Shaping the Future
Financial Report 2006

BASF
The Chemical Company

BASF's Segments

Chemicals

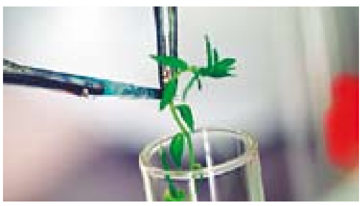
The synergy potential of our Verbund ensures our competitiveness in producing organic and inorganic basic chemicals, as well as intermediates and catalysts. Integrated production plants, innovative processes and the advantages of modern large-scale plants help us achieve our goal of cost leadership. We participate in the major growth markets via 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 functionality and performance 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. Here, the key to success is our powerful research and development organization that aims 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 are strengthening our competitiveness with innovative crop protection products. Our broad range of high-value products for health, nutrition and beauty makes us a preferred partner for customers in the pharmaceutical and cosmetic industries and in the areas of human and animal nutrition. Our research in plant biotechnology focuses on plants for more efficient agriculture, healthier nutrition and for use as renewable raw materials.

Oil & Gas

As the largest German producer of oil and gas, we benefit from our many years of experience in exploration and production 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.

CHANGE IN SALES BY SEGMENT

COMPARED WITH PREVIOUS YEAR

CHEMICALS

+43%

PLASTICS

+9%

Segment key data

Million €	2006	2005	Change in %
Sales	11,572	8,103	42.8
Income from operations (EBIT) before special items	1,704	1,488	14.5
Income from operations (EBIT)	1,380	1,326	4.1

Million €	2006	2005	Change in %
Sales	12,775	11,718	9.0
Income from operations (EBIT) before special items	1,216	1,031	17.9
Income from operations (EBIT)	1,192	1,015	17.4

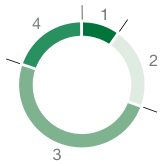
Million €	2006	2005	Change in %
Sales	10,133	8,267	22.6
Income from operations (EBIT) before special items	848	890	(4.7)
Income from operations (EBIT)	669	863	(22.5)

Million €	2006	2005	Change in %
Sales	4,934	5,030	(1.9)
Income from operations (EBIT) before special items	435	693	(37.2)
Income from operations (EBIT)	381	623	(38.8)

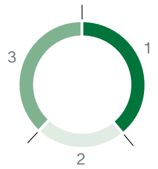
Million €	2006	2005	Change in %
Sales	10,687	7,656	39.6
Income from operations (EBIT) before special items	3,245	2,410	34.6
Income from operations (EBIT)	3,250	2,410	34.9

Sales by division

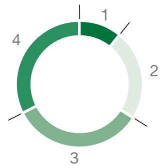
	Million €	%
1 | Inorganics	1,134	9.8
2 | Catalysts[1]	2,411	20.8
3 | Petrochemicals	5,754	49.7
4 | Intermediates	2,273	19.7
	11,572	**100.0**



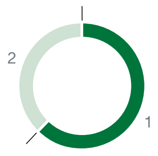
	Million €	%
1 | Styrenics	4,994	39.1
2 | Performance Polymers	2,932	22.9
3 | Polyurethanes	4,849	38.0
	12,775	**100.0**



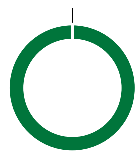
	Million €	%
1 | Construction Chemicals[2]	1,120	11.0
2 | Coatings	2,337	23.1
3 | Functional Polymers	3,387	33.4
4 | Performance Chemicals	3,289	32.5
	10,133	**100.0**



	Million €	%
1 | Agricultural Products	3,079	62.4
2 | Fine Chemicals	1,855	37.6
	4,934	**100.0**



	Million €	%
Oil & Gas	**10,687**	**100.0**



[1] Contains sales from the catalysts and Materials Services business of Engelhard Corp., acquired on June 6, 2006
[2] Contains only the sales of Degussa AG's construction chemicals business, acquired on July 1, 2006

PERFORMANCE PRODUCTS

+23%

AGRICULTURAL PRODUCTS & NUTRITION

–2%

OIL & GAS

+40%

BASF Group 2006

Overview

Million €	2006	2005	Change in %
Sales	52,610	42,745	23.1
Income from operations before depreciation and amortization (EBITDA)	9,723	8,233	18.1
Income from operations (EBIT) before special items	7,257	6,138	18.2
Income from operations (EBIT)	6,750	5,830	15.8
Income before taxes and minority interests	6,527	5,926	10.1
Net income	3,215	3,007	6.9
Earnings per share (€)	6.37	5.73	11.2
Dividend per share (€)	3.00	2.00	50.0
Cash provided by operating activities	5,940	5,250[1]	13.1
Additions to long-term assets[2]	10,039	2,523	297.9
Amortization and depreciation	2,973	2,403	23.7
Return on assets (%)	17.5	17.7	-
Return on equity after tax (%)	19.2	18.6	-
Research and development expenses	1,277	1,064	20.0
Number of employees (as of December 31)	95,247	80,945	17.7

[1] Before external financing of pension obligations
[2] Including acquisitions

Accounting principles for this report

The accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS) and the additional requirements of German Commercial Code (HGB) pursuant to Section 315 a (1).

Cover photo: **Afonso Maria da Silva** (right) and **Fabricio Rodrigo de Souza**, both production workers, at BASF's dispersions plant in Guaratinguetá/Brazil.

BASF Financial Report 2006

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 high-value products and intelligent system solutions help our 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. Through profitable growth we aim to consistently increase the value of our company.

How we shape the future

We develop new technologies and use them to meet the challenges of the future and 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

| Cooperation with Gazprom

| Acquisition of Engelhard

Milestones 2006

January

New plant in Ludwigshafen | In Ludwigshafen, BASF starts operations at a new production plant for Uvinul® A Plus, an innovative UVA filter.

February

Award | According to a survey by the U.S. business magazine *FORTUNE,* BASF is regarded as the best company in Germany. BASF is also considered to be one of the world's 50 most admired companies in a global comparison.

April

New plant in Kuantan | Toray BASF PBT Resin Sdn. Berhad, a 50-50 joint venture between BASF Aktiengesellschaft and Toray Industries Inc., starts operations at a production plant for polybutylene terephthalate (PBT) at BASF's Verbund site in Kuantan, Malaysia.

Cooperation with Gazprom | BASF and OAO Gazprom agree to extend their cooperation in exploration and production in the Yuzhno Russkoye gas field.

June

Acquisition of Engelhard | BASF acquires U.S. catalyst producer Engelhard Corp. and becomes a world leading supplier of catalysts.

Acquisition of CropDesign | BASF acquires the Belgian biotechnology company CropDesign N.V. It is integrated into BASF Plant Science, our technology platform for plant biotechnology.

July

Purchase of Degussa's construction chemicals business | BASF acquires the construction chemicals business of Degussa AG and becomes a global leader in the innovative and fast growing market for construction chemicals.

Acquisition of Johnson Polymer | BASF acquires resins specialist Johnson Polymer and improves its position in the rapidly growing water-based resins business.

Site expansion | BASF and its Chinese joint venture partner Sinopec Corp. sign an agreement to invest more than $500 million in the expansion of their Verbund site in Nanjing, China.

August

Successful startup | BASF and its partners start operations at an integrated isocyanates complex in Caojing, China. This is BASF's second largest investment in China.

September

World's first HPPO plant | At BASF's site in Antwerp, Belgium, BASF and Dow Chemical conduct a groundbreaking ceremony for a plant that will use a new process to produce propylene oxide (PO) on the basis of a new method using hydrogen peroxide (HP). The Belgian Solvay Group will act as a partner for the production of the starting material HP.

November

Share buyback program | BASF completes its €500 million share buyback program at the end of October and announces that it will buy back shares for a further €500 million.

December

MDI production in Antwerp to be expanded | BASF announces that it will expand its production complex for diphenylmethane diisocyanate (MDI) at its Verbund site in Antwerp, Belgium, by mid-2007. Following the expansion, the complex will be the largest of its kind in the world.

Acquisition of PEMEAS | BASF purchases PEMEAS GmbH, a leading producer of fuel cell components. The move strengthens our activities in the field of energy management.

| Nanjing site expansion

| First HPPO plant in Antwerp

Dear Shareholders and friends of BASF,

2006 was a very special year for BASF. The BASF team achieved a great deal – that's something we are all proud of. I would like to thank our employees worldwide for their dedication. Their hard work is the basis for our success.

Growing profitably

We successfully continued on our profitable growth path in 2006. We took advantage of the prevailing economic tailwind to improve our structures, reduce costs and further strengthen our competitiveness. Highlights in the past year were the three strategic acquisitions of Engelhard, Degussa's construction chemicals business and Johnson Polymer. Overall, this means we are now even closer to our customers, more innovative and more resilient to cyclicality.

In the regions we are continuing to grow profitably. In Asia, our Verbund site in Nanjing, China, has developed so well that we are planning to invest more than \$500 million to expand the site together with our partner Sinopec. In Europe, we are extending our cooperation with Gazprom along the entire value chain in the production, storage, transport and marketing of natural gas. We plan to invest a total of around €3.5 billion in our oil and gas activities in the period up to 2010. In North America, we achieved our goal of reducing fixed costs by \$400 million per year ahead of schedule. We did this by reorganizing our internal service units, sharpening the customer focus of our business models and making our sites even more efficient. We have also initiated a program to increase the efficiency of the entire BASF Group that we expect to result in additional cost savings of €300 million per year by 2008.

Overall, we increased sales in 2006 by 23 percent to €52.6 billion; the acquired businesses contributed €4.2 billion to sales. We again earned a high premium of €2,126 million on our cost of capital in 2006 even though integration costs negatively impacted earnings and despite our higher operating assets. Our strong earnings enable us to propose to pay our shareholders a dividend of €3.00 per share. We plan to continue with our progressive dividend policy in 2007. Furthermore, we plan to buy back shares for a total of €3 billion in 2007 and 2008.

Integrating acquisitions

A successful acquisition depends on efficient integration, and this will be a key focus for us in the current year. We plan to have largely completed the integration of Engelhard, Degussa's construction chemicals business and Johnson Polymer by mid-2007. We expect the integration of these three businesses to achieve synergies of approximately €290 million per year by 2010.

BASF's team has grown as a result of the acquisitions and has expanded its competencies. We are very pleased about this. With our new employees, we are even better positioned to pursue opportunities and develop and implement innovative ideas with and for our customers.

> "The year 2007 offers us many opportunities. Our goal is to grow faster than the chemical market and further increase BASF's value."
>
> **JÜRGEN HAMBRECHT**

Shaping the future with chemistry

Our goal remains to shape the future with chemistry to make both our customers and BASF more successful. Competitive innovations are essential in achieving this. In 2006, we have increased our research and development expenditures by 20 percent to almost €1.3 billion. By 2010, we expect product innovations alone to generate annual sales of more than €4 billion, with at least 20 percent in the form of additional growth.

Innovations are not only essential for ensuring that our sites are globally competitive and for creating value, they also offer solutions for the important questions of the future. One of the most urgent questions is how to satisfy the world's growing demand for energy while effectively protecting our climate. BASF's researchers and developers have contributed many solutions to improve energy efficiency and conserve resources and are opening up new approaches to the energy sources of the future. Furthermore, BASF is in favor of a climate protection agreement that includes all countries.

This Financial Report provides you with information about BASF's business success and our economic forecasts for the near future. Economic success is undoubtedly the basis for a company to endure and remain innovative. At the same time, a business cannot be successful in the long term if it does not work hand in hand with the environment and society. Our Corporate Report, which is published simultaneously with this report, explains how we have combined these tasks in recent years.

The year 2007 offers us many opportunities. Our goal is to grow faster than the chemical market and further increase BASF's value. We – the entire BASF team and myself – will act with confidence and undivided dedication. In doing so, I trust that we can rely on your continued support.

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

Board of Executive Directors

The Board of Executive Directors at the "Marketplace of Innovations," an internal exhibition of BASF's innovative products and services.

Dr. Martin Brudermüller
Chemist, 45
With BASF for 19 years

- Asia Pacific, since April 2006

Dr. Kurt Bock
Business economist, 48
With BASF for 16 years

- Finance
- Global Procurement & Logistics
- Information Services
- Corporate Controlling
- Corporate Audit
- South America

Peter Oakley
Economist, 54
With BASF for 30 years

- Agricultural Products
- Fine Chemicals
- Specialty Chemicals Research
- Plant Biotechnology Research

Dr. Jürgen Hambrecht
Chairman of the Board of Executive Directors
Chemist, 60
With BASF for 31 years

- Legal, Taxes & Insurance
- Strategic Planning & Controlling
- Global HR – Executive Management & Development
- Communications BASF Group
- Investor Relations

Klaus Peter Löbbe
Economist, 60
With BASF for 40 years

- North America (NAFTA)
- Coatings, until March 2006
- Catalysts, since June 2006

Dr. John Feldmann
Chemist, 57
With BASF for 19 years

- Oil & Gas
- Styrenics
- Performance Polymers
- Polyurethanes
- Polymer Research

Eggert Voscherau
Vice Chairman of the Board of Executive Directors and Industrial Relations Director
Economist, 63, with BASF for 38 years

- Human Resources
- Environment, Safety & Energy
- Occupational Medicine & Health Protection
- Corporate & Governmental Relations
- Europe
- Ludwigshafen Verbund Site
- Antwerp Verbund Site

Dr. Stefan Marcinowski
Research Executive Director
Chemist, 54
With BASF for 28 years

- Inorganics
- Petrochemicals
- Intermediates
- Chemicals Research & Engineering
- Corporate Engineering
- Science Relations & Innovation Management
- BASF Future Business

Dr. Andreas Kreimeyer
Biologist, 51
With BASF for 21 years

- Construction Chemicals, since July 2006
- Coatings, since April 2006
- Functional Polymers
- Performance Chemicals
- Asia Pacific, until March 2006

As of February 26, 2007

BASF Shares

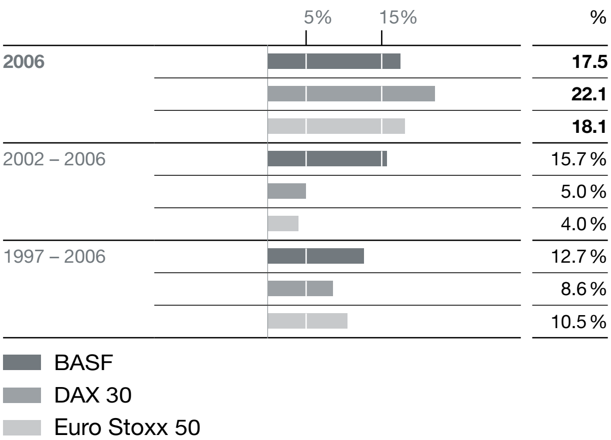
The proposed dividend of €3.00 per share represents a 50 percent increase on the previous year and is equivalent to a dividend yield of 4.1 percent. BASF's shares developed well in 2006, increasing their value by 17.5 percent.

In the same period, the Dow Jones EURO STOXX 50 Total Return and DAX 30 indices rose by 18.1 percent and 22.1 percent, respectively. Long-term investors have profited from the strong performance of BASF shares in recent years. Shareholders who invested the equivalent of €1,000 in BASF shares at the end of 1996 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of their holding to €3,291 after 10 years. This increase of 229 percent is equivalent to an average annual return of 12.7 percent and is higher than the corresponding return for the EURO STOXX 50 (10.5 percent) and the DAX 30 (8.6 percent).

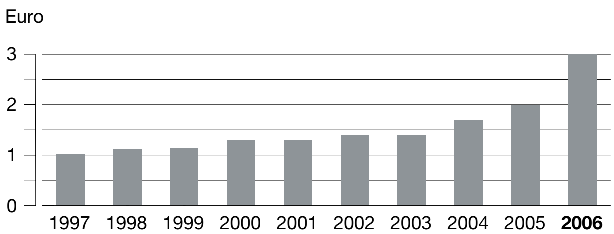
Dividend increased to €3.00 and further share buy-backs to increase shareholder value

The Board of Executive Directors and the Supervisory Board are proposing to increase the dividend from €2.00 to €3.00 per share. As a result, the total amount payable will be approximately €1.5 billion, based on the number of qualifying shares as of December 31, 2006. On the basis of the per share dividend and the year-end price, BASF shares provided an attractive dividend yield of 4.1% in 2006. We aim to increase our dividend further in the future and plan to at least maintain the dividend at the previous year's level.

Investment in BASF shares average annual performance



Dividend per share 1997 – 2006



BASF SHARES
- Dividend increases to €3.00 per share
- Attractive dividend yield of 4.1%
- 17.5% appreciation in BASF shares in 2006
- Share buyback program for a total of €3 billion in 2007 and 2008

Weighting of BASF shares in important indices as of December 31, 2006

	%
DAX 30	5.4
DJ STOXX 50	1.1
DJ EURO STOXX 50	1.7
DJ Chemicals	6.4
MSCI World Index	1.8
S&P Global 100	0.6

In 2006, BASF Aktiengesellschaft bought back 14.7 million shares on the stock exchange for a total of approximately €938 million and an average price of €63.84 per share.

BASF Aktiengesellschaft had approximately 501 million shares outstanding as of December 31, 2006 (including 1.4 million shares that were bought back and are earmarked for cancellation). Based on a year-end share price of €73.85, the market capitalization was €37 billion.

In order to increase our earnings per share and optimize our balance sheet structure, we plan to buy back shares for a total of €3 billion in 2007 and 2008.

Broad base of international shareholders

With around 460,000 shareholders, BASF is one of the largest publicly owned companies with a high free float.

According to a shareholders' survey conducted in January 2006, the development of our shareholder structure reflects the increasing interest of international investors in BASF shares. As of the beginning of 2006, investors outside of Germany 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.

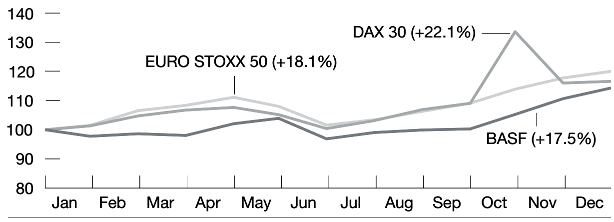
Institutional investors – for example banks and investment companies – hold 72 percent of the share capital; 28 percent is held by private investors. This distribution has changed little in recent years.

In many countries we offer share purchase programs to encourage our employees to become BASF shareholders.

>You can find more details on page 151 onward.

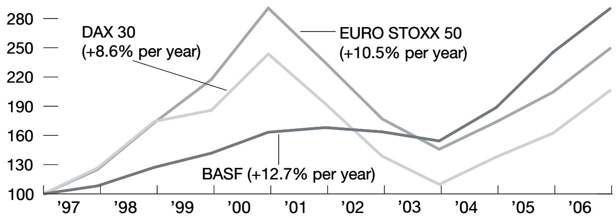
Change in value of an investment in BASF shares 2006

(with dividends reinvested, indexed)



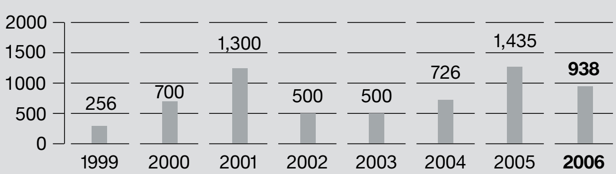
Change in value of an investment in BASF shares 1997–2006

(with dividends reinvested, indexed)



Share buyback program

Million €



- In 2006, BASF bought back 14.7 million shares for a total of €938 million
- As of December 31, 2006, there were 501 million shares outstanding (thereof 1.4 million shares bought back and earmarked for cancellation)
- Broad base of international shareholders, 55% held by investors outside of Germany

Key BASF share data

	2002	2003	2004	2005	2006
Year-end price (€)	36.08	44.58	53.00	64.71	73.85
Year high (€)	49.80	44.58	53.00	65.33	74.24
Year low (€)	32.90	28.41	40.49	50.11	58.97
Year average (€)	42.37	38.52	45.18	57.13	64.82
Daily trade in shares[1]					
– million €	129.7	127.2	121.7	154.0	198.6
– million shares	3.1	3.3	2.7	2.7	3.1
Number of shares as of December 31 (million shares)	570.3	556.6	541.2	515.1	501.1
Market capitalization as of December 21 (billion €)	20.6	24.8	28.7	33.3	37.0
Earnings per share (€)[2]	2.60	1.62	3.65	5.73	6.37
Dividend per share (€)	1.40	1.40	1.70	2.00	3.00
Dividend yield (%)[3]	3.88	3.14	3.21	3.09	4.06
Payout ratio (%)[2]	52	85	45	34	47
Price-earnings ratio (P/E ratio)[2, 3]	13.9	27.5	14.5	11.3	11.6
Key data for BASF ADRs[4]					
Year-end price (US$)	38.22	55.75	72.02	76.48	97.21
Year high (US$)	46.85	55.75	72.02	77.26	97.76
Year low (US$)	32.40	32.00	48.42	63.68	73.40
Year average (US$)	39.90	43.81	56.39	70.91	81.61
Daily trade in shares					
– million $	3.1	4.5	4.0	9.0	8.6
– thousand shares	78.7	105.3	71.8	126.8	105.4

[1] Average, Xetra trading
[2] Starting in 2005, the accounting and reporting of the BASF Group has been performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figure has been restated accordingly. The figures up to and including 2003 were prepared according to German Commercial Code.
[3] Based on year-end share price
[4] 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.

Further information

Securities code number	
Germany	515100
Great Britain	0083142
Switzerland	323600
USA (CUSIP-Number)	055262505
ISIN International Stock Identification Number	DE0005151005

International ticker symbol	
Deutsche Börse	BAS
London Stock Exchange	BFA
Swiss Exchange	AN
New York Stock Exchange	BF (ADR)

Close dialogue with the capital markets

Our corporate strategy aims to create value sustainably. We support this strategy through regular and open communication with institutional and retail investors.

Our investor relations team provided detailed information to the capital markets during the acquisitions of Degussa's construction chemicals business, resins specialist Johnson Polymer, and, in particular, catalyst manufacturer Engelhard.

In January 2006, BASF made an offer to Engelhard's shareholders to acquire all shares in the company – to date the largest unsolicited offer by a German company for a U.S. corporation. After BASF increased its offer from \$37 to \$39 per share at the end of May, Engelhard's Board unanimously recommended its shareholders to accept the offer.

BASF's investor relations team once again received a number of awards in 2006. For example, we were ranked number one in the Thomson Extel survey for the best investor relations activities in the European chemical industry, and the specialist magazine *IR Magazine* judged our investor relations website to be the best in Europe

> Information on BASF shares is available at www.basf.com/share.

At BASF Catalysts' testing facility in Union, New Jersey, technician **David Colon** (left) and **Andrew Thoms** set up a catalyst test on the motor testing bench. In the engine laboratory, catalysts are subjected to long-term stress testing. Modern testing technology makes it possible to simulate three-way-catalyst durability (120,000 miles of catalyst activity) in 50-100 hours.

YOU CAN REACH OUR INVESTOR RELATIONS TEAM

- by calling +49 621 60-48230
- by e-mailing investorrelations@basf.com
- on the internet at corporate.basf.com/share

INVESTOR RELATIONS NEWSLETTER

The newsletter of our investor relations team keeps you informed about current BASF topics and acts as a useful reminder of important BASF dates. Subscribe at: corporate.basf.com/share/newsletter

With the acquisition of Degussa’s construction chemicals business, BASF has gained outstanding applications know-how and a strong customer orientation in this innovative field. The construction chemicals team worked closely with Fiat to develop a solution for the floor coatings of their production halls, which more than meets the high demands of car production.

Victor Francisco Ambrosi, Corporate Technology Manager, Environmental Engineering and Energy, FIAT Brazil (left), and **Juan Fernando Matias Martín**, General Manager, BASF Construction Chemicals Brazil

With the acquisition of the construction chemicals business of Degussa AG, BASF has become world leading in this strongly growing market. Margins that are relatively resilient to cyclicality and the large room for innovation make this an attractive market.

With this combination of BASF's competence in chemistry and the applications know-how of Degussa's construction chemicals business, we can fully exploit the growth potential of the construction chemicals market.

The new Construction Chemicals division at BASF develops optimal system solutions for the concrete industry and innovative products for building systems, flooring applications and façades.

CONSTRUCTION CHEMICALS BUSINESS FROM DEGUSSA

Sales: €1.1 billion[1]
Purchase price: €2.2 billion[2]

[1] amount since date of acquisition

[2] purchase price of equity

Overview

With more than 95,000 employees and more than 150 production sites worldwide, BASF is the world's leading chemical company – The Chemical Company. Fourteen operating divisions are responsible for the production and distribution of our products. For financial reporting purposes, the operating divisions are combined into the segments Chemicals, Plastics, Performance Products, Agricultural Products & Nutrition and Oil & Gas.

Chemicals

This segment comprises **Inorganics**, **Catalysts**, **Petrochemicals** and **Intermediates.** Plasticizers, solvents, glues and resins, as well as electronic grade chemicals, amines and catalysts are just a few examples from our wide array of products. The new Catalysts division is primarily composed of the catalysts and the Materials Services business from the Engelhard Corp. acquisition. Key customer segments for our products include the mineral oil, chemical, pharmaceutical, electronics, textile and automotive industries.

Plastics

We are one of the world's leading producers of plastics – the eco-efficient materials of the future. This segment consists of **Styrenics, Performance Polymers** and **Polyurethanes.** In standard plastics, we concentrate on selected product lines and highly efficient marketing processes. In our specialties business, we offer a comprehensive range of high-value products, system solutions and services. Our main customers are companies mainly in the automotive, packaging, construction, and electrical and electronics industries.

Performance Products

In our **Performance Chemicals** and **Functional Polymers** divisions, we develop, produce and market a wide range of innovative products and system solutions used by our customers to make products for the textile, automotive and paper industries, as well as detergents, hygiene articles, adhesives and construction materials. In our **Coatings** division, we focus on developing and producing coatings for the automotive industry and for industrial applications. The new **Construction Chemicals** division, which comprises the businesses acquired from Degussa AG, is the global market and technology leader for the development, production and marketing of intelligent system solutions that make construction more efficient, safer and more environmentally friendly.

Agricultural Products & Nutrition

The **Agricultural Products & Nutrition** segment consists of the Agricultural Products and Fine Chemicals divisions.

Products from our **Agricultural Products** division protect crops from harmful fungi, insects and weeds, while increasing crop quality and yields. BASF Plant Science, our technology platform in the field of plant biotechnology, is focusing on plants for a more efficient agriculture, healthier nutrition and for use as renewable raw materials.

Products in our **Fine Chemicals** division include aroma chemicals and UV filters, excipients and active ingredients for the pharmaceutical industry, as well as vitamins and carotenoids. We offer these high-performance products to our customers in the cosmetic, pharmaceutical and nutrition industries.

Oil & Gas

Our subsidiary Wintershall explores for and produces crude oil and natural gas in Europe, North Africa, South America, Russia and the Caspian Sea region. Together with our Russian partner OAO Gazprom, we are also active in European gas trading including the transport, storage and distribution of natural gas.

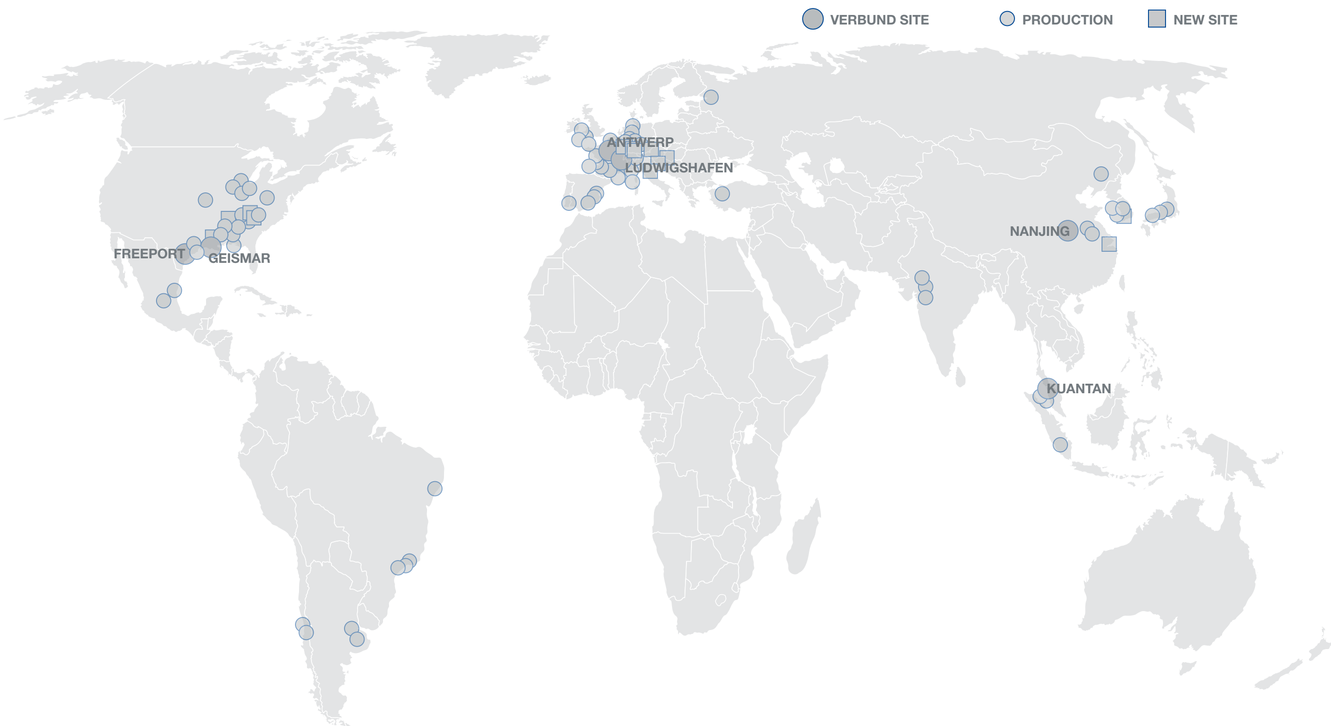
THE LEADING CHEMICAL COMPANY IN THE WORLD - THE CHEMICAL COMPANY

- The BASF Group is composed of BASF Aktiengesellschaft and over 700 subsidiaries and affiliates.
- Our portfolio encompasses chemicals, plastics, performance products, agricultural products, fine chemicals as well as crude oil and natural gas.
- In Ludwigshafen, we operate the world's largest integrated chemical site.

Sites and Markets

Worldwide BASF operates six Verbund sites and more than 150 production sites in proximity to our customers. In our Verbund, we link production plants intelligently to save resources and energy. The largest Verbund site in the BASF Group is located in Ludwigshafen, Germany. This was where the Verbund concept was developed and optimized before it was applied to other sites around the world.

BASF sites



Our 14 operating divisions deliver products to a variety of international business partners in over 200 countries.

In 2006, we generated 56% of our sales with customers in Europe, of which 37% were in our chemical-based businesses and 19% in the Oil & Gas segment. North America (NAFTA) accounted for 22% of sales; Asia Pacific for 15%; and South America, Africa, Middle East for 7%.

SIGNIFICANT NEW SITES FROM ACQUISITIONS IN 2006

- Engelhard Corp.: Huntsville, Alabama; McIntyre-Gordon, Georgia; Seneca, South Carolina; Iselin, New Jersey; Nienburg, Germany; Nanjing, China
- Construction chemicals business from Degussa AG: Augsburg, Oldenburg, and Trostberg, Germany; Zurich, Switzerland; Dubai, United Arab Emirates; and Cleveland, Ohio
- Johnson Polymer: Seaford, Delaware; and Heerenveen, the Netherlands

Structure and Organization

Corporate legal structure

BASF Aktiengesellschaft, which is headquartered in Ludwigshafen, Germany, takes a central role as the largest operating company in the BASF Group. Directly or indirectly, it holds the shares in the companies that belong to the BASF Group. All of BASF Aktiengesellschaft's shares are available for public trading on stock exchanges.

> You can read more about our shares in BASF Shares on page 8 onward.

The majority of BASF Group companies cover a broad spectrum of the businesses of our operating divisions; some companies concentrate on specific areas such as the Coatings division or the Oil & Gas segment.

The BASF Group Consolidated Financial Statements include BASF Aktiengesellschaft and 308 fully consolidated subsidiaries. We consolidate 19 joint ventures with one or more partners on a proportional basis. In addition, we include six joint ventures, three associated companies in which we have a 20% to 50% interest, as well as 11 further companies in the financial result using the equity method. Furthermore, we have a stake in numerous smaller companies that are not material to BASF's operations, either individually or in the aggregate.

> For further information see Note 1 to the Consolidated Financial Statements on page 103 onward.

Compensation report and information according to Section 315 (4) German Commercial Code (HGB)

The Compensation Report with the information according to Section 315 (2), Nr. 4 and Section 315 (4) of the HGB may be found on page 85 onward. They form a component of the Management's Analysis, audited by the external auditor.

Organization of the BASF Group

For financial reporting purposes, the 14 operating divisions are combined into five segments. The operating divisions bear bottom-line responsibility and manage our 68 global and regional business units. As profit centers, the business units are responsible for business operations and are organized along business or product lines.

In addition, six regional divisions contribute to the strategic development of BASF's business and help to exploit market potential. These divisions are also responsible for optimizing the necessary regional infrastructure. For reporting purposes, the divisions are grouped into the following four regions: **Europe; North America (NAFTA); Asia Pacific; and South America, Africa, Middle East.** Corporate divisions, corporate departments and competence centers have the following responsibilities:

Corporate divisions:

- Finance
- Legal, Taxes & Insurance
- Strategic Planning & Controlling

Corporate Departments:

- Communications BASF Group
- Corporate Audit
- Corporate Controlling
- Corporate & Governmental Relations
- Global HR – Executive Management & Development
- Investor Relations

Competence Centers:

- BASF Plant Science
- Chemicals Research & Engineering
- Corporate Engineering
- Environment, Safety & Energy
- Global Procurement & Logistics
- Human Resources
- Information Services
- Occupational Medicine & Health Protection
- Polymer Research
- Science Relations and Innovation Management
- Specialty Chemicals Research

ORGANIZATION OF THE BASF GROUP

- Divisions, which are combined into segments, manage our global and regional business units.
- Regional divisions optimize the infrastructure and support operations.
- Corporate divisions, departments and competence centers perform Group-wide services.

BASF'S FIVE SEGMENTS

- Chemicals
- Plastics
- Performance Products
- Agricultural Products & Nutrition
- Oil & Gas

Strategies for Value-adding Growth

Chemistry stands for the future that we are helping to shape as the world's leading chemical company. We are developing our strengths through innovations and acquisitions. Sustainability guides our actions in pursuing this goal.

Growth through acquisitions

In 2006, we continued on our profitable growth path with the acquisitions of Engelhard Corp., the construction chemicals business of Degussa AG, Johnson Polymer, CropDesign N.V. and PEMEAS GmbH. We have clear criteria for making acquisitions: We focus on innovative business areas that grow faster than the market as a whole and that make our portfolio more resilient to cyclicality. The contribution to sales and operating income from the new businesses shows that we are on the right path. The synergies are higher than expected.

To further improve our market position we will continue in our efforts to optimize our portfolio and implement measures to restructure our businesses and reduce costs. Our global Verbund is the foundation which allows us to be competitive in all regions.

As the world's leading chemical company, we will continue to concentrate on the organic growth of our core activities: chemistry, agricultural products and nutrition as well as oil and gas.

Growth through innovations

We continue to purposely strengthen our research and development. In the process we focus on market-driven innovations, new business models and technology areas of the future. We create new business opportunities with a global network that includes centers of excellence and interdisciplinary cooperation. We have combined the important technology-driven issues of the future in five growth clusters:

- Energy management
- Raw material change
- Nanotechnology
- Plant biotechnology
- White (industrial) biotechnology

> You can read more about our research activities on page 56 onward.

Our four strategic guidelines

Four strategic guidelines describe our path to the future, with which we align our activities:

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

The combination of these four guidelines makes us successful.

ENGELHARD CORP.

With the acquisition of Engelhard Corp., BASF possesses a high-performance technology platform and has become a leading global supplier in the catalysts market, which is growing annually by about 5%. The purchase price for the shares of Engelhard Corp. was approximately €3.8 billion.

CONSTRUCTION CHEMICALS BUSINESS OF DEGUSSA AG

With the acquisition of the construction chemicals business of Degussa, BASF has become world leading in the construction chemicals market. This is an attractive market with total sales of approximately €13 billion, annual growth of about 5%, margins relatively resilient to cyclicality and a large potential for innovation. The purchase price for equity was €2.2 billion.

Earn a premium on our cost of capital

We raise the value of BASF by earning a premium on our cost of capital. 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 the key performance and management indicator for our operating divisions and business units. We measure our business decisions and performance on the basis of how it influences earnings after cost of capital. Every employee endeavors to improve cost structures and use capital more efficiently in order to grow profitably.

> Read more on page 20.

Help our customers to be more successful

We are there wherever our customers are. We invested timely in growth markets and are now active in all important markets worldwide.

In order to grow profitably, we need to understand our customers' business as if it were our own. We work closely with our customers to identify their needs and develop the right solutions. We then select the best business models suited to our customers' needs. This ensures the success of our customers and, thereby, our own.

Form the best team in industry

As the best team in industry, we secure our company's long-term success. We rely on the strength of each team member. This diverse range of competencies helps us to better understand our customers and develop the products and solutions they need to become more successful.

We offer attractive development opportunities as well as pay linked to individual and company performance to attract and retain the best specialists and managers worldwide. We greatly value personnel development, self learning and managers who act as role models. Our dialogue-oriented management culture plays an important role in this regard. It is shaped by our Values and Principles as well as by BASF's Leadership Compass.

> Read more on page 67 onward.

Ensure sustainable development

For BASF, sustainable development means integrating environmental protection and social responsibility in our business processes so that they contribute to our long-term economic success. BASF's Sustainability Council develops and monitors the necessary strategies, which are implemented with the support of regional networks. We systematically identify sustainability issues that are relevant to BASF and evaluate them in terms of their opportunities and risks. Our sustainability strategy has the goal of avoiding risks, promoting our existing businesses and creating new business opportunities. This is why we are placing more emphasis on integrating sustainability into our customer relations from 2007 onward.

> Read more on page 68 onward.

JOHNSON POLYMER

With the acquisition of Johnson Polymer, a world leading company in the production and marketing of water-based resins, BASF is investing in a profitable and innovative business in a market with annual growth of approximately 5%. The purchase price was €379 million.

PEMEAS GMBH

With the acquisition of PEMEAS GmbH, a leading producer of components for fuel cells with its headquarters in Frankfurt/Main, BASF expands its presence in the fast-growing fuel cell market.

Segment Strategies

The strategies of our segments are derived from our **strategic guidelines**:

Chemicals

We aim to strengthen our market leadership in Europe, further improve our cost structure and market position in North America (NAFTA) and expand our activities in Asia. To achieve this, we are constantly improving our competitiveness by exploiting the synergy potential of our Verbund, by developing and introducing innovative processes and products, and by investing and making acquisitions in high-growth business areas.

Plastics

In standard plastics, we concentrate on high-volume product lines with efficient production and marketing processes. We have optimized our global product portfolio to enable us to produce and supply high-quality products at competitive prices. In our business with specialties, we offer a wide range of high-value products and system solutions, which we constantly expand and improve in close cooperation with our customers. With completely new plastic applications, we are tapping additional potential in the area of energy efficiency.

Performance Products

Our innovative systems from performance chemistry contribute to the functionality and performance of many everyday products, from cars, paper and construction materials to detergents and baby diapers. Our success is based on tailor-made products, system solutions, applications and services that we develop in cooperation with our customers. A further important success factor is our ability to solve our partners' problems quickly and according to their needs. We want to help our customers to be more successful with innovative business models tailored to their requirements and markets, a global production and technical service network as well as optimized cost structures.

Agricultural Products & Nutrition

In the Agricultural Products division, we focus on meeting the requirements of our customers in key agricultural markets. As leaders in innovation, we continually invest in the research and development of novel solutions to protect and improve plant health.

In plant biotechnology, we are extending our leading position in the area of genome analysis and in access to agronomically important genetic traits.

In the Fine Chemicals division, we aim to secure and expand our leadership position by means of innovative products and customer-oriented solutions. Active portfolio and cost management strengthen our competitiveness.

Oil & Gas

In the exploration and production of oil and natural gas, we benefit from our many years of experience and our technology portfolio. We focus on areas rich in oil and gas in Europe, North Africa, South America as well as in Russia and the Caspian Sea region.

In natural gas trading, we and our Russian partner Gazprom are making use of the growth opportunities that arise from increasing demand, and the harmonization and growing together of the European gas markets.

Exploration and production complement our natural gas trading activities as part of our "Gas for Europe" strategy. Together with Gazprom, we plan to produce natural gas in Western Siberia, transport it to Europe and market it there. We aim to ensure a high degree of supply security by operating and further expanding gas transport and storage facilities.

CROPDESIGN N.V.

The acquisition of the Belgian biotechnology firm complements BASF Plant Science's existing gene discovery and extends our leading position in access to agronomically important genetic traits.

Value-based Management

We aim to earn a premium on our cost of capital in order to further increase BASF's value. Value-based management is a key element of our strategy BASF 2015. Our value-based management is a comprehensive approach that includes all functions within the company and challenges and encourages all employees to 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 at least as high as its cost of capital to meet the interest rate payments to providers of debt, to satisfy the returns expected by providers of equity and to cover 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 cost of capital percentage depends primarily on three factors: the capital structure of the BASF Group, the level of interest rates on debt and the return expected by shareholders. We calculate our cost of equity on the basis of the market value of BASF shares. The cost of capital percentage is reviewed annually in the light of current data.

For 2007, the cost of capital percentage has been reduced from 10 percent to 9 percent. This change was due to the increase in debt capital on BASF's balance sheet as a result of the financing of acquisitions. Debt bears less risk and hence costs are lower than for equity. The average cost of capital percentage for the BASF Group for 2007 is therefore reduced accordingly.

Value-based management in target agreements

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

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 personally to create value. To achieve this, we use established learning tools such as a business simulation game specially adapted for BASF, an interactive Web-based program and a tailor-made range of seminars.

In 2006, we took steps to integrate value-based management even more extensively into our company: Several thousand employees from specialist and managerial positions applied the principles of value-based management to specific practical examples. We have also developed a practice-oriented training concept for employees from non-business backgrounds.

Calculation of EBIT after cost of capital

Million €	2006
EBIT BASF Group	6,750
less EBIT for activities not assigned to the segments[1]	(122)
less Noncompensable foreign income taxes for oil production	1,282
less Cost of capital[2]	3,464
EBIT after cost of capital	2,126

[1] This net expense is already provided for in the cost of capital percentage
[2] 10% on the average operating assets of the segments

PREMIUM ON OUR COST OF CAPITAL

- We increase the value of our company by earning our cost of capital plus a premium on it.
- In 2006, we earned a premium of €2,126 million on our cost of capital.

Trends in the Global Economy and the Chemical Industry

Overall economic growth in 2006 was favorable. Despite dramatic price increases in oil – from an average price of $55 per barrel in 2005 to $65 per barrel in 2006 – global economic growth was stronger compared with the previous year.

Gross domestic product 2006

Real change compared with previous year

	%
World	3.9
Western Europe	2.6
United States	3.3
Asia (excluding Japan)	7.9
Japan	2.7
South America	4.7

After a growth rate of 3.5 % in 2005, the global **gross domestic product** increased by 3.9 % in 2006, approaching the record level of 2004.

Despite several interest rate increases, real interest rates still remain low. The overall positive corporate profit situation resulted in a strong increase in capital investment. Developments in construction and consumer demand were encouraging. Raw material exporting countries quickly translated their high export income into demand. The oil dependency of industrialized countries decreased compared to previous periods of rising oil prices.

In **Europe,** the economy grew thanks to strong demand for exports and capital investment; especially Germany registered strong growth rates for the first time in six years.

The **U.S.** economy showed some signs of weakening at a high level; higher interest rates slowed consumption and housing construction.

The **Japanese** economy has recovered; especially capital investment has increased noticeably.

Asia (excluding Japan) again registered strong growth, with gross domestic product growing at 7.9%. The causes for this encouraging development are mounting capital investment activity, enormous demand for products from Asia and the growing domestic demand. Despite China's attempts to rein back economic growth, it grew more strongly than anticipated and reached a growth rate of 10.5%.

Global industrial production grew by 5.1% in 2006, almost matching the record level of 2004.

GLOBAL ECONOMIC DEVELOPMENT IN 2006

- Global GDP increases by 3.9 %
- Strong growth for the chemical industry driven by a dynamic industrial economy
- High energy and raw material prices

GROSS DOMESTIC PRODUCT 2006

- Europe: Buoyant exports and investment lead to economic recovery with growth of 2.6%
- United States: Slight recovery with growth of 3.3%
- Japan: Growth rises to 2.7% driven mainly by increased investment
- Asia (excluding Japan): GDP advances by 7.9% due to strong investment and growing domestic demand

Chemical production (excluding pharma) 2006

Real change compared with previous year

	%
World	4.0
Western Europe	2.9
United States	3.5
Asia (excl. Japan)	8.2
Japan	(0.9)
South America	1.7

Global chemical production (excluding pharmaceuticals) increased by 4%. A strong industrial sector and exports stimulated chemical demand. Growth was not driven by Asia alone; Europe also enjoyed solid growth in 2006. Chemical production in the United States recovered following the hurricanes at the end of 2005.

In **Asia (excluding Japan)**, additional large production capacities were brought online. With chemical production growing at 8.2%, Asia again remained the most dynamic region worldwide. The chemical industry in China, India, Malaysia and Singapore experienced double-digit growth.

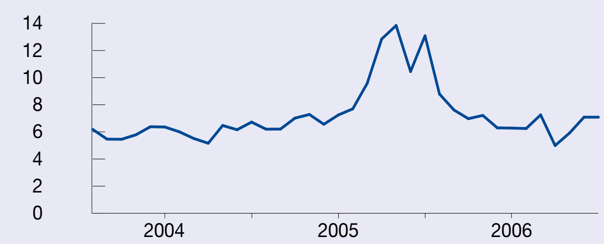
Chemical production in **Japan** (excluding pharmaceuticals) decreased by 0.9%, while both industry as a whole and the overall economy expanded.

In **South America**, growth in the chemical industry was much weaker than anticipated in 2006 at 1.7%. This was above all a result of the weak chemical industry in Brazil. In the other South American countries, the growth in chemical production kept pace with the positive levels of the overall economy.

Prices for **feedstocks** such as naphtha, increased significantly once again during the summer, reaching record levels. This was due to the sharp rise in oil prices, which reached peak levels of up to $74 per barrel (Brent) in August. Starting in September, prices decreased ending below the $60 mark once again. On an annual basis, oil prices rose by 19.5% to approximately $65 per barrel; naphtha prices increased by 19% to $564 per metric ton. The price for benzene was also high and volatile. In the United States, the market recovered following the drastic increase in gas prices after the hurricanes in the second half of 2005.

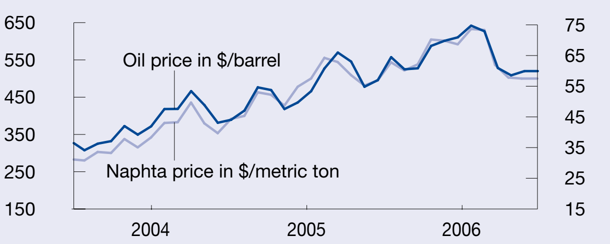
Price trends for natural gas (United States)

$/mbtu



Price trends for crude oil and naphtha

$/metric ton $/bbl



Trends in Key Customer Industries

In 2006, global industrial growth reached 5.1%; in industrialized countries 3.4%. China's industry displayed an impressive growth rate of 17%, the strongest in the past twelve years. Worldwide expansion was driven by the demand for capital goods, while the consumer goods industry and energy-intensive basic industries had lower growth rates.

In the United States and Western Europe, the **automotive industry** was particularly impacted by oil price increases in 2006. Car sales in the United States decreased, while they were stagnant in Western Europe. General Motors and Ford reduced their production capacities in North America (NAFTA). This adverse development was offset by strong growth in excess of 12% in Asia (excluding Japan). Overall, automobile production in 2006 increased by 3.9%.

At 2.1%, global growth in **agriculture** was below its long-term trend. Unfavorable climatic conditions in important growing regions, decreased spending on the factors of production due to an increase in energy prices as well as lower prices for agricultural commodities had a negative impact on crop production. Towards the end of the year, lower stock levels resulted in a sharp increase in commodity prices.

The global **construction industry** posted further solid growth of 3.1% in 2006, growth slackened in the second half of the year, however. In the United States, housing construction, in particular, declined. This was due to higher interest rates and saturation of the real estate market. The building boom in Asia continued unabated, with growth of more than 6%.

Significant capital investment in the United States, Asia, and Europe helped the **electrical and electronics industry** to grow globally by approximately 7% in 2006. Western Europe also benefited from the favorable investment climate and had a growth rate in excess of 3%. Asia (excluding Japan) achieved the highest growth rates, partially driven from the shift in production from other regions.

The **information and communications industry (ICT)** grew globally by 13% and showed a particularly strong increase of 16% in the United States. This sector recorded double-digit growth rates for the fourth consecutive year.

The West European **paper industry** benefited from the catch-up effects and increased by more than 3% in 2006, following the poor results of the previous year partially due to a strike in the Finnish paper industry.

The **textile industry** in the industrialized countries was negatively affected by the expiration of the Multi-Fiber Agreement; exports from China to the United States and Europe increased sharply. This led both the United States and Europe to take protectionist measures. Global growth of 3.3% was largely due to Asia.

Growth in key customer industries in 2006

Real change compared with the previous year

		%
Automotive	OECD	(0.2)
(per-unit basis)	World	3.9
Agriculture	OECD	1.1
	World	2.1
Construction	OECD	2.3
	World	3.1
Electrical	OECD	5.6
	World	7.3
Information and	OECD	10.4
communications	World	12.9
Paper	OECD	1.6
	World	3.1
Textiles	OECD	(2.8)
	World	3.3

INDUSTRIAL PRODUCTION DEVELOPMENT

- Dynamic demand for capital goods leads to global industrial growth of 5.1%
- Chinese industry grows by 17%
- Weaker increase in consumer goods and basic industries
- Growth in the global information and communication industry of 13%

BASF sales by industry

Percentage of sales in 2006

> 15%	Chemicals (not an industry with end users) | Energy
10 – 15%	Automotive | Construction
5 – 10%	Agriculture
< 5%	Electrical/Electronics | Health | Cosmetics Leather/shoes | Furniture | Paper | Textiles Packaging | Detergents and cleaners

Other industries amount to approximately 10% of total sales in 2006

Results of Operations in the BASF Group

2006 was a record year for the BASF Group. Both sales and income from operations increased compared with the previous year. This was due both to acquisitions and to organic growth in the existing businesses.

Sales and Earnings

Million €	2006	2005	Change in %
Sales	52,610	42,745	23.1
Income from operations before depreciation and amortization (EBITDA)	9,723	8,233	18.1
Income from operations (EBIT) before special items	7,257	6,138	18.2
Income from operations (EBIT)	6,750	5,830	15.8
Income from operations (EBIT) as a percentage of sales	12.8	13.6	–
Financial result	(223)	96	.
Income before taxes and minority interests	6,527	5,926	10.1
Net income	3,215	3,007	6.9
Net income as a percentage of sales	6.1	7.0	–
Earnings per share (€)	6.37	5.73	11.2

Sales and Earnings by quarter: 2006

Million €	1st quarter	2nd quarter	3rd quarter	4th quarter	2006
Sales	12,515	12,322	13,299	14,474	52,610
Income from operations (EBIT) before special items	1,865	1,910	1,615	1,867	7,257
Income from operations (EBIT)	1,849	1,797	1,438	1,666	6,750
Financial result	21	23	(133)	(134)	(223)
Income before taxes and minority interests	1,870	1,820	1,305	1,532	6,527
Net income	950	920	613	732	3,215
Earnings per share (€)	1.87	1.82	1.22	1.46	6.37

Sales and Earnings by quarter: 2005

Million €	1st quarter	2nd quarter	3rd quarter	4th quarter	2005
Sales	10,083	10,581	10,361	11,720	42,745
Income from operations (EBIT) before special items	1,563	1,657	1,327	1,591	6,138
Income from operations (EBIT)	1,499	1,587	1,262	1,482	5,830
Financial result	45	(82)	176	(43)	96
Income before taxes and minority interests	1,544	1,505	1,438	1,439	5,926
Net income	861	778	808	560	3,007
Earnings per share (€)	1.60	1.48	1.55	1.10	5.73

Sales

Sales in 2006 rose by 23.1% compared with the previous year to €52,610 million. The sales growth was due to the following factors:

Factors influencing sales

Million €	2006	Contribution to sales growth (%)
Volumes	2,358	5.5
Prices	3,530	8.3
Currencies	(96)	(0.2)
Acquisitions and additions to the scope of consolidation	4,240	9.9
Divestitures	(167)	(0.4)
	9,865	**23.1**

Higher sales volumes were achieved in almost all areas of our portfolio, in many businesses this was connected with increases in sales prices due to higher raw material costs. In the Oil & Gas segment, sales increased due to higher crude oil and natural gas prices.

At €4,230 million, acquisitions significantly contributed to the increase in sales. Important acquisitions were:

- Engelhard Corp., acquired on June 6, 2006
- The construction chemicals business of Degussa AG, acquired on July 1, 2006
- Johnson Polymer, which was also acquired on July 1, 2006

Additions to the scope of consolidation contributed €10 million to the increase in sales.

Divestitures reduced sales by €167 million, particularly as the result of the sale of parts of our businesses with generic crop protection products in North America (NAFTA) in 2006 and the divestiture of the polystyrene business in the United States and Canada in 2005.

Income from Operations

Compared with the previous year, we increased income from operations by €920 million to €6,750 million. Income from operations as a percentage of sales was 12.8% compared with 13.6% in the previous year. At €2,126 million, we again earned a high premium on our cost of capital (2005: €2,354 million).

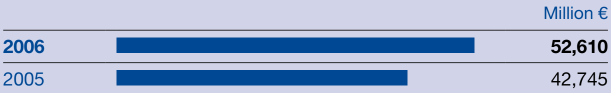
We largely offset persistently high raw material prices by increasing our sales prices. In particular, higher prices in the oil and gas business as well as increases in volumes and prices in the Plastics segment contributed to this improvement in earnings. Earnings in the Agricultural Products division were significantly lower than in 2005. This was a result of lower volumes and margins in Brazil and lower volumes for fungicides in Europe due to unfavorable weather conditions.

The integration of the acquired businesses is progressing according to plan. All acquired businesses contributed to income before acquisition-related special items. Future synergies of approximately €290 million per year, which we intend to reach by the year 2010, are higher than originally expected. These effects arise primarily from the reduction of overlapping functions and processes, for example in administration, marketing and sales, and logistics as well as savings in purchasing and the use of chemical raw materials supplied from other BASF divisions.

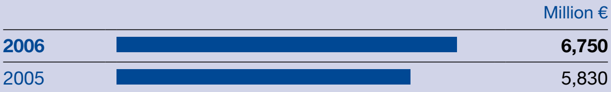
RECORD YEAR 2006

- Significant increase in sales due to acquisitions and organic growth in the existing businesses
- Special charges due to acquisition-related expenses and restructuring costs
- Income from operations at a record high
- Further increase in net income

Sales



Income from operations



Special items

Income from operations was significantly impacted by net special charges of €507 million in 2006, compared with €308 million in the previous year.

€562 million was incurred for restructuring measures, predominantly in the Fine Chemicals and Intermediates divisions. In the Intermediates division, the special charges related to restructuring measures in the butanediol value-added chain, especially the mothballing of a THF plant in Caojing, China. These measures are part of our new program to increase efficiency, which will save €300 million annually, starting in 2008.

The integration of Engelhard, the construction chemicals business of Degussa, and Johnson Polymer were associated with special charges in the amount of €175 million in 2006. These charges were incurred for restructuring measures, severance payments for employees leaving the company and the use of step-up on inventories from the acquired businesses.

Special gains in 2006 resulted primarily from divestitures associated with portfolio optimization in the Agricultural Products division, the reduction of a fine imposed by the E.U. in 2001 for anti-trust violations related to vitamins, and the reversal of provisions made for risks associated with the pharmaceuticals business that we divested in 2001.

Income before taxes and minority interests

Compared with the previous year, income before taxes and minority interests increased by €601 million to €6,527 million.

The financial result decreased by €319 million to €(223) million. Interest charges increased due to acquisition financing. The financial result of the previous year contained a tax-free special gain from the sale of our 50% stake in Basell N.V.

Although assets increased due to the acquisitions, the return on assets in 2006 reached a satisfactory 17.5%, in comparison with 17.7% in the previous year.

Net income/earnings per share

In 2006, we achieved a net income of €3,215 million. This is an increase of €208 million, or 6.9%, compared with the previous year.

Minority interests in the amount of €251 million belonged primarily, as in the previous year, to our partners in natural gas trading companies and in the steam cracker in Port Arthur, Texas.

At 46.9%, the tax rate remained approximately at the same level as in 2005. The noncompensable foreign income taxes on oil production increased from €1,072 million to €1,282 million. The capitalization of the remaining corporate income tax credit in Germany lowered income taxes. In 2005, the tax-free gain from the sale of our stake in Basell, N.V. contributed to the reduced tax rate.

Earnings per share in 2006 increased to €6.37, compared with €5.73 in 2005.

Special items

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		**Full Year**	
Million €	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
– in income from operations	(16)	(64)	(113)	(70)	(177)	(65)	(201)	(109)	(507)	(308)
– in financial result	–	–	–	–	–	222	–	–	–	222
	(16)	(64)	**(113)**	(70)	**(177)**	157	**(201)**	(109)	**(507)**	(86)

Balance Sheet

Assets

	2006 Million €	2006 %	2005 Million €
Long-term assets			
Intangible assets	8,922	19.7	3,720
Property, plant and equipment	14,902	32.9	13,987
Investments accounted for using the equity method	651	1.4	244
Other financial assets	1,190	2.6	813
Deferred taxes	622	1.4	1,255
Other receivables and miscellaneous long-term assets	612	1.4	524
	26,899	**59.4**	**20,543**
Short-term assets			
Inventories	6,672	14.7	5,430
Accounts receivable, trade	8,223	18.2	7,020
Other receivables and miscellaneous short-term assets	2,607	5.8	1,586
Marketable securities	56	0.1	183
Cash and cash equivalents	834	1.8	908
	18,392	**40.6**	**15,127**
Total assets	**45,291**	**100.0**	**35,670**

Stockholders' equity and liabilities

	2006 Million €	2006 %	2005 Million €
Stockholders' equity			
Subscribed capital	4,420	9.7	4,417
Retained earnings	13,302	29.4	11,928
Other comprehensive income	325	0.7	696
Minority interests	531	1.2	482
	18,578	**41.0**	**17,523**
Long-term liabilities			
Provisions for pensions and similar obligations	1,452	3.2	1,547
Other provisions	3,080	6.8	2,791
Deferred taxes	1,441	3.2	699
Financial indebtedness	5,788	12.8	3,682
Other liabilities	972	2.1	1,043
	12,733	**28.1**	**9,762**
Short-term liabilities			
Accounts payable, trade	4,755	10.5	2,777
Provisions	2,848	6.3	2,763
Tax liabilities	858	1.9	887
Financial indebtedness	3,695	8.2	259
Other liabilities	1,824	4.0	1,699
	13,980	**30.9**	**8,385**
Total stockholders' equity and liabilities	**45,291**	**100.0**	**35,670**

BASF's **total assets** increased by €9,621 million primarily due to acquisitions. Adjusted for this effect, there would have been a slight decrease compared to 2005.

Effect of acquisitions on BASF Group assets*

Million €	2006
Long-term assets	**8,502**
Thereof goodwill	2,775
other intangible assets	3,085
property, plant and equipment	1,754
Short-term assets	**3,719**
Thereof inventories	999
accounts receivable, trade	1,040
other receivables and miscellaneous short-term assets	1,350
Total assets	**12,221**

* Amounts at date of acquisition

Long-term assets increased significantly by €6,356 million to €26,899 million. The ratio of long-term assets to total assets increased from 57.6% in 2005 to 59.4% in 2006. Intangible assets increased in particular as a result of the acquisitions.

> Comprehensive information on the composition of, and changes in, long-term assets are provided in the Notes to the Consolidated Financial Statements on page 130 onward. The most important capital expenditures are explained on page 30 onward.

Inventories increased by €1,242 million to €6,672 million as a result of acquisitions and further increased raw material prices. Days of inventory invested could be reduced slightly in the course of the year.

Trade accounts receivable rose by €1,203 million. Their share of total assets decreased by 1.5 percentage points compared with the previous year. We noticeably reduced days of sales outstanding.

Stockholders' equity increased by €1,055 million, mainly due to our high net income. Moreover, we took actuarial gains from the valuation of our pension obligations of €112 million to stockholders' equity. These effects were partially offset by the payment of dividends and the repurchase of 14.7 million shares for a total of €938 million as well as negative foreign currency translation effects in the amount of €448 million. The equity ratio was 41.0% compared with 49.1% in 2005.

Net debt increased significantly as a result of the financing of acquisitions.

Net debt

Million €	2006	2005
Cash and cash equivalents	834	908
Financial indebtedness	9,483	3,941
Net debt	**8,649**	**3,033**

Long-term liabilities increased by €2,971 million to €12,733 million. This was primarily due to the issuance of bonds to finance the acquisitions as well as the accrual of deferred tax liabilities from the revaluation of assets acquired.

Short-term liabilities increased significantly due to the addition of short-term liabilities from the acquisitions as well as the issuance of commercial paper. This led to an increase in short-term liabilities as a percentage of total assets from 23.5% in 2005 to 30.9% in 2006.

> Provisions, financial indebtedness, other liabilities as well as existing lines of credit are explained in Notes 20, 21 and 22 of the Notes to the Consolidated Financial Statements on page 141 onward.

Assets by region

	Property, plant and equipment		Inventories		Receivables	
%	**2006**	2005	**2006**	2005	**2006**	2005
Europe	53.5	52.4	53.4	51.0	59.6	57.9
North America (NAFTA)	22.4	18.1	28.4	29.6	18.5	18.0
Asia Pacific	20.3	25.7	13.6	13.5	15.6	15.5
South America, Africa, Middle East	3.8	3.8	4.6	5.9	6.3	8.6
	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Liquidity and Capital Resources

The objectives of our financial management are to ensure liquidity, limit financial risks and optimize our cost of capital by means of an appropriate capital structure. Our financial activities are conducted in line with the needs of the operational business and the company's strategic direction.

Statements of cash flows

Million €	2006	2005
Net income	3,215	3,007
Depreciation and amortization of intangible, tangible and financial assets	2,994	2,427
Changes in working capital	10	250
Miscellaneous items	(279)	(434)
Cash provided by operating activities before external financing of pension obligations	**5,940**	**5,250**
External financing of pension obligations (CTA)	–	(3,660)
Cash provided by operating activities	**5,940**	**1,590**
Payments related to tangible and intangible assets	(2,411)	(1,948)
Acquisitions/divestitures	(6,240)	995
Financial investments and other items	237	247
Cash used in investing activities	**(8,414)**	**(706)**
Capital increases/repayments	(920)	(1,425)
Changes in financial liabilities	4,574	299
Dividends	(1,233)	(982)
Cash provided by financing activities	**2,421**	**(2,108)**
Net changes in cash and cash equivalents	(53)	(1,224)
Cash and cash equivalents as of beginning of year and other changes	887	2,132
Cash and cash equivalents as of end of year	**834**	**908**

FINANCIAL MANAGEMENT

Our goal is to maintain the financial flexibility needed to continually develop our business portfolio and take advantage of strategic opportunities. Even after the acquisitions, BASF's equity ratio is above the average of the chemical industry.

SHARE BUYBACK/DIVIDENDS

Our shareholder-oriented buyback policy allows us to manage our equity ratio, reduce our capital costs and boost earnings per share. We aim to further increase our dividend annually and even in years with difficult business conditions we aim to match the level of the year before.

Cash provided by operating activities

In 2006, cash provided by operating activities was €5,940 million due to the significant rise in cash earnings. Before the external financing of pension obligations in 2005, this represents an increase of 13.1% over the previous record year of 2005.

Despite the significantly higher volume of business, working capital decreased slightly.

Miscellaneous items primarily reflects the reclassification of gains on the sale of securities and divestitures, which is included as part of cash inflows under cash used in investing activities.

Cash used in investing activities

Net expenses increased to €8,414 million compared with €706 million in 2005. This significant increase was primarily due to the acquisitions, whereas in 2005 there were proceeds from the sale of our stake in Basell N.V.

Expenditures for acquisitions totaled €6,397 million and were primarily attributable to:

- The acquisition of Engelhard Corp., whose shares we purchased for €3.8 billion
- The construction chemicals business of Degussa AG, whose equity we acquired for €2.2 billion
- Johnson Polymer, which we acquired for €379 million

We generated proceeds of €157 million from divestitures. This primarily resulted from cash inflows related to portfolio optimization measures in the Agricultural Products division.

We invested a total of €2,411 million in property, plant and equipment and intangible assets. That was 23.8% more than in 2005. Capital expenditures were again below the level of depreciation and amortization.

We spent €201 million on financial assets, marketable securities and financial receivables. The disposal of long-term assets and the sale of securities generated proceeds of €438 million.

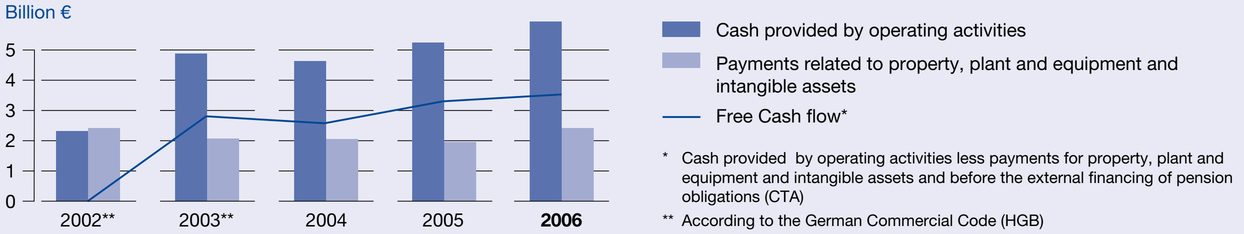
In the **Chemicals** segment, capital investments, including acquisitions, rose by €2,900 million compared with the previous year to €3,539 million in 2006. Major projects included:

- The acquisition of Engelhard Corp, and the integration of its catalysts activities, including its Materials Services business, in the new Catalysts division
- The construction of a plant for the production of alkylethanolamine in Geismar, Louisiana
- The increase in production capacity of the steam cracker in Antwerp, Belgium, for catalysts in Pasadena, Texas, and for Hexamoll® DINCH in Ludwigshafen, Germany

In the **Plastics** segment, we spent €631 million on capital expenditures in 2006. This represents an increase of 28.8% compared with the previous year. Among the important capital investments were:

- The startup of plants for TDI and MDI in Caojing, China; for PBT in Kuantan, Malaysia, and for Ecoflex® in Schwarzheide, Germany
- The construction of a PUR systems house, a compounding plant for engineering plastics and a production plant for TPU in Shanghai, China
- The acquisition of a DNT plant in Geismar, Louisiana,
- The expansion of production capacity for polyamide 6 in Freeport, Texas, for Polyols in Geismar, Louisiana, and for Ultrason®, in Ludwigshafen, Germany
- The start of construction of a hydrogen peroxide and HPPO plant in Antwerp, Belgium

Cash flow on record level



* Cash provided by operating activities less payments for property, plant and equipment and intangible assets and before the external financing of pension obligations (CTA)

** According to the German Commercial Code (HGB)

In the **Performance Products** segment, investments including acquisitions increased to €4,490 million (2005: €347 million). The most important projects were:

- The acquisition of the construction chemicals business of Degussa AG and of Johnson Polymer, a producer of water-based resins
- The integration of the pigments business from the acquisition of Engelhard Corp.
- The expansion of the plant for acrylic acid and superabsorbents in Antwerp, Belgium
- The construction of a plant for superabsorbents in Freeport, Texas, and of a plant for HDI-based raw materials for coatings in Caojing, China

In the **Agricultural Products & Nutrition** segment, we spent €466 million in 2006 on capital expenditures including acquisitions compared with €296 million in the previous year.

- The **Agricultural Products** division invested €88 million, mainly in optimization measures at various sites.
- The **Fine Chemicals** division spent €378 million on capital expenditures mainly for the acquisition of the Effect Pigments and Personal Care Materials businesses from the acquisition of Engelhard Corp. and optimization measures at various sites.

In the **Oil & Gas** segment, we invested €545 million compared with €624 million in 2005. Key projects included:

- The development of the Achimov formation in the Urengoy field
- The Haidach natural gas storage project in Austria
- The capacity expansion of the natural gas pipeline WEDAL
- The development of new oil and natural gas deposits in the North Sea as well as Libya and Argentina

Cash provided by financing activities

In 2006, cash provided by financing activities was €2,421 million compared with €(2,108) million in 2005.

We spent a total of €938 million to buy back 14.7 million shares at an average price of €63.84 per share.

> For further information see page 139.

€1,233 million was paid in dividends and profit transfers in 2006. Of this amount, €1,015 million, or €2.00 per share, was for dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2005. Minority interests of fully consolidated companies received €218 million.

In order to finance acquisitions, bonds with a total value of €2 billion as well as commercial paper were issued in the second quarter of 2006. Financial indebtedness increased by 140.6% compared with 2005 and amounted to €9,483 million. Net debt increased by €5,616 million to €8,649 million.

> Financial liabilities are discussed in detail in Note 22 to the Consolidated Financial Statements on page 147 onward.
> Detailed information on other financial liabilities is provided in Note 23 to the Consolidated Financial Statements on page 149 onward.

Capital expenditures by region

%	2006	2005
Europe	46.6	56.8
North America (NAFTA)	41.4	11.2
Asia, Pacific	7.0	27.6
South America, Africa, Middle East	5.0	4.4
	100.0	**100.0**

INVESTING IN THE FUTURE

Our research know-how in the plant biotechnology and energy management growth clusters was strengthened by the acquisition of innovative companies. CropDesign N.V., Belgium, complements our activities in the discovery and use of plant traits. The acquisition of PEMEAS GmbH with headquarters in Frankfurt/Main, Germany, strengthens our position as a producer of components for the fuel cell industry.

Key ratios and ratings

In 2006, the key financial ratios have remained solid, thus laying the foundation for a good rating. BASF, with an AA-/A-1+/outlook negative from Standard & Poor's and an Aa3/P-1/outlook negative from Moody's, has significantly stronger ratings than its competitors in the chemical industry.

Horizontal balance sheet ratios

			2006	2005
Fixed asset coverage I (%)*	=	Stockholders' equity / Intangible assets + Tangible assets + Financial assets	72	93
Fixed asset coverage II (%)*	=	Stockholders' equity + Long-term liabilities / Intangible assets + Tangible assets + Financial assets	122	145
Debt-equity ratio (%)	=	Stockholders' equity / Stockholders' equity and liabilities	41.0	49.1

* Previous year's figures adjusted based on new calculation methods

Liquidity and debt ratios

			2006	2005
Liquidity (%)*	=	Current assets / Short-term liabilities	132	180
Dynamic debt level (%)	=	Cash provided by operating activities / Financial indebtedness	63	133**
Debt-equity ratio (%)	=	Financial indebtedness / Financial indebtedness + Stockholders' equity	33.8	18.4

* Previous year's figures adjusted based on new calculation methods
** Before external financing of pension obligations

Interest coverage

			2006	2005
EBITDA interest coverage*	=	Income from operations before depreciation and amortization / Interest expense - Interest income	26.1	48.4

* Previous year's figures adjusted based on new calculation methods

PRINCIPLES AND OBJECTIVES OF OUR FINANCIAL MANAGEMENT

Financial management in the BASF Group is largely centralized and is supported by regional competence centers. Our financing and investment policy is value-based, with risk management taking precedence over return. The risks associated with currencies, interest rate changes and creditworthiness are systematically analyzed and limited using modern processes and financial instruments. We manage the capital structure of BASF with efficient financial planning tools while taking into account selected financial ratios.

> Information regarding the use of financial instruments may be found in Note 26 to the Consolidated Financial Statements on page 154 onward.

Results of Operations by Segment

Segment overview

Million €	Sales 2006	Sales 2005	Income from operations before depreciation and amortization (EBITDA) 2006	EBITDA 2005	Income from operations (EBIT) before special items 2006	EBIT before special items 2005
Chemicals	11,572	8,103	2,235	1,942	1,704	1,488
Plastics	12,775	11,718	1,715	1,504	1,216	1,031
Performance Products	10,133	8,267	1,177	1,227	848	890
Agricultural Products & Nutrition	4,934	5,030	847	996	435	693
Thereof Agricultural Products	3,079	3,298	663	907	378	671
Fine Chemicals	1,855	1,732	184	89	57	22
Oil & Gas	10,687	7,656	3,766	2,859	3,245	2,410
Other*	2,509	1,971	(17)	(295)	(191)	(374)
Thereof corporate research costs	–	–	–	–	(258)	(225)
	52,610	**42,745**	**9,723**	**8,233**	**7,257**	**6,138**

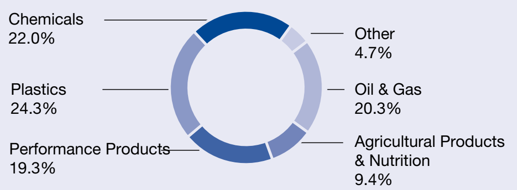
Segment overview

Million €	Income from operations (EBIT) 2006	EBIT 2005	Assets 2006	Assets 2005	Capital expenditures** 2006	Capital expenditures** 2005
Chemicals	1,380	1,326	10,473	6,146	3,539	639
Plastics	1,192	1,015	6,911	6,639	631	490
Performance Products	669	863	9,727	4,863	4,490	347
Agricultural Products & Nutrition	381	623	6,054	6,637	466	296
Thereof Agricultural Products	447	681	4,458	5,156	88	74
Fine Chemicals	(66)	(58)	1,596	1,481	378	222
Oil & Gas	3,250	2,410	5,434	4,895	545	624
Other*	(122)	(407)	6,692	6,490	368	127
Thereof corporate research costs	(258)	(225)	–	–	–	–
	6,750	**5,830**	**45,291**	**35,670**	**10,039**	**2,523**

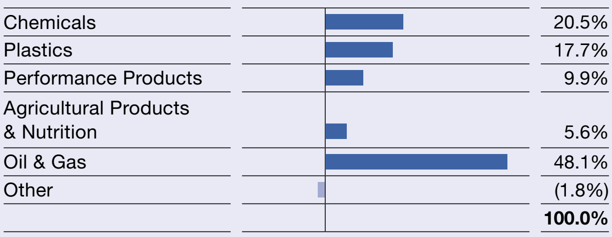
* Other includes the fertilizers business and other businesses as well as expenses, income and assets not allocated to the segments. This item also includes foreign currency results from financial indebtedness that are not allocated to the segments, hedging of forecasted foreign sales, as well as from currency positions that are macro-hedged (€86 million in 2006 and €(97) million in 2005).

** Additions to property, plant and equipment (thereof from acquisitions: €1,754 million in 2006 and €329 million in 2005) and intangible assets (thereof from acquisitions: €5,860 million in 2006 and €257 million in 2005).

Sales by segment



Income from operations by segment



Sales

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Chemicals	2,239	1,822	2,443	2,007	3,442	2,063	3,448	2,211
Plastics	3,091	2,800	3,168	2,924	3,256	2,957	3,260	3,037
Performance Products	2,147	1,908	2,197	2,098	2,959	2,106	2,830	2,155
Agricultural Products & Nutrition	1,376	1,354	1,389	1,465	973	1,008	1,196	1,203
Thereof Agricultural Products	928	959	924	1,043	509	576	718	720
Fine Chemicals	448	395	465	422	464	432	478	483
Oil & Gas	2,985	1,840	2,481	1,650	2,116	1,630	3,105	2,536
Other*	677	359	644	437	553	597	635	578
	12,515	**10,083**	**12,322**	**10,581**	**13,299**	**10,361**	**14,474**	**11,720**

Income from operations (EBIT) before special items

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Chemicals	317	426	351	415	444	268	592	379
Plastics	332	269	315	274	316	267	253	221
Performance Products	248	225	209	272	239	216	152	177
Agricultural Products & Nutrition	224	296	183	302	(46)	(23)	74	118
Thereof Agricultural Products	213	276	165	295	(54)	(24)	54	124
Fine Chemicals	11	20	18	7	8	1	20	(6)
Oil & Gas	848	484	868	579	749	594	780	753
Other*	(104)	(137)	(16)	(185)	(87)	5	16	(57)
	1,865	**1,563**	**1,910**	**1,657**	**1,615**	**1,327**	**1,867**	**1,591**

Income from operations (EBIT)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Chemicals	317	426	263	345	229	259	571	296
Plastics	331	268	314	280	306	260	241	207
Performance Products	247	224	209	282	180	209	33	148
Agricultural Products & Nutrition	290	304	227	272	(81)	(11)	(55)	58
Thereof Agricultural Products	280	284	164	291	(55)	(12)	58	118
Fine Chemicals	10	20	63	(19)	(26)	1	(113)	(60)
Oil & Gas	848	484	868	579	754	594	780	753
Other*	(184)	(207)	(84)	(171)	50	(49)	96	20
	1,849	**1,499**	**1,797**	**1,587**	**1,438**	**1,262**	**1,666**	**1,482**

* Other includes the fertilizers business and other businesses as well as expenses, income and assets not allocated to the segments. This item also includes foreign currency results from financial indebtedness that are not allocated to the segments, hedging of forecasted foreign sales, as well as from currency positions that are macro-hedged (€86 million in 2006 and €(97) million in 2005).

Chemicals

The Chemicals segment consists of the **Inorganics, Catalysts, Petrochemicals and Intermediates** divisions. In 2006, sales to third parties increased by €3,469 million to €11,572 million compared with the previous year (volumes 9%, prices 6%, portfolio 29%, currencies –1%).

Segment data

Million €	**2006**	2005	Change in %
Sales to third parties	11,572	8,103	42.8
Thereof Inorganics	1,134	945	20.0
Catalysts	2,411	72	.
Petrochemicals	5,754	5,084	13.2
Intermediates	2,273	2,002	13.5
Intersegmental transfers	4,483	3,826	17.2
Sales including intersegmental transfers	16,055	11,929	34.6
Income from operations before depreciation and amortization (EBITDA)	2,235	1,942	15.1
Income from operations (EBIT) before special items	1,704	1,488	14.5
Income from operations (EBIT)	1,380	1,326	4.1
Income from operation (EBIT) after cost of capital	479	717	(33.2)
Operating margin (%)	11.9	16.4	-
Assets	10,473	6,146	70.4
Research and development expenses	178	114	56.1
Additions to property, plant and equipment and intangible assets	3,539	639	453.8

The new Catalysts division, formed after the acquisition of Engelhard Corp. on June 6, significantly contributed to the positive sales development of the segment. Engelhard's emission-control and process catalysts business, Materials Services business as well as BASF's existing catalysts business form the new division.

Sales in the other three divisions grew because of higher sales volumes and sales prices. All regions contributed to this growth. In Asia, we increased sales mainly due to the business at our Verbund production site in Nanjing, China, which, in 2005, was not yet in operation for the full year.

CHEMICALS SEGMENT

- Worldwide increase in sales due to acquisition, higher volumes and prices
- EBIT increase of 4% despite special charges
- Greater efficiency due to optimization of production structures
- Rapid integration of the catalysts business from the acquired Engelhard Corp. in the new Catalysts division

Income from operations increased by 4% compared with the previous year to €1,380 million, despite significant special charges. Integration costs and the use of step-up on inventories from Engelhard Corp. resulted in acquisition-related special items. The mothballing of the THF plant in Caojing, China, was another special item affecting earnings adversely.

Assets increased by €4,327 million compared with 2005 to €10,473 million. This was mainly due to the acquisition of Engelhard.

We expect a further increase in sales for 2007, with a significant contribution from the Catalysts division, and stable business in all other divisions. Earnings will be adversely impacted by the integration costs of Engelhard, scheduled plant turnarounds and the expansion of the steam cracker in Antwerp, Belgium in the second half of the year. We are nevertheless confident of exceeding the previous year's strong earnings in 2007.

Inorganics

We increased sales to third parties by €189 million in 2006 to €1,134 million (volumes 11%, prices 4%, portfolio 6%, currencies –1%). High demand in all business units of the division contributed to this increase. Moreover, the growth in sales resulted from the acquisition of the electronic chemicals business of Merck KGaA in Darmstadt, Germany. This business, which was acquired in April 2005, contributed for the first time a full-year's sales and earnings in 2006.

Income from operations in 2006 was below the previous year's results, as significantly higher natural gas prices reduced margins, particularly for methane-based products like ammonia and methanol. The significant decline could not be offset by the earnings from inorganic specialties and basic chemicals, which improved thanks to strong demand.

The catalysts business, which was previously grouped under Inorganics, was assigned to the new Catalysts division retroactive to January 1, 2006. The previous year's figures have been adjusted accordingly.

We expect sales to grow slightly in 2007. In particular, our businesses with inorganic specialties and electronic chemicals will contribute to this growth. Despite higher research expenses and the costs for starting up our new Electronic Materials Center Europe, we intend to achieve the earnings of the previous year.

Catalysts

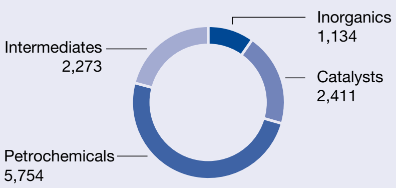
The new Catalysts division consists of the catalysts and Materials Services business of Engelhard Corp., acquired in June 2006, and BASF's existing catalysts business. We develop and produce emission-control and process catalysts, and market them worldwide. The Materials Services unit supplies precious metals and renders services to our catalysts business and to customers of BASF. We are expanding our leading role in catalyst technology through continuous process and product innovation, and are also exploiting our growth potential, primarily in Asia.

In 2006, we achieved sales of €2,411 million. The strong demand for catalysts in the emerging markets primarily contributed to this positive business trend. In addition, the global business for diesel catalysts for use in heavy-duty vehicles also developed well. New government directives on emissions have also supported our business.

Sales of emission-control catalysts for gasoline engines in North America (NAFTA) declined due to lower production of SUV's and small trucks. The global demand for chemical catalysts and catalysts for oil refining developed well. In the Materials Services business, sales increased due to larger trade volumes and higher precious metal prices.

Sales by division

Million €



Factors influencing sales – Chemicals

Volumes	+9%
Prices	+6%
Portfolio	+29%
Currencies	–1%
Sales	**+43%**

Earnings exceeded the expectations we had before the acquisition of Engelhard. The integration is proceeding according to plan and the synergies are higher than we had expected before the acquisition.

BASF expects to achieve annual synergies of $200 million from the acquisition of Engelhard Corp., which we intend to reach by the year 2010. These effects arise primarily from the reduction of overlapping functions and processes, for instance, in administration, sales and logistics. The integration means a reduction of about 800 jobs worldwide, primarily in the United States. The integration costs, excluding the use of step-up on inventories, are expected to amount to approximately $120 million.

In 2007, we expect significantly higher sales and earnings thanks to the full-year contribution of the acquired businesses. In addition, there will be persistent growth in the areas of environmental technologies for vehicles as well as catalysts for the chemical industry and oil refining.

Petrochemicals

We significantly improved sales to third parties by €670 million in 2006 to €5,754 million (volumes 7%, prices 7%, currencies –1%). All product lines contributed to this increase. The first three quarters were characterized by persistently high crude oil and naphtha costs compared with the previous year. High volume demand for our cracker products as well as alkylene oxides/glycols, plasticizers and solvents enabled us to increase our sales prices in almost all product lines.

Income from operations exceeded the previous year's very strong level. In addition to scheduled plant turnarounds, we also had unplanned shutdowns in Antwerp, Belgium; Port Arthur, Texas; and Tarragona, Spain, caused by power outages and flooding. Overall, our production facilities continued to operate at high capacity utilization rates. This contributed to the strong earnings.

In 2006, we largely completed the restructuring of our plasticizers production in the United States. In Pasadena, Texas, we converted the production of chemical intermediates used in the production of plasticizers from 2-ethylhexanol to 2-propylheptanol. At the beginning of 2007, new production for plasticizers will be started up there. In Europe, we are expanding the production capacity of the innovative plasticizer Hexamoll® DINCH. We have started to prepare the steam cracker expansion in Antwerp, Belgium in 2006; it will be completed in the second half of 2007.

In 2007, we expect our business to continue to develop positively. Because of the expected lower crude oil prices, the sales trend will be weaker than in 2006. Maintenance shutdowns of the crackers in Port Arthur, Texas, and Antwerp, Belgium, are planned for the second half of 2007. Assuming a continuation of the strong global economy and continued high demand, we expect earnings to match the high level of 2006.

INORGANICS
- High demand in all divisions
- Increase in sales primarily due to contribution of the electronic chemicals business acquired in 2005
- EBIT below previous year due to high natural gas prices

CATALYSTS
- Positive business development in the new division
- Earnings trend exceeds expectations; the integration is proceeding according to plan
- Growth in catalysts for vehicles as well as for the chemical industry and oil refining

Intermediates

In 2006, we increased sales to third parties by €271 million to €2,273 million (volumes 12%, prices 2%). Business was characterized by high demand in all product lines and regions.

We were largely able to offset significantly increased prices of important raw materials by raising our sales prices; we improved margins for some products.

The restructuring measures of 2005 led to lower fixed costs and higher capacity utilization in 2006. Income from operations was negatively impacted by special items, especially due to the mothballing of the THF plant in Caojing, China. As a result, income from operations did not reach the level of the previous year. The mothballing of this plant is a significant measure in our worldwide restructuring of the butanediol value-adding chain, which is part of our program to increase efficiency. The plants for THF and PolyTHF® in Yokkaichi, Japan were closed.

In 2007, we expect a further increase in sales in all regions with continued strong growth in demand. Beginning in the second half of the year, we expect pressure on our margins, particularly for butanediol and its derivatives, because a number of competitors will start up new production plants, primarily in Asia. Nevertheless, in 2007 we want to improve our earnings through our measures to enhance efficiency and further increase capacity utilization rates.

INNOVATIVE TECHNOLOGIES FOR THE AUTOMOTIVE INDUSTRY

As a leading supplier to the automotive industry, we have extended our portfolio to include exhaust catalysts as a result of the integration of Engelhard. One example is the catalyzed soot filter (CSF). If equipped with a soot filter, diesel automobiles have a significantly lower impact on the environment. In order for the filter to remain efficient, the soot needs to be removed on a regular basis. For the CSF, Engelhard was the first company to develop a catalyst that interacts with the engine to clean the filter without maintenance. Harmful soot emissions are thereby reduced efficiently and, at the same time, more cost-effectively. BASF now supplies this technology to many automotive manufacturers in Europe.

Pioneering spirit: **Alfred Punke** was part of the team of catalysts specialists who developed the catalyzed soot filter.

PETROCHEMICALS

- Increase in sales in all product lines
- Growth in earnings despite high and volatile raw material prices and the shutdown of plants
- Expansion of production capacity of innovative plasticizers in Europe

INTERMEDIATES

- High demand in all product lines and regions
- Increase in efficiency and restructuring of the butanediol value-adding chain
- Earnings negatively impacted by special items

Plastics

The Plastics segment consists of the **Styrenics, Performance Polymers and Polyurethanes** divisions. In 2006, sales to third parties increased by €1,057 million to €12,775 million over the previous year (volumes 5%, prices 4%).

Segment data

Million €	**2006**	2005	Change in %
Sales to third parties	12,775	11,718	9.0
Thereof Styrenics	4,994	4,518	10.5
Performance Polymers	2,932	2,909	0.8
Polyurethanes	4,849	4,291	13.0
Intersegmental transfers	526	471	11.7
Sales including intersegmental transfers	13,301	12,189	9.1
Income from operations before depreciation and amortization (EBITDA)	1,715	1,504	14.0
Income from operations (EBIT) before special items	1,216	1,031	17.9
Income from operations (EBIT)	1,192	1,015	17.4
Income from operations (EBIT) after cost of capital	514	378	36.0
Operating margin (%)	9.3	8.7	–
Assets	6,911	6,639	4.1
Research and development expenses	145	135	7.4
Additions to property, plant and equipment and intangible assets	631	490	28.8

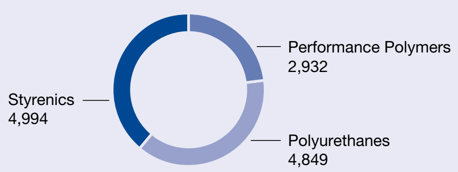
Overall, we increased both sales volumes and sales prices. Despite further increases in raw material costs, all three divisions increased earnings. Compared with the previous year's strong earnings, we increased income from operations for the segment by €177 million to €1,192 million. However, pressure on our sales prices increased towards the end of the year.

Despite higher volumes and improved prices, the earnings situation for styrenics continues to be unsatisfactory. We have therefore strengthened our measures to improve earnings in this division. For Performance Polymers, 2006 was characterized by the continued expansion of our business in engineering plastics. We integrated Leuna Miramid GmbH and LATI USA, Inc., which we had acquired in 2005. In the Polyurethanes division, we started up the isocyanate production complex, which was built together with partners in Caojing, China. In order to continue to participate profitably in the growing global polyurethane market, we expanded our global network of system houses.

In 2007, we aim to at least match the high level of earnings of 2006. We want to further improve earnings in the Styrenics division, successfully bring to market increased production volumes for polyurethanes and expand the position of engineering plastics in the Performance Polymers division.

PLASTICS SEGMENT
- Increase in sales due to higher volumes and prices
- Continued increases in raw material costs, partially offset by price increases
- Improved earnings in all divisions
- Significant expansion of polyurethane business

Sales by division
Million €



Styrenics

In the Styrenics division, we achieved sales to third parties of €4,994 million in 2006. Sales were therefore significantly higher than in 2005 (volumes 7%, prices 5%, portfolio –1%). The largest increases were reported in Europe, where a strong upswing in the construction sector supported sales and made price increases possible. Business also grew in Asia. In North America (NAFTA), increased imports from Asia led to persistent price pressure. Earnings were significantly higher than the weak 2005 due to higher prices and volumes and reduced costs.

In order to extend our position in the market and better utilize our capacities, we successfully integrated the styrene copolymers business which we acquired without production facilities from Lanxess AG and Repsol S.A. Furthermore, we have expanded our styrene specialties product portfolio in line with market demands.

The 70,000 metric ton polystyrene plant in Tarragona, Spain, was closed at the end of the year. This step was necessary due to falling demand for polystyrene over the past three years and the resulting excess capacity in Western Europe.

Mid-year, we started a project designed to achieve a sustainable increase in the division's profitability. In this project, global management teams are analyzing strategies and processes, optimizing costs and implementing innovation projects.

We aim to achieve an improvement in earnings for 2007. Our business in Europe as well as our global specialties business will primarily contribute to this improvement.

Performance Polymers

At €2,932 million, sales to third parties in 2006 were slightly higher than in the previous year (volumes –4%, prices 4%, portfolio 2%, currencies –1%). We increased sales prices and successfully integrated Leuna Miramid GmbH and the engineering plastics business from LATI USA, Inc. in North America (NAFTA), both of which were acquired in 2005. This represents a further strengthening of our position in engineering plastics.

We succeeded in increasing earnings despite a further rise in raw material prices. Sales price increases in all product lines, as well as worldwide growth in the sales volumes of engineering plastics, contributed significantly to this result.

We have expanded our engineering plastics business worldwide. In Kuantan, Malaysia, we started operations at a PBT plant together with our partner, Toray Industries Inc., Japan, thereby further aligning our product portfolio towards higher-value engineering plastics.

A compounding plant to support our engineering plastics business in North America (NAFTA) started operations in Altamira, Mexico. In 2007, we will start operations of a compounding plant, as well as a Technical Center for engineering plastics, in Shanghai, China. We are also increasing our capacities for our engineering plastic Ultrason® in Ludwigshafen, Germany. Our U.S. polyamide-6 production will be optimized in 2007 with the startup of a new world-scale plant in Freeport, Texas.

In the polyamides and intermediates business, we have further developed our globally managed commodity business model to capitalize on region- and segment-specific market advantages. We will expand our cooperation with our customers in the areas of development and innovation.

In 2007, we aim to match the strong level of earnings of 2006 for Performance Polymers.

Polyurethanes

Due to strong demand, we increased sales to third parties by €558 million in 2006 to €4,849 million (volumes 10%, prices 2%, portfolio 1%). All of the regions contributed to this growth. In particular, we are taking advantage of the strong market growth in Asia, and in 2006, we started operations of world-scale plants for MDI and TDI in Caojing, China, together with our partners.

Factors influencing sales – Plastics

Volumes	+5%
Prices	+4%
Sales	**+9%**

STYRENICS

- Significant increase in sales and earnings
- Successful integration of businesses acquired from Lanxess AG and Repsol S.A.
- Shutdown of polystyrene plant in Tarragona, Spain

We again increased income from operations, although prices for raw materials and energy were extraordinarily high in 2006 and to some extent have increased further.

BASF and Dow Chemical have laid the foundation stone at the BASF Verbund site in Antwerp, Belgium, for a production facility to manufacture propylene oxide (PO) using hydrogen peroxide (HP), using the new HPPO process. This innovative technology will ensure a cost efficient supply of propylene oxide in the future. It is the first plant of its kind in the world. BASF and Dow jointly developed the HPPO technology, and the Belgian-based Solvay Group participates in the production of the raw material hydrogen peroxide. The plant should be commissioned in early 2008 and will have an annual capacity of 300,000 metric tons. In Asia Pacific, we are expanding our business through the construction of a production site for polyurethane specialties in Shanghai, China, which is scheduled to start up in 2007. We are working with Dow to study the economic feasibility of a new world-scale TDI plant in Europe. With a capacity of 300,000 metric tons, it would be the largest plant of its kind in the world. Our MDI plant in Antwerp, Belgium, will be expanded to become the largest in the world; in the second quarter of 2007, we will increase annual capacity from 450,000 metric tons to 560,000 metric tons.

We expect continued positive growth of our customers' industries in 2007, particularly in dynamic markets such as China. We do not expect any noticeable relief in raw materials costs. Nevertheless, we aim to achieve earnings in 2007 equal to the level of 2006.

SAVING ENERGY AND COSTS

Many older buildings have heating requirements of more than 20 liters of heating oil per square meter of living space per year. Products and systems from BASF can be used cost-effectively to modernize such buildings into low-energy homes. Our innovative insulating material Neopor® is particularly suitable for retrofitting older buildings with thermal insulation. Combined with other measures, Neopor can reduce heating requirements in older buildings to less than 7 liters of heating oil per square meter and year – the standard for new buildings constructed in accordance with the German Energy Savings Ordinance (EnEV). This conserves resources, reduces energy costs and significantly cuts emissions.

Christian Limmer, SFK GmbH, uses Neopor to retrofit a house in Berlin, Germany with thermal insulation.

PERFORMANCE POLYMERS

- Increase in sales over previous year
- Strengthening of our position in engineering plastics
- Earnings increase again
- Startup of a new PBT plant at the Verbund site in Kuantan, Malaysia

POLYURETHANES

- Increase in sales in all regions
- Earnings increased compared with previous year, despite high energy and raw material costs
- New MDI and TDI plant complex startup in Caojing, China
- Foundation stone laid for the world's first plant using the HPPO technology in Antwerp, Belgium

Performance Products

The Performance Products segment consists of the **Construction Chemicals, Coatings, Functional Polymers and Performance Chemicals** divisions. In 2006, sales to third parties increased by €1,866 million to €10,133 million compared with the previous year (volumes 2%, prices 2%, portfolio 19%).

Segment data

Million €	**2006**	2005	Change in %
Sales to third parties	10,133	8,267	22.6
Thereof Construction Chemicals	1,120	–	–
Coatings	2,337	2,180	7.2
Functional Polymers	3,387	3,198	5.9
Performance Chemicals	3,289	2,889	13.8
Intersegmental transfers	390	352	10.8
Sales including intersegmental transfers	10,523	8,619	22.1
Income from operations before depreciation and amortization (EBITDA)	1,177	1,227	(4.1)
Income from operations (EBIT) before special items	848	890	(4.7)
Income from operations (EBIT)	669	863	(22.5)
Income from operations (EBIT) after cost of capital	(71)	382	.
Operating margin (%)	6.6	10.4	–
Assets	9,727	4,863	100.0
Research and development expenses	288	214	34.6
Additions to property, plant and equipment and intangible assets	4,490	347	.

All divisions posted increases in sales volumes. From a regional perspective, the strongest growth was in North America (NAFTA). A significant portion of this sales increase came from the businesses newly acquired in June and July, 2006. The construction chemicals business acquired from Degussa AG is managed as a new division. The pigments business for paper coating from Engelhard Corp. was assigned to the Functional Polymers division. The pigments business for the coatings and printing ink industry, also from Engelhard Corp., was assigned to the Performance Chemicals division, as was the water-based resins business for the paint and printing ink industries from Johnson Polymer. With the acquired businesses, we have complemented the portfolio of the segment with innovative, profitable and growing areas of business. Through the integration into our existing divisions, we achieve the highest possible synergy potential.

Overall, 2006 was a successful year due to our measures to reduce fixed costs as well as the innovations we successfully brought to market, despite further increases in raw material costs and a challenging market environment in some businesses. Whereas the business in both

PERFORMANCE PRODUCTS SEGMENT

- Significant increase in sales due to acquisitions
- Rapid Integration of the new Construction Chemicals division, as well as the new businesses with pigments and water-based resins
- Coatings developed favorably; Construction Chemicals exceeded expectations

Coatings and Performance Chemicals was successful, Functional Polymers posted a decline in earnings due to rising pressure on margins, mainly in the acrylic acid value-adding chain and with paper chemicals. Special charges resulted from various restructuring measures as well as from the integration of the acquired businesses.

Earnings in the Construction Chemicals, Performance Chemicals and Functional Polymers divisions were negatively affected by higher depreciation and amortization charges related to the acquisitions. Overall, income from operations declined to €699 million, which is €194 million below the previous year's strong level.

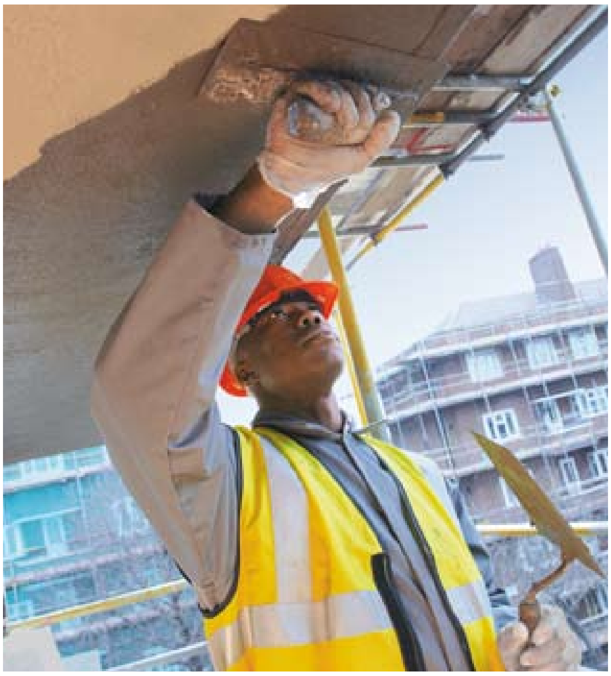
Capital expenditures increased by €4,143 million to €4,490 million, largely due to the acquisitions.

In 2007, we want to increase sales and earnings in a challenging market environment. We plan to achieve this by strengthening our product portfolio through innovations and accelerating the expansion of our business in Asia.

Construction Chemicals

The new BASF division is the worldwide market and technology leader in the field of construction chemicals and systems. The concrete admixtures from the Admixture Systems business unit ensure optimal concrete characteristics, even under extreme conditions. The Construction Systems unit offers building systems, sports and industrial flooring as well as façade products.

Sales to third parties developed very positively in 2006, primarily for Admixture Systems in Europe and the Middle East, and Construction Systems in Europe and North America (NAFTA). In Asia, the weak construction market in Taiwan and Korea as well as the negative currency effect in Japan, were offset by good volume growth in Southeast Asia and Australia. Earnings growth was also positive and exceeded our expectations. The integration is being implemented rapidly; the synergy potential arising from the acquisition has been identified and is being systematically realized.



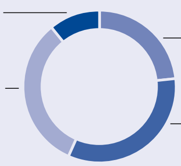
NEW STANDARDS IN CONCRETE REPAIR

Refurbishment accounts for approximately half of the construction work in Europe. An important area is concrete repair – from balconies to bridge piers. Through the integration of Degussa's construction chemicals business, we have gained longstanding expertise in this field. Almost 30 years ago, this led to the creation of the Emaco® range, Europe's first ready-to-use cement-based repair mortars. With Emaco Nanocrete, we have introduced our first range of products that incorporate nanotechnology which makes it more durable than the average repair mortar and less likely to crack. Furthermore, it is easier to use, saving both time and money. Emaco Nanocrete already exceeds the stringent E.U. standard for concrete repair that will come into effect at the end of 2008.

Eben Abbey, Renocon Ltd., uses Emaco Nanocrete to refurbish a building in Hackney, London. More than 20 BASF products are being used in the renovation work.

Sales by division

Million €



Factors influencing sales – Performance Products

Volumes	+2 %
Prices	+2 %
Portfolio	+19 %
Sales	**+23 %**

We expect further increase in sales and earnings in 2007. In particular, we intend to participate in the dynamic development of the growth markets of Eastern Europe, the Middle East and China.

Coatings

Sales to third parties increased by €157 million to €2,337 million (volumes 2%, prices 3%, portfolio 2%). We were able to increase sales in all regions.

Income from operations was above the previous year. All units and regions contributed to this development.

In the area of automotive OEM coatings, our business in China, Eastern Europe and South America grew, whereas business in Japan, Western Europe and the United States declined. We expanded our system supplier business, which enables our customers to reduce the overall costs of coating processes. In addition to supplying products, we also provide inventory management and other additional services for our customers.

In automotive refinish coatings, we increased our earnings in all regions. High demand in the commercial transport sector contributed to this, as did an expansion of business with the body shops of major automotive manufacturers.

Earnings in industrial coatings also surpassed those of the previous year, as growing coil-coating exports to Eastern Europe more than compensated for weaker business in Japan and North America (NAFTA).

In the architectural coatings business in South America, we improved our earnings with our Suvinil® brand.

We plan to further increase sales and earnings in 2007. We are expanding our presence in the growth markets of Eastern Europe and Asia, particularly in China and India, and are continuing with our measures to improve efficiency across all regions and units.

Functional Polymers

We achieved sales to third parties of €3,387 million in 2006, which represents an increase of €189 million over the previous year (volumes 1%, portfolio 5%).

Sales increased in North America (NAFTA) and Europe. The inclusion of Engelhard's pigments business for paper coating contributed €149 million.

CONSTRUCTION CHEMICALS

- Very positive sales and earnings development
- Strong construction market in Europe, North America (NAFTA) and the Middle East
- Rapid integration and systematic realization of synergies
- Our goal is to fully exploit the market potential in Eastern Europe, China, and the Middle East

COATINGS

- Volume and sales increase
- Earnings in all businesses and regions improved
- Expansion of the system supplier business

The performance of the individual business units was mixed: Sales of acrylic monomers were approximately at the same level as in 2005. We were unable to pass on the higher raw material costs, which led to lower margins. In 2006, we continued to follow our strategy of realizing cost advantages through competitive world-scale plants on the one hand, and increasing the sales volume of our downstream products within the acrylic acid value-adding chain on the other. In this way, we were able to increase sales in adhesives and construction polymers, primarily in Europe and Asia. Sales of superabsorbents also increased.

Income from operations failed to match the strong level of the previous year. This was primarily due to margin pressure for acrylic monomers, whose business environment is characterized by overcapacities. Further consolidation in the paper industry is adversely impacting our business in paper chemicals. Increases in our sales prices could not completely offset higher raw material prices.

We expect a slight increase in sales in 2007, brought about by good demand conditions in all businesses, particularly for adhesives and construction polymers. Despite sustained pressure on margins in this challenging market environment, our goal is to exceed the earnings level of 2006.

Performance Chemicals

Sales to third parties increased by €400 million to €3,289 million compared with 2005 (volumes 3%, prices 2%, portfolio 9%). Of this amount, €275 million was due to the inclusion of Johnson Polymer and the pigment business for the coating and printing ink industry from Engelhard Corp.

We increased sales in the existing business due to volume growth in all businesses and regions. In particular, performance chemicals for coatings, plastics and specialties, as well as for the automotive and oil industries posted higher sales than last year. Overall, earnings from the existing business increased significantly. Performance chemicals for detergents and formulators were at the high level of the previous year, while earnings from textile chemicals were lower. In performance chemicals for leather, our restructuring measures allowed us to improve our earnings in spite of the ongoing challenging market situation.

In 2007, we expect a continuation of the positive sales development and higher earnings. Our sustained program to increase efficiency and the acceleration of the expansion of our business in Asia will contribute to this.

FUNCTIONAL POLYMERS

- Increase in sales, primarily in North America (NAFTA) and Europe
- High demand for adhesives and construction polymers
- Earnings decline, primarily due to lower margins in acrylic monomers and paper chemicals

PERFORMANCE CHEMICALS

- Increase in sales in all businesses and regions
- Improved earnings, particularly in performance chemicals for coatings, plastics and specialties as well as for the automotive and oil industries
- Portfolio expansion through acquisitions opens up additional potential for profitable growth

Agricultural Products & Nutrition

The Agricultural Products & Nutrition segment consists of the **Agricultural Products** and **Fine Chemicals** divisions. BASF Plant Science conducts research in the field of plant biotechnology.

Agricultural Products

Segment data

Million €	2006	2005	Change in %
Sales to third parties	3,079	3,298	(6.6)
Intersegmental transfers	25	29	(13.8)
Sales including intersegmental transfers	3,104	3,327	(6.7)
Income from operations before depreciation and amortization (EBITDA)	663	907	(26.9)
Income from operations (EBIT) before special items	378	671	(43.7)
Income from operations (EBIT)	447	681	(34.4)
Income from operations (EBIT) after cost of capital	(48)	159	.
Operating margin (%)	14.5	20.6	-
Assets	4,458	5,156	(13.5)
Research and development expenses	334	303	10.2
Additions to property, plant and equipment and intangible assets	88	74	18.9

At €3,079 million, sales to third parties were €219 million lower than in 2005 (volumes –1%, prices/currencies –3%, portfolio –3%). Lower prices for agricultural commodities and increased energy costs negatively impacted our business in important markets. Additionally, weather conditions in 2006 limited the use of fungicides.

Sales in Europe declined by 2% to €1,389 million. A late start to the season in Northern Europe and the effects of the drought of 2005 in Southern Europe reduced demand for fungicides. As a result, competition among crop protection suppliers intensified, which led to a partial decline in prices. In contrast, the development of our business in the growth markets of Central and Eastern Europe was encouraging. Our business with innovative products for the cultivation of rapeseed, which is becoming a significant source of renewable energy in Europe, also developed favorably.

In North America (NAFTA), sales declined by 7% to €887 million as a consequence of the sale of parts of our generics business. Sales from our ongoing product portfolio were stronger than in 2005 despite difficult market conditions. A good share of this was contributed by our newly developed fungicide Boscalid, which allowed us to successfully expand our business in specialty crops.

AGRICULTURAL PRODUCTS DIVISION

- Significant decline in earnings due to difficult market conditions in Brazil and Europe
- Portfolio measures in order to concentrate on innovations with high future potential
- Research and development expenditures increased by 10%
- Successful expansion of our specialty crop business with the newly developed fungicide Boscalid

In Asia, we increased our sales by 8% to €274 million. Despite negative currency effects and a challenging environment in the important Japanese market, we were able to grow with innovative products.

In South America, sales declined by 21% to €529 million. This was mainly due to the development in Brazil, where the appreciation of the Brazilian real put our export-oriented customers under considerable pressure. This led to reductions in both demand and price, particularly for soybean fungicides. In line with our prudent business policy, we have adjusted our business to reflect the increased market risks. Our fungicide Opera®, with the active ingredient F 500®, maintained its leading market position. In addition, we have continued to develop our business with other important crops, such as sugarcane, which is used in the production of ethanol.

Income from operations declined significantly by €234 million to €447 million. This was primarily due to unfavorable developments in Europe and Brazil. Since our sales prices are partly denominated in U.S. dollars, the appreciation of the Brazilian real put additional pressure on our margins. In addition, bad debts in Brazil adversely affected our earnings. We generated special income from our portfolio-optimization measures. This included the sale of major parts of the generics business of Micro Flo Company LLC in Memphis, Tennessee, and the global business with the active ingredient Terbufos.

We increased research and development expenditure by €31 million to €334 million. As a percentage of sales, research and development expenses were 10.8%, compared with 9.2% in 2005.

> Our activities in the area of crop protection research are explained in detail on page 58.

We further reduced our assets by €698 million to €4,458 million. Our measures to reduce current assets and our divestitures contributed significantly to this result, helped by currency effects and lower volumes. We will continue to stringently manage receivables and inventories.

For 2007, assuming improved seasonal conditions, we anticipate increased sales and earnings. In an intensely competitive environment, our innovative product portfolio puts us in a strong position, allowing us to grow profitably by exploiting significant trends in agriculture, such as the increased use of plants for renewable energy production.

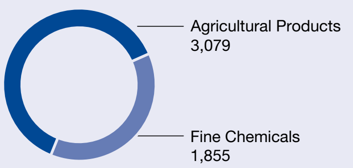
Plant Biotechnology

BASF has identified biotechnology and genetic engineering as key technologies of the 21st century. From 2006 to 2008, BASF has earmarked €330 million for research in plant biotechnology, one of our five growth clusters.

BASF Plant Science develops plants for more efficient agriculture, healthier nutrition and for use as renewable raw materials. For example, we have developed a potato with altered starch composition for use as a renewable raw material in the paper, textile and adhesives industry. Under the name Amflora, this product is presently undergoing approval in Europe; we expect the approval for commercial cultivation in 2007.

BASF Plant Science operates in eight locations in Europe and North America with more than 600 employees. We are continually strengthening our activities. In June 2006, we acquired the Belgian biotechnology company CropDesign N.V. The acquisition complements BASF Plant Science's existing gene discovery and extends its leading position in access to agronomically important genetic traits. CropDesign has specialized in traits that, for example, increase yields in crops, such as corn and soybeans, or make them more resistant to drought.

Sales by division
Million €



| Computer-controlled monitoring of rice plants

CropDesign's genetic traits strengthen the already existing pipeline of BASF Plant Science. One key technology of our research is the metabolic profiling of Metanomics, our subsidiary in Berlin, Germany. At Metanomics, scientists identify the metabolic function of plant genes, thus making it easier to develop plants with desired characteristics. Our database contains over 1.5 million metabolic profiles. They represent over 35,000 genes out of model crops, field crops and other sources. The knowledge gained by BASF in this field is unparalleled and opens up significant opportunities for the future.

Since plant biotechnology is a corporate technology platform, expenses are reported under other.

Fine Chemicals

Segment data

Million €	2006	2005	Change in %
Sales to third parties	1,855	1,732	7.1
Intersegmental transfers	17	28	(39.3)
Sales including intersegmental transfers	1,872	1,760	6.4
Income from operations before depreciation and amortization (EBITDA)	184	89	106.7
Income from operations (EBIT) before special items	57	22	159.1
Income from operations (EBIT)	(66)	(58)	(13.8)
Income from operations (EBIT) after cost of capital	(226)	(193)	(17.1)
Operating margin (%)	(3.6)	(3.3)	–
Assets	1,596	1,481	7.8
Research and development expenses	70	70	.
Investment in property, plant and equipment and intangible assets	378	222	70.3

Sales to third parties rose by €123 million to €1,855 million in 2006 (volumes 2%, prices –3%, portfolio 8%). The acquisitions of Engelhard Corp. and the Orgamol Group contributed significantly to this result.

As part of the acquisition of Engelhard on June 6, 2006, we acquired two business areas, Effect Pigments and Personal Care Materials. The integration of these activities extends our customer portfolio and strengthens our position, especially in strategic cosmetic markets, such as France and the United States.

The custom synthesis business of Orgamol, acquired in late 2005, has been integrated. Sales in the standard active ingredients business declined, in particular due to the drop in the market for Pseudoephedrine in North America (NAFTA). Therefore our pharma site in Minden, Germany will be restructured to maintain its competitiveness, as announced in August 2006.

We are exposed more and more to a trend toward the standardization of products and solutions in the Animal Nutrition and Human Nutrition businesses. Therefore, in October 2006, we announced measures for more

PLANT BIOTECHNOLGY

– €330 million for research in the plant biotechnology growth cluster for 2006 to 2008
– Acquisition of CropDesign N.V., a company in gene discovery accessing agronomically important genetic traits
– Expansion of the pipeline of promising agronomic traits which increase yield or resistance to drought

cost-efficient marketing structures, which will be implemented by year-end 2007. These measures include the combination of the Human Nutrition and Animal Nutrition businesses to form the unit Nutrition, which has already been completed, and the planned closure of the animal nutrition station in Offenbach/Queich, Germany in the second quarter of 2007. Additional steps to restructure our lysine business in Gunsan, Korea are being prepared.

Earnings were negatively impacted by special charges due to restructuring measures and declined significantly, despite the partial reduction of a fine imposed by the E.U. in 2001 for the anti-trust violations related to vitamins.

We improved earnings in the aroma chemicals business, which was expanded by the startup of the geraniol and linalool plants in early 2006. Starting of our own production of feed enzymes in 2006 allowed us to increase added value and achieve cost advantages. In addition, we achieved a reduction in fixed costs, especially for marketing and sales. Assets in the Fine Chemicals division increased in 2006 compared with 2005, primarily as a result of the Engelhard acquisition. On a comparable basis, we were able to reduce our operating assets.

As a result of our measures, we will further improve the efficiency of our structures and processes, and increase earnings in 2007.

PLANT HEALTH FOR HIGHER YIELDS

BASF has recently introduced a new brand identity for improved plant health: AgCelence™. The brand is applied to all crop protection products that provide plant health benefits such as higher yields and improved quality as well as combating insects or fungi. Field trials conducted in the 2005/2006 season with the AgCelence active ingredient F 500® in important crops such as corn (maize), soybeans and cereals showed impressive yield effects in addition to what was to be expected from the intrinsic fungicidal activity. Non-experts can see the difference too: The plants stay green longer. More importantly for farmers, crop yields and quality are significantly better.

Customer **Sidney Fujivara** (left) in Brazil is just as impressed with the effectiveness of our AgCelence products as he is with his cooperation with **Cláudio Gomes De Oliveira,** BASF.

FINE CHEMICALS DIVISION

- Increase in sales due to the contribution of acquired businesses, special charges from restructuring
- Focus of restructuring measures targeted on increasing efficiency in the unit Nutrition
- Custom synthesis business from Orgamol successfully integrated
- Expansion of business in aroma chemicals due to the startup of geraniol and linalool plants

Oil & Gas

In the Oil & Gas segment, sales to third parties rose by €3,031 million to €10,687 million in 2006 (volumes 7%, prices/currencies 33%) due to further increases in oil and gas prices and the expansion of our natural gas trading business.

Segment data

Million €	**2006**	2005	Change in %
Sales to third parties	10,687	7,656	39.6
Thereof natural gas trading	6,132	4,157	47.5
Intersegmental transfers	1,062	723	46.9
Sales including intersegmental transfers	11,749	8,379	40.2
Income from operations before depreciation and amortization (EBITDA)	3,766	2,859	31.7
Income from operations (EBIT) before special items	3,245	2,410	34.6
Income from operations (EBIT)	3,250	2,410	34.9
Thereof natural gas trading	605	316	91.5
Income from operations (EBIT) after cost of capital*	1,478	911	62.2
Operating margin (%)	30.4	31.5	-
Assets	5,434	4,895	11.0
Exploration expenses	167	173	(3.5)
Additions to property, plant and equipment and intangible assets	545	624	(12.7)

* Noncompensable foreign income taxes for oil production are deducted.

In the exploration and production business, net sales to third parties increased by €1,056 million to €4,555 million compared with the previous year. The price of Brent crude rose by just under $11 per barrel to an average price of $65 per barrel. On a euro basis, this represents an increase of €8 per barrel to €52 per barrel. Despite a regularly scheduled maintenance shutdown in Libya, oil and gas production at 111 million barrels of oil equivalent nearly reached the previous year's high level. Natural gas production increased primarily in Argentina.

At €6,132 million, our natural gas trading business sector generated significantly higher sales to third parties than in the previous year. Higher prices and increased volumes contributed to this result. In total, natural gas volumes grew by 6.3% to 351.0 billion kilowatt hours. On a consolidated basis, gas sales volumes rose 6.0% from 233.5 billion kilowatt hours in 2005 to 247.6 billion kilowatt hours in 2006. WINGAS expanded its market position both inside and outside of Germany. A significant share of this was due to spot market trading.

OIL & GAS SEGMENT

- Record sales and earnings due to higher oil and natural gas prices as well as the expansion of natural gas trading
- Oil production nearly reaches the previous year's high level
- Natural gas production increases primarily in Argentina
- Expansion of our infrastructure in natural gas trading

Income from operations rose by €840 million to €3,250 million. In the exploration and production business sector, income from operations increased by €551 million to €2,645 million, as a result of higher prices. Included are €1,282 million from income taxes on oil production in North Africa and the Middle East that are noncompensable with German corporate income taxes. These taxes are reported as income taxes.

> For further information on noncompensable income taxes on oil production see also Note 8 to the Consolidated Financial Statements on page 127 onward.

Income from operations in our natural gas trading business rose by €289 million to €605 million. Compared with the unsatisfactory situation of the previous year, our margins improved significantly. Spot market trading and the persistent cold weather at the beginning of 2006 had an additional positive impact on earnings.

Assets in the Oil & Gas segment rose by €539 million to €5,434 million. Capital expenditures in exploration and production related to projects in Germany, the Netherlands, Libya, and Argentina as well as the development of the ZAO Achimgaz joint venture with Gazprom in Western Siberia.

In 2006, 32 wildcat and appraisal wells were drilled in the search for new oil and natural gas deposits, of which 14 were successful. Moreover, we have acquired licenses to explore for oil and gas in Libya and in the North Sea off the coasts of Germany, Denmark and Norway. We replenished 48% of the volumes drilled in 2006. In natural gas trading, we invested primarily in the further expansion of our infrastructure.

Compared with 2005, proven crude oil reserves declined by 9% to 58 million metric tons. The reserve-to-production ratio remained unchanged at 7 years. Proven natural gas reserves declined by 5% to 60 billion cubic meters. The reserve-to-production ratio declined by 1 year to 8 years. Because of contractual and legal rules, these figures do not include reserves from the Achimgaz project.

In 2005, we decided to extend our cooperation with our Russian partner OAO Gazprom. Wintershall will receive a stake of 25% minus one share in OAO Severneftegazprom (SNG), which holds the license to explore for gas in the Yuzhno Russkoye natural gas field in Western Siberia. In addition, Wintershall will receive non-voting preferred shares and will thus hold an economic interest in SNG of 35% minus one share. With more than 600 billion cubic meters of recoverable natural gas reserves, the Yuzhno Russkoye field is approximately three times the size of Achimgaz. In return, Gazprom will increase its stake in WINGAS from 35% to 50% minus one share and receive a 49% interest in a BASF Group company that holds onshore exploration and production rights in Libya. The contractual closing is expected to take place in the first half of 2007 and will significantly increase our reserve basis.

The technical concept for the natural gas pipeline through the Baltic Sea, Nord Stream (formerly North European Gas Pipeline – NEGP) has been completed and the approval process initiated. Wintershall holds a 24.5% stake in Nord Stream, which could be reduced to 20% through the inclusion of an additional partner.

Factors influencing sales – Oil & Gas

Volumes	+7 %
Prices/Currencies	+33 %
Sales	**+40 %**

EXPLORATION AND PRODUCTION PROJECTS

- Projects in Germany, Libya and Argentina
- Expansion of Achimgaz joint venture with Gazprom in Western Siberia
- 32 wildcat and appraisal wells drilled for new oil and natural gas deposits, of which 14 were successful
- New licenses to explore for oil and gas in Libya and in the North Sea off the coasts of Germany, Denmark and Norway

In the Achimgaz joint venture for the production of natural gas and condensate from the Achimov deposit of the Urengoy field, two of six wells for the first project phase were successfully completed. The construction of the necessary infrastructure has progressed far enough such that the start of production is planned for mid-2007.

In 2007, we expect the favorable conditions that marked both business sectors in 2006 to weaken. This will only be partially offset by the ongoing good operational business in natural gas trading. Sales and earnings are thus expected to remain strong; however, we do not expect to achieve the peak values recorded in 2006.

ENSURING RELIABLE ENERGY SUPPLIES TO EUROPE

Providing Europe with reliable energy supplies is becoming increasingly important – and we take on a leading role. We will produce natural gas and condensate from a major gas field in Western Siberia in the future. Only three years after the creation of the German-Russian Achimgaz joint venture, we started drilling the first production wells in 2006 and have made significant progress in constructing the necessary infrastructure. The two joint-venture partners contribute their strengths to the project: Gazprom has extensive experience in producing gas in Siberia, while BASF's Wintershall subsidiary contributes its expertise in extended reach and horizontal drilling as well as in producing gas from difficult deposits. Annual production of more than 8 billion cubic meters is planned – sufficient gas to meet the annual requirements of about four million German households.

COOPERATION WITH GAZPROM INTENSIFIED

- Asset swap with Gazprom: Participation in the Yuzhno Russkoye, Russia, natural gas field
- Technical concept for the Nord Stream natural gas pipeline through the Baltic Sea has been completed and the approval process initiated

Regional Results

Region

Million €	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
	2006	2005	Change in%	**2006**	2005	Change in%	**2006**	2005	Change in%
Europe	31,444	25,093	25.3	29,529	23,755	24.3	5,485	4,385	25.1
Thereof Germany	22,963	17,100	34.3	11,062	8,865	24.8	4,125	3,019	36.6
North America (NAFTA)	11,415	9,542	19.6	11,522	9,479	21.6	869	855	1.6
Asia Pacific	7,450	6,042	23.3	8,102	6,500	24.6	181	297	(39.1)
South America, Africa, Middle East	2,301	2,068	11.3	3,457	3,011	14.8	215	293	(26.6)
	52,610	**42,745**	**23.1**	**52,610**	**42,745**	**23.1**	**6,750**	**5,830**	**15.8**

Europe

Companies in Europe increased sales by €6,351 million in 2006.

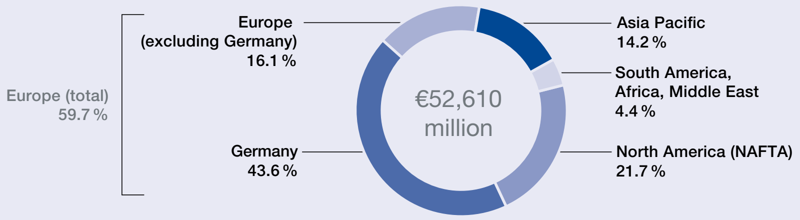
All segments contributed to the successful development in sales. The Oil & Gas segment made the largest contribution as a result of the high average oil price. The first-time consolidation of the new Catalysts and Construction Chemicals divisions also contributed substantially. The Plastics segment in Europe benefited in particular from the strong demand in the construction sector. Sales of the Performance Products segment rose primarily due to the addition of the new Construction Chemicals division and the paper coating and pigment businesses acquired from Engelhard Corp. The new Catalysts division made a significant contribution to the growth in sales in the Chemicals segment, as did the strong demand for intermediates and the higher sales prices for inorganics and petrochemicals. The Agricultural Products division did not reach its sales level of the previous year due to a late start to the season caused by the weather and the resulting competitive pressures. Sales in the Fine Chemicals division increased particularly due to the pharmaceutical custom synthesis business from Orgamol acquired in 2005 and the Personal Care business acquired from Engelhard.

Income from operations was €1,100 million higher than in the previous year. The Oil & Gas segment contributed significantly to this result. A significant contribution to the improvement in earnings was also made by the Plastics segment.

Our project "Further Development of European Organization" pursues the goal of systematically adapting structures and processes to the changing market conditions. We have successfully increased the efficiency of our internal service units and further reduced costs. Overall, we expect annual savings of approximately €90 million from this project by 2008, €60 million of which was already achieved by the end of 2006.

The establishment of our European Shared Services Center in Berlin, which combines finance and accounting functions as well as standard human resource services under one roof, is proceeding according to plan. Presently, 22 Group companies from six countries are already served from Berlin. The European-based companies acquired with Engelhard and the construction chemicals business of Degussa AG in 2006 will also be included step-by-step in the Shared Service Center.

Sales by region*



* Sales by location of companies

North America (NAFTA)

Sales by companies in North America (NAFTA) rose by 19.6% to €11,415 million. In local-currency terms, sales improved by 20.6%. In particular, the Petrochemicals and Polyurethanes divisions significantly increased their sales. The new Catalysts and Construction Chemicals divisions made the greatest contribution to the increased sales.

Income from operations amounted to €869 million, which was 1.6% above the previous year's high level. This was a result of increased prices and volumes and slightly higher capacity utilization, particularly in the Polyurethanes division.

We generated special income from the sale of parts of the generic business in the Agricultural Products division. However, income from operations was adversely affected by the shutdown of the steam cracker in Port Arthur, Texas, as well as margin pressure on acrylic monomers and styrenes and by special charges related to the integration of Engelhard. Our goal of reducing fixed costs by $400 million per year by 2007 was achieved ahead of schedule.

The Commercial Effectiveness Program, initiated in 2005, is expected to further contribute to earnings. By 2007, we plan to implement measures to increase income from operations after cost of capital by a further $200 million per year. To this end, we are matching our pricing mechanisms, supply-chain processes and business models better to market conditions. We are already more than halfway to achieving this goal, and we are confident that we will deliver on schedule

The major share of the synergies resulting from the integration of Engelhard Corp. will be realized in North America (NAFTA).

> The synergies from the integration of Engelhard are described on page 37.

The Catalysts division and key research activities in the field of catalysts will remain in Iselin, New Jersey. BASF's headquarters in North America (NAFTA) will continue to be in Florham Park, New Jersey.

In addition to the integration of Engelhard, the construction chemicals activities and the U.S.-based business of Johnson Polymer will be integrated into our regional structures.

Asia Pacific

Companies in Asia Pacific increased sales by 23.3% to €7,450 million. In local-currency terms, sales came in 23.8% higher.

All segments contributed to the growth in sales, but especially the Chemicals segment, which benefited from the full capacity utilization at the Verbund site in Nanjing, China. The startup of plants in the Plastics segment provided additional growth. For example, in Caojing, China, we started operations at the integrated isocyanates complex for MDI/TDI together with Huntsman and Chinese partners. Together with our partner Toray Industries Inc., we started up a plant for the production of PBT in Kuantan, Malaysia. Furthermore, the new Catalysts and Construction Chemicals divisions as well as the Johnson Polymer acquisition contributed to the growth of sales in Asia.

EUROPE

Significant increase in sales; higher contributions from the Oil & Gas segment

+25.3%*

* Change in sales by location of company

NORTH AMERICA (NAFTA)

Sales increase in all segments, significant contribution from the new Catalysts and Construction Chemicals divisions

+19.6%*

* Change in sales by location of company

Although sales grew significantly, income from operations was lower than in 2005. This was primarily a result of plant closures in line with our global program to increase efficiency. The restructuring of the butanediol value-adding chain and the corresponding mothballing of the THF plant in Caojing, China, negatively impacted earnings by €218 million. In Yokkaichi, Japan, we will close a plant for the production of process chemicals for paper manufacturing in the second quarter of 2007. Additional steps toward restructuring our lysine business at Gunsan, Korea are being prepared.

In order to upgrade our successful Verbund site in Nanjing, China, we have joined with our partner Sinopec Corp. in a technical and economic feasibility study of the expansion of the production facilities. This study includes the capacity expansion of the steam cracker as well as investment in additional downstream plants in order to capture additional synergies for the site.

In addition, we are intensifying our research and development activities in Asia, opening BASF's research center for nanotechnology in Asia in April, 2006. In China, we are planning to expand our development activities to be able to respond better and faster to new market impulses in the region.

South America, Africa, Middle East

In 2006, sales by companies in this region increased by 11.3% to €2,301 million compared with the previous year. In local-currency terms, sales increased by 9.8%.

In South America, sales remained at the same level as the previous year. Sales increased in Africa and the Middle East, primarily due to the acquisitions.

In the important Brazilian market, sales in the Agricultural Products division decreased due to the high percentage of sales prices tied to the U.S. dollar and the devaluation of the U.S. dollar against the Brazilian real and the euro. The appreciation of the Brazilian real against the U.S. dollar put considerable pressure on export-oriented Brazilian farmers, who are key customers for our products.

Other areas, in particular the architectural coatings business in the Coatings division, posted increased sales. Natural gas production in Argentina rose by more than 5% with the startup of production in new natural gas fields.

In Africa and the Middle East, sales increased mainly due to the first-time inclusion of the Catalysts and Construction Chemicals divisions. Furthermore, the Polyurethanes and Performance Chemicals divisions also posted stronger sales.

Income from operations declined from €293 million in 2005 to €215 million in 2006. This was largely a consequence of lower margins for crop-protection products, negative currency effects and increased fixed costs in euro terms.

ASIA PACIFIC

Sales growth in all segments, further growth driven by the startup of new plants

+23.3%*

* Change in sales by location of company

SOUTH AMERICA, AFRICA, MIDDLE EAST

Sales increase over previous year; market leadership in architectural coatings strengthened

+11.3%*

* Change in sales by location of company

Research and Development in the BASF Group

Innovations are indispensable to the profitable growth of BASF. Customer needs and technological progress are the main drivers of innovation. In many cases, our products provide the impetus for progress in other industries, where they act as the starting point for innovative end products. In return, the success of such products strengthens our own business.

The key to our success in research and development is our Know-How Verbund. At its center are our four global technology platforms: Polymer Research; Specialty Chemicals Research; Chemicals Research & Engineering; and Plant Biotechnology Research.

In 2006, we expanded our research activities worldwide. The acquisitions of the Engelhard Corp., the construction chemicals activities of Degussa AG, Johnson Polymer as well as CropDesign N.V. and PEMEAS GmbH have strengthened our capacity for innovation. With the integration of Engelhard, we have gained 22 research and development centers and are a global leader in the field of catalysis. The integration of Degussa's construction chemicals business improves our position in the fast-growing construction chemicals business. Concurrent with the acquisitions, we are strengthening our technology platforms and building up additional research capacity in important regions of the world.

In 2006, BASF employed more than 8,300 employees in research and development worldwide. In addition, we have approximately 1,400 research cooperations with universities, research institutes, startup companies and industrial partners. For instance, last year we opened the catalysis research laboratory CarLa in cooperation with the University of Heidelberg on the university's campus. Each year, BASF files an average of 1,100 chemical patents, making us number one in the world among chemical companies.

In 2006, we spent €1,277 million on research and development, compared with €1,064 million in 2005. From 2010, we intend to achieve annual sales of over €4 billion from product innovations alone.

Of the amount spent on research and development in 2006, 79.8% fell under the operational responsibility of the operating divisions, with the remaining 20.2% being accounted for by corporate research. This includes a considerable portion of the research activities in BASF's growth clusters as well as research to develop new experimental methods.

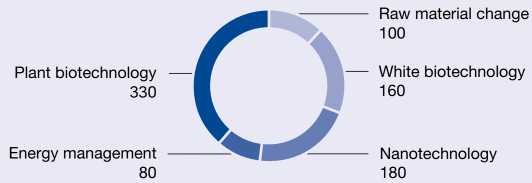
Corporate research

As part of our strategy "We Innovate for Growth," we plan to invest approximately €850 million between 2006 and 2008 in our five growth clusters – energy management, nanotechnology, white (industrial) biotechnology, plant biotechnology and raw material change. These clusters involve cross-sectional technologies in which interdisciplinary cooperation is the key to success. Starting in 2015, BASF expects to generate annual sales from innovations of €2 billion to €4 billion arising from research and development in the growth clusters. In the area of energy management, we are focusing on developing new technologies and materials for energy storage and conversion. To strengthen this cluster, we have acquired PEMEAS GmbH, a producer of components for fuel cells. In nanotechnology, we are researching possible applications of nanomaterials and nanostructured surfaces for use in various applications, including coatings, thermal insulation and hydrogen storage. Our white biotechnology research concentrates on three areas: enzyme catalysis for

RESEARCH AND DEVELOPMENT

- Expenditures for Research and Development increased by more than €200 million
- Globally around 1,400 research cooperations
- Sales from product innovations of more than €4 billion per year expected, starting in 2010

Research and development expenses in the growth clusters 2006–2008
Million €



the production of specialty chemicals, fermentation and industrial proteins as well as biopolymers. In the growth cluster plant biotechnology, we are developing plants for more efficient agriculture, healthier nutrition and for use as renewable raw materials. With the acquisition of CropDesign, we have strengthened our competence in the field of genetic research for the discovery and use of plant traits. In the raw materials change growth cluster, we aim to expand the range of starting materials for our value-adding chains; examples include renewable raw materials and natural gas.

The research and development activities of our segments are described below.

Chemicals

The focus of our research and development activities is on process innovations for both new and existing products that can lead to distinct competitive advantages. We place particular emphasis on the optimization and expansion of our value-adding chains at Verbund sites. For example, we developed a process for producing cyclododecanone (CDon). CDon is the key raw material for making laurolactam, an intermediate used to produce the high-performance plastic polyamide 12 as well as fragrances. We are presently constructing a CDon plant in Ludwigshafen, which will utilize an innovative three-stage process, whereas conventional CDon production processes require five steps. BASF utilizes butadiene and nitrous oxide as raw materials, two products available in our Verbund. We will start up the plant in 2009.

Our product development is oriented to customers' needs. In 2006, for instance, we successfully launched our specialty plasticizer Hexamoll® DINCH in a variety of new applications. This innovative product is especially suitable for use in sensitive applications such as children's toys. We see new growth potential for the use of this plasticizer in medical products and food packaging. In October, BASF obtained the approval of the European Food Safety Authority (EFSA) for this application. In early 2007, we will quadruple the production capacity of Hexamoll® DINCH to 100,000 metric tons per year.

Plastics

In the Plastics segment, research and development is focused on production processes and product and system development.

We aim to optimize existing production processes and develop new, highly efficient processes that offer considerable cost advantages. One example is the innovative HPPO process. Together with Dow Chemical, we have developed a cost-efficient process to manufacture propylene oxide (PO) from propylene and hydrogen peroxide (HP). In Antwerp, Belgium, we have started construction on a world-scale plant that will operate using this technology.

In product and system development, we work closely with our customers to improve existing products and develop new materials. Cooperation enables a purposeful and successful development of profitable products. One example is Basotect®. With this melamine-resin foam, which has been available for more than 20 years, we have developed several variations in the past two years that precisely fulfill the requirements of various customer segments. Basotect UF is distinguished by improved flexibility and is primarily suitable for the cushioning of mattresses and sofas. Basotect UL is especially light, and can therefore be used as sound proofing in airplanes. Basotect TG can be thermally formed very easily and is used in the automotive industry for complex molded components in mass production.

CHEMICALS

- Our goal is to strengthen the competitiveness of our value-adding chains
- New process developed for the production of cyclododecanone
- Special plasticizer Hexamoll® DINCH introduced to the market for a variety of applications

PLASTICS

- Optimization of existing production processes
- Development of new production processes; HPPO technology developed; construction of a world-scale plant in Antwerp, Belgium
- Basotect® UL – a light flame-proof foam for use in airplane construction

Performance Products

In the Performance Products segment, our technical development centers and pilot plants play a key role in successfully responding to customers' needs and testing new products under real-life conditions.

In 2006 we expanded our development facilities close to the customer. For example, we established a new application laboratory for automotive coatings in Mangalore, India. In the construction chemicals area, we opened a new concrete laboratory in Krieglach, Austria. We also expanded our existing technical development centers for leather and textiles in Thane, India and for leather, textiles, detergents and formulators as well as dispersions in Shanghai, China.

Our researchers are working on a large number of innovations that will decisively improve the performance of our products and processes. We have pressed ahead with the market launch of concrete plasticizers in the product family Glenium®Sky. These products buffer the cumulative cement and formulation fluctuations and are thus important components of self-compacting or high-strength concrete.

Another example is our innovative coating technology, which is being used for the first time in the production of the Mini automobile made by our customer BMW in Oxford, England. This novel automotive coating integrates the functional protective actions of the filler, such as UV resistance and protection against gravel impact, into the base coat. The fastest coating process in the world ensures high coating quality and, moreover, is especially economical and environmentally friendly.

By expanding our Acronal® CR line of products, we are augmenting our product portfolio and meeting many of our customers' demands for powerful pressure-sensitive adhesives that can be processed without additional formulation and used with the most advanced coating technologies.

Our new pigment Lumogen® Black absorbs less solar energy than conventional pigments. This keeps surfaces equipped with Lumogen Black cooler, reducing the surface temperature by 50%. Specifically when used as an automotive coating, this means a significant improvement in passenger comfort.

Agricultural Products & Nutrition

In the Agricultural Products division, we have used additional funds to identify new insecticides and fungicides in the early research phase and accelerate the time to market of our projects. As a result, research and development expenses increased by €31 million to €334 million. As a percentage of sales, these expenses increased from 9.2% in 2005 to 10.8% in 2006.

Our pipeline of innovative products was strengthened with a new fungicide. In addition, we successfully developed the herbicide Topramezone for market launch. Topramezone is used for corn (maize) cultivation. Our researchers are currently working on developing a total of seven new active ingredients and a herbicide tolerance project.

These future product innovations have a peak sales potential of €800 million. A further seven crop-protection active ingredients with a peak sales potential of €1,000 million are currently being introduced to the market, of which the fungicide Boscalid has developed especially favorably in 2006. With Boscalid we want to generate more than €150 million in annual sales.

In 2006, active ingredients in the market launch phase reached approximately 50% of their peak sales potential.

We have also increased our investment in research and development for Plant Biotechnology. With the acquisition of CropDesign, we further strengthen our gene discovery platform. The unique integration of high throughput crop screens with the "inside view" of plant metabolism through metabolic profiling at Metanomics results in a deeper insight of gene-function relationships. We expect it to lead to earlier and broader patent generation.

PERFORMANCE PRODUCTS

- Customer-oriented development centers opened and new pilot plants started up
- Innovative coating technology developed
- Successful launch of pressure-sensitive adhesives
- Black pigment with low absorption of solar energy

AGRICULTURAL PRODUCTS

- Peak sales potential of the development pipeline: €800 million
- Acceleration of our research and development projects in 2006

PLANT BIOTECHNOLOGY

- Metanomics Health established novel substance and mode of action databanks

BASF Plant Sciences' subsidiary Metanomics is today the most advanced and largest company of its kind in the world.

In 2003, we founded Metanomics Health with the goal of utilizing the technology of metabolic profiling in pharmaceutical and nutritional research, diagnostics and predictive toxicology. Metanomics Health made significant progress again in 2006 and established novel substance and mode of action data banks. We believe our technology allows much greater insight into the biological impact of both natural and artificial chemical substances than current methods, and simultaneously has the potential to significantly reduce the number of animals that are needed for toxicological testing purposes.

We have ongoing projects with a number of major pharmaceutical companies. We have identified and applied for patents on a significant number of new markers for diabetes in 2006. We believe that our research platform can become an important tool for the discovery and development of new pharmaceuticals and contribute to more individualized health care and nutrition concepts.

In 2006, we spent 3.8% of sales on research and development in the Fine Chemicals division and continued to shift the focus of our research and development activities from process to product innovation. We have launched new products in several areas. In Cosmetic Solutions, for example, we commenced the marketing of T-Lite® Max, a sunscreen based on nano-particulate titanium dioxide, and Luviset® Shape for hairsprays with a lower concentration of highly volatile components.

In Cosmetics, research is focused on the development of new ingredients for skin-care, hair-care and oral-hygiene products based on natural raw materials as well as expansion of our range of fragrances. In Nutrition, we concentrate on the development of global formulation technologies and products to improved feed utilization. In the Pharma Solutions business unit, we provide new excipients improving API (active pharmaceutical ingredients) bioavailability and drug stability.

With the acquisition of the Orgamol Group in 2005, we have increased our efficiency in development in the area of custom synthesis. We are bundling these competencies at Orgamol in Switzerland.

We ensure our technological leadership in vitamins A, E and beta-carotene through continuous process innovations. The core element of our systematic idea-generation process is to intensify cooperation with our customers to allow us to align our research goals even more closely with their needs.

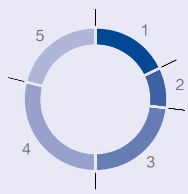
FINE CHEMICALS

- Shift in focus from process to product innovation
- New products launched in the market
- Intensification of cooperation with our customers to systematically generate ideas

Research and development expenses by segment

%

1 | Chemicals	14
2 | Plastics	11
3 | Performance Products	23
4 | Agricultural Products & Nutrition	32
5 | Corporate research, other	20
	100



Economic Environment

We expect continued robust growth for 2007, with real global economic growth of 3.2%. Stable geopolitical conditions and sound economic policies are prerequisites for this.

In **Western Europe** we foresee growth of a little over 2% in 2007, with continued robust domestic demand and strong capital spending. The ongoing shift in production capacity to Eastern Europe and Asia, however, will dampen this trend. In the medium term, we also expect growth of just over 2% per year.

GDP growth in the **United States** will slow down slightly. Private consumption and construction will ease off noticeably.

For **Japan,** we anticipate growth to stabilize at around 2%, driven mainly by domestic demand, especially by private consumption and spending on capital goods.

In 2007, **Asia (excluding Japan)** will remain the economic motor of the global economy, showing growth of around 7% due to active trade within the region, continued strong capital investment and increasing consumption. China is likely to grow strongly at 10% despite a restrictive economic policy. We expect an average growth rate of 7% for Asia (excluding Japan) from 2007 to 2009 which will be held back by bottlenecks in energy provision and infrastructure as well as environmental problems.

In **South America**, we expect lower growth rates due to lower export earnings and higher interest rates in 2007.

Outlook for Gross Domestic Product 2007

Real change compared with previous year

	%
World	3.2
Western Europe	2.1
United States	2.4
Asia excl. Japan	7.2
Japan	2.2
South America	4.0

Trends 2007–2009

Average annual real change

	%
World	3.3
Western Europe	2.1
United States	2.7
Asia excl. Japan	7.0
Japan	2.1
South America	3.8

WE HAVE BASED OUR BUSINESS PLANNING ON THE FOLLOWING ASSUMPTIONS:

- Global economic growth of 3.2% for 2007
- Average oil prices of about $55 per barrel in 2007 with a downward trend in the following years
- An average euro/dollar exchange rate of $1.30 per euro
- Moderately higher interest rates in the course of 2007, primarily in Europe

Outlook for the chemical industry

Based on the conditions we have outlined, we expect global chemical production to grow by 3.3% in 2007. In the medium term, we estimate growth of 3.4% per year.

In **Europe**, we anticipate stronger domestic demand for 2007. However, as a result of a weakening export business, we expect growth in chemical production to slow down slightly to just under 2%.

The chemical industry in the **United States** will grow only slightly at 2%. The strong catch-up effect resulting from the hurricanes in 2005 tapered off in 2006. Chemical production in the United States will profit only slightly from the increase in GDP and the U.S. chemical industry is, relatively speaking, not export oriented. Therefore, in the medium term, chemical production growth at 2% is likely to be under both that of gross domestic product and of general industry.

In **Japan**, chemical production growth is likely to remain slightly lower than industrial growth in 2007. A stronger yen and rising imports will likely slow down growth.

In 2007, we expect chemical production in **Asia (excluding Japan)** to increase by more than 7%; for China alone, we expect an increase in production of significantly more than 9%. In particular, this development is being driven by industrial activity and the high level of investment in China and increasingly India. In the medium term, the region is also likely to continue to benefit from strong growth in the industrial sector and could grow by approximately 7% per year as a result.

Following the slowdown in 2006, we expect growth in chemical production in **South America** of more than 3% in 2007.

Outlook for Chemical Production 2007 (excl. pharma)

Real change compared with previous year

	%
World	3.3
Western Europe	1.9
United States	2.0
Asia excl. Japan	7.2
Japan	0.2
South America	3.3

Trends 2007–2009 (excl. pharma)

Average annual real change

	%
World	3.4
Western Europe	1.8
United States	2.0
Asia excl. Japan	7.2
Japan	0.9
South America	3.3

OUTLOOK FOR THE CHEMICAL INDUSTRY 2007: GLOBAL GROWTH OF 3.3%

- Western Europe: Growth of just under 2% due to strong domestic demand, but weaker exports
- United States: Growth in chemical production of 2%
- Japan: Marginal growth of 0.2% due to an expected stronger yen as well as increasing imports
- Asia (excluding Japan): Increase in chemical production of more than 7% due to industrial activity and strong investment activity
- South America: Increase in chemical production of more than 3%

BASF Group Outlook

Our business has continued to develop well since the beginning of 2007. Given the economic assumptions described above, we expect BASF's business to continue to develop positively in 2007.

We aim to further extend our position as the world's leading chemical company. Our goal is to continue to increase BASF's value and earn an attractive premium on our cost of capital.

In 2006, we strengthened our portfolio by acquisitions in high-growth and innovative areas, thus further reducing our dependency on the cyclicality of the chemical industry. We will continue with our measures to optimize our portfolio.

We will use the potential presented by our investments in high-growth regions to grow faster than our competitors. Together with our partners, we intend to invest more than $500 million in the expansion of our Verbund site in Nanjing, China. In our chemical businesses, we want to generate 10% of our sales and earnings in China by 2010. In addition, we are expanding our oil and gas activities and will invest around €3.5 billion in this area by 2010.

BASF has brought together its research activities in the important technology-driven issues of the future into five growth clusters: energy management, raw material change, plant biotechnology, nanotechnology and white (industrial) biotechnology. By 2015, we expect annual sales between €2 billion and €4 billion from innovations that stem from these growth clusters.

To strengthen our competitiveness, we will adapt our processes to changing market requirements and optimize our site structures. The Board has initiated a new worldwide program to boost efficiency in order to further improve the productivity of the whole BASF Group. As a result, we expect to achieve annual savings of €300 million by 2008.

Risks

An escalation in geopolitical trouble spots, notably the Middle East and North Korea, is a political risk for the economy. A sharp correction of global economic imbalances, volatile raw material prices and exchange rates also present risks.

Sales

We expect significantly higher sales in 2007 compared with 2006. This will be driven by both the acquisitions made in 2006 and organic growth in our existing businesses.

Earnings

Despite the significant decline in the price of oil, we have set ourselves the ambitious goal of at least matching the record level of income from operations before special items that we posted in 2006. Portfolio changes and greater efficiencies have strengthened our earnings power. We are therefore confident of earning at least our cost of capital in any given year.

Dividends and share buybacks

We want to offer our shareholders an attractive dividend yield. We therefore aim to increase our dividend annually, matching each year at least the level of the year before. Moreover, we also intend to continue to buy back shares in the future.

SUPPLEMENTARY REPORT

Since the beginning of fiscal 2007, there have not been any material changes affecting BASF's situation or its competitive environment.

OUTLOOK BY SEGMENT

The outlook for individual segments and operating divisions are included in the section Results of Operations by Segment on page 33 onward.

Research and development

In 2007, we will further increase our research and development expenditures, presumably by 10%, to approximately €1.4 billion. The integration of the research activities of the acquired businesses is considerably strengthening the Research Verbund of the BASF Group.

> More details are provided in the section Research and Development on page 56 onward.

Capital expenditures and financing

Planned capital expenditures in 2007 amount to €2.2 billion and will therefore likely be below the level of depreciation and amortization. We expect a comparable level of capital expenditures in 2008. We aim to finance these planned expenditures from cash provided by operating activities.

COMMITMENTS FOR INVESTMENTS BY SEGMENT

Chemicals

- Acquisition of Guilin REEcat Catalyst Co., Ltd., Guilin, China, a producer of catalysts for motorbikes headquartered in Guilin, China
- Construction of the Electronic Materials Center Europe in Ludwigshafen as well as a plant for the production of cyclododecanon in Ludwigshafen
- Startup of the expanded plasticizer production in North America (NAFTA), the additional capacity of the steam cracker in Antwerp, Belgium as well as the expanded capacity for the production of Hexamoll® DINCH in Ludwigshafen and for catalysts in Pasadena, Texas

Plastics

- Construction of an HPPO plant in Antwerp, Belgium
- Start-up of a PUR systems house, a production plant for TPU in Shanghai, China as well as a compounding plant for engineering plastics in Shanghai, China
- Expansion of polyol production in Geismar, Louisiana, and MDI production capacity in Antwerp, Belgium
- Startup of expanded production capacity for polyamide 6 in Freeport, Texas and for Ultrason® in Ludwigshafen, Germany

Performance Products

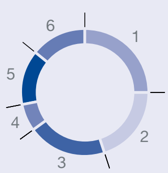
- Construction of a plant for HDI-based coatings in Caojing, China
- Startup of a superabsorbents plant in Freeport, Texas
- Expansion of our plant for acrylic acid and superabsorbents in Antwerp, Belgium

Oil & Gas

- Development of the Achimov formation in the Urengoy gas and condensate field as well as the Cenoman formation in the Yuzhno Russkoye gas field in Russia
- Further development of existing oil fields in Libya
- Development of new natural gas reserves in the North Sea and in Argentina
- Conversion of the Haidach natural gas field in Austria and the Saltfleetby natural gas field in the United Kingdom for natural gas storage
- Construction of the first line of the Nord Stream Pipeline through the Baltic Sea from Vyborg, Russia, to Greifswald, Germany
- Start of the expansion of WINGAS infrastructure as part of the Nord Stream project

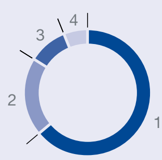
Planned investment by segment

1 | Chemicals	25%
2 | Plastics	20%
3 | Performance Products	20%
4 | Agricultural Products & Nutrition	7%
5 | Oil & Gas	14%
6 | Other (infrastructure, IT, etc.)	14%
	100%



Planned investment by region

1 | Europe	64%
2 | North America (NAFTA)	20%
3 | Asia Pacific	10%
4 | South America, Africa, Middle East	6%
	100%



Purchasing

Worldwide in 2006, BASF procured a total value of approximately €24.5 billion on some 500,000 **different raw materials and technical goods, as well as services for plant construction and maintenance, and logistics.** About €1.0 billion of this was accounted for by the acquisitions (Engelhard Corp., the construction chemicals business of Degussa AG and Johnson Polymer).

Procurement Verbund ensures competitive advantages

We aim to further optimize our worldwide Procurement Verbund by continuing to intensify the coordination of our Group-wide activities. Global and regional procurement teams that network with the local purchasing units enable us to pool local needs at different sites. Joint projects with selected suppliers reduce procurement chain costs for mutual advantage. We standardize products and implement optimized procedures. As a result, we can obtain cost advantages from suppliers and price advantages for the BASF Group and thereby better secure supplies.

Raw materials purchasing

The most important petrochemical feedstocks used in production at our Verbund sites are naphtha and LPG (liquefied petroleum gas). They serve as feedstocks for the steam crackers we operate in Ludwigshafen, Germany; Antwerp, Belgium; Port Arthur, Texas; and Nanjing, China.

We also purchase a large number of other raw materials as diverse as ammonia, precious metals and even sugar. We coordinate purchasing of key raw materials centrally by means of global or regional product teams. We continue to use decentralized purchasing for raw materials for which demand is concentrated at only one site.

Purchasing and research units work closely together. Even during the product development phase, purchasing develops a range of procurement alternatives together with research and production, since this is the stage where a large part of the future product costs are determined.

Technical purchasing

Global and regional procurement teams coordinate purchases of technical goods and services such as machines, apparatus, laboratory equipment, construction and installation work. Close cooperation between our engineering and maintenance units allows us to pool our requirements quickly and efficiently and to standardize goods and services, thus achieving savings. In addition, we are tapping into the potential of new procurement markets.

Procurement of logistics services

We purchased logistics services for almost €2.1 billion and thereby ensured that goods reached our sites and customers on time.

We ensure optimal logistics costs and strengthen our competitiveness by various means. These include Group-wide coordination for the procurement of air and sea freight as well as the regional planning and control of land freight providers. Further, the Group-wide central coordination of packaging procurement and the Group-wide management of negotiations with service providers for business travel optimizes our logistics costs and strengthens our competitive position.

OUR STRENGTHS

- Worldwide and regional Procurement Verbund
- Close coordination between procurement, research and production
- Supply chain management contributes to the success of both BASF and our customers

ELECTRONIC MARKETPLACE

We purchase technical goods and services through the electronic marketplace cc-hubwoo, in which BASF owns a stake. cc-hubwoo is one of the world's most active marketplaces.

Supply Chain Management (SCM)

SCM helps BASF's business units implement their business models and achieve their strategic goals. The core activities of SCM are the planning, management and control of logistic processes. In doing so, we pay attention to the demands and requirements of our customers. In 2006, we were able to once again optimize processes in the area of Sales & Operations Planning. This led to an improvement in days of inventory invested and supply reliability.

E-commerce

We continually improve the efficiency of our purchasing processes by using e-commerce. This has a positive impact on process times and process quality. In 2006, all regions reported greater use of e-commerce with more than 3,600 tenders for technical goods and services processed electronically.

We are also expanding our successful e-commerce activities on the sales side. We are reaping the benefits of e-commerce for BASF and our customers by using tailor-made business models. We increased sales via e-commerce by more than 40% from €9.6 billion in 2005 to €13.2 billion in 2006. The e-commerce sales of the businesses acquired in 2006 are not included in these figures. This trend applies worldwide: All regions posted increases in sales from e-commerce.

We have integrated the marketplace Elemica into our purchasing processes for raw materials. This allows electronic data exchange with suppliers. Elemica is used as a trading platform for chemical products by more than 230 customers and suppliers. Our uniform, integrated extranet solution WorldAccount is available for small and medium-sized suppliers.

E-COMMERCE

- Increase in efficiency due to the electronic processing of our purchasing processes and sales activities
- Sales via e-commerce increased by more than 40% in 2006
- Growth in e-commerce in all regions for both purchasing and sales
- The Elemica marketplace for the purchase of raw materials is integrated into our purchasing processes

Marketing and Sales

We align BASF's business models to the needs of our customers. Standard products have to be supplied in a defined quality, reliably and at a competitive price. With specialties, we offer our customers tailor-made solutions for their problems. Our focus is on mutual success.

We organize our marketing and sales activities according to the various business models in our segments.

We supply the standard products from our **Chemicals** segment to our customers in large volumes with low marketing expenses and usually without intermediaries. Increasingly, these transactions take place using e-commerce.

We are strengthening and extending our portfolio with organic and inorganic specialties and catalysts. In order to develop new applications and attract new customers, we are expanding our activities in the marketing of product innovations and tailor-made solutions.

BASF's **Plastics** segment offers standard products, specialties and products tailored to specific customers. Standard products are usually distributed in large quantities with low marketing expenses. For specialty and customized products, we often work with our customers at an early stage of development. We are also increasingly using the opportunities offered by e-commerce. In 2006, we posted e-commerce sales of more than €4 billion, and in some businesses e-commerce already accounts for over 80% of sales.

The **Performance Products** segment produces an array of products, formulators and system solutions. What matters to customers is the application-specific properties and performance of the products. This requires both tailor-made customer service provided by our sales staff at the customer's site as well as targeted marketing. In the most important regions, we maintain technical development facilities and pilot plants close to our customers.

The **Agricultural Products** division offers a high-value product portfolio tailored to the needs of the major agricultural markets. We focus on the needs of the farmers who use our products and on the needs of the processing industry and the food trade. High-quality, innovative products and services as well as a local presence are the key factors for a successful partnership. We supply our customers via a global network of trading partners.

Our **Fine Chemicals** division supplies specialties through a global marketing and distribution system. The local presence of regional business units ensures customer proximity and competency in our target markets of cosmetics, pharmaceuticals and nutrition.

In the **Oil & Gas** segment, we sell natural gas primarily to large commercial customers through our subsidiaries WINGAS and Wintershall Erdgas Handelshaus and its affiliated companies. We also offer customers transport and storage services. We market crude oil primarily through our oil trading company in Switzerland.

In 2006, selling expenses, which include distribution, shipping, marketing and advertising costs, were €4,995 million compared with €4,330 million in 2005. Corporate advertising costs totaled approximately €44 million in 2006 compared with €40 million in the previous year.

MARKETING AND SALES ACTIVITIES

- Chemicals and Plastics: Business models for both standard and speciality products
- Performance Products: Tailor-made service for our customers
- Agricultural Products: Aligned to the most important agricultural markets
- Fine Chemicals: Target markets are cosmetics, pharmaceuticals and nutrition
- Oil & Gas: Transport and storage for large commercial customers in natural gas trading

Corporate Responsibility

The success of the BASF Group depends on having qualified and motivated employees from all over the world. We offer our employees a multitude of opportunities to develop their potential and contribute based on their strengths. Our economic success also depends on the social acceptability of our actions. For this reason, we are investing in products and processes that preserve valuable resources and are energy efficient.

EMPLOYEES

Our management team has members from more than 36 different countries. To attract, retain and train the best talent for each function, we create a supportive working environment for our employees so they can perform at their best to make our company successful.

The number of BASF Group employees increased by more than 14,300, or 17.7%, to approximately 95,250 by the end of 2006. This change reflects the impact of acquisitions and divestitures, as well as changes in the scope of consolidation. The increase in the number of employees can be primarily attributed to the takeover of Engelhard Corp. and the construction chemicals business of Degussa AG, and has been most noticeable in North America (NAFTA), where the number of employees increased by 57.9%. The employee turnover rate has been low, with only 1.3% of employees leaving the company on their own initiative in 2006. This underlines the attractiveness of BASF as an employer the world over.

In 2004, company management and employee representatives signed a "Stability Through Change" agreement for the Ludwigshafen production site. Under the agreement, the headcount will be 32,000 (December 31, 2006: 33,220 employees) at the end of 2008. The agreement precludes workforce reduction programs with enforced redundancies until 2010 if the target figure of 32,000 is reached on schedule. Measures to secure sites and maintain competitiveness are an on-going corporate issue, but their success is essential to securing tomorrow's jobs. The viability of the agreement will continue to be reviewed on an annual basis by company management and employee representatives.

In 2006, we continued with our two-phase restructuring program in North America. The program's goal of reducing annual fixed costs by $400 million was achieved ahead of its planned target of mid-2007. As a result of the acquisitions, we expect annual synergies of €290 million by 2010. They result primarily from the reduction of duplication in areas such as administration, distribution and logistics. An example is the integration of Engelhard Corp., which will lead to a reduction of about 800 positions, the majority of which will be in the United States.

Last year, the BASF Group employed 2,280 trainees worldwide, 2,119 of them in Germany. In addition, 1,016 young people were trained in BASF Jobmarkt GmbH, in cooperation with more than 600 partner companies in the Rhein-Neckar metropolitan region as part of BASF's Training Verbund.

Number of employees by region

(As of December 31)	2006	2006 %	2005 %
Europe	61,444	64.5	69.9
Thereof Germany	47,296	49.7	56.4
Thereof BASF Aktiengesellschaft	33,220	34.9	42.2
North America (NAFTA)	15,513	16.3	12.1
Asia Pacific	12,788	13.4	12.0
South America, Africa, Middle East	5,502	5.8	6.0
	95,247	**100.0**	**100.0**

Trends in Personnel Costs

In 2006, personnel costs rose by €636 million to €6,210 million. The personnel costs are as follows:

Personnel costs

Million €	2006	Change %
Wages and salaries	5,030	10.5
Social security and expenses for pensions and assistance	1,180	15.5
Thereof for pension benefits	287	18.3
	6,210	**11.4**

We want to maintain the highest level of expertise and qualification among our employees. To this end, last year we invested €98 million in continuing education and training in Germany alone. Of this amount, €33 million was spent on continuing education programs and €65 million on vocational training. Global expenditure on education and training amounted to €123 million. As a result, we spent on average more than €1,300 per employee on training measures. In addition, we invested approximately €18 million in the BASF Training Verbund in the Rhine-Neckar Metropolitan Region.

Sharing in the company's success

BASF promotes employee participation in the company. In 2006, approximately 53% of employees of BASF Aktiengesellschaft and BASF Group companies in Germany took advantage of the opportunity to invest part of their annual bonus in BASF shares. Worldwide, employees bought a total of 539,190 BASF shares under the "plus" share purchase program last year. The employees have the chance to receive additional free shares from the company, provided they hold their shares for a longer period.

> For further information see also page 153.

Since 1999, senior executives of the BASF Group have been able to participate in the BOP stock option program. The program ties a significant proportion of their compensation to the long-term performance of BASF shares. In 2006, more than 80% of approximately 1,000 senior executives eligible to participate worldwide took part in the BOP program and invested up to 30% of their variable compensation in BASF shares. For each share purchased in this way, BASF grants stock option rights whose value is paid out if the price of BASF stock meets ambitious targets.

> You can find more details on page 151.

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL SAFETY

Those who wish to be successful in the long-term have to operate in a sustainable manner. We have set ourselves demanding targets for environmental protection and occupational and distribution safety that we want to achieve by 2012. In this way, we operate in a sustainable fashion for a future worth living and fill our strategic guidelines with life.

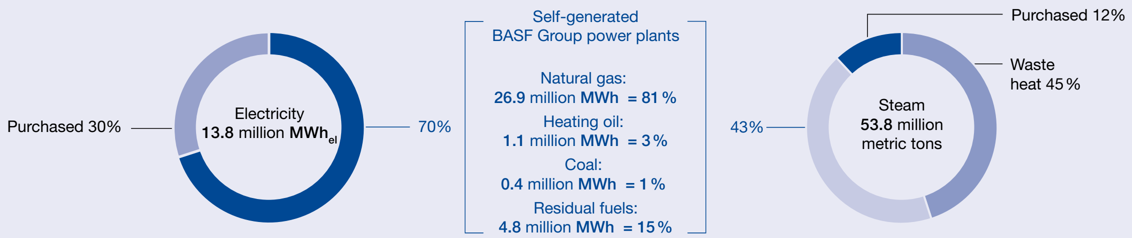
Environmental protection costs

The operating costs relating to environmental protection throughout the BASF Group amounted to €657 million in 2006 (2005: €623 million). In the same period, we also invested €116 million in new and improved environmental protection plants and facilities (2005: €78 million). These capital expenditures include both end-of-pipe and production-integrated measures. Provisions established for environmental protection measures and remediation worldwide amounted to €271 million as of December 31, 2006 (December 31, 2005: €253 million).

Energy balance

In 2006, 33.2 million MWh of fossil fuels and waste fuels was used in our own central power plants to generate

Energy balance BASF Group 2006



Environment, Safety and Product Stewardship

The data do not include companies acquired in 2006.

Reduce emissions from chemical operations (baseline 2002)	2012 goals	Status at year-end 2006 Goal
Emissions of greenhouse gases per metric ton of sales product	–10%	–12.4%
Emissions of air pollutants	–40%	–42.6%
Emissions to water: Organic substances	–60%	–64.2%
Nitrogen	–60%	–73.1%
Heavy metals	–30%	–42.6%
Occupational safety (baseline 2002)	**2012 goal**	**Status at year-end 2006 Goal**
Reduce lost time accidents per million working hours	–80%	–49.0%
Distribution safety (baseline 2003)	**2012 goal**	**Status at year-end 2006 Goal**
Reduce transportation accidents	–70%	–19.6%
Product stewardship	**2008 goal**	**Status at year-end 2006**
Complete the minimum data sets for all chemical substances handled by BASF in quantities of more than 1 metric ton per year.	> 98%	We have completed about 98% of data sets in Germany and 93% of data sets for the substances we produce worldwide.

steam and electricity for the BASF Group. As a result, 9.6 million MWh_{el} of electrical power was generated (2005: 6.3 million MWh_{el}), primarily by means of cogeneration technology. This corresponds to approximately 70% of BASF's total electricity needs of 13.8 million MWh_{el} in 2006. Compared to conventional electricity and steam generation, the use of cogeneration technology means a saving of 11.8 million MWh in fossil fuels. The remaining electricity was purchased.

In 2006, a total of 53.8 million metric tons of process steam was provided by steam networks within the BASF Group, compared with 53.3 million metric tons in 2005. Worldwide, approximately 45% of this amount was generated using excess heat from chemical reactions.

> See the diagram on energy supply for the BASF Group 2006 on p. 68.

Global Goals for Environmental Protection and Occupational Safety

We aim to combine sustainable economic success with environmental protection. We have set ourselves a number of ambitious goals in this area and have already made considerable progress. 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 from our chemical operations

We are committed to the aims of the 1997 Kyoto Protocol to reduce greenhouse gas emissions. In the years 1990 to 2002, we already reduced greenhouse gases by 38% in absolute terms, and by 61% in relative terms. In 2006, BASF's chemical business worldwide (excluding newly acquired businesses) emitted 25.0 million metric tons of greenhouse gases compared with 24.8 million metric tons in 2005. Compared with the baseline year 2002, we achieved a reduction of 12.4% in greenhouse gas emissions per metric ton of sales product. Our production rose by 15.4% during the same period. Emissions to air from BASF worldwide totaled 49,100 metric tons of air pollutants, compared with 50,900 metric tons in 2005. This represents a reduction of 42.6% compared with 2002.

OUR GOAL IS TO MAKE A POSITIVE CONTRIBUTION TO SECURING A SUSTAINABLE FUTURE

- We are investing in the protection of the environment: In 2006, expenditures on environmental protection were increased to €657 million
- We have global targets for environmental protection and safety
- We are continually reducing emissions of greenhouse gases, from 2002 to 2006 in total by 12.4% per metric ton of sales product
- We are making a positive contribution to the development of society by sponsoring numerous cultural and social projects

We have also come closer to achieving our targets for emissions to water: In 2006, BASF emitted to water a total of 32,800 metric tons of organic substances – calculated as chemical oxygen demand (COD). The figure for 2005 was 44,200 metric tons. Compared to the baseline year, we have reduced emissions by 64.2% overall. Emissions of nitrogen to water totaled 6,000 metric tons, compared with 8,800 metric tons in 2005. This represents a reduction of 73.1% compared with 2002. Wastewater contained 35 metric tons of heavy metals amounting to a reduction of 42.6% compared with the baseline year 2002.

Occupational safety and distribution safety

We have committed ourselves to promoting and maintaining safe and healthy working conditions. Safety is also a prerequisite for smooth production. In 2006, the BASF Group's lost time accident rate worldwide was 1.7 per one million working hours compared with 1.8 in 2005. This corresponds to a reduction of 49% in the rate of accidents compared with 2002. At our Ludwigshafen site, we reduced the lost time accident rate by 3% compared with the previous year to 1.8 accidents per million working hours. We have established uniform global standards for the transportation and storage of chemical products. These standards also apply to our partner companies. Our safety checks and training ensure that our partners fulfill the high demands made on them. As a result of these measures, we have further improved distribution safety: In 2006, there were 0.45 transportation accidents per 10,000 shipments worldwide compared with 0.47 in the previous year. This corresponds to a reduction of 19.6% compared with our baseline year 2003.

Worldwide completion of substance data sets

Globally, we aim to have data sets for all substances and products we handle. By the end of 2008, we will have base data for all substances that we handle in quantities of more than one metric ton per year. In the past years, we have generated data sets for over 93% of the substances we produce worldwide. In all regions, we are comparing the product portfolios and identifying substances for which data are incomplete. We analyze these substances and close the gaps on an ongoing basis.

> More information is available in the Corporate Report on page 80.

Environmental policy

The European Union has passed new legislation on chemicals (REACH) to govern the registration, evaluation and authorization of chemicals. The new legislation will come into force in the relevant E.U. member states on June 1, 2007. We have been actively involved in numerous E.U. projects to ensure the efficient and economically practicable implementation of REACH and are now making detailed preparations for its introduction. We expect implementation to be associated with expenses of approximately €50 million per year in the period up to 2018.

Within the framework of E.U. emissions trading, the BASF Group was allocated allowances (EUA) for approximately 7 million metric tons of carbon dioxide (CO_2) per year for the affected plants at our European sites for 2006. For the second trading period (2008 to 2012), a number of chemical plants will also be included in the Europe-wide trading system.

Moreover, increased pressure is expected from the E.U. Commission in the form of stringent guidelines for further reductions, which could involve additional costs for BASF.

SOCIAL RESPONSIBILITY

Our Values and Principles state our commitment to making a positive contribution to social development – not only through our business activities. Through our involvement in numerous projects worldwide, we actively support the communities in which our sites are located.

The BASF Group spent a total of €67.2 million on community-based, social, educational, scientific, sports, artistic and cultural projects in 2006 (2005: €56.8 million).

Donations, sponsoring and projects of BASF Group in 2006

Million €		2006	%
1	Science	5.2	7.7%
2	Society	5.7	8.5%
3	Culture	7.0	10.4%
4	Sports	2.0	3.0%
5	Education	43.8	65.2%
6	Other	3.5	5.2%
		67.2	**100.0**

2006: €67.2 million
(2005: €56.8 million)

Of the total amount, 33.6% was in the form of donations and 66.4% went toward sponsorship activities and our own community projects. With this commitment, we at BASF want to play our part in societal development. That is why BASF works hand-in-hand with local government, institutions and associations.

The allocation of funds within the BASF Group is defined according to a donation and sponsoring policy.

Education

Education is a central issue for BASF. By investing in education, we will stay competitive in the long term and secure our future. This is why we are intensifying our commitment in education in the communities in which our sites are located and supporting activities around the world that provide and promote access to education. In Africa, the support of BASF's social fund for the Lapdesk project has improved educational conditions for 100,000 schoolchildren.

As the leading chemical company, we also want to awaken an interest in science in young people all over the world. That is why we have been successfully offering the Kids' Lab to young people – now in 12 countries. Exciting experiments allow them to discover the world of chemistry. The Kids' Lab took place for the first time in Hong Kong in 2006. We also support a host of initiatives in many other countries in the area of education with partners from industry, labor unions and politics.

"We Help the Region Win"

BASF is committed to projects in the Rhine-Neckar metropolitan region under the motto "We Help the Region Win". We want to make the communities in which our Ludwigshafen site is located more attractive for employees and neighbors and thus enhance the region's competitiveness. To do this, we offer particular support to projects in the areas of youth and education, innovation and science, art and culture, community and social issues, sport and quality of life. As in the year before, we contributed €22 million to such projects.

> More information is available in German at www.basf.de/mit-uns-gewinnt-die-region

Working together in the Knowledge Factory

We combine our regional projects in the Knowledge Factory initiative, of which we were a founding member in 2005. The member companies in this initiative aim to make Germany more sustainable as a business location. This is another area in which education plays a major role. The goal is to establish 1,000 educational partnerships between companies and kindergartens and schools in a move to promote a learning culture and creativity in Germany. The "How Does it Work" project provides elementary schoolchildren with specially prepared materials and substances in order to carry out experiments relating to water, air and food. In collaboration with the state of Rhineland-Palatinate, BASF has equipped around 1,000 elementary schools with the necessary experimental kits. The Knowledge Factory also pursues another goal: promoting entrepreneurship. Through a mentoring program, employees of our member companies provide professional support and advice to young entrepreneurs.

> More information on the Knowledge Factory is available in German at www.wissensfabrik-deutschland.de

> You can find comprehensive information on sustainable management and corporate social responsibility on the Internet at corporate.basf.com/sustainability or in our Corporate Report 2006 available at corporate.basf.com/corporate-report

AWAKENING AN INTEREST IN SCIENCE

For many years, BASF has been offering worldwide a hands-on Kids' Lab – together with schools and public institutions. Children can carry out simple experiments and discover the world of chemistry. In 2006, 430 kids took part in their first Kids' Lab in Hong kong.

Risk Management System and Risks of Future Development

BASF Risk management's goal is to identify and evaluate risks as early as possible, limit business losses by taking suitable measures and avoid risks that pose a threat to the company's continued existence.

Organization, responsibilities and tools

Regular risk analyses at the corporate level are conducted by BASF's Chief Compliance Officer and by the following units:

- Corporate Controlling
- Environment, Safety & Energy
- Finance
- Global Procurement & Logistics
- Human Resources
- Legal, Taxes & Insurance
- Strategic Planning & Controlling

Specific risks pertaining to operating divisions and units are continually registered, evaluated and monitored centrally. The Board of Executive Directors regularly receives reports on the risk situation of the BASF Group. We continually monitor certain risk areas with the help of performance data and indicators. Reports are immediately submitted if pre-defined risk thresholds are reached. The Board of Executive Directors are informed by means of monthly reports from the Corporate Controlling unit on the current and expected development of the business as well as the risks. Strategic opportunities and risks are assessed as part of the regularly monitored product division and regional strategies and weighed up against one another. The examination of the functioning and effectiveness of our risk management system, as well as its continual development and its integration into business processes is made by the external auditors on an annual basis and by our Corporate Audit department on an interim basis.

In 2006, we continued to further develop the risk management process throughout the BASF Group in accordance with internationally accepted standards, such as the Enterprise Risk Management (ERM) - Integrated Framework of the COSO (Committee of Sponsoring Organizations of the Treadway Commission). One of the focal points lay in the development of a new IT system.

Internal monitoring

Corporate Audit acts on behalf of the Board of Executive Directors and operates throughout BASF Aktiengesellschaft and the BASF Group. Corporate Audit checks:

- Adherence to directives, guidelines, approval limits and fair trade regulations
- Asset security and the attainment of an appropriate rate of return on invested capital
- The organization and its processes in terms of efficiency, effectiveness and proper functioning
- The functionality and reliability of the risk management system
- The reliability of reporting

The general principles of risk avoidance, such as the segregation of duties and dual control of important processes, form the basic foundation of internal monitoring. In addition, we have introduced guidelines for currency hedging, financial investments and the use of financial derivative instruments to hedge against price and market risks.

FUNDAMENTALS OF OUR RISK MANAGEMENT SYSTEM

- High safety standards in plant operation to protect people and the environment
- A code of conduct to ensure compliance with laws
- A Leadership Compass that places high demands on the integrity of our management
- Control bodies to verify important business decisions
- Organizational measures to prevent the infringement of guidelines and laws

In accordance with Section 404 of the Sarbanes-Oxley Act (SOA), the effectiveness of the internal control system for financial reporting purposes was confirmed by both management's self-assessment and by the external auditors. This topic is reported in the Form 20-F, which is submitted to the U.S. Securities and Exchange Commission (SEC).

>You can find the 20-F in the internet at:
corporate.basf.com/en/investor/news/berichte

Risk controlling

The Strategic Planning & Controlling and Finance divisions are responsible for centralized risk controlling. They regularly inform the Board of Executive Directors.

The Strategic Planning & Controlling division ensures that the communication and continued development of risk management takes place in all operating units, corporate divisions, competence centers and regional divisions worldwide. In addition, the division coordinates the identification of all significant risks for BASF throughout the company and systematically evaluates them according to uniform standards.

Fourteen operating divisions bear overall responsibility for business operations within the BASF Group. It therefore follows that operational risk management is focused in these units. The newly established divisions, Construction Chemicals and Catalysts, have been integrated into the process following the most recent acquisitions. We have also established decentralized risk controlling units in the competence centers and regional divisions that work closely with the centralized units.

Financial risks

We monitor and control financial risks in the Treasury department of the Corporate Center or through appropriately authorized Group companies. Detailed guidelines and procedures exist for dealing with financial risks. Among other things, they provide for separate trading and processing functions.

Currency, interest rate and price risks: These risks are hedged using derivative instruments.

> Commentary on the use of derivatives is provided in Note 26 to the Consolidated Financial Statements on page 154 onward.

Risks from commodity positions: In connection with the catalysts business, BASF holds large positions in base and precious metals whose value is exposed to market price volatility. These positions could also encompass derivate instruments. They are subject to a constant control regime and are only entered into within fixed limits and exposure constraints.

Liquidity risks: We promptly recognize any risks from cash flow fluctuations using our liquidity planning system. We have ready access to sufficient liquid funds in view of our good credit ratings, the ongoing commercial paper program and committed credit lines from banks.

Credit risk and default risk: We limit country-specific risks through internal country ratings, which are continually updated to reflect changing economic, political and social conditions. We use export credit insurance and investment guarantees as the main tools to limit specific country-related risks.

We lessen credit risks for our financial investments by engaging in transactions only with business partners and banks with very good credit ratings and by adhering to fixed limits. Monetary transactions are also conducted through such banks. We reduce the risk of default on receivables by continually monitoring the creditworthiness and payment behavior of customers and by setting appropriate credit limits. Risks are also limited through the use of credit insurance and bank guarantees.

GOALS OF RISK MANAGEMENT

- Earliest possible detection of risks
- The necessary measures taken to avoid economic damage
- Avoidance of risks that threaten the company's continued existence

FINANCIAL RISK MANAGEMENT

- Credit limits and credit insurance
- Use of country ratings, credit insurance and investment guarantees
- Use of derivatives to hedge against currency, interest rate and price risk
- Funding of pension obligations through an external pension fund
- Introduction of defined contribution plans

Pension obligations: We predominantly finance company pension obligations externally through separate pension assets. In addition to the pension plans of our Group companies in North America (NAFTA), this applies particularly to BASF Pensionskasse VVaG and the Contractual Trust Arrangement (CTA) at BASF in Germany. We address the risk of pension plan underfunding due to market volatility of plan assets by aligning the investment strategy in terms of return and risk optimization to the structure of the pension obligations. Furthermore, we are reducing this risk by increasingly offering employees defined contribution schemes.

Supply risks

The availability and price volatility of feedstock, especially of oil products and precious metals, pose a special risk for BASF. We reduce this risk through our global purchasing activities, long-term supply contracts and optimized procedures for the purchase of additional quantities of raw materials on spot markets and through commodity derivatives. We address the risks from changes in the market for raw materials in the long term by developing new technologies.

Market risks

Cyclical fluctuations in demand in key customer segments, as well as intense competition in sales markets, present operating risks in our Chemicals, Performance Products and Plastics segments. We reduce these risks by working in close collaboration with our customers, offering specific system solutions and by continually expanding businesses resistant to cyclicality. This includes our activities in crop protection, active ingredients and active ingredient precursors for pharmaceuticals, natural gas trading, and the acquisition of the catalyst and construction chemicals business. Sales volumes of crop protection products are primarily seasonal and depend on climatic conditions. Demand for crop protection products is further influenced by the agricultural policies of governments and multinational organizations. The increasing sale of products combined with genetically modified seeds could have an adverse effect on the development of our crop protection business. We are responding to these risks with innovative products and solutions that create added value for our customers.

Regulatory risks

The new European chemical directive (REACH) was passed in December 2006 and will come into force on June 1, 2007. The guideline involves new regulatory controls on the registration, evaluation and approval of chemical substances. This poses the risk that we, and our European-based customers, will be placed at a disadvantage compared to our competitors outside of Europe due to cost-intensive testing and registration procedures. The implementation of REACH is anticipated to cost approximately €50 million per year till 2018.

With regard to E.U. emissions trading, the BASF Group was allocated allowances (EUA) for approximately 7 million metric tons of carbon dioxide (CO_2) per year for its European sites for 2006. In the second trading period (2008 to 2012), some chemical plants will be included in the Europe-wide scheme.

Moreover, increased pressure from the E.U. Commission means more stringent conditions are expected in the context of the whole system, which could mean additional costs for BASF.

RISKS THAT COULD INFLUENCE OPERATING INCOME

- Increase in oil-dependent raw materials and energy prices
- Cyclical fluctuations in our important markets
- Development of the whole economy

We counter these risks with immediate and longer-term measures.

Economic cycle risks

In 2007, we do not expect pronounced risks to the chemical business or to the general economy, nor do we expect any serious changes in market conditions or competitive relationships. Possible risks stem from further volatility in the price of oil and from a possible hard landing for the U.S. economy, both of which we do not envision happening at this time. In addition, a possible aggravation of geopolitical tensions and the destabilization of currently politically stable systems pose risks.

> You can find detailed commentary on the expected economic development and associated risks in the section Economic Environment on page 60 onward.

Other significant risks

Risks arising from acquisition and investment decisions: The implementation of acquisitions and capital investment decisions bring with them complex risks. Following the takeover of the Engelhard Corp., we have integrated the assessment of risks arising from the Materials Services business into the BASF risk management process. The risk of loss of key personnel following acquisitions is countered by suitable programs and measures.

Exploration risk: The search for new oil and gas reserves is dependent on geological conditions. We lessen such risks by means of a balanced exploration portfolio.

IT risks: To reduce possible risks, BASF has an integrated, standardized IT infrastructure Group-wide, backup systems, replicated databases, virus and access protection, encoding systems and a high degree of internal networking.

Research and development: Because of the high degree of complexity and uncertainty involved in chemical and biological research, there is a risk that projects might be discontinued or that developed products will not receive approval for marketing. We lessen this risk through our global Know-how Verbund and our efficient innovation process.

> For further information see also page 56.

Patent risks: The Global Intellectual Property department of BASF Aktiengesellschaft, together with the appropriate units of the U.S.-based BASF Corp. and BASF Coatings, Münster, Germany monitors all the intellectual property rights of BASF. At the same time, we aim to avoid patent and licensing disputes as far as possible through our extensive clearance research.

Prospective candidates for specialist and management positions: We compete with other companies for highly qualified specialists and management personnel. We ensure the future stream of management candidates by making our management team more international, offering employees attractive assignments, a variety of international development perspectives, a broad spectrum of advanced training, continuing education opportunities, fringe benefits and performance-based compensation. Part of this compensation is a broad-based program that allows employees to share in the company's success. We have also put in place a sophisticated stock option plan for approximately 1,000 BASF Group executives.

> Further details can be found in Note 25 to the Consolidated Financial Statements on page 151 onward.

Corporate Security: BASF's Corporate Security department, through its Group-wide network, works in close cooperation with local security authorities to develop measures to protect BASF from worldwide security risks.

Legal risks: We limit risks from potential wrongdoing or legal infringements by using compliance programs, and centralized contract management.

> Details on current litigation can be found in Note 24 to the Consolidated Financial Statements on page 150 onward.

ASSESSMENT OF THE OVERALL RISK SITUATION

In our opinion, there are no individual risks or risks in the aggregate that pose a threat to the continued existence of the BASF Group at the present time or in the foreseeable future. The total sum of individual risks also does not pose a threat to the continued existence of the BASF Group.

DAF Trucks, a subsidiary of the U.S. PACCAR Group, is one of the most successful manufacturers of trucks in Europe. Already before BASF's acquisition, Engelhard had successfully worked together with DAF in the area of catalyst research and development. The partnership between DAF and BASF now offers an extremely efficient platform for the development of new and improved catalysts in the field of heavy-duty diesel technology.

Max Holtkamp, Engine Plant Manager, DAF Trucks (left) and **Peter Macnair**, Account Manager Diesel OEM - Europe, BASF Catalysts, helped develop the catalyst technology for DAF's award-winning XF105 model.

The acquisition of Engelhard has made BASF a leading global supplier in the strongly growing catalyst market and strengthened our position as The Chemical Company.

The catalyst business is less cyclical than other areas of the chemicals business. As a result, BASF is more resilient to economic fluctuations.

Through the integration of Engelhard Corp.'s research activities in BASF's Research Verbund, we have created a powerful research platform in catalysts.

ENGELHARD CORPORATION

Sales: €2.7 billion[1]

Purchase price: €3.8 billion[2]

[1] amount since date of acquisition

[2] purchase price of equity

Corporate Governance at BASF

Corporate governance refers to the entire system for **managing and overseeing** a company, including its **organization**, its **commercial principles** and guidelines as well as all internal and **external regulatory and monitoring mechanisms**. Effective and transparent corporate governance guarantees that BASF is managed and monitored in a responsible and value-driven manner. This fosters the confidence of our domestic and international investors, the financial markets, our business partners, employees and the public in the company.

BASF accords good corporate governance great importance. We therefore support the German Corporate Governance Code, which we regard as an important tool in the capital market-driven development of corporate governance and control. We follow the recommendations of the German Governance Code in its revised version of June 2006 with few exceptions. You can find the 2006 joint Declaration of Conformity by the Board of Executive Directors and the Supervisory Board at the end of this section on page 93. In the same manner, BASF also fulfils most of the non-obligatory proposals of the German Corporate Governance Code.

>The Declaration of Conformity 2006, an overview of the implementation of the code's proposals and the German Corporate Governance Code are available on our website at corporate.basf.com/governance_e.

As 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 (SOA) of 2002, as well as the regulations of the U.S. Securities and Exchange Commission (SEC) and the NYSE.

Due to Section 404 of SOA, the internal control processes for financial reporting were uniformly documented throughout the BASF Group in an IT system. On this basis, the effectiveness of this control system was once again assessed at all management levels in 2006. The result of this assessment confirmed the effectiveness of the system.

The external auditors have confirmed the results of our self-assessment in their report. The internal control system for financial reporting complies in all regards with the requirements of Section 404 of SOA as well as the internal control components of the COSO Framework.

Values and Principles of the BASF Group/ Code of Conduct

In order to guarantee a high standard of corporate governance, the Board of Executive Directors has set down and published the Values and Principles of the BASF Group, and the Code of Conduct/Compliance Program. These lay down our business principles and guidelines for the conduct of all activities within the BASF Group. The Code of Conduct describes in detail the conduct we expect from BASF employees – based on the principle of integrity. Key areas for us include observing all relevant legislation, in particular antitrust and competition legislation, embargo and export controls legislation – including those on chemical weapons, labor laws and legislation relating to plant safety. Other issues covered are bans on insider dealing for personal benefit and bans on facilitation payments to, or from, business partners or government officials, and the responsible treatment of BASF's assets. The Corporate Audit department, together with BASF's Chief Compliance Officer, monitors compliance on a regular basis.

> The Values and Principles of the BASF Group and the Code of Conduct are also available on the Internet at corporate.basf.com/values.

Corporate management and control by the Board of Executive Directors and Supervisory Board

In contrast to the situation in many other countries, two separate bodies work together at German stock corporations: a Board of Executive Directors and a Supervisory Board. Appointments to the two bodies are strictly separate. A member of the Supervisory Board cannot simultaneously be a member of the Board of Executive Directors.

BASF's Board of Executive Directors is responsible for the management of the company and represents BASF Aktiengesellschaft in all business undertakings with third parties. Its activities and decisions are aligned to the company's interests, and it is dedicated to the goal of increasing the company's value in the long term. The decisions made by the Board of Executive Directors are based on a simple majority. In the case of a tied vote, the Chairman of the Board has a casting vote.

The Board of Executive Directors reports to the Supervisory Board regularly, comprehensively and in a timely manner on all material matters concerning the company with regard to strategic planning, business development, risk issues and risk management. Furthermore, they agree on corporate strategy. Where required by the Articles of Association of BASF Aktiengesellschaft, the Board of Executive Directors must have the approval of the Supervisory Board for certain transactions before they are concluded. Such cases include the purchase of corporate shareholdings in excess of €100 million and the commencement of new or the termination of existing business activities.

The Supervisory Board of BASF Aktiengesellschaft appoints the members of the Board of Executive Directors and monitors and advises the Board of Executive Directors on management issues. The Supervisory Board of BASF Aktiengesellschaft comprises 20 members and, in accordance with the German Codetermination Act, consists in equal parts of shareholder representatives – elected by shareholders at the Annual Meeting – and employee representatives. Supervisory Board resolutions require a simple majority. In the case of a tied vote, a second vote is held and the Chairman of the Supervisory Board has two votes.

Alongside the Mediation Committee, the Supervisory Board has established a **Nomination and Compensation Committee** to deal with personnel issues and the granting of loans and an Audit Committee. The Nomination and Compensation Committee is charged with setting Board members' remuneration and related contractual issues among other things. It comprises Supervisory Board Chairman Dr. Jürgen F. Strube (chairman) as well as Supervisory Board members Robert Oswald, Dr. Tessen von Heydebreck and Michael Vassiliadis. The sole task of the **Mediation Committee** is to make a proposal concerning the appointment of a member to the Board of Executive Directors in the event that the necessary two-thirds majority is not attained in the first round of voting in the Supervisory Board. In the second round of voting, a simple majority is sufficient to appoint a member to the Board of Executive Directors. The members of the Mediation Committee are Supervisory Board Chairman Dr. Jürgen F. Strube (chairman) as well as Supervisory Board members Wolfgang Daniel, Robert Oswald and Dr. Tessen von Heydebreck.

The **Audit Committee** makes preparations for the negotiations and resolutions of the Supervisory Board for the approval of the Financial Statements of BASF Aktiengesellschaft as well as the Consolidated Financial Statements of BASF Group, reviews the Annual Report on Form 20-F that has to be submitted to the U.S. Securities and Exchange Commission and deals with risk monitoring and the internal control over financial accounting. The Audit Committee is also responsible for business relations with the company's auditors: It prepares the Supervisory Board's proposal to the Annual Meeting regarding the selection of an auditor, monitors the auditor's independence, defines the key aspects of the audit together with the auditor, negotiates the auditing fees and establishes the conditions for the provision of non-audit services. The Audit Committee comprises Max Dietrich Kley, Dr. Karlheinz Messmer, Hans Dieter Pötsch and Michael Vassiliadis. The chairman of the Audit Committee is Max Dietrich Kley. Max Dietrich Kley (former Chief Financial Officer of BASF) and Hans Dieter Pötsch (Chief Financial Officer of Volkswagen AG) have particular knowledge and experience in the application of accounting principles and internal audit procedures, and have been named by the Supervisory Board as Audit Committee Financial Experts.

> The members of the Board of Executive Directors and the Supervisory Board, including their membership of the boards of other companies, are listed on pages 81 to 84. The compensation of the Board of Executive Directors and the Supervisory Board are shown in detail in the Compensation Report on pages 85 to 89.

Shareholders' rights

At Annual Meetings, shareholders have rights of participation and oversight. Each BASF share represents one vote. Shareholders may exercise their voting rights at Annual Meetings either personally, through a representative of their choice or through a company-appointed proxy authorized by shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has fully implemented the principle of "one share, one vote." All shareholders are entitled to participate in Annual Meetings, to have their say concerning any resolution and to demand information about company issues to the extent that it serves to help make an informed judgment about the resolution under discussion.

Disclosure according to Section 315 (4) of the German Commercial Code (HGB)

As of December 31, 2006, the subscribed capital of BASF Aktiengesellschaft amounted to €1,282,790,400.00, divided into 501,090,000 bearer shares with no par value (thereof 1,410,000 bought back and designated for cancellation). Each share shall, at an Annual Meeting, entitle the holder to one vote. Restrictions on the right to vote or transfer shares do not exist.

The appointment and termination of Board members are legally governed by the regulations in Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz) and Sections 31 and 33 of the German Codetermination Act (Mitbestimmungsgestetz). According to Section 17, Nr. 2 of the BASF Articles of Association, changes to the Articles of Association of BASF Aktiengesellschaft, contrary to Section 179 (2) of the German Stock Corporation Act, require a resolution of the Annual Meeting with a simple majority of the capital, unless a larger majority or further requirements are mandatorily stipulated by law. Furthermore, Sections 179 and 133 of the German Stock Corporation Act apply.

Until May 1, 2009, the Board of Executive Directors of BASF Aktiengesellschaft is empowered by a resolution passed at the Annual Meeting of April 29, 2004 to increase the subscribed capital by a total amount of €500 million through the issue of new shares (authorized capital). This must have the approval of the Supervisory

Board. The Board of Executive Directors is further empowered in certain cases (listed in Section 3, Nr. 8 of the BASF Articles of Association) to exclude the subscription rights of shareholders.

The Annual Meeting of May 4, 2006 empowered the Board of Executive Directors to buy back up to 10% of the shares until November 3, 2007. The purchase will take place at the choice of the Board on the stock exchange in the form of a public purchase offer addressed to all shareholders or through the use of put and call options. The Board is empowered to cancel the shares bought back. The shares bought back can be reissued after a resolution of the Annual Meeting passed with a three-quarters majority.

In the case of a change of control, members of the Board shall, under certain additional conditions, receive compensation whose details are listed in the compensation report on page 87. A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF Aktiengesellschaft and its Group companies who are designated as ‘executives’ (Obere Führungskräfte) will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the change-of-control event, provided the employee has not given cause for the termination. The employee whose service contract has been terminated in such a case will receive a severance payment to the maximum of 1.5 times the annual salary (fixed component) depending on the number of months that have passed since the change-of-control event.

Directors’ and Officers’ liability insurance

BASF has taken out liability insurance that covers the activities of members of the Board of Executive Directors and the Supervisory Board (D&O insurance). The policy provides for a suitable level of deductibles.

Share ownership by members of the Board of Executive Directors and the Supervisory Board

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

Share dealings of the Board of Executive Directors and Supervisory Board (notifiable transactions under Section 15a of German Securities Trading Act)

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

In 2006, there were a total of 20 reportable purchases and two reportable sales notified by members of the Board of Executive Directors and Supervisory Board. The transactions involved between 25 and 3,100 shares with a per share price of between €59.92 and €72.77. The volume of the individual trades was between €1,498 and €203,932.

> All transactions reported in 2006 are published on the Internet at corporate.basf.com/governance_e

Management and Supervisory Boards

Board of Executive Directors

As of December 31, 2006, there were nine members on the Board of Executive Directors of BASF Aktiengesellschaft.

DR. JÜRGEN HAMBRECHT
Chairman of the Board of Executive Directors
Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Communications BASF Group; Global HR – Executive Management & Development; Investor Relations
First appointed: 1997 (chairman since 2003)
Term expires: 2011
Supervisory board memberships (excluding internal memberships):
Bilfinger Berger AG (supervisory board member)

EGGERT VOSCHERAU
Vice Chairman of the Board of Executive Directors
Responsibilities: Industrial Relations Director; Human Resources; Environment, Safety & Energy; Occupational Medicine & Health Protection; Corporate & Governmental Relations; Ludwigshafen Verbund Site; Antwerp Verbund Site; Europe
First appointed: 1996
Term expires: 2008
Supervisory board memberships (excluding internal memberships):
HDI Haftpflichtverband der Deutschen Industrie VVaG (supervisory board member)
Talanx AG (supervisory board member)
CropEnergies AG (supervisory board chairman)
Deutsche Bahn AG (supervisory board member)
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
BASF Schwarzheide GmbH (supervisory board chairman)
Comparable German and non-German controlling bodies:
BASF Antwerpen N.V. (chairman of the administrative council)
Nord Stream AG (supervisory board member)

DR. KURT BOCK
Responsibilities: Finance; Global Procurement & Logistics; Information Services; Corporate Controlling; Corporate Audit; South America
First appointed: 2003
Term expires: 2007
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Wintershall Holding AG (supervisory board member)
Wintershall AG (supervisory board member)
BASF Coatings AG (supervisory board member)
Comparable German and non-German controlling bodies:
The European Equity Fund Inc. (member of the board of directors)
The Central Europe and Russia Fund Inc. (member of the board of directors)

DR. MARTIN BRUDERMÜLLER
Responsibilities: Asia Pacific (since April 2006)
First appointed: 2006
Term expires: 2008

DR. JOHN FELDMANN
Responsibilities: Styrenics; Performance Polymers; Polyurethanes; Oil & Gas; Polymer Research
First appointed: 2000
Term expires: 2009
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Wintershall Holding AG (supervisory board chairman)
Wintershall AG (supervisory board chairman)

DR. ANDREAS KREIMEYER
Responsibilities: Construction Chemicals (since July 2006); Coatings (since April 2006); Functional Polymers; Performance Chemicals; Asia Pacific (until March 2006)
First appointed: 2003
Term expires: 2007
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
BASF Coatings AG (supervisory board chairman)

KLAUS PETER LÖBBE
Responsibilities: Coatings (until March 2006); Catalysts (since June 2006); North America (NAFTA)
First appointed: 2002
Term expires: 2008

DR. STEFAN MARCINOWSKI
Research Executive Director
Responsibilities: Inorganics; Petrochemicals; Intermediates; Chemicals Research and Engineering; Corporate Engineering; Science Relations and Innovations Management; BASF Future Business GmbH
First appointed: 1997
Term expires: 2012
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Wintershall Holding AG (supervisory board member)
Wintershall AG (supervisory board member)

PETER OAKLEY
Responsibilities: Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science GmbH
First appointed: 1998
Term expires: 2008

Supervisory Board

The Supervisory Board of BASF Aktiengesellschaft comprises 20 members. Ten members are elected by shareholders at the Annual Meeting, and the remaining ten are elected by employees. With the exception of Hans Dieter Pötsch, the shareholder representatives were elected at the Annual Meeting on May 6, 2003. Hans Dieter Pötsch was appointed by the district court of Ludwigshafen on March 2, 2004 to replace Helmut Werner, who died on February 6, 2004. With the exception of Ralf Sikorski and Michael Vassiliadis, the employee representatives were elected on February 25, 2003 in accordance with the German Codetermination Act. Effective August 7, 2003, Ralf Sikorski was appointed by the district court of Ludwigshafen to replace Gerhard Zibell, who resigned from the Supervisory Board with effect from July 31, 2003. Effective August 1, 2004, Michael Vassiliadis, who had been elected by employees as substitute, replaced Dr. Jürgen Walter, who retired effective July 31, 2004. The current term of all members of the Supervisory Board expires at the end of BASF Aktiengesellschaft's Annual Meeting 2008.

Members of the Supervisory Board (as of December 31, 2006)

PROFESSOR DR. JÜRGEN STRUBE, Mannheim, Germany
Chairman of the Supervisory Board of BASF Aktiengesellschaft
Former Chairman of the Board of Executive Directors of BASF Aktiengesellschaft
Supervisory board memberships (excluding internal memberships):
Allianz Deutschland AG (supervisory board member) (since October 2006)
Allianz Lebensversicherungs-AG (supervisory board member) (until October 2006)
Bayerische Motoren Werke AG (supervisory board member)
Bertelsmann AG (supervisory board deputy chairman)
Commerzbank AG (supervisory board member)
Fuchs Petrolub AG (supervisory board chairman)
Hapag-Lloyd AG (supervisory board member)
Linde AG (supervisory board member)

ROBERT OSWALD, Altrip, Germany
Deputy Chairman of the Supervisory Board of BASF Aktiengesellschaft
Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft and the chairman of the joint works council of the BASF Group

RALF BASTIAN, Neuhofen, Germany
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

WOLFGANG DANIEL, Limburgerhof, Germany
Deputy chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

PROFESSOR DR. FRANÇOIS N. DIEDERICH, Zurich, Switzerland
Professor at the Swiss Federal Institute of Technology Zurich

MICHAEL DIEKMANN, Munich, Germany
Chairman of the Board of Management of Allianz SE
Supervisory board memberships (excluding internal memberships):
Linde AG (supervisory board deputy chairman)
Deutsche Lufthansa AG (supervisory board member)
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Allianz Deutschland AG (supervisory board chairman)
Allianz Global Investors AG (supervisory board chairman)
Dresdner Bank AG (supervisory board chairman)
Comparable German and non-German controlling bodies:
Assurances Générales de France
(administrative council member)
Riunione Adriatica di Sicurtà S.p.A.
(administrative council member)

DR. TESSEN VON HEYDEBRECK, Frankfurt (Main), Germany
Member of the Board of Managing Directors of Deutsche Bank AG
Supervisory board memberships (excluding internal memberships):
BVV Versicherungsverein des Bankgewerbes a. G.
(supervisory board member)
Dürr AG (supervisory board member) (until May 2006)
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
Deutsche Bank Privat- und Geschäftskunden AG (supervisory board member)
DWS Investment GmbH (supervisory board member)
Comparable German and non-German controlling bodies:
Deutsche Bank OOO (supervisory board chairman)
Deutsche Bank Luxembourg S.A. (administrative council chairman)
Deutsche Bank Polska S.A. (supervisory board chairman)
Deutsche Bank Rt. (supervisory board chairman)
Deutsche Bank Trust Corp. (supervisory board member)
DB Trust Company America (supervisory board member)

ARTHUR L. KELLY, Chicago, Illinois
Chief executive of KEL Enterprises L.P.
Supervisory board memberships (excluding internal memberships):
Bayerische Motoren Werke AG (supervisory board member)
Comparable German and non-German controlling bodies:
Data Card Corporation (member of the board of directors)
Deere & Company (member of the board of directors)
Northern Trust Corporation (member of the board of directors)
Snap-on Incorporated (member of the board of directors)

ROLF KLEFFMANN, Wehrbleck, Germany
Chairman of the works council of Wintershall Holding AG's Barnstorf oil plant

MAX DIETRICH KLEY, Heidelberg, Germany
Lawyer
Former Vice Chairman of the Board of Executive Directors of
BASF Aktiengesellschaft
Supervisory board memberships (excluding internal memberships):
HeidelbergCement AG (supervisory board member)
Infineon Technologies AG (supervisory board chairman)
Schott AG (supervisory board member)
SGL Carbon AG (supervisory board chairman)
Comparable German and non-German controlling bodies:
UniCredito Italiano S.p.A (member of the administrative council)

PROFESSOR DR. RENATE KÖCHER, Allensbach, Germany
Managing Director of the Institut für Demoskopie Allensbach,
Gesellschaft zum Studium der öffentlichen Meinung mbH
Supervisory board memberships (excluding internal memberships):
Allianz SE (supervisory board member)
MAN AG (supervisory board member)
Infineon Technologies AG (supervisory board member)

EVA KRAUT, Ludwigshafen, Germany
Chairwoman of the works council of BASF IT Services GmbH,
Ludwigshafen

ULRICH KÜPPERS, Ludwigshafen, Germany
Regional manager of the Rhineland-Palatinate/Saarland branch of the
Mining, Chemical and Energy Industries Union (IG BCE)
Supervisory board memberships (excluding internal memberships):
Klinikum der Stadt Ludwigshafen gGmbH
(supervisory board deputy chairman)
STEAG Saar Energie AG (supervisory board deputy chairman)
Technische Werke Ludwigshafen AG (TWL)
(supervisory board deputy chairman)
Villeroy & Boch AG (supervisory board member)

KONRAD MANTEUFFEL, Bensheim, Germany
Member of the works council of the Ludwigshafen site of
BASF Aktiengesellschaft
Supervisory board memberships (excluding internal memberships):
BASF Pensionskasse VVaG (supervisory board deputy chairman)
LUWOGE Wohnungsunternehmen der BASF GmbH
(supervisory board member)

DR. KARLHEINZ MESSMER, Weisenheim am Berg, Germany
Plant manager at the Ludwigshafen site of BASF Aktiengesellschaft
Chairman of the Committee of Executive Representatives of
BASF Aktiengesellschaft

HANS DIETER PÖTSCH, Wolfsburg, Germany
Member of the Board of Management of Volkswagen AG
Supervisory board memberships (excluding internal memberships):
Allianz Versicherungs AG (supervisory board member)
Bizerba GmbH & Co. KG (supervisory board member; from January 2007 supervisory board chairman)

PROFESSOR DR. HERMANN SCHOLL, Stuttgart, Germany
Chairman of the Supervisory Council of Robert Bosch GmbH and Managing Director of Robert Bosch Industrietreuhand KG
Supervisory board memberships (excluding internal memberships):
Robert Bosch GmbH (supervisory board chairman)
Comparable German and non-German controlling bodies:
Robert Bosch Internationale Beteiligungen AG
(member of the administrative council)
Robert Bosch Corporation (member of the board of directors)
Sanofi-Aventis S.A. (member of the administrative council)
(until April 2006)

RALF SIKORSKI, Ludwigshafen, Germany
Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union (IG BCE)

ROBERT STUDER, Zurich, Switzerland
Former Chairman of the Supervisory Board of the Union Bank of Switzerland
Comparable German and non-German controlling bodies:
Espirito Santo Financial Group S.A.
(member of the administrative council)
Renault S.A. (member of the administrative council)
Schindler Holding AG (member of the administrative council)

MICHAEL VASSILIADIS, Hemmingen, Germany
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union (IG BCE)
Supervisory board memberships (excluding internal memberships):
Henkel KGaA (supervisory board member)
K+S AG (supervisory board deputy chairman)
K+S Kali GmbH (supervisory board deputy chairman)
STEAG AG (supervisory board deputy chairman)

Compensation report

This report outlines the main principles of the compensation system for the Board of Executive Directors. It also discloses the amount and structure of the compensation for each individual Board member. Furthermore, this report provides information on end-of-service undertakings with respect to Board members.

This report also includes information on the compensation of the Supervisory Board members.

The report meets the disclosure requirements of the German Commercial Code (HGB) extended by the additional requirements for the Board of Executive Directors and the Supervisory Board based on the German Law on the Disclosure of Compensation of Members of the Board (Vorstandsvergütungs-Offenlegungsgesetz) and is aligned with the recommendations of the German Corporate Governance Codex.

Remuneration of Board members

The compensation of Board members is determined and reviewed every two to three years by the Nomination and Compensation Committee of the Supervisory Board (Personalausschuss) (see page 79). The last review took place on April 27, 2006. The determination of the amount and structure of the compensation depends on the company's size and its financial position as well as the performance of the Board of Executive Directors. Globally operating European-based companies serve as a reference.

The compensation of Board members is composed of

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

The amount of the annual variable compensation, the value of the options granted and the company pension are largely determined by company performance. This means, in terms of total compensation, significance is attached to company performance.

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.
2. The Board member's annual variable compensation (variable bonus) is based on the return on assets (ROA). The variable bonus for the prior fiscal year is payable after the Annual Meeting. For more information on ROA, which is also used to determine the variable compensation of other employees, see page 157. Board members, as other employee groups, may contribute a portion of their bonus (Gehaltsumwandlungsbeträge) up to a maximum of €30,000 annually into a deferred compensation program. Board members have taken advantage of this offering to varying degrees.
3. Board members may also participate in the stock option program (BOP) for senior executives. For further details on the BASF stock option program, see page 151 onward.
4. Non-monetary compensation and other additional compensation include: delegation allowances, accident insurance premiums and other similar benefits, as well as the personal use of, or benefit from, communication equipment, company cars and security measures made available by the company. The members of the Board did not receive loans or advances from the company .
5. For details on the company pension benefits, see page 87.

Based on the principles above, individual Board members received the following cash compensation for the reporting year 2006:

Thousand €	Non-performance related compensation: Fixed salary	Non-performance related compensation: Non-monetary compensation and other additional compensation	Performance-related compensation: Variable bonus[1, 2]	Total
Dr. Jürgen Hambrecht, Chairman of the Board of Executive Directors	1,100	151	2,175	3,426
Eggert Voscherau, Vice Chairman of the Board of Executive Directors	732	98	1,446	2,276
Dr. Kurt Bock	550	109	1,088	1,747
Dr. Martin Brudermüller (since January 1, 2006)	550	813[4]	1,088	2,451
Dr. John Feldmann	550	74	1,088	1,712
Dr. Andreas Kreimeyer	550	123	1,088	1,761
Klaus Peter Löbbe	535[3]	725[4]	1,088	2,348
Dr. Stefan Marcinowski	550	78	1,088	1,716
Peter Oakley	550	114	1,088	1,752
Total	**5,667**	**2,285**	**11,237**	**19,189**

[1] This includes all contributions (Gehaltsumwandlungsbeträge) made to the deferred compensation program
[2] Payable following the Annual Meeting 2007
[3] Payment is made in local currency based on a theoretical net salary in Germany. As a result, there is a deviation from the contractually agreed fixed gross salary (€550,000).
[4] Includes payments to cover additional costs of delegates, such as assumption of prevailing local rental fees

When comparing total compensation to 2005, it should be considered that the number of Board Members increased from eight to nine. Furthermore, the number of Board Members serving as delegates increased to two, thus increasing delegation allowances significantly. Adjusted for this effect, the cash compensation increased by 8.5% in comparison to the previous year.

The following table outlines details of the stock options for each Board member:

Long-term incentive components (stock options)

	Options granted in 2006: Number	Options granted in 2006: Market value at option grant date Thousand €	Personnel expenses relating to stock options from BOP 2000–2006 Thousand €
Dr. Jürgen Hambrecht, Chairman of the Board of Executive Directors	38,448	716	1,805
Eggert Voscherau, Vice Chairman of the Board of Executive Directors	25,532	475	1,083
Dr. Kurt Bock	19,224	358	921
Dr. Martin Brudermüller, (since January 1, 2006)	7,740	144	274
Dr. John Feldmann	19,224	358	1,009
Dr. Andreas Kreimeyer	18,000	335	273
Klaus Peter Löbbe	17,540	326	920
Dr. Stefan Marcinowski	19,224	358	1,051
Peter Oakley	19,224	358	1,088
Total	**184,156**	**3,428**	**8,424**

The base price for the options granted in reporting year 2006 is €68.19.

Pension benefits

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

The annual pension benefits accruing to Board members in a given reporting year (pension unit) are composed of a fixed and a variable component. The fixed component is calculated by multiplying the annual fixed compensation above the Social Security Contribution Ceiling by 35%. The resulting amount is converted into a lifelong pension payable on retirement using actuarial factors based on a discount rate (6%), the probability of death, invalidity and mortality (Heubeck-Richttafeln, 1998) and an assumed pension increase (1.5% per annum). This is the amount that is payable upon retirement. The variable component of the pension unit depends on the return on assets (ROA) in the reporting year under consideration. The variable component is based on a ROA of 12% at which point the variable component is equal in value to the fixed component. Based on a ROA of 12%, there is a linear relationship between the variable component and the ROA figures between 10% and 14%. The sum of the pension units accumulated over the respective reporting years determines the respective Board member's pension benefit at the end of service upon the attainment of retirement age of 60 years or disability or death. Pension payments are adjusted on an annual basis according to the changes in the German consumer price index.

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

Board members are members of the BASF Pensionskasse VVaG, as are generally all employees of BASF Aktiengesellschaft. Contributions and benefits are determined by the statutes and general conditions of the BASF Pensionskasse VVaG.

The service cost for the reporting year 2006 amounted to €830 thousand for Dr. Jürgen Hambrecht, €171 thousand for Eggert Voscherau, €625 thousand for Dr. Kurt Bock, €571 thousand for Dr. Martin Brudermüller, €588 thousand for Dr. John Feldmann, €595 thousand for Dr. Andreas Kreimeyer, €154 thousand for Klaus Peter Löbbe, €577 thousand for Dr. Stefan Marcinowski and €566 thousand for Peter Oakley. These amounts include the costs for the pension claims arising from the deferred contribution program.

End of service benefits

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

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

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

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

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

Previous Board members

Total compensation for previous Board members and their surviving dependents amounted to €6.0 million in the reporting year 2006. Pension provisions for previous Board members and their surviving dependents amounted to €75.1 million.

Remuneration of Supervisory Board members

The compensation of the Supervisory Board is regulated by the Articles of Association of BASF Aktiengesellschaft.

Each member of the Supervisory Board receives a fixed remuneration of €60,000 and a performance-oriented variable remuneration for each full €0.01 by which the earnings per share (EPS) of the BASF Group declared in the BASF Group Consolidated Financial Statements for the year for which the remuneration is being paid exceeds the minimum EPS. The minimum EPS for the 2006 reporting year is €2.50. The performance-oriented variable remuneration is €400 for each full €0.01 of EPS up to an EPS of €4.00, €300 for each further €0.01 of EPS up to an EPS of €5.00 and €200 for each €0.01 beyond this.

The performance-oriented variable remuneration is limited to a maximum amount of €120,000. The minimum EPS and the corresponding thresholds shall increase by €0.10 for each subsequent financial year. Based on the EPS of €6.37 published in the BASF Group Consolidated Statements 2006, the performance-oriented compensation amounted to €117,400. The chairman of the Supervisory Board receives two-and-a-half times and a deputy chairman one-and-a-half times the remuneration of an ordinary member.

Members of the Supervisory Board who are members of a committee, with the exception of the Mediation Committee formed in accordance with Section 27 (3) of the German Codetermination Act, shall receive a further fixed remuneration for this purpose in the amount of €12,500. For the Audit Committee, the further fixed remuneration shall be €25,000. The chairman of a committee shall receive twice and a deputy chairman one-and-half times the further fixed remuneration.

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

The total compensation of the Supervisory Board amounted to €4.1 million in 2006 (2005: €3.4 million). The compensation of the individual Supervisory Board members related to the reporting year 2006 was as follows:

Thousand.€	Fixed compensation	Performance-oriented variable compensation	Payment for committee membership(s)	Total compensation
Prof. Dr. Jürgen Strube, Chairman of the Supervisory Board[1]	150	293.5	25	468.5
Robert Oswald, Vice Chairman of the Supervisory Board[2]	90	176.1	12.5	278.6
Ralf-Gerd Bastian	60	117.4		177.4
Wolfgang Daniel	60	117.4		177.4
Prof. Dr. François N. Diederich	60	117.4		177.4
Michael Diekmann	60	117.4		177.4
Dr. Tessen von Heydebreck[2]	60	117.4	12.5	189.9
Arthur L. Kelly	60	117.4		177.4
Rolf Kleffmann	60	117.4		177.4
Max Dietrich Kley[3]	60	117.4	50	227.4
Prof. Dr. Renate Köcher	60	117.4		177.4
Eva Kraut	60	117.4		177.4
Ulrich Küppers	60	117.4		177.4
Konrad Manteuffel	60	117.4		177.4
Dr. Karlheinz Messmer[4]	60	117.4	25	202.4
Hans Dieter Pötsch[4]	60	117.4	25	202.4
Prof. Dr. Hermann Scholl	60	117.4		177.4
Ralf Sikorski	60	117.4		177.4
Robert Studer	60	117.4		177.4
Michael Vassiliadis[2] [4]	60	117.4	37.5	214.9

[1] Chairman of the Nomination and Compensation Committee
[2] Member of the Nomination and Compensation Committee
[3] Chairman of the Audit Committee
[4] Member of the Audit Committee

Compensation for Supervisory Board membership and membership of Supervisory Board committees is payable after the Annual Meeting, which approves the Consolidated Financial Statements upon which the variable compensation is based. Accordingly, compensation relating to the reporting year 2006 will be paid following the Annual Meeting on April 26, 2007.

In the reporting year 2006, the company paid the Supervisory Board member, Prof. Dr. Diederich, approximately €24,400 (CHF 38,400) plus value-added taxes and out-of-pocket expenses for consulting work in the area of chemical research based on a consulting contract approved by the Supervisory Board.

Beyond this, Supervisory Board members did not receive any further compensation in 2006 for services rendered personally, in particular, the rendering of advisory and agency services.

> For information on the shareholdings of Board and Supervisory Board members see page 80.

Report of the Supervisory Board

Dear Shareholders,

2006 was the most successful year in BASF's history to date: Both income before taxes and minority interests of the BASF Group as well as earnings per share were at record highs. 2006 was a year in which BASF took a large step forward in the further development of its portfolio with the acquisitions of Engelhard and the construction chemicals business of Degussa. By continuing to shape our business portfolio, we are laying the foundation for the future profitable growth of BASF.

The Supervisory Board carefully and regularly monitored company management during the year and provided advice on the company's strategic development and important individual measures. To this end, the Supervisory Board requested detailed information from the Board of Executive Directors at meetings, as well as in written and verbal reports. Topics included business policies, the business situation and business trends, profitability, the company's planning with regard to finances, capital expenditures and human resources at BASF and its major subsidiaries, as well as deviations from business forecasts. The Chairman of the Supervisory Board also regularly requested information from the Chairman of the Board of Executive Directors with regard to current business developments and important events outside of Supervisory Board meetings. The Supervisory Board was involved at an early stage in decisions of major importance.

Meetings

The Supervisory Board met five times in 2006. At these meetings, the Supervisory Board discussed reports from the Board of Executive Directors. The Supervisory Board also discussed the company's prospects as a whole and its individual businesses with the Board of Executive Directors. The members of the Supervisory Board elected by shareholders and by employees prepared for the meetings in separate preliminary discussions.

In addition to monitoring management by the Board of Executive Directors, one of the core duties of the Supervisory Board is to offer advice and discuss BASF's strategy. The Supervisory Board dealt intensively in all meetings with the further development of the BASF Group and its business. We discussed the strategic positioning of individual segments and business units as well as possible individual transactions. In 2006, BASF strategically developed its business portfolio with three large acquisitions. The acquisition of Engelhard Corporation, one of the leading global producers of catalysts, the acquisition of the construction chemicals business of Degussa and the acquisition of Johnson Polymer are important milestones in the implementation of our strategy to strengthen BASF in businesses less susceptible to cyclicality. Experience shows that the success of large acquisitions depends on integrating the acquired business optimally. The Supervisory Board dealt intensively with the integration of Engelhard and the construction chemicals business of Degussa.

In 2006, we once again put our emphasis on the perspectives for BASF in plant biotechnology. It was discussed if and how this research-intensive and innovative field of business could be strengthened by increased cooperation with established companies in the market. Another area of emphasis for the consultation of the Supervisory Board was the central Chemicals segment. This segment is the cornerstone of the Verbund, and sits at the core of BASF. The products from the Chemicals segment are the backbone of our Verbund sites in Ludwigshafen, Germany; Antwerp, Belgium; Nanjing, China; Kuantan, Malaysia and Freeport and Geismar, United States.

Where specific transactions and measures proposed by the Board of Executive Directors required decisions by the Supervisory Board as required by law or the Articles of Association, votes were taken at Supervisory Board meetings. Approval was given for the acquisition of the American specialty chemical company Johnson Polymer. The Supervisory Board had already given approval for the acquisition of Engelhard Corporation, and the acquisition of the construction chemicals business of Degussa AG in 2005. At our meeting on December 6, 2006, we also approved the Board of Executive Directors' plans for 2007 and empowered the Board of Executive Directors to procure funding.

Corporate governance and compliance statement

In 2006, the Supervisory Board again addressed in detail changes to the financial and corporate legal environment in which the company operates, as well as the issue of corporate governance standards at BASF. In particular, this involved the revised German Corporate Governance Code as amended on June 12, 2006 and the E.U. implementation directive in Germany.

In its meeting on December 6, 2006, the Supervisory Board approved the new joint compliance statement by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act. BASF follows the recommendations of the German Corporate Governance Code, in its version of June 12, 2006, with very few exceptions: For example, the remuneration of the Board of Executive Directors is dealt with in the Supervisory Board's Nomination and Compensation Committee rather than in a plenary session of the Supervisory Board. The individual remuneration details for the members of the Board of Executive Directors and Supervisory Board, which were not published in 2006, are published for the first time in the Financial Report 2006 in accordance with the provisions of the German Law on the Disclosure of the Compensation of Members of the Board of Management. The complete text of the compliance statement is provided on page 93 of the Financial Report and is also permanently available to shareholders on BASF's website.

The compensation report containing full details on the structure and amount of the compensation for the Board of Executive Directors and the Supervisory Board, including the pension benefits of the members of the Board are found on pages 85 to 89. The Management's Analysis 2006 contains for the first time, on pages 78 and 80 of the Corporate Governance Report, disclosures according to Section 289 (4) and Section 315 (4) of the German Commercial Code (HGB) concerning certain commercial principles and legal relationships of the company. The Supervisory Board would like to point out that neither the Board of Executive Directors nor the Supervisory Board of BASF Aktiengesellschaft are aware of any agreement on voting rights or significant agreements that exist in the event of a change of control following a takeover bid.

Committees

The Supervisory Board has established three committees with equal representation from shareholders and employee representatives: the Nomination and Compensation Committee (Personalauschuss) created in accordance with Section 89 (4) of the German Stock Corporation Act; the Audit Committee; and the Mediation Committee established in accordance with Section 27 (3) of the German Codetermination Act.

The members of the Nomination and Compensation Committee are as follows: Supervisory Board Chairman Dr. Jürgen F. Strube (chairman), Supervisory Board Deputy Chairman Robert Oswald (deputy chairman), Dr. Tessen von Heydebreck and Michael Vassiliadis. The Nomination and Compensation Committee met two times in 2006. In its meetings, sometimes with the Chairman of the Board of Executive Directors, it discussed, in particular, plans for the future appointment of members of the Board of Executive Directors (long-term succession planning), as well as the remuneration of the Board of Executive Directors. In particular, the Nomination and Compensation Committee dealt with the extension of the term of the Chairman of the Board of Executive Directors, Dr. Jürgen Hambrecht, until the end of the Annual Meeting in 2011 as well as the extension of the terms of members of the Board Klaus Peter Löbbe (until the Annual Meeting 2008) and Dr. Stefan Marcinowski (until May 14, 2012). The Supervisory Board approved these proposals in its meeting on July 7, 2006.

In 2006, the Audit Committee comprised Supervisory Board members Max Dietrich Kley, Dr. Karlheinz Messmer, Hans Dieter Pötsch and Michael Vassiliadis. The chairman of the Audit Committee is Max Dietrich Kley, who like Hans Dieter Pötsch, has been appointed Audit Committee Financial Expert. The Audit Committee met three times in 2006. Its activities primarily included reviewing the Consolidated Financial Statements of BASF Aktiengesellschaft as well as BASF Group; reviewing the Annual Report on Form 20-F prepared in accordance with U.S. accounting standards; advising the Board of Executive Directors on accounting issues; discussing and defining particular features of the audit; regulating business relations with the company's auditors, including the adoption of a resolution regarding the provision of non-audit services by the auditors; agreeing the auditing fees; and monitoring the auditor's independence. In 2006, the Audit Committee discussions also focused on the further development of the internal control system for financial reporting whose strict formalization, extensive documentation requirements and control processes satisfy the requirements of Section 404 of the U.S. Sarbanes-Oxley Act.

It was not necessary to convene the Mediation Committee in 2006. Its members are Supervisory Board Chairman Dr. Jürgen F. Strube (chairman), Supervisory Board Deputy Chairman Robert Oswald (deputy chairman), Dr. Tessen von Heydebreck and Wolfgang Daniel.

The Supervisory Board received regular reports on the activities of the committees.

Financial Statements of the BASF Group and BASF Aktiengesellschaft

On the basis of the preliminary review by the Audit Committee, on which the Chairman of the Audit Committee reported to the Supervisory Board, we have examined the Financial Statements and Management's Analysis of BASF Aktiengesellschaft for 2006, the proposal by the Board of Executive Directors for the appropriation of profit, the BASF Group Consolidated Financial Statements and Management's Analysis for the BASF Group for 2006. KPMG Deutsche Treuhandgesellschaft Wirtschaftsprüfungsgesellschaft Aktiengesellschaft, the auditors elected by the Annual Meeting year 2006, have examined the

Financial Statements of BASF Aktiengesellschaft and the BASF Group Consolidated Financial Statements, including the bookkeeping and Management's Analysis, and have approved them free of qualification. The auditors also noted that the Board of Executive Directors, in accordance with Section 91 (2) of the German Stock Corporation Act, had instituted a suitable information and monitoring system which met the needs of the company and appeared suitable, both in design and the way in which it had been applied, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditors' reports were sent timely to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on February 20, 2007 as well as the accounts meeting of the Supervisory Board on February 27, 2007 and reported on the main findings of their audit. The auditors also provided detailed explanations of their reports on the day before the accounts review meeting.

We have reviewed the auditors' reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objections.

At the Supervisory Board's accounts meeting on February 27, 2007, we approved the Financial Statements of BASF Aktiengesellschaft drawn up by the Board of Executive Directors and the Consolidated Financial Statements of the BASF Group, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €3.00 per share.

Composition of the Supervisory Board and Board of Executive Directors

There were no changes to the composition of the Supervisory Board in 2006.

On January 1, 2006, Dr. Martin Brudermüller joined the Board of Executive Directors and has been responsible for Asia from the region's headquarters in Hong Kong since April 1, 2006. In its meeting on July 7, 2006, the Supervisory Board extended the term of the Chairman of the Board of Executive Directors, Dr. Jürgen Hambrecht, until the end of the Annual Meeting in 2011. In the same meeting, the Supervisory Board extended the term of the members of the Board Klaus Peter Löbbe until the end of the Annual Meeting 2008 and Dr. Stefan Marcinowski until May 14, 2012.

Ludwigshafen, February 27, 2007

The Supervisory Board

Dr. Jürgen F. Strube
Chairman of the Supervisory Board

Compliance Statement 2006 in accordance with the German Corporate Governance Code

Compliance Statement 2006 of the Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft

1. Statement of principles pursuant to Section 161 of the German Stock Corporation Act (AktG):

We declare that the recommendations by the Government Commission on the German Corporate Governance Code (the "Code") published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied with in 2006 and will be complied with in 2007 with the following deviations listed below.

2. Deviations

a) Compensation of the chair and members of the Mediation Committee of the Supervisory Board (section 5.4.7 of the Code):

Section 5.4.7 of the Code requires that Supervisory Board members who assume the chairmanship of, or membership in, committees shall receive additional compensation. This does not apply to the Mediation Committee, established in accordance with section 27 (3) of the German Co-determination Act (MitbestG) as it has not had reason to convene to date. Its members may receive fees for attending meetings but are not entitled to any further compensation.

b) Treatment of the structure of the Executive Board compensation system by the plenary session of the Supervisory Board; assessment of the appropriateness of the compensation of the members of the Board of Executive Directors by also applying performance-related criteria (section 4.2.2 of the Code):

The work of the committees of the Supervisory Board is regularly reported in the plenary sessions of the Supervisory Board. This includes the work of the Nomination and Compensation Committee (Personalausschuss) as the body responsible for dealing with the service contracts of the members of the Board of Executive Directors. To the extent that the recommendations in section 4.2.2 of the Code go beyond this, they have not been complied with, nor do we intend to comply with them in the future.

c) Individualized publication of compensation of the Executive Board and the Supervisory Board (sections 4.2.3. and 5.4.7 of the Code):

In 2006, the individualized compensation of the Board of Executive Directors and the Supervisory Board has not been published. In 2007, the compensation of the Board of Executive Directors and the Supervisory Board will be published in an individualized manner.

d) Publication to the shareholders of candidates proposed for the Supervisory Board Chair (section 5.4.3. of the Code):

In accordance with this recommendation, candidates for the Supervisory Board Chair shall be announced to the shareholders, although those candidates, as a rule, are members of a Supervisory Board still to be elected and the Chairman of the Supervisory Board is to be elected from among their members. An early nomination may, therefore, lead, in fact, to a prior determination of the Supervisory Board's future members. In the event of a by-election, separate in time from a Supervisory Board election, there is, no opportunity to announce the candidates to the shareholders. We, therefore, consider the recommendation to be less practical. Since an election of the Chairman of the Supervisory Board is not pending for the time being, we intend to continue to observe the further development, before we decide to comply or explain.

e) Explanation of the deviations (section 3.10 of the Code):

Pursuant to Section 3.10 of the Code, the Board of Executive Directors and the Supervisory Board shall report each year in the Company's annual report on the Company's corporate governance. This also includes the explanation of possible deviations from the recommendations of the Code. The requirements regarding corporate governance in section 161 of the German Stock Corporation Act and the German Corporate Governance Code differ partially. The Board of Executive Directors and the Supervisory Board have elected to issue their corporate governance declaration solely in accordance with the legal regulations.

Ludwigshafen, December 6, 2006

The Supervisory Board
of BASF Aktiengesellschaft

The Board of Executive Directors
of BASF Aktiengesellschaft

Prior to the acquisition, both Johnson Polymer and BASF were important trading partners of Toyo Ink. With the acquisition, the cooperation between Toyo Ink and BASF has been strengthened. BASF now possesses a unique product portfolio of water-based resins. The Japanese company has in BASF a business partner who can deliver a complete set of solutions.

Kenji Nagasaki, General Manager, Planning Dept., Packaging & Processing, Toyo Ink Japan (left) and **Hisashi Takayama**, General Manager, BM Specialties, Performance Chemicals for Coatings, Plastics & Specialties, BASF, Japan

The acquisition of Johnson Polymer extends the innovative specialty business of BASF and strengthens our position in the area of water-based resins.

The takeover allows us to complement our portfolio of high-solids and UV resins for the coatings and paint industry and to strengthen our market presence in North America.

As a result **of the integration** of Johnson Polymer, we now boast a unique product portfolio and offer our customers even more customized solutions.

JOHNSON POLYMER

Sales: €158 Million[1]

Acquisition price: €379 Million

[1] Amount since date of acquisition

Consolidated Financial Statements

Statement by the Board of Executive Directors

The Board of Executive Directors of BASF Aktiengesellschaft is responsible for preparing the Consolidated Financial Statements and Management's Analysis of the BASF Group.

The Consolidated Financial Statements were prepared according to the International Financial Reporting Standards (IFRS), which are published by the International Accounting Standards Board (IASB), London, and have been endorsed by the European Union.

In order to ensure the adherence of the Consolidated Financial Statements of the BASF Group and Management's Analysis with the applicable accounting rules and the adequacy of reporting, we have established effective internal control systems over financial reporting, which also comply with the regulations of Section 404 of the Sarbanes-Oxley Act.

The adherence to uniform, Group-wide accounting and reporting standards and the reliability and effectiveness of our control systems are continually audited by our internal audit department throughout the Group.

The risk management system we designed complies with the requirements of the German Act on Verification and Transparency in the Corporate Sector (91 (2), Stock Corporation Act) and is designed to identify material risks in a timely manner thus enabling the Board of Executive Directors to take appropriate action as required.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has examined the Consolidated Financial Statements of the BASF Group and Management's Analysis and approved them free of qualification. The Consolidated Financial Statements of the BASF Group, the Management's Analysis and the auditors' report were examined at length by the Audit Committee of the Supervisory Board in the presence of the auditors in its meeting of February 20, 2007. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

Ludwigshafen, February 21, 2007

Dr. Jürgen Hambrecht
Chairman of the Board
of Executive Directors
of BASF Aktiengesellschaft

Dr. Kurt Bock
Chief Financial Officer
of BASF Aktiengesellschaft

Auditor's Report

We have audited the consolidated financial statements prepared by the BASF Aktiengesellschaft, Ludwigshafen am Rhein, comprising the income statement, the balance sheet, statement of recognized income and expense, cash flow statement and the Notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 21, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wesner
Wirtschaftsprüfer

Kuhn
Wirtschaftsprüfer

Consolidated Statements of Income

Consolidated statements of income

Million €	Explanations in Note	2006	2005
Sales	(4)	52,609.7	42,744.9
Cost of sales		37,697.5	29,566.8
Gross profit on sales		**14,912.2**	**13,178.1**
Selling expenses		4,995.5	4,329.9
General and administrative expenses		893.2	780.1
Research and development expenses		1,276.6	1,063.7
Other operating income	(5)	934.1	600.2
Other operating expenses	(6)	1,931.1	1,775.1
Income from operations		**6,749.9**	**5,829.5**
Income from companies accounted for using the equity method		35.0	5.6
Other income from participations		36.7	342.4
Interest result		(371.9)	(170.0)
Other financial result		77.0	(81.9)
Financial result	(7)	**(223.2)**	**96.1**
Income before taxes and minority interests		**6,526.7**	**5,925.6**
Income taxes	(8)	3,060.6	2,758.1
Income before minority interests		**3,466.1**	**3,167.5**
Minority interests	(9)	250.9	160.8
Net income		**3,215.2**	**3,006.7**
Earnings per share (€)	(3)	**6.37**	**5.73**
Dilution effect		–	–
Diluted earnings per share (€)	(3)	**6.37**	**5.73**

Consolidated Balance Sheets

Assets

Million €	Explanations in Note	2006	2005
Long-term assets			
Intangible assets	(11)	8,921.6	3,719.6
Property, plant and equipment	(12)	14,901.5	13,986.9
Investments accounted for using the equity method	(13)	650.5	244.3
Other financial assets	(13)	1,190.3	813.0
Deferred taxes	(8)	622.4	1,254.7
Other receivables and miscellaneous long-term assets	(15)	612.2	524.0
		26,898.5	**20,542.5**
Short-term assets			
Inventories	(14)	6,672.4	5,430.2
Accounts receivable, trade		8,222.8	7,020.2
Other receivables and miscellaneous short-term assets	(15)	2,607.3	1,586.4
Marketable securities	(16)	55.8	183.0
Cash and cash equivalents	(16)	834.2	907.8
		18,392.5	**15,127.6**
Total assets		**45,291.0**	**35,670.1**

Stockholders' equity and liabilities

Million €	Explanations in Note	2006	2005
Stockholders' equity			
Subscribed capital	(17)	1,279.2	1,316.8
Capital surplus	(17)	3,141.0	3,100.2
Retained earnings	(18)	13,301.9	11,928.0
Other comprehensive income	(18)	325.5	696.7
Minority interests	(19)	530.5	481.8
		18,578.1	**17,523.5**
Long-term liabilities			
Provisions for pensions and similar obligations	(20)	1,452.0	1,546.6
Other provisions	(21)	3,079.8	2,791.2
Deferred taxes	(8)	1,441.0	699.3
Financial indebtedness	(22)	5,788.2	3,681.7
Other liabilities	(22)	971.6	1,042.8
		12,732.6	**9,761.6**
Short-term liabilities			
Accounts payable, trade		4,754.7	2,777.0
Provisions	(21)	2,848.3	2,762.5
Tax liabilities	(8)	858.7	887.2
Financial indebtedness	(22)	3,694.9	259.3
Other liabilities	(22)	1,823.7	1,699.0
		13,980.3	**8,385.0**
Total stockholders' equity and liabilities		**45,291.0**	**35,670.1**

Consolidated Statements of Recognized Income and Expense

Income and expense items

Million €	2006	2005
Income before minority interests	**3,466.1**	**3,167.5**
Fair value changes in available-for-sale securities	83.3	66.7
Cash flow hedges	(8.5)	(21.2)
Change in foreign currency translation adjustments	(456.9)	714.5
Actuarial gains/losses from pensions and similar obligations	159.6	(1,075.9)
Deferred taxes	(36.7)	413.2
Minority interests	(20.8)	29.4
Total income and expense recognized in equity	**(280.0)**	**126.7**
Total income and expense for the period	**3,186.1**	**3,294.2**
Thereof BASF	2,956.0	3,104.0
Thereof minority interests	230.1	190.2

Development of income and expense recognized directly in equity

	Retained earnings	Other comprehensive income				Total income and expense recognized directly in equity
Million €	Actuarial gains/ losses	Foreign currency translation adjustment	Fair value changes in available-for-sale securities	Cash flow hedges	Total of other comprehensive income	
As of January 1, 2006	**(893.8)**	**474.7**	**258.5**	**(36.5)**	**696.7**	**(197.1)**
Additions	–	–	123.9	(16.2)	107.7	107.7
Releases	159.6	(456.9)	(40.6)	7.7	(489.8)	(330.2)
Deferred taxes	(47.6)	8.8	(0.8)	2.9	10.9	(36.7)
As of December 31, 2006	**(781.8)**	**26.6**	**341.0**	**(42.1)**	**325.5**	**(456.3)**
As of January 1, 2005	**(233.9)**	**(226.2)**	**192.6**	**(26.9)**	**(60.5)**	**(294.4)**
Additions	(1,075.9)	714.5	78.5	(25.6)	767.4	(308.5)
Releases	–	–	(11.8)	4.4	(7.4)	(7.4)
Deferred taxes	416.0	(13.6)	(0.8)	11.6	(2.8)	413.2
As of December 31, 2005	**(893.8)**	**474.7**	**258.5**	**(36.5)**	**696.7**	**(197.1)**

Consolidated Statements of Stockholders' Equity

Consolidated statements of stockholders' equity

Million €	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Other Comprehensive income[1]	Minority interest	Total stockholders' equity
January 1, 2006	**514,379,000**	**1,316.8**	**3,100.2**	**11,928.0**	**696.7**	**481.8**	**17,523.5**
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(14,699,000)	(37.6)	35.8	(936.6)			(938.4)
Capital withdrawal / contribution						18.1	18.1
Dividends paid				(1,014.5)		(217.9)[2]	(1,232.4)
Net income				3,215.2		250.9	3,466.1
Income and expense recognized directly in equity				112.0	(371.2)	(20.8)	(280.0)
Changes in scope of consolidation and other changes			5.0[3]	(2.2)		18.4	21.2
December 31, 2006	**499,680,000**	**1,279.2**	**3,141.0**	**13,301.9**	**325.5**	**530.5**	**18,578.1**
January 1, 2005	**540,440,410**	**1,383.5**	**3,027.6**	**11,923.1**	**(60.5)**	**328.5**	**16,602.2**
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(26,062,229)	(66.7)	67.0	(1,435.1)			(1,434.8)
Exercise of exchange rights of former Wintershall shareholders	819						
Capital withdrawal / contribution						9.5	9.5
Dividends paid				(903.9)		(78.2)[2]	(982.1)
Net income				3,006.7		160.8	3,167.5
Income and expense recognized directly in equity				(659.9)	757.2	29.4	126.7
Changes in scope of consolidation and other changes			5.6[3]	(2.9)		31.8	34.5
December 31, 2005	**514,379,000**	**1,316.8**	**3,100.2**	**11,928.0**	**696.7**	**481.8**	**17,523.5**

[1] Details are provided in the "Consolidated Statements of Recognized Income and Expense" on page 100.
[2] Including profit and loss transfers
[3] Granting of BASF shares under the employee share program "plus"

Consolidated Statements of Cash Flows*

Consolidated statements of cash flows

Million €	2006	2005
Net income	3,215.2	3,006.7
Depreciation and amortization of intangible assets, property, plant and equipment and financial assets	2,993.6	2,426.6
Changes in pension provisions, defined benefit assets and other non-cash items	(72.4)	(11.8)
Net gains from disposal of long-term assets and securities	(206.9)	(422.1)
Changes in inventories	(518.6)	(412.3)
Changes in receivables	22.4	357.2
Changes in operating liabilities and other provisions	506.4	306.0
Cash provided by operating activities before external financing of pension obligations	**5,939.7**	**5,250.3**
External financing of pension obligations (CTA)	–	(3,660.0)
Cash provided by operating activities	**5,939.7**	**1,590.3**
Payments related to intangible assets and property, plant and equipment	(2,410.9)	(1,947.7)
Payments related to financial assets and securities	(201.1)	(211.4)
Payments related to acquisitions	(6,396.7)	(535.7)
Proceeds from divestitures	156.5	1,530.8
Proceeds from the disposal of long-term assets and marketable securities	438.1	458.3
Cash used in investing activities	**(8,414.1)**	**(705.7)**
Capital increases/repayments	18.1	9.5
Share repurchases	(938.4)	(1,434.8)
Proceeds from the addition of financial liabilities	7,868.7	2,241.5
Repayment of financial liabilities	(3,294.6)	(1,942.4)
Dividends paid		
To shareholders of BASF Aktiengesellschaft	(1,014.5)	(903.9)
To minority shareholders	(217.9)	(78.2)
Cash provided by (used in) financing activities	**2,421.4**	**(2,108.3)**
Net changes in cash and cash equivalents	**(53.0)**	**(1,223.7)**
Effects on cash and cash equivalents		
From foreign exchange rates	(30.0)	35.3
From changes in scope of consolidation	9.4	10.3
Cash and cash equivalents at the beginning of the year	**907.8**	**2,085.9**
Cash and cash equivalents at the end of the year	**834.2**	**907.8**

* The statements of cash flows are discussed in detail in the Liquidity and Capital Resources section on pages 29 to 31 of the Management's Analysis.
For further information regarding Consolidated Statements of Cash Flows, see explanations in Note 10.

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of presentation

The Consolidated Financial Statements of BASF Aktiengesellschaft are valid as of December 31, 2006 and were prepared according to the International Financial Reporting Standards (IFRS) and section 315 (1) of the German Commercial Code (HGB). All of the binding IFRS in the reporting year 2006 as well as the pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) were applied.

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

The accounting policies and valuation methods that have been applied are the same as those of the previous year. Exceptions to this are changes required by the application of new or revised standards and interpretations. In this regard, there were no material changes in 2006.

On February 20, 2007, the 2006 Consolidated Financial Statements were authorized for issue by the Board of Executive Directors and submitted for approval through the audit committee to the Supervisory Board of BASF Aktiengesellschaft at their meeting on February 27, 2007.

(b) Scope of consolidation

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

Scope of consolidation

	2006	2005
Consolidated companies as of January 1	180	160
Thereof proportionally consolidated	15	12
First-time consolidations	151	28
Thereof proportionally consolidated	4	4
Thereof changes in the consolidation method	–	(1)
Deconsolidations	3	8
Thereof proportionally consolidated	–	–
Consolidated as of December 31	**328**	**180**
Thereof proportionally consolidated	19	15

Subsidiaries and joint ventures whose impact on the financial position, cash flows and results of the Company are individually and in aggregate immaterial are not consolidated.

Subsidiaries and joint ventures not consolidated due to immateriality, non-proportionally consolidated joint ventures, as well as the remaining associated companies are accounted for using the equity method. Associated companies are those entities in which the Company has a participation of at least 20% or can exercise a significant influence over the operating and financial policies. In total, this applies to:

Companies consolidated using the equity method

	2006	2005
Subsidiaries	11	11
Joint ventures	6	2
Associated companies	3	3
	20	**16**

First-time consolidations in 2006 comprised:

- a total of 59 companies related to the acquisition of Engelhard Corp.;
- a total of 65 companies related to the acquisition of the construction chemicals business from Degussa AG;
- a total of three companies related to the acquisition of Johnson Polymer;
- CropDesign N.V., a biotechnology company acquired in June;
- PEMEAS GmbH, acquired in December; and
- an additional 22 subsidiaries due to their increased importance, which were previously not consolidated, with headquarters in Germany, Spain, Australia, China, Malta and Switzerland.

In 2006, three companies were deconsolidated.

First-time consolidations in 2005 comprised:
- three companies in Asia and four in Europe in connection with the acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany;
- the acquired Leuna Miramid GmbH, Leuna, Germany, which produces and sells polyamide and polyamide compounds;
- three companies in connection with the acquisition of a consulting company, plan business market enabling services AG, which is focused on the design of business processes and their mapping in IT systems;
- three companies headquartered in Switzerland and in France as a result of the acquisition of the Swiss fine chemicals company, Orgamol;
- ZAO Achimgaz, headquartered in the Russian Federation, a joint venture with OAO Gazprom for the exploration of gas, which has been proportionally consolidated;
- six newly founded companies with headquarters in Canada, Germany, the United Kingdom and the United States; and
- seven previously unconsolidated companies with headquarters in Germany, China, Taiwan, Malaysia and Turkey due to their increased importance.

Effects of changes in the scope of consolidation

	2006		2005	
	Million €	**%**	Million €	%
Sales	**9.9**	.	**81.2**	**0.2**
Long-term assets	59.6	0.3	3.2	.
Thereof property, plant and equipment	16.2	0.1	26.7	0.2
Short-term assets	(108.2)	(0.7)	(38.0)	(0.3)
Thereof cash and cash equivalents	9.3	1.0	10.3	0.5
Total assets	**(48.6)**	**(0.1)**	**(34.8)**	**(0.1)**
Stockholders' equity	(0.3)	.	3.1	.
Long-term liabilities	(18.7)	(0.2)	16.8	0.2
Thereof financial indebtedness	6.9	0.2	9.4	0.5
Short-term liabilities	(29.6)	(0.4)	(54.7)	(0.6)
Thereof financial indebtedness	–	.	16.2	1.1
Total stockholders' equity and liabilities	**(48.6)**	**(0.1)**	**(34.8)**	**(0.1)**
Contingent liabilities and other financial obligations	31.5	1.0	46.3	1.6

Financial information on proportionally consolidated companies

Million €	2006	2005
Income statement information		
Sales	4,256.0	3,150.5
Gross profit on sales	334.7	183.2
Income from operations	259.6	123.8
Income before taxes and minority interests	260.2	127.6
Net income	242.1	113.7
Balance sheet information		
Long-term assets	1,258.6	1,396.4
Thereof property, plant and equipment	1,185.1	1,325.1
Short-term assets	1,023.1	775.9
Thereof marketable securities, cash and cash equivalents	82.3	47.3
Assets	**2,281.7**	**2,172.3**
Stockholders' equity	718.1	630.7
Long-term liabilities	740.7	948.7
Thereof financial indebtedness	342.5	547.0
Short-term liabilities	822.9	592.9
Thereof financial indebtedness	36.3	9.9
Stockholders' equity and liabilities	**2,281.7**	**2,172.3**
Contingent liabilities and other financial obligations	244.6	128.5
Cash flow information		
Cash provided by operating activities	340.8	207.6
Cash used in investing activities	(105.3)	(205.5)
Cash provided by (used in) financing activities	(192.9)	14.4
Net change in cash and cash equivalents	42.6	16.5

Proportional consolidation

Material proportionally consolidated companies are as follows:

- Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany as well as Wintershall Erdgas Handelshaus Zug AG, Switzerland, in which our jointly operated trading activities with Gazprom are combined;
- ELLBA C.V., Rotterdam, the Netherlands, and ELLBA Eastern Private Ltd., Singapore, which are operated together with Shell and produce propylene oxide and styrene monomer; and
- BASF-YPC Company Ltd., a joint venture between BASF and Sinopec, that operates the Verbund site in Nanjing, China.

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

Equity method

Material associated companies accounted for using the equity method include the Solvin Group (BASF share: 25 %), Svalöf Weibull Group (BASF share: 40 %), N.E. Chemcat Corporation* (BASF share: 42%), Heesung-Engelhard Corporation (BASF share: 49%) and Shanghai Lianheng Isocyanate Co. Ltd. (BASF share: 35%). Condensed financial information is shown below.**

Financial information on companies accounted for using the equity method

Million €	2006	2005
Income statement information		
Sales	1,980.4	1,372.0
Gross profit on sales	379.6	351.3
Income from operations	174.2	103.8
Income before taxes and minority interests	186.1	102.0
Net income	122.7	67.0
BASF's share of net income	36.4	16.8
Balance sheet information		
Long-term assets	655.3	477.3
Thereof property, plant, and equipment	589.5	459.5
Short-term assets	1,112.3	672.1
Thereof marketable securities, cash and cash equivalents	153.2	48.6
Total assets	**1,767.6**	**1,149.4**
Stockholders' equity	772.1	343.4
Long-term liabilities	352.4	190.6
Thereof financial indebtedness	132.4	123.3
Short-term liabilities	643.1	615.4
Thereof financial indebtedness	39.8	20.4
Total stockholders' equity and liabilities	**1,767.6**	**1,149.4**
BASF's proportional interest	268.3	95.4

* The market capitalization of the 42% share in N.E. Chemcat Corporation amounts to a total of €267.4 million as of December 31, 2006.

** The newly acquired Engelhard companies were included using estimated figures.

(c) Summary of significant accounting policies

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

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

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

Capital consolidation: Capital consolidation is based on the purchase method. Initially, all assets, liabilities and intangible assets that are to be capitalized are valued at fair value. Finally, the acquisition cost is compared with the proportionate share of the net assets acquired at fair value. The difference is capitalized as goodwill. Goodwill is not amortized, but written down in the case of impairment (see page 108 for further information on intangible assets).

Revenue recognition: Revenues from the sale of goods or the rendering of services are recognized upon the transfer of ownership and risk to the buyer. They are recognized without sales taxes. Allowances are made for rebates and trade discounts. Provisions are made to cover the return of products, estimated future warranty obligations and other claims.

Revenues from the sale of precious metals to industrial customers are recognized at the time of shipment and the corresponding purchase price is recorded at cost of sales.

Revenues from the trading of precious metals and their derivatives with broker-traders are recorded on a net basis. In these transactions, physical delivery generally does not take place.

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

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

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

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

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

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

Foreign currency transactions: The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at the exchange rate at the date of the transaction. Foreign currency receivables and liabilities are valued at the exchange rates on the balance sheet date.

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

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

The temporal method is therefore used to make the translation: long-term assets, excluding loans, and paid-in capital, are translated using historical rates. Other assets, liabilities and provisions are translated using year-end rates. Equity is then calculated as the balancing figure. Expenses and income are converted at monthly average rates and accumulated to year-end figures, except for those items derived from balance sheet items converted at historical rates. Assets and foreign exchange gains or losses resulting from the conversion process are reported as other operating expenses or other operating income.

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

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

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

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

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

The average amortization period for intangible assets with definite useful lives is ten years for 2006 and nine years for 2005 based on the following expected useful lives:

Amortization periods in years

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

Goodwill: Goodwill is only written down if there is an impairment. Impairment testing takes place annually or if there is an indication of an impairment. The goodwill impairment test is based on cash-generating units and compares the recoverable amount of the unit with the respective book value. The cash-generating units at BASF are, in general, the business units. Recoverable amount is the higher of net sales price and the value-in-use. Value-in-use is generally determined using the discounted cash flow method. The estimated cash flows are generally based on the current business plans for the next three years and on the expertise of the respective business unit management. For cash flow projections beyond the detailed planning period, growth rates ranging from 0 % to 2 % were assumed depending on the individual business units. The discount rates used depend on the underlying business and the country in which the business operates and correspond to pre-tax discount rates. As a basis, after-tax rates ranging from 6.7 % to 9.9 % were used.

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

The goodwill of the BASF Group is mainly attributable to the Catalysts division of the Chemicals segment, the Construction Chemicals division of the Performance Products segment and the Agricultural Products division of the Agricultural Products and Nutrition segment.

Goodwill of €1,284 million relates to the Catalysts division, €665 million relates to the Construction Chemicals division and €1,375 million relates to the Agricultural Products division.

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

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

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

Expected costs involved in the regularly scheduled shutdown of important plants are capitalized as part of the asset and depreciated using the straight-line method over the period to the next planned shutdown. In oil and gas exploration, the estimated discounted costs for rehabilitating sites, especially the filling of wells and the removal of production facilities, are capitalized as part of the individual asset.

Both movable and immovable fixed assets, including long-distance natural gas pipelines, are depreciated using the straight-line method. The weighted-average periods of depreciation used were as follows:

Depreciation periods in years

	2006	2005
Buildings and structural installations	26	28
Industrial plant and machinery	11	13
Long-distance natural gas pipelines	25	25
Factory and office equipment and other facilities	9	8

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

In oil and gas exploration, exploration and production costs are accounted for using the successful efforts method. Under this method, costs of successful exploratory drilling and drilling operations are capitalized as property, plant and equipment. Successful drillings are depreciated based on the production and the estimated available resources. Geophysical investigations, including unsuccessful exploratory drilling, exploratory and exploratory dry-hole costs, are charged against income.

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

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

A lease is classified as a finance lease if it transfers substantially all of the risks and rewards related to its ownership. Assets subject to a finance lease are recorded at the lower of the fair value of the leased property or the present value of the minimum lease payments. Leasing payments are apportioned between the interest component and the principal component. The principal component reduces the outstanding liability, while the interest component is charged as interest expense. Depreciation takes place over the shorter of the useful life of the asset or the period of the lease.

Details regarding the individual leasing contracts are presented in Note 27.

Investments in companies accounted for using the equity method: Investments accounted for using the equity method are accounted for under the same principles as for consolidated subsidiaries. The carrying amounts of these companies are adjusted annually based on the pro rata share of income, dividends and other changes in stockholders' equity. Goodwill associated with such investments is not amortized but is written down only in the case of an impairment.

Financial instruments: Financial assets and financial liabilities are recorded on the balance sheet when the BASF Group becomes a party to a financial instrument. Financial assets are removed from the books when the contractual rights to the cash flows from the financial asset expire or when the financial asset with all risks and rewards of ownership is transferred. Financial liabilities are derecognized when the contractual obligation expires or is discharged or cancelled. Standard purchases and sales of financial instruments are accounted for using the settlement date and in precious metals trading using the day of trading. According to IAS 32, financial instruments include primary instruments such as accounts receivable and accounts payable and other financing-related receivables and liabilities. Financial instruments also include derivatives, which are used to hedge risks, such as those arising from changes in currency exchange and interest rates.

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

- **Financial assets and liabilities that are measured at fair value and recognized in income** include exclusively derivatives and other trading instruments. Within this valuation category are included bank balances, cash balances and checks, which are shown under cash and cash equivalents, as well as derivatives shown under other assets and other liabilities.
- **Loans and receivables** comprise financial assets with fixed or determinable payments, which are not quoted on an active market and are not derivatives or classified as available-for-sale. Also included in this category are other receivables and loans classified under accounts receivable, trade; other receivables and miscellaneous short-term assets; and other long-term assets. Initial valuation is done at fair value, which generally matches the nominal value of the receivable or loan. Interest-free and low-interest long-term loans and receivables are recorded at actual cash value. Subsequent valuations are generally done at the historical cost, under consideration of the effective interest method.
- **Held-to-maturity financial instruments** consist of non-derivative financial assets with fixed or determinable payments, and a fixed term, for which the company has the ability and intent to hold until maturity, and which do not fall under other valuation categories. Initial valuation is done at fair value, which generally matches the nominal value. Subsequent valuations are generally done at the historical cost, under consideration of the effective interest method. For the BASF Group, there are no material financial assets that fall under this category.
- **Available-for-sale financial instruments** comprise financial assets which are not derivatives and do not fall under any of the previously stated valuation categories. Participations booked under the item other financial assets not accounted for using the equity method, and securities which are available-for-sale as well as long-term and short-term securities are also included. Initial valuation is done at fair value. Changes in the fair value are booked to equity under the item other comprehensive income and are only recorded in the income statement when they are disposed of or have an impairment in value. Participations whose fair value cannot be reliably determined are carried at historical cost and are written down in the case of an impairment in value. For these participations, the book values represent the best estimates of value.
- **Financial liabilities** are initially valued at fair value, which usually corresponds to the amount received. Subsequent valuations are generally done at historical cost, under the effective interest method.

In 2006, there were no reclassifications between the valuation categories.

Derivative financial instruments can be embedded within other contracts. Under IFRS, embedded derivatives are recorded separately from their base contracts and shown at fair value.

Derivatives within the BASF Group are generally used for hedging purposes. The majority of these contracts, however, are not accounted for using hedge accounting as defined under IFRS. Nonetheless, these derivatives are effective hedges in the context of the Group strategy. Changes in the fair value of the derivatives almost completely offset the change in the value of the underlying contracts.

The BASF Group uses hedge accounting only for selected hedges of future transactions ("cash flow hedge"). The effective portion of the change in fair value is thereby recognized directly in equity under other comprehensive income, taking deferred taxes into account. The ineffective portion is recognized immediately in income. In the case of future transactions that will lead to a non-financial asset or a non-financial debt, the cumulated fair value changes in equity are immediately charged against the acquisition cost. For future transactions that will lead to the recognition of financial debts or assets, the cumulated fair value changes of the derivatives recognized in equity offset against the purchase price upon initial recognition. The hedging time frame of future transactions generally extends up to one year; the maturity of the hedging instrument is based upon the effective date of the future transaction.

If there is objective evidence of a permanent impairment of an available-for-sale financial instrument, impairment write-downs are made. The indications include above all, a sustained deterioration in the market value, a significant reduction in credit quality, the existence of transfer risks, payment delays, higher probability of insolvency, the necessity of debtor recapitalization or the disappearance of an active market.

If the reason for a write-down for loans and receivables as well as held-to-maturity financial instruments no longer exists, the write-down is reversed up to the cost basis and recognized in income. In the case of available-for-sale securities, write-ups principally are not recognized in the income statement, but are taken directly to equity (other comprehensive income). Write-ups up to the amount of the original write-down are recognized in income in the case of debt instruments; write-ups above this amount are recognized in equity. Participations for which a fair value cannot be reliably determined are carried at cost. For these participations reversals of write-downs are not recognized.

Deferred tax assets: Deferred tax assets are recorded for deductible temporary differences between the carrying amount of assets and liabilities in the financial statements and the carrying amounts for tax purposes. In addition, deferred taxes are recorded for tax loss carryforwards to the extent that it is probable that future taxable profit for the relevant tax authority will be available against which the tax loss carryforwards can be utilized. For companies located in Germany, a 38% tax rate is applied; for other companies, the tax rates applicable in the individual countries are used. Appropriate valuation allowances are made if expected future earnings of a company make it seem more likely than not that the tax benefits will not be realized.

Inventories: Inventories are carried at acquisition costs or production costs. Write-downs are made if the net realizable value is lower than the carrying amount. The net realizable value is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

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

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

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

Other provisions: Other provisions are accrued when there is a present obligation as a result of a past event and when there is a probable outflow of resources whose amount can be reliably estimated. The amount of the provision is the probable amount required to settle the obligation.

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

Provisions are established for certain environmental protection measures and risks if the measures are likely necessary as a result of legal or regulatory obligations or other events, and these measures are not capitalized. Provisions for required recultivations associated with oil and gas operations primarily concern the filling of wells and the removal of production facilities upon the termination of production. The present value of the obligation increases the cost of the respective asset when it is initially recognized.

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

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

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

The formation of provisions for the BASF stock option program (BOP) is described in detail in Note 25.

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

Earnings per share: The calculation of earnings per share is based on the average number of common shares outstanding during the applicable period and the net income. Own shares are included in the calculation for the period of time that they were outstanding. In 2006 and 2005, there was no dilutive effect.

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

The use of estimates at closing date is especially significant for the following items:

Goodwill has to be allocated to cash-generating units and tested for impairment once a year. Impairment writedowns are recorded when the carrying amount of the cash-generating unit exceeds the recoverable value. Impairment testing relies upon long-term earnings predictions based on economic trends.

Deferred tax assets are also recognized for tax loss carryforwards. Their realization depends on the future taxable profits of the respective group companies. Allowances are recorded when it is uncertain if future earnings will be sufficient to take advantage of the tax loss carryforwards. See Note 8 for additional information.

Pension provisions are influenced by assumptions covering the future development of wages and salaries, future pension payments, interest rates and the performance of plan assets. Differences between assumptions and actual events could lead to an over- or underfunding of pension liabilities which would be offset against retained earnings. See Note 20 for additional information.

Other provisions cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts relating to each case, the size of the claim, claims awarded in similar cases and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible claims. The actual costs can deviate from these estimates. See Note 24 for more information.

Other provisions also include expected charges for the rehabilitation of contaminated sites, the recultivation of landfills, the removal of environmental contamination at existing production or storage facilities and other similar measures. If the respective group company is the only possible responsible party that can be identified, the provision covers the entire expected claim. At sites operated together by one or more parties, the provision covers only BASF's share of the expected claim. The determination of the amount of the claim is complex and is based on the available information on the site, the technology and processes used as well as current regulations. See Note 21 for more information.

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

Write-downs of assets are made in the case of an impairment. An impairment test is conducted if certain events indicate an impairment. Impairment tests are based on a comparison of the carrying amount and the recoverable amount. The recoverable amount is the higher of net realizable value and value-in-use. The determination of value-in-use requires the estimation and discounting of cash flows. The estimation of the cash flows considers all the information available at that date, which may deviate from actual developments. This includes, among other things, expected revenue from the sales of products, the return on investments, materials and energy costs. If the recoverable value is lower than the carrying amount, a write-down in the amount of the difference is recorded. See Note 11 and 12 for more information.

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

The effects of IFRSs and IFRICs not yet to be applied or not yet endorsed by the European Union in the reporting year 2006 were reviewed:

- IFRS 7 "Financial Instruments: Disclosures" requires more extensive disclosure regarding financial instruments. The disclosure requirements in IAS 32 were incorporated into IFRS 7 and extended. In addition to the existing disclosure requirements regarding the approach, presentation and measurement of financial instruments, additional information is required regarding the type and extent of risks stemming from financial instruments. As BASF already publishes extensive information in its Notes to the financial statements regarding risk, it is not expected that this will have any material effect on the Consolidated Financial Statements of the BASF Group. IFRS 7 is to be applied for reporting years beginning on or after January 1, 2007.

- IFRS 8 “Operating Segments” replaces IAS 14 and adopts the ‘management approach’ already prescribed under SFAS 131 “Disclosures about Segments of an Enterprise and Related Information.” This leads to segmentation based on the internal reporting structure and associated with this the disclosure of management information used for evaluating segment performance and deciding how to allocate resources to operating segments. IFRS 8 shall be applied for the periods beginning on or after January 1, 2009. Earlier application is permitted. As BASF uses the same performance indicators for external reporting as for internal management reporting, it is expected that IFRS 8 will not have any effect on the Consolidated Financial Statements of the BASF Group.
- IFRIC 9 “Reassessment of Embedded Derivatives” clarifies the accounting for embedded derivatives according to IAS 39. The interpretation concludes that an entity, when it first becomes a party to a contract, must assess whether any embedded derivatives contained in the contract need to be separated from the host contract and accounted for as a stand-alone derivatives. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows related to the contract, in which case reassessment is required. IFRIC 9 is to be applied to reporting years for the periods beginning on or after June 1, 2006. Earlier application is permitted. IFRIC 9 has no material effect on the Consolidated Financial Statements of the BASF Group.
- IFRIC 10 “Interim Financial Reporting and Impairment” addresses the interaction between the requirements of IAS 34 “Interim Financial Reporting” and IAS 36 “Impairment of Assets” and IAS 39 “Financial Instruments: Recognition and Measurement.” The interpretation concludes that where an entity has recognized an impairment loss in an interim period for which a reversal is prohibited according to IAS 36 or IAS 39, that impairment should not be reversed in subsequent interim financial statements or in annual financial statements. IFRIC 10 shall be applied for reporting periods beginning on or after November 1, 2006. Earlier application is permitted. IFRIC 10 has no material effect on the Consolidated Financial Statements of the BASF Group.
- IFRIC 11 “Group and Treasury Share Transactions” regulates how to apply IFRS 2 “Group and Treasury Share Transactions” to share-based payment arrangements involving an entity’s own equity instruments or equity instruments of another entity in the same group. Accordingly, share-based payment arrangements in which an entity receives services as consideration for its own equity instruments shall be accounted for as an equity-settled, share-based payment transaction. Furthermore, IFRIC 11 prescribes the accounting for share-based compensation systems involving the granting of equity instruments of the parent company. IFRIC 11 shall be applied to financial years beginning on or after March 1, 2007. An earlier application is allowed. Share-based compensation systems exist at BASF in the form of the BASF stock option program (BOP) for senior executives and BASF’s incentive share program for all eligible employees (Plus/Double Plus). The BOP does not fall under IFRIC 11 as it is settled in cash and accounted for as cash settled. In the ‘Plus’ program, employees of BASF Aktiengesellschaft and various subsidiaries are granted shares of BASF Aktiengesellschaft through their respective companies. The shares are purchased on the open market. The ‘Plus’ program has until now already been accounted for as equity settled so that IFRIC 11 has no effect on the Consolidated Financial Statements of the BASF Group.
- IFRIC 12 “Service Concession Arrangements” regulates the accounting for service concession arrangements between private sector companies and government or other public sector entities to provide public services. IFRIC 12 will have no effect on the Consolidated Financial Statements of the BASF Group because neither BASF Aktiengesellschaft nor its Group companies have concluded such service concession arrangements.

2. ACQUISITIONS/DIVESTITURES

Engelhard Corp.

On June 6, 2006, BASF acquired Engelhard Corp., located in Iselin, New Jersey. Since this date, the sales and earnings of Engelhard Corp. have been included in the BASF Group Consolidated Financial Statements. The cash settlement for 100% of the shares, including incidental acquisition costs, was €3,844 million. The acquisition comprises 50 production sites and 22 research and development centers in over 20 countries. With the acquisition of Engelhard, BASF has become one of the leading suppliers of catalysts worldwide.

The catalysts and Materials Services activities of Engelhard Corp., which made up approximately 86% of Engelhard's sales, were combined with the existing catalysts activities of BASF to form the new Catalysts division of the Chemicals segment. The remaining businesses, which made up roughly 14% of Engelhard's sales, were integrated into the existing BASF divisions of Fine Chemicals, Performance Polymers and Performance Chemicals.

Goodwill primarily results from the know-how of employees, as well as the synergy effects from combining activities and restructuring measures. In total, €1,883 million was recognized as goodwill.

Since the acquisition date, Engelhard has contributed sales of €2,678.1 million and income from operations of €14.6 million to the BASF Group. This includes charges in connection with the integration in the amount of €111.0 million. If Engelhard had been included in the BASF Group Consolidated Financial Statements as of January 1, 2006, Engelhard would have contributed sales of €4,906.8 million and income from operations of €94.1 million to the BASF Group.[1]

The following table provides an overview of the preliminary book and fair values for the acquired assets and liabilities as of June 6, 2006. The fair value of the other intangible assets primarily includes technology, customer relationships and the Engelhard brand.

Purchase price allocation for Engelhard Corp.

Million €	Historical book value	Adjustment to fair value	Fair value as of acquisition date
Long-term assets	**1,513.3**	**3,383.5**	**4,896.8**
Property, plant and equipment	717.3	422.5	1,139.8
Goodwill	316.5	1,566.2	1,882.7
Other intangible assets	46.8	1,080.8	1,127.6
Investments	223.2	236.3	459.5
Other long-term assets	209.5	77.7	287.2
Short-term assets	**2,444.7**	**256.3**	**2,701.0**
Inventories	429.8	247.5	677.3
Other short-term assets	2,014.9	8.8	2,023.7
Total assets	**3,958.0**	**3,639.8**	**7,597.8**
Long-term liabilities	**462.4**	**817.3**	**1,279.7**
Provision for pensions and similar obligations	82.4	142.6	225.0
Deferred taxes	.	670.8	670.8
Financial indebtedness	224.4	–	224.4
Other liabilities	155.6	3.9	159.5
Short-term liabilities	**2,377.9**	**96.1**	**2,474.0**
Total liabilities	**2,840.3**	**913.4**	**3,753.7**
Net assets / purchase price	**1,117.7**	**2,726.4**	**3,844.1**

[1] The unaudited pro forma results are for comparison purposes only and do not necessarily represent the results that would have been achieved if the transaction had taken place on January 1, 2006. These results should not be understood to be a guarantee of future results or developments.

Construction chemicals business of Degussa AG

On July 1, 2006, BASF acquired the construction chemicals business from Degussa AG in Düsseldorf, Germany. The acquisition includes production and distribution facilities in over 50 countries as well as a research and development center in Trostberg, Germany. The acquisition represents a forward integration of BASF's existing construction chemicals value chain. The cash offer was €2,210 million, including incidental acquisition costs.

As of July 1, 2006, the newly established Construction Chemicals division of the Performance Products segment comprises the Admixture Systems and Construction Systems acquired from Degussa.

Other intangible assets primarily include customer relationships, trademarks and technologies. Goodwill results from future synergy effects from combining purchasing activities and the standardization of IT systems as well as the know-how of the employees who transferred to BASF. To the extent that other divisions also benefited from the synergy effects in the forward integration of existing value-added chains, they were allocated an appropriate share of goodwill. In total, goodwill resulting from the acquisition amounted to €801.0 million.

Since the acquisition date, construction chemical activities have contributed sales of €1,120.3 million and income from operations of €20.5 million to the BASF Group. This includes special charges in connection with the integration in the amount of €59.5 million. If the Degussa construction chemicals business had been included in the BASF Group Consolidated Financial Statements as of January 1, 2006, it would have contributed sales of €2,188.7 million and income from operations of €97.8 million to the BASF Group.[1]

The following overview provides preliminary book and fair values of the acquired assets and liabilities as of July 1, 2006.

Purchase price allocation for the construction chemicals business of Degussa AG

Million €	Historical book value	Adjustment to fair value	Fair value as of acquisition date
Long-term assets	**924.2**	**2,019.5**	**2,943.7**
Property, plant and equipment	390.0	77.8	467.8
Goodwill	225.9	575.1	801.0
Other intangible assets	216.2	1,338.9	1,555.1
Investments	42.1	27.7	69.8
Other long-term assets	50.0	–	50.0
Short-term assets	**855.7**	**58.5**	**914.2**
Inventories	227.6	58.5	286.1
Other short-term assets	628.1	–	628.1
Total assets	**1,779.9**	**2,078.0**	**3,857.9**
Long-term liabilities	**172.4**	**507.6**	**680.0**
Provision for pensions and similar obligations	97.0	20.1	117.1
Deferred taxes	32.6	487.5	520.1
Financial indebtedness	1.5	–	1.5
Other liabilities	41.3	–	41.3
Short-term liabilities	**955.0**	**2.6**	**957.6**
Total liabilities	**1,127.4**	**510.2**	**1,637.6**
Minority interests	**9.7**	**0.6**	**10.3**
Net assets / purchase price	**642.8**	**1,567.2**	**2,210.0**

[1] The unaudited pro forma results are for comparison purposes only and do not necessarily represent the results that would have been achieved if the transaction had taken place on January 1, 2006. These results should not be understood to be a guarantee of future results or developments.

Johnson Polymer

On July 1, 2006, BASF acquired 100% of the business of Johnson Polymer from JohnsonDiversey, Inc. Since this date, the financial results of Johnson Polymer have been included in the BASF Group Consolidated Financial Statements. The cash offer for the debt-free business, including incidental acquisition costs, amounted to €379 million.

The acquisition comprises production facilities in the United States and the Netherlands and technical application centers and branches in Asia. Johnson Polymer is a global leader in the production and marketing of water-based resins. With the acquisition, BASF expands its portfolio of high-solid and UV resins for the coating and paint industry and strengthens its market presence in North America.

Johnson Polymer was fully integrated into BASF's Performance Chemicals division of the Performance Products segment. Other intangible assets primarily concern technologies.

Goodwill related to the Johnson Polymer acquisition results from know-how of employees transferred to BASF Group, future synergy effects from the combining of activities and the cost-savings potential from restructuring measures. Based on the purchase price allocation, goodwill was recognized in the amount of €18.7 million.

Since the acquisition date, Johnson Polymer has contributed sales of €157.5 million and a loss from operations of €3.6 million to the BASF Group. This includes special charges in connection with the integration in the amount of €4.7 million. If Johnson Polymer had been included in the BASF Group Consolidated Financial Statements as of January 1, 2006, it would have contributed €321.0 million to sales and €3.3 million to income from operations.[1]

The following overview provides preliminary book and fair values for the acquired assets and liabilities as of July 1, 2006.

Purchase price allocation for Johnson Polymer

Million €	Historical book value	Adjustment to fair value	Fair value as of acquisition date
Long-term assets	**34.4**	**309.6**	**344.0**
Property, plant and equipment	31.0	15.2	46.2
Goodwill	0.4	18.3	18.7
Other intangible assets	0.2	277.8	278.0
Investments	1.7	(1.7)	–
Other long-term assets	1.1	–	1.1
Short-term assets	**89.5**	**2.5**	**92.0**
Inventories	30.7	2.5	33.2
Other short-term assets	58.8	–	58.8
Total assets	**123.9**	**312.1**	**436.0**
Long-term liabilities	**2.4**	**24.3**	**26.7**
Provision for pensions and similar obligations	0.2	–	0.2
Deferred taxes	0.3	24.3	24.6
Financial indebtedness	–	–	–
Other liabilities	1.9	–	1.9
Short-term liabilities	**30.4**	**–**	**30.4**
Total liabilities	**32.8**	**24.3**	**57.1**
Net assets / purchase price	**91.1**	**287.8**	**378.9**

[1] The unaudited pro forma results are for comparison purposes only and do not necessarily represent the results that would have been achieved if the transaction had taken place on January 1, 2006. These results should not be understood to be a guarantee of future results or developments.

In addition, the following acquisitions were also completed and settled in cash in 2006 for a total purchase price of €300.6 million:

- On March 31, 2006, BASF acquired a DNT production facility in Geismar, Louisiana from Air Products and Chemicals, Inc. in Pennsylvania. DNT is an intermediate product used in the production of Polyurethanes.
- On June 26, 2006, BASF acquired CropDesign N.V. The biotechnology company located in Gent, Belgium strengthens BASF's plant biotechnology activities with its research facilities.
- On December 13, 2006, BASF acquired PEMEAS GmbH, a leading producer of fuel cell components located in Frankfurt am Main, Germany. PEMEAS has production and research facilities in Germany and in the United States.

To conduct the purchase price allocations for all acquisitions, BASF obtained appraisals from external experts. Due to the fact that the valuations are not yet fully completed, the purchase price allocations are preliminary and may, according to IFRS, be adjusted when finalized within one year after the date of acquisition.

The following overview provides a summary of the purchase price allocations for all acquisitions completed in 2006:

Purchase price allocations

Million €	Engelhard	Degussa Constructions Chemicals	Johnson Polymer	Other acquisitions	**Total**
Purchase price	3,823.7	2,208.3	378.8	300.6	6,711.4
Incidental acquisition cost	20.4	1.7	0.1	–	22.2
Total purchase price	**3,844.1**	**2,210.0**	**378.9**	**300.6**	**6,733.6**
Net assets at historical book value	1,117.7	642.8	91.1	106.2	1,957.8
Preliminary difference	**2,726.4**	**1,567.2**	**287.8**	**194.4**	**4,775.8**
Adjustments to fair value					
Long-term assets					
Property, plant and equipment	422.5	77.8	15.2	25.7	541.2
Elimination of historical goodwill	(316.5)	(225.9)	(0.4)	–	(542.8)
Other intangible assets	1,080.8	1,338.9	277.8	122.6	2,820.1
Investments	236.3	27.7	(1.7)	(1.9)	260.4
Other long-term assets	77.7	–	–	10.8	88.5
Short-term assets					
Inventories	247.5	58.5	2.5	–	308.5
Other short-term assets	8.8	–	–	–	8.8
Total assets	**1,757.1**	**1,277.0**	**293.4**	**157.2**	**3,484.7**
Long-term liabilities					
Provision for pensions and similar obligations	142.6	20.1	–	–	162.7
Deferred taxes	–	–	–	–	–
Financial indebtedness	–	–	–	–	–
Other liabilities	3.9	–	–	–	3.9
Short-term liabilities	**96.1**	**2.6**	**–**	**–**	**98.7**
Total liabilities	**242.6**	**22.7**	**–**	**–**	**265.3**
Total adjustments to fair value	**1,514.5**	**1,254.3**	**293.4**	**157.2**	**3,219.4**
Deferred tax liabilities related to fair value adjustments	**670.8**	**487.5**	**24.3**	**35.5**	**1,218.1**
Minority interests	–	0.6	–	–	**0.6**
Remaining goodwill	**1,882.7**	**801.0**	**18.7**	**72.7**	**2,775.1**

The material acquisitions in 2005 concerned the purchase of the electronic chemicals business of Merck KGaA, Darmstadt as well as the 100% share of the Swiss fine chemicals company, Orgamol S.A.

Effects of acquisitions in the year of acquisition

	2006		2005	
	Million €	**%**	Million €	%
Long-term assets	8,501.7	41.4	601.1	2.9
Thereof property, plant and equipment	1,753.6	12.5	329.5	2.5
Short-term assets	3,719.0	24.6	201.6	1.4
Thereof cash and cash equivalents	336.9	37.1	14.2	0.7
Total assets	**12,220.7**	**34.3**	**802.7**	**2.3**
Stockholders' equity	0.8	.	–	–
Long-term liabilities	2,025.8	20.8	117.6	1.1
Thereof financial indebtedness	227.2	6.2	2.0	0.1
Short-term liabilities	3,460.5	41.3	135.2	1.6
Thereof financial indebtedness	958.4	369.6	45.9	3.2
Total stockholders' equity and liabilities	**5,487.1**	**15.4**	**252.8**	**0.7**
Purchase price	**6,733.6**		**549.9**	
Contingent liabilities and other financial obligations	252.8	7.7	71.7	2.5

If Engelhard Corp., the Degussa construction chemicals business and Johnson Polymer had been included in the BASF Group Consolidated Financial Statements as of January 1, 2006, the proforma sales would have been €56,070.5 million and net income would have been €3,155.8 million. The remaining acquisitions in 2006 did not have any material effect on the proforma sales or net income of the BASF Group.[1]

In 2006, BASF divested the following activities:

- On March 31, 2006, BASF sold major parts of the Micro Flo company LLC, Memphis, Tennessee to Arysta LifeScience North America Corporation. The divested business includes many generic, off-patent crop protection products and their corresponding registrations, trademarks and patents, as well as a development laboratory.
- On November 27, 2006, BASF sold its global Terbufos insecticide business to AMVAC Chemical Corporation. It comprises the active ingredient Terbufos (trademark Counter®) and the formulation and production processes, registrations and patents including a special application technology called "Lock 'n Load" as well as inventories.

In 2005, BASF divested the following activities:

- In 2005, BASF and Shell Chemicals sold their 50-50 joint venture Basell to Nell Acquisitoin S.a.r.l., Luxemborg, a subsidiary of Access Industries, New York. The sales price totaled €4.4 billion, including liabilities.
- Furthermore, our polystyrene business in the United States and Canada, including our production plant in Joliet, Illinois, was sold to INEOS on April 25, 2005.

[1] The unaudited pro forma results are for comparison purposes only and do not necessarily represent the results that would have been achieved if the transaction had taken place on January 1, 2006. These results should not be understood to be a guarantee of future results or developments.

Effects of divestitures in the year of divestiture

	2006		2005	
	Million €	%	Million €	%
Sales	**(167.0)**	**(0.4)**	**(636.1)**	**(1.7)**
Long-term assets	(41.2)	(0.2)	(1,028.3)	(5.0)
Thereof property, plant and equipment	(0.3)	.	(52.2)	(0.4)
Short-term assets	(41.0)	(0.3)	(94.9)	(0.6)
Thereof cash and cash equivalents	–	–	–	–
Total assets	**(82.2)**	**(0.2)**	**(1,123.2)**	**(3.2)**
Stockholders' equity	99.2	0.6	362.7	2.2
Long-term liabilities	(27.1)	(0.3)	50.3	0.5
Thereof financial indebtedness	–	–	–	–
Short-term liabilities	2.2	.	(5.4)	(0.1)
Thereof financial indebtedness	–	–	–	–
Total stockholders' equity and liabilities	**74.3**	**0.2**	**407.6**	**1.1**
Proceeds from divestitures	**156.5**		**1,530.8**	
Contingent liabilities and other financial obligations	–	–	–	–

Planned Acquisitions/Divestitures

On December 11, 2006, BASF signed an agreement to purchase the manufacturer of catalysts for motorcycles, Guilin REEcat Catalyst Co., Ltd. with its headquarters in Guilin, China. With this acquisition, BASF improves its leading position in technologies for reducing emissions. The transaction is expected to be closed in the second quarter of 2007.

On April 27, 2006, BASF and Gazprom signed a framework agreement on an asset swap. The BASF subsidiary Wintershall will participate with 35% less one share in the natural gas field Yuzhno Russkoye. In return, Gazprom increases its share in WINGAS GmbH to 50% less one share. Furthermore, Gazprom will participate in a Wintershall company that has exploration and production rights in Libya. The final contracts are anticipated to be signed in the second half of 2007.

3. EARNINGS PER SHARE

Earnings per share

		2006	2005
Net income under IFRS	(Million €)	3,215.2	3,006.7
Number of shares	**(1,000)**		
Weighted-average number of outstanding shares		504,479	525,125
Earnings per share under IFRS	**(€)**	**6.37**	**5.73**

The calculation of earnings per share is based on the weighted-average number of common shares outstanding. The calculation of diluted earnings per common share reflects all possible outstanding common shares and their effect on income. The BASF employee participation program "plus" and the BASF stock option program for senior executives (BOP) are considered in the calculation of diluted earnings per share according to IFRS.

In 2006 and 2005, the potentially dilutive instruments were antidilutive and should not be considered.

4. REPORTING BY SEGMENT AND REGION

BASF is a worldwide chemical manufacturer which offers a wide range of products, including performance chemicals, plastics, dyes and pigments, dispersions, automotive and industrial coatings, agricultural products, fine chemicals, crude oil and natural gas.

The Company conducts its worldwide operations through 14 operating divisions, which have been aggregated into five reporting segments based on the nature of the products and production processes, the type of customers, the channels of distribution and the nature of the regulatory environment (see also the explanations in the Management's Analysis on pages 14 to 15).

The Chemicals segment comprises the Inorganics, Petrochemicals and Intermediates divisions as well as the Catalysts division, established in 2006.

The Plastics segment is composed of the Styrenics, Performance Polymers and Polyurethanes divisions.

The Performance Products segment is made up of the Performance Chemicals, Coatings and Functional Polymers divisions as well as the Construction Chemicals division, established in 2006.

The Agricultural Products & Nutrition segment comprises the Agricultural Products and Fine Chemicals divisions.

The Oil & Gas segment consists of the operating division Oil & Gas, which conducts oil and gas exploration and production and natural gas trading.

Business activities not allocated to any operating division are shown as 'other' and include, among other things, the sale of feedstock, the remaining fertilizers activities, engineering and other services as well as rental income and leases. The income from operations recorded under other also includes costs of research related to the Group of €258 million in 2006 and €225 million in 2005. Other further includes foreign currency transaction gains and losses from financial indebtedness and foreign currency hedging in the amount of €86 million in 2006 and €(97) million in 2005.

Transfers between the reportable segments are shown separately and generally executed at market-based prices.

The allocation of assets and depreciation to the segments is based on economic control. Assets used by more than one segment are allocated based on the percentage of usage.

Segments

2006

Million €	Chemicals	Plastics	Performance Products	Agricultural Products & Nutrition: Agricultural Products	Agricultural Products & Nutrition: Fine Chemicals	Agricultural Products & Nutrition: Total	Oil & Gas	Oil & Gas: Thereof Exploration	Other	BASF Group
Net sales	11,572	12,775	10,133	3,079	1,855	4,934	10,687	4,555	2,509	52,610
Change (%)	42.8	9.0	22.6	(6.6)	7.1	(1.9)	39.6	30.2	27.3	23.1
Intersegmental transfers	4,483	526	390	25	17	36	1,062	287	450	6,947
Sales including transfers	16,055	13,301	10,523	3,104	1,872	4,970	11,749	4,842	2,959	59,557
Income from operations	1,380	1,192	669	447	(66)	381	3,250	2,645	(122)	6,750
Change (%)	4.1	17.4	(22.5)	(34.4)	(13.8)	(38.8)	34.9	26.3	70.0	15.8
Assets	10,473	6,911	9,727	4,458	1,596	6,054	5,434	2,300	6,692	45,291
Thereof goodwill	1,422	157	1,352	1,375	192	1,567	64	64	151	4,713
Thereof property, plant and equipment	3,895	3,131	2,771	550	590	1,140	3,117	1,438	848	14,902
Debt	2,762	1,636	2,350	845	561	1,406	2,508	998	16,051	26,713
Research expenses	178	145	288	334	70	404	.	.	262	1,277
Investment in property, plant and equipment and intangible assets	3,539	631	4,490	88	378	466	545	411	368	10,039
Depreciation and amortization of property, plant and equipment and intangible assets	855	523	508	216	250	466	516	363	105	2,973
Thereof due to impairments	188	3	48	.	114	114	.	.	.	353

2005

Million €	Chemicals	Plastics	Performance Products	Agricultural Products & Nutrition: Agricultural Products	Agricultural Products & Nutrition: Fine Chemicals	Agricultural Products & Nutrition: Total	Oil & Gas	Oil & Gas: Thereof Exploration	Other	BASF Group
Net sales	8,103	11,718	8,267	3,298	1,732	5,030	7,656	3,499	1,971	42,745
Change (%)	15.4	11.3	3.3	(1.7)	(3.4)	(2.3)	45.5	41.0	25.5	13.9
Intersegmental transfers	3,826	471	352	29	28	53	723	235	468	5,893
Sales including transfers	11,929	12,189	8,619	3,327	1,760	5,083	8,379	3,734	2,439	48,638
Income from operations	1,326	1,015	863	681	(58)	623	2,410	2,094	(407)	5,830
Change (%)	3.3	46.3	(23.5)	13.1	.	(5.3)	46.7	60.7	(90.2)	12.3
Assets	6,146	6,639	4,863	5,156	1,481	6,637	4,895	2,155	6,490	35,670
Thereof goodwill	133	143	266	1,496	6	1,502	64	64	31	2,139
Thereof property, plant and equipment	3,567	3,155	1,944	618	747	1,365	3,033	1,355	923	13,987
Debt	1,766	1,676	1,766	951	538	1,489	1,836	903	9,614	18,147
Research expenses	114	135	214	303	70	373	1	.	227	1,064
Investment in property, plant and equipment and intangible assets	639	490	347	74	222	296	624	381	127	2,523
Depreciation and amortization of property, plant and equipment and intangible assets	616	489	364	226	147	373	449	322	112	2,403
Thereof due to impairments	61	.	10	9	16	25	.	.	1	97

Regions

2006

Million €	Europe	Thereof Germany	North America (NAFTA)	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	29,529	11,062	11,522	8,102	3,457	52,610
Change (%)	24.3	24.8	21.6	24.6	14.8	23.1
Share (%)	56.1	21.0	21.9	15.4	6.6	100.0
Location of companies						
Sales	31,444	22,963	11,415	7,450	2,301	52,610
Sales including transfers	39,612	25,842	13,892	10,968	2,426	66,898
Income from operations	5,485	4,125	869	181	215	6,750
Assets	24,849	15,902	11,611	6,498	2,333	45,291
Thereof property, plant and equipment	7,977	5,216	3,331	3,018	576	14,902
Investment in property, plant and equipment and intangible assets	4,682	2,580	4,158	700	499	10,039
Depreciation and amortization of property, plant and equipment and intangible assets	1,647	983	584	665	77	2,973
Employees as of December 31	61,444	47,296	15,513	12,788	5,502	95,247

2005

Million €	Europe	Thereof Germany	North America (NAFTA)	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	23,755	8,865	9,479	6,500	3,011	42,745
Change (%)	11.3	20.1	15.9	22.4	11.4	13.9
Share (%)	55.6	20.7	22.2	15.2	7.0	100.0
Location of companies						
Sales	25,093	17,100	9,542	6,042	2,068	42,745
Sales including transfers	28,565	19,932	10,110	6,334	2,160	47,169
Income from operations	4,385	3,019	855	297	293	5,830
Assets	19,961	13,374	7,789	6,112	1,808	35,670
Thereof property, plant and equipment	7,334	5,045	2,534	3,594	525	13,987
Investment in property, plant and equipment and intangible assets	1,433	837	281	697	112	2,523
Depreciation and amortization of property, plant and equipment and intangible assets	1,473	915	460	403	67	2,403
Employees as of December 31	56,614	45,620	9,826	9,669	4,836	80,945

5. OTHER OPERATING INCOME

Million €	2006	2005
Reversal and adjustment of provisions	275.2	118.4
Revenue from miscellaneous revenue-generating activities	62.3	85.3
Gains from foreign currency transactions	119.7	43.3
Gains from the translation of financial statements in foreign currencies	10.8	57.3
Gains from disposal of property, plant and equipment and divestitures	127.8	107.4
Gains on the reversal of allowances for doubtful receivables	89.0	92.1
Other	249.3	96.4
	934.1	**600.2**

The **reversal and adjustment of provisions** primarily concerned risks arising from lawsuits and damage claims, risks from sales as well as from various other items in the normal course of business and the reversal of the provisions for risks related to the pharmaceuticals business divested in 2001 in the amount of €80 million. Provisions are reversed or adjusted if the circumstances at closing date indicate that the risks are no longer probable or that the probable amount has been reduced.

Revenue from miscellaneous revenue-generating activities primarily represents revenues from energy sales, sales of raw materials as well as income from rentals and logistics services.

Gains from foreign currency transactions represent gains arising from foreign currency positions and foreign currency derivatives as well as from the valuation of receivables and liabilities denominated in foreign currencies at the spot rate on the balance sheet date.

Gains from the translation of financial statements in foreign currencies includes gains arising from the use of the temporal method.

Gains from the disposal of property, plant and equipment and divestitures primarily concerned divestitures in the Agricultural Products division to optimize its portfolio in 2006 and 2005.

Gains on the reversal of allowances for doubtful receivables result primarily from an improved assessment of the creditworthiness of customers.

Other gains contain the partial reduction by €66 million of a fine imposed by the European Union in 2001 for anti-trust violations related to vitamins, income from miscellaneous sales and various other sundry items.

6. OTHER OPERATING EXPENSES

Million €	2006	2005
Integration and restructuring measures	399.4	446.5
Environmental protection and safety measures, costs of demolition and planning costs related to the preparation of capital expenditure projects not subject to mandatory capitalization	180.5	158.3
Amortization of intangible assets and depreciation of property, plant and equipment	430.3	204.6
Costs from miscellaneous revenue-generating activities	85.1	84.7
Losses from foreign currency transactions	48.4	189.5
Losses from the translation of financial statements in foreign currencies	51.6	23.0
Losses from the disposal of property, plant and equipment	21.8	15.5
Oil and gas exploration expenses	167.3	172.9
Expenses from additions to allowances for doubtful receivables	90.4	102.9
Other	456.3	377.2
	1,931.1	**1,775.1**

Integration and restructuring measures in 2006 were related primarily to the restructuring of the Fine Chemicals division as well as acquisition expenses. In 2005 this included additional charges to further improve efficiency at the sites in Ludwigshafen, Germany, and Feluy, Belgium.

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

Costs from miscellaneous revenue-generating activities refer to costs related to the items shown as miscellaneous revenue-generating activities (see Note 5).

Losses from foreign currency transactions include losses from foreign currency positions and derivatives and the valuation of receivables and liabilities in foreign currencies at the closing rate on the balance sheet date.

Other expenses were incurred as a result of the write-offs of obsolete inventories in the amount of €74.6 million in 2006 and €103.0 million in 2005 as well as due to numerous other items.

7. FINANCIAL RESULT

Million €	2006	2005
Income (losses) from companies accounted for using the equity method	**35.0**	**5.6**
Income from participations in affiliated and associated companies	44.5	53.5
Income from the disposal or write-ups of participations	6.8	310.7
Income from profit transfer agreements	1.5	9.0
Losses from loss transfer agreements	(3.1)	(13.6)
Write-down of, and losses from, disposals of participations	(13.9)	(17.9)
Income from tax allocation to participating interests	0.9	0.7
Other income from participations	**36.7**	**342.4**
Interest expenses	(543.0)	(351.9)
Interest income	146.5	153.3
Interest and dividend income from securities and receivables	24.6	28.6
Interest result	**(371.9)**	**(170.0)**
Write-ups/profits from the sale of securities and receivables	85.3	16.1
Write-downs/losses from the disposal of securities and receivables	(7.1)	(6.7)
Net financing income/(expense) from defined benefit plans	56.1	(120.8)
Net financing income/(expense) from other long-term personnel provisions	(18.1)	(15.3)
Interest accrued on other interest-bearing liabilities	(39.8)	(36.4)
Construction interest	36.6	43.0
Other financial expenses and income	(36.0)	38.2
Other financial result	**77.0**	**(81.9)**
Financial result	**(223.2)**	**96.1**

Interest expenses rose in 2006 primarily due to higher debt related to the financing of the acquisitions. The significantly improved net financing result from defined benefit obligations is due to the establishment of a Contractual Trust Arrangement (CTA) in December 2005.

Income from the disposal or write-ups of participations primarily contains the gain on the sale of our 50% share of Basell in 2005.

8. INCOME TAXES

Million €	2006	2005
German corporate income tax, solidarity surcharge, German trade taxes	492.9	433.4
Foreign income tax	2,235.0	1,970.1
Taxes for prior years	(3.2)	81.5
Capitalization of corporate income tax credits	(51.8)	–
Current taxes	**2,672.9**	**2,485.0**
Deferred taxes	387.7	273.1
Income taxes	**3,060.6**	**2,758.1**
Thereof income taxes on oil-producing operations	1,736.1	1,450.0
Other taxes	207.6	183.2
Tax expense	**3,268.2**	**2,941.3**

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

Million €	2006	2005
Germany	2,088.5	1,524.5
Foreign oil production branches of German companies	1,814.6	1,514.6
Foreign	2,623.6	2,886.5
	6,526.7	**5,925.6**

In Germany a uniform corporate tax of 25% and thereon a solidarity surcharge of 5.5% is levied on all earnings. In addition to corporate income tax, income generated in Germany is subject to a trade tax that varies depending on the municipality in which the company is located. After accounting for trade tax, which is a deductible operating expense, BASF has a weighted-average trade tax rate of 15.3%. Because German trade tax is deductible, it also reduces the assessment basis for corporate income tax. For German companies, deferred taxes are generally calculated using a tax rate of 38%.

Income from foreign Group companies is taxed at the income tax rates applicable in the respective countries of domicile.

For foreign Group companies, deferred taxes are calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 33% in 2006 and 29% in 2005.

Income taxes on foreign oil-producing operations in certain regions are compensable up to the level of the German corporate income tax on this foreign taxable income. The non-compensable amount is shown separately in the table on the following page.

Other taxes include real estate taxes and other comparable taxes in the amount of €90.3 million in 2006 and €90.0 million in 2005; they are allocated to the appropriate functional costs.

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

	2006		2005	
	Million €	%	Million €	%
Expected German corporate income tax (25 %)	1,631.7	25.0	1,481.4	25.0
Solidarity surcharge	13.8	0.2	13.4	0.2
German trade income tax net of corporate income tax	240.9	3.7	141.2	2.4
Foreign tax-rate differential	157.2	2.4	113.5	1.9
Tax exempt income	(196.1)	(3.0)	(208.4)	(3.5)
Non-compensable expenses	106.6	1.6	155.6	2.6
Income after taxes of companies accounted for using the equity method	(8.8)	(0.1)	(1.4)	.
Taxes for prior years	(3.2)	.	81.5	1.4
Income taxes on oil-producing operations non-compensable with German corporate income tax	1,282.4	19.7	1,072.5	18.1
Deferred taxes for planned dividend distributions of Group companies	15.2	0.2	9.5	0.2
Capitalization of corporate income tax credits	(51.8)	(0.8)	–	–
Other	(127.3)	(2.0)	(100.7)	(1.7)
Income taxes / effective tax rates	**3,060.6**	**46.9**	**2,758.1**	**46.6**

Tax exempt earnings arose from the sale of participations or securities.

Deferred taxes result from the following temporary differences between tax balances and the valuation of assets and liabilities according to IFRS:

Deferred tax assets and liabilities

	Tax assets		Tax liabilities	
Million €	**2006**	2005	**2006**	2005
Intangible assets	(469.2)	(111.0)	647.6	282.2
Property, plant and equipment	(385.7)	(456.8)	672.8	343.0
Financial assets	(37.8)	12.7	213.5	0.2
Inventories and accounts receivable	164.9	3.6	278.6	110.8
Provisions for pensions	377.9	641.0	(253.2)	2.9
Other provisions and liabilities	159.5	415.2	(231.1)	(44.2)
Tax loss carryforwards	627.3	840.0	–	–
Other	313.2	44.7	112.8	4.4
Valuation allowances	(127.7)	(134.7)	–	–
Thereof for tax loss carryforwards	(43.7)	(37.3)	–	–
Total	**622.4**	**1,254.7**	**1,441.0**	**699.3**
Thereof short-term	275.3	369.4	251.0	137.5

IFRS requires the revaluation of all assets and liabilities from the acquisitions in 2006 according to IFRS 3. This has resulted in significant deviations between the fair values and the values in the tax accounts, which has led to deferred tax liabilities, which are subsequently netted against existing deferred tax assets. The breakdown above of the netted tax positions by originating balance sheet items therefore also shows negative amounts. The valuation of deferred tax assets depends on the estimation of the probability of a reversal of the valuation differences and the utilization of the tax loss carryforwards. A deferred tax asset is recognized for future tax benefits arising from temporary differences and for tax loss carryforwards to the extent that the tax benefits are likely to be realized. Based on experience and the expected development of taxable income, it is assumed that the benefit of deferred tax assets recognized will be realized.

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

Deferred tax assets for undistributed earnings of subsidiaries in the amount of €8,751.7 million in 2006 and €7,918.7 million in 2005 were not recognized, as they are either not subject to taxation or they are expected to be reinvested for indefinite periods of time. For these timing differences, only the respective withholding tax, taking into consideration the German taxation of 5% on dividends paid, would need to be considered.

The regional distribution of tax loss carryforwards is as follows:

Regional tax loss carryforwards

Million €	2006	2005
Germany	64.4	30.1
Foreign	1,758.1	2,114.5
	1,822.5	**2,144.6**

German tax losses may be carried forward indefinitely. Foreign tax loss carryforwards exist primarily in North America (NAFTA). These expire starting in 2020. Loss carryforwards in North America (NAFTA) were reduced in 2006 and 2005 as a result of high earnings.

For tax loss carryforwards of €112.3 million in 2006 and €72.2 million in 2005, valuation allowances were recorded.

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

Tax obligations

Million €	2006	2005
Tax provisions	294.4	330.7
Tax liabilities	564.3	556.5
	858.7	**887.2**

9. MINORITY INTERESTS

Million €	2006	2005
Minority interests in profits	265.1	179.0
Minority interests in losses	14.2	18.2
	250.9	**160.8**

Minority interests in profits relate primarily to the Group companies engaged in the trading and distribution of natural gas and to the operating company for the steam cracker in Port Arthur, Texas. Minority interests in losses were mainly related to BASF Plant Science.

See Note 19 for a detailed analysis of consolidated subsidiaries with minority shareholdings.

10. OTHER INFORMATION

Additional information related to the Consolidated Statements of Cash Flows

Cash provided by operating activities includes the following cash flows:

Million €	2006	2005
Income tax payments	2,730.0	2,252.4
Interest payments	319.0	220.3
Dividends received	47.5	68.1

Personnel costs

Million €	2006	2005
Wages and salaries	5,029.8	4,553.0
Social security contributions and expenses for pensions and assistance	1,180.0	1,021.4
Thereof for pension benefits	286.7	242.4
	6,209.8	**5,574.4**

Average number of employees

	Fully-consolidated companies		Proportionally-consolidated companies		BASF Group	
	2006	2005	2006	2005	2006	2005
Europe	58,497	56,284	376	270	58,873	56,554
Thereof Germany	46,017	45,618	18	16	46,035	45,634
North America (NAFTA)	12,789	9,934	466	466	13,255	10,400
Asia Pacific	10,384	8,732	1,740	1,694	12,124	10,426
South America, Africa, Middle East	5,199	4,827	–	–	5,199	4,827
BASF Group	**86,869**	**79,777**	**2,582**	**2,430**	**89,451**	**82,207**
Thereof with trainee contracts	2,036	2,329	2	2	2,038	2,331
Thereof with limited-term contracts	1,966	1,709	24	12	1,990	1,721

German Group companies incurred costs for employee representatives to comply with statutory regulations of €11.3 million in 2006 and €11.4 million in 2005.

The number of employees in proportionally-consolidated companies is included in the figures above in full. Considered pro-rata, the average number of employees in the BASF Group was 88,160 in 2006 and 80,922 in 2005.

In 2006, the number of employees increased primarily due to the acquisitions of Engelhard, the construction chemicals business of Degussa and Johnson Polymer. In 2005, the number of employees fell primarily due to ongoing measures to improve the efficiency of our sites in Europe and North America.

Information related to subsidiaries

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

List of Shares Held

A list of companies included in the Consolidated Financial Statements as well as a list of all companies in which BASF has a participation, has been deposited in the Commercial Register HRB 3000 in Ludwigshafen (Rhine), Germany, as required by the German Commercial Code, Section 313 (2). The List of Shares Held can be obtained as a separate report from BASF Aktiengesellschaft, and is available on the Internet by clicking the tab Continuative Documents at **corporate.basf.com/governance_e**.

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

The statement of compliance with the German Corporate Governance Code according to Section 161 of the German Stock Corporation Act was signed by the Board of Executive Directors and the Supervisory Board. The statement of compliance is published on page 93.

11. INTANGIBLE ASSETS

Developments 2006

Million €	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Goodwill	Internally generated intangible assets	Other rights and values*	**Total**
Acquisition costs							
Balance as of January 1, 2006	548.3	723.3	995.7	2,138.5	272.6	807.3	5,485.7
Changes in scope of consolidation	–	3.0	–	6.1	1.4	22.6	33.1
Additions	1,411.5	522.2	1,069.3	2,775.1	24.7	167.7	5,970.5
Disposals	84.8	16.7	357.4	47.2	76.7	57.9	640.7
Transfers	4.7	0.1	(0.5)	–	–	68.4	72.7
Exchange differences	(44.7)	(20.3)	(23.3)	(159.3)	(6.5)	(43.7)	(297.8)
Balance as of December 31, 2006	1,835.0	1,211.6	1,683.8	4,713.2	215.5	964.4	10,623.5
Amortization							
Balance as of January 1, 2006	260.4	322.7	652.2	–	179.0	351.8	1,766.1
Changes in scope of consolidation	–	–	–	–	–	22.5	22.5
Additions	122.7	80.6	111.3	–	50.1	126.7	491.4
Disposals	84.1	15.5	330.6	–	76.4	29.3	535.9
Transfers	2.7	–	0.4	–	–	0.2	3.3
Exchange differences	(4.4)	(10.8)	(5.9)	–	(3.2)	(21.2)	(45.5)
Balance as of December 31, 2006	297.3	377.0	427.4	–	149.5	450.7	1,701.9
Net book value as of December 31, 2006	**1,537.7**	**834.6**	**1,256.4**	**4,713.2**	**66.0**	**513.7**	**8,921.6**

* Including licenses on such rights and values

Additions in 2006 related in particular to the acquisition of Engelhard Corp., the construction chemicals business of Degussa AG and Johnson Polymer. On pages 115 to 119 you can find the most important facts and figures, including the derivation of goodwill for each acquisition.

Write-downs of €9.5 million in 2006 primarily concerned know-how and patents and were charged to other operating expenses. There were no material write-ups.

Concessions for oil and gas production with a net book value of €59.0 million convey the rights to produce oil and gas in certain locations and involve obligations to deliver a portion of the resources to local companies. At the end of the term of a concession, the rights are returned.

Developments 2005

Million €	Distribution, supply and similar rights	Product rights, licenses and trademarks	Know-how, patents and production technology	Goodwill	Internally generated intangible assets	Other rights and values*	Total
Acquisition costs							
Balance as of January 1, 2005	708.0	727.3	928.0	1,972.4	272.1	693.4	5,301.2
Changes in scope of consolidation	–	–	0.8	2.2	–	2.7	5.7
Additions	56.7	15.6	63.6	136.6	22.6	40.1	335.2
Disposals	223.6	38.8	28.7	92.6	30.5	72.5	486.7
Transfers	(0.4)	(3.5)	15.9	(44.9)	0.4	88.2	55.7
Exchange differences	7.6	22.7	16.1	164.8	8.0	55.4	274.6
Balance as of December 31, 2005	548.3	723.3	995.7	2,138.5	272.6	807.3	5,485.7
Amortization							
Balance as of January 1, 2005	407.9	261.1	579.8	–	143.8	302.0	1,694.6
Changes in scope of consolidation	–	–	0.6	–	–	0.7	1.3
Additions	70.0	60.3	83.9	–	61.7	92.4	368.3
Disposals	220.5	9.7	19.5	–	30.0	69.6	349.3
Transfers	0.2	.	(0.1)	–	.	(0.6)	(0.5)
Exchange differences	2.8	11.0	7.5	–	3.5	26.9	51.7
Balance as of December 31, 2005	260.4	322.7	652.2	–	179.0	351.8	1,766.1
Net book value as of December 31, 2005	**287.9**	**400.6**	**343.5**	**2,138.5**	**93.6**	**455.5**	**3,719.6**

* Including licenses on such rights and values

Additions in 2005 primarily related to the acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany, and the Swiss fine chemicals company Orgamol S.A.

Write-downs of €30.4 million in 2005 primarily concerned customer relationships and were charged to other operating expenses. There were no material write-ups.

Concessions for oil and gas production with a net book value of €59.8 million convey the rights to produce oil and gas in certain locations and involve obligations to deliver a portion of the resources to local companies. At the end of the term of a concession, the rights are returned.

The emission rights granted without charge were included in the line item transfers in the column other rights and values.

12. PROPERTY, PLANT AND EQUIPMENT

Developments in 2006

Million €	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	**Total**
Acquisition costs					
Balance as of January 1, 2006	7,098.0	33,533.4	2,688.6	1,302.2	44,622.2
Changes in scope of consolidation	3.2	14.4	5.0	7.1	29.7
Additions	630.6	1,672.7	216.2	1,548.9	4,068.4
Disposals	242.3	413.9	145.7	45.0	846.9
Transfers	149.1	927.5	73.1	(1,152.9)	(3.2)
Exchange differences	(194.7)	(907.5)	(74.9)	(62.6)	(1,239.7)
Balance as of December 31, 2006	7,443.9	34,826.6	2,762.3	1,597.7	46,630.5
Depreciation					
Balance as of January 1, 2006	4,242.5	24,103.2	2,264.2	25.4	30,635.3
Changes in scope of consolidation	0.2	10.9	2.4	–	13.5
Additions	234.2	2,074.4	173.1	0.4	2,482.1
Disposals	175.8	384.2	136.6	23.1	719.7
Transfers	6.1	2.2	(5.6)	(0.2)	2.5
Exchange differences	(85.3)	(538.5)	(60.9)	–	(684.7)
Balance as of December 31, 2006	4,221.9	25,268.0	2,236.6	2.5	31,729.0
Net book value as of December 31, 2006	**3,222.0**	**9,558.6**	**525.7**	**1,595.2**	**14,901.5**

Additions in 2006 are explained in detail in the Management's Analysis under Liquidity and Capital Resources on pages 30 to 31.

Impairment losses of €344.0 million in 2006 related in particular to the Intermediates division of the Chemicals segment. Of this amount, €184.2 million was attributable to the mothballing of the THF plant at the site in Caojing, China.

Further impairment losses resulted from the measures to restructure the Fine Chemicals division, especially the lysin and vitamin B2 business at the site in Gunsan, Korea.

Developments in 2005

Million €	Land, land rights and buildings	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2005	6,475.2	30,238.9	2,596.1	2,132.0	41,442.2
Changes in scope of consolidation	8.1	16.3	6.5	5.8	36.7
Additions	234.8	742.8	94.5	1,115.7	2,187.8
Disposals	134.9	581.6	165.8	8.3	890.6
Transfers	240.1	1,831.1	54.4	(2,095.9)	29.7
Exchange differences	274.7	1,285.9	102.9	152.9	1,816.4
Balance as of December 31, 2005	7,098.0	33,533.4	2,688.6	1,302.2	44,622.2
Depreciation					
Balance as of January 1, 2005	3,972.5	22,216.5	2,170.8	19.7	28,379.5
Changes in scope of consolidation	1.0	5.2	3.8	–	10.0
Additions	198.0	1,674.0	154.9	8.0	2,034.9
Disposals	90.5	521.1	152.9	3.1	767.6
Transfers	42.5	(3.4)	4.2	0.8	44.1
Exchange differences	119.0	732.0	83.4	–	934.4
Balance as of December 31, 2005	4,242.5	24,103.2	2,264.2	25.4	30,635.3
Net book value as of December 31, 2005	**2,855.5**	**9,430.2**	**424.4**	**1,276.8**	**13,986.9**

Additions in 2005 are mainly due to the completion and start up of a steam cracker, a syngas plant as well as other production plants at the Verbund site in Nanjing, China and the acquisition of the electronic business from Merck KGaA, Darmstadt, Germany.

Impairment losses of €76.5 million in 2005 primarily relate to restructuring measures in the Intermediates division in Asia. There were no material write-ups.

13. PARTICIPATIONS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER FINANCIAL ASSETS

Developments in 2006

Million €	Investments accounted for using the equity method	Investments in affiliated companies	Investments in associated companies	Shares in other participations	Long-term securities
Acquisition cost carried forward					
Balance as of January 1, 2006	299.7	256.1	83.1	424.4	6.7
Changes in scope of consolidation	–	(21.1)	(10.1)	–	(0.2)
Additions	405.5	144.4	12.3	6.8	36.3
Disposals	–	15.6	21.5	0.9	–
Transfers/Changes in market value	3.1	0.1	(0.5)	133.6	(0.2)
Exchange differences	(2.4)	(2.7)	(1.1)	(0.9)	(0.1)
Balance as of December 31, 2006	705.9	361.2	62.2	563.0	42.5
Accumulated valuation adjustments					
Balance as of January 1, 2006	55.4	103.9	24.3	28.6	1.1
Changes in scope of consolidation	–	(11.0)	–	–	–
Additions	–	6.3	3.6	3.1	0.1
Disposals	–	5.4	18.2	0.2	–
Transfers	–	(4.3)	–	(0.4)	–
Exchange differences	–	(0.4)	–	–	–
Balance as of December 31, 2006	55.4	89.1	9.7	31.1	1.2
Net book value as of December 31, 2006	**650.5**	**272.1**	**52.5**	**531.9**	**41.3**

Developments in 2006

Million €	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Other financial assets	Investments accounted for using the equity method and other financial assets
Acquisition cost carried forward					
Balance as of January 1, 2006	139.6	140.1	55.8	1,105.8	1,405.5
Changes in scope of consolidation	42.1	29.0	0.8	40.5	40.5
Additions	13.4	50.7	30.2	294.1	699.6
Disposals	63.8	6.9	19.2	127.9	127.9
Transfers/Changes in market value	0.3	0.6	(7.5)	126.4	129.5
Exchange differences	(0.1)	(11.5)	(1.3)	(17.7)	(20.1)
Balance as of December 31, 2006	131.5	202.0	58.8	1,421.2	2,127.1
Accumulated valuation adjustments					
Balance as of January 1, 2006	127.5	2.1	5.3	292.8	348.2
Changes in scope of consolidation	19.6	–	–	8.6	8.6
Additions	5.4	1.2	0.3	20.0	20.0
Disposals	60.7	–	0.5	85.0	85.0
Transfers	–	0.9	(1.7)	(5.5)	(5.5)
Exchange differences	0.4	–	–	–	–
Balance as of December 31, 2006	92.2	4.2	3.4	230.9	286.3
Net book value as of December 31, 2006	**39.3**	**197.8**	**55.4**	**1,190.3**	**1,840.8**

Developments in 2005

Million €	Investments accounted for using the equity method	Investments in affiliated companies	Investments in associated companies	Shares in other participations	Long-term securities
Acquisition cost carried forward					
Balance as of January 1, 2005	1,654.5	272.0	86.5	425.7	12.1
Changes in scope of consolidation	(9.3)	(11.8)	(7.0)	–	–
Additions	16.4	24.5	12.8	3.7	0.1
Disposals	1,352.1	39.3	0.4	58.8	6.0
Transfers/Changes in market value	(9.8)	9.7	(10.6)	52.7	0.5
Exchange differences	–	1.0	1.8	1.1	–
Balance as of December 31, 2005	299.7	256.1	83.1	424.4	6.7
Accumulated valuation adjustments					
Balance as of January 1, 2005	554.0	100.0	30.8	20.3	1.4
Changes in scope of consolidation	–	0.4	–	–	–
Additions	–	3.4	4.1	8.3	–
Disposals	498.6	10.5	–	–	–
Transfers	–	10.2	(10.6)	–	(0.3)
Exchange differences	–	0.4	–	–	–
Balance as of December 31, 2005	55.4	103.9	24.3	28.6	1.1
Net book value as of December 31, 2005	**244.3**	**152.2**	**58.8**	**395.8**	**5.6**

Developments in 2005

Million €	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Other financial assets	Investments accounted for using the equity method and other financial assets
Acquisition cost carried forward					
Balance as of January 1, 2005	196.3	102.1	65.6	1,160.3	2,814.8
Changes in scope of consolidation	–	–	–	(18.8)	(28.1)
Additions	5.3	51.6	11.3	109.3	125.7
Disposals	6.9	21.1	5.5	138.0	1,490.1
Transfers/Changes in market value	(55.8)	(7.2)	(20.0)	(30.7)	(40.5)
Exchange differences	0.7	14.7	4.4	23.7	23.7
Balance as of December 31, 2005	139.6	140.1	55.8	1,105.8	1,405.5
Accumulated valuation adjustments					
Balance as of January 1, 2005	65.5	–	4.2	222.2	776.2
Changes in scope of consolidation	–	–	–	0.4	0.4
Additions	4.8	2.1	0.7	23.4	23.4
Disposals	(60.9)	–	0.2	(50.2)	448.4
Transfers	(3.7)	–	0.6	(3.8)	(3.8)
Exchange differences	–	–	–	0.4	0.4
Balance as of December 31, 2005	127.5	2.1	5.3	292.8	348.2
Net book value as of December 31, 2005	**12.1**	**138.0**	**50.5**	**813.0**	**1,057.3**

Additions to investments accounted for using the equity method in 2006 are primarily due to investments in N.E. Chemcat Corporation, Heesung-Engelhard Corporation and Prodrive Engelhard LLC acquired in connection with the Engelhard acquisition. The disposals in 2005 relate almost entirely to the sale of our 50% stake in Basell.

Additions to investments in affiliated companies in 2005 concern, in particular, BASF Polyurethane Specialties (China) Company Ltd. in the amount of €10.7 million, held by BASF Beteiligungsgesellschaft mbH and BASF Aktiengesellschaft.

The shares in other participations and long-term securities are recognized at fair value.

In 2006, there were no long-term securities sold; in 2005, the disposal of available-for-sale securities generated sales proceeds of €6.4 million and a gain of €0.5 million.

The sale of other participations generated a loss of €0.4 million in 2006. The sale of other participations generated proceeds of €65.2 million and a gain of €7.4 million in 2005. Due to impairments of other participations and long-term securities, write-downs of €3.2 million in 2006 and €8.3 million in 2005 were charged to income.

The market values of available-for-sale long-term securities and shares in other participations are summarized below.

Market values of available-for-sale securities

Million €	2006			2005		
	Original acquisition cost	**Book/ market value**	**Recognized in other comprehensive income**	Original acquisition cost	Book/ market value	Recognized in other comprehensive income
Shares in funds	39.7	39.2	–	4.0	4.0	–
Shares in other participations and securities	208.1	534.2	335.4	221.2	397.4	202.8
	247.8	**573.4**	**335.4**	**225.2**	**401.4**	**202.8**

14. INVENTORIES

Million €	**2006**	2005
Raw materials and factory supplies	1,656.0	1,213.8
Work-in-process, finished goods and merchandise	4,962.0	4,148.5
Advance payments and services-in-process	54.4	67.9
	6,672.4	**5,430.2**

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

Impairment losses on inventory amounted to €2.7 million in 2006 and €3.6 million in 2005. Of the total inventory, €1,528.7 million in 2006 and €1,074.3 million in 2005 was valued at net realizable value. Reversals of impairment losses are made if the reasons for the impairment no longer apply. Reversals amounted to €8.2 million in 2006 and €35.4 million in 2005.

Inventories were valued using the weighted-average cost method.

15. OTHER RECEIVABLES AND MISCELLANEOUS ASSETS

	2006		2005	
Million €	Total	Thereof short-term	Total	Thereof short-term
Receivables from affiliated companies	309.2	308.9	383.8	383.8
Prepaid expenses	189.3	150.5	136.1	123.0
Defined benefit assets	366.9	–	288.3	–
Miscellaneous receivables and other assets	2,354.1	2,147.9	1,302.2	1,079.6
Thereof receivables from associated companies and other participating interests	61.6	56.2	55.7	52.1
Thereof other assets	2,292.5	2,091.7	1,246.5	1,027.5
	3,219.5	**2,607.3**	**2,110.4**	**1,586.4**

Prepaid expenses include prepayments for operating expenses of €30.4 million in 2006 and €32.9 million in 2005 as well as prepayments for insurance premiums of €35.0 million in 2006 and €28.0 million in 2005.

Composition of other assets

Million €	2006	2005
Tax refund claims	406.5	276.7
Loans and interest receivables	28.5	134.0
Deferrals from derivatives	294.3	296.6
Employee receivables	33.3	31.7
Rents and deposits	58.9	55.7
Insurance claims	36.1	12.4
Receivables from joint venture partners	46.0	129.8
Precious metal trading positions	1,006.8	–
Other	382.1	309.6
	2,292.5	**1,246.5**

Precious metal trading positions comprise above all long positions in precious metals, which are largely hedged through sales and derivatives, predominately forward contracts. The derivatives have a positive market value in the amount of €1.8 million. Unhedged precious metal positions are also included in this item.

The prepaid expenses amounted to €5.1 million in 2006 and €3.9 million in 2005.

Valuation allowances for doubtful receivables

Million €	As of January 1, 2006	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2006
Accounts receivable, trade	355.8	85.6	83.6	26.2	30.7	353.3
Miscellaneous receivables	46.5	4.8	5.4	0.4	3.9	42.4
	402.3	**90.4**	**89.0**	**26.6**	**34.6**	**395.7**

Valuation allowances for doubtful receivables

Million €	As of January 1, 2005	Additions affecting income	Reversals affecting income	Additions not affecting income	Reversals not affecting income	Balance as of December 31, 2005
Accounts receivable, trade	336.3	86.2	87.5	38.4	17.6	355.8
Miscellaneous receivables	33.0	16.7	4.6	8.0	6.6	46.5
	369.3	**102.9**	**92.1**	**46.4**	**24.2**	**402.3**

The reversals affecting income resulted mainly from the improved assessment of the creditworthiness of our customers.

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

Contingent assets were immaterial in 2006 and 2005.

16. MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS

Cash and cash equivalents of €834.2 million in 2006 and €907.8 million in 2005 are made up primarily of cash on hand and bank balances.

Additionally, securities in the amount of €55.8 million existed as of December 31, 2006.

Short-term securities

	2006		2005	
Million €	**Original acquisition cost**	**Book/ market value**	Original acquisition cost	Book/ market value
Fixed-term, interest-bearing certificates	15.8	15.7	13.5	13.7
Shares	36.0	39.8	122.0	169.3
Other securities	0.3	0.3	–	–
	52.1	**55.8**	**135.5**	**183.0**

The sale of marketable securities resulted in proceeds of €166.4 million and income of €84.1 million in 2006 and in proceeds of €65.5 million and income of €32.3 million in 2005.

Maturities of fixed-term securities

	2006		2005	
Million €	**Original acquisition cost**	**Book/ market value**	Original acquisition cost	Book/ market value
Less than 1 year	6.0	5.9	–	–
Between 1 and 5 years	7.2	7.2	13.5	13.7
More than 5 years	2.6	2.6	–	–
	15.8	**15.7**	**13.5**	**13.7**

17. CAPITAL AND RESERVES

	Conditional capital		Authorized capital	
Million €	**2006**	2005	**2006**	2005
January 1	411.7	424.0	500.0	500.0
Conditional capital for the stock option program BOP 1999/2000 and the BOP 2001/2005, decrease due to expiration of option rights	(5.3)	(12.3)	–	–
Conditional capital to ensure the exercise of options on BASF shares in the event of the issuance of stock warrants, retirement due to expiry (April 1, 2006)	(384.0)	–	–	–
December 31	**22.4**	**411.7**	**500.0**	**500.0**

Subscribed capital

Million €	Outstanding shares	Subscribed capital	Capital reserves
Outstanding shares as of December 31, 2006	501,090,000	1,282.8	3,141.0
Repurchased shares intended to be cancelled	(1,410,000)	(3.6)	–
Outstanding shares as disclosed in the financial statements	**499,680,000**	**1,279.2**	**3,141.0**

Share buy back / Own shares

The Board of Executive Directors received approval at the Annual Meeting on May 4, 2006, to buy back BASF's shares to a maximum amount of 10% of subscribed capital by November 3, 2007. The shares shall be purchased on the stock exchange or through a public purchase offer addressed to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the highest market price on the buying day and may not be lower than 25% of that market price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 10% higher than the highest market price on the third trading day prior to the publishing of the public purchase offer. This authorization supersedes the prior authorization to repurchase BASF shares granted by the Annual Meeting on April 28, 2005.

In addition, the Board of Executive Directors has been authorized at the Annual Meeting on May 4, 2006 to purchase shares through the use of put and call options. The price paid for options purchased may not exceed the fair value of such options calculated with recognized financial models using the same assumptions, such as strike price, while the price received for written options may be less than such value.

The Board of Executive Directors is authorized to cancel the repurchased shares without the approval of a further resolution at the Annual Meeting. A sale of treasury shares is only authorized after a corresponding resolution at the Annual Meeting, except when, with the approval of the Supervisory Board, the shares are used to acquire companies, parts of companies or participations in companies in return for shares.

In 2006, a total of 14,699,000 shares, or 2.86% of the issued shares, were acquired under the respective approvals. The average purchase price was €63.84 per share. A total of 13,969,000 shares were cancelled by December 31, 2006. Thereof were included 680,000 shares that were acquired in 2005. As of the balance sheet date, 1,410,000 shares of BASF stock were held by BASF. These were acquired for the purpose of cancellation. Therefore, these shares reduce the subscribed capital as of December 31, 2006. BASF spent a total of €938.4 million on the share buy-back program in 2006.

26,062,229 shares, or 4.8% of the issued shares, were acquired in 2005. The average purchase price was €55.05 per share.

Conditional capital

Of the conditional capital, €22.4 million is reserved for the exercise of options from the option program for Board members and senior executives (BOP 2001/2005). In general, the intrinsic value of exercised options is paid out in cash and no shares are issued from conditional capital.

Authorized capital

At the Annual Meeting of April 29, 2004, shareholders authorized the Board of Executive Directors to increase subscribed capital by issuing new shares in an amount of up to €500.0 million against cash or contribution in kind with the approval of the Supervisory Board through May 1, 2009. The Board of Executive Directors is empowered to decide on the exclusion of shareholders' subscription rights for these new shares.

Capital surplus

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

18. RETAINED EARNINGS AND OTHER COMPREHENSIVE INCOME

Million €	2006	2005
Legal reserves	311.0	291.7
Other retained earnings and profit allocated to BASF shareholders	12,990.9	11,636.3
	13,301.9	**11,928.0**

Changes in the scope of consolidation led to a reduction in the legal reserves of €0.4 million in 2006. In 2005, there were no changes. Transfers from other retained earnings and profit retained increased legal reserves by €19.7 million in 2006 and €33.1 million in 2005. The offsetting of actuarial gains and losses resulted in an increase in retained earnings of €112.0 million in 2006 and a reduction in retained earnings of €659.9 million in 2005.

Other comprehensive income

Certain expenses and income have been recorded according to IFRS in other comprehensive income. Included among these items are translation adjustments, valuation of securities at fair value and changes in the fair value of derivatives held to hedge future cash flows.

Translation adjustments

The difference between the net equity of a company calculated at the spot exchange rate at the date of the transaction and at the closing rate is recognized as a translation adjustment in equity and is recorded in income only upon disposal.

Cash flow hedges

In 2006, the acquisition costs of the hedged inventories and related cost of sales were increased by €20.4 million due to basis differences from cash flow hedges. In 2005, there was a reduction of €17.4 million through cash-flow hedges.

The total ineffective portion of all fair value changes of derivatives affecting the income statement amounted to €14.5 million in 2006 and €3.9 million in 2005.

Valuation of securities at fair value

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

19. MINORITY INTERESTS

		2006		2005	
Group company	Partner	Equity stake (%)	Million €	Equity stake (%)	Million €
WINGAS GmbH, Kassel, Germany	Gazprom-Group, Moscow, Russia	35.0	75.1	35.0	81.4
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochemical Corp. Ltd., Nanjing, China	40.0	44.3	40.0	45.3
BASF India Ltd., Mumbai, India	Shares are publicly traded	47.3	29.3	47.3	28.4
BASF Petronas Chemicals Sdn. Bhd., Petaling Jaya, Malaysia	PETRONAS (Petroliam Nasional Bhd.), Kuala Lumpur, Malaysia	40.0	127.9	40.0	117.2
BASF Sonatrach PropanChem S.A., Tarragona, Spain	SONATRACH, Algiers, Algeria	49.0	50.0	49.0	36.9
BASF Fina Petrochemicals Ltd., Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.0	114.3	40.0	124.4
Shanghai BASF Polyurethane Company, Shanghai, China	Shanghai Hua Yi (Group) Company, Shanghai, China and SINOPEC Shanghai Gao Qiao Petrochemical Corporation, Shanghai, China	30.0	43.1	30.0	29.8
Other			46.5		18.4
			530.5		**481.8**

20. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

In addition to state pension plans, most employees are entitled to Company pension benefits from either defined contribution or defined benefit plans. Benefits generally depend on years of service, contributions or compensation, and take into consideration the legal framework of labor and social security laws of the countries where companies are located. To control the risks of changing market conditions, as well as increasing life-expectancies, since 2004 new employees have been increasingly offered defined contribution plans.

For BASF Aktiengesellschaft and other German subsidiaries, a basic level of benefits is provided by the legally independent funded plan, BASF Pensionskasse VVaG, which is financed by contributions of employees and the Company and the return on its assets. In mid-2004, the defined benefit plan of BASF Pensionskasse VVaG was closed and a new defined contribution plan was introduced. To fulfill legal solvency obligations (Section 53c VAG), a contribution of €34.7 million in 2006 and €135.5 million in 2005 was made to the equity of the BASF Pensionskasse, which did not have an impact on the income statement. Additional employee pension commitments at German Group companies are financed almost exclusively via pension provisions.

In December 2005, BASF established a Contractual Trust Arrangement (CTA), "BASF Pensionstreuhand e.V.," and contributed funds of €3,660 million to finance employee pension commitments of BASF Aktiengesellschaft. The funds are administered by this trustee and serve exclusively to finance the pension obligations of BASF Aktiengesellschaft. Since the contributed funds are classified as plan assets according to IAS 19, they are netted against existing pension obligations.

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

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

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

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

	Germany		Foreign	
%	**2006**	2005	**2006**	2005
Discount rate	4.50	4.25	5.31	5.18
Projected increase of wages and salaries	2.50	2.50	4.46	4.55
Projected pension increase	1.75	1.50	0.56	0.51

Assumptions used to determine expenses for pension benefits
(weighted average)

	Germany		Foreign	
%	**2006**	2005	**2006**	2005
Interest rate	4.25	5.25	5.42	5.58
Projected increase of wages and salaries	2.50	2.50	4.48	3.80
Projected pension increase	1.50	1.50	0.49	0.51
Expected return on plan assets	4.92	5.16	7.71	8.21

Similar obligations refer to commitments by BASF's North American Group companies to provide for the costs of medical and life insurance benefits for employees and eligible dependents after retirement. They are based upon an actuarial valuation, considering the future cost trend and a discount rate of 5.75%.

The assumptions regarding the overall expected long-term rate of return are based on forecasts of expected individual asset class returns and the desired portfolio structure. The forecasts are based on long-term historical average returns and take into consideration the current yield level and the inflation trend. In 2006, the interest rate was adjusted to account for developments in the capital markets.

Plan asset portfolio structure

	Target allocation	Plan assets	
%	2007	**2006**	2005
Equities	35	39	31
Debt securities	53	51	30
Real estate	5	3	3
Other	7	7	36
Total	**100**	**100**	**100**

The high percentage of assets under other in 2005 is due to the inclusion of BASF Pensionstreuhand e.V. for the first time. Funds contributed in December 2005 were first placed on deposit, and were invested according to the target asset allocation in 2006.

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

Development of the defined benefit obligation

Million €	2006	2005
Defined benefit obligation as of January 1	11,907.5	9,814.1
Service cost	262.7	192.7
Interest cost	541.9	527.4
Benefits paid	(631.8)	(566.0)
Participants' contributions	40.0	39.3
Change in actuarial assumptions	(57.0)	1,530.4
Acquisition-related effects	938.9	71.7
Settlements and other plan changes	(61.9)	5.5
Exchange rate changes	(246.9)	292.4
Defined benefit obligation as of December 31	**12,693.4**	**11,907.5**

Development of plan assets

Million €	2006	2005
Plan assets as of January 1	11,015.2	6,204.3
Expected return on plan assets	619.4	421.7
Difference between expected and actual returns	158.9	438.4
Employer contributions	187.7	244.5
One-time contribution to fund the CTA by BASF AG	–	3,660.0
Participants' contributions	40.0	39.3
Benefits paid	(404.6)	(336.2)
Acquisition-related effects	697.1	62.6
Other changes	(19.8)	26.4
Exchange rate changes	(215.4)	254.2
Plan assets as of December 31	**12,078.5**	**11,015.2**

The pension funds held securities issued by BASF Group companies, whose total market value amounted to €11.9 million on December 31, 2006 and €13.4 million on December 31, 2005. The market value of real estate held by BASF pension funds and rented to BASF Group companies amounted to €47.3 million as of December 31, 2006 and €43.8 million as of December 31, 2005. No material transactions took place between the pension funds and BASF group companies in 2006.

The carrying amounts in the balance sheet are as follows:

Reconciliation of the defined benefit obligation to the provisions for pensions and similiar obligations

Million €	2006	2005
Defined benefit obligation as of December 31	12,693.4	11,907.5
Less plan assets as of December 31	12,078.5	11,015.2
Funded status	**614.9**	**892.3**
Unrecognized past service cost	0.1	(2.7)
Asset ceiling in accordance with IAS 19.58	10.0	1.9
Capitalized defined benefit asset	366.9	288.3
Provisions for pensions	**991.9**	**1,179.8**
Similar obligations	460.1	366.8
Provisions for pensions and similar obligations	**1,452.0**	**1,546.6**

Actuarial gains and losses are recognized directly in retained earnings in the reporting period in which they occur. Past service costs are amortized over the average service period of the entitled employees until the benefits become vested.

€159.6 million in actuarial gains were charged to retained earnings in 2006 and €1,075.9 million in actuarial losses in 2005. Since the introduction of this accounting policy, a total actuarial loss of €1,280.8 million has been charged against retained earnings, not taking deferred taxes into account.

Current funding situation of the plan

	2006		2005	
Million €	**Defined benefit obligation**	**Plan assets**	Defined benefit obligation	Plan assets
Unfunded pension plans	676.0	–	606.3	–
Partially funded pension plans	2,872.3	2,586.4	7,299.2	6,758.5
Total of pension plans that are not fully funded	**3,548.3**	**2,586.4**	**7,905.5**	**6,758.5**
Fully funded pension plans	9,145.1	9,492.1	4,002.0	4,256.7
	12,693.4	**12,078.5**	**11,907.5**	**11,015.2**

The transfer between plans that are partially funded and plans that are fully funded was mainly due to changes in the BASF Pensionskasse VVaG.

Differences between actuarial assumptions and the actual development

Million €	**2006**	2005	2004
Defined benefit obligation	12,693.4	11,907.5	9,814.1
Thereof impact of experience adjustments	(59.2)	19.5	22.6
Plan assets	12,078.5	11,015.2	6,204.3
Thereof impact of experience adjustments	158.9	438.4	192.8
Funded status	**614.9**	**892.3**	**3,609.8**

Expected payments resulting from pension obligations existing as of December 31, 2006

	Million €
2007	652.5
2008	642.7
2009	654.6
2010	685.9
2011	696.8
2012 through 2016	3,721.7

Composition of expenses for pension benefits

Million €	2006	2005
Service cost	262.7	192.7
Amortization of past service cost	2.4	1.9
Settlement gains / losses	(40.4)	(3.6)
Expenses for similar obligations	2.4	0.1
Expenses for defined benefit plans charged to income from operations	**227.1**	**191.1**
Interest cost	541.9	527.4
Expected return on plan assets	(619.4)	(421.7)
Expenses for similar obligations	21.4	15.1
Expenses / (Income) from defined benefit plans in the financial result	**(56.1)**	**120.8**
Expenses for defined contribution plans	**59.6**	**51.7**
Expenses for pension benefits	**230.6**	**363.6**

The estimated contribution payments for defined benefit plans for 2007 are €128.3 million. In addition, contributions to public pension plans were €354.1 million in 2006 and €317.7 million in 2005.

21. OTHER PROVISIONS

	2006		2005	
Million €	Total	Thereof short-term	Total	Thereof short-term
Recultivation obligations	649.4	16.7	589.4	0.2
Environmental protection and remediation costs	271.5	67.4	252.9	63.8
Personnel costs	1,749.9	1,037.3	1,599.2	929.0
Sales and purchase risks	1,064.5	996.0	919.0	917.0
Restructuring costs	154.8	140.0	266.3	241.8
Legal, damage claims, guarantees and related commitments	200.0	119.2	446.9	238.3
Other	1,838.0	471.7	1,480.0	372.4
	5,928.1	**2,848.3**	**5,553.7**	**2,762.5**

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

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

The **personnel cost** provision includes obligations to grant long-service bonuses and anniversary payments, variable compensation including related social security contributions and other accruals as well as provisions for early retirement programs for employees nearing retirement. BASF's German Group companies have various programs that entitle employees who are at least 55 years old to reduce their working hours to 50% for up to six years. Under such arrangements, employees generally work full time during the first half of the transition period and leave the Company at the start of the second half. Employees receive a minimum 85% of their net salary throughout the transition period.

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

Restructuring costs provisions include severance payments to employees as well as specific site shutdowns or restructuring costs, including the costs for demolition and similar measures. Additions in 2006 consist primarily of restructuring measures in the Fine Chemicals division. Additions in 2005 comprised personnel measures at the Ludwigshafen site, restructuring measures in North America (NAFTA) and restructuring expenses within the Agricultural Products & Nutrition segment.

Provisions were reduced in 2006 and 2005 due to restructuring measures initiated in the prior year and, in 2006, especially due to severance payments.

Provisions for **legal, damage claims, guarantees and related commitments** include the expected costs of litigation, obligations under damage claims, other guarantees and for antitrust proceedings. The reversal carried out in 2006 results mainly from the termination of the European Commission's investigation against BASF and other producers of methacrylates and polymethacrylates (see Note 24) and the provisions for guarantees and retained risks from the sale of the pharmaceuticals business.

Other also includes long-term tax provisions. These relate to amounts accrued for expected tax payments as well as risks associated with tax audits.

Other changes in the amount of €142.3 million contain increases in provisions due to acquisitions and changes in the scope of consolidation. Counteracting this are currency effects and the transfer to liabilities of obligations that have become more concrete as to amount and timing.

Provisions developed as follows:

Development of other provisions

Million €	January 1, 2006	Additions	Interest compounding	Utilization	Reversals	Other changes	December 31, 2006
Recultivation obligations	589.4	85.8	17.1	(17.6)	(30.3)	5.0	649.4
Environmental protection and remediation costs	252.9	85.1	2.7	(45.9)	(17.8)	(5.5)	271.5
Personnel costs	1,599.2	1,159.6	18.0	(878.0)	(92.3)	(56.6)	1,749.9
Sales and purchase risks	919.0	1,242.7	.	(1,007.7)	(74.6)	(14.9)	1,064.5
Restructuring costs	266.3	72.7	0.4	(163.8)	(25.3)	4.5	154.8
Legal, damage claims, guarantees and related commitments	446.9	39.3	8.9	(105.3)	(160.8)	(29.0)	200.0
Other	1,480.0	891.3	5.1	(513.7)	(126.3)	101.6	1,838.0
	5,553.7	**3,576.5**	**52.2**	**(2,732.0)**	**(527.4)**	**5.1**	**5,928.1**

22. LIABILITIES

Financial indebtedness

Million €	Nominal volume	Effective interest rate	Carrying amounts based on effective interest method 2006	2005
3.5% Euro Bond 2003/2010 of BASF Aktiengesellschaft	1,000	3.63 %	995.7	994.8
3.375% Euro Bond 2005/2012 of BASF Aktiengesellschaft	1,400	3.42 %	1,396.8	1,396.0
4% Euro Bond 2006/2011 of BASF Aktiengesellschaft	1,000	4.05 %	998.2	–
4.5% Euro Bond 2006/2016 of BASF Aktiengesellschaft	500	4.62 %	495.6	–
3-Month EURIBOR Bond 2006/2009 of BASF Aktiengesellschaft	500	variable	499.7	–
Other bonds			613.8	308.9
Commercial paper			3,219.3	–
Bonds and other liabilities to the capital markets			**8,219.1**	**2,699.7**
Liabilities to credit institutions			1,264.0	1,241.3
			9,483.1	**3,941.0**

Breakdown of financial liabilities by currency

Million €	2006	2005
U.S. dollar	4,250.1	718.9
Euro	4,545.1	2,631.9
Malaysian ringgit	18.3	16.3
Brazilian real	125.4	2.0
Chinese renminbi	504.3	529.1
Other	39.9	42.8
	9,483.1	**3,941.0**

Maturities of financial liabilities

Million €	2006	2005
Following year 1	3,694.9	259.3
Following year 2	43.7	12.3
Following year 3	694.4	97.8
Following year 4	1,062.1	45.7
Following year 5	1,058.0	1,041.3
Following year 6 and thereafter	2,930.0	2,484.6
	9,483.1	**3,941.0**

Bonds and other liabilities to the capital markets

Other bonds consist primarily of industrial revenue and pollution control bonds that are used to finance investments in the United States. In addition, bonds with a value of €299.2 million were assumed in connection with the acquisition of Engelhard Corp. The weighted-average interest rate was 3.8% in 2006, and 2.7% in 2005. The weighted-average effective interest rate was 3.8% in 2006, and 2.7% in 2005. The average maturity amounted to 214 months as of December 31, 2006 and 317 months as of December 31, 2005.

Liabilities to credit institutions

Liabilities to credit institutions relate to a large number of different credit institutions in various countries. Liabilities to credit institutions denominated in ringgit and renminbi result from the local financing of investments in Malaysia and China.

BASF Aktiengesellschaft had committed and unused credit lines with variable interest rates of €4,898.3 million as of December 31, 2006, and €2,119.2 million as of December 31, 2005. Additional uncommitted credit lines of BASF Aktiengesellschaft amounted to €227.0 million as of December 31, 2006, and €227.0 million as of December 31, 2005 - these are free of any commitment fees.

The weighted-average interest rate on borrowings was 6.1% on December 31, 2006 and 4.7% on December 31, 2005.

Liabilities to companies in which participations are held include the proportionate amount of liabilities of joint venture companies accounted for using the proportional consolidation method of €110.5 million as of December 31, 2006 and €80.0 million as of December 31, 2005. Further liabilities relating to associated companies accounted for using the equity or cost method were €190.0 million as of December 31, 2006 and €253.1 million as of December 31, 2005.

Maturities of liabilities

	2006			2005		
Million €	**Less than 1 year**	**1-5 years**	**More than 5 years**	Less than 1 year	1-5 years	More than 5 years
Accounts payable, trade	**4,754.7**	**–**	**–**	**2,777.0**	**–**	**–**
Bonds and other liabilities to the capital market	3,219.3	2,596.8	2,403.0	–	1,009.0	1,690.7
Liabilities to credit institutions	475.6	261.4	527.0	259.3	188.0	794.0
Financial indebtedness	**3,694.9**	**2,858.2**	**2,930.0**	**259.3**	**1,197.0**	**2,484.7**
Advances received on orders	108.6	–	–	121.3	–	–
Liabilities on bills	46.6	3.4	–	45.0	2.5	–
Liabilities relating to social security	136.4	18.3	–	174.0	0.1	–
Non-trade liabilities to joint venture partners	187.5	182.8	382.8	116.9	93.0	473.1
Derivative instruments	149.3	30.9	–	154.0	31.4	–
Liabilities arising from finance leases	15.3	55.5	34.1	15.9	50.0	51.6
Miscellaneous liabilities	1,052.9	66.0	1.3	985.2	75.1	87.4
Deferred income	127.1	196.5	–	86.7	178.6	–
Other liabilities	**1,823.7**	**553.4**	**418.2**	**1,699.0**	**430.7**	**612.1**
	10,273.3	**3,411.6**	**3,348.2**	**4,735.3**	**1,627.7**	**3,096.8**

Finance leasing liabilities are detailed in Note 27.

Secured liabilities and contingent liabilities

Million €	**2006**	2005
Liabilities to credit institutions	6.6	4.2
Other liabilities	6.9	7.1
Contingent liabilities	-	–
	13.5	**11.3**

Certain liabilities were secured with mortgages on land and €6.9 million of securities were pledged as collateral. In addition, BASF Aktiengesellschaft has given covenants in favor of BASF Pensionskasse VVaG with regard to adhering to certain balance sheet ratios.

23. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The contingencies listed below are stated at nominal value:

Contingent liabilities

Million €	2006	2005
Bills of exchange	10.7	8.9
Thereof to affiliated companies	–	0.3
Guarantees	330.4	330.8
Thereof to affiliated companies	70.0	50.6
Warranties	35.8	93.8
Granting collateral on behalf of third-party liabilities	16.3	12.7
	393.2	**446.2**

Other financial obligations

Million €	2006	2005
Remaining cost of construction in progress	2,422.7	1,927.8
Thereof purchase commitment	687.2	692.2
Thereof for the purchase of intangible assets	18.8	2.2
Obligation arising from long-term leases (excluding financing leases)	1,281.0	827.4
Payment and loan commitments and other financial obligations	7.5	92.4
	3,711.2	**2,847.6**

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

	Million €
2007	329.9
2008	182.2
2009	142.8
2010	107.2
2011	86.9
2012 and thereafter	432.0
	1,281.0

Property, plant and equipment used under long-term leases primarily concern buildings and IT infrastructure. Finance leasing obligations are explained in detail in Note 27.

Purchase commitments for raw materials and natural gas from long-term contracts

The Company has entered into long-term purchase contracts for natural gas, which are subject to continual price adjustments. These obligations to purchase relate to long-term supply contracts with customers with terms between one and 13 years.

The Company purchases raw materials, both on the basis of long-term contracts and on spot markets. The fixed purchase obligations of long-term purchase contracts with a remaining term of more than one year as of December 31, 2006, are as follows:

Purchase obligations from natural gas and raw material supply contracts

	Million €
2007	11,055.4
2008	7,831.7
2009	6,849.7
2010	5,658.7
2011	5,062.4
2012 and thereafter	38,122.9
	74,580.8

24. RISKS FROM LITIGATION AND CLAIMS

Administrative Proceedings and Litigation Relating to Vitamins

On November 21, 2001, the European Commission imposed a fine of €296.2 million against BASF Aktiengesellschaft in connection with certain violations of antitrust laws relating to the sale of vitamin products in the European Union between 1989 and early 1999. On appeal of BASF, the European Court of First Instance in a decision dated March 15, 2006 reduced the fine to €236.8 million. On December 9, 2004, the European Commission imposed an additional fine of €35 million for violations of certain antitrust laws relating to the sale of vitamin B4 (choline chloride) in the mid-1990s. BASF has also appealed against this decision. Further proceedings are still pending in Brazil.

One State court lawsuit on behalf of indirect purchasers is still pending in the United States in connection with said antitrust law violations. Further claims for damages have been filed in the United Kingdom.

For these proceedings, the company has established provisions that it anticipates to be sufficient based on our current state of knowledge.

BASF Aktiengesellschaft was named as a defendant in Empagran S.A. et al vs. F. Hoffmann-LaRoche, Ltd, et al., a federal class action filed in the U.S. District Court for the District of Columbia purportedly on behalf of all persons who purchased vitamins from the defendants outside the United States between January 1, 1988 and February 1999. The Empagran complaint alleged that the plaintiffs were overcharged on their vitamins purchases as the result of a worldwide conspiracy among the defendants to fix vitamin prices. By decision dated June 7, 2001, the District Court for the District of Columbia dismissed the Empagran complaint for lack of subject matter jurisdiction. On January 17, 2003, a divided panel of the United States Court of Appeals for the District of Columbia Circuit reversed the District Court's ruling. The Court of Appeals held that the United States antitrust laws permit the assertion of federal subject matter jurisdiction over claims by foreign purchasers based on purchases made and purported damages felt outside the United States. BASF Aktiengesellschaft and the other defendants petitioned for a Writ of Certiorari to the United States Supreme Court. The Supreme Court granted the petition, and on June 14, 2004, vacated the Court of Appeals' ruling and remanded the case to the Court of Appeals by an 8-0 decision. On June 28, 2005, the Court of Appeals, on remand, ruled that plaintiffs' alleged link between foreign injury and domestic effects was legally insufficient to trigger jurisdiction under the Sherman Act and therefore affirmed the district court's dismissal of the action. On October 26, 2005, plaintiffs filed a new petition for a writ of certiorari to the U.S. Supreme Court. The Supreme Court denied the plaintiffs' petition January 6, 2006. An attempt by the plaintiffs to once again bring the case before the district court was denied. The proceedings are, therefore, terminated and the case is finally dismissed.

Other Proceedings

In 2005, several class action lawsuits against BASF Aktiengesellschaft and BASF Corporation were filed at U.S. courts. It was alleged that sales of TDI, MDI and polyether polyols had violated antitrust laws. BASF is defending itself against these lawsuits.

In February 2006, the U.S. Department of Justice served a Grand Jury subpoena upon BASF Corporation requesting the presentation of documents relating to the sale of TDI, MDI, polyether polyols and related systems during the period of 1999 through the present. BASF Corporation is cooperating with the U.S. Department of Justice in this regard.

In August 2005, the European Commission issued Statements of Objections against several European producers of methacrylates and polymethacrylates for alleged anticompetitive behavior between 1995 and 2000, inter alia against BASF Aktiengesellschaft. In May 2006, the European Commission terminated the investigation against BASF Aktiengesellschaft without imposing any fine.

BASF Corporation, Bayer Corporation and Bayer CropScience Corporation have been sued by a number of plaintiffs for damages because of alleged price fixing in the distribution of the termiticides Premise® (Bayer) and Termidor® (BASF) in the United States. The plaintiffs contend that BASF and Bayer have each engaged in unlawful resale price maintenance resulting in overcharges to plaintiffs purchasers who are professionals in termite control. The plaintiffs are suing for trebled damages of $600 million. BASF maintains that its pricing was lawful because its sales were through agency agreements rather than through distributors and therefore the claims are without merit.

In July 2006, the US-company Moncrief Oil International has filed a declaratory action against BASF Aktiengesellschaft and its subsidiary Wintershall AG at the District Court of Frankenthal. Moncrief seeks to have declared null and void agreements concluded or to be concluded between BASF/Wintershall and Gazprom in connection with the proposed joint exploitation of the Russian gas field Yuzhno Russkoye. Subject matter of the action is Moncrief's allegation that BASF/Wintershall had unlawfully induced Gazprom to violate alleged contracts between subsidiaries of Gazprom and Moncrief. Moncrief is alleging to incur damages in the amount of several billion U.S. dollars, if it should be excluded from the exploitation of the gas field. BASF/Wintershall are of the opinion that all claims are without any merit. The negotiations of BASF/Wintershall with Gazprom where at no time directed against Moncrief Oil International. On December 14, 2006, first oral arguments were held in front of the district court. The district court set the next hearing for oral arguments for May 31, 2007.

25. BASF STOCK OPTION PROGRAM (BOP) – AND BASF INCENTIVE SHARE PROGRAM "PLUS"

Stock-based compensation

In 2006, BASF continued the BASF stock option program (BOP) for senior executives of the BASF Group. This program has existed since 1999. Approximately 1,000 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program.

To participate in the stock option program, each participant must hold as a personal investment BASF shares in the amount of 10% to 30% of his or her individual variable compensation. The number of shares to be held is determined by the amount of variable compensation designated by the participant and the weighted-average market price for BASF shares on the first business day after the Annual Meeting, which was €68.19 on May 5, 2006 (base price).

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

The options were granted on July 1, 2006 and may be exercised following a two-year vesting period, between July 1, 2008 and June 30, 2014. During the exercise period, it is not possible to exercise options during certain periods (blackout periods). Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right lapses. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment and will be generally settled in cash.

The stock option programs BOP 2000-2005 were structured in a similar way to BOP 2006. To participate in the BOP program, each participant must hold BASF shares in the amount of 10% to 30% of his or her individual variable compensation (BOP 2001–2005) or must make an individual investment in BASF shares in the amount of 10% to 30% of his or her individual variable compensation that is used to purchase BASF shares at the market price on the first business day after the Annual Meeting (BOP 2000). The options may be exercised following a vesting period of two years (BOP 2001–2005) or three years (BOP 2000).

The benchmark index used to determine the value of right B for BOP 2000 is the Dow Jones EURO STOXX℠ Total Return Index (EURO STOXX℠). This was replaced by the Dow Jones Chemicals Total Return Index (DJ Chemicals) between 2001 and 2004, and starting in 2005 by the MSCI Chemicals. The MSCI Chemicals is a global industry index for the chemical industry that measures the performance of the companies contained within it in their respective local currencies, which significantly reduces currency effects.

The model used in the valuation of the share option plans is based on the arbitrage-free valuation model according to Black–Scholes. Due to the complexity of the option programs, a numerical solution method was used (Monte Carlo simulation). Details on the fair value and the number of options issued are described below.

Fair value and assumptions used as of December 31, 2006[1]

	BASF stock option program	
	2006	2005
Fair value	€26.27	€34.65
Dividend yield	2.71%	2.71 %
Risk-free interest rate	3.95%	3.94 %
Volatility BASF shares	23.35%	22.68 %
Volatility MSCI Chemicals	16.19%	16.19 %
Correlation BASF share price: MSCI Chemicals	84.46%	84.46 %

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

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

Options outstanding

	2006		2005	
	Weighted-average base price (€)	**Options (Number)**	Weighted-average base price (€)	Options (Number)
Options outstanding as of January 1	45.83	5,400,609	43.64	4,643,465
Options granted	68.19	1,701,884	50.03	1,807,800
Options expired and forfeited[1]	50.96	44,144	43.79	66,950
Options exercised	44.26	985,306	43.36	983,706
Options outstanding as of December 31	**52.31**	**6,073,043**	**45.83**	**5,400,609**
Thereof exercisable options	43.50	2,589,231	44.16	2,493,669

[1] Option rights are forfeited if the option holders no longer work for BASF or have sold part of their individual investment before the two-year holding period. They remain valid in the case of retirement.

The weighted-average maturity of the outstanding options was 5.77 years on December 31, 2006 and 5.86 years on December 31, 2005. The base prices were within a range of €38.94 to €68.19 in 2006, and €38.94 to €50.03 in 2005. Because of a resolution by the Board of Executive Directors in 2002, to generally settle stock options in cash, options outstanding as of December 31, 2006 are valued with the fair value as of the balance sheet date. This amount is accrued as a provision over the respective vesting period. Because of this, an amount of €67.3 million was charged to income as a personnel expense in 2006 and €56.2 million was charged in 2005. Provisions were increased from €108.8 million on December 31, 2005 to €147.2 million on December 31, 2006.

The total intrinsic value of exercisable options amounted to €88.9 million on December 31, 2006 and €55.0 million on December 31, 2005.

BASF “plus” incentive share program

In 1999, BASF started an incentive share program called “plus” for all eligible employees except the senior executives entitled to participate in the BOP. Currently, employees of German and of various European and Mexican subsidiaries are entitled to participate in the program. Each participant must make an individual investment in BASF shares from his or her variable compensation. For every 10 BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and 10 years of holding the BASF shares. The first 10 shares entitle the participant to receive one BASF share at no extra cost for each year for the next ten years. The right to receive free BASF shares lapses if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement.

Details on the incentive share program are described below.

Number of BASF shares held under the program

	2006	2005
As of January 1	2,795,130	2,405.230
Number of shares added to the individual investment	539,190	565,000
Number of subscription rights lapsed	(166,535)	(175,100)
As of December 31	**3,167,785**	**2,795.130**

The free shares to be provided by the company are valued at the fair value on the grant date. Fair value is determined on the basis of the stock price of BASF shares, taking into account the present value of dividends, which are not paid during the term of the program. The weighted-average fair value at grant date amounted to €58.06 for the program in 2006 and €39.57 for the program in 2005.

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

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

Compensation cost of €13.4 million was recorded in 2006 and €12.2 million in 2005 for the employee stock program.

26. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The use of derivative instruments

The Company is exposed to foreign currency, interest rate and commodity price risks during the normal course of business. These risks are hedged through a centrally determined strategy with the use of derivative instruments. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities. Derivative instruments are only used to hedge corresponding underlying positions or planned transactions arising from the operating business, cash investments, financing or planned sales. The leverage effect that can be achieved with derivatives is consciously not used. The derivative instruments held by the Company are not held for the purpose of trading.

Where derivatives have a positive market value, the Company is exposed to credit risks in the event of nonperformance of their counterparts. This credit risk is minimized by trading contracts exclusively with major creditworthy financial institutions and partners, within predefined credit limits.

To ensure efficient risk management, market risks are centralized at BASF Aktiengesellschaft, except when certain subsidiaries have been authorized to conclude derivative contracts under the principles mentioned above. Contracting and execution of these instruments is performed according to internal guidelines, and complies with strict control mechanisms.

The risks arising from changes in exchange rates, interest rates, and prices as a result of the underlying transactions and the derivative transactions concluded to hedge them are monitored constantly.

Financial risks

Foreign currency risk: Changes in foreign exchange rates could lead to a decline in value in financial instruments. Foreign currency risks are especially prevalent in receivables and payables that are not denominated in the local currency of BASF Group companies, or for future foreign currency transactions. To hedge foreign exchange risks, foreign exchange forward contracts and currency options are used, especially against the U.S. dollar, the British pound, the Brazilian real, and the Korean won.

Default and credit risk: This is the risk that the counterparties do not fulfill their contractual obligations. The book value of all financial assets plus the nominal value of contingent liabilities excluding potential warranty obligations represents the maximal default risk.

Due to the global activities and diversified customer structure of the BASF Group, there is no significant concentration of default risk.

Interest rate risk: Interest rate risks result from changes in prevailing market interest rates, which can cause a change in the present value of fixed-rate instruments, as well as a change in the interest payments of variable-rate instruments. To hedge this risk, and in particular to hedge the risk for loans to Group companies, interest rate swaps, and combined interest and currency derivatives are used. These risks are relevant in the case of investments and financial obligations but are not of material significance on the operating side.

Risks from commodity positions: In certain cases, BASF holds large commodity positions in base and precious metals whose value is exposed to market price volatility. These positions could also encompass derivative instruments. They are subject to a permanent internal control and are only entered into within set limits and exposure constraints. In addition, BASF uses commodity derivatives to hedge against price volatility in the procurement of raw materials and in natural gas trading.

Book value of interest-bearing financial instruments

	December 31, 2006		December 31, 2005	
Million €	Fixed-interest rate	Variable-interest rate	Fixed-interest rate	Variable-interest rate
Loans	149.9	142.6	148.9	51.7
Securities	15.7	–	13.7	–
Financial indebtedness	8,124.6	1,358.5	2,831.3	1,109.7

Fair value of financial instruments

The fair value of a financial instrument is the price at which the instrument could be exchanged or settled between unrelated parties. When pricing on an active market is available, for example on a stock exchange, this price is used. In other cases, a valuation is based on an internal valuation model using current market parameters. Commonly used techniques include net present value and option pricing models. The fair value of financial debt is determined on the basis of interbank interest rates.

For trade accounts receivable and other financial assets, marketable securities, cash and cash equivalents as well as trade accounts payable and other financial liabilities, the book value approximates the fair value. Participations which are not traded on an active market and whose net present value could not be reliably determined are contained within "other financial assets." These are therefore carried at cost, as the best approximation of the market value. The book value of these participations amounts to €856.6 on December 31, 2006, and €606.8 on December 31, 2005. The book value of financial indebtedness amounted to €9,483.1 million in 2006 and €3,941.0 million in 2005. The market value of financial indebtedness amounted to €9,430.5 million in 2006 and €3,963.4 million in 2005. The difference between book and market values resulted primarily due to changes in market interest rates.

Derivative instruments

	Nominal value as of December 31		Market value as of December 31	
Million €	**2006**	2005	**2006**	2005
Foreign currency contracts	13,713.4	5,675.5	101.9	35.1
Currency options	1,231.8	3,407.3	43.8	(33.5)
Foreign currency derivatives	**14,945.2**	**9,082.8**	**145.7**	**1.6**
Interest swaps	284.9	199.1	(5.3)	(2.4)
Combined interest and currency swaps	334.3	1,438.5	11.6	127.8
Interest derivatives	**619.2**	**1,637.6**	**6.3**	**125.4**
Commodity derivatives / Other derivatives	**12,441.0**	**873.7**	**(36.1)**	**(15.8)**

Forward exchange contracts generally mature within one year.

The nominal values are the totals of the purchases and sales of the particular derivatives on a gross basis. The fair market values correspond to resale or termination values, which are determined from market quotations or by the use of option pricing models or, in the case of unlisted contracts, the termination amount in the event of premature cancellation. Offsetting changes in the valuation of the underlying transactions are not included.

Positive fair values of derivatives are contained within the item other receivables in the amount of €296.1 million in 2006 and €296.6 million in 2005. Negative fair values in the amount of €180.2 million in 2006 and €185.4 million in 2005 are shown under other liabilities.

Commodity derivatives with a fair value of €(25.8) million are used in line with cash flow hedge accounting to hedge prices for raw materials, such as naphtha. The hedged raw materials will most likely impact the cash flow and income statement in 2007.

27. LEASING

Leased assets

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

Leased assets

Million €	2006 Acquisition cost	2006 Net book value	2005 Acquisition cost	2005 Net book value
Land, land rights and buildings	34.8	23.8	78.9	63.0
Machinery and technical equipment	205.0	131.2	114.6	65.3
Miscellaneous equipment and fixtures	76.4	23.1	83.5	28.0
Advance payments and construction in progress	–	–	–	–
	316.2	**178.1**	**277.0**	**156.3**

Liabilities from financing leases

Million €	2006 Minimum leasing payments	2006 Interest portion	2006 Leasing liability	2005 Minimum leasing payments	2005 Interest portion	2005 Leasing liability
Following year 1	21.6	6.3	15.3	22.9	7.0	15.9
Following year 2	19.7	5.9	13.8	20.6	6.6	14.0
Following year 3	18.2	5.5	12.7	18.7	6.2	12.5
Following year 4	18.3	5.0	13.3	17.0	5.8	11.2
Following year 5	21.5	5.8	15.7	17.7	5.4	12.3
Over 5 years	52.0	17.9	34.1	77.5	25.9	51.6
	151.3	**46.4**	**104.9**	**174.4**	**56.9**	**117.5**

Additional payments arise from contractual obligations. In 2005, less than €0.1 million in additional lease payments above the minimum lease expense were recorded in income. In the current year, there were no such payments.

Offsetting these leasing liabilities, expected minimum lease payments from sub-leases amounted to €2.5 million in 2006 and less than €0.1 million in 2005.

In addition, BASF is a lessee under operating leases. The resulting lease obligations totaling €1,281.0 million in 2006 and €827.4 million in 2005 are due in the following years:

Commitments due to operating lease contracts

Million €	Nominal value of the future minimum payments as of December 31: 2006	2005
Less than 1 year	329.9	171.9
1–5 years	519.1	391.5
Over 5 years	432.0	264.0
	1,281.0	**827.4**

In 2006, leases for precious metals of €106.2 million are included in commitments due to operating lease contracts of less than one year. These metals were immediately leased to third parties.

Offsetting the other leasing commitments are expected minimum lease payments from sub-lessees of €13.3 million in 2006 (2005: €13.9 million). Minimum lease payments of €234.4 million (prior year: €183.6 million), conditional lease payments of €0.8 million (prior year: €0.6 million), and payments received from sub-leases of €3.7 million (prior year: €3.3 million) are included in income from operations in 2006.

BASF as lessor

BASF acts as both a lessee and a lessor under finance leasing. BASF acts as a lessor in a minor capacity only for financing leases. Receivables on financing leases were €0.3 million in 2006 and less than €0.5 million in 2005. In 2006, nominal minimum payments arising from operating leases amount to €113.9 million within one year, and €25.7 million within the next five years. For 2005, these figures amounted to €7.3 million within one year, and €27.2 million within the next five years.

Precious metal accounts of €639.3 million continue to be held for customers where the metals are stored physically at BASF.

28. COMPENSATION FOR THE BOARD OF EXECUTIVE DIRECTORS AND SUPERVISORY BOARD OF BASF AKTIENGESELLSCHAFT

Million €	2006	2005
Board of Executive Directors' compensation		
Performance-related and fixed payments	19.2	15.3
Market value of options granted in the fiscal year on date of grant	3.4	5.6
Pension benefits	4.7	3.7
Supervisory Board's compensation	4.1	3.4
Total compensation of former members of the Board of Executive Directors and their surviving dependents	6.0	5.8
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	75.1	77.7
Loans to members of the Board of Executive Directors and the Supervisory Board	–	–
Guarantees to members of the Board of Executive Directors and the Supervisory Board	–	–

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

On January 1, 2006, the Board consisted of 9 members (2005: 8). In addition, two Board members were delegated abroad (2005: 1 member), which resulted in a noticeable increase in delegation-related expenses. On a comparable basis, cash compensation rose by 8.5% over the 2005 level.

Moreover, in 2006, the members of the Board of Executive Directors were granted 184,156 options under the BASF stock option program.

Option rights of active and former members of the Board resulted in personnel expenses of €8.4 million (2005: €6.3 million).

The individual compensation of the members of the Board of Executive Directors and the Supervisory Board are reported in the Compensation Report on pages 85 to 89 of Management's Analysis.

The members of the Board of Executive Directors and the Supervisory Board as well as their memberships on other supervisory boards are shown on pages 81 to 84.

29. RELATED-PARTY TRANSACTIONS

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

Material supply relationships exist between the proportionally consolidated joint venture companies Wintershall Erdgas Handelshaus GmbH & Co. KG, Berlin, Germany, Wintershall Erdgas Handelshaus Zug AG, Zug, Switzerland, and companies of the BASF Group for the supply of oil and gas. The unconsolidated portion of these supplies amounted to €765.5 million in 2006 and €632.1 million in 2005.

In 2005, a material supply relationship existed between the BASF Group and the Basell Group, which was accounted for by the equity method until August 2005. Deliveries to the Basell Group totaled €284.8 million in 2005. All transactions were at arm’s length.

Please see Notes 15 and 22 for details regarding receivables and payables with companies accounted for proportionally, at acquisition cost or according to the equity method.

30. SERVICES PROVIDED BY THE EXTERNAL AUDITOR

BASF Group companies have used the following services from KPMG in 2006 and Deloitte in 2005:

Million €	2006	2005
Annual audit	23.9	12.8
Thereof domestic	8.1	4.4
Audit-related services	0.2	5.1
Thereof domestic	0.1	2.0
Tax consultation services	0.2	0.9
Thereof domestic	–	0.2
Other services	0.8	0.5
Thereof domestic	0.8	–
	25.1	**19.3**

The annual audit concerned the audit of the annual financial statements of the BASF Group as well as the legally required audit of the financial statements of BASF Aktiengesellschaft and the consolidated subsidiary companies and joint ventures. The increase in 2006 results from the audit of the newly acquired companies and the initial audit of numerous consolidated subsidiaries by the external auditor of the BASF Group.

Audit-related services primarily concern billed services for confirmations of the conformance with certain contractual obligations.

Tax consultation services relate to numerous consulting assignments.

Other services primarily concern amounts billed in connection with divestment projects.

Glossary

acrylic monomers
Acrylic monomers are part of the product range of the Functional Polymers division and are used among other things as starting materials in the production of polymer dispersions.

Agricultural Products
The Agricultural Products division develops, produces and markets products to protect crops from fungal attack, insect pests and weeds to increase quality and ensure yields.

automotive OEM coatings
Coating systems for vehicle bodies that protect the vehicle from corrosion (cathodic dip) and gravel and chippings (primer), provide color (basecoat) and offer protection from environmental factors (topcoat).

automotive refinish coatings
Coatings systems for the repair of vehicles under the trademarks Glasurit® and R-M®.

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 belong to the five growth clusters of BASF.

Catalysts
The Catalysts division comprises the environmental technologies, process technologies as well as Materials Services, which provides both the BASF Catalysts business and customers of BASF with precious metals and services.

Coatings
The Coatings division comprises the automotive refinish coatings, industrial coatings and decorative paints business units.

Construction Chemicals
The Construction Chemicals division comprises the Admixture Systems and Construction Systems businesses. Admixture Systems produces additives to ensure optimal concrete properties. The Construction Systems portfolio includes products for building systems, sport and industrial flooring applications and façades.

COSO
The Committee of Sponsoring Organizations of the Treadway Commission is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls and corporate governance.

dividend yield
The dividend yield is the return received by a shareholder in the form of a dividend in relation to the year-end share price. It is calculated by dividing the per-share dividend by the year-end share price and multiplying by 100.

earnings per share
The amount earned by BASF in euros per share based on the weighted number of shares.

EBIT
Earnings before interest and taxes

EBIT after cost of capital
We use this key performance and management indicator for our operating divisions and business units to ensure that we meet the interest rate payments to providers of debt, satisfy the returns expected by providers of equity and cover tax expenses.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

energy management
The development of new materials and technologies to convert and store energy. Energy management also refers to the responsible use of fossil fuels, for example through the development of energy-saving materials such as insulation. Energy management at BASF also involves the exploration for and production of crude oil and natural gas in selected regions by our subsidiary Wintershall AG.

ERM
Enterprise Risk Management is a supplement to the original COSO model that was published in 2004.

exploration
To investigate and explore an area in the search for mineral resources such as crude oil or natural gas. For successful exploration, it is important to discover oil and gas-bearing structures (deposits, fields) using suitable geophysical processes at sea or on land rather than by means of expensive drilling.

fermentation
Fermentation is a process in which renewable raw materials are reacted with the aid of microorganisms such as bacteria, fungi or cell cultures.

Fine Chemicals
In the Fine Chemicals division, we develop, produce and market high-value products for the cosmetics and pharmaceutical industries, as well as for human and animal nutrition. Our primary products are aroma chemicals and UV-filters, pharmaceutical active ingredients and excipients as well as vitamins and carotenoids.

Functional Polymers
The Functional Polymers division is the global market leader in acrylic acid and superabsorbents and is a leading supplier of functional polymers for the adhesives, construction and paper industries. The division operates production facilities in all important regions of the world, consistently capitalizing on the BASF Verbund and expanding its global presence.

fungicide
An active ingredient that kills fungi or inhibits their growth (for example in plants).

growth clusters
BASF combines the important technology-driven issues of the future in five growth clusters: energy management, raw material change, nanotechnology, plant biotechnology and white biotechnology.

HDI
Hexamethylene diisocyanate is a raw material used in the production of automotive, industrial and plastic coatings.

herbicide
An active ingredient used to destroy weeds.

HPPO process
Technology to produce propylene oxide (PO) from hydrogen peroxide (HP). HPPO technology is more environmentally and economically viable than conventional PO methods of production. PO is an intermediate, for example, in the production of polyurethane.

IAS
International Accounting Standards (see also IFRS)

IFRIC
The International Financial Reporting Interpretations Committee is a committee that publishes proposed guidance on IFRS and IAS.

IFRS
International Financial Reporting Standards (until 2001 International Accounting Standards, IAS) are developed and published by the International Accounting Standards Board (IASB) headquartered in London, United Kingdom. In accordance with the IAS Regulations, IFRS are mandatory for listed companies headquartered in the European Union since 2005.

industrial coatings
Coating materials for industrial goods with the exception of vehicles.

Inorganics
The Inorganics division produces raw materials such as ammonia, sulfuric acid and nitric acid, as well as the electrolysis products chlorine and sodium hydroxide. The division also produces innovative specialties such as electronic chemicals, impregnating resins and powder injection molding technologies.

insecticide
An active ingredient used to destroy harmful insects.

Intermediates
The Intermediates division develops, produces and markets a comprehensive range of intermediates worldwide. It operates out of 14 production sites in Europe, Asia, North and South America. The most important of the division's more than 600 products include amines, diols, polyalcohols and acids. Of which more than 25 % are for captive use within the BASF.

Kyoto Protocol
The Kyoto Protocol is a supplement to the United Nations Framework Convention on Climate Control. Its main goal is to reduce emissions of greenhouse gases.

liquefied petroleum gas (LPG)
Liquefied natural gases, e.g., propane, butane and propane-butane blends, are used as an alternative feedstock for cracker operations and for other chemical processes.

MDI
Diphenylmethane diisocyanate: a polyurethane basic product

MWh
Megawatt hour: a measuring unit for energy

MWhel
Electric megawatt hour: a measuring unit for electrical energy

NAFTA
Free trade zone between the United States, Canada and Mexico

nanotechnology
The term nanotechnology applies to materials, structures and technologies with one thing in common: the creation or presence of at least one spatial dimension smaller than one hundred nanometer. This includes the production of nanoparticles and the creation of nanostructures, which in turn make it possible to produce products with new or improved properties. Examples include starting materials for textiles that absorb UV radiation and water-repellant surface coatings for the textile and automotive industries.

naphtha
Liquid petroleum that is obtained as a byproduct of oil refining. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.

OECD
The Organization for Economic Cooperation and Development is an international body headquartered in Paris, France.

Oil & Gas
Our oil and gas operations are conducted by Wintershall AG and its subsidiaries and include exploration and production of crude oil and natural gas, as well as natural gas trading in Europe.

payout ratio
The distribution ratio shows what proportion of earnings is distributed in the form of a dividend. It is calculated by dividing the total dividend paid by net income and multiplying by 100.

PBT
Polybutylene terephthalate is an engineering plastic used for headlight frames, computer keyboards and housings for household appliances.

Performance Chemicals
The Performance Chemicals division includes the business areas Coatings, Plastics & Specialties; Automotive & Oil Industry; Textiles; Leather; and Detergents & Formulators. In all five business areas, we supply high-performance specialties worldwide that add value for our customers directly without further chemical processing.

Performance Polymers
The Performance Polymers division produces engineering plastics for use in the automotive and electronics industries, for example, as well as polyamide and polyamide intermediates.

Petrochemicals
The Petrochemicals division operates world-scale facilities to supply the Verbund sites with petrochemical feedstocks such as ethylene and propylene, as well as with technical gases such as hydrogen and oxygen. In later processing stages, products in BASF's plasticizers and solvents value-adding chains are produced, as are alkylene oxides and glycols. Typical examples are butanol, phthalic anhydride and ethylene oxide, which are processed primarily within the BASF Verbund.

plant biotechnology
An area of biotechnology in which methods of traditional cultivation are optimized using methods from molecular biology and biochemistry. Plants can be developed for more efficient agriculture, a healthier diet as well as for use as renewable resources.

PolyTHF®
Polytetrahydrofuran: a starting material for elastic fibers and thermoplastic polyurethanes

Polyurethanes
The Polyurethanes division is one of the world's leading producers of polyurethanes. Our product range includes the entire spectrum of basic polyurethane products, tailor-made polyurethane systems and polyurethane specialties. Polyurethanes are used, for example, as rigid or flexible foams for household appliances and mattresses, and as specialty plastics for the automobile and footwear industries.

product innovations
New or improved products and applications, which have been on the market for less than five years.

REACH
An E.U. regulatory framework for the registration, evaluation and authorization of chemicals.

return on assets
This describes the return we make on the average assets employed during the year. It is calculated as income from ordinary activities plus interest expenses as a percentage of average assets.

return on equity after tax
This describes the return we make on the average equity used during a fiscal year. It is calculated as income from minority interests as a percentage of average equity.

return on sales
The return on sales describes the return we make from our operations as a percentage of sales. It is calculated as income from operations as a percentage of sales.

Sarbanes-Oxley Act (SOA)
A law enacted in the United States in 2002 to improve corporate financial reporting. The Sarbanes-Oxley Act applies to U.S. companies and foreign companies listed on U.S. stock exchanges.

special items
One-time charges or one-time income that significantly affect the earnings of a segment or the BASF Group. Special items include, for example, charges arising from restructuring measures and severance payments.

steam cracker
A plant in which steam is used to “crack” naphtha (petroleum). The resulting petrochemicals – above all, ethylene and propylene – are the starting materials used to manufacture most of BASF's products.

Styrenics
This operating division produces and distributes styrene and styrenics worldwide. The production of the primary product styrene is primarily for captive use (backward integration). Styrenics are used in many fields, including the construction, packaging, automotive, electric and leisure industries.

swap
An agreement between two companies to exchange payment flows in the future. In an interest swap, a fixed (variable) interest rate is exchanged for a floating (fixed) rate for an agreed nominal amount.

TDI
Toluene diisocyanate: a polyurethane basic product

technology platforms
Our four global technology platforms Polymer Research, Chemicals Research & Engineering, Specialty Chemicals Research and Plant Biotechnology Research are at the center of our Know-How Verbund.

THF
Tetrahydrofuran: a starting material for PolyTHF®

TPU
Thermoplastic polyurethanes are specialty plastics used in a wide range of applications, e.g., in the automotive, sportswear and footwear industries.

Traits
Plant characteristics such as increased yield or increased resistance to drought.

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value-adding chain
Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

Verbund
The Verbund is one of BASF's greatest strengths: At our major sites, we link our production plants in a sophisticated system along our value-adding chains. Even byproducts or waste from one plant can often be used as raw materials in a neighboring plant. We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly.

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white biotechnology
An area of biotechnology that deals with products and processes in the chemical, textile and food industries. This involves, for example, the biotechnological production of enzymes and chirale intermediates.

WINGAS GmbH
WINGAS GmbH is a joint venture company with our Russian partner Gazprom. BASF received a 65% share in WINGAS at the end of 2006. WINGAS is an European company active in natural gas trading and distribution. Its customers include regional and communal gas suppliers, industrial companies and power plant operators.

world-scale plants
Large production plants in which products can be manufactured on a world scale. The more a plant produces, the lower the fixed costs per metric ton of product (economies of scale). BASF is therefore committed to cost-effective and large-scale plants of this kind in all major economic regions.

Index

Ten-year Summary

Million €	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Sales and Earnings[1]										
Sales	28,520	27,643	29,473	35,946	32,500	32,216	33,361	37,537	42,745	52,610
Income from operations (EBIT)	2,731	2,624	2,009	3,070	1,217	2,641	2,658	5,193	5,830	6,750
Income from ordinary activities	2,726	2,771	2,606	2,827	609	2,641	2,168	4,347	5,926	6,527
Extraordinary income	–	–	–	–	6,121	–	–	–	–	–
Income before taxes and minority interests	2,726	2,771	2,606	2,827	6,730	2,641	2,168	4,347	5,926	6,527
Income before minority interests	1,639	1,664	1,245	1,282	5,826	1,599	976	2,133	3,168	3,466
Net income	1,654	1,699	1,237	1,240	5,858	1,504	910	2,004	3,007	3,215
Capital expenditures and depreciation[1]										
Additions to tangible and intangible assets	2,564	3,722	3,253	6,931	3,313	3,055	3,415	2,163	2,523	10,039
Thereof property, plant and equipment	2,229	2,899	2,764	3,631	3,037	2,677	2,293	2,022	2,188	4,068
Depreciation of tangible and intangible assets	2,028	2,260	2,662	2,916	2,925	2,464	2,452	2,492	2,403	2,973
Thereof property, plant and equipment	1,732	1,843	2,018	2,245	2,307	2,012	1,951	2,053	2,035	2,482
Number of employees										
At year-end	104,979	105,945	104,628	103,273	92,545	89,389	87,159	81,955	80,945	95,247
Annual Average	105,885	106,928	107,163	105,784	94,744	90,899	88,167	85,022	80,992	88,160
Personnel costs[1]	5,790	6,010	6,180	6,596	6,028	5,975	5,891	5,615	5,574	6,210
Key data[1]										
Earnings per share (€)	2.67	2.73	2.00	2.02	9.72[2]	2.60	1.62	3.65	5.73	6.37
Cash provided by operating activities	3,291	3,744	3,255	2,992	2,319	2,313	4,878	4,634	5,250[3]	5,940
Return on sales (%)	9.6	9.5	6.8	8.5	3.7	8.2	8.0	13.8	13.6	12.8
Return on assets (%)	12.6	11.9	10.2	9.9	3.1	8.4	7.4	13.2	17.7	17.5
Return on equity after tax (%)	14.6	13.2	9.1	9.0	36.6[2]	9.3	6.0	12.9	18.6	19.2
Appropriation of profits										
Net income of BASF AG[4]	943	1,074	1,007	1,265	5,904	1,045	1,103	1,363	1,273	1,951
Transfer to retained earnings[4]	307	381	304	50	5,153	247	334	449	–	–
Dividend	636	693	695	1,214	758	789	774	904	1,015	1,499[5]
Dividend per share (€)	1.02	1.12	1.13	1.30	1.30	1.40	1.40	1.70	2.00	3.00
				+0.70[6]						
Number of shares as of December 31 (in thousands)[7]	622,063	623,794	620,985	607,399	583,401	570,316	556,643	540,440	514,379	499,680

[1] Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The 2004 figures have been reported in accordance with IFRS. The figures for years up to and including 2003 were prepared according to German GAAP.
[2] Including extraordinary income
[3] Before external financing of pension obligations
[4] Calculated in accordance with German GAAP
[5] With regard to the number of qualifying shares on December 31, 2006
[6] Special dividend of stockholders‘ equity charged with 45% corporate income tax
[7] After deduction of repurchased shares intended to be cancelled

Ten-year Summary[1]

Balance Sheet (German GAAP)

Million €	1997	1998	1999	2000	2001	2002	2003
Intangible assets	1,497	1,965	2,147	4,538	3,943	3,464	3,793
Tangible assets	9,076	10,755	12,416	13,641	14,190	13,745	13,070
Financial assets	2,132	1,826	1,507	3,590	3,360	3,249	2,600
Fixed assets	**12,705**	**14,546**	**16,070**	**21,769**	**21,493**	**20,458**	**19,463**
Inventories	3,876	3,703	4,028	5,211	5,007	4,798	4,151
Accounts receivable, trade	4,299	4,017	4,967	6,068	5,875	5,316	4,954
Other receivables	1,765	1,856	2,211	3,369	2,384	2,947	3,159
Deferred taxes	45	1,077	1,225	1,270	1,373	1,204	1,247
Marketable securities	1,003	746	518	364	383	132	147
Cash and cash equivalents	843	757	990	506	360	231	481
Current assets	**11,831**	**12,156**	**13,939**	**16,788**	**15,382**	**14,628**	**14,139**
Total assets	**24,536**	**26,702**	**30,009**	**38,557**	**36,875**	**35,086**	**33,602**
Subscribed capital	1,590	1,595	1,590	1,555	1,494	1,460	1,425
Capital surplus	2,567	2,590	2,675	2,746	2,914	2,948	2,983
Paid-in capital	4,157	4,185	4,265	4,301	4,408	4,408	4,408
Retained earnings	7,418	8,695	9,002	8,851	12,222	12,468	12,055
Currency translation adjustment	201	39	549	662	532	(330)	(972)
Minority interests	255	331	329	481	360	396	388
Stockholders' equity	**12,031**	**13,250**	**14,145**	**14,295**	**17,522**	**16,942**	**15,879**
Pensions and other long-term provisions	4,824	5,561	5,812	6,209	6,809	6,233	6,205
Tax and other short-term provisions	2,463	2,185	2,826	3,334	3,332	2,764	2,982
Provisions	**7,287**	**7,746**	**8,638**	**9,543**	**10,141**	**8,997**	**9,187**
Financial indebtedness	1,126	1,316	1,294	7,892	2,835	3,610	3,507
Accounts payable, trade	1,972	1,871	2,316	2,848	2,467	2,344	2,056
Other liabilities	2,120	2,519	3,616	3,979	3,910	3,193	2,973
Liabilities	**5,218**	**5,706**	**7,226**	**14,719**	**9,212**	**9,147**	**8,536**
Provisions and liabilities	**12,505**	**13,452**	**15,864**	**24,262**	**19,353**	**18,144**	**17,723**
Thereof long-term liabilities	6,094	6,898	7,529	9,059	9,955	9,211	10,285
Total stockholders' equity and liabilities	**24,536**	**26,702**	**30,009**	**38,557**	**36,875**	**35,086**	**33,602**

[1] Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The 2004 figures have been reported in accordance with IFRS. The figures for years up to and including 2003 were prepared according to German GAAP.

Balance sheet (IFRS)

Million €	2004	2005	**2006**
Intangible assets	3,607	3,720	8,922
Property, plant and equipment	13,063	13,987	14,902
Investments accounted for using the equity method	1,100	244	651
Other financial assets	938	813	1,190
Deferred taxes	1,337	1,255	622
Other receivables and miscellaneous long-term assets	473	524	612
Long-term assets	**20,518**	**20,543**	**26,899**
Inventories	4,645	5,430	6,672
Accounts receivable, trade	5,861	7,020	8,223
Other receivables and miscellaneous short-term assets	2,133	1,586	2,607
Marketable securities	205	183	56
Cash and cash equivalents	2,086	908	834
Short-term assets	**14,930**	**15,127**	**18,392**
Total assets	**35,448**	**35,670**	**45,291**
Subscribed capital	1,383	1,317	1,279
Capital surplus	3,028	3,100	3,141
Retained earnings	11,923	11,928	13,302
Other comprehensive income	(60)	696	325
Minority interests	328	482	531
Stockholders' equity	**16,602**	**17,523**	**18,578**
Provisions for pensions and similar obligations	4,124	1,547	1,452
Other provisions	2,376	2,791	3,080
Deferred taxes	948	699	1,441
Financial indebtedness	1,845	3,682	5,788
Other liabilities	1,079	1,043	972
Long-term liabilities	**10,372**	**9,762**	**12,733**
Accounts payable, trade	2,372	2,777	4,755
Provisions	2,364	2,763	2,848
Tax liabilities	644	887	858
Financial indebtedness	1,453	259	3,695
Other liabilities	1,641	1,699	1,824
Short-term liabilities	**8,474**	**8,385**	**13,980**
Total stockholders' equity and liabilities	**35,448**	**35,670**	**45,291**

Further information:
Please see the back of this page

Info by mail

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Key data

Dates

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. The Report on Form 20-F is available on the Internet at corporate.basf.com/20-F-Report as of March 14, 2007. We do not assume any obligation to update the forward-looking statements contained in this report.

BASF on the Web

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Dow Jones Sustainability Indexes
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In 2006, BASF shares were included in the Dow Jones Sustainability Index World for the sixth year in succession.

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

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Important dates

April 26, 2007	Interim Report 1st Quarter 2007
August 1, 2007	Interim Report 2nd Quarter 2007
October 30, 2007	Interim Report 3rd Quarter 2007
April 26, 2007	Annual Meeting (Mannheim)
April 24, 2008	Annual Meeting (Mannheim)

Reply

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Key data BASF Group 2006

Sales	Million €
BASF Group sales	52,610
Sales by segment	
– Chemicals	11,572
– Plastics	12,775
– Performance Products	10,133
– Agricultural Products & Nutrition	4,934
– Oil & Gas	10,687
– Other	2,509
Sales by region (location of customer)	
– Europe	29,529
– Thereof Germany	11,062
– North America (NAFTA)	11,522
– Asia Pacific	8,102
– South America, Africa, Middle East	3,457

Earnings	Million €
Income from operations (EBIT)	6,750
Income before taxes and minority interests	6,527
Net income	3,215

Other key data	
Equity ratio (%)	41.0
Return on assets (%)	17.5
Research and development expenses (million €)	1.277
Additions to fixed assets (million €)	4,068
Number of employees (December 31, 2006)	95,247

Key BASF share data	€
Year-end price	73.85
High	74.24
Low	58.97
Dividend	3.00
Earnings per share	6.37

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