remain competitive. We therefore conduct annual comparisons of our sites. These benchmark studies show us where the individual sites have potential for improvement. In this way, we learn from one another and secure the future of our company.

### Performance pays off

We hope to encourage entrepreneurial thinking and acting on the part of our employees. The salary and management systems based on personal and company performance in place at various Group companies for many years are successful examples of this. The personal bonus depends on the return on assets of the BASF Group and the individual performance of the employee during the previous year. The personal bonus payment introduces greater flexibility to additional pay benefits. An annual review is compulsory for all employees of BASF Aktiengesellschaft. Overall, 75 percent of BASF Group companies offer their employees voluntary annual bonuses fixed by the Board of Executive Directors of BASF Aktiengesellschaft or company management of BASF Group companies (2004: 80.6 percent).





Lars and Anouk visit BASF's LuKids daycare center – their mothers, Oda Breuer and Claudia Wendt, work at BASF in Ludwigshafen.

### Employees' opinions count

Our employees play a vital role in shaping BASF's success – our progress depends on their commitment, knowledge and motivation. We regularly conduct surveys to find out what employees think about various topics. For example, each employee at BASF Aktiengesellschaft takes part in a survey once every three years. We use the results to derive measures for further optimization of our processes.

Since the end of 2004, we have integrated 12 questions on our strategic guideline "Form the best team in industry" into all employee surveys. This tells us to what extent our employees think this guideline has been successfully implemented and where they see room for further improvement.

### Idea management

We see idea management as a managerial function, since new ideas further our progress. To make it easier for employees to submit ideas, we have optimized this process. All employees at BASF Aktiengesellschaft can submit their ideas via the company's intranet. The suggestions are then evaluated according to transparent criteria. Bonuses are given to those whose ideas are implemented.

We place special importance on the quality of the suggestions and the competence of those who evaluate them. In Ludwigshafen alone, the suggestions submitted saved the company €22 million in 2005.

### Annual review

The annual review is a central management tool that is designed to further the targeted and independent development of each employee. It provides employees and their managers with a basis for regular and frank communication, and can be used to discuss responsibilities, mutual expectations and the employee's future development. During the review, the supervisors also discuss their assessment of their employees' performance.

In order to establish consistent criteria for personal development throughout the BASF Group, we updated and standardized our Global Competence Framework in 2005. This creates more transparency and openness across national borders. The Competence Framework is derived from our basic Values and Principles and applies to all employees worldwide. It is divided into a total of 14 professional and personal competencies, which are classified in the main categories "Company," "Social interaction and cooperation" and "Leadership." This system makes it easier to identify development potential and devise appropriate measures.

Annual reviews are currently offered at 93 percent of Group companies. The processes have a specific character in each region because we take account of cultural differences. In Asia Pacific, for instance, workshops are conducted once or twice a year to promote a regular dialogue on the review process.

### Creation of shared service centers

We plan to establish our regional shared service centers by 2008. We combine finance and human resources services for the regions at these centers. This enables processes to be standardized, which improves both the quality and the efficiency of our internal services. In 2005, we started to establish a service center for the Asia Pacific region in Kuala Lumpur, Malaysia, and a European service center in Berlin.

Further information at: [corporate.basf.com/employees](http://corporate.basf.com/employees)

## Safety for Employees and Partners

**We have committed ourselves to promoting and maintaining safe working conditions to protect the health of our employees. Safe plants and qualified staff are important for ensuring smooth production, and form the basis for the trust the public places in our company.**

### 2012 goal

We want to reduce our lost time accident rate per million working hours by 80 percent worldwide by 2012 compared with 2002.

In 2005, we came a step further toward achieving our goal: The BASF Group's lost time accident rate was 1.8 accidents per one million working hours (2004: 1.9). This corresponds to a 46 percent reduction in the rate of accidents compared with 2002. Regrettably, a total of three BASF employees and employees from partner companies died in work-related accidents in 2005.

### Safety at all sites

In order to achieve our goal, we pay particular attention to three points: ensuring that our managers act as role models, the systematic risk assessment of work processes and individual tasks, and enhancing safety awareness among our employees. We employ local programs and measures developed and implemented according to the specific needs of individual sites. For example, in 2005, we introduced a "safety time out" in North America: All employees stopped their work for 45 minutes to focus on the topic of work safety. Managers explained the importance of safety in the workplace and offered practical tips on how to prevent accidents. This event helped to further increase the already very high safety awareness among our North American employees.

We also use seminars and training events to raise safety awareness in other regions. And we develop new methods and equipment to ensure the safety of our employees, as shown by the following example from Ludwigshafen. Residual liquid can constitute a risk for employees when they have to open pipes for service, maintenance or installation work. To close this safety gap, BASF's occupational safety and materials engineering units worked with an external partner to develop a new mobile testing device. This makes it easy to determine the level of liquid in pipes and containers from the outside before they are opened.

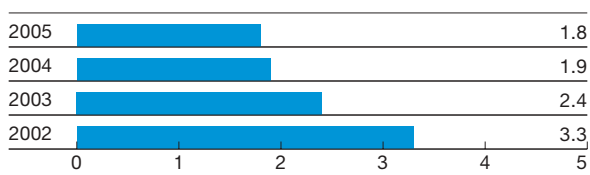
### Safety for suppliers and service providers

We place great importance on the fact that all companies employed at our sites work as safely as we do. At our site in Nanjing alone, we have to date trained more than 100,000 employees of suppliers and service providers employed in the construction and startup of the site. Our requirements for health, safety and environmental protection are increasingly part of contracts with other companies.

At our Ludwigshafen site, we have summarized all important aspects of working for BASF in a short and simple form in new site regulations and a new safety guideline that covers everything from awarding contracts to assessment of suppliers. In Ludwigshafen, we also carry out regular checks to ensure that employees of suppliers and service providers are familiar with our rules for safe working practices. This has proved successful: Whereas only 72 percent of those polled passed the safety test at the outset, the figure had risen to around 80 percent after two years. Global accident data for employees of suppliers and service providers are now available for the first time: In 2005, there were 4.4 lost time accidents per million working hours among such employees at our sites worldwide.

### Lost time accidents (> 1 day)

Per million hours worked  
(reduction compared with baseline 2002: -40%)



## Protecting and Promoting Health

**We promote the health, well-being and performance of all our employees because these factors influence the success of our company. Our occupational medicine specialists work to ensure that the same standards apply to prevention and health promotion at BASF worldwide. Furthermore, they play an important role in making sure that our products do not pose a health risk to employees, neighbors, customers and consumers.**

### 2012 goal

We have set ourselves the ambitious goal of reducing occupational diseases in the BASF Group by 80 percent. The baseline for the comparison are the criteria and rate for 2004: 0.4 occupational diseases per million working hours.

Such diseases include noise-induced hearing damage, skin and respiratory diseases caused by chemicals, and diseases of the musculoskeletal system. To achieve our goal, we rely on technical and organizational measures as well as medical screening. We derive these measures from screening tests and regular hazard assessments, for example during occupational medicine plant inspections and audits.

The standards for medical services for employees are laid down in our global occupational medicine and health protection program. Implementation of the program is ensured by a worldwide network of specialists. We check our performance on a regular basis using occupational health audits.

Our internal auditing system for occupational medicine and health protection is in accordance with the standards and criteria used today in the external auditing processes ISO 19011 and OHSAS 18001. This was also shown by an audit of our procedures carried out by Deloitte in 2005. BASF's auditing system for occupational medicine and health protection was reviewed according to ISAE 3000 ("high level audit"). The unqualified independent statement by Deloitte is available at [corporate.basf.com/statement\\_health](http://corporate.basf.com/statement_health).

We have started a new training program in Asia to further improve emergency medicine at our sites. Experienced emergency medicine specialists coach employees using a range of instructional films and training programs.

### Advisory services for employees, the community and customers

Our knowledge in occupational medicine and health protection is available to all employees, local residents and customers. The service includes 15 competence centers spanning all areas of occupational medicine and an internal hotline that is staffed around the clock to provide information on urgent medical issues.

We seek to improve healthcare at our sites. A stable community that has good medical knowledge and care strengthens our sites and fosters good relations with our neighbors and customers.

Our efforts are also receiving praise from outside BASF. A study of preventive health management programs commissioned by the German business magazine *Capital* ranked BASF number one in the chemical and pharmaceutical industries. In 2005, BASF also received a special prize for occupational health and safety by the Ministry of Labor, Social Affairs, Family and Health of the German state of Rhineland-Palatinate. The award honored the company's efforts for health protection measures related to lifting and carrying heavy loads, which were considered to be above the norm.

Our screening program for bowel cancer, which we now offer as a routine check for all employees over the age of 45 years in Ludwigshafen, was also awarded two important science prizes.

### Health campaign 2005

More than one billion people worldwide are overweight, and obesity is set to overtake smoking as the leading cause of preventable death. This is why we started our "Shape up, slim down" health campaign at our Ludwigshafen site at the beginning of 2005. More than 1,300 overweight employees participated with the aim of losing weight in a healthy way over a period of nine months. They were motivated by a colleague and supported by an extensive backup program, including a keep-fit menu in the canteen, walking in the lunch break and regular medical checkups. The final results of the campaign became available in December and show that half of the participants successfully lost weight. We want to use the campaign to raise awareness among our employees. The primary benefit is for employees, but fewer days lost through illness also benefit BASF.

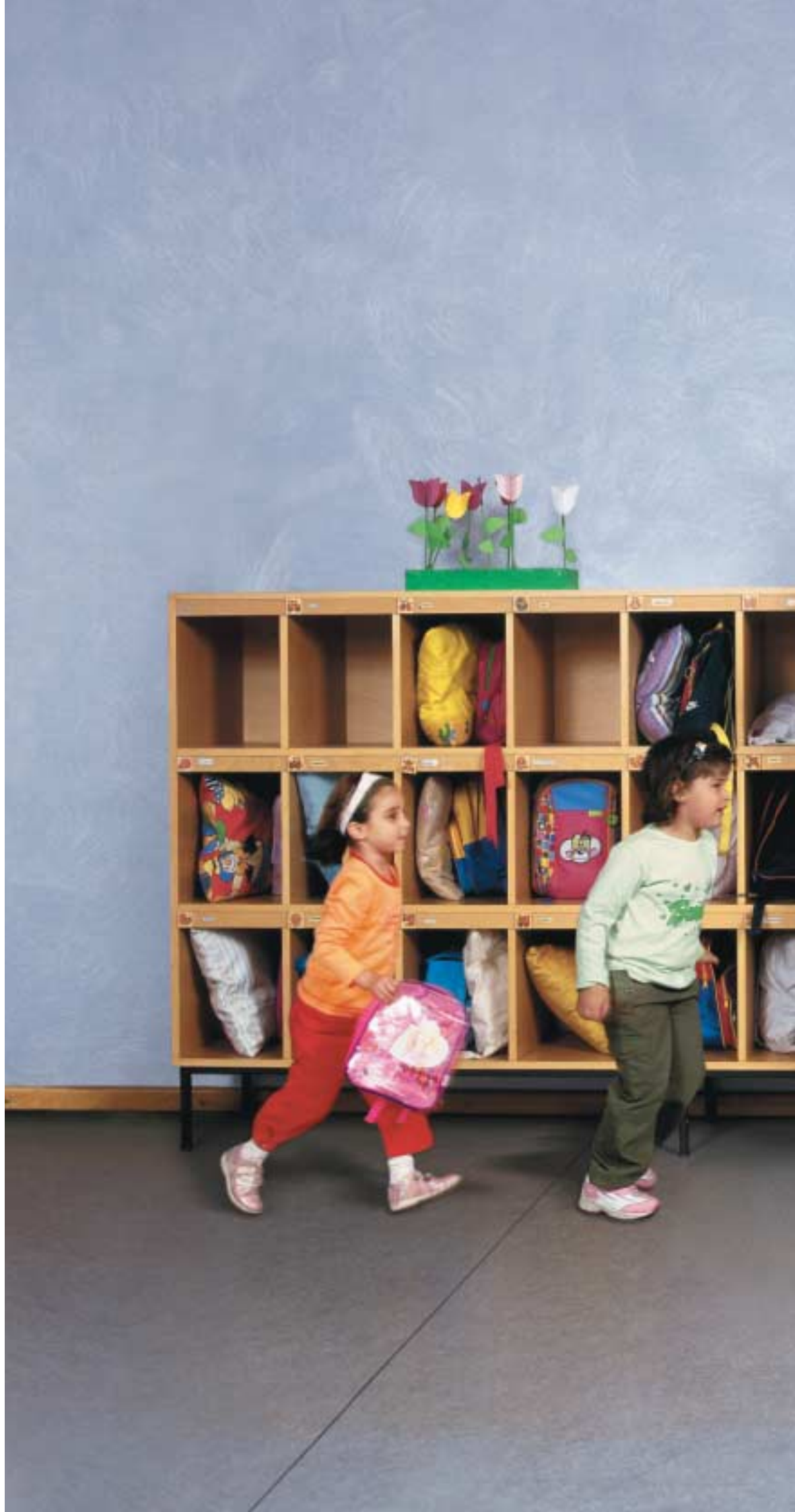




> What do we need on  
our path to the future?









## >> Enthusiasm

Small local success stories are sometimes just as important as global issues. Together with regional partners, we support numerous projects in the communities in which our sites are located. Klaudia Czipri, BASF, and Fred Bogdahn from the municipal daycare center in Ludwigshafen have been working together in the Action on Education initiative since 2005. This project makes an important contribution to improving the quality of education in the Rhine-Neckar metropolitan region.





Breakfast at the Marienstrasse daycare center plays a special role: The children speak German with one another and at the same time, learn a lot about other cultures.

## Ensuring Opportunities through Education

**“Education is our common goal,” agree Klaudia Czipri, responsible for BASF’s Language Makes You Strong project, and Fred Bogdahn, director of the Marienstrasse daycare center in Ludwigshafen. BASF established this project because developing language skills is one the most important foundations for education. The project represents the conviction that children need to be encouraged from a very early age to have the best opportunities for optimal development.**

This is confirmed by Bogdahn, whose daycare center will be taking part in the project. There are children from many different countries at his center in the Hemshof district of Ludwigshafen. Most of them tend to learn German as their second language, and not until they start daycare.

Bogdahn, who has worked at the center for more than 13 years, is convinced by the jointly developed approach. He knows from his own experience how important early language training is for a child’s later development. He and many other teachers Czipri works with are also convinced by the ideas behind our other projects. She sees

this as an acknowledgement of BASF’s work. “There is huge interest, which shows the role education plays in the future of our society,” she says.

### Education as a central issue

Education is a central issue for BASF. It is something we are committed to worldwide. There are two main reasons for our commitment: Firstly, we believe access to education is essential for a socially just and environmentally sound development. And secondly, we view education as an important prerequisite for developing curiosity, imagination and creativity. It is these very abilities that are necessary for innovations – not just in chemistry. Another aspect is also important: What we invest in education and science today pays off in the long run in terms of regional competitiveness. This benefits both us as employers as well as our customers. This is why we are intensifying our commitment in the field of education in the communities in which our sites are located and promoting activities worldwide that provide access to knowledge. It’s often a question of basic needs. Since August 2005, for example, we have supported the Lapdesk project in South Africa,



which aims to improve educational conditions for school-children. In Thailand, Malaysia, Singapore, India and China, BASF companies donated equipment to neighboring schools ranging from writing materials to computers last year. We also support several scientific scholarship programs and global networks. In Australia, we help students from socially disadvantaged backgrounds through a science scholarship. In Spain, we will be awarding up to five scholarships to outstanding chemistry students in 2006.

### Action on Education

BASF's Action on Education initiative aims to improve the educational situation of children up to the age of 10. We fund projects that pave the way for giving children the best possible support. In Ludwigshafen, we have developed a comprehensive concept in collaboration with the initiative's other sponsors that aims to reach all the city's daycare centers. Eventually, we hope to expand the project to include the entire Rhine-Neckar metropolitan region. Projects, such as From Small to Smart, aim to encourage children to be curious about chemistry, math and physics at a very early age.

We also support the Youth Thinks Future initiative as a regional and national sponsor. In this initiative, schools and companies work together in a regional network. The goal is to make young people aware of the importance of innovation, research, strategic planning and profitability and to encourage them to shape the future with curiosity, responsibility and personal commitment. Under the guidance of a corporate sponsor, the students learn to develop creative and sustainable products and services for the year 2020. In the school year 2005/2006, we sponsored eight schools in the Rhine-Neckar metropolitan region.

### "We Help the Region Win"

In the future, our economic success will increasingly depend on the social acceptance of our activities. This applies especially in the communities in which our sites are located. We are therefore strongly committed to projects in the Rhein-Neckar metropolitan region of Germany under the title "We Help the Region Win." We support projects in the areas of youth/education, future/innovation/science, as well as culture and sports. In 2005, we increased our funding for these projects to €22 million. The design of this campaign and its underlying philosophy has been confirmed by a very positive response.

### Working together in the Knowledge Factory

We are incorporating our regional projects like Language Makes You Strong in the Knowledge Factory initiative, of which BASF was one of the founding members in 2005. The Knowledge Factory aims to make Germany more sustainable as a business location. To do this, future generations need to be equipped for global competition. Here too, the key is education – and this is one of the main focuses of the Knowledge Factory. Within the overall context of promoting knowledge, the member companies enter into educational partnerships and take part in projects with kindergartens and schools in their respective regions. The plan is to have at least 1,000 partnerships between companies and schools and other educational institutions throughout Germany under the auspices of the Knowledge Factory in the medium term. Initially, the partnerships aim to systematically foster reading, writing and technical skills as well as scientific thinking and to promote the development of basic business skills.

The second focus of the Knowledge Factory is to promote new businesses. Through a mentoring program, the member companies use their extensive experience to support new businesses and young entrepreneurs. These two areas of activity complement one another.

More information on the Knowledge Factory and its projects is available in German at [www.wissensfabrik-deutschland.de](http://www.wissensfabrik-deutschland.de).



Fiho Yesilova's first day at the daycare center: Children from different cultures benefit from the Language Makes You Strong project.

### Awakening an interest in science

Last year's Corporate Report contained a story about four young scientists, all of whom had won awards at the International Chemistry Olympiad. Three of the winners visited BASF in Ludwigshafen in 2005 and gained a first-hand impression of the world's largest chemical company. Along with meetings with the Board of Executive Directors and researchers, they particularly enjoyed visiting BASF's Kids' Lab. The Lab has been a hit for many years – and has now visited 12 countries. Through simple and exciting experiments, we succeed in awakening an interest in science – reaching almost 35,000 children in 2005 alone. In 2005, the lab visited Pakistan, Indonesia and the Philippines for the first time, and plans are underway to take it to Hong Kong in 2006. We also cooperate with other institutions to make science more accessible to youngsters in a variety of projects. BASF sponsors a permanent interactive exhibition on energy in the Energy Gallery of London's Science Museum. The exhibit vividly depicts how energy affects every aspect of our lives. It presents the latest ideas and insights on how the world's energy needs can continue to be met in the future.

We also want to make science more attractive to the general public. In 2005, in collaboration with the Max Planck Society, we brought the Science Tunnel to Ludwigshafen for two and a half months before it traveled to Japan. It presented numerous fascinating and clearly explained research projects under the motto "Come and be amazed." In Ludwigshafen, almost 48,000 visitors took the opportunity of taking a look at the cutting edge of scientific research in Germany. In 2006, we plan to take the Science Tunnel to Shanghai and Singapore.

### Offering young people career opportunities

In highly industrialized countries, professional success usually depends on having recognized qualifications. As part of our commitment to social responsibility, we want to offer as many young people as possible a career perspective, which is why for many years we have trained far more young people in Germany than we actually need for our own requirements. We also initiate and support numerous projects in collaboration with partners from industry, labor unions and the political sphere. An example is the Training Verbund for the Rhine-Neckar region established in 2003. Through this alliance, we create additional sustainable trainee positions in the region every year



Liu Lianghui, one of the finalists at the 2004 International Chemistry Olympiad, also has fun experimenting at BASF's Kids' Lab.

in collaboration with partner companies. In 2005, there were 702 trainees in BASF's Training Verbund. BASF Aktiengesellschaft provides them with the theoretical part of the training and they receive their practical training at the partner company.

Around half of the partner companies are taking on trainees for the very first time – a success of the Verbund that benefits all participants: BASF helps the companies with trainee recruitment and supervision, provides the main training elements and in this way removes the barriers to creating training places. The partner companies provide the training places, and the youngsters receive outstanding training and have good chances of being hired by the partner company once they complete their training.

Our Career Launchpad scheme pursues a similar objective. Last year, the program provided over 120 young people who had not found a training place with a one-year internship as preparation for a subsequent traineeship. In addition, as part of the We Help the Region Win campaign, BASF extended its Training Initiative for the Palatinate (AiP) by another year and donated €1.5 million to train young people in the region. This allowed AiP to support around 300 new traineeships and 45 Career Launchpad places in 2005.

Last year, BASF also partnered the state of Rhineland-Palatinate in a special one-off program enabling 418 traineeships to be created. This late placement initiative helped to relieve pressure in the tight training market. BASF contributed €1 million to the initiative.

The opportunities for young people show how seriously we take our social responsibilities and how we contribute to the sustainable future of the region.



## Social Responsibility

Many of our employees around the world do voluntary work, contributing to their experience and benefiting in terms of their own personal development. BASF welcomes the personal initiative of its employees. For example, three Ludwigshafen employees who flew to the United States with the German government's disaster relief organization in the aftermath of Hurricane Katrina were given a leave of absence. Another employee was given three months' leave of absence to support the public relations work of aid organization AAIDRO in Tanzania, which operates schools, hospitals and an HIV support center.

Employees in Asia also participate in voluntary projects. In Korea, for example, more than 200 employees at our Seoul site supported Holt Children's Services. BASF employees in Korea also supported "Beautiful Store," a local charity that runs thrift stores. In Bangladesh, BASF employees and executives took part in a cleanup campaign in the vicinity of our Dhaka site and sensitized residents to the issue of waste disposal.

### Developing together as good neighbors

In order to be successful we need to have the trust and support of our neighbors. That is why we work at all our sites to be recognized as a reliable partner and an attractive employer that takes its social responsibility seriously. In this way, we add to each region's competitiveness as well as our own.

The BASF Group spent a total of €56.8 million on the sponsorship of humanitarian, cultural and social issues in 2005 (2004: €37.8 million). Spending for training beyond our own requirements in Germany again increased significantly. Of the total amount, 28 percent was in the form of donations and 72 percent went toward sponsorship activities and our own community projects.

The allocation of funds within the BASF Group is defined according to a donation and sponsoring policy that focuses on the needs of each region. The projects are as diverse as the communities in which our sites are located.

### Combining language and science



In view of the growing internationalization of the Rhine-Neckar metropolitan region, we have been working with two Ludwigshafen schools since the 2004/2005 school year. BASF employee Paul McCormack teaches two periods of biology a week at the Max Planck high school in Ludwigshafen. What is unusual is that Paul is British and teaches in his mother tongue. So we are not only promoting scientific skills but the students' English skills at the same time. More projects are planned.

At some sites, basic financial support is needed to lay the foundation for sustainable development. At others, we enter into joint initiatives with local communities and partners.

The key to long-term success lies in integrating our partners at an early stage and in this way building a solid basis of trust. All partners are then committed to achieving common goals and are willing to assume the necessary responsibility. This results in lasting success and a new independence on the part of our partners.

### Joint help after the tsunami

In the aftermath of the tsunami that destroyed many coastal areas of southeast Asia in December 2004, BASF employees donated €1.4 million. This amount was doubled by BASF to €2.8 million. Together with €1 million in immediate aid provided by the Board of Executive Directors just a few days after the catastrophe, this brought the total donation by employees and the company to €3.8 million. The funds are being used to support numerous projects in Indonesia, Sri Lanka, India and Thailand. Through their personal commitment, our employees in the region also played a major part in helping the reconstruction efforts and in turning the donations into concrete projects.

As well as providing emergency relief, we are working in particular on long-term projects together with partners. Together with UN-Habitat, for example, we are supporting the construction of a new fish market in Sri Lanka that will again enable fishermen to earn an independent living. Local workers are shown how to use new technologies in special training courses, which means that the region will be able to develop new expertise in constructing buildings that are earthquake, flood and tsunami-proof.

We also acted quickly following other natural disasters. In the wake of the devastation caused by Hurricane Katrina in the United States, BASF Corporation donated \$1 million in emergency aid. Here too, we are supporting relief activities and the long-term reconstruction of communities near our sites in Louisiana, Mississippi, Alabama and Texas. In the aftermath of the earthquake in Pakistan, BASF donated funds locally to provide emergency relief in the form of refugee camps and mobile clinics.

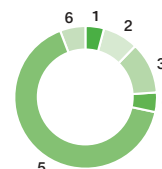


BASF management and employees donated boats to enable fishermen in Sri Lanka to re-establish their livelihoods.

### BASF Group donations, sponsoring and own projects in 2005

€56.8 million (previous year €37.8 million)

	Million €	%
1 Science	2.5	4.4%
2 Charities	4.6	8.1%
3 Culture	6.7	11.8%
4 Sports	2.7	4.7%
5 Schools and training, employment promotion	37.0	65.2%
6 Other	3.3	5.8%
	<b>56.8</b>	<b>100.0%</b>



### Affiliation with political parties

It is BASF policy not to support political parties. The BASF Corporation Political Action Committee (PAC) for BASF Corporation Employees in the United States makes donations to individual candidates. It received employee contributions of approximately \$100,000 in 2005, and donated approximately \$40,000 to individual candidates for office. No donations are made to political parties. In the United States, donations are legitimate only if they come from employees (i.e., not from companies as such) provided they are U.S. citizens. The donations are collected and forwarded via the companies' PACs.

You can find further information at [corporate.basf.com/society](http://corporate.basf.com/society).



In Guaratinguetá, Brazil, BASF is reforesting a river landscape. Since the start of the project, 186,000 trees have been planted.

### **Strengthening local environmental protection and biodiversity**

We support environmental and wildlife welfare projects in the vicinity of many of our sites. In 2005, we supported a long-term program in Brazil aimed at sensitizing young people to the environment. It is designed to create awareness for the need to reduce water consumption and conserve natural resources. The project is to continue in 2006. Other projects in Brazil, such as Seeds of Tomorrow, a project that introduces elementary school children to environmental protection, also rely on the support of BASF.

We also support renaturation initiatives, for example in Guaratinguetá, Brazil. Here, we have spent more than 20 years rehabilitating a large river landscape adjacent to our production complex.


### **Safe plants at all our sites**

Safety is a top priority for us, and preventing accidents and emergencies at our production sites is of utmost importance. At the same time, we want to be as well prepared as possible for any incidents and are therefore expanding our Emergency Response Management System. It covers all our subsidiaries and joint ventures around the world and also extends to suppliers, customers, neighboring companies, as well as the cities and towns in the areas in which we operate. Accidents and emergencies not only endanger the health of our employees, they also cause environmental damage and production losses. To prevent fires, explosions and unwanted chemical leaks, we rely on a detailed process safety concept. BASF has introduced a five-step review system worldwide that covers all aspects of safety, health and environmental protection – from the plant design to start-up. Should accidents or emergencies occur, they are investigated and analyzed in detail, and corrective measures to avoid recurrence are taken.

In 2005, BASF held an international conference on process safety that looked at how to make BASF's plants around the world even safer. The conference was attended by 65 process safety experts from 12 countries, who discussed plant malfunctions and their causes as well as tools to improve plant safety. One of our mandatory tools worldwide is the BASF risk matrix. It is used as part of the hazard assessment process to classify potential risks in BASF plants according to their impact and estimated frequency. The necessary measures are then derived from the respective risk categories. Our audits are a further tool for making our sites and plants even safer. We have established local site incident and crisis management teams at all of our major production sites worldwide. Global support is available from Ludwigshafen. In the event of a crisis, the emergency response procedures defined in BASF's global guidelines are put into operation.







> What energy will  
drive us tomorrow?







## >> Innovation

Developing innovative technologies is essential on the road to the future. The efficient and effective use of energy is becoming increasingly important. The search for innovations is guiding research into completely new directions – as show by the example of coatings that harden simply with the use of UV light. In recognition of this development, Richard Engler from the U.S. Environmental Protection Agency presented Charlene Wall and her team at BASF with the prestigious Presidential Green Chemistry Challenge Award.





UV lamps help Mitchell Martinez at BASF customer company American Service Center in Washington to repair damaged vehicles faster. BASF's primer cures within minutes without the need for bake ovens.

## Eco-efficient Processes and Products

**"BASF is a world leader when it comes to achieving success with eco-efficient products and processes," says Richard Engler of the United States Environmental Protection Agency (EPA). In 2005, the EPA's coveted Presidential Green Chemistry Challenge Award honored a UV-curable primer from BASF Coatings. The award is presented in recognition of innovative chemical manufacturing processes and products that are also environmentally compatible. Our UV-curable primer fits the bill perfectly. It is one of many eco-efficient products that enable us to conduct our business sustainably and make our customers more successful.**

The primer is used for vehicle repair and cures significantly faster than a conventional coating. The car body cures under UV light and does not have to be heated in an oven. As a result, energy consumption during the coating process is cut considerably. "We developed this primer to reduce the solvent content of our coatings and to cut repair times and costs. Our customers save time and money, and they are glad to do something for the environment at the same time. This gives us a major competitive advantage," says Charlene Wall, who manages BASF's

eco-efficiency analysis activities in the United States and knows exactly what customers want.

You can find further information on BASF's eco-efficiency analysis on page 48 and on the Internet at [corporate.basf.com/eco-efficiency](http://corporate.basf.com/eco-efficiency).

### The energy of the future

As the world's leading company in an energy-intensive industry, our success depends on long-term secure supplies of energy and raw materials such as oil, naphtha and gas. Because the fossil fuel base is limited, we want to ensure a sustainable energy policy that does not lose sight of the vital needs of its business locations in view of global competition.

Increasing the efficient use of energy and raw materials on a sustainable basis is a top priority for BASF. We already implement a three-pronged approach to resource conservation: through highly efficient production and energy provision at our Verbund sites, through innovative products and processes, and through replacing fossil fuels by renewable raw materials wherever this is realistic.

### Efficient use of resources in the Verbund

Energy costs may make up as much as 60 percent of the manufacturing costs for chemical products. Promoting efficient use of resources is therefore in our own interest. At major production sites around the world, we use a Verbund approach that links production and energy requirements in an intelligent manner. Primary energy carriers are used optimally both as raw materials and for generating electricity and steam. Heat from production processes is not discharged into the environment but captured to power downstream production plants (see energy balance diagram). Without our Energy Verbund, the total energy needed to generate electricity and steam in BASF's power plants would be about 75 percent higher at approximately 3.9 million metric tons of oil equivalent. The Verbund is one of our prime strengths in ensuring the efficient use of resources. It therefore offers us a crucial competitive advantage, while also having a positive impact on the environment.

### Safeguarding energy supplies for production sites

We increasingly use combined heat and power (CHP) plants to generate both heat and steam. Such cogeneration plants are an extremely effective means of supplying energy and, with an overall fuel efficiency of almost 90 percent, are the front-runners among energy conversion methods suitable for use on an industrial scale. BASF currently operates 13 cogeneration plants worldwide. Partner companies at BASF sites operate another nine gas turbine plants with steam cogeneration, mainly to supply BASF. Our new CHP power plant in Ludwigshafen started operations in June 2005. The new plant will reduce CO<sub>2</sub> emissions by more than 500,000 metric tons per year.

### Renewable energies

Our sites require a reliable energy supply at a reasonable price if they are to remain globally competitive. Renewable energies can reduce our dependence on fossil fuels, and their use is CO<sub>2</sub> neutral. In order for renewable energies to take a permanent place in our energy mix, they need to be competitive and be able to exist without subsidies.

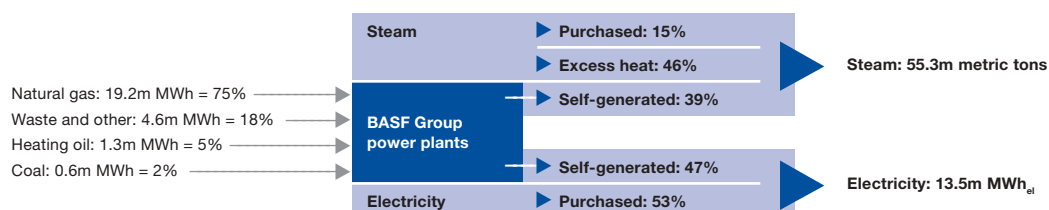
### Using renewable raw materials

We replace fossil raw materials with renewable raw materials wherever it makes technological, economic and environmental sense to do so.

One example is our cooperation with the research team of Professor Robin Rogers at the University of Alabama. We are working on a joint project to investigate cellulose dissolution and processing with the aid of ionic liquids. Cellulose is hugely important as a renewable raw material, but a lack of suitable solvents has prevented its wider use. For the first time, our ionic liquids make it possible to produce genuine solutions of cellulose in technically useful concentrations, while simplifying processes.

In our Plastics segment, we will launch Ecovio®, a biodegradable plastic based on a renewable raw material starting in 2006. Ecovio consists of 45 percent polylactic acid derived from corn (maize). The other component is BASF's existing biodegradable plastic Ecoflex®, which is derived from petrochemicals. The new product will enable BASF to expand its position as the world's leading supplier of biodegradable plastics.

## Energy balance BASF Group 2005



In 2005, 25.7 million MWh of fossil fuels and waste fuels was used in our own central power plants to generate steam and electricity for the BASF Group.

As a result, 6.3 million MWh<sub>el</sub> of electrical power was generated (2004: 4.0 million MWh<sub>el</sub>), primarily by means of cogeneration technology. This corresponds to approximately 47 percent of BASF's total electricity needs of 13.5 million MWh<sub>el</sub> in 2005. The remaining electricity was purchased from public grids.

In 2005, a total of 53.3 million metric tons of process steam was provided by steam networks within the BASF Group compared with 55.0 million metric tons in 2004. Worldwide, approximately 46 percent of this amount was generated using excess heat from chemical reactions and by thermal recycling of waste.



## Sustainably Improving Environmental Protection and Safety

**“Ensure sustainable development” is one of our four strategic guidelines. Because whoever wants to enjoy long-term success has to conduct their business in a sustainable manner. We live this principle by setting ambitious goals for environmental protection, product stewardship, occupational safety and distribution safety that we want to achieve by 2012.**

Our commitment and goals in the area of environmental protection and safety are aligned with the principles of Responsible Care®, a voluntary global initiative of the chemical industry to which BASF has been committed since 1992. Our Responsible Care competence center consists of a global network of experts who manage our activities in the fields of environmental protection, safety and health. This global cooperation combines two important success factors: It allows freedom for regional diversity, and it makes it possible to implement global standards. At the regional level, our experts ensure that appropriate account is taken of specific local needs. At the same time, our experts work together on long-term global standards. They have already developed such standards with regard to both the planning and construction of new plants and the transportation and storage of chemicals. You can find out more at [corporate.basf.com/rc-center](http://corporate.basf.com/rc-center).

We also use our extensive know-how to help make our customers more successful, in accordance with our second strategic guideline. One example is our Expert Services Sustainability (see also page 48).

### Standardized audits ensure transparency

Our audits are an important tool in our efforts to make our sites and plants even safer. Experts for safety, the environment and occupational medicine regularly monitor all our sites and plants on behalf of the Board of Executive Directors. Using clearly defined criteria they track how our standards are implemented. Environmental and safety

audits and occupational medicine and health protection audits are conducted separately. The results are combined to give a comprehensive profile for every site, from which measures are then derived. Possible measures range from immediate improvements through to long-term projects that are subject to follow-up audits. During the 2005 reporting period, 83 environmental and safety audits were carried out at 48 BASF sites. We also conducted 31 occupational medicine and health protection audits at 31 sites. You can find additional information on occupational medicine and health protection on page 59.

Before making acquisitions we check production plants according to a list of criteria to recognize possible risks in good time. A BASF specialist in the field of environmental protection, safety and health is always involved in these due diligence reviews. We also carry out toller audits of companies that produce on our behalf, since we see this as part of our responsibility for the supply chain.

### Externally certified sites

Our internal auditing system meets the standards and criteria of externally accepted auditing procedures. This was confirmed in a review by Deloitte & Touche in 2002. We also carry out external certification at the request of our customers. A list of sites certified according to ISO 14001 or EMAS is available at [corporate.basf.com/certified](http://corporate.basf.com/certified).

### Promoting safety at suppliers and service providers

Our global guidelines on safety, health and environmental management also apply to employees of other companies who work at our sites. We provide them with information and offer advice to promote safety, health and environmental protection. In return, we expect them to check compliance with all regulations, carry out training and assess its success. All BASF companies and joint ventures in which we hold a majority stake are committed to assessing and promoting the performance of partner companies in this area.

## Efficient Processes for Companies and the Environment

**Sustainable economic growth requires innovative, efficient technologies and products. If we achieve higher product yields with our plants, we contribute to the success of the company. At the same time, we protect the environment because we use few resources worldwide and reduce both emissions and waste. Corporate success and global environmental protection go hand in hand.**

BASF is growing and expanding its production capacities. We aim to publish transparent data that are comparable from year to year to document our success in pursuing our long-term environmental and safety goals. For this reason, we are reporting changes to emissions to air and water "specifically" for the first time this year, in other words in terms of per metric ton of sales product.

### Specific emissions 2005

Per metric ton of sales product (change compared with 2004)

Emissions to air	
Greenhouse gases	-9.6%
Air pollutants	-5.2%
Emissions to water	
Nitrogen	-52.4%
Organic substances (COD)	-48.7%
Heavy metals	-3.7%

Furthermore, we have introduced a global monitoring process for the long-term goals we announced in 2003 and for the projects we are carrying out to achieve them. Using this method we have checked to see whether the measures we have implemented and are planning are in line with our ambitious goals. The current results show that we are on the right track and have already reached some of our goals. In view of our goals for growth, major efforts will also be necessary in the future to ensure that we maintain our success in the long term.

### Emissions to air from oil and gas production

We have not set ourselves targets for emissions from oil and gas production because the development of new oil and gas fields makes them hard to predict. In 2005, emissions of greenhouse gases from oil and gas production totaled 1.3 million metric tons (2004: 1.9 million metric tons). They are reported in terms of CO<sub>2</sub> equivalent. Emissions of air pollutants amounted to 5,800 metric tons (2004: 10,700 metric tons). As a result, oil and gas production is responsible for 10 percent of the BASF Group's emissions.

### Global environmental goals for 2012

Reduction of emissions to air:  
Reduction of greenhouse gases per metric ton of sales product: -10%

BASF is committed to the goals of the 1997 Kyoto Protocol of reducing relevant greenhouse gas emissions. We want to become even better and have set ourselves the goal of reducing our specific greenhouse gas emissions per metric ton of sales product by 10 percent by 2012 compared with 2002. Our long-term projects will reduce emissions considerably in the next few years.

Each of the various gases has a different impact on the greenhouse effect, and so emissions are calculated in terms of CO<sub>2</sub> to allow a comparison.

Emissions of greenhouse gases from BASF's chemical operations totaled 24.8 million metric tons in 2005 (2004: 27.6 million metric tons). In 2005, we very successfully reduced specific emissions of greenhouse gases by 10.9 percent compared with 2002. This was due primarily to the reduction in N<sub>2</sub>O emissions from the production of adipic acid and nitric acid in Ludwigshafen. The reduction

### Emissions of greenhouse gases

Thousand metric tons of CO<sub>2</sub> equivalent/year

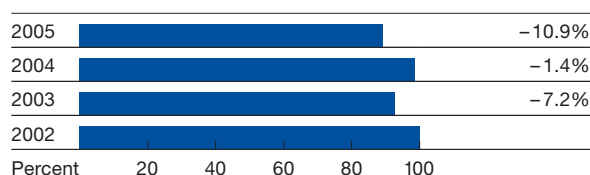
	GWP factor*	2002	2003	2004	2005
CO <sub>2</sub>	1	18,236	18,960	20,729	19,737
N <sub>2</sub> O	310	6,407	4,788	6,696	4,915
CH <sub>4</sub>	21	10	10	13	16
HFC**	140-11,700	61	36	138	116
PFC**	6,500-9,200	0	0	0	0
SF <sub>6</sub>	23,900	0	0.6	0.6	1
Total		24,714	23,795	27,577	24,785

\* GWP factor: global warming potential of the individual gases compared with CO<sub>2</sub>

\*\* Calculated using the GWP factors of the individual components (IPCC 1995)

### Reduction of greenhouse gases

Emissions per metric ton of sales product  
(reduction compared with baseline 2002: -10.9%)



in CO<sub>2</sub> emissions was due to the startup of our new CHP plant in Ludwigshafen.

We carried out measures to reduce nitrous oxide emissions from the production of adipic acid and nitric acid at our sites in Antwerp and Ludwigshafen. Since 1997, we have reduced nitrous oxide emissions from the production of adipic acid in Ludwigshafen using a catalyst that we specially developed. In the coming years, we aim to cut emissions in Antwerp further by means of more efficient BASF catalysts.

Energy efficient processes and state-of-the-art technologies like the 13 combined heat and power plants we operate worldwide are important elements of global climate protection and reducing the consumption of fossil resources (see also page 71). We are cooperating with JGC Corporation, Japan, on a new technology to remove and store the carbon dioxide contained in natural gas. The cooperation agreement was signed for eight years and is sponsored by the Japanese Ministry of Economics. Our contribution to an E.U. research project is a novel solvent that removes CO<sub>2</sub> very efficiently from power plant flue gases. The solvent and the associated gas purification process will be tested in a pilot plant in Denmark starting in March 2006.

Many of our innovative products and processes also play an important part in saving energy and reducing CO<sub>2</sub> emissions. Examples can be found in many of our business areas: insulating materials for the construction industry, plastics to make cars lighter, and additives to enhance fuel efficiency. We are helping the Chinese Research Academy of Environmental Sciences (CRAES) to establish the first independent engine testing facility in Beijing. The goal is to monitor fuel qualities in China and develop customized additives that will improve fuel quality and reduce carbon dioxide and nitrogen oxide emissions to air. In the construction industry, we offer an alternative to energy-guzzling air-conditioning systems in the form of our phase change materials that store latent heat.

## Trading with emission certificates from clean development mechanisms

We support the goals of the Kyoto Protocol on climate change and were the first German company to become a member of the Community Development Carbon Fund (CDCF), the World Bank's climate fund. This fund for climate gas reduction in developing countries received its first official emissions certificates for a project in 2005: A hydroelectricity plant funded in Honduras created 30 jobs as well as supplying electricity to 40,000 people. This project is expected to reduce emissions by 720,000 metric tons of CO<sub>2</sub> equivalent in 21 years by replacing or avoiding fossil fuels.

Another project currently being established in Ethiopia involves the reforestation of 15,500 hectares of forest. The advantages are abundant: better-quality water for people, less soil erosion, greater biodiversity and more jobs. Another key advantage is that there will be approximately 5 million metric tons less CO<sub>2</sub> in the atmosphere over the next 10 years.

The CDCF projects are recognized as clean development mechanisms (CDMs) under the provisions of the Kyoto Protocol. Participation in these projects allows companies to fulfill some of their CO<sub>2</sub> reduction requirements via projects in developing countries. In return, participants in the fund receive certified greenhouse gas emission rights that are accepted as part of the E.U. emissions trading system since 2005.

BASF was listed in the Climate Leadership Index of the Carbon Disclosure Project. This confirms that we provide a transparent and credible response to the strategic and financial issues of climate change with regard to our business. Further information is available at [www.cdproject.net](http://www.cdproject.net).

## 2012 goal

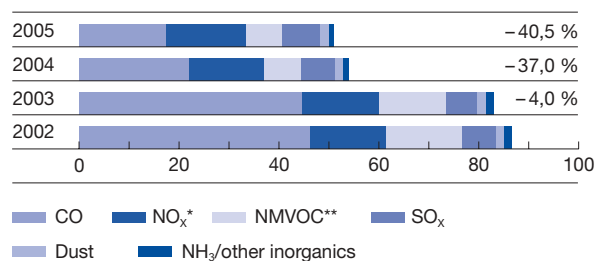
Reduction of emissions of air pollutants: –40%

By 2012, we want to reduce emission of air pollutants from our chemical plants by 40 percent compared with 2002. Air pollutants included inorganic gases such as carbon monoxide, sulfur dioxide, ammonia and other inorganic compounds, dust, heavy metals and volatile organic compounds (NMVOC). In 2005, emissions to air from BASF's chemical operations totaled 50,900 metric tons (2004: 54,000 metric tons). Emissions of heavy metals totaled 5 metric tons (2004: 6 metric tons), while ozone-depleting substances as defined by the Montreal Protocol amounted to 159 metric tons (2004: 164 metric tons).

In 2005, we were also able to register success in this area: We reduced emissions of air pollutants by 40.5 percent compared with 2002. This outstanding achievement was due primarily to the optimization of flue gas treatment at our site in Freeport, Texas. To ensure our long-term progress in this field, we are currently working on a number of projects. One measure involves the installation of a thermoreactor in the phthalic anhydride plant in Ludwigshafen that is scheduled to start operations by 2007. This will reduce annual emissions of carbon monoxide (CO) by approximately 8,000 metric tons. In Nanjing, we reduced emissions by switching from oil to gas. This measure cut annual emissions – primarily of SO<sub>2</sub> – by 250 metric tons per year.

### Emissions to air

Air pollutants, thousand metric tons per year  
(reduction compared with baseline 2002: –40.5%)



\* NO<sub>x</sub> = Sum NO<sub>2</sub> and NO, calculated as NO<sub>2</sub>

\*\* NMVOC = Non-methane volatile organic compounds

## 2012 goal

Reduction of emissions to water:

Nitrogen: –60%

Organic substances: –60%

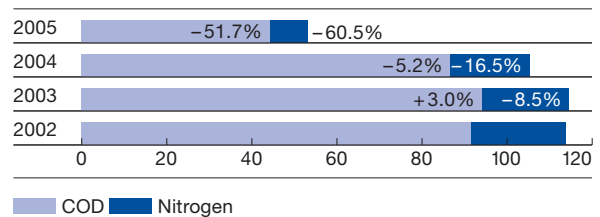
Heavy metals: –30%

By 2012, we want to reduce emissions of both organic substances and nitrogen to water by 60 percent and heavy metal emissions by 30 percent compared with 2002. Here, too, we have made great progress toward achieving our goals in 2005.

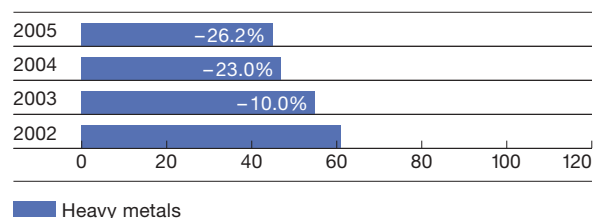
In 2005, BASF discharged a total of 175 million cubic meters of wastewater. Emissions of organic substances to the environment – calculated as chemical oxygen demand (COD) – amounted to 44,200 metric tons (2004: 86,700 metric tons). Emissions of nitrogen to the environment (N total) and phosphorus were 8,800 metric tons (2004: 18,600 metric tons) and 430 metric tons (2004: 480 metric tons), respectively. Wastewater contained 45 metric tons of heavy metals (2004: 47 metric tons).

### Emissions to water

Thousand metric tons per year (reduction compared with baseline 2002: –51.7% COD and –60.5% nitrogen)



Metric tons per year  
(reduction compared with baseline 2002: –26.2%)





Nine million cubic meters of wastewater with a COD of 16,500 metric tons was piped to external wastewater treatment facilities.

We reduced emissions of organic substances (COD) by 51.7 percent compared with 2002, coming significantly closer to our goal of a 60 percent reduction. This success was mainly due to changes to a fermentation process at our site in Gunsan, Korea.

In 2005, we also reduced nitrogen emissions worldwide by 60.5 percent compared with 2002. This significant improvement was also due to our Gunsan site. The use of a nitrification process at our Ludwigshafen wastewater treatment plant again played an important part. This process has been used to reduce nitrogen emissions at the site since September 2001. Since introducing the process, we have significantly reduced our annual nitrogen emissions into the Rhine River. In 2004, we publicly demonstrated our commitment to further reduce nitrogen emissions by extending our voluntary agreement dating from 1995. In 2005, emissions amounted to 200 metric tons of ammonium nitrogen, reflecting the optimal performance of our wastewater treatment plant; in 2001 emissions were as high as 3,500 metric tons. We are also constantly improving the effectiveness of our wastewater treatment plants at other sites. In 2005, for example, we invested €1.9 million at our site in Guaratinguetá, Brazil, to reduce the COD content of wastewater by 100 metric tons per year.

Compared with 2002, we reduced heavy metal emissions by 26.2 percent. This was achieved through improvements to production processes in Ludwigshafen.

BASF's water requirements worldwide totaled 1,980 million cubic meters (2004: 1,985 million cubic meters). Information on individual substances emitted to air or water can be found at [corporate.basf.com/emissions\\_lists](http://corporate.basf.com/emissions_lists).

## Waste management

Worldwide, BASF produced approximately 1.55 million metric tons of waste in 2005 (2004: 1.5 million metric tons). Oil and gas exploration accounted for 95,000 metric tons. Around 33 percent of our waste was recycled or subjected to thermal recovery. The remainder was disposed of by incineration (68 percent), landfilling (21 percent), or underground storage (11 percent). In line with the customary international categories, 440,000 metric tons of the waste we disposed of was classified as "hazardous" and 600,000 metric tons as "non-hazardous." We are working to further reduce the amount of waste we produce and improve recycling.

One example is the Tamol® plant at the Ludwigshafen site, where aqueous solutions of this dispersant and tanning agent are dried in a stream of hot air at 250 C (482 F) to produce fine powders. Until now, natural gas was generally used to heat the air. Another production plant in the facility generates a liquid mixture of hydrocarbons as a by-product that is otherwise not utilizable. This waste material is now used as an energy source for the drying process, thus reducing the consumption of natural gas.

## Environmental protection costs

The costs of operating environmental protection facilities throughout the BASF Group amounted to €623 million in 2005 (2004: €624 million). In the same period, we also invested €78 million in new and improved environmental protection plants and facilities (2004: €115 million). These capital expenditures cover both end-of-pipe measures and production-integrated environmental protection measures.

### Abbreviations used

CH <sub>4</sub>	= Methane
CO	= Carbon monoxide
CO <sub>2</sub>	= Carbon dioxide
COD	= Chemical oxygen demand
HFC	= Halogenated fluorocarbons
MWh	= Megawatt hours
MWh <sub>el</sub>	= Megawatt hours (electrical)
N	= Nitrogen
N <sub>2</sub> O	= Nitrous oxide/dinitrogen oxide/
NO	= Nitrogen monoxide
NO <sub>2</sub>	= Nitrogen dioxide
NM VOC	= Non-methane volatile organic compounds
PFC	= Perfluorocarbons
SF <sub>6</sub>	= Sulfur hexafluoride
SO <sub>2</sub>	= Sulfur dioxide

## More Knowledge about Our Products

**We assume responsibility for the safety of our products and want to ensure that they do not endanger people or the environment. This is why we provide customers, end consumers and the public with detailed information and work continuously to broaden our information basis.**

### 2008 goal

We want to extend our substance data worldwide. By the end of 2008, we want to complete minimum data sets for all substances that are handled by BASF in quantities of more than 1 metric ton per year.

In Germany, the base data set is available for around 98 percent of the substances we handle in quantities of more than 1 metric ton per year. In 2005, we compiled data for substances that are new to our portfolio. We also reviewed, supplemented and summarized the available data for about one-quarter of our portfolio. By the end of 2005, we completed the basic data for the majority of the substances we handle in North America (NAFTA). We identify further substances on an ongoing basis and analyze and close the gaps in our information.

### Responsibility for our products worldwide

Safety data sheets inform our customers about the properties and possible risks of the products they buy. These data sheets are the most important means of communicating safety information and are updated when new data become available. Our safety data are now available in 25 languages, and further language versions are planned.

Our customers and partners can obtain information on our products around the clock using the emergency hotline system we have established worldwide.

To encourage the safe use of our products, all BASF companies offer training and workshops specially tailored to individual customer needs.

On request, we carry out eco-efficiency analyses for our customers to highlight the economic and environmental benefits of our products. You can find out more on page 48.

### Environmental and toxicological product testing

We are responsible for ensuring that our products are safe for people and the environment. Before new chemical substances come on the market, we subject them to all necessary environmental and toxicological tests and apply to the appropriate authorities for registration. Animal studies are needed to comply with legal and regulatory requirements. The new E.U. chemical legislation, REACH, will require additional data on the properties of chemical substances, and this will automatically lead to an increase in the number of animal studies.

We are committed to the ethical principles of animal protection and have made it one of our goals to develop and use alternatives to animal studies wherever appropriate and possible. To date, however, very few animal-free alternative methods have been recognized by the authorities. Those available are all used at BASF, and we even helped to develop some of them. For more than 20 years, we have been involved in all relevant research projects to develop alternative and supplementary methods for animal studies and have invested considerable resources. By combining these alternative methods with measures to improve the predictive value of studies, we have succeeded in reducing the number of animals used significantly. In acute toxicity studies, we are now able to use about 25 percent fewer animals per substance to test the acute toxicity per substance. In 2004, we established an additional laboratory to develop and validate alternative methods with an annual budget of €2 million. BASF works with national and international institutes and companies to establish alternative test methods and is one of the world's leading companies in this field.

# Assurance

## Independent Assurance Statement to BASF Group Management

**Introduction** We have reviewed environmental and social aspects of the BASF Corporate Report 2005 (the "Report"), and of the underlying management systems. These subject matters are the responsibility of the BASF Group Management, with whom the objective and terms of the engagement were agreed. We are responsible for expressing our conclusions based on our review.

We have based our review on emerging best practice for independent assurance on sustainability reporting, including ISAE 3000 ("Assurance Engagements other than Audits or Reviews of Historical Financial Information"), issued by the International Auditing and Assurance Standards Board (IAASB).

We performed a separate audit of the BASF Occupational Medicine and Health Protection Audit System (OHAS) at Group level which is separately reported and referred to on page 59 in the Report.

**Subject matter** The subject matters are described as follows:

1. The management systems established at BASF Group level for managing environmental protection, safety and social responsibility, as described in the Report on pages 10 and 11, in particular: i) the coordination of and reporting on donations, sponsoring and own projects at Group level (page 65 to 66); and ii) the process applied at Group level to set goals in the areas Environment, Safety and Social Responsibility, and to assess and report the level of achievement vis-à-vis these goals (page 12 and 13).
2. The procedures and practice, as described in "About the Report" (page 1), for the annual collection, compilation and validation of 2005 data from group companies and production sites on environment, safety and social responsibility; and whether such data are appropriately reflected in the Report sections Environment and Safety (pages 49 and 70 to 76), Employees (pages 52 to 58) and "Key Indicators for the BASF Group" (inside the front cover).
3. The implementation of the above subject matters 1 and 2 at manufacturing sites Bangpoo, Thailand, and Tarragona, Spain, and the implementation of the above subject matter 2 at Wintershall headquarters in Kassel, Germany.
4. The methodology and process that BASF at Group level has applied for the preparation of the Report, as described in About the Report; and whether the information presented in the Report meets its objectives to provide an appropriate and balanced picture of the BASF Group's material sustainability aspects.

**Procedures** Our objective was to achieve limited assurance. Based on an assessment of materiality and risk, we have gathered and evaluated evidence supporting the conformity with criteria for the subject matters described. This work included analytical procedures and interviews with management representatives and employees at BASF Group headquarters in Ludwigshafen and at the three business units mentioned. The procedures and interviews were undertaken on a sample basis, as we deemed necessary in the circumstance, but included no substantial testing. Therefore, the assurance that we obtained from our evidence gathering procedures is limited. We believe that our work provides an appropriate basis for our conclusion.

**Results** In conclusion, in all material respects, nothing has come to our attention that causes us not to believe that:

1. BASF Management has designed and applied appropriate management systems to manage material environmental, safety and social responsibility aspects affecting BASF at Group level. The donation activities are coordinated and reported as asserted. The achievement of the goals on Environment, Safety and Social Responsibility is appropriately assessed and described in the Report.
2. BASF at Group level has applied detailed and systematic procedures for the purpose of collecting, compiling and validating 2005 performance data on environmental protection and safety and on social responsibility from group companies and manufacturing sites, as specified, for inclusion and appropriate reflection in the Report.
3. Manufacturing sites Bangpoo, Thailand, and Tarragona, Spain, have implemented the Group requirements to appropriately manage their material sustainability aspects. At these manufacturing sites and at Wintershall headquarter in Kassel, Germany, the procedures and practice of preparing performance data on environmental protection, safety and social responsibility are consistent with Group instruction.
4. BASF at Group level has used detailed and systematic methodology and process for the preparation of the Report in order to achieve its reporting objective. The Report provides an appropriate and balanced picture of the BASF Group's material sustainability aspects.

Copenhagen, February 24, 2006  
DELOITTE Statsautoriseret Revisionsaktieselskab



Preben J. Sørensen  
State Authorized Public Accountant  
Environment & Sustainability Services

## GRI Index

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, nongovernmental organizations, analysts and financial auditors. We reported on the basis of the GRI for the first time in our Corporate Report 2003. The GRI guidelines aim to make international reporting comparable and provided us with valuable orientation when producing our Corporate Report 2005.

In its reporting, however, BASF does not completely adopt the structure proposed by the Global Reporting Initiative because it does not always show aspects relevant to sustainability and key issues at our company in a suitable manner. We consider it crucial to set our own priorities in corporate reporting and thus foster a constructive and critical dialogue with our partners and stakeholders. This index shows you where you can find information on the core elements and indicators of the Global Reporting Initiative in this report and in our Financial Report (FR). Our online reporting provides additional information on some indicators at [corporate.basf.com/gri-index\\_e](http://corporate.basf.com/gri-index_e). An extended overview is available for the benefit of our Internet users. The online index contains all GRI reporting elements, all GRI core and additional indicators and shows where details are to be found in BASF's online reporting. We also give a brief explanation if no data are available for a given indicator.

Further information on GRI at [www.globalreporting.org](http://www.globalreporting.org)

GRI Reference	Indicator	Page
<b>General</b>		
<b>Vision and strategy</b>		
1.1	Sustainability vision and strategy	1, 8-9, 48
1.2	Chief executive statement	4-5, 12-13
<b>Profile</b>		
2.1, 2.2-2.8, 2.9, 2.10	Organizational profile	Cover, 1, 3, 5, 8, 14, 26-27, 28-30, 31, 34-36; FR: 10-11, 16, 21-23, 35-52, 61-63, 89-146
2.11, 2.12, 2.13, 2.14-2.16	Report scope	2, 29; FR: 14-16, 73-79, 87
2.17, 2.18, 2.19, 2.20, 2.21, 2.22	Report profile	2, 10, 72, 78-79; FR: 69-70, 83, 107-110
<b>Governance structures and management system</b>		
3.1, 3.2-3.5, 3.6-3.7, 3.8	Structure and governance	3, 10-13, 24-27; FR: 69-72, 77-79
3.10-3.12	Stakeholder engagement	14, 15, 27, 31, 34-37, 62-67
3.13, 3.14-3.16, 3.18, 3.19, 3.20	Policies and management systems	3, 8-9, 10-13, 15, 49, 58-59, 72, 74, 77; FR: 16-18

GRI Reference	Indicator	Page
<b>Economic performance indicators</b>		
EC1, EC2	Customers	4-5, 28-30; FR: 23, 51-52, 63
EC5	Employees	52-59; FR: 64-65
EC6-EC7	Providers of capital	26-27; FR: 88-92
EC8, EC10	Public sector	30-31, 62-67; FR: 24, 68
<b>Environmental performance indicators</b>		
EN3, EN 17	Energy	15, 70-71; FR: 66
EN5	Water	76
EN6-EN7	Biodiversity	67
<b>Emissions, effluents and waste</b>		
EN8-EN10	Greenhouse gases, ozone-depleting substances, air	73-75; FR: 66-67
EN11	Total amount of waste	76
EN12	Water	75-76
EN13	Significant spills	73-76
<b>Products and services</b>		
EN14	Products and services	9, 34-37, 38, 40, 42, 44, 46, 48, 77
EN16	Compliance	10-11; FR: 102-103
EN35	Total environmental expenditures	76; FR: 66
<b>Social performance indicators</b>		
<b>Labor practices and labor quality</b>		
LA1, LA12	Employment	10-11, 52-59, FR: 64-65, 147-148
LA3, LA4, LA 13	Labor/management relations	9, 10-11, 14, 52-57
LA5-LA6, LA7	Health and safety	58-59; FR: 67
LA9, LA16	Training and education	52-53
LA10-LA11	Diversity and opportunity	52-56
<b>Human rights</b>		
HR4	Nondiscrimination	11, 55
HR6, HR7	Child labor, forced labor and compulsory labor	10-11, 53, 58
<b>Society</b>		
SO1, SO4	Community	14, 62-67, 72; FR: 68
SO2	Bribery and corruption	11
SO3	Political contributions	15, 66
SO6, SO7	Competition and pricing	10; FR: 146-147
<b>Product responsibility</b>		
PR1, PR6	Consumer health and safety	35, 48, 77



# Glossary

## audits

Audits are a strategic tool for managing local, regional and global safety and environmental protection efforts. During a site or plant audit, a profile is created using clearly defined environmental, safety or health criteria.

## biotechnology

This term covers all processes and products that use living organisms, for example bacteria and yeasts, or their cellular constituents. Plant biotechnology and white biotechnology are two of BASF's five growth clusters.

## CO<sub>2</sub> equivalent

A parameter to describe 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<sub>2</sub> (reference value).

## Compliance Program

By providing information and training, the Compliance Program helps to increase awareness for Codes of Conduct and integrate them into the everyday activities of all BASF employees.

## corporate governance

Corporate governance refers to the entire system of managing and overseeing a company. This includes the organization of a company, its principles and guidelines as well as all internal and external regulatory and monitoring mechanisms.

## EBIT

Earnings before interest and taxes

## EBITDA

Earnings before interest, taxes, depreciation and amortization

## eco-efficiency analysis

This analysis allows both economic and environmental aspects to be considered when developing and optimizing products and processes. The aim is to offer the best possible cost-effective products with good environmental performance.

## Global Compact

Nongovernmental organizations, corporations, international business and labor organizations and representatives from science and politics are working together within the framework of the United Nation's Global Compact Initiative.

## growth clusters

BASF has combined important technology-driven issues of the future in five growth clusters: energy management, raw material change, nanotechnology, plant biotechnology and white (industrial) biotechnology. These broad-spectrum technologies lie outside the limits of traditional technical disciplines, and success depends on interdisciplinary, international cooperation.

## Kyoto Protocol

The Kyoto Protocol was adopted in 1997 at the 3rd Conference of Parties to the United Nations Framework Convention on Climate Change. Under the terms of the Protocol, industrialized nations agreed to cut their joint emissions of the most important greenhouse gases to at least 5 percent below 1990 levels in the period 2008 to 2012.

## methylene diphenyldiisocyanate (MDI)

A substance used in the production of polyurethanes, for example for flexible foams or shoe soles.

## nanotechnology

The term nanotechnology applies to materials and technologies with one thing in common: the creation or use of structures that are at least one spatial dimension smaller than a few hundred nanometers.

## oil equivalent

International standard for comparing the thermal energy of different fuels

## Responsible Care®

A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, health and safety.

## stakeholders

The designation for 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, and the environment.

## steam cracker

A large plant in which steam is used to "crack" naphtha (petroleum). The resulting petrochemicals are the starting materials used to manufacture most of BASF's products.

## sustainable development

The objective of sustainable development is to meet the economic, environmental and social needs of society without harming the development opportunities of future generations.

## tetrahydrofuran (THF)

A solvent and extractant used as a starting material for polytetrahydrofuran (PolyTHF®), a component used in the production of polyurethanes.

## toluene diisocyanate (TDI)

A substance used in the production of polyurethanes.

## Verbund

One of BASF's greatest strengths: At our major sites, we link our production plants in a sophisticated system along our value-adding chains: We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly.

## Selected Awards and Ratings for Sustainability 2005

### Selected Awards:

**21st Century Business Herald** (China):  
Corporate Citizenship In Action Award

**Environmental Protection Agency** (United States):  
Presidential Green Chemistry Award for eco-efficient UV-curable coatings

**European Business Awards for the Environment** (Spain):  
European Sustainability award for leading position in sustainability management

**Exame Magazine** (Brazil):  
"Model in Social Responsibility"

**Financial Times, Financial Times Deutschland, Roland Berger** (Germany):  
Best of European Business Award for strategies for the new Europe

**German Chamber of Public Accountants:**  
First prize for best sustainability reporting in Germany

### Selected Ratings:

**Climate Change Leadership Index:**  
BASF included in the Carbon Disclosure Project's Climate Leadership Index for the second time in succession

**Dow Jones Sustainability Index** (DJSI World):  
Included for the fifth year in succession

**FTSE 4 Good Index:**  
BASF listed as leading company in the field of sustainability

**Innovest Nanotechnology Index:**  
Recognized for responsible approach to nanotechnology

**Oekom research:**  
Second place in Oekom Corporate Sustainability Rating

**Scoris sustainability rating:**  
Fifth place among DAX 30 companies

## Index

Acquisitions . . . . .	Inorganics . . . . . 38
. . . . . 3, 5, 24-25, 38, 41, 45	Intermediates . . . . . 39
Agricultural Products . . . . . 44-45	Investor Relations . . . . . 27
Asia . 14, 18-21, 24, 36, 38-39, 41,	<b>Markets</b> . . . . . 8, 34-37
. . . . . 49, 59, 66, 75	
<b>Balance sheet</b> . . . . . 29	<b>Nanjing</b> . 3, 4-5, 14, 18-21, 24, 75
Biotechnology . . . . . 15, 44	Nanotechnology . . . . 8, 15, 35, 37
Board of Executive Directors . . . .	North America . . 14, 41, 43, 44-45
. . . . . 6-7, 11	
<b>Capital expenditures</b> . 3, 4, 18-21,	<b>Oil &amp; Gas</b> . . . . . 46-47
. . . . . 24-25, 28-29, 38-47, 76	<b>Pensions</b> . . . . . 3, 54
Chemicals policy . . . . . 15	Performance Chemicals . . . . . 42
Coatings . . . . . 43, 70	Performance Polymers . . . . . 41
Compliance Program . . . . . 10	Petrochemicals . . . . . 39
Corporate governance . . . . . 11	Polyurethanes . . . . . 41
Corporate social responsibility . . . .	
. . . . . 9, 15, 65-67	<b>Renewable raw materials</b> 9, 15, 71
Customers . . . . . 34-37, 49, 58, 67	Research and development . 8, 35
	Responsible Care . . 9, 21, 48, 72
<b>Diversity</b> . . . . . 55	<b>Safety</b> . . . . . 58, 67, 72
Dow Jones Sustainability Index	Shares . . . . . 24-27
World . . . . . 3, 26, 80	South America . . 14, 43, 44, 48,
	. . . . . 53, 67
<b>Eco-efficiency analysis</b> . . . . 48, 70	Stakeholders . . . . . 14
E-commerce . . . . . 35	Strategy . . . . . 8 -9
Education . . . . . 62-64	Styrenics . . . . . 40-41
Employee representatives . 11, 53	Suppliers . . . . . 49, 58, 67, 72
Employees . . . . . 52-59	Sustainability . . . 3, 4-5, 9, 11, 15,
Energy policy . . . . . 15	. . . . . 18-21, 48, 70-77, 80
Environmental protection . . . . .	
. . . . . 67, 72-76	<b>Values</b> . . . . . 10-11
Europe . . . . . 3, 4, 14, 15, 36, 39,	Verbund . . . . . 18, 71
. . . . . 41, 43, 44-45, 46-47, 57, 74	Voluntary commitments . . 12-13,
Expert Services Sustainability . 48	. . . . . 30, 49, 53, 58, 59, 73, 75, 77
<b>Fine Chemicals</b> . . . . . 45	<b>Wintershall</b> . . . . . 46, 56
Finance . . . . . 28-30	
Functional Polymers . . . . . 43	
<b>Global Compact</b> . . . . . 11, 14	
Growth clusters . . . . . 8, 35, 36	

## BASF on the Web

<b>The Company</b>	<b>corporate.basf.com</b>
Corporate	
Governance	corporate.basf.com/governance_e
Values and Goals	corporate.basf.com/values
<b>Economic Results and Perspectives</b>	
BASF Shares	www.basf.com/share
Value Added	corporate.basf.com/taxes
Chemicals	corporate.basf.com/chemicals
Plastics	corporate.basf.com/plastics
Performance Products	corporate.basf.com/performance_products
Agricultural Products	corporate.basf.com/agro
Nutrition	corporate.basf.com/nutrition
Biotechnology	corporate.basf.com/biotechnology
Oil & Gas	corporate.basf.com/oil+gas
<b>Environmental Protection and Safety</b>	
Sustainability	corporate.basf.com/sd-management_e
	corporate.basf.com/services_sustainability_e
	corporate.basf.com/eco-efficiency
Responsible Care	corporate.basf.com/rc-center
Environmental	corporate.basf.com/environment2005
Protection	corporate.basf.com/emissions_lists
	corporate.basf.com/certified
<b>Social Responsibility</b>	
Society	corporate.basf.com/society
Globalization	corporate.basf.com/globalization
	corporate.basf.com/global_compact_e
Stakeholders	corporate.basf.com/sustainability_reg
Dialogue	corporate.basf.com/dialogue
Employees	corporate.basf.com/employees
	corporate.basf.com/basf-story_e
Community	corporate.basf.com/eco-efficiency
Health Protection	corporate.basf.com/occupational_health
	corporate.basf.com/statement_health
GRI Index	corporate.basf.com/gri-index_e

Registered trademarks/owners

AdBlue is a trademark of the German Association of the Automotive Industry (VDA)  
Belmadur is a registered trademark of BASF Aktiengesellschaft  
DINCH is a registered trademark of BASF Aktiengesellschaft  
Ecoflex is a registered trademark of BASF Aktiengesellschaft and BASF Coatings AG  
Ecovio is a registered trademark of BASF Aktiengesellschaft  
Elastocoast is a registered trademark of Elastogran GmbH  
F 500 is a registered trademark of BASF Aktiengesellschaft  
Fendona is a registered trademark of BASF Aktiengesellschaft and BASF Agro B.V.  
Headline is a registered trademark of BASF Aktiengesellschaft and BASF Corporation  
Hexamoll is a registered trademark of BASF Aktiengesellschaft  
Interceptor is a registered trademark of BASF Aktiengesellschaft  
Keropur is a registered trademark of BASF Aktiengesellschaft  
Neopor is a registered trademark of BASF Aktiengesellschaft  
Permaskin is a registered trademark of BASF Aktiengesellschaft  
PolyTHF is a registered trademark of BASF Aktiengesellschaft and BASF Corporation  
Responsible Care is a service mark of the American Chemistry Council  
SEEBalance is a registered trademark of BASF Aktiengesellschaft  
Styropor is a registered trademark of BASF Aktiengesellschaft  
Suvinil is a registered trademark of BASF S.A. and BASF Coatings AG

Publisher:  
BASF Aktiengesellschaft  
Communications BASF Group  
67056 Ludwigshafen  
Germany

English version:  
Gareth Rees  
Matthew Yeomans (pages 18-21)

Initial concept:  
Hilger & Boie, Wiesbaden, Germany

Design, Layout, Art Direction:  
daspferd, Rüsselsheim, Germany  
Bert Klemp Corporate Design, Frankfurt, Germany

Photos:  
Jo Henker, Darmstadt, Germany  
Andreas Pohlmann, Munich, Germany  
getty images, BASF

Sales (million €)	
BASF Group sales	42,745
Sales by segment	
Chemicals	8,103
Plastics	11,718
Performance Products	8,267
Agricultural Products & Nutrition	5,030
Oil & Gas	7,656
Other	1,971
Sales by region (location of customer)	
Europe	23,755
Thereof Germany	8,865
North America (NAFTA)	9,479
Asia Pacific	6,500
South America, Africa, Middle East	3,011

Earnings (million €)	
Income from operations (EBIT)	5,830
Income before taxes and minority interests	5,926
Net income	3,007
Net income in accordance with U.S. GAAP	3,061

Other key data	
Equity ratio (%)	49.1
Return on assets (%)	17.7
Research and development expenses (million €)	1,064
Additions to fixed assets (million €)	2,188
Number of employees (December 31)	80,945

Key BASF share data (€)	
Year-end price	64.71
High	65.33
Low	50.11
Per share information	
Dividend	2.00
Earnings per share	5.73

BASF Aktiengesellschaft 67056 Ludwigshafen Germany corporate.basf.com	Corporate Media Relations: Michael Grabicki Phone: +49 621 60-99938 Fax: +49 621 60-92693	Investor Relations: Magdalena Moll Phone: +49 621 60-48230 Fax: +49 621 60-22500
--	--	---



Reply  
BASF Aktiengesellschaft  
Mediencenter, GPB/BS – D 107  
67056 Ludwigshafen  
Germany

Sender:

(Please use block capitals)

Name

Street

ZIP Code/City

E-mail address

Please send me the current:

☐ Corporate Report  
Economy – Environment – Social Responsibility

☐ Financial Report

☐ As a link to the above e-mail address

☐ Please remove my name from the distribution list

## Key data BASF Group 2005

### Forward-looking statements

This report contains forward-looking statements under the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, 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 BASF's Form 20-F filed with the Securities and Exchange Commission. We do not assume any obligation to update the forward-looking statements contained in this report.

Yes, please send me further information.

BASF is a member of the World Business Council for Sustainable Development.



In 2005, BASF shares were included in the Dow Jones Sustainability Index World for the fifth year in succession.



This report went to press on February 24, 2006 and was published on March 14, 2006.



## ■ Important dates

- May 4, 2006  
Interim Report  
First Quarter 2006
- August 2, 2006  
Interim Report  
Second Quarter 2006
- November 2, 2006  
Interim Report  
Third Quarter 2006

## ■ Annual Meetings

- May 4, 2006, Mannheim
- April 26, 2007, Mannheim

## ■ Contacts

- Corporate Media Relations:  
Michael Grabicki  
Phone: +49 621 60-99938  
Fax: +49 621 60-92693
- Sustainability Center:  
Dr. Lothar Meinzer  
Phone: +49 621 60-41976  
Fax: +49 621 60-95873
- Investor Relations:  
Magdalena Moll  
Phone: +49 621 60-48230  
Fax: +49 621 60-22500
- General inquiries:  
Phone: +49 621 60-0  
Fax: +49 621 60-42525
- Internet: [corporate.basf.com/corporate-report](http://corporate.basf.com/corporate-report)
- BASF Aktiengesellschaft  
67056 Ludwigshafen  
Germany

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

You can also order the reports

- by telephone: +49 621 60-91827
- by fax: +49 621 60-20162
- by e-mail to [medien-service@basf.com](mailto:medien-service@basf.com)
- on the Internet: [corporate.basf.com/mediaorders](http://corporate.basf.com/mediaorders)