Shaping the Future
Financial Report 2005

BASF Group 2005

- **Income from operations at record high of €5,830 million**
- **Premium of €2,354 million earned on our cost of capital (2004: €1,982 million)**
- **Dividend increased to €2.00 (2004: €1.70)**
- **26.06 million shares bought back for a total of €1,435 million**
- **Pensions externally financed through a Contractual Trust Arrangement (CTA)**

Overview

Million €	2005	2004	Change in %
Sales	42,745	37,537	13.9
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	8,233	7,685	7.1
Income from operations (EBIT) before special items	6,138	5,230	17.4
Income from operations (EBIT)	5,830	5,193	12.3
Income before taxes and minority interests	5,926	4,347	36.3
Net income	3,007	2,004	50.0
Earnings per share (€)	5.73	3.65	57.0
Earnings per share in accordance with U.S. GAAP (€)	5.83	3.39	72.0
Dividend per share (€)	2.00	1.70	17.6
Cash provided by operating activities	5,250*	4,634	13.3
Additions to tangible and intangible assets	2,523	2,163	16.6
Depreciation of tangible and intangible assets	2,403	2,492	(3.6)
Return on assets (%)	17.7	13.2	–
Return on equity after tax (%)	18.6	12.9	–
Research and development expenses	1,064	986	7.9
Number of employees as of December 31	80,945	81,955	(1.2)

* Before external financing of pension obligations

Accounting principles for this report
Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated in accordance with IFRS. Detailed explanations of the application of IFRS can be found in the Notes to the Consolidated Financial Statements on page 106 onward.

Cover photo:
Yolanda dos Santos, administrative assistant (left) and Alessandra Gonçalves de Freitas, Responsible Care coordinator, both at BASF in Guaratinguetá, Brazil.

BASF's Segments

Chemicals

- Significant increase in sales due to higher volumes and prices
- Higher annual earnings despite startup costs for new plants and the effects of the hurricanes in the United States
- Business strengthened with electronic chemicals
- Expansion of our production capacities in Asia

Plastics

- Sales growth thanks to further price increases
- Increase in earnings in Polyurethanes and Performance Polymer
- High volatility and further increase in raw material costs
- Business models successfully optimized

Performance Products

- Increase in sales due to higher prices
- Improvement in earnings due to double-digit growth in Functional Polymers
- Growth boosted by positive business performance in Asia Pacific
- Successful start of operations at production complext for acrylic acid and acrylates in Nanjing, China

Agricultural Products & Nutrition

- Agricultural Products division posts higher earnings
- Agricultural Products increases research and development expenditure
- Lower prices for lysine and vitamin C negatively impact sales and earnings in Fine Chemicals
- Extensive restructuring program launched in Fine Chemicals

Oil & Gas

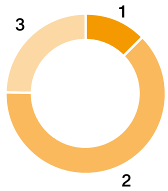
- Sales and earnings improve
- Natural gas sales volume rise again
- Cooperation with our Russian partner Gazprom extended

Segment key data

Sales by division

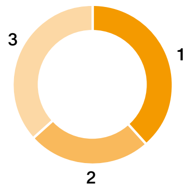
Million €	**2005**	**2004**	**Change in %**
Sales	8,103	7,020	15.4
Income from operations (EBIT) before special items	1,488	1,377	8.1
Income from operations (EBIT)	1,326	1,284	3.3

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



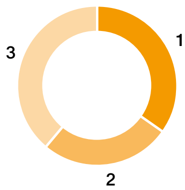
Million €	**2005**	**2004**	**Change in %**
Sales	11,718	10,532	11.3
Income from operations (EBIT) before special items	1,031	752	37.1
Income from operations (EBIT)	1,015	694	46.3

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



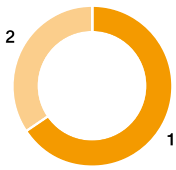
Million €	**2005**	**2004**	**Change in %**
Sales	8,267	8,005	3.3
Income from operations (EBIT) before special items	890	850	4.7
Income from operations (EBIT)	863	1,128	(23.5)

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



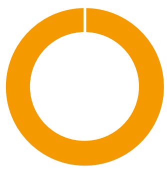
Million €	**2005**	**2004**	**Change in %**
Sales	5,030	5,147	(2.3)
Income from operations (EBIT) before special items	693	763	(9.2)
Income from operations (EBIT)	623	658	(5.3)

Million €		**%**
1 Agricultural Products	3,298	65.6
2 Fine Chemicals	1,732	34.4
	5,030	**100.0**



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

Million €		**%**
Oil & Gas	7,656	100.0



WHO WE ARE

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

WHAT WE ACHIEVE

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

HOW WE SHAPE THE FUTURE

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

Contents

Milestones

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

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

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

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

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

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

April
BASF celebrates its 140th anniversary.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dear shareholders and friends of BASF,

BASF is shaping the future – and has been doing so successfully for more than 140 years. We are The Chemical Company, the world's leading chemical company. Our goal is sustainable success. We aim to create value for our shareholders, our employees and our business partners. We again succeeded in this: The past year was the best ever in the history of our company. I sincerely thank all BASF employees worldwide for their hard work and this exceptional outcome.

Our strategy of profitable growth continues to be successful – despite weak growth in our home market in Europe. In 2005, we increased sales by 14% to €42.7 billion. As a result, we grew faster than the market, while earning a higher premium on our cost of capital. Our shareholders should also be pleased by this success: In view of our strong earnings, the Board of Executive Directors and the Supervisory Board will propose a dividend of €2.00 to the Annual Meeting, an increase of 18% compared with last year. In addition, we bought back shares for €1,435 million in 2005, and we plan to continue with our share buybacks in 2006.

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

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

By investing in the development of Siberian gas fields and in the construction of the North European Gas Pipeline with our partner Gazprom, we are also creating additional growth potential. At the same time, we are helping to ensure long-term energy supplies to Europe.

In order to grow successfully, we will build on our strengths and continuously optimize our portfolio. This includes strategic divestitures, like that of our share in the polyolefins producer Basell in 2005. At the same time, we strengthened our portfolio last year. For example, BASF acquired Merck's electronic chemicals business and purchased the fine chemicals company Orgamol.

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

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

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

Dr. Jürgen Hambrecht
Chairman of the Board of Executive Directors

SHAPING A SUSTAINABLE FUTURE We plan and manage our business sustainably – that means that we take responsibility for human beings and the environment. You can read more about our activities in all areas of sustainable development in our Corporate Report, which is published in conjunction with this Financial Report.

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

Our strategy BASF 2015 describes the path we are taking to ensure our future. Our goal is to continue to grow profitably by following our four strategic guidelines:

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

Looking to the future, I see enormous opportunities for BASF that we will be certain to seize. I assure you that the entire BASF team and I will do our utmost to continue to create value for our shareholders and partners as the world's leading chemical company – The Chemical Company.

Dr. Jürgen Hambrecht
Chairman of the Board of Executive Directors

Board of Executive Directors

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

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

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

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

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

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

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

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

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

As of February 24, 2006

BASF Shares

- **Dividend increased to €2.00 per share**
- **BASF shares increase in value by 26.2% in 2005**
- **Share buybacks for €1,435 million**

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

Dividend

€	
2005	2.00
2004	1.70
2003	1.40
2002	1.40
2001	1.30

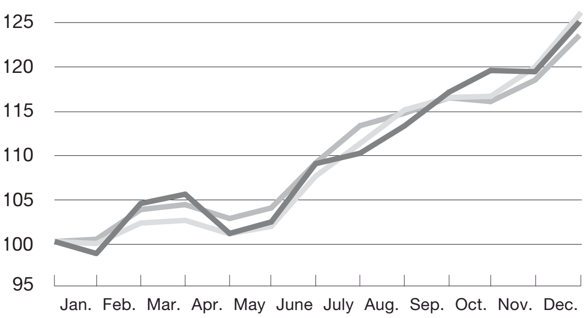
Dividend of €2.00 and further buybacks to increase shareholder value

The Board of Executive Directors and the Supervisory Board are proposing to increase the dividend from €1.70 to €2.00 per share. As a result, the total amount payable will be €1,029 million, based on the number of qualifying shares as of December 31, 2005.

On the basis of the per share dividend and the year-end price, BASF shares provided an attractive dividend yield of 3.09% in 2005. We aim to increase our dividend further in the future.

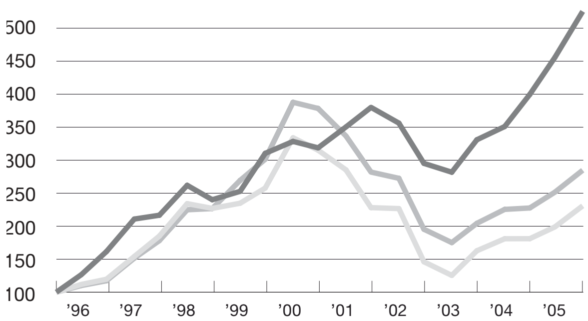
In 2005, BASF Aktiengesellschaft bought back 26.06 million shares on the stock exchange for a total of €1,435 million and an average price of €55.05 per share.

Change in value of an investment in BASF shares in 2005 (with dividends reinvested, indexed)



BASF (+26.2%)
DAX 30 (27.1%)
EURO STOXX 50 (+24.3%)

Change in value of an investment in BASF shares in 1996–2005 (with dividends reinvested, indexed)



BASF (Ø +18.2% per year)
DAX 30 (Ø +9.1% per year)
EURO STOXX 50 (Ø +11.2% per year)

BASF Aktiengesellschaft had 515 million shares outstanding as of December 31, 2005 and its market capitalization was €33.3 billion with a year-end share price of €64.71.

Since the beginning of 1999, we have bought back a total of 123.5 million shares for €5.4 billion. As a result, we have reduced the number of shares by 19.8% in the past seven years. We plan to buy back additional shares in the future in order to reduce our high equity ratio.

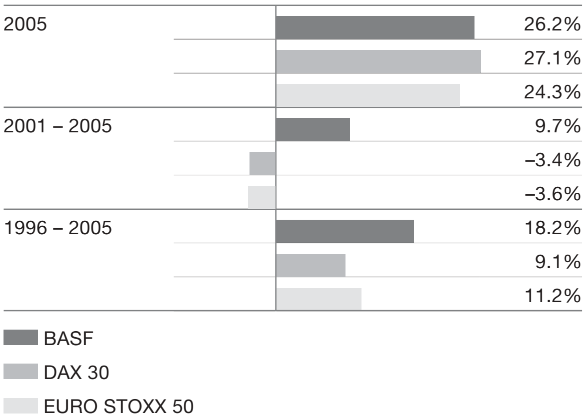
Broad base of international shareholders: 100% free float

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

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

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

Investment in BASF shares average annual performance



In many countries, we offer share purchase programs to encourage our employees to become shareholders and thus co-owners of BASF. Further details are provided on page 147.

Share ownership by country

Holding of share capital in %	2006*	2004	2001	1995	1988
Germany	45.1	47.6	65.0	73.2	76.9
United Kingdom	17.3	14.9	11.6	8.1	3.0
United States	13.5	13.8	9.4	3.9	0.9
Switzerland	5.7	3.3	3.6	3.2	9.5
Belgium	5.5	5.3	1.4	1.2	0.3
Other countries	12.9	15.1	9.0	10.4	9.4
	100.0	100.0	100.0	100.0	100.0

* The shareholder survey was performed in January 2006.

Jennifer Insabella and Christoph Beumelburg conduct information events for investors worldwide.

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

Weighting of BASF shares in important indices as of December 31, 2005	%
DAX 30	5.9
DJ STOXX 50	1.2
DJ EURO STOXX 50	1.9
DJ Chemicals	6.1
MSCI World Index	0.2
S&P Global 100	0.5

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

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

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

You can reach BASF's investor relations team by phone at +49 621 60-48230 or by e-mail at **investorrelations@basf.com.**

Further information

Stock exchange	Securities code number	Ticker symbol
Deutsche Börse	515100	BAS
London Stock Exchange	0083142	BFA
Swiss Exchange	323600	AN
New York Stock Exchange	055262505 (CUSIP)	BF (ADR)
ISIN International Stock Identification Number	DE0005151005	

Key BASF share data

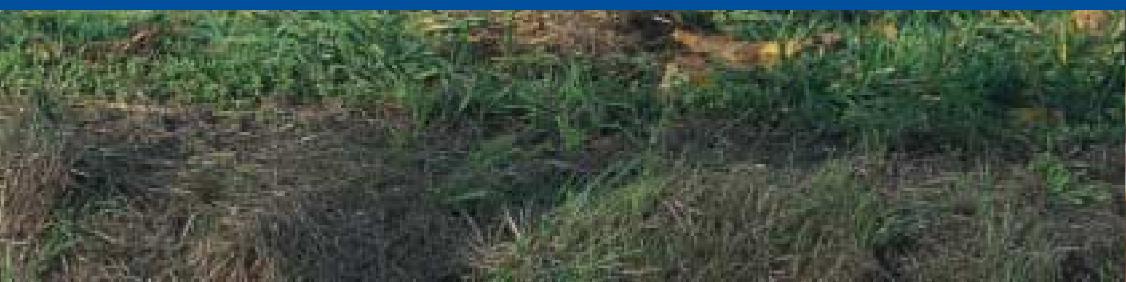
	2001	2002	2003	2004	2005
Year-end price (€)	41.75	36.08	44.58	53.00	64.71
Year high (€)	50.45	49.80	44.58	53.00	65.33
Year low (€)	31.00	32.90	28.41	40.49	50.11
Year average (€)	44.66	42.37	38.52	45.18	57.13
Daily trade in shares[1]					
– million €	108.54	129.67	127.20	121.74	153.98
– million shares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

[1] Average, Xetra trading
[2] Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figure has been restated accordingly. Detailed explanations of the first application of IFRS can be found in Note 3 to the Consolidated Financial Statements on page 106 onward.
[3] Including extraordinary income of €9.92 per share
[4] Based on year-end share price
[5] 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.

> What will tomorrow's markets want?

>> Intelligent solutions

To continue our success in tomorrow's markets, we think strategically and across disciplines when developing new products. Our fungicide boscalid, which won the BASF Innovation Award 2005, is just one example from the field of crop protection. This product is used predominantly in specialty crops such as fruits, vegetables, vines and ornamental plants. Close cooperation with customers like winemaker Helmut Darting helps us to tailor innovations to market needs.
Maria Scherer, Global Research Fungicides BASF and member of the innovation team, can confirm this: Our products help protect our customers' harvests and increase quality. Boscalid is only one of many success stories at BASF that show that it's worth investing in intelligent solutions.



Overview

With approximately 81,000 employees, customers in over 170 countries and more than 100 production sites, BASF is the world's leading chemical company – The Chemical Company.

The BASF Group consists of BASF Aktiengesellschaft and over 300 affiliated companies and subsidiaries and is headquartered in Ludwigshafen, Germany. This is where we operate the world's largest integrated chemical site.

Twelve operating divisions are responsible for producing and distributing approximately 8,000 products. For reporting purposes, the operating divisions are combined into the segments **Chemicals, Plastics, Performance Products, Agricultural Products & Nutrition** and **Oil & Gas.**

Chemicals

Our portfolio ranges from basic **Inorganics** and **Petrochemicals** to **Intermediates.** Plasticizers, solvents, glues and resins, as well as electronic grade chemicals are just a few examples of our wide variety of products. Key customer segments for our products include the chemical, pharmaceutical, electronics, textile and automotive industries. Furthermore, we achieve around 30% of our sales with other BASF segments, which use our products to manufacture higher value goods.

Plastics

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

Performance Products

In our **Performance Chemicals** and **Functional Polymers** divisons, we produce a wide range of innovative products and system solutions used 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.

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. We also conduct research in the field of plant biotechnology, focusing on more efficient agriculture, healthier nutrition and plants as "green factories" to produce chemical substances.

Products in our **Fine Chemicals** division include vitamins, aroma chemicals, UV filters, as well as various polymers. We offer these high-value products to our customers in the nutrition, pharmaceutical and cosmetic industries.

Oil & Gas

Our subsidiary Wintershall explores for and produces oil and natural gas in Europe, North Africa, South America, Russia and the Caspian Sea area. Together with its Russian partner Gazprom, Wintershall is also active in European gas trading – the transport, storage and distribution of natural gas.

Sites and Markets

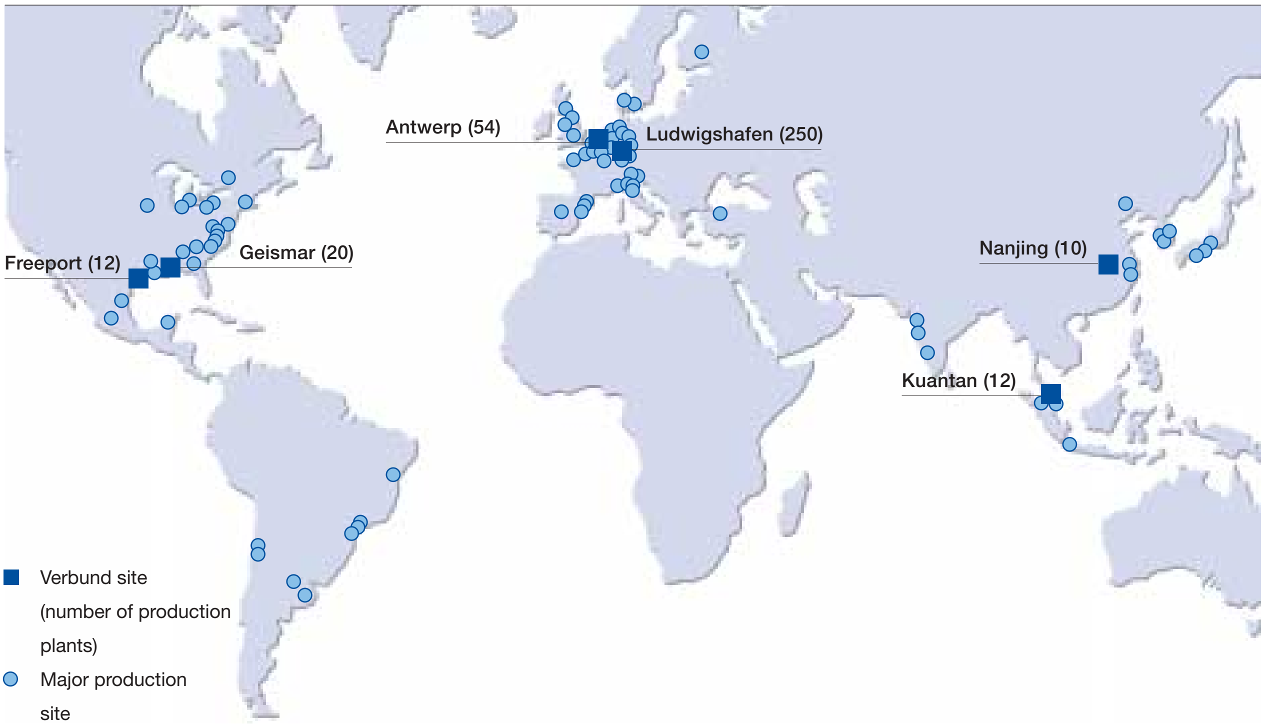
BASF operates six Verbund sites and more than 100 production sites worldwide in proximity to our customers. In our Verbund, we link production plants intelligently to save resources and energy.

The largest Verbund site in the BASF Group is located at our headquarters in Ludwigshafen, Germany. This was where the Verbund concept was developed and optimized before it was applied to other sites around the world.

Our 12 operating divisions supply approximately 8,000 products to a variety of international business partners. We maintain business relationships with customers in more than 170 countries.

In 2005, we generated 56% of our sales in Europe. North America (NAFTA) accounted for 22% of sales, Asia Pacific for 15% and South America, Africa, Middle East for 7%.

BASF sites



Structure and Organization

Corporate legal structure

BASF Aktiengesellschaft, which is headquartered in Ludwigshafen, Germany, is 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.

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

The BASF Group Consolidated Financial Statements include BASF Aktiengesellschaft and 164 fully consolidated subsidiaries. We consolidate 15 joint ventures conducted with one or more partners on a proportional basis. In addition, two joint ventures, three major associated companies in which we have a 20% to 50% interest, as well as 11 affiliated companies are reported in the financial result using the equity method. We also have a stake in more than 100 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 93 onward.

Organization of the BASF Group

Twelve operating divisions bear bottom-line responsibility and manage our 57 regional and global business units. As profit centers, the business units are responsible for all 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 exploit market potential. These divisions are also responsible for optimizing the necessary regional infrastructure. For reporting purposes, the divisions are summarized in the following four regions:

- Europe
- North America (NAFTA)
- Asia Pacific
- South America, Africa, Middle East

Corporate divisions and corporate departments have the following responsibilities:

Corporate divisions:

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

Corporate Departments:

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

Service functions and Group-wide coordination activities are performed by the **competence centers:**

- Chemicals Research & Engineering
- Corporate Engineering
- Environment, Safety & Energy
- Global Procurement & Logistics
- Human Resources
- Information Services
- Occupational Medicine & Health Protection
- Plant Biotechnology Research
- Polymer Research
- Specialty Chemicals Research
- University Relations & Research Planning

Strategies for Value-adding Growth

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

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

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

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

By expanding white biotechnology, we aim to use our expertise in the areas of enzyme catalysis and fermentative manufacturing processes to develop new products and processes outside the current key areas of fine chemicals and intermediates. You can read more about our research activities on page 53.

Our four strategic guidelines

Four strategic guidelines describe our path to the future:

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

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

Earn a premium on our cost of capital

We earn a premium on our cost of capital to increase the value of BASF. To achieve this goal, we have been expanding on our value-based management strategy. Earnings before interest and taxes (EBIT) after cost of capital is now the key performance and management indicator for our operating divisions and business units. We measure every business decision and our performance on the basis of how it influences earnings after cost of capital in the short and long term. As a result, all of our employees help us to improve cost structures, use our capital more efficiently and grow profitably.

Help our customers to be more successful

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

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

Form the best team in industry

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

Ensure sustainable development

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

We combine our expertise in this area in our Expert Services Sustainability, thus contributing to the sustainable success of our customers.

Segment Strategies

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

Chemicals

We aim to strengthen our market leadership in Europe, improve our cost structure and market position in North America, and expand our activities in Asia. To achive this, we constantly increase our competitiveness by exploiting the synergy potential of our Verbund, by introducing innovative processes and products, and by investing 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 so that we are able to produce and supply high-quality products reliably and at competitive prices.

In our business with specialties, we offer a wide range of high-value products and system solutions that we constantly expand and improve in close cooperation with our customers.

Performance Products

Our innovative systems from performance chemistry contribute to the comfort and safety of many everyday products, from cars, paper and construction materials to detergents and baby diapers. Our success is based on tailor-made products, system solutions, applications and services that we develop in close cooperation with our customers. A further 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 needs 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 wishes of our customers in key agricultural markets. As leaders in innovation, we invest continuously in research and development of novel solutions to protect and improve plant health.

In the **Fine Chemicals** division, we aim to achieve a leadership position in strategically important markets by means of innovative products and customer-oriented solutions. Active portfolio and cost management strengthen our competitiveness in both the Fine Chemicals and the Agricultural Products divisions.

Oil & Gas

In exploration and production of oil and 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 area.

In natural gas trading, we and our Russian partner Gazprom are making use of the growth opportunities that are arising from increasing demand and the liberalization 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 outside of Europe, transport it to Europe and market it there. We aim to ensure a high degree of supply security by operating and expanding gas transport and storage facilities.

Value-based Management at BASF

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

EBIT after cost of capital

Earnings before interest and taxes (EBIT) after cost of capital is the key performance and management indicator for our operating divisions and business units. The BASF Group must achieve an EBIT of at least 10% on its operating assets to satisfy the returns expected by providers of equity and debt, and to cover standardized tax expenses.

Calculation of the cost of capital percentage

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

Value-based management in target agreements

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

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

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

Value-based management throughout the company

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

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

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

Trends in the Global Economy and the Chemical Industry in 2005

- **Economic growth impaired by record oil prices**
- **Chemical industry curbed by weakening industrial demand**
- **Growth remains strong in Asia**

Overall economic growth in 2005 was somewhat more subdued than in the previous year and slower than our forecast. Global growth slackened during 2005, in particular due to dramatically higher oil prices.

In 2005, the global **gross domestic product** rose 3.1%, one percentage point lower than in the boom year of 2004. In Europe, despite gratifying growth in exports, the economy weakened because domestic demand was very moderate. The vigor of the U.S. economy continued despite the effects of the hurricanes and higher interest rates. In China, the economy continued to grow strongly, regardless of the more cautious economic policy. The Japanese economy grew faster than anticipated.

Global industrial production grew by 3.3% in 2005 compared with 5.5% in 2004.

Global **chemical production growth** (excluding pharmaceuticals) also slowed down considerably since the start of the year. Global growth in 2005 was only 2.7% compared with 4.7% in the previous year. High energy costs affected the chemical industry and its customer sectors.

In Europe, chemical production grew by 0.8% in 2005. When compared internationally, growth was slight, mainly because of lower domestic demand, in particular from industry. Foreign trade was also weaker than in the previous year. Only Germany reported surprisingly strong growth in chemical production of 4% in 2005. This was principally due to exports and solid industrial growth.

Gross domestic product
Real change compared with previous year (%)

2004

World	4.1
Western Europe	2.3
United States	4.2
Asia excl. Japan	7.3*
Japan	2.3
South America	7.0

2005 estimate

World	3.1
Western Europe	1.4
United States	3.2
Asia excl. Japan	6.3*
Japan	2.0
South America	4.4

* The values for 2004 and 2005 will be corrected in 2006 due to changes in the calculation method by the Chinese National Bureau of Statistics.

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

2004

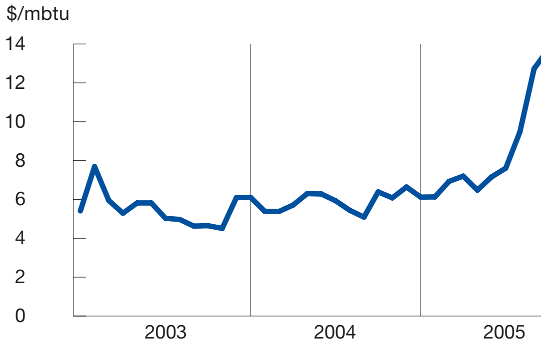
World	4.7
Western Europe	1.9
United States	3.3*
Asia excl. Japan	10.4
Japan	1.8
South America	8.0

2005 estimate

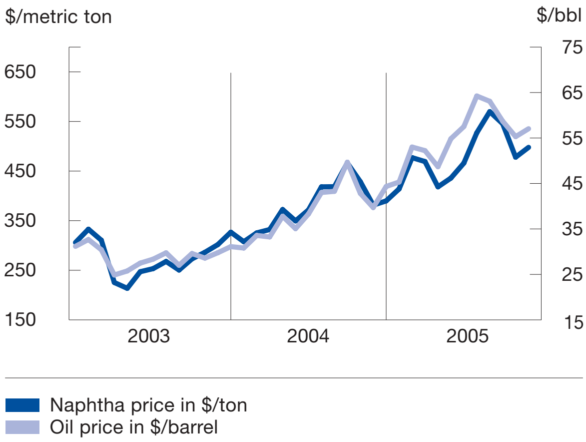
World	2.7
Western Europe	0.8
United States	1.2*
Asia excl. Japan	7.2
Japan	0.6
South America	4.3

* The values for 2004 and 2005 will be corrected in 2006 due to changes in production statistics by the Federal Reserve Board.

Price trends for natural gas (United States)



Price trends for crude oil and naphtha



In the **United States,** production in the chemical industry increased by 1.2% in 2005. The slowdown compared with the previous year was mainly caused by production losses in the southern United States as a result of the hurricanes. In addition, natural gas prices in the United States have doubled since the start of the year. The cost spiral and the associated loss of competitiveness had a negative impact on producers of petrochemical products and fertilizers in particular.

In the course of 2005, the rapid expansion of chemical production in **Asia (excluding Japan)** slowed down parallel to industrial activity and amounted to 7.2%. However, Asia remained by far the most dynamic region. Production growth in China remained above 10%. The chemical industry in India and Malaysia also experienced double-digit growth. By contrast, growth in Taiwan and South Korea was weaker.

Growth in the **Japanese** chemical industry was particularly slow in the first six months of 2005. For the year as a whole, production increased by 0.6%.

Following a particularly expansive phase in 2004, production growth in the **South American** chemical industry in 2005 was much lower but nevertheless healthy at 4.3%.

During the third quarter in particular, prices for **chemical raw materials** such as naphtha again rose significantly, reaching record levels. This was caused by a sharp rise in oil prices (Brent). Oil prices peaked at $67 per barrel in August but have fallen significantly below the $60 mark since November. On an annual basis, oil prices rose by 42% to approximately $55 per barrel; naphtha prices increased by 26% to $474 per metric ton.

Trends in Key Customer Industries in 2005

In 2005, global industrial growth reached 3.3%. Global industrial production proved to be resilient despite dramatically higher oil prices. This was noticeable in the stability of the capital goods market, while a decline was noted in the growth of the consumer goods industries and energy-intensive basic industries. Economic activity was bolstered principally by the Asian economies. The industrialized countries lagged considerably behind with growth of 1.8%.

In the United States and Europe, in particular, the **automotive industry** was negatively impacted by oil price increases in 2005. Sales volumes and production suffered from the subdued consumer climate. In North America, sales of light trucks, which had been a growth segment in recent years, fell significantly. In Asia, on the other hand, and China in particular, expansion continued, increasing by approximately 11%. Overall, global growth in 2005 declined to 2.8%.

At 2.5%, growth in **agriculture** was slower than in 2004. This was primarily due to lower world market prices for key commodities, an unfavorable exchange rate trend for export-oriented farmers in Brazil, as well as dry weather in parts of North and South America and Southern Europe.

The **construction industry** posted further solid growth of 3.3% in 2005; however, growth slackened in the second half of the year. In the United States, housing construction declined in particular. This was due to higher interest rates and the trend toward saturation of the real estate market. The building boom in Asia – mainly in China – continued unabated with growth of more than 6%.

Strong investment activity in the United States and China helped the **electrical and electronics industry** to achieve persistently high growth of approximately 5%. Only Europe remained static at the previous year's level. With production growth of approximately 12%, Asia retained its position as the most dynamic region.

The **information and communication industry** grew globally by 10% and showed a particularly impressive increase of 14% in the United States. The sector recorded double-digit growth rates for the third consecutive year.

The European **paper industry** was affected by a strike in the Finnish paper industry that lasted for two months. Thanks to growth in Asia, global production grew by approximately 2%.

The **textile industry** in industrialized countries was badly 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. Even so, textile production in industrialized countries declined by 2.4%. Asia was responsible for global growth of 2.8%.

Growth in key customer industries

Real change compared with previous year (%)

2005		
Automotive (per-unit basis)	OECD	(0.2)
	World	2.8
Agriculture	OECD	2.1
	World	2.5
Construction	OECD	2.6
	World	3.3
Electrical	OECD	2.4
	World	5.1
Information and communications	OECD	5.9
	World	10.1
Paper	OECD	0.3
	World	1.9
Textiles	OECD	(2.4)
	World	2.8

BASF sales by industry

Percentage of sales in 2005

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

Other industries: approximately 10% in total

Results of Operations in the BASF Group

- **Income from operations at record high**
- **Strongest earnings growth in the Plastics and Oil & Gas segments**
- **High contribution to earnings from successful restructuring and portfolio optimization measures**
- **Dividend increased to €2.00 (2004: €1.70)**

Overview

BASF's business developed very strongly in 2005. We increased sales and earnings despite substantially higher raw material prices and the subdued economic environment in our home market, Europe.

We increased income from operations by €637 million. This earnings growth of 12.3% compared with our very strong performance in 2004 was due primarily to price increases for many products in our portfolio and to continued restructuring measures. We completed the Ludwigshafen Site Project on schedule in 2005. As a result, we permanently lowered costs by €480 million per year at our largest site compared with 2003. In North America (NAFTA), we achieved savings of more than $250 million per year.

Raw material prices were high and rose even further in the course of the year. We were largely able to offset these increases by raising sales prices for our products. For some products, however, higher raw materials prices could only be passed on after a delay. Our Oil & Gas segment benefited from higher oil prices.

We again earned a high premium of €2,354 million on our cost of capital in 2005 (2004: €1,982 million).

The financial result increased by almost €1 billion. This was partially due to the gain from the sale of our stake in Basell.

Net income improved by 50% thanks to very strong income from operations and the higher financial result.

Earnings per share increased by 57% to €5.73.

Sales and earnings*

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

* Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated accordingly. The IFRS figures for 2004 that were published together with the results for the first quarter of 2005 were not attested by the external auditor and have been slightly adjusted. The effects were taken into account in the fourth quarter of 2004. Detailed explanations of the first application of IFRS can be found in Note 3 to the Consolidated Financial Statements on page 106 onward.

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

2004

Million €	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2004
Sales	9,051	9,314	9,314	9,858	37,537
Income from operations (EBIT) before special items	1,175	1,266	1,172	1,617	5,230
Income from operations (EBIT)	1,075	1,250	1,076	1,792	5,193
Financial result	(40)	12	(127)	(691)	(846)
Income before taxes and minority interests	1,035	1,262	949	1,101	4,347
Net income	520	714	366	404	2,004
Earnings per share (€)	0.94	1.30	0.67	0.74	3.65

Sales

Sales in 2005 rose 13.9% compared with the previous year to €42,745 million. The change in sales was due to the following factors:

Factors influencing sales	Million €	As % of sales
Volumes	932	2.5
Prices	4,144	11.0
Currencies	362	1.0
Acquisitions and additions to the scope of consolidation	406	1.1
Divestitures	(636)	(1.7)
	5,208	**13.9**

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

Our acquisitions contributed €325 million to the increase in sales. This was primarily due to the acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany, in April 2005. The acquisition of the Swiss fine chemicals company Orgamol and other smaller firms in the Plastics segment took place in the fourth quarter, so there was no substantial effect on sales. Additions to the scope of consolidation contributed €81 million to sales.

Divestitures reduced sales by €636 million, particularly as a result of the sale of our printing systems business in the fourth quarter of 2004. In addition, the Agricultural Products division continued with its portfolio optimization measures by selling individual products. We also sold our styrenics business in the United States.

Income from operations

Compared with 2004, we increased income from operations by €637 million to €5,830 million. Income from operations as a percentage of sales was 13.6% compared with 13.8% in 2004.

The increase in earnings was primarily due to higher prices for our products in almost all segments. The Plastics segment especially increased its earnings substantially despite the high volatility of raw material prices. Higher oil prices also led to significantly higher earnings in our Oil & Gas segment.

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

Special items

Income from operations in 2005 contained special charges of €308 million, compared with €37 million in the previous year. In 2004, special items contained the gain from the sale of the printing systems business.

€295 million was incurred for restructuring measures chiefly related to measures to increase efficiency at the production site in Ludwigshafen, Germany, as well as the partial closure of the site in Feluy, Belgium. Other special charges were related to the restructuring program for the Fine Chemicals and Intermediates divisions, for example, for the closure of a vitamin C plant in Grenaa, Denmark, as well as plants for THF and PolyTHF® in Yokkaichi, Japan.

Special gains primarily resulted from divestitures associated with portfolio optimization in the Agricultural Products division.

In 2005, the financial result included, in particular, the gain from the sale of the 50% stake in Basell. The 2004 financial result contained write-downs on participations.

Special items	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Full Year	
Million €	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
– In income from operations	(64)	(100)	(70)	(16)	(65)	(96)	(109)	175	(308)	(37)
– In financial result	–	(21)	–	(1)	222	(16)	–	(580)	222	(618)
	(64)	**(121)**	**(70)**	**(17)**	**157**	**(112)**	**(109)**	**(405)**	**(86)**	**(655)**

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

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

Net income/earnings per share
Net income was €3,007 million in 2005. This represents an increase of €1,003 million, or 50%, compared with 2004.

Minority interests contained profits of €161 million payable to shareholders of consolidated companies. In 2005, these were primarily our partner companies in natural gas trading and the steam cracker in Port Arthur, Texas.

The tax rate declined by 4 percentage points, mostly as a result of tax-free earnings from the sale of our stake in Basell. The previous year contained non-tax-deductible write-downs on participating interests.

Noncompensable foreign income taxes on oil production rose by €404 million to €1,072 million as a result of higher oil prices.

Earnings per share in 2005 were €5.73 compared with €3.65 in the previous year. In 2005, net income in accordance with U.S. GAAP was €3,061 million, or €5.83 per share, compared with €1,863 million or €3.39 per share in the previous year. Detailed explanations of our net income in accordance with U.S. GAAP are provided in Note 5 to the Consolidated Financial Statements on page 110 onward.

Proposed appropriation of profit
BASF Aktiengesellschaft achieved net income of €1,273 million. Including profit carried forward from 2004 of €15 million, profit retained was €1,288 million. At the Annual Meeting on May 4, 2006, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €2.00 per qualifying share. If shareholders approve this proposal, the total dividend payable on qualifying shares as of December 31, 2005 will be €1,029 million. If the number of qualifying shares and the amount of the dividend payable decline by the date of the Annual Meeting as a result of share buybacks, it is further proposed that the remaining profit retained be carried forward.

Balance Sheet Structure

- **Total assets almost unchanged despite higher volume of business and the rise in the value of the dollar**
- **Pension provisions reduced through external financing of pension obligations**
- **Shares bought back for €1,435 million**

Assets

	2005 Million €	2005 %	2004 Million €
Long-term assets			
Intangible assets	3,720	10.4	3,607
Property, plant and equipment	13,987	39.2	13,063
Investments accounted for using the equity method	244	0.7	1,100
Other financial assets	813	2.3	938
Deferred taxes	1,255	3.5	1,337
Other long-term assets	524	1.5	473
	20,543	**57.6**	**20,518**
Short-term assets			
Inventories	5,430	15.2	4,645
Accounts receivable, trade	7,020	19.7	5,861
Other receivables and miscellaneous short-term assets	1,586	4.4	2,133
Liquid funds	1,091	3.1	2,291
	15,127	**42.4**	**14,930**
Total assets	**35,670**	**100.0**	**35,448**

Stockholders' equity and liabilities

	2005 Million €	2005 %	2004 Million €
Stockholders' equity			
Subscribed capital	4,417	12.4	4,411
Retained earnings	11,928	33.4	11,923
Other comprehensive income	696	2.0	(60)
Minority interests	482	1.3	328
	17,523	**49.1**	**16,602**
Long-term liabilities			
Provisions for pensions and similar obligations	1,547	4.4	4,124
Other provisions	2,791	7.8	2,376
Deferred taxes	699	2.0	948
Financial indebtedness	3,682	10.3	1,845
Other liabilities	1,043	2.9	1,079
	9,762	**27.4**	**10,372**
Short-term liabilities			
Accounts payable, trade	2,777	7.8	2,372
Provisions	2,763	7.7	2,364
Tax liabilities	887	2.5	644
Financial indebtedness	259	0.7	1,453
Other liabilities	1,699	4.8	1,641
	8,385	**23.5**	**8,474**
Total stockholders' equity and liabilities	**35,670**	**100.0**	**35,448**

BASF's **total assets** increased slightly by €222 million. The increased working capital due to higher sales was offset by the transfer of €3.7 billion in liquid funds into a Contractual Trust Arrangement (CTA) (see page 65 for further details).

Long-term assets remained virtually unchanged. The increase due to the appreciation of the U.S. dollar was offset by the sale of the 50% stake in Basell as well as by capital expenditures below the level of depreciation and amortization (excluding acquisitions). The ratio of long-term to total assets declined slightly to 57.6% from 57.9% in 2004. Long-term assets consisted of:

Long-term assets

%	2005
• Intangible assets	18.1
Thereof self-generated assets	0.5
• Tangible assets	68.1
• Financial assets	5.1
• Other long-term assets	8.7
	100.0

Further details on the composition of and changes in long-term assets are provided in the Notes to the Consolidated Financial Statements on page 126 onward. The most important capital expenditures are explained on page 32.

Inventories increased by €785 million to €5,430 million as a result of the expansion of business and higher raw material prices. We nevertheless reduced days of inventory valued slightly compared with 2004. **Trade accounts receivable** rose by €1,159 million as a result of higher sales and currency effects. Their share of total assets rose by 3.2 percentage points compared with the previous year. Days sales outstanding, however, remained low. The breakdown of tangible assets, inventories and receivables by region is shown in the following table.

Stockholders' equity increased by €921 million, mainly due to our high earnings and, to a lesser extent, to positive currency effects. These effects were offset by the payment of dividends and the repurchase of 26.06 million shares for €1,435 million. In addition, we offset actuarial losses from the valuation of our pension obligations of €660 million against stockholders' equity in accordance with International Accounting Standard (IAS) 19 for the first time in 2005 (see also page 108). The equity ratio was 49.1% compared with 46.8% in 2004.

Net debt

Million €	2005	2004
Liquid funds	1,091	2,291
Financial indebtedness	3,941	3,298
Net debt	**2,850**	**1,007**

Net debt increased as a result of the transfer of assets to finance pension obligations of BASF Aktiengesellschaft externally and the share buybacks. This was offset partially by the high level of cash provided by operating activities and by cash inflows from divestitures.

The types, terms and currencies and lines of credit are explained in Note 25 to the Consolidated Financial Statements on page 143 onward.

Long-term liabilities declined by €610 million to €9,762 million. Long-term financial indebtedness rose as a result of the issue of the 3.375% Euro Bond with a volume of €1.4 billion by BASF Aktiengesellschaft. Because of the CTA, however, the ratio of long-term liabilities to total liabilities declined to 27.4% from 29.3% in 2004. **Short-term liabilities** changed only slightly. Financial indebtedness declined primarily as a result of the repayment of BASF Aktiengesellschaft's €1.25 billion 5.75% Euro Bond.

Assets by region

	Tangible assets		Inventories		Receivables	
%	2005	2004	2005	2004	2005	2004
Europe	52.4	55.4	51.0	53.1	57.9	61.8
North America (NAFTA)	18.1	18.1	29.6	28.6	18.0	17.5
Asia Pacific	25.7	23.1	13.5	12.5	15.5	12.9
South America, Africa, Middle East	3.8	3.4	5.9	5.8	8.6	7.8
	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Liquidity and Capital Resources

- **Cash provided by operating activities at record level**
- **Further reduction in net working capital**
- **Liquid funds of €3.7 billion transferred to Contractual Trust Arrangement (CTA)**
- **Capital expenditures, including acquisitions, dividends and share buybacks, financed from cash provided by operating activities**
- **Cash inflows from portfolio measures**

Statements of cash flows

Million €	2005	2004
Net income	3,007	2,004
Depreciation and amortization of intangible, tangible and financial assets	2,427	3,119
Changes in working capital	250	(193)
Miscellaneous items	(434)	(296)
Cash provided by operating activities before external financing of pension obligations	**5,250**	**4,634**
External financing of pension obligations (CTA)	(3,660)	–
Cash provided by operating activities	**1,590**	**4,634**
Payments related to tangible and intangible assets	(1,948)	(2,057)
Acquisitions/divestitures	995	570
Financial investments and other items	247	254
Cash used in investing activities	**(706)**	**(1,233)**
Capital increases/repayments	(1,425)	(781)
Changes in financial liabilities	299	(203)
Dividends	(982)	(852)
Cash used in financing activities	**(2,108)**	**(1,836)**
Net changes in cash and cash equivalents	(1,224)	1,565
Cash and cash equivalents as of beginning of year and other changes	2,132	521
Cash and cash equivalents as of end of year	**908**	**2,086**
Marketable securities	183	205
Liquid funds	**1,091**	**2,291**

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 profitability. The risks associated with currencies, interest rate changes and creditworthiness are systematically analyzed as part of our financial management and limited using modern processes and financial instruments. We also employ derivative instruments for this purpose. Further details can be found on page 150 onward.

Another objective of our financial management is to provide the BASF Group with the financial flexibility needed to steadily develop its business portfolio and continue its shareholder-oriented dividend and share buyback policy.

The fundamental 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 operational business and the company's strategic direction.

As a borrower, we make use of international capital markets. In doing so, we aim to preserve our ability to meet our financial obligations, which is rated "very good" by independent rating agencies. We thus ensure attractive financing conditions.

FINANCIAL POSITION OF THE BASF GROUP IN 2005

Cash provided by operating activities

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

We further reduced net working capital despite a higher volume of business. Balance sheet items nevertheless increased, in particular due to the rise in the value of the U.S. dollar.

"Miscellaneous items" primarily reflects the reclassification of the gain from the sale of the stake in Basell, which is included as part of cash inflows in cash used in investing activities.

External financing of pension obligations

As of the end of the year, we transferred approximately €3.7 billion into a Contractual Trust Arrangement (CTA). This measure will lessen the impact of pension payments on BASF's future cash flow and will further improve the transparency of our financial reporting (see also page 65).

Cash used in investing activities

Net capital expenditures declined by €527 million, or 42.7%, compared with 2004. This significant decline was due primarily to cash inflows from portfolio measures.

We spent €1,948 million, or 5.3% less than in 2004, on additions to tangible and intangible assets. As a result, capital expenditures were again substantially below the level of depreciation and amortization.

Expenditures for acquisitions totaled €536 million and were primarily related to the acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany, as well as the Swiss fine chemicals company Orgamol. We generated proceeds of €1,531 million from divestitures, the most important of which was the sale of the stake in Basell. Additional cash inflows were related to further portfolio optimization measures in the Agricultural Products division and the sale of our polystyrene business in the United States.

Changes in financial assets, marketable securities and financial receivables resulted in an outflow of €211 million. The sale and disposal of long-term assets and securities generated proceeds of €458 million.

In 2005, we invested a total of €2,523 million in tangible and intangible assets, including acquisitions, compared with €2,163 million in 2004. On a regional basis, these expenditures were as follows:

Capital expenditures by region

%	2005	2004
Europe	56.8	55.6
North America (NAFTA)	11.2	12.5
Asia Pacific	27.6	28.1
South America, Africa, Middle East	4.4	3.8
	100.0	**100.0**

In the **Chemicals** segment, investments and acquisitions in 2005 rose by 6.3% compared with the previous year to €639 million. Major projects included:

- Completion and startup of the steam cracker, a syngas plant and production plants for formic acid, C_4 oxo alcohols, ethylene oxide and ethylene glycol, propionic acid, methylamines and dimethylformamide at the new Verbund site in Nanjing, China;
- Completion and startup of plants for cyclohexane and isopropanolamine in Ludwigshafen;
- Completion and startup of a THF/PolyTHF® plant in Caojing, China;
- Optimization of plasticizer production in North America (NAFTA); and
- Acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany.

In the **Plastics** segment, we spent €490 million on capital expenditures and acquisitions in 2005. This was an increase of 3.6% compared with the previous year. Among the important investments were:

- Expansion of MDI production capacity in Antwerp, Belgium;
- Construction of new MDI and TDI plants in Caojing, China;
- Acquisition of the global TDI business of Huntsman, United States;
- Establishment of a PUR systems house in Bangpoo, Thailand;
- Construction of a PBT plant in Kuantan, Malaysia;
- Expansion of capacities for engineering plastics compounding in Pasir Gudang, Malaysia;
- Start of expansion of production capacities for polyamide 6 in Freeport, Texas; and
- Acquisition of Leuna-Miramid GmbH, Leuna, Germany.

In the **Performance Products** segment, investments in 2005 increased by 14.1% to €347 million. The most important projects were:

- Completion and startup of plants for acrylic acid and acrylates at the new Verbund site in Nanjing, China;
- Construction of a superabsorbents plant in Freeport, Texas; and
- Construction of a plant for raw materials for HDI-based coatings at the site in Caojing, China.

In the **Agricultural Products & Nutrition** segment, we spent €296 million on capital expenditures and acquisitions in 2005 compared with €253 million in the previous year. The **Agricultural Products** division invested €74 million, mainly in optimization measures at various sites. The **Fine Chemicals** division spent €222 million on capital expenditures and acquisitions in 2005. Major projects included:

- Construction of a plant for citral derivatives in Ludwigshafen and the completion of a plant for UV absorbers in Ludwigshafen;
- Construction of a feed enzymes plant in Ludwigshafen; and
- Acquisition of the Swiss fine chemicals company Orgamol with sites in Switzerland and France.

In the **Oil & Gas** segment, we invested €624 million compared with €388 million in 2004. Key projects included:

- Pipeline connection to the Mittelplate offshore oil field in Germany;
- Debottlenecking of the STEGAL natural gas pipeline;
- Start of development of the Achimov horizon in a section of the Urengoy field in Russia;
- Start of conversion of the Haidach natural gas field in Austria into a natural gas storage facility;
- Acquisition of the Saltfleetby natural gas field in the United Kingdom; and
- Development of new natural gas deposits in the Dutch North Sea and in Argentina.

Cash used in financing activities

In 2005, cash used in financing activities was €2,108 million compared with €1,836 million in 2004.

We spent a total of €1,435 million to buy back 26.06 million shares at an average price of €55.05 per share (see also page 8).

€982 million was paid in dividends and profit transfers in 2005. Of this amount, €904 million, or €1.70 per share, was for dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2004. Shareholders of fully or proportionately consolidated companies received €78 million.

Liquid funds declined due to the transfer of funds into the Contractual Trust Arrangement and amounted to €1,091 million at the end of 2005. As a result, liquid funds as a proportion of total assets declined to 3.1%.

Financial indebtedness increased by 19.5% compared with 2004 and amounted to €3,941 million. Because of the decline in liquid funds, net debt increased by €1,843 million to €2,850 million. Financial liabilities are discussed in detail in Note 25 to the Consolidated Financial Statements on page 143 onward.

Detailed information on other financial liabilities is provided in Note 26 to the Consolidated Financial Statements on page 145 onward.

Key ratios and ratings

In 2005, we improved key ratios, thus laying the foundation for maintaining good credit ratings.

Horizontal balance sheet ratios			2005	2004
Fixed asset coverage I (%)	=	Stockholders' equity* / Intangible assets + Tangible assets + Financial assets	88	84
Fixed asset coverage II (%)	=	Stockholders' equity* + Long-term liabilities / Intangible assets + Tangible assets + Financial assets	140	139
Fixed asset coverage III (%)	=	Stockholders' equity* + Long-term liabilities / Intangible assets + Tangible assets + Financial assets + Inventories	109	112

* Minus proposed dividend

Liquidity and debt ratios			2005	2004
Liquidity I (%)	=	Short-term receivables + Liquid funds / Short-term liabilities + Proposed dividend	103	110
Liquidity II (%)	=	Current assets / Short-term liabilities + Proposed dividend	161	159
Dynamic debt level (%)	=	Cash provided by operating activities / Financial indebtedness	133*	141
Debt-equity ratio (%)	=	Financial indebtedness / Financial indebtedness + Stockholders' equity	18.4	16.6

* Before external financing of pension obligations

Interest coverage			2005	2004
EBITDA interest coverage	=	Income from operations before interest, taxes depreciation and amortization / Interest expense	23.4	26.7

The rating agencies Moody's and Standard & Poor's continue to give BASF their best ratings for short-term debt and "very good" ratings for long-term debt. Moody's has assigned us a short-term debt rating of P-1 and a long-term rating of Aa3; our ratings from Standard & Poor's are A1+ short-term and AA- long-term.

Results of Operations by Segment

Segment overview	Sales		Income from operations before interest, taxes, depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
Million €	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Chemicals	8,103	7,020	1,942	1,857	1,488	1,377
Plastics	11,718	10,532	1,504	1,193	1,031	752
Performance Products	8,267	8,005	1,227	1,503	890	850
Agricultural Products & Nutrition	5,030	5,147	996	1,093	693	763
Thereof Agricultural Products	3,298	3,354	907	887	671	666
Fine Chemicals	1,732	1,793	89	206	22	97
Oil & Gas	7,656	5,263	2,859	2,098	2,410	1,653
Other*	1,971	1,570	(295)	(59)	(374)	(165)
Thereof corporate research costs	–	–	–	–	(225)	(168)
	42,745	**37,537**	**8,233**	**7,685**	**6,138**	**5,230**

Segment overview	Income from operations (EBIT)		Assets		Capital expenditures**	
Million €	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Chemicals	1,326	1,284	6,146	5,219	639	601
Plastics	1,015	694	6,639	6,187	490	473
Performance Products	863	1,128	4,863	4,538	347	304
Agricultural Products & Nutrition	623	658	6,637	6,293	296	253
Thereof Agricultural Products	681	602	5,156	4,985	74	100
Fine Chemicals	(58)	56	1,481	1,308	222	153
Oil & Gas	2,410	1,643	4,895	4,063	624	388
Other*	(407)	(214)	6,490	9,148	127	144
Thereof corporate research costs	(225)	(168)	–	–	–	–
	5,830	**5,193**	**35,670**	**35,448**	**2,523**	**2,163**

* "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 sales, as well as from currency positions that are macro-hedged (€(97) million, previous year €54 million).

** Capital expenditures in tangible assets (thereof €329 million from acquisitions in 2005) and intangible assets (thereof €257 million from acquisitions in 2005).

Sales	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Chemicals	1,822	1,582	2,007	1,748	2,063	1,811	2,211	1,879
Plastics	2,800	2,307	2,924	2,522	2,957	2,827	3,037	2,876
Performance Products	1,908	1,929	2,098	2,029	2,106	2,068	2,155	1,979
Agricultural Products & Nutrition	1,354	1,441	1,465	1,527	1,008	1,035	1,203	1,144
Thereof Agricultural Products	959	983	1,043	1,071	576	591	720	709
Fine Chemicals	395	458	422	456	432	444	483	435
Oil & Gas	1,840	1,394	1,650	1,090	1,630	1,163	2,536	1,616
Other*	359	398	437	398	597	410	578	364
	10,083	**9,051**	**10,581**	**9,314**	**10,361**	**9,314**	**11,720**	**9,858**

Income from operations (EBIT) before special items	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Chemicals	426	251	415	340	268	367	379	419
Plastics	269	155	274	180	267	180	221	237
Performance Products	225	210	272	233	216	216	177	191
Agricultural Products & Nutrition	296	300	302	273	(23)	4	118	186
Thereof Agricultural Products	276	254	295	239	(24)	(11)	124	184
Fine Chemicals	20	46	7	34	1	15	(6)	2
Oil & Gas	484	343	579	339	594	459	753	512
Other*	(137)	(84)	(185)	(99)	5	(54)	(57)	72
	1,563	**1,175**	**1,657**	**1,266**	**1,327**	**1,172**	**1,591**	**1,617**

Income from operations (EBIT)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Chemicals	426	234	345	335	259	338	296	377
Plastics	268	154	280	171	260	169	207	200
Performance Products	224	203	282	230	209	214	148	481
Agricultural Products & Nutrition	304	280	272	268	(11)	(26)	58	136
Thereof Agricultural Products	284	234	291	235	(12)	(29)	118	162
Fine Chemicals	20	46	(19)	33	1	3	(60)	(26)
Oil & Gas	484	343	579	346	594	459	753	495
Other*	(207)	(139)	(171)	(100)	(49)	(78)	20	103
	1,499	**1,075**	**1,587**	**1,250**	**1,262**	**1,076**	**1,482**	**1,792**

* "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 sales, as well as from currency positions that are macro-hedged (€(97) million, previous year €54 million).

Chemicals

- **Significant increase in sales due to higher volumes and prices**
- **Increased earnings despite startup costs for new plants and the effects of the hurricanes in the United States**
- **Business strengthened with electronic chemicals**
- **Expansion of our production capacities in Asia**

The Chemicals segment comprises the Inorganics, Petrochemicals and Intermediates divisions.

Segment data

Million €	2005	2004	Change in %
Sales to third parties	8,103	7,020	15.4
Thereof Inorganics	1,017	844	20.5
Petrochemicals	5,084	4,189	21.4
Intermediates	2,002	1,987	0.8
Intersegmental transfers	3,826	3,395	12.7
Sales including intersegmental transfers	11,929	10,415	14.5
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,942	1,857	4.6
Income from operations (EBIT) before special items	1,488	1,377	8.1
Income from operations (EBIT)	1,326	1,284	3.3
Operating margin (%)	16.4	18.3	–
Assets	6,146	5,219	17.8
Return on operating assets (%)	23.3	25.2	–
Research and development expenses	114	98	16.3
Additions to tangible and intangible assets	639	601	6.3

Compared with the previous year, we increased sales to third parties by €1,083 million to €8,103 million in 2005 due to higher prices and volumes (volumes 5%, prices 8%, portfolio 2%). This was primarily due to the plants at our Verbund site in Nanjing, China, as well as the acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany.

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

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

At €6,146 million, assets were €927 million higher than in 2004 due to the following measures in our key regions:

In Europe, we successfully started up new plants. At the Ludwigshafen site, for example, we commenced production of the petrochemical cyclohexane. This year, we started production of triethylenediamine, an important basic product in the manufacture of polyurethanes, in Antwerp, Belgium.

In North America (NAFTA), we are aligning production of plasticizers with our customers' needs. At our site in Pasadena, Texas, we are converting the 2-ethylhexanol plant to produce 2-propylheptanol. At the same site, a new plant is also being built to produce the plasticizer Palatinol® DPHP from 2-propylheptanol. The production capacity of the 2-ethylhexanol plant is also being increased at the site in Freeport, Texas. We aim to start up the new and expanded plants in mid-2006.

In Asia, we reached several milestones in the expansion of our chemicals business. The purchase of the electronic chemicals business complements our portfolio and strengthens our position in this growth industry in Asia. The creation of a new, global business unit headquartered in Hong Kong is also contributing to this success. In Nanjing, China, we started operations at a Verbund site in this important market together with Sinopec, our Chinese partner. Since then, both the steam cracker and the downstream plants have been operating reliably. This site is a key factor in supplying our Chinese customers with important petrochemical raw materials. We started production of THF and PolyTHF® at the world-scale plant at our site in Caojing, China. Among other things, PolyTHF® is used to make spandex fibers.

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

Inorganics

In 2005, we increased sales to third parties by €173 million to €1,017 million (volumes 1%, prices 1%, portfolio 18%).

The sales growth was mainly due to the purchase of the electronic chemicals business in April 2005.

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

The acquisition of Merck KGaA's activities serves to develop BASF's electronic chemicals business. It considerably strengthens BASF's market position in Europe and Asia, making BASF the leading provider of electronic chemicals in the growth areas of semiconductors and flat screens.

We expect higher sales in 2006 with contributions from all of the division's business units. We do not expect to match the high earnings level of 2005 because further increases in natural gas and energy prices will put noticeable pressure on margins.

Petrochemicals

In 2005, we significantly increased sales to third parties by €895 million to €5,084 million (volumes 12%, prices 9%). All product lines contributed to this increase. Sales growth for cracker products, in particular, was higher than average in view of increased prices for crude oil and naphtha. Sales of alkylene oxides and glycols as well as plasticizers and solvents also increased thanks to strong demand.

With business remaining strong, income from operations exceeded the very high level recorded in 2004. Raw material prices were considerably higher and very volatile, with record highs for crude oil and naphtha. We were largely able to pass on these increases to our customers in the form of higher prices. Capacity utilization rates at our plants were again very high. As a result, our margins were high, especially in the first half of the year. In the fall of 2005, hurricanes forced us to shut down our plants in the Gulf of Mexico for several weeks.

In 2006, we expect that our business will continue to develop positively. Although we anticipate sales at the previous year's level, it will be difficult to match the record earnings posted in 2005. Additional business volumes will certainly come from the first full operational year of our plants in Nanjing, China. However, these are likely to be offset by scheduled shutdowns of major plants in Europe and the United States.

Intermediates

Sales to third parties amounted to €2,002 million (volumes –9%, prices 9%, currencies 1%). In line with our "value before volume" strategy, we offset lower sales volumes compared with 2004 thanks to price increases in all regions and nearly all product lines.

Global demand in the strategic business units amines, carboxylic acids and specialty intermediates was strong in 2005. From the second quarter onward, however, the butanediol and derivatives business was affected by a decline in demand for PolyTHF®, in particular in Asia. This was due to a textile trading dispute lasting several months between China and the United States as well as between China and the E.U. In the second half of 2005, the strategic business unit polyalcohols and specialties recovered following initially weak demand in its most important application, coatings.

Income from operations was lower than in 2004 due to special items. In the first half of 2005, raw material costs remained overall constant and price increases led to significantly improved margins. After the hurricanes in the Gulf of Mexico in the third quarter of 2005, however, the prices of almost all important raw materials rose dramatically worldwide. Costs for the startup of six new plants in Caojing and Nanjing, China, also negatively impacted earnings in the second half of the year.

Earnings in 2005 were also impaired by special charges: The largest items were the provisions established for the restructuring and partial closure of the site in Feluy, Belgium, and the closure of plants for THF and PolyTHF® in Yokkaichi, Japan.

We expect sales to increase slightly in 2006. Thanks to the restructuring measures we have introduced, we expect to improve earnings despite higher raw material costs and additional capacities at both existing and new competitors.

Plastics

- **Sales growth thanks to higher prices**
- **Increase in earnings in Polyurethanes and Performance Polymers**
- **High volatility and further increase in raw material costs**
- **Business models successfully optimized**

The Plastics segment comprises the Styrenics, Performance Polymers and Polyurethanes divisions.

Segment data

Million €	2005	2004	Change in %
Sales to third parties	11,718	10,532	11.3
Thereof Styrenics	4,518	4,450	1.5
Performance Polymers	2,909	2,587	12.4
Polyurethanes	4,291	3,495	22.8
Intersegmental transfers	471	677	(30.4)
Sales including intersegmental transfers	12,189	11,209	8.7
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,504	1,193	26.1
Income from operations (EBIT) before special items	1,031	752	37.1
Income from operations (EBIT)	1,015	694	46.3
Operating margin (%)	8.7	6.6	–
Assets	6,639	6,187	7.3
Return on operating assets (%)	15.9	11.6	–
Research and development expenses	135	136	(0.7)
Additions to tangible and intangible assets	490	473	3.6

Sales to third parties rose by €1,186 million to €11,718 million in 2005 (volumes 1%, prices 9%, currencies 1%).

Income from operations rose by €321 million to €1,015 million compared with last year's strong level. In the Performance Polymers and Polyurethanes divisions, sales and earnings continued to improve as a result of higher prices despite high and volatile raw material costs. Only the Styrenics division fell short of the previous year's high earnings, even though sales remained stable. This was due to both the high volatility of benzene and styrenics prices as well as a decline in market demand.

Price increases were necessary to pass on higher raw material costs. As a result, demand in the second half of 2005 was lower than originally forecast. Our margins therefore came under pressure and softened slightly.

We further strengthened the polyurethanes and performance polymers businesses through acquisitions. All divisions continued to optimize their business models. Here, we focused on working closer with customers to implement their ideas for new products and applications. Specialties in the Styrenics division were combined in a single global business unit.

In 2005, we invested primarily in the further expansion of our business in the Performance Polymers and Polyurethanes divisions. Inventories and especially receivables rose compared with the previous year as a result of significantly higher sales volumes and prices. This increased the segment's total assets.

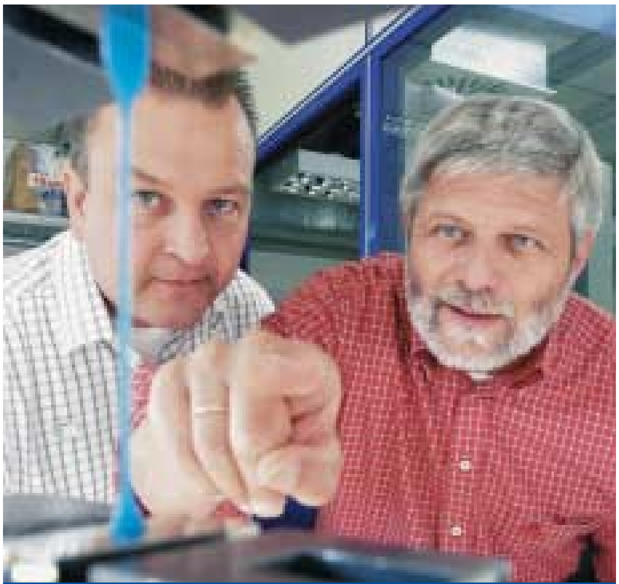
In 2006, the main focus will be on starting up additional capacities in Asia. The MDI/TDI complex built together with our partners in Caojing, China, is one example of the consistent expansion of our activities in this region. Due to the expansion of our business, we expect sales to increase slightly. In view of the startup costs for our new plants and the ongoing volatility of raw material costs for styrenics and fiber intermediates, we aim to at least match the 2005 earnings level.

Styrenics

At €4,518 million, sales to third parties in the Styrenics division in 2005 remained at the previous year's level (volumes –3%, prices 4%, currencies 2%, portfolio –1%). This was due to a decline in demand and structural effects.

Income from operations was considerably below last year's high level. In contrast to 2004, we were able to pass on further increases in raw material costs to customers only after a considerable delay. The high volatility of benzene and styrene prices had a negative impact on earnings. Furthermore, the decline in demand negatively impacted earnings and was caused to some extent by substitution of styrenics by other materials.

We have consistently proceeded to reorient our business models. Since the start of 2005, we have combined specialties in a single global unit. This has the essential advantage that all activities are now coordinated worldwide "under one roof." Since then, we have marketed our product range worldwide under the new PlasticsPlus® brand. A successful example of a product innovation is the rapid global introduction of Ecovio®, a biodegradable plastic partly based on renewable raw materials.



Martin Vallo, BASF Elastogran, and Klauss Knörr, adidas, develop a sports shoe sole with an innovative shock-absorbing system.

We have reached important milestones in the restructuring of our business in North America (NAFTA). The measures carried out in 2005 included the divestiture of the polystyrene business together with the site in Joliet, Illinois. In addition, we transferred production of Styropor® from South Brunswick, New Jersey, to Altamira, Mexico.

In 2006, we aim to increase sales and significantly increase earnings. To do this, we want to better manage the significantly higher volatility of prices and raw material costs seen in recent years and further reduce our fixed costs.

Performance Polymers

Sales to third parties rose €322 million to €2,909 million in 2005 (volumes 4%, prices 8%). In particular, sales in Asia increased significantly compared with 2004.

Income from operations increased despite persistently high raw material prices. We succeeded in implementing substantial price increases, especially for polyamides and intermediates, which made a significant contribution to earnings.

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

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

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

We have rigorously continued to optimize our globally managed commodity business model for polyamides and intermediates. This provides us with the flexibility to exploit regional market advantages.

In engineering plastics, we are expanding our cooperation with key customers. Here, we are focusing on new applications and new uses for plastics.

On the basis of the measures we are planning, we expect a slight increase in earnings in 2006.

Polyurethanes

Sales to third parties rose by €796 million to €4,291 million in 2005 (volumes 2%, prices 17%, currencies 2%, portfolio 2%). The strongest growth was recorded in the Asia Pacific region.

We improved income from operations compared with 2004. This was mainly due to sales prices, which rose during the course of the year. Significantly higher raw material and energy costs did, however, impact our business.

In 2005, our capital expenditures again focused on Asia: The production facility for the basic materials MDI and TDI, which we are building with our partners in Caojing, China, is scheduled to start operations in summer 2006. The additional capacities will be used to meet the constantly rising demand in Asia, and in China in particular. In addition, this facility will provide the necessary starting materials for the production of specialties in Pudong, China, which is planned for 2007.

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

In 2006, we expect persistently volatile and generally very high prices for raw materials and energy. The startup costs for the plants in Caojing, China, will additionally reduce earnings. It will therefore be a considerable challenge to match the strong level of earnings posted in 2005.

Performance Products

- **Increase in sales mainly due to higher prices**
- **Improvement in earnings due to double-digit growth in Functional Polymers**
- **Growth boosted by positive business performance in Asia Pacific**
- **Successful start of operations at production complex for acrylic acid and acrylates in Nanjing, China**

The Performance Products segment consists of the Performance Chemicals, Coatings and Functional Polymers divisions.

Segment data

Million €	2005	2004	Change in %
Sales to third parties	8,267	8,005	3.3
Thereof Peformance Chemicals	2,889	3,228	(10.5)
Coatings	2,180	2,022	7.8
Functional Polymers	3,198	2,755	16.1
Intersegmental transfers	352	291	21.0
Sales including intersegmental transfers	8,619	8,296	3.9
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,227	1,503	(18.4)
Income from operations (EBIT) before special items	890	850	4.7
Income from operations (EBIT)	863	1,128	(23.5)
Operating margin (%)	10.4	14.1	–
Assets	4,863	4,538	7.2
Return on operating assets (%)	18.4	24.2	–
Research and development expenses	214	217	(1.4)
Additions to tangible and intangible assets	347	304	14.1

Sales to third parties in 2005 climbed €262 million to €8,267 million compared with 2004 (prices 7%, currencies 1%, portfolio –5%). This more than offset the decline in sales due to the sale of the printing systems business in November 2004.

The sales growth was due mainly to rigorously implemented price increases. The Functional Polymers division, in particular, continued to grow profitably. The positive development of business in Asia gave additional impetus to growth.

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

The innovative coating developed by BASF in the United States is cured using UV light, thus saving time and energy.

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

We increased capital expenditures by €43 million to €347 million. The most important projects were the integrated production complex for acrylic acid in Nanjing, China, and the construction of a superabsorbents plant in Freeport, Texas. In addition, we started work on the construction of a plant for raw materials for HDI-based coatings in Caojing, China.

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

Performance Chemicals

As a result of the sale of the printing systems business in 2004, sales to third parties declined by €339 million to €2,889 million (prices 5%, portfolio –16%). Sales from ongoing business increased in all regions due to higher prices for our products. Significantly higher sales compared with 2004 were posted, in particular for performance chemicals for detergents and formulators as well as for the automotive and oil industries.

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

In 2006, we expect the positive sales trend to continue and earnings to increase. We expect to achieve this through higher sales volumes and selective price increases. At the same time, we are continuing to restructure our European business for the textiles and leather industries in order to adapt our activities to the ongoing difficult market environment in Europe.

Coatings

Sales to third parties increased by €158 million to €2,180 million (volumes –2%, prices 3%, currencies 3%, portfolio 4%). In all regions, sales increased in local currency terms.

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

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

We continued to expand our system supplier concept for reducing the total cost of coating processes for customers. In addition to supplying our products, we provide inventory management and other customer services.

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

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

We aim to increase sales and earnings in 2006. In particular, we expect a positive impact from our newly established regional business unit in Asia. In addition, we are rigorously pursuing the restructuring of our industrial coatings business. We are expanding our presence in growth markets in Eastern Europe and Asia. We plan to continue the measures we have already introduced to increase efficiency in all regions and business units.

Functional Polymers

At €3,198 million, sales to third parties increased by €443 million compared with 2004 (volumes 1%, prices 14%, currencies 1%). This significant increase was primarily the result of passing on higher raw material costs to our customers.

We increased sales volumes considerably, in particular for adhesives raw materials and acrylic monomers. Higher sales volumes of acrylic monomers resulted from the start of operations at our plants in Nanjing, China. Our world-scale plants for the production of acrylic acid and acrylates at this new BASF Verbund site were completed on schedule. Operations started successfully in the first quarter, and full production capacity was available by the end of April. In Europe, we suffered losses in dispersions for paper finishing as a result of the long industrial dispute in the Finnish paper industry. We discontinued our business with dispersions for the carpet industry in Europe because of the unsatisfactory earnings situation and reduced our production capacities by closing an old plant. Income from operations was significantly higher than in 2004. All product lines, especially acrylic monomers, contributed to this thanks to high capacity utilization of cost-efficient plants.

In 2006, we expect sales to be slightly higher than in 2005 due to continuing strong demand. In a challenging market environment, we aim to match the very strong earnings posted in 2005.

Agricultural Products & Nutrition

- **Agricultural Products division posts higher earnings**
- **Agricultural Products increases research and development expenditure**
- **Lower prices for lysine and vitamin C negatively impact sales and earnings in Fine Chemicals**
- **Extensive restructuring program launched in Fine Chemicals**

The Agricultural Products & Nutrition segment comprises the Agricultural Products and Fine Chemicals divisions.

Agricultural Products

Operating division data

Million €	2005	2004	Change in %
Sales to third parties	3,298	3,354	(1.7)
Intersegmental transfers	29	26	11.5
Sales including intersegmental transfers	3,327	3,380	(1.6)
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	907	887	2.3
Income from operations (EBIT) before special items	671	666	0.8
Income from operations (EBIT)	681	602	13.1
Operating margin (%)	20.6	17.9	–
Assets	5,156	4,985	3.4
Return on operating assets (%)	13.4	11.4	–
Research and development expenses	303	272	11.4
Additions to tangible and intangible assets	74	100	(26.0)

At €3,298 million, sales to third parties were €56 million lower than in 2004 (volumes –1%, prices/currencies –1%).

Our sales in Europe declined by 4% to €1,507 million. Persistently dry weather in parts of southern Europe led to lower sales volumes. However, our business in the Central and Eastern European growth markets developed positively. The launch of boscalid, our newly developed fungicide, also had a positive impact on our business.

We successfully expanded our business in North America (NAFTA), where sales rose by 9% to €946 million. Here, our product Headline®, which contains the active ingredient F 500®, made a major contribution thanks to its positive effects on crop health and yields.

Sales in Asia declined by 2% to €212 million due to the transfer of distribution in Australia to a third party. This reorganization enabled us to reduce selling expenses and increase our profitability and the market presence of our products.

In South America, sales declined by 10% to €633 million. This was mainly due to conditions in Brazil, where persistently dry weather reduced harvests and the appreciation of the real put our export-oriented customers under considerable pressure. In this region, we continued with our cautious business policy, which aims to achieve long-term success. Our fungicide Opera® with the active ingredient F 500 continued to affirm its market leadership. In addition, we successfully expanded our insecticide business in Brazil with the seed treatment product Standak®, which contains the active ingredient fipronil.

We increased income from operations by €79 million to €681 million. Higher demand for our innovative products offset the negative impact of lower sales and scheduled rises in research and development expenses.

We generated special income from the sale of three active ingredients as a result of portfolio optimization measures.

We increased research and development expenditure by €31 million to €303 million. As a percentage of sales, research and development expenses amounted to 9.2%, compared with 8.1% in 2004. Details of our activities in the area of crop protection research are provided on page 55.

Assuming normal seasonal conditions in 2006, we expect to increase sales and maintain earnings at last year's strong level. We aim to develop our business with our high-value, innovative products. At the same time, we plan to provide additional funds to conduct research into new solutions to improve plant health and develop products based on our latest active ingredients.

We will continue to manage receivables and inventories strictly in a market that continues to be highly competitive.

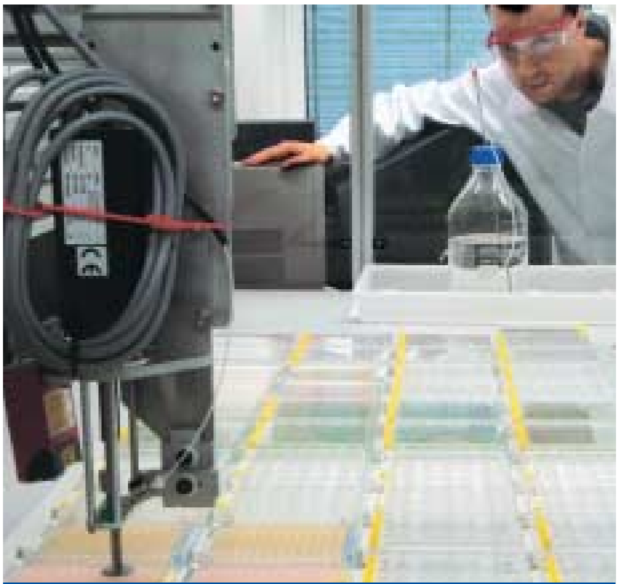
Plant biotechnology

BASF is one of the world's leading companies in the field of plant biotechnology research and development. Plant biotechnology is one of the company's five growth clusters and BASF plans to provide a further €270 million for research in this area in the next three years. You can read more about BASF's growth clusters on page 53.

We plan to shape this attractive market of the future with our technology platform and an extensive project portfolio. All our activities in plant biotechnology are combined in our subsidiary BASF Plant Science.

Among other things, we are focusing on crops for healthier nutrition and plants as renewable raw materials – "green factories" – to produce specific chemical substances. This includes plants with optimized constituent components such as oils, proteins, starches, vitamins or fatty acids.

Another focus is to use biotechnology to protect plants from pests and to increase the yield of important crops such as corn (maize), wheat and soybeans. This also involves developing plants that are more resistant to drought. In 2005, we signed an extensive licensing agreement and research cooperation with the Belgian biotechnology company CropDesign that gives us a significant competitive advantage.



This automated system increases testing efficiency in the insecticide laboratory.

BASF Plant Science operates an international research and technology platform with a team of approximately 500 highly qualified staff at seven sites in Europe and North America. In addition, we cooperate with numerous research institutes, universities and biotechnology companies worldwide.

Our subsidiary Metanomics in Berlin is an important part of this biotechnology network. Metanomics operates a technology platform to identify agronomically important genes on the basis of metabolic functional genomics. This involves determining the metabolic functions of specific genes in living organisms. This information offers us greater possibilities of finding new relevant genes. By combining bioanalysis and bioinformatics, this platform gives us a unique level of precision and performance within the industry, and thus accelerates our research and development processes. In addition to the focus on plant research, this approach also opens up synergies in the areas of pharmacology, toxicology and nutritional science.

Fine Chemicals

Operating division data

Million €	2005	2004	Change in %
Sales to third parties	1,732	1,793	(3.4)
Intersegmental transfers	28	30	(6.7)
Sales including intersegmental transfers	1,760	1,823	(3.5)
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	89	206	(56.8)
Income from operations (EBIT) before special items	22	97	(77.3)
Income from operations (EBIT)	(58)	56	.
Operating margin (%)	(3.3)	3.1	–
Assets	1,481	1,308	13.2
Return on operating assets (%)	(4.2)	4.2	–
Research and development expenses	70	90	(22.2)
Additions to tangible and intangible assets	222	153	45.1

In 2005, sales to third parties fell by €61 million to €1,732 million (volumes 3%, prices –7%, currencies 1%).

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

Effective October 1, 2005, we acquired the Orgamol Group with sites in Switzerland and France. This acquisition will enable us to expand the high-growth contract manufacturing business, which involves the exclusive manufacture of active ingredients and intermediates for the pharmaceutical industry.

Following the start of our own production of feed enzymes from 2006 onward, we will be able to realize the added value created by these products and achieve cost advantages.

In addition to the decline in sales prices, earnings were negatively affected by increasingly higher costs for raw materials and energy in the course of the year. Cost reductions, for example in the citral product line, only partially offset operating costs.

We introduced a restructuring program in view of the unsatisfactory earnings trend. One-time charges related to this program largely accounted for special items. The largest individual items involved the closure of the vitamin C plant in Grenaa, Denmark, and a reduction in the workforce at the production site in Minden, Germany.

Assets in the Fine Chemicals division increased in 2005 as a result of the Orgamol acquisition. On a comparable basis, however, we reduced operating assets.

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

Oil & Gas

- **Sales and earnings improve**
- **Natural gas sales volumes rise again**
- **Cooperation with our Russian partner Gazprom extended**

Segment data

Million €	2005	2004	Change in %
Sales to third parties	7,656	5,263	45.5
Thereof natural gas trading	4,157	2,781	49.5
Intersegmental transfers	723	546	32.4
Sales including intersegmental transfers	8,379	5,809	44.2
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	2,859	2,098	36.3
Income from operations (EBIT) before special items	2,410	1,653	45.8
Income from operation (EBIT)	2,410	1,643	46.7
Thereof natural gas trading	316	340	(7.1)
Operating margin (%)	31.5	31.2	–
Assets	4,895	4,063	20.5
Return on operating assets (%)	53.8	41.3	–
Exploration expenses*	173	195	(11.3)
Additions to tangible and intangible assets	624	388	60.8

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

Sales to third parties in 2005 rose by €2,393 million to €7,656 million (volumes 7%, prices/currencies 38%). This was due to the significant rise in oil prices, increases in crude oil and natural gas production, as well as the expansion of the natural gas business.

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

Sales in our natural gas trading business sector rose by €1,376 million to €4,157 million as a result of increased volumes and prices. Gas volumes overall increased by 8.6% to 330.2 billion kilowatt hours. On a consolidated basis, gas sales volumes rose 11.1% from 210.2 billion kilowatt hours in 2004 to 233.5 billion kilowatt hours in 2005. In Germany, WINGAS again grew faster than the market and acquired new customers, in particular in the power station sector. We expanded our marketing activities in Belgium, the United Kingdom, the Czech Republic and Austria.

On the Russian mainland, work starts on the North European Gas Pipeline – a joint venture between BASF, Gazprom and E.ON.

Income from operations rose €767 million to €2,410 million. Income from operations in the exploration and produc-tion business sector, which is included in this amount, increased by €791 million to €2,094 million, mainly as a result of higher prices. Income from operations includes income taxes on oil production in North Africa and the Middle East of €1,072 million that are noncompensable with German corporate income tax. These taxes are reported as income tax (see also Note 10 to the Consolidated Financial Statements on page 121).

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

Assets in the Oil & Gas segment rose by €832 million to €4,895 million compared with the previous year. Additions to tangible assets mainly involved exploration and production activities in Germany, the Netherlands, Libya and Argentina.

In 2005, 16 wildcat and appraisal wells were drilled in the search for new oil and natural gas deposits, 11 of which were successful. As a result, we replenished 52% of the volumes drilled in 2005. In the natural gas trading sector, we invested primarily in expanding our infrastructure.

Proved crude oil reserves declined by 6% to 63 million tons compared with year-end 2004. The reserve-to-production ratio was seven years, compared with eight years at year-end 2004. Proved natural gas reserves of 63 billion cubic meters declined by 5% compared with the previous year. The reserve-to-production ratio is nine years.

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

In our Achimgaz joint venture with Gazprom, roads and construction site work for the drilling and production facilities have been largely completed. This joint venture will produce natural gas and condensate from the Achimov deposit of the Urengoy gas field in western Siberia. The first drilling facility of the six planned production wells to be drilled in the first phase of the project is expected to start operations at the beginning of 2006.

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

Regional Results

- **Europe: Ludwigshafen Site Project successfully completed**
- **North America (NAFTA): Income from operations triples**
- **Asia: Significant increase in sales, also as a result of the new Verbund site in Nanjing, China**
- **South America: Agricultural Products business subdued**

Region	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
Million €	2005	2004	Change in %	2005	2004	Change in %	2005	2004	Change in %
Europe	25,093	22,536	11.3	23,755	21,343	11.3	4,385	4,236	3.5
Thereof Germany	17,100	15,216	12.4	8,865	7,382	20.1	3,019	3,131	(3.6)
North America (NAFTA)	9,542	8,165	16.9	9,479	8,182	15.9	855	286	199.0
Asia Pacific*	6,042	4,911	23.0	6,500	5,309	22.4	297	361	(17.7)
South America, Africa, Middle East*	2,068	1,925	7.4	3,011	2,703	11.4	293	310	(5.5)
	42,745	**37,537**	**13.9**	**42,745**	**37,537**	**13.9**	**5,830**	**5,193**	**12.3**

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

Europe

Companies in Europe increased sales by €2,557 million in 2005. We were able to pass on higher raw materials costs to the market. This, together with greater demand and the appreciation of the U.S. dollar, had a positive impact on our business.

The sales growth was due in particular to the contribution of the Plastics and Oil & Gas segments. The Plastics segment increased sales mainly as a result of higher prices. The Oil & Gas segment made the largest contribution to sales thanks to the continued expansion of its natural gas trading business and increased crude oil and natural gas production. Sales in the Performance Products segment were only slightly lower than in 2004; the effect of the divestiture of the printing systems business was largely offset by stronger demand and higher sales prices. Sales in the Agricultural Products division failed to match the previous year's level of sales because of dry weather in parts of southern Europe. In the Fine Chemicals division, sales also declined due to price pressure for important products.

Stronger demand and higher selling prices led to an increase in income from operations by €149 million compared with 2004. The Plastics segment made a substantial contribution to this result. The Oil & Gas segment benefited from the rise in oil prices. Additionally, our measures to reduce fixed costs paid off. This was particularly the case for the Ludwigshafen Site Project, which was completed on schedule in 2005. This project enabled us to permanently reduce annual costs at our largest site by €480 million since 2003.

In 2005, we rigorously implemented the project "Further Development of European Organization," which was started in 2004. This project aims to increase growth and efficiency in Europe. To this end, we have aligned the business units and the management organization with the market. We expect these measures to result in total additional cost savings of approximately €90 million per year for the BASF Group. In addition, we are currently establishing a European shared service center in Berlin, where we will combine finance and accounting functions as well as standard human resources functions.

North America (NAFTA)

Sales by companies in North America (NAFTA) climbed 16.9% to €9,542 million. In local currency terms, sales rose by 17.2%. The largest contribution came from the Chemicals segment, in particular from the Petrochemicals division, which achieved higher sales due to increased volumes and prices. The sales growth was also driven by the C_4 complex in Port Arthur, Texas, that we operate with our U.S.-based joint venture partners Total Petrochemicals and Shell. This plant started operations in 2004, with 2005 being its first full year of sales.

Income from operations tripled compared with 2004, rising to €855 million. Increased volumes and therefore higher capacity utilization rates contributed to this growth. This applied, in particular, in the Plastics segment and the Petrochemicals, Functional Polymers and Agricultural Products divisions. Furthermore, we reached our target of reducing fixed costs by $250 million per year by 2006 ahead of schedule in mid-2005. This enabled us to offset the consequences of the hurricanes, which significantly impaired our earnings.

We aim to rigorously continue with our restructuring program: After attaining in 2005 the goal we set ourselves for 2006, we now intend to reduce annual fixed costs by a further $150 million by mid-2007.

In addition, we expect the Commercial Effectiveness Program we initiated in 2005 to improve earnings. By 2007, we plan to implement measures to increase income from operations by $200 million per year. To achieve this, we are aligning our price structures, logistics, inventory management and business models more closely with market conditions.

Asia Pacific

The companies in Asia Pacific increased sales by 23% to €6,042 million. In local currency terms, sales increased by 20.4%.

This sales growth was due primarily to the successful startup of all plants at the new Verbund site in Nanjing, China, as well as the THF/PolyTHF® plant in Caojing, China. In addition, the Chemicals segment increased its sales by acquiring the electronic chemicals business of Merck KGaA. The higher sales in the Plastics segment were due primarily to stronger demand for MDI, polyurethane systems and engineering plastics. In the Performance Products segment, sales of acrylic acid and acrylates in particular rose due to higher volumes and prices.

Compared with 2004, income from operations declined by €64 million to €297 million. The main reasons for this were a difficult market environment for intermediates as well as high and volatile raw material costs for styrenics. Earnings were also negatively impacted by special charges resulting from restructuring measures. These related primarily to the planned closure of plants for THF and PolyTHF® in Yokkaichi, Japan.

In Kuala Lumpur, Malaysia, we established a regional shared service center to provide finance, accounting, information technology and human resources services to BASF Group companies in 15 countries in the Asia Pacific region.

South America, Africa, Middle East

Sales by companies in this region rose by 7.4% to €2,068 million. In local currency terms, however, sales declined by 4.9%.

Sales in the Agricultural Products division declined because of the dry weather in parts of South America. The appreciation of the Brazilian real impaired our customers' competitiveness, and this also had a detrimental effect on our business.

The performance of our architectural coatings business, however, was strong, and we also expanded our natural gas business in Argentina.

Income from operations declined by €17 million compared with the previous year to €293 million. This was essentially caused by lower volumes in our agricultural products business and also by expenses for dry holes in the Oil & Gas segment in Brazil. This was offset only to some extent by positive effects from the appreciation of individual local currencies against the euro.

Research and Development

- **€800 million for five growth clusters between 2006 and 2008**
- **Expansion of our global research activities**
- **Almost 1,300 research cooperations worldwide**
- **Research and development expenditure increased by 8%**

Innovations are crucial to BASF's profitable growth. They are essentially driven by customer needs and technological progress. 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 turn, the success of such products strengthens our own business.

Our recipe for success in research and development (R&D) is our Know-How Verbund. At its center are our four global technology platforms: Polymer Research; Chemicals Research & Engineering; Specialty Chemicals Research; and Plant Biotechnology Research. BASF employs approximately 7,000 employees in research and development worldwide. In addition, almost 1,300 cooperations worldwide provide impulses for our research activities. Of these, about two-thirds are with centers of excellence such as universities and research institutes, and one-third with startup companies or other industrial partners throughout the world.

Each year, BASF applies for an average of 1,100 chemical patents, making us number one in the world among chemical companies.

Our research and development activities are closely focused on market needs. Our goal is to build on impulses for innovation from all regions. To this end, we currently operate 16 research and development centers in Europe, 13 in North America, 17 in Asia and four in South America. At our site in Pudong, China, for example, we are establishing a development platform for performance chemicals and polymer dispersions as well as a polyurethane systems house. We are planning to create further development centers, which will enable us to pick up market signals even more efficiently.

We want to expand our R&D team further. We therefore plan to employee approximately 180 additional scientists worldwide. We aim to extend the cooperative model that we use with the *Institut de Science et d'Ingénierie Supramoléculaires* (ISIS) in Strasbourg, France, to other outstanding research establishments. In addition, we are intensifying our research activities in Asia. In 2005, we expanded our team in the synthesis laboratory in Thane, India. A laboratory for research into nanostructured surfaces is scheduled to open in Singapore.

In 2005, we spent €1,064 million on research and development compared with €986 million in 2004. Of the amount spent in 2005, 78.6% fell under the operational responsibility of the operating divisions, with the remaining 21.4% being accounted for primarily by corporate research. In particular, this includes research activities in BASF's growth clusters as well as research to develop new technologies and methods.

Corporate research

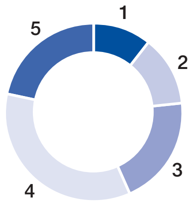
Between 2006 and 2008, we plan to invest approximately €800 million in our five growth clusters – energy management, nanotechnology, white (industrial) biotechnology, plant biotechnology and raw material change – as part of our strategy "We Innovate for Growth." These clusters involve cross-sectional technologies in which interdisciplinary cooperation is the key to success. In the area of energy management, we are focusing on developing new technologies and materials for energy storage and conversion. 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 the production of specialty chemicals; fermentation and industrial proteins; and biopolymers. The plant biotechnology growth cluster includes developing plants to improve agricultural efficiency, providing healthier nutrition and developing plants as "green factories" to produce chemical substances. In the raw materials change growth cluster, we aim to expand the range of starting materials for the value-adding chains in our Production Verbund; examples include renewable raw materials and natural gas.

Details of the R&D activities of our segments are provided on the following page.

Research and development expenses in 2005 by segment*

Million €, %

1	Chemicals	114	10.7%
2	Plastics	135	12.7%
3	Performance Products	214	20.1%
4	Agricultural Products & Nutrition	373	35.1%
5	Corporate research, other	228	21.4%
		1,064	**100.0%**



* Starting in 2005, expenses in the Oil & Gas segment related to exploration for oil and gas deposits and to dry holes are recorded as other operating expenses rather than as research and development expenses.

Chemicals

Our work centers on process innovations for new and existing products that offer significant competitive advantages. We place particular importance on optimizing and expanding our value-adding chains at Verbund sites. In November 2005, for example, we introduced a new production process for the petrochemical cyclohexane at the Ludwigshafen Verbund site. At the heart of the production plant is a new heterogeneous catalyst that produces an exceptionally high yield with almost no by-products.

We are continuously developing our technologies. For example, in the field of gas scrubbing we are working with the Japanese company JGC Corporation on a new process to remove and store the carbon dioxide (CO_2) contained in natural gas. Compared with conventional methods, the costs involved in this process are approximately 20% lower. Our gas-scrubbing technology is also being further developed in a European research project to remove CO_2 from power station emissions.

In 2005, we successfully launched the plasticizer Hexamoll® DINCH in a variety of new applications. This innovative product is particularly suitable for sensitive PVC applications such as medical devices and toys.

We offer our customers in the automotive and construction industries market tailor-made liquids based on the inorganic specialty carbonyl iron powder. These liquids are used in damping systems, one example being the cable-stayed bridge in Dubrovnik, Croatia.

Plastics

R&D in the Plastics segment concentrates on production processes as well as product and system development.

We aim to optimize existing production processes and develop new, highly efficient processes that offer considerable cost advantages. The innovative HPPO process is one example. Together with the U.S. company Dow, we have developed a very cost-efficient process to manufacture propylene oxide (PO) from propylene and hydrogen peroxide (HP). This process generates no unwanted by-products.

In product and system development, we work closely with our customers to improve existing products and develop new materials. Cooperation with our customers early in the development process enables us to develop successful products quickly and on target. Our product Ultradur® High Speed is one example of this. With the help of nanomaterials, this fast-flowing technical plastic offers our customers significant cost benefits in processing.

Performance Products

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

This year, we expanded our customer-oriented development facilities. We set up two new technical development centers: for performance chemicals for leather and textiles in Thane, India; and for performance chemicals for leather, textiles, detergents and formulators, as well as dispersions in Pudong, China. We also helped the Chinese Academy of Environmental Sciences (CRAES) in Beijing, China, to build and operate China's first independent engine test laboratory. This cooperation is helping to improve the quality of Chinese fuels.

Our researchers are working on a large number of innovations for everyday products. For example, we are expanding our product range with UV-curing automobile refinish coatings. In this area, we are working to introduce a new scratch resistant clear coat for repairs. The coating can self-repair paintwork scratches thanks to its innovative reflow properties.

BASF has developed and patented Belmadur® technology for the wood products industry. By cross-linking cellulose fibers in domestic woods, the renewable raw material becomes more durable, harder and has greater dimensional stability. In addition to replacing tropical hardwoods with domestic woods, this opens up new applications for customers in the building sector and for outdoor products.

We are rigorously opening up new applications for our innovative fiber binder, Acrodur®: for example, in the nonwovens industry as a heat-resistant binder used in the manufacturing of glass nonwovens.

Agricultural Products & Nutrition

In the **Agricultural Products** division, we have extended the early phase of research into active ingredients by strengthening our teams with additional scientists. Their work focuses on identifying and optimizing new lead structures for innovative crop protection products. We have also provided additional financial resources for developing products based on our latest active ingredients. As a result, research and development expenses increased by €31 million to €303 million. In relation to sales, spending increased to 9.2% in 2005 compared with 8.1% in 2004.

Our development pipeline was strengthened with a new insecticide. In addition, we successfully developed the fungicide metrafenone for market launch. Our researchers are currently working on the development of a total of six new active ingredients and on a new herbicide tolerance project. These future product innovations have a peak sales potential of €700 million.

A further eight crop protection active ingredients with a peak sales potential of €1,200 million are currently being introduced to the market. Of these, the fungicide F 500® and boscalid have performed particularly well. In view of additional market opportunities for products with the active ingredient F 500®, we have increased the peak sales potential from €400 million to €500 million. Assuming seasonal conditions are average, we expect to achieve this target in 2007. Our goal is to achieve boscalid sales of €150 million per year.

In 2005, we achieved approximately 60% of peak sales potential with currently marketed active ingredients.

BASF can thank Walter Ohrbohm (left) for 90 patents on which many modern coating systems are based. His goal: 100 patents by 2008.

In the **Fine Chemicals** division, we spent 4.0% of sales on research and development in 2005. We shifted the emphasis of our R&D activities from process to product innovation in 2005. We brought new products to market in several areas. In Pharma Solutions, for example, we began marketing directly compressible forms of the analgesic ibuprofen and the tablet binder Kollidon® VA 64 Fine.

In 2006, we expect our research and development expenses to remain at the same level as in 2005. The focuses in the individual business units are as follows: products for improved feed utilization in animal nutrition; development of new formulation technologies and globally registered formulations in human nutrition; development of new ingredients based on natural raw materials for skincare, haircare and oral hygiene products in the cosmetics sector; and new solutions to improve drug bioavailability in the Pharma Solutions business unit.

In addition, we want to further develop our systematic idea-finding process. The core element is to intensify cooperation with our customers to allow us to align our research goals even more closely with their needs.

Supplementary Report

Offer to acquire Engelhard Corporation

On January 3, 2006, BASF officially announced that it had made an all-cash offer to acquire all outstanding shares of common stock of U.S. specialty chemical company Engelhard Corporation, Iselin, New Jersey, for $37 per share.

Iron Acquisition Corporation, Florham Park, New Jersey, a wholly owned subsidiary of BASF Aktiengesellschaft, published the official tender offer on January 9, 2006 and submitted the documents necessary under U.S. law to the Securities and Exchange Commission (SEC). On the basis of the offer price of $37 per share, the price to acquire all outstanding shares would be approximately $4.9 billion. The offer is subject to a number of conditions. These include acceptance by a majority of Engelhard's shareholders on a fully diluted basis, as well as Engelhard's board taking all necessary actions to make its shareholders' rights plan and the supermajority voting provisions in its certificate of incorporation innapplicable to BASF's offer.

The offer is also subject to receipt of the necessary regulatory approvals, in particular merger control approvals. The waiting period under the Hart-Scott-Rodino Antitrusts Improvements Act of 1976, as amended, expired on February 3, 2006 without objections being raised by the Federal Trade Commission (FTC). As a result, BASF is free under U.S. antitrust laws to proceed with its acquisition of Engelhard. The European Commission also granted approval for the transaction for the E.U. on February 23, 2006.

On February 6, 2006, BASF extended its offer, which has previously been scheduled to expire on February 6, 2006, until March 3, 2006. BASF is free to extend the offer further if necessary. Further information on the offer is available on the Internet at **corporate.basf.com/tender-offer** and on the SEC's website at **www.sec.gov.**

Negotiations on the purchase of Degussa's construction chemicals business

BASF is negotiating with Degussa AG, Düsseldorf, Germany, on the purchase of its construction chemicals business. The joint aim is to conclude the purchase agreement for the transaction shortly.

Degussa's construction chemicals division markets over 40,000 products in the Americas, Europe and Asia Pacific, and is organized in two segments – Admixture Systems and Construction Systems. Total sales in 2004 were €1.8 billion.

Economic Environment

In 2006, we expect the positive economic trend to continue and see favorable medium-term perspectives for the global economy. Stable geopolitical conditions and sound economic policy are, however, necessary for this.

We have based our business planning on the following assumptions:

- Oil prices of around $55/barrel on average in 2006 with a downward trend from the second half of the year
- An average euro/dollar exchange rate of $1.25 per euro
- Moderately higher interest rates in the course of 2006 and subsequent years

We expect the global economy to grow by 3.2% in 2006 and by an average of 3.1% per year until 2008.

In **Europe,** we foresee slightly higher growth in 2006 carried predominantly by exports. We anticipate growth of just under 2%, with domestic demand remaining subdued. We expect investment to pick up despite the ongoing shift in production capacity to Eastern Europe. In the medium term, we expect a further improvement due to reforms of tax and social security systems and in the labor market. Even so, the European economy is not likely to grow by more than just over 2% per year.

Growth in **North America** will likely weaken as a result of rising interest rates and the end of the construction boom in the United States. We anticipate average annual growth of 3% in the medium term.

With gross domestic product growth of more than 6% per year, **Asia (excluding Japan)** is expected to remain by far the fastest growing region thanks primarily to thriving trade within the region, as well as higher levels of disposable income among consumers. China, the region's growth engine, is likely to grow at approximately 8% per year despite its more cautious economic policy.

In **South America,** we expect growth rates to decline slightly in the medium term due to high interest rates and weaker export growth. Africa/Middle East, however, is expected to grow by just under 5% per year, in particular due to higher oil and gas exports and thanks to strong growth in the chemical industry as a result of expanding petrochemical capacity.

Outlook for gross domestic product
Real change compared with previous year (%)

2006

World	3.2
Western Europe	1.9
United States	3.3
Asia excl. Japan	6.3
Japan	1.7
South America	3.8

Trends 2006–2008

World	3.1
Western Europe	2.1
United States	3.0
Asia excl. Japan	6.3
Japan	1.9
South America	3.7

Outlook for chemical production (excl. pharma)
Real change compared with previous year (%)

2006

World	3.0
Western Europe	1.8
United States	2.0
Asia excl. Japan	7.1
Japan	1.3
South America	3.8

Trends 2006–2008

World	3.1
Western Europe	1.8
United States	1.9
Asia excl. Japan	6.8
Japan	1.3
South America	3.4

Outlook for the chemical industry

Under the conditions we have outlined, we expect global chemical production (excluding pharmaceuticals) to grow by 3% in 2006.

In **Europe,** we anticipate a slight upturn in domestic demand. Together with the rise in net exports, this is likely to benefit chemical production, which is expected to grow by just under 2%. In the medium term, we expect chemical production to grow parallel to European industrial production.

The chemical industry in the **United States** will probably grow only moderately, although domestic demand for chemicals will be supported by the country's stable industrial production. In the medium term, chemical production growth is likely to be significantly slower than that of industry and gross domestic product as a result of structural problems.

In 2006, we expect chemical production in **Asia (excluding Japan)** to increase by more than 7%. Asia remains by far the most dynamic region worldwide, even though growth was slower than in the record year of 2004 in which production grew by over 10%. In particular, growth is being driven by industrial production and the ongoing high level of investment in China and India. In the medium term, the region is likely to continue to benefit from strong growth in industrial customer sectors. We expect annual growth rates of just under 7%.

In **Japan,** chemical production growth is likely to remain slightly lower than industrial growth. Stronger growth is impeded by the strong yen and rising imports. In the medium term, we expect chemical production to grow by more than 1% per year.

Following high growth rates in recent years, we anticipate that growth in the chemical industry in **South America** will decline to just under 4% per year. This is due to a slowdown in industrial production, resulting in lower demand for chemical products.

BASF Group Outlook

Our business has continued to develop successfully since the beginning of 2006. The level of orders remains strong.

Taking into account the economic assumptions described above, we expect BASF's business to develop positively in the next two years.

Significant opportunities are offered by the improving investment and consumer climate in Europe, the ongoing robustness of the North American economy and continued dynamic growth in Asia. We will fully realize the potential offered by our investments in high-growth regions: For example, we aim to generate 10% of sales in our chemical businesses in China by 2010.

We see the greatest risks in the following areas:

- The recent increase in tensions in regional trouble spots
- The associated growing uncertainty with regard to raw material supplies and increasing volatility of raw material prices, in particular, oil prices
- A possible downturn in the economy
- Major exchange rate changes, in particular with regard to the U.S. dollar
- Additional requirements and regulations, for example for emissions, that differ from region to region and incur extra costs

A weaker U.S. dollar causes negative currency effects, in particular in our Agricultural Products and Fine Chemicals divisions and Performance Products segment. Furthermore, record high prices for almost all products make it difficult to pass on further increases in raw material costs in the form of higher sale prices because substitution by alternative products is likely to increase.

We anticipate the following developments in specific areas at BASF*:

Continuing on our path of value-adding growth
We aim to remain 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.

We plan to continue with our measures to optimize our portfolio. This also involves acquisitions in high-growth areas that complement our portfolio. Recent examples include our cash offer for Engelhard Corporation, United States, and our bid for Degussa's construction chemicals business.

To ensure our long-term competitiveness, we will also adapt our processes according to changing market requirements. This includes ongoing restructuring measures to further reduce our costs.

Sales
We aim to continue to grow faster than the market.

Earnings
We plan to follow on from the strong level of income from operations before special items posted in 2005. To make BASF even more successful in the future, we are planning to increase our research and development spending.

Dividends and share buybacks
We want to offer our shareholders an attractive dividend yield. We therefore aim to increase our dividend. We plan to continue to buy back shares.

Research and development
In 2006, we expect to further increase our research and development expenditures by 8% to approximately €1.15 billion. In the coming years, we therefore plan to create approximately 180 additional positions for research scientists. More details are provided in the section Research and Development on page 53 onward.

Capital expenditures and financing
Planned capital expenditures in 2006 will amount to almost €2.0 billion and are thus expected to be below the level of depreciation and amortization. Capital expenditures in 2007 are likely to be comparable. We aim to finance these planned investments from cash provided by operating activities.

The most important capital expenditure projects in our segments are listed on the next page. The main focus of our investment commitments is on Europe due to the projects in the Oil & Gas segment.

* The outlook for individual segments and operating divisions is given in the section Results of Operations by Segment on page 37 onward.

COMMITMENTS FOR INVESTMENTS BY SEGMENT

Chemicals

- Expansion of the Electronic Materials Center Europe
- Expansion of nitric acid capacity in Antwerp, Belgium
- Expansion of capacity of the steam cracker in Antwerp, Belgium

Plastics

- Completion and startup of production plants for TDI and MDI in Caojing, China
- Construction of an HPPO plant in Antwerp, Belgium
- Establishment of a PUR systems house and construction of a production plant for TPU in Pudong, China
- Completion and startup of a PBT plant in Kuantan, Malaysia
- Construction of a compounding plant for engineering plastics in Pudong, China
- Expansion of production capacities for polyamide 6 in Freeport, Texas
- Construction of a production plant for Ecoflex® in Schwarzheide, Germany

Performance Products

- Construction of a plant for HDI-based coatings in Caojing, China
- Construction of a superabsorbents plant in Freeport, Texas

Agricultural Products & Nutrition

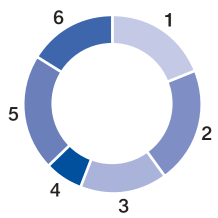
- Completion and startup of a plant for citral derivatives in Ludwigshafen
- Completion and startup of a production plant for feed enzymes in Ludwigshafen

Oil & Gas

- Development of new natural gas reserves in the Dutch North Sea and in Argentina
- Development of new oil fields in Libya and the expansion of existing ones
- Development of the Achimov horizon in a section of the Urengoy gas field in Russia
- Debottlenecking of the STEGAL natural gas pipeline
- Construction of a compressor station for the WEDAL natural gas pipeline in Lippe, Germany
- Conversion of the Haidach natural gas field in Austria into a natural gas storage facility
- Conversion of the Saltfleetby natural gas field in the United Kingdom into a natural gas storage facility

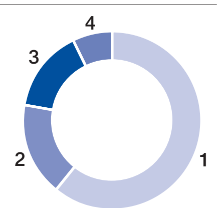
Commitments for investments by segment

%	
1 Chemicals	19
2 Plastics	21
3 Performance Products	16
4 Agricultural Products & Nutrition	7
5 Oil & Gas	21
6 Infrastructure, IT, other	16
	100



Commitments for investments by region

%	
1 Europe	61
2 North America (NAFTA)	17
3 Asia Pacific	15
4 South America, Africa, Middle East	7
	100



Purchasing, Marketing and Sales

- **Our strength: A global Procurement Verbund**
- **Regional concentration of purchasing activities**
- **Business models tailored to customer needs**

PURCHASING

Procurement Verbund ensures competitive advantages

Worldwide in 2005, BASF procured some 500,000 different raw materials, technical goods, as well as services for plant construction and maintenance worth approximately €18.8 billion. We purchased logistics services to the value of about €2.0 billion to ensure these goods reached our sites and customers on time. We aim to further optimize our worldwide Procurement Verbund by further intensifying the coordination of our Group-wide activities. Global and regional procurement teams that network the local purchasing units enable us to pool local needs at different sites. As a result, BASF can have more impact on the market, obtain price advantages and better ensure supplies.

Raw materials purchasing

The most important materials used in production at our Verbund sites are petrochemical feedstocks such as 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, since 2005, Nanjing, China. We also purchase a large number of other raw materials as diverse as ammonia, precious metals and 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 with one another. Even during the product development phase, purchasing develops a range of procurement alternatives together with research and production, since this is where a large part of the future costs of products is determined.

Technical purchasing

Global and regional procurement teams coordinate purchases of technical goods and services such as machines, apparatus, laboratory equipment, erection of scaffolding or installation work. Close collaboration with our engineering and maintenance units allows us to combine 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 secure optimal logistics costs and strengthen our competitiveness by means of:

- Global coordination of air and sea freight procurement
- Regional service-provider management for land freight
- Group-wide coordination of packaging procurement
- Group-wide management of negotiations with service providers for business travel

Supply chain management (SCM)

SCM is an important part of our BASF 2015 strategy. As part of this strategy, we have restructured our supply chain management activities to optimize logistics and planning processes. As a result, we not only achieve greater efficiency in our own value-adding chains, but also include customers and suppliers and contribute to their success.

E-commerce

We continuously improve the efficiency of our purchasing processes using e-commerce. This has a positive impact on process times and process quality. For purchasing technical goods and services, we use the electronic marketplace cc-hubwoo, in which BASF owns a stake. With more than 20 million articles, around 8,000 suppliers and more than 1 million completed transactions in 2005, cc-hubwoo is one of the world's busiest marketplaces. In addition, more than 2,500 tenders for technical goods and services were processed electronically in 2005.

We are also expanding our successful e-commerce activities on the sales side. We reap the benefits of e-commerce for BASF and our customers by using tailor-made business models. In 2005, we increased our e-commerce sales by almost 50% from €6.5 billion to €9.6 billion. This corresponds to about 27% of total sales (excluding the oil and gas business). The e-commerce trend is also global: All regions at BASF reported higher e-commerce sales in 2005.

We have integrated the marketplace Elemica in 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.

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 want to achieve this not only by cooperating with customers at an early phase of development, but also by working with them to constantly improve existing products, applications and processes.

We organize our marketing and sales activities according to the various business models in our Segments:

In our **Chemicals** segment, we supply standard products to our customers in large volumes with low marketing expenses and usually without distributors. We are strengthening and extending our portfolio of inorganic and organic specialties. In order to develop new applications and attract new customers, we are expanding our activities to market 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 and are associated with low marketing expenses. For specialty and customized products, we often work together with our customers at an early stage of development. We are also increasingly using the opportunities offered by e-commerce. In 2005, we posted e-commerce sales of more than €3 billion, and in some businesses e-commerce accounted for over 80% of sales.

The **Performance Products** segment produces a large number of products, formulations and systems. What matters to customers are a product's technical applications and its performance. This requires both tailor-made customer service by our sales staff at the customer's site as well as specialized marketing. We maintain technical development facilities and pilot plants close to our customers in the most important regions.

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 with these groups. We supply our customers via a global network of trading partners.

Our **Fine Chemicals** division supplies specialties through a global marketing and sales system. The local presence of regional business units ensures customer orientation and competency in our key markets: animal and human nutrition, cosmetics and pharmaceuticals.

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

In 2005, selling expenses, which include distribution, shipping, marketing and advertising costs, were €4,330 million compared with €4,309 million in 2004. Corporate advertising costs totaled €40 million in 2005 compared with €19 million in 2004.

Corporate Responsibility

- **€3.7 billion transferred to a Contractual Trust Arrangement to finance pension obligations**
- **Global goals for Responsible Care®**
- **€56.8 million for specific social responsibility projects**

EMPLOYEES

The BASF Group will be successful in the long run only if it has qualified and motivated employees from around the world. Our management team has members from more than 30 different nations. To attract, retain and train the best talent for each function, we create a working environment that supports our employees so they can perform at their best to make our company successful.

The number of BASF Group employees declined by 1,010, or 1.2%, to 80,945 at the end of 2005. This change reflects the impact of changes in the scope of consolidation as well as acquisitions and divestitures. The decline in the number of employees was primarily associated with measures to increase efficiency at the Ludwigshafen site and in North America (NAFTA).

In 2004, company management and employee representatives signed an agreement that provides clear perspectives for employment at the main production site in Ludwigshafen. Under the terms of the "Stability through Change" agreement, the number of employees of BASF Aktiengesellschaft will be approximately 32,000 (December 31, 2005: 34,143). This target figure will remain in force until 2010, although the exact headcount may be adjusted depending on natural fluctuation; enforced redundancies will be avoided. The precondition for this agreement is that the site not be impacted by economic factors or negative circumstances that endanger BASF Aktiengesellschaft's competitiveness to such an extent that specific structural measures are necessary. The viability of the agreement will be reviewed with employee representatives each year.

Last year, the BASF Group employed 2,330 trainees. In addition, 702 young people were trained by BASF Jobmarkt GmbH together with more than 450 partner companies in the region as part of BASF's Training Verbund.

Employees by region

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

Trends in personnel costs

In 2005, personnel costs declined by €41 million to €5,574 million, and can be broken down as follows:

Personnel costs	Million €	Change in %
Wages and salaries	4,553	(0.6)
Social security and expenses for pensions and assistance	1,021	(1.4)
Thereof for pension benefits	242	6.1
	5,574	**(0.7)**

To maintain the highest level of expertise and qualification among our employees, we invested €100.7 million in continuing education and training last year in Germany alone. Of this amount, €33.1 million was spent on continuing education programs and €67.6 million on vocational training. Global expenditure on education and training amounted to €122.8 million. As a result, we spent an average of more than €1,500 per employee on training measures. In addition, we invested approximately €11.6 million in the BASF Training Verbund in the Rhine-Neckar metropolitan region.

Sharing in the company's success

BASF promotes employee investment in the company with the "plus" share purchase program. In 2005, approximately 39% 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. Last year, employees bought a total of 565,000 BASF shares under this program. Of this amount, 458,720 shares were acquired by employees of BASF Aktiengesellschaft and 106,280 by employees of other BASF Group companies. If the employees keep their shares for a longer period, they receive additional free shares from the company (see also page 149).

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 our shares. In 2005, 82% 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 (see also page 147).

Many of our employees own BASF shares. They can buy them on the intranet or, as shown here, at special terminals.

External financing of pensions

With effect from the end of 2005, BASF Aktiengesellschaft has paid approximately €3.7 billion into a newly established Contractual Trust Arrangement (CTA) under the name BASF Pensionstreuhand e.V. This money will be used solely to finance pension obligations to the company's employees and pensioners. As a result, virtually all company benefits that exceed those of BASF Pensionskasse VVaG will be financed externally.

This measure will lessen the impact on BASF's future operational cash flow from maturing pension payments. In addition, this will improve the transparency of our financial reporting and allow better comparison with our international competitors.

There will be no effect on the benefit levels for employees and pensioners of BASF; the pensions will also continue to be paid by BASF.

The CTA facilitates a long-term investment strategy that is specially adapted to the development of pension obligations. This strengthens the basis on which pension obligations are funded, despite the additional strain imposed by the growing number of pensioners and by the increased life expectancy of the recipients.

ENVIRONMENTAL PROTECTION AND SAFETY

Our goal is to make a positive contribution to ensure a sustainable future. For us, acting responsibly means improving environmental protection and safety and fostering awareness of these issues among our employees, customers and suppliers.

Environmental protection costs

The cost of operating environmental protection facilities throughout the BASF Group amounted to €623 million in 2005 compared with €624 million in 2004. In the same period, we also invested €78 million in new and improved environmental protection plants and facilities. These capital expenditures include both end-of-pipe and production-integrated measures. Costs are also incurred by BASF for remediation resulting from the previous disposal or discharge of chemicals, crude oil products or waste. This applies to both our own operations and to third-party operations which dispose of waste on behalf of BASF. Provisions established for environmental protection measures and remediation worldwide amounted to €253 million as of December 31, 2005 (December 31, 2004: €204 million).

Energy balance

In 2005, 25.7 million MWh of fossil fuels and waste fuels was used in our own central power plants to generate steam and electricity for the BASF Group. As a result, 6.3 million MWh_{el} of electrical power was generated (2004: 4.0 million MWh_{el}), primarily by means of cogeneration technology. This corresponds to approximately 47% of BASF's total electricity needs of 13.5 million MWh_{el} in 2005. The remaining electricity was purchased from public grids.

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

Global Goals for Responsible Care

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:

Global Responsible Care goals

	2012 goals	Status 2005
Reduction of emissions from chemical operations (baseline 2002)		
Emission of greenhouse gases per metric ton of sales product	–10%	–10.9%
Emission of air pollutants	–40%	–40.5%
Emission of organic substances to water	–60%	–51.7%
Emission of nitrogen to water	–60%	–60.5%
Emission of heavy metals to water	–30%	–26.2%
Occupational safety (baseline 2002) + distribution safety (baseline 2003)		
Reduction of lost time accidents per one million working hours	–80%	–46%
Reduction of transportation accidents	–70%	–16%
Product stewardship	**2008 goal**	**Status 2005**
Completion of the minimum data sets for all chemical substances handled by BASF in quantities of more than 1 metric ton per year	Minimum data sets completed worldwide	Data sets for Germany available for approx. 98%; portfolio for North America (NAFTA) completed for the most part

Emissions from our chemical operations

We are committed to the aims of the 1997 Kyoto Protocol to reduce greenhouse gas emissions. In 2005, BASF's chemical business worldwide emitted 24.8 million metric tons of greenhouse gases compared with 27.6 million metric tons in 2004. Compared with the baseline year 2002, we achieved a reduction of 10.9% in greenhouse gas emissions per metric ton of sales product even though our production rose by 13% during the same period.

Emissions to air from BASF's chemical operations worldwide totaled 50,900 metric tons of air pollutants, compared with 54,000 metric tons in 2004. This represents a reduction of 40.5% compared with 2002. This welcome development was primarily due to optimizing treatment of flue gas at plants at European sites.

We have also come closer to achieving our targets for emissions to water: In 2005, BASF emitted to water a total of 44,200 metric tons of organic substances – calculated as chemical oxygen demand (COD). The figure for 2004 was 86,700 metric tons. Compared to the baseline year, we have reduced emissions by 51.7% overall. Emissions of nitrogen to water totaled 8,800 metric tons, compared with 18,600 metric tons in 2004. This is a reduction of 60.5% compared with 2002. Wastewater contained 45 metric tons of heavy metals, or a reduction of 26.2% compared with the baseline year 2002.

Occupational safety and distribution safety

We have committed ourselves to promoting and maintaining safe and healthy working conditions. At the same time, safety is a prerequisite for smooth production.

In 2005, the BASF Group's lost time accident rate worldwide was 1.8 per one million working hours compared with 1.9 in 2004. This corresponds to a reduction of 46% in the rate of accidents compared with 2002. At our Ludwigshafen site, we reduced the lost time accident rate by 14% 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 will fulfill the high demands made on them. Thanks to these measures, we have further improved distribution safety: In 2005, there were 0.47 transportation accidents per 10,000 shipments worldwide compared with 0.5 in the previous year. This corresponds to a reduction of 16% compared with our baseline year 2003.

Worldwide expansion of substance data sets

In Germany, the base data set is available for around 98% of the substances we handle in quantities of more than 1 metric ton per year. In 2005, we compiled data for substances that are new to our portfolio. By the end of 2005, we also completed the basic data for the majority of the substances we handle in North America (NAFTA).

Environmental policy

The European Union is currently preparing new draft legislation for chemicals (REACH) that aims to regulate their registration, evaluation and authorization. It is expected that the new draft law will come into force in the relevant E.U. member states in 2007. It is not yet possible to quantify the associated costs.

With regard to E.U. emissions trading, the BASF Group was allocated allowances (EUA) for approximately 3 million metric tons of carbon dioxide (CO_2) per year for its European sites for 2005. More stringent conditions are expected in the second trading period (2008 to 2012) on the basis of the E.U. Commission's recommendations in December 2005. Thereafter, the Commission expects higher reduction targets from the member states. In addition, the auctioning of some allowances and the inclusion of further plants in the trading system is expected.

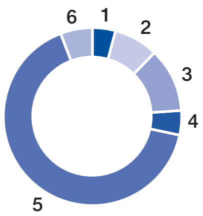
SOCIAL RESPONSIBILITY

As a global company, BASF takes its worldwide social responsibilities seriously. We contribute to numerous projects in the form of donations and sponsorship as well as through the individual efforts of our employees.

In 2005, the BASF Group spent a total of €56.8 million on specific cultural and social projects and to provide humanitarian aid. This corresponded to an increase of 50.3% compared with 2004.

BASF Group donations, sponsoring and own projects in 2005
Million €

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



"We Help the Region Win"

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

Donations

Donations by the BASF Group are governed by a policy for donations and sponsorship. The main focus is on regional needs.

In the aftermath of the tsunami that destroyed many coastal areas of southeastern Asia in December 2004, BASF employees donated €1.4 million. This amount was doubled by BASF to €2.8 million. Together with €1 million in immediate aid provided by BASF's Board of Executive Directors just a few days after catastrophe, this brought the total donation by employees and the company to €3.8 million.

We also acted quickly following other natural disasters: In the wake of the devastating hurricanes in the United States, we provided $1 million in emergency relief aid. This money was used, among other things, to rebuild communities affected by the disaster. Following the earthquake in Pakistan, BASF also gave assistance, for example, by providing shelter for victims and mobile hospitals.

Education

Education is a central issue for BASF. What we invest in education and knowledge today pays off in the long run in terms of regional competitiveness. That is why we are intensifying our commitment to the communities in which our sites are located and are taking measures worldwide to facilitate or to promote access to education and knowledge. Basic needs are frequently at the heart of this. Since August 2005, we have supported the Lapdesk Project in South Africa, which aims to improve learning conditions for school children. Last year, BASF companies also donated money to equip local schools in Thailand, Malaysia and India.

We are incorporating our regional projects in the Knowledge Factory initiative, of which BASF was one of the founding members in 2005. The Knowledge Factory aims to make Germany more sustainable as a business location. Member companies enter into educational partnerships and take part in projects with kindergartens and schools in their respective regions. Further information on the Knowledge Factory is available in German at **www.wissensfabrik-deutschland.de.**

You can find more details on sustainable management and corporate social responsibility on the Internet at **corporate.basf.com/sustainability** or in our Corporate Report 2005 available at **corporate.basf.com/corporate-report.**

Risk Management System and Risks of Future Development

RISK MANAGEMENT SYSTEM

Goals and principles of risk management

Risk management has the goal of identifying risks as early as possible, limiting business losses by means of suitable measures, and avoiding risks that pose a threat to the company's existence.

Our risk management system is based on the following principles and requirements:

- High safety standards for plant operation to protect man and the environment
- Codes of conduct to ensure compliance with legal requirements
- A Leadership Compass that defines high standards of management integrity
- Review committees to verify important business decisions
- Organizational measures to prevent abuse of authority

Organization, responsibilities and tools

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

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

Specific risks pertaining to operating divisions and units are continually registered and monitored centrally. Defined and regular communications tools ensure that risks are reported quickly to the Board of Executive Directors, providing an up-to-date overview of the current risks to the BASF Group.

In addition, we use key data and indicators for constant monitoring of certain risk areas. The reports are drawn up and submitted when defined risk thresholds have been reached. This ensures that risks are recognized early on and that the appropriate information is then immediately reported to the responsible decision-makers.

BASF uses various tools for the early recognition and identification of risks. These include risk identification checklists, analyses of various scenarios and value driver trees. We quantify risks to the extent they can be assessed; we also determine the impact on earnings and the likelihood of occurrence.

The Board of Executive Directors receives monthly reports on current and forecast business trends from centralized controlling. These reports contain analyses of operating, financial and economic risks. The reports are based on computer-generated risk reports by the responsible decentralized and centralized risk specialists, who are appointed for the various divisions, regions and sites.

Strategic opportunities and risks are assessed as part of the continuously monitored product division and regional strategies and balanced against one another.

Annually as well as on an interim basis, our independent auditors and Corporate Audit department examine the functioning and effectiveness of our risk management system, as well as its development and integration into business processes. In 2005, we continued to develop the risk management process throughout the BASF Group in accordance with internationally accepted standards. Guidance is taken from the *Enterprise Risk Management* (ERM) – *Integrated Framework* of the COSO (Committee of Sponsoring Organizations of the Treadway Commission).

How individual risk categories are dealt with is described in the Risks of Future Development section on page 70.

Internal monitoring

BASF's Corporate Audit department – which acts on behalf of the Board of Executive Directors – operates throughout BASF Aktiengesellschaft and the BASF Group. The department 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; and
- the reliability of reporting.

Internal monitoring also takes place in special committees that meet regularly. They analyze our businesses, expected outcomes and related risks, developing trends and structural developments. Basic elements of internal monitoring include general principles of risk avoidance such as the separation of duties and the four-eyes principle for important transactions. In addition, we have introduced guidelines for rate hedging, investments and the use of derivative financial instruments.

In 2005, we uniformly documented the internal control process for financial reporting throughout the BASF Group in a new IT system in accordance with Section 404 of the Sarbanes-Oxley Act (SOX). The effectiveness of the internal control process was confirmed on this basis by both self-assessment by management and by the auditors (see also page 73).

Risk controlling

The Strategic Planning & Controlling division and the Finance division handle centralized risk controlling. They regularly inform the Board of Executive Directors of significant risks. The Strategic Planning & Controlling division ensures that communication about risk management and its continued development takes place in all operating units, corporate divisions, competence centers and regional divisions worldwide. In addition, the division coordinates identification of all significant risks for BASF throughout the company and systematically evaluates them according to uniform standards.

Twelve operating divisions bear overall responsibility for business operations within the BASF Group. It therefore follows that operational risk management is focused in these units. We have also established decentralized risk controlling units in the competence centers and regional divisions that work closely with the centralized units.

RISKS OF FUTURE DEVELOPMENT

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 also hedged using derivative instruments. Detailed explanations on the use of derivatives and information about the book values and fair values of these instruments are provided in Note 29 to the Consolidated Financial Statements on page 150 onward.

Liquidity risks: We recognize any risks from cash flow fluctuations in good time 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. BASF's current short-term and long-term ratings as well as our bond ratings are shown on page 34.

Credit risk and default risk: We limit country-specific risks through internal country ratings, which are continuously adapted to changing economic, political and social conditions. We use export credit insurance as the main tool to limit specific country-related risks.

We reduce credit risks for our 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 continuously 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.

Pension obligations: We predominantly finance company pension schemes externally through separate pension assets. In addition to the pension plans of our Group companies in North America (NAFTA), this applies in particular to BASF Pensionskasse VVaG in Germany. At the end of 2005, we additionally transferred assets to a newly established Contractual Trust Arrangement (CTA) (see page 65 for further details).

Because a portion of these assets has been invested in stocks and fixed-income securities, stock market and bond market losses could result in the accrued assets being insufficient to finance the pensions. In order to limit this risk, we are increasingly offering employees defined contribution schemes. In Germany, the company retirement program has been modified to take account of changing conditions in the capital markets and rising life expectancy. We are limiting financial risks through a revised BASF Pensionskasse tariff for new employees.

Supply risks

Prices of raw materials, energy, precursors and intermediates that depend on the price of oil present a potential 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. Purchase agreements for the most strategically important raw materials are negotiated and concluded centrally.

In the field of research and development, we are working on new technologies that appropriately address risks relating to the availability and price of basic raw materials.

If raw material costs rise over a longer period, it is not always possible to pass on the higher costs fully in the form of higher prices for our products in the short term. However, in the current and expected future economic situation, we believe that we can successfully implement the necessary price adjustments, albeit after a certain delay.

Market risks

Cyclical fluctuations in demand in key customer segments, such as the automotive, construction, electrical/electronics and textile industries, as well as intense competition in sales markets, present operating risks in our Chemicals, Performance Products and Plastics segments. In addition, these segments are affected by the trend toward offshoring in key customer industries and by overcapacities for some products. We reduce these risks by continually expanding cyclically resilient businesses, such as agricultural products, active ingredients and active ingredient precursors for pharmaceuticals and nutrition, and natural gas.

In cyclical businesses, we seek to maintain cost leadership and enter into close cooperations with customers that will allow us to tap into new applications and markets quickly. Furthermore, we are expanding business activities in high-growth regions.

In response to product substitutions and the declining use of certain products in the Performance Products and Plastics segments, we develop and market products with improved or entirely new properties. We also offer our customers specific system solutions that can be employed over a longer period.

In the Northern Hemisphere, sales volumes of crop protection products are affected by the seasonal nature of the market – with sales being concentrated in the first half of the year – and by the weather. Demand for crop protection products is further influenced by the agricultural policies of governments and multinational organizations. The typical periods allowed for payment in this industry can lead to losses from receivables during regional economic crises. The increased marketing and sale of products in combination 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 European Union's new chemicals policy will alter the registration, evaluation and approval process for chemical substances. This poses the risk that BASF and its European customers will be placed at a disadvantage compared with non-European competitors as a result of cost-intensive testing and registration procedures. The new legislation is expected to take effect in 2007. It is not yet possible to quantify the associated costs.

Economic risks

We do not expect any serious risks for the chemical industry or for the overall economy in 2006. Neither do we expect serious changes to market conditions or the competitive environment. The continued volatility of oil prices and the exchange rate of the U.S. dollar constitute possible risks for global economic development. We believe it is unlikely that there will be a sharp increase in interest rates that would have a negative impact on the economy. Neither do we expect a dramatic downturn in growth in

China. Detailed explanations of expected economic developments can be found under "Economic Environment," on page 57 onward.

Other significant risks

Risks arising from acquisition and investment decisions: The implementation of decisions related to acquisitions and investments is associated with complex risks. These are mainly caused by the high level of capital involved and the long-term capital commitment required. The preparation, implementation and follow-up for such decisions are based on specified responsibilities and approval processes.

Exploration risk: In the Oil & Gas segment, future growth in the exploration and production business sector is largely based on the success of exploration activities. The search for new reserves of crude oil and natural gas depends on geological requirements with regard to the presence, quantity and quality of hydrocarbons. We reduce risks by means of a balanced exploration portfolio.

IT risks: We use the latest hardware and software to reduce potential risks from the loss or manipulation of data. Throughout the entire BASF Group we have integrated, standardized IT infrastructures, 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 reduce this risk through our global Know-how Verbund and our efficient innovation process (see also "Research and Development" on page 53).

Patent risks: The Patents, Trademarks & Licenses department of BASF Aktiengesellschaft, together with the appropriate units of the U.S.-based BASF Corporation and BASF Coatings, Münster, monitors all the intellectual property rights of BASF. At the same time, through our extensive demarcation research we aim to avoid patent and licensing disputes as far as possible.

Sufficient provisions have been made for the very small number of existing and pending patent disputes.

Prospective candidates for technical and management positions: Our employees' performance is essential to the growth and development of the BASF Group. We are increasingly competing with other companies for highly qualified technical and management personnel. We ensure the potential of our management candidates by broadening the international nature of our management team. We also promote entrepreneurship by offering employees attractive assignments, a variety of international development perspectives, a broad spectrum of advanced training and continuing education opportunities, progressive 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 28 to the Consolidated Financial Statements on page 147 onward.

Corporate Security: Assessing security risks on a global basis and determining their potential impact on BASF has become an extremely difficult undertaking. Through its Group-wide network, BASF's Corporate Security department works in close cooperation with local authorities. In addition, with the help of our constantly updated security measures, we ensure the monitored protection of the company and its employees.

We use awareness campaigns and training to increase the sensitivity of our employees in their dealings with specialist and confidential information as well as their judicious use of the Internet and e-mail.

Legal risks: We limit risks from potential infringements of rights or the law by using compliance programs, legal training and centralized contract management. Details about our current litigation can be found in Note 27 to the Consolidated Financial Statements on page 146 onward.

ASSESSMENT OF THE OVERALL RISK SITUATION

In our opinion, there are no individual or aggregate risks that pose a threat to the continued existence of the BASF Group at the present time or in the foreseeable future.

Corporate Governance at BASF

Corporate governance refers to the entire system of managing and overseeing a company 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 management and supervision of the company.

Good corporate governance is accorded very high importance at BASF. We therefore support the German Corporate Governance Code, which we regard as an important tool in the capital market-driven development of corporate governance. We follow the recommendations of the German Governance Code in its revised version of June 2005 with a few exceptions. You can find the 2005 joint Declaration of Conformity by the Board of Executive Directors and the Supervisory Board at the end of this section on page 83. The Declaration of Conformity and the German Corporate Governance Code are available on our website at **corporate.basf.com/governance_e.**

Because BASF's shares are listed on the New York Stock Exchange (NYSE), BASF is also subject to U.S. capital market legislation, including the Sarbanes-Oxley Act (SOX) of 2002, as well as the regulations of the U.S. Securities and Exchange Commission (SEC) and the NYSE. To ensure that these extensive new regulations are observed, the Supervisory Board has, for example:

- established an Audit Committee,
- introduced a new approval procedure specifically for procuring non-audit services from auditors,
- established a procedure for receiving and processing accounting-related complaints, and
- implemented a Code of Conduct for financial issues that supplements the company's general Code of Conduct.

Furthermore, Section 404 of SOX was implemented and the internal control processes for financial reporting were uniformly documented throughout the BASF Group in a new, separate IT system. On this basis, the effectiveness of this control system was assessed at all management levels in 2005. We came to the conclusion that our control system is effective. The auditors have confirmed the results of our self-assessment in their report. Our system complies in all regards with the requirements of Section 404 of SOX and the COSO Report. As a result, we have implemented Section 404 of SOX successfully and one year earlier than required by the SEC. Implementation of Section 404 of SOX was associated with significantly higher expenses for documentation and review requirements.

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 geared 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 always based on a simple majority. In the case of a tied vote, the casting vote is given by the Chairman of the Board.

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, it agrees corporate strategy with the Supervisory Board. 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 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 may cast a deciding vote.

Alongside the Mediation Committee, the Supervisory Board has established a Nomination and Compensation Committee *(Personalausschuss)* and an Audit Committee. The **Nomination and Compensation Committee** is charged with setting Board members' remuneration and related contractual issues. It comprises Supervisory Board Chairman Dr. Jürgen F. Strube (chairman) as well as Supervisory Board members Robert Oswald, Dr. Tessen von Heydebreck and Wolfgang Daniel. The sole task of the **Mediation Committee** is to make a proposal to appoint 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 Executives. The members of the Mediation Committee are Supervisory Board Chairman Dr. Jürgen F. Strube (chairman), Supervisory Board Deputy Chairman Robert Oswald (deputy chairman), Dr. Tessen von Heydebreck and Michael Vassiliadis.

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 internal accounting controls.

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, agrees 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. As former Chief Financial Officer of BASF and as Chief Financial Officer of Volkswagen AG, respectively, Max Dietrich Kley and Hans Dieter Pötsch have particular knowledge and experience in the application of accounting principles and internal audit procedures, and have been appointed by the Supervisory Board as Audit Committee Financial Experts.

The members of the Board of Executive Directors and the Supervisory Board are listed together with remuneration details on pages 76 to 79.

Shareholders' rights

At Annual Meetings, shareholders have rights of participation and supervision. Each BASF share represents one vote. Shareholders may exercise their voting rights at Annual Meetings either personally or 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 speak to and request information from the Board relating to items on the agenda to the extent necessary to make an informed judgment of the company's affairs.

Values and Principles of the BASF Group/ Code of Conduct

In order to guarantee a high standard of corporate governance, we have 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 include observing all relevant legislation, in particular antitrust and competition legislation, sanctions and export controls – including those on chemical weapons, labor laws and legislation relating to plant safety. Other issues are bans on insider dealing and providing or receiving bribes from business partners or state officials, and the need to treat BASF's assets responsibly. The Corporate Audit department together with BASF's Chief Compliance Officer monitor 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.**

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.

Since July 1, 2002, in accordance with Section 15a of the German Securities Trading Act, 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 Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)* and to the company if transactions within the calendar year exceed the threshold of €5,000.

In 2005, there were a total of 11 reportable transactions in which members of the Board of Executive Directors and Supervisory Board purchased or sold BASF shares. The transactions involved between 17 and 2,000 shares with a per-share price of between €49.94 and €60.30. All transactions reported in 2005 are published on the Internet at **corporate.basf.com/governance_e.**

Directors' and officers' liability insurance (D&O 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.

Management and Supervisory Boards

Board of Executive Directors

As of December 31, 2005, there were eight members on the Board of Executive Directors of BASF Aktiengesellschaft. On December 16, 2005, the Supervisory Board appointed Dr. Martin Brudermüller as an additional member of the Board of Executive Directors with effect from January 1, 2006.

DR. JÜRGEN HAMBRECHT

Chairman of the Board of Executive Directors
Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Executive Management & Development; Communications BASF Group; Investor Relations
First appointed: 1997 (chairman since 2003)
Term expires: 2007
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; Ludwigshafen Verbund Site; Antwerp Verbund Site; Occupational Medicine & Health Protection; 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)
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. (administrative council chairman)

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 AG (supervisory board member)
Comparable German and non-German controlling bodies:
The Germany Fund Inc. (member of the board of directors)

DR. MARTIN BRUDERMÜLLER

Responsibilities: Asia (from April 1, 2006)
First appointed: 2006
Term expires: 2008
Comparable German and non-German controlling bodies:
BASF Antwerpen N.V. (administrative council member)

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 AG (supervisory board chairman)

DR. ANDREAS KREIMEYER

Responsibilities: Performance Chemicals; Functional Polymers; Asia (until March 31, 2006); Coatings (from April 1, 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 member)

KLAUS PETER LÖBBE

Responsibilities: Coatings (until March 31, 2006); North America (NAFTA)
First appointed: 2002
Term expires: 2006
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
BASF Coatings AG (supervisory board chairman)

DR. STEFAN MARCINOWSKI

Responsibilities: Research Executive Director; Inorganics; Petrochemicals; Intermediates; Chemicals Research and Engineering; Corporate Engineering; University Relations & Research Planning; BASF Future Business GmbH
First appointed: 1997
Term expires: 2007
Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
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 10 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 to the Supervisory Board by employees, 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, 2005)

DR. JÜRGEN F. 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 Lebensversicherungs-AG (supervisory board member)
- 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

PROF. DR. FRANÇOIS N. DIEDERICH, Zurich, Switzerland

Professor at Zurich Technical University

MICHAEL DIEKMANN, Munich, Germany

Chairman of the Board of Management of Allianz AG
Supervisory board memberships (excluding internal memberships):
- Linde AG (supervisory board deputy chairman)
- 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)
- Allianz Lebensversicherungs-AG (supervisory board chairman) (until December 31, 2005)
- Allianz Versicherungs-AG (supervisory board chairman) (until December 31, 2005)
- Dresdner Bank AG (supervisory board chairman)

Comparable German and non-German controlling bodies:
- Assurances Générales de France (administratrive 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)

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 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) (as of January 11, 2006)

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 AG (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)
Verkehrsbetriebe Ludwigshafen GmbH (supervisory board member)
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)

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)

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 member)

Compensation of directors and officers

For the year ended December 31, 2005, compensation paid to the members of the Board of Executive Directors totaled €15.3 million; the members of the Supervisory Board received €3.4 million.

Million €	2005	2004
Board of Executive Directors' compensation	15.3	14.0
Thereof fixed payments	5.0	4.8
variable payments	10.3	9.2
Exercise of option rights granted under the BASF stock option program	1.4	0.6
Supervisory Board's compensation	3.4	2.7
Thereof fixed payments	0.5	0.5
variable payments	2.9	2.2
Total compensation of former members of the Board of Executive Directors and their surviving dependents	5.8	6.0
Exercise of option rights by former members of the Board of Executive Directors and their surviving dependents	2.9	1.3
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	77.7*	69.9
Loans to members of the Board of Executive Directors and the Supervisory Board	–	–
Contingent liability for the benefit of members of the Board of Executive Directors and the Supervisory Board	–	–

* The change compared with 2004 was primarily due to the lower interest rate used to assess pension obligations.

The compensation of the Board of Executive Directors consists of a fixed and an annual variable component as well as stock options as a long-term element. The effective annual variable payments is determined by the return on assets. Each Board member may invest 10% to 30% of his variable bonus in the BASF stock option program (BOP). This personal investment is the prerequisite for the granting of option rights according to conditions that apply to all participants in the BOP program (see also page 147). Thus, by far the larger part of the Board's overall compensation is directly linked to the company's performance.

In 2005, the members of the Board of Executive Directors were granted 209,792 stock options under the BASF stock option program. In 2005, the issue of option rights resulted in personnel costs totaling €6.3 million. Of this amount, €1.4 million was related to option rights issued in 2005 and €4.9 million to option rights issued in 1999 through 2004. In 2005, the exercising of option rights granted under the BASF stock option program between 1999 and 2003 resulted in cash payments totaling €1.4 million to members of the Board of Executive Directors and €2.9 million to previous members or their surviving dependants. The cash payment does not influence personnel costs associated with the issuing of option rights.

The compensation of the Supervisory Board is defined in the Articles of Association of BASF Aktiengesellschaft. Pursuant thereto, each member of the Supervisory Board is reimbursed for the past year for out-of-pocket expenses and for value-added tax to be paid with regard to the Board membership. In addition, he or she receives a fixed annual payment of €25,000 and a variable performance-related bonus amounting to €3,500 for each €0.05 by which the dividend paid to shareholders in a given year exceeds €0.30.

For the year ended December 31, 2005, this will be €119,00 on the basis of the proposed dividend of €2.00 per share that will be submitted to the Annual Meeting on May 4, 2006. The chairman of the Supervisory Board receives a payment of twice and the deputy chairman a payment of 1.5 times this amount. In addition, the company grants 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. Each member of the Audit Committee of the Supervisory Board receives an additional payment of €25,000. The chairman of this committee receives a payment of twice and the deputy chairman a payment of 1.5 times this additional amount.

Report of the Supervisory Board

Dear Shareholders,

2005 was the most successful year in BASF's history to date: Both the net income of the BASF Group as well as earnings per share were at record highs. Primarily, this is not simply the result of an improvement in the economic environment, but is the visible success of a long-term strategy and the efforts of the Board of Executive Directors and the employees of the BASF Group: BASF is on the right path with its strategy BASF 2015. At the same time, BASF's success in 2005 is a challenge and an incentive to continue to implement the company's strategic guidelines rigorously: Earn a premium on cost of capital, help customers to be more successful, form the best team in industry, and ensure sustainable development. The Supervisory Board will do its utmost to help the Board of Executive Directors and BASF's employees to reach these goals.

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 2005. 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 chief duties of the Supervisory Board is to offer advice and discuss BASF's strategy. An important milestone was the offer to acquire the U.S. specialty chemical manufacturer Engelhard Corporation, which was announced on January 3, 2006 and officially tendered on January 9, 2006. Engelhard is a leading catalyst manufacturer. If successful, the acquisition – the largest ever in the history of BASF – would enable BASF to open up a promising and high growth business area. Currently, BASF has only a slight market presence in this field. The deal would significantly expand our existing expertise. A similar situation applies to the planned acquisition of Degussa's construction chemicals business: Here too, a new business area for BASF would complement the company's existing activities in the area of precursors for construction chemicals. Both acquisitions would also support BASF's strategic goal of making its business less susceptible to cyclicality.

Independent of possible individual transactions, the Supervisory Board also dealt with the development of BASF's strategy in Asia Pacific, with special emphasis on China and India; the strategy of the Oil & Gas segment; and the company's positioning in the field of biotechnology, and was informed by the Board of Executive Directors of the strategic options as well as the opportunities and risks in these areas. During a visit to the sites in Nanjing and Caojing, China, as well as to Kuala Lumpur and Kuantan, Malaysia, the Supervisory Board gained its own impression of the progress being made in realizing the strategy for the Asia Pacific region. The enormous progress that BASF is making in this important region was welcomed unanimously.

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. The Supervisory Board approved the sale of the 50% share in Basell N.V., the acquisition of the fine chemicals company Orgamol S.A., the tendering of a cash offer to acquire all shares in the U.S. specialty chemical company Engelhard Corporation, and the acquisition of the construction chemicals business of Degussa AG. At our meeting on December 16, 2005, we also approved the Board of Executive Directors' plans for 2006 and empowered the Board of Executive Directors to procure funding.

Corporate governance and compliance statement
In 2005, 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 at BASF.

In its meeting on December 16, 2005, 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 2, 2005, with a few exceptions: For example, we do not publish individual remuneration details for the members of the Board of Executive Directors and Supervisory Board, and 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. From next year, the remuneration of the Board of Executive Directors will be disclosed individually 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 83 of the Financial Report and is also permanently available to shareholders on BASF's website.

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 four times in 2005. In its meetings, with the Chairman of 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. The Nomination and Compensation Committee proposed to the Supervisory Board the appointment of Dr. Martin Brudermüller as an additional member of the Board of Executive Directors and the extension of Eggert Voscherau's term by a further two years. The Supervisory Board approved these proposals in its meeting on December 16, 2005.

In 2005, 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 2005. 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; preparing the Supervisory Board's proposal to the Annual Meeting regarding the selection of an auditor; discussing and defining particular features of the audit; regulating business relations with the company's auditors, including the adoption of a resolution regarding the commissioning and provision of non-audit services by the auditors; agreeing the auditing fees; and monitoring the auditor's independence. In 2005, the Audit Committee discussions also focused on the transition of the Consolidated Financial Statements to International Financial Reporting Standards (IFRS) and the creation of an 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 (SOX). Furthermore, the Audit Committee dealt in detail with the preparation of a proposal by the Supervisory Board to the Annual Meeting for the election of an auditor. In the course of a structured selection process, the Audit Committee evaluated the tenders and services of various audit companies. In accordance with the recommendation of the Audit Committee, the Supervisory Board will propose to the Annual Meeting to elect KPMG as the new auditor for the Financial Statements of BASF Group and BASF Aktiengesellschaft as well as the Annual Report on Form 20-F of BASF Aktiengesellschaft.

It was not necessary to convene the Mediation Committee in 2005. Its members are Supervisory Board Chairman Dr. Jürgen F. Strube (chairman), Supervisory Board Deputy Chairman Robert Oswald (deputy chairman), Dr. Tessen von Heydebreck and Michael Vassiliadis.

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 of BASF Aktiengesellschaft for 2005, the proposal by the Board of Executive Directors for the appropriation of profit, the BASF Group Consolidated Financial Statements and Management's Analysis for BASF Aktiengesellschaft and the BASF Group. Deloitte & Touche GmbH, the auditors elected by the Annual Meeting for fiscal 2005, 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 de-sign 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 in good time to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on February 20, 2006 as well as the accounts meeting of the Supervisory Board on February 28, 2006 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 28, 2006, 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 €2.00 per share.

Composition of the Supervisory Board and Board of Executive Directors

There were no changes to the composition of the Supervisory Board in 2005.

In its meeting on December 16, 2005, the Supervisory Board appointed Dr. Martin Brudermüller as a member of the Board of Executive Directors with effect from January 1, 2006. This first appointment has a term of three years. Effective April 1, 2006, Dr. Martin Brudermüller will be responsible for Asia and will be headquartered in Hong Kong. The appointment takes account of the importance of the fast growing Asian region for BASF. In the same meeting, the Supervisory Board extended the term of the Vice Chairman of the Board of Executive Directors and Industrial Relations Director, Eggert Voscherau, which would have expired at the end of the Annual Meeting on May 4, 2006, for a further two years until the end of the Annual Meeting in 2008.

Ludwigshafen, February 28, 2006

The Supervisory Board

Dr. Jürgen F. Strube
Chairman of the Supervisory Board

Compliance Statement in Accordance with the German Corporate Governance Code

Compliance Statement 2005 of the Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft

1. Statement of Principles pursuant to § 161 AktG [Stock Corporation Act]
   We declare that the recommendations by the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied with in the year 2005 and will be complied with in the year 2006 subject to the measures outlined below.

2. Deviations

a) Compensation of Chair and Membership in Supervisory Board Committees
   As set forth in Section 5.4.7 of the Code, compensation shall take into account the chair position and the membership in Supervisory Board committees. In respect to the Audit Committee we comply with this recommendation in addition to granting an attendance fee for the committee meetings.
   The membership in the other committees is solely reimbursed by granting an attendance fee for the committee meetings. A supplementary compensation for the chair is not provided for, since this function has to date been exercised by the Chairman of the Supervisory Board.
   It will be proposed to the 2006 Annual General Meeting to newly regulate Supervisory Board compensation, taking, in principle, the recommendations of Section 5.4.7 of the Code into account. Except is the Mediation Committee pursuant to § 27 Section 3 of the MitbestG [Codetermination Act], which, at our company, did not have to convene to date. Its members are not entitled to a specific compensation in addition to any possible attendance fee for the meetings.

b) Dealing with the structure of the Executive Board compensation system by the full Supervisory Board; assessment of the appropriateness of the compensation of the members of the Executive Board by also applying performance-related criteria; individualized publication of the compensation of the members of the Executive Board and the Supervisory Board
   The respective chairmen of the Supervisory Board Committees report regularly to the Supervisory Board on the work of the Committees. This includes the work of the Nomination and Compensation Committee *(Personalausschuss).* Beyond that we do not comply with the abovementioned recommendations, especially not with the recommendation to report on the individualized compensation of the Executive Board and the Supervisory Board in 2005 and 2006.

c) Publication to the shareholders of candidates proposed for the Supervisory Board Chair
   In accordance with this recommendation newly included in 2005, candidates for the Supervisory Board Chair shall be published 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 has to be elected from among them. 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, a priori, no opportunity to publish the candidates to the shareholders. We, therefore, consider the recommendation to be less practical. Since for the time being an election of the Chairman of the Supervisory Board is not pending, we intend to observe the further development, before we decide on a comply or an explain.

d) Compliance Statement
   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 includes the explanation of possible deviations from the recommendations of the Code. By § 161 AktG this reporting obligation is regulated with, in part, different content. The Board of Executive Directors and the Supervisory Board resolved to exclusively report as required by law.

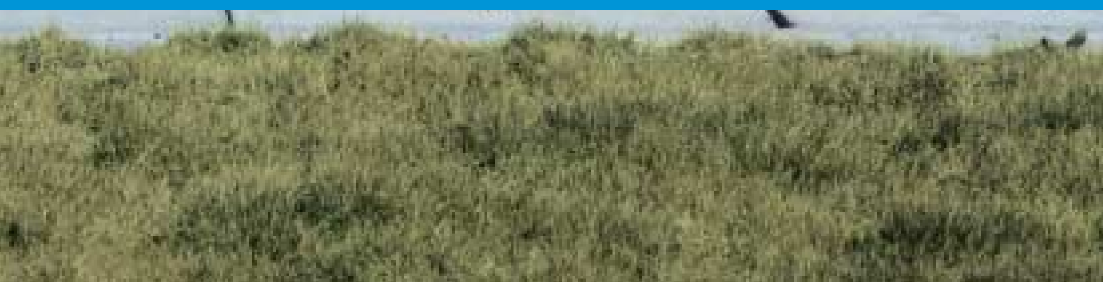
Ludwigshafen, December 16, 2005

The Supervisory Board of BASF Aktiengesellschaft	The Board of Executive Directors of BASF Aktiengesellschaft


> What really makes projects successful?

>> Partnership

Successfully realizing a project like our new Verbund site in Nanjing, China within only four years between groundbreaking and the start of operations is only possible with strong partners. You Houping, Sinopec, and Dr. Bernd Blumenberg, BASF, together head the joint venture BASF-YPC Co. Ltd. that operates the new site. The largest investment in our 140-year history is based on the Verbund concept that we apply at our main site in Ludwigshafen, Germany. The Nanjing site has an area of 220 hectares and produces 1.7 million metric tons of high-value chemicals and plastics. As a result, the site plays an important part in our economic success in the fast growing Chinese market.



Consolidated Financial Statements

Statement by the Board of Executive Directors

The Board of Executive Directors of the BASF Group is responsible for preparing the Consolidated Financial Statements and Management's Analysis of BASF Group. The Consolidated Financial Statements were prepared for the first time according to the International Financial Reporting Standards (IFRS) in 2005. U.S. genenerally accepted accounting principles (U.S. GAAP) were implemented as far as possible within the scope offered by the accounting and valuation options under IFRS. A reconciliation of net income and stockholders' equity to U.S. GAAP is provided to account for the remaining differences. The conversion from the regulations of the German Commercial Code (HGB) to IFRS is shown in detail in a reconciliation in the notes to the financial statements. We have established effective internal control systems over financial reporting, which also comply with the regulations of Section 404 of the Sarbanes Oxley Act, to ensure the adherence of the Consolidated Financial Statements and Management's Analysis with applicable accounting rules, and the truth and fairness of our company reporting.

The adherence to uniform, Group-wide accounting and reporting standards and the reliability and effectiveness of our control systems are continuously audited by our internal audit department throughout the Group. Our risk management system complies with the requirements of the German Act on Verification and Transparency in the Corporate Sector (Section 91 (2), Stock Corporation Act). The system identifies substantial risks in a timely manner enabling the Board of Executive Directors to take appropriate action as required.

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft has examined BASF's Consolidated Financial Statements and Management's Analysis and approved them free of qualification. The Consolidated Financial Statements and 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 and were discussed in detail at a Supervisory Board meeting at which the auditors were also present. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

Ludwigshafen, February 20, 2006

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

Dr. Kurt Bock
Chief Financial Officer
of BASF Aktiengesellschaft

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of BASF Aktiengesellschaft and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, recognized income and expense, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Germany and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of BASF Aktiengesellschaft and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with International Financial Reporting Standards.

Application of accounting principles generally accepted in the United States would have affected stockholders' equity as of December 31, 2005 and 2004 and net income for the years then ended to the extent summarized by the Company in Note 5 to the Consolidated Financial Statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Frankfurt am Main, February 21, 2006

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Künnemann	**Dr. Beine**
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Statements of Income

Million €	Explanations in Note	2005	2004
Sales	(6)	42,744.9	37,536.6
Cost of sales		29,566.8	25,721.2
Gross profit on sales		**13,178.1**	**11,815.4**
Selling expenses		4,329.9	4,309.2
General and administrative expenses		780.1	707.4
Research and development expenses		1,063.7	986.5
Other operating income	(7)	600.2	1,046.1
Other operating expenses	(8)	1,775.1	1,665.9
Income from operations		**5,829.5**	**5,192.5**
Income from companies accounted for using the equity method		5.6	(7.2)
Other income from participations		342.4	(588.5)
Interest result		(170.0)	(206.1)
Other financial result		(81.9)	(43.9)
Financial result	(9)	**96.1**	**(845.7)**
Income before taxes and minority interests		**5,925.6**	**4,346.8**
Income taxes	(10)	2,758.1	2,213.5
Income before minority interests		**3,167.5**	**2,133.3**
Minority interests	(11)	160.8	129.0
Net income		**3,006.7**	**2,004.3**
Earnings per share (€)	(4)	**5.73**	**3.65**
Dilution effect		–	–
Diluted earnings per share (€)	(4)	**5.73**	**3.65**

Consolidated Balance Sheets

ASSETS

Million €	Explanations in Note	2005	2004
Long-term assets			
Intangible assets	(14)	3,719.6	3,606.6
Property, plant and equipment	(15)	13,986.9	13,062.7
Investments accounted for using the equity method	(16)	244.3	1,100.5
Other financial assets	(16)	813.0	938.1
Deferred taxes	(10)	1,254.7	1,336.6
Other long-term assets	(18)	524.0	473.5
		20,542.5	**20,518.0**
Short-term assets			
Inventories	(17)	5,430.2	4,645.4
Accounts receivable, trade		7,020.2	5,860.8
Other receivables and other assets	(18)	1,586.4	2,132.8
Liquid funds	(19)	1,090.8	2,290.5
		15,127.6	**14,929.5**
Total assets		**35,670.1**	**35,447.5**

STOCKHOLDERS' EQUITY AND LIABILITIES

Million €	Explanations in Note	2005	2004
Stockholders' equity			
Subscribed capital	(20)	1,316.8	1,383.5
Capital surplus	(20)	3,100.2	3,027.6
Retained earnings	(21)	11,928.0	11,923.1
Other comprehensive income	(21)	696.7	(60.5)
Minority interests	(22)	481.8	328.5
		17,523.5	**16,602.2**
Long-term liabilities			
Provisions for pensions and similar obligations	(23)	1,546.6	4,124.1
Other provisions	(24)	2,791.2	2,375.7
Deferred taxes	(10)	699.3	948.0
Financial indebtedness	(25)	3,681.7	1,844.6
Other liabilities	(25)	1,042.8	1,078.8
		9,761.6	**10,371.2**
Short-term liabilities			
Accounts payable, trade		2,777.0	2,371.5
Provisions	(24)	2,762.5	2,364.1
Tax liabilities	(10)	887.2	644.3
Financial indebtedness	(25)	259.3	1,452.8
Other liabilities	(25)	1,699.0	1,641.4
		8,385.0	**8,474.1**
Total stockholders' equity and liabilities		**35,670.1**	**35,447.5**

Consolidated Statements of Recognized Income and Expense

Income and expense items

Million €	2005	2004
Income before minority interests	**3,167.5**	**2,133.3**
Fair value changes in available-for-sale securities	66.7	96.9
Cash-flow hedges	(21.2)	(42.4)
Change in foreign currency translation adjustments	714.5	(230.6)
Actuarial gains/losses from pensions and similar obligations	(1,075.9)	(364.5)
Deferred taxes	413.2	147.1
Minority interests	29.4	(19.4)
Total income and expense recognized in equity	**126.7**	**(412.9)**
Total income and expense for the period	**3,294.2**	**1,720.4**
Thereof BASF	3,104.0	1,610.8
Thereof minority interests	190.2	109.6

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, 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)**
As of January 1, 2004 under IFRS	**–**	**–**	**99.1**	**–**	**99.1**	**99.1**
Additions	(364.5)	(230.6)	101.2	(43.1)	(172.5)	(537.0)
Releases	–	–	(4.3)	0.7	(3.6)	(3.6)
Deferred taxes	130.6	4.4	(3.4)	15.5	16.5	147.1
As of December 31, 2004	**(233.9)**	**(226.2)**	**192.6**	**(26.9)**	**(60.5)**	**(294.4)**

Consolidated Statements of Stockholders' Equity

Million €	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Other Comprehensive income[1]	Minority interests	Total stockholders' equity
As of 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**
December 31, 2003 under HGB	**556,643,410**	**1,425.0**	**2,982.4**	**12,054.8**	**(971.9)**	**388.1**	**15,878.4**
Changes in accounting policies in the financial statements prepared according to German GAAP in 2004				(202.5)	(99.4)	(66.4)	(368.3)
Adjustments due to first-time adoption of IFRS[4]			2.6	(219.8)	1,170.4	(3.0)	950.2
January 1, 2004 under IFRS	**556,643,410**	**1,425.0**	**2,985.0**	**11,632.5**	**99.1**	**318.7**	**16,460.3**
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(16,203,000)	(41.5)	39.4	(723.6)			(725.7)
Capital withdrawal/contribution				4.1		(59.6)	(55.5)
Dividends paid				(774.1)		(77.7)[2]	(851.8)
Net income				2,004.3		129.0	2,133.3
Income and expense recognized directly in equity				(233.9)	(159.6)	(19.4)	(412.9)
Changes in scope of consolidation and other changes			3.2[3]	13.8		37.5	54.5
December 31, 2004	**540,440,410**	**1,383.5**	**3,027.6**	**11,923.1**	**(60.5)**	**328.5**	**16,602.2**

[1] Details are provided in the "Consolidated Statements of Recognized Income and Expense" on page 90.
[2] Profit and loss transfers
[3] Granting of BASF shares under the employee share program "plus"
[4] The effects of conversion to IFRS are shown in detail in Note 4.

Consolidated Statements of Cash Flows*

Million €	2005	2004
Net income	3,006.7	2,004.3
Depreciation and amortization of intangible assets. property plant and equipment and financial assets	2,426.6	3,118.5
Changes in pension provisions, defined benefit assets and other non-cash items	(11.8)	87.9
Net gains from disposal of long-term assets and securities	(422.1)	(383.8)
Changes in inventories	(412.3)	(503.5)
Changes in receivables	357.2	(1,150.4)
Changes in operating liabilities and other provisions	306.0	1,461.0
Cash provided by operating activities before external financing of pension obligations	**5,250.3**	**4,634.0**
External financing of pension obligations (CTA)	(3,660.0)	–
Cash provided by operating activities	**1,590.3**	**4,634.0**
Payments related to intangible assets and property, plant and equipment	(1,947.7)	(2,057.0)
Payments related to financial assets and securities	(211.4)	(203.8)
Payments related to acquisitions	(535.7)	(103.6)
Proceeds from divestitures	1,530.8	674.0
Proceeds from the disposal of long-term assets and marketable securities	458.3	457.4
Cash used in investing activities	**(705.7)**	**(1,233.0)**
Capital increases/repayments	9.5	(55.5)
Share repurchases	(1,434.8)	(725.7)
Proceeds from the addition of financial liabilities	2,241.5	706.7
Repayment of financial liabilities	(1,942.4)	(909.7)
Dividends paid:		
to shareholders of BASF Aktiengesellschaft	(903.9)	(774.1)
to minority shareholders	(78.2)	(77.7)
Cash used in financing activities	**(2,108.3)**	**(1,836.0)**
Net changes in cash and cash equivalents	**(1,223.7)**	**1,565.0**
Effects on cash and cash equivalents:		
from foreign exchange rates	35.3	(17.3)
from changes in scope of consolidation	10.3	57.6
Cash and cash equivalents as of beginning of year	**2,085.9**	**480.6**
Cash and cash equivalents as of end of year	**907.8**	**2,085.9**
Marketable securities	183.0	204.6
Liquid funds as shown on the balance sheet	**1,090.8**	**2,290.5**

* The statements of cash flows are discussed in detail in the Liquidity and Capital Resources section on page 30 onward of the Management's Analysis. For further information regarding Consolidated Statements of Cash Flows, see explanations in Note 12.

1. Summary of accounting policies

(a) Basis of presentation

The Consolidated Financial Statements of BASF Aktiengesellschaft (“BASF” or “BASF Aktiengesellschaft”) were prepared for the first time according to the International Financial Reporting Standards (IFRS) valid as of December 31, 2005. All those IFRS valid in the reporting year 2005 as well as the pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) were adopted to the extent that they were endorsed by the European Union. IFRS, which had not been endorsed by the European Union until that time, had no effect on BASF’s Consolidated Financial Statements. The consolidated financial statements of the BASF Group have been converted to IFRS retrospectively as of January 1, 2004. The effects of the first-time adoption of IFRS are shown in Note 3.

The Consolidated Financial Statements comply with U.S. Generally Accepted Accounting Principles (U.S. GAAP) as far as permissible under IFRS. The remaining differences are shown in a reconciliation of net income and stockholders’ equity to U.S. GAAP in Note 5.

The Consolidated Financial Statements were approved by the Supervisory Board of BASF Aktiengesellschaft at their meeting on Febraury 28, 2006 after their examination by the Audit Committee of the Supervisory Board.

(b) Scope of consolidation

The Consolidated Financial Statements include BASF Aktiengesellschaft, the parent company, with its headquarters in 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.

	2005	2004
Consolidated companies as of January 1	160	154
Thereof proportionally consolidated	12	12
First-time consolidations	28	20
Thereof proportionally consolidated	4	–
Thereof changes in the consolidation method	(1)	–
Deconsolidations	8	14
Thereof proportionally consolidated	–	–
Consolidated as of December 31	**180**	**160**
Thereof proportionally consolidated	15	12

Subsidiaries and joint ventures whose impact on the net worth, financial position and results of the Company are individually and in aggregate immaterial are not consolidated. The effects of not consolidating immaterial companies on the net worth, financial position and results of the Company account in each case for less than 2.0%.

Affiliated companies not consolidated due to immateriality, non-proportionally consolidated jointly-owned companies, 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% and exercises a significant influence over the operating and financial policies. Overall, this applies to:

	2005	2004
Affiliated companies	11	13
Joint ventures	2	3
Other associated companies	3	3
	16	**19**

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;
- 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;
- Two companies headquartered in Switzerland and one in France as a result of the acquisition of the Swiss fine chemicals company, Orgamol;
- OOO Achimgaz, the Russian Federation, a joint venture with Gazprom for the exploration of gas, which has been proportionally consolidated;
- Six further newly-founded companies in Canada, Germany, the United Kingdom and the United States; and
- Seven further previously unconsolidated companies with headquarters in Germany, China, Taiwan, Malaysia and Turkey due to their increased importance.

Deconsolidations in 2005 included eight companies due to their decreased importance or due to mergers with other BASF companies.

First time consolidations in 2004 comprised:

- BASF Performance Polymers GmbH, Rudolstadt, Germany, which produces nylon granules and compounding products;
- Foam Enterprises Inc., United States, which produces rigid polyurethane foams;
- BASF Pipeline Holdings LLC, United States, which holds a direct stake in a butadiene pipeline in the United States;
- Three Wintershall companies in Brazil, which explore for oil and gas in Brazil;
- Eight previously unconsolidated European and two U.S. companies due to corporate restructuring; and
- Four further previously unconsolidated companies with headquarters in China, Japan, and Germany due to their increased importance.

Deconsolidations in 2004 included two companies due to their decreased significance and five due to restructuring or liquidation. A further seven companies were eliminated from the scope of consolidation as a result of the sale of the printing systems business to CVC Capital Partners.

Changes in the scope of consolidation had the following effects on the sales and the balance sheet of the BASF Group:

	2005 Million €	**2005 %**	**2004 Million €**	**2004 %**
Sales	81.2	0.2	43.5	0.1
Long-term assets	3.2	.	3.5	.
Thereof property, plant and equipment	26.7	0.2	57.3	0.4
Short-term assets	(38.0)	(0.3)	17.3	0.1
Thereof liquid funds	10.3	0.4	57.6	9.0
Assets	**(34.8)**	**(0.1)**	**20.8**	**0.1**
Stockholders’ equity	3.1	.	37.8	0.2
Long-term liabilities	16.8	0.2	0.2	.
Thereof financial indebtedness	9.4	0.5	–	–
Short-term liabilities	(54.7)	(0.6)	(17.2)	(0.2)
Thereof financial indebtedness	16.2	1.1	3.9	0.8
Stockholders’ equity and liabilities	**(34.8)**	**(0.1)**	**20.8**	**0.1**
Contingent liabilities and other financial obligations	46.3	1.6	89.8	2.8

Proportional consolidation

Condensed financial information relating to the Company's pro rata interest in jointly operated companies accounted for using the proportional consolidation method is as follows:

Million €	2005	2004
Income statement information		
Sales	3,150.5	2,258.6
Gross profit on sales	183.2	178.1
Income from operations	123.8	116.6
Income before taxes and minority interests	127.6	124.9
Net income	113.7	99.3
Balance sheet information		
Long-term assets	1,396.4	1,241.9
Thereof property, plant and equipment	1,325.1	1,177.0
Short-term assets	775.9	527.8
Thereof liquid funds	47.3	24.5
Assets	**2,172.3**	**1,769.7**
Stockholders' equity	630.7	678.4
Long-term liabilities	948.7	668.5
Thereof financial indebtedness	547.0	370.0
Short-term liabilities	592.9	422.8
Thereof financial indebtedness	9.9	16.0
Stockholders' equity	**2,172.3**	**1,769.7**
Warranties and other financial obligations	128.5	77.1
Cash flow information		
Cash provided by operating activities	207.6	79.6
Cash used in investing activities	(205.5)	(267.9)
Cash provided by financing activities	14.4	181.6
Net change in cash and cash equivalents	16.5	(6.7)

Associated companies accounted for using the equity method

Condensed financial information of the most significant associated companies accounted for using the equity method, including the Solvin Group (BASF's share: 25%) and the Svalöf Weibull Group (BASF's share: 40%) are shown below. The 2004 figures contain the Basell Group, which was sold in 2005 (BASF's share: 50%).

Million €	2005	2004
Income statement information		
Sales	1,372.0	8,052.7
Gross profit on sales	351.3	1,131.7
Income from operations	103.8	296.4
Income before taxes and minority interests	102.0	318.3
Net income	67.0	222.6
BASF's share of net income	16.8	93.9
Balance sheet information		
Long-term assets	477.3	5,258.4
Thereof property, plant, and equipment	459.5	3,430.0
Short-term assets	672.1	2,486.4
Thereof liquid funds	48.6	8.0
Total assets	**1,149.4**	**7,744.8**
Stockholders' equity	343.4	3,540.3
Long-term liabilities	190.6	2,158.0
Thereof financial indebtedness	123.3	1,338.7
Short-term liabilities	615.4	2,046.5
Thereof financial indebtedness	20.4	329.9
Total stockholders' equity and liabilities	**1,149.4**	**7,744.8**
BASF's investment	95.4	1,695.8

(c) Summary of significant accounting policies

Balance sheet date: The individual financial statements of the companies forming part of the group (hereinafter referred to as "consolidated companies") are generally prepared as of the balance sheet date of the Consolidated Financial Statements. In certain cases, interim financial statements or adjusted statements as of the balance sheet date of the Consolidated Financial Statements are prepared and used.

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, significant deviations in the valuations 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. Inter-company profits resulting from sales at market prices to companies accounted for using the equity method are not eliminated due to immateriality.

Capital consolidation: Capital consolidation is based on the purchase method, which conforms with U.S. GAAP. Initially, all assets, debts and intangible assets that are to be capitalized are valued at fair value. Finally, the acquisition cost is matched to the proportionate share of the acquired equity. Differences not allocated to individual assets are capitalized as goodwill. Goodwill is not amortized, but written down in the case of impairment (see page 126 for further information on intangible assets).

Revenue recognition: Revenues from product sales and the rendering of services are recognized upon shipment to customers or performance of the service upon the transfer of ownership and risks to the buyer. Provisions for discounts, sales returns, rebates to customers, estimated future warranty obligations and other claims are provided for in the same period the related sales are recorded.

In certain cases deliveries require customer acceptance. Revenues are deferred in these cases until 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 estimated reliably. 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 by write-downs to the lower fair value.

Revenue from interest-bearing assets is recognized according to the outstanding receivables at reporting date using the effective interest method. Dividends are recognized when the shareholder's 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 set up as deferred income and recognized as income over the underlying period or the expected useful life of the respective asset.

Conversion of foreign currency items: The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at current rates on transaction dates. Short-term foreign currency receivables and liabilities are valued at the rate on the balance sheet date.

Translation of foreign currency financial statements: The translation of foreign currency financial statements conforms with the functional currencies of the consolidated companies. The local currency or the U.S. dollar is the functional currency of BASF subsidiaries and jointly operated companies in North America (NAFTA), Japan, Korea, China, Brazil, Malaysia, Singapore and the Russian Federation. Translation therefore takes place using the current rate method. Balance sheet items are translated to euros at year-end rates. Expenses and income are translated at monthly average rates in Euro and accumulated for the year. The effects of rate changes are shown under “currency translation adjustment” as a component of other comprehensive income in equity and are treated as income or expense in the consolidated statements of income only upon the disposal of a company.

The euro is the functional currency for the remaining companies. The temporal method is therefore used to make the conversion: long-term assets except loans, and paid-in capital are translated using historical rates. Other assets, liabilities and provisions are translated using closing rates. Equity is then calculated as the balancing figure. Expenses and income are converted at monthly average rates and cumulated to year-end figures, except for those items derived from balance sheet items converted at historical rates, which are also translated at historical rates. Foreign exchange gains or losses resulting from the conversion process are recognized in profit or loss and shown in other operating expenses or income.

Acquired intangible assets – excluding goodwill – are valued at cost less regularly 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. Write-downs are made when the recoverable amount of the asset is lower than the carrying value. The recoverable value is the higher of fair value less selling costs and value in use. Write-backs (reversals of impairment losses) are made if the reasons for the previous years’ write-downs no longer exist.

Internally generated intangible assets primarily comprises 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. Write-downs are made if the carrying amount of an asset exceeds the recoverable value.

Development costs also includes, in addition to those costs directly attributable to the development of the asset, appropriate allocations of material and manufacturing overheads as well as an appropriate share of the administrative costs involved in the development of the intangible assets. Borrowing costs are capitalized if they are material and are incurred during the period of the development of the asset.

The average amortization period for intangible assets with finite useful lives is 9 years for 2005 and 8 years for 2004 based on the following expected useful lives:

Depreciation periods	**Years**
Marketing and similar rights	2–20
Product rights, licenses and trademarks	2–15
Know-how, patents and production technologies	3–15
Internally generated intangible assets	3–5
Other rights and values	2–20

Goodwill: Since 2004, goodwill is only written down if there is an impairment. Impairment testing takes place annually and additionally if there is an indication of an impairment. The goodwill impairment test is based on cash generating units using the discounted cash-flow method. The cash generating units at BASF are principally the business units. Recoverable value is the higher of net sales price and the value in use. Value in use is generally determined using the discounted cashflow method. The estimated cash flows are generally based on the current plans of the Company for the next three years and rely 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. Interest rates used depend on the business unit (business) and the country in which the business unit operates and ranged from 8.7% to 13.8%.

If the necessary write-down exceeds the carrying value of goodwill, the write-down is made with the remaining write-down charged evenly to the remaining assets in the cash-generating unit. Goodwill write-downs are reported under other operating expenses.

Emission rights: Emission right certificates granted by the German Emissions Trading Authority (DEHSt) or a similar authority in other European countries are recorded at fair value at the time of issue. Purchased emission rights are recorded at acquisition cost.

Property, plant and equipment: Property, plant and equipment is stated at acquisition or production cost less scheduled depreciation over its estimated useful life. Low-value assets are fully depreciated in the year of acquisition and are shown as disposals. The revaluation method is not used for the valuation of property, plant and equipment.

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

Expected costs involved in the regularly scheduled shut-down of important plants are capitalized as part of the asset and depreciated using the straight-line method over the period to the next planned shut-down. 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 and depreciated over the expected useful life of the asset using the straight-line method.

Long-term 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	**2005 (Years)**	**2004 (Years)**
Buildings and structural installations	28	25
Industrial plant and machinery	13	12
Long-distance natural gas pipelines	25	25
Working and office equipment and other facilities	8	8

Write-downs are made on property, plant and equipment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of an impairment loss for long-lived assets that the Company expects to hold and use is based on the discounted expected future cash flows from the use of the asset less costs for its removal. A write-down is made in the amount of the difference between the net carrying value and the discounted 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 and incomplete oil and gas drilling operations are capitalized as property, plant and equipment. Successful drillings are depreciated based on the production and estimated available resources. Successful drillings of German operations that were completed before the end of 2000 are depreciated under the declining balance method over 8 years (for drilling in old fields) and 15 years. Geophysical expenditures, including exploratory and dry-hole costs, are charged against income.

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

Leasing: According to IAS 17 leasing contracts are classified as either financing or operating leases. Assets used 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 incidental to its ownership. Assets used subject to a finance lease are recorded at the fair value of the leased property or, if lower, 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 useful life of the asset or the period of the lease if it is shorter.

Details regarding the individual leasing contracts are presented in Note 30.

Investments in companies accounted for using the equity method: The capital consolidation of participations accounted for using the equity method is carried out under the same principles as for those companies which are fully consolidated. The carrying values 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 no longer amortized since 2004 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 BASF Group becomes a party to a financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset with all risks and rewards of ownership is transferred. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expires. Customary purchases or sales of assets are accounted for using settlement date accounting. According to IAS 32, financial instruments include primary instruments such as accounts receivable and accounts payable, investments and equity instruments. Financial instruments also include derivatives, which are matched to underlying primary financial instruments and 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 through profit or loss** include exclusively derivatives and other trading instruments. Within this valuation category are included cash balances, time deposits and checks, which are shown under liquid funds, 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. Other receivables and loans classified under "accounts receivable, trade," "other receivables and miscellaneous short-term assets," and "other long-term assets" are included herein. Initial valuation is done at present value, which generally matches the nominal value of the receivable or loan. Interest-free and low-interest long-term loans and receivables are recorded at present value. Subsequent valuations are generally done at historical cost, under consideration of the effective interest method.
- **Held-to-maturity financial instruments** consist of 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 are not derivatives and do not fall into other valuation categories. Initial valuation is done at present value, which generally matches the nominal value. Subsequent valuations are generally done at historical cost, under consideration of the effective interest method. There exist no material financial assets that fall into this category.
- **Available-for-sale financial instruments** comprise financial assets, which are not derivatives and do not fall into 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 securities reported under the item "liquid funds" are included here. Initial valuation is done at present value. Changes in the present value are booked into equity under the item "other comprehensive income," and only flow through the income statement when they are disposed of or have an impairment in value. Participations whose present value cannot be reliably determined are carried at historical cost, and are written off in the case of an impairment in value.

- **Financial liabilities** are initially valued at present value, which generally corresponds to the amount received or nominal value. Subsequent valuations are generally done at historical cost, under consideration of the effective interest method.

In 2005, there were no reclassifications between these 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 bulk 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 for certain hedges of future transactions ("cash flow hedge"). The effective portion of the change in fair value is thereby recorded directly in equity under other comprehensive income, taking deferred taxes into account, and does not flow through the income statement. The ineffective portion is recorded immediately in the income statement. In the case of future transactions that will lead to a non-financial asset or a non-financial debt being booked, the cumulated fair value changes in equity are immediately charged against the acquisition cost. For future transactions that will lead to financial debts or assets, the cumulated fair value changes in equity flow through the income statement during the same reporting period in which the underlying contract effects the income statement. 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. All hedged future transactions became effective in the 2005 business year. The use of derivative financial instruments to hedge exchange rate, interest and price risks is detailed in Note 29.

If there are indications of impairment in financial instruments, impairment write-downs are carried out. The indications include above all, a reduction in the fair 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 acquisition cost carried forward and recognized in income. In the case of available for sale securities, write-ups principally do not flow through the income statement, but are credited 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 beyond are recognized in equity. Write-ups are not made for participations for which a fair value cannot be reliably determined and are therefore carried at acquisition cost.

Deferred tax assets: Deferred tax assets are recorded for taxable temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated companies 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 fair value or value in use based on the net realizable value is lower than the carrying value. The net realizable value is based on fair value less costs to sell which can be directly allocated to the respective asset incurred prior to sale.

Production costs include, in addition to direct costs, an appropriate allocation of overhead cost of production using 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.

Pension provisions and other personal obligations: Provisions for pensions are based on actuarial computations made according to the projected unit credit method. Similar obligations, especially those arising from commitments made by North American Group companies to pay the healthcare costs and life insurance premiums of retired staff and their dependents, are included in pension provisions. Actuarial profits and losses are offset against other comprehensive income. The calculation of the pension provisions was based largely on reports prepared by Bode Hewitt AG & Co. KG in Munich, Germany.

Other provisions: Other provisions are set up 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 are recognized for German trade income tax and German corporate income tax and similar income taxes 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 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 acquisition 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 decided upon 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. Financing costs are shown in other financial results.

Provisions for long-service and anniversary bonuses are largely calculated based on actuarial principles, and discounted using an interest rate of 3.25%. For signed contracts under the pre-retirement part-time programs, provisions for the present value of supplemental (top-up) payments are provided in their full amount and the wage and salary payments due during the passive phase of agreements are accrued through installments and discounted at an interest rate of 3.0%. Provisions are recorded for the expected costs of pre-retirement part-time programs that are anticipated to be contracted during the term of the collective bargaining agreements, taking into consideration the ceilings provided in the collective agreements.

The formation of provisions for the BASF stock option program (BOP) and BASF's incentive share program “plus” is described in detail in Note 28.

Deferred tax liabilities: Deferred tax liabilities are recorded for temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated company 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 of the period after minority interests.

Use of estimates and assumptions in financial statement preparation: The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the preparation of these Consolidated Financial Statements, estimates and assumptions have been made by management concerning the selection of useful lives of property, plant and equipment and intangible assets, the measurement of provisions, the carrying value of investments, and other similar evaluations of assets and obligations. Given the uncertainty regarding the determination of these factors, actual results could differ from these estimates.

The use of estimates at closing date is especially significant for the following items:

Goodwill is measured for reporting units and is tested for impairment once a year. Write downs are made when an impairment has been determined, i.e., when the book value of the reporting unit exceeds the net present value of future cash flows. Impairment testing relies on long-term earnings predictions based on economic trends.

Deferred taxes are also recognized for tax loss carryforwards. Their realization depends on the future taxable profits of the respective group companies. Write-downs are made when it is uncertain if future earnings will be sufficient to take advantage of the tax loss carryforwards.

Pension provisions are influenced by assumptions covering the future development of wages and salaries, future pension payments, interest rates and the value of plan assets. Errors in assumptions could lead to an over- or underfunding of pension liabilities which are offset against retained earnings. See Note 23 for additional information.

Other provisions also 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 also Note 27).

Other provisions also include expected charges for the rehabilitation of contaminated sites, the re-cultivation 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 claimant that can be identified, the provision covers the entire expected claim. At sites operated together by one or more partners, 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 site data, the technology and processes used as well as current regulations (See Note 24).

Assumptions have to be made in determining the interest 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 value 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 closing date which may deviate from actual developments. This includes, among other things, expected revenue from sales of products, the return on assets, materials and energy costs. If the recoverable value is lower than the carrying value, a write-down in the amount of the difference is made (compare Notes 14 and 15).

IFRSs and IFRICs not considered in the preparation of these statements

The effects of IFRSs and IFRICs not applied or not yet endorsed by the European Union in the reporting year 2005 were reviewed:

- IFRS 7 "Financial Instruments: Disclosures" requires more extensive disclosure regarding financial instruments. The disclosure requirements in IAS 32 were incorporated in 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.
- IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment" was issued to give guidance on the issue of establishing provisions as a result of the European Union's Directive on Waste Electrical and Electronic Equipment. The IFRIC interpretation clearly states when a provision is to be established according to IAS 37 for the decommissioning of equipment that has been sold to private households before August 13, 2005 ("historical household equipment"). IFRIC 6 will have no effect on the Consolidated Financial Statements of BASF Group.
- In IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies for the First Time" two specific issues related to IAS 29 were treated. On the one hand, it explains how an entity has to restate its financial statements in accordance with IAS 29 in the first year the existence of hyperinflation is identified in the economy of its functional currency. On the other hand, IFRIC 7 gives guidance on how an entity has to treat deferred taxes in the opening balance sheet. IFRIC 7 is to be applied for reporting years beginning on or after March 1, 2006. This interpretation will have no effect on the Group Consolidated Financial Statements of BASF.
- IFRIC 8 "Scope of IFRS 2" clarifies that IFRS 2 (Share-based Payment) also applies to agreements whereby the entity makes payments for which the entity does not receive any goods or services or inadequate consideration. If the identifiable consideration is less than, or appears to be less than, the fair value of the equity instruments granted or liability incurred, IFRIC 8 interprets this circumstance to indicate that other consideration (i.e., goods or services) has been (or will be) received. Therefore, IFRS 2 is to be applied in such cases. IFRIC 8 is to be applied for reporting years beginning on or after May 1, 2006. The application of IFRIC 8 has no effects on the Consolidated Financial Statements of BASF Group, as there are no agreements to which IFRIC 8 would apply.

2. Acquisitions/divestitures

On January 28, 2005 BASF acquired the electronic chemicals business of Merck KGaA, Darmstadt, Germany, for €270 million. The transaction included production and distribution centers for high purity chemicals in Asia and Europe. Merck's sales in this business amounted to approximately €200 million in 2004. This business was included in the Inorganics division.

The difference between the acquisition price and the fair value of the equity purchased which could not be allocated to any particular asset was recorded as goodwill. Goodwill includes inseparable assets such as future synergies and the resulting future earnings potential. In total, €122 million was recognized as goodwill.

On October 1, 2005, BASF acquired 100% of the shares in the Swiss fine chemicals company Orgamol S.A. The acquisition included, among other things, two production sites for the production of pharma ingredients. In 2004, company sales stood at approximately €100 million. The business was included in the Fine Chemicals division.

At acquisition, goodwill of €2 million was recognized for the Orgamol Group.

Further acquisitions in 2005 included Leuna Miramid and a consulting company, plan business market enabling services AG, as well as the 50% share of BASF Coatings Japan Ltd. from NOF Corp.

In 2004, acquisitions primarily concerned the takeover of the plasticizer business from Sunoco, United States. The transaction included production plants for phthalic anhydride and oxo alcohols in Pasadena, Texas, as well as various intangible assets and inventories.

All acquired assets and liabilities are recognized at fair value. Differences between the acquisition price and the net fair value of the cost of the identifiable assets, liabilities and contingent liabilities were recognized as goodwill.

Acquisitions had the following effects on the sales and the balance sheet of the BASF Group:

Acquisitions

	2005 Million €	**2005 %**	**2004 Million €**	**2004 %**
Sales	324.5	0.9	504.5	1.5
Long-term assets	601.1	2.9	91.4	0.4
Thereof property, plant and equipment	329.5	2.5	58.3	0.4
Short-term assets	(348.3)	(2.3)	(73.1)	(0.6)
Thereof liquid funds*	(535.7)	(23.4)	(103.6)	(16.1)
Assets	**252.8**	**0.7**	**18.3**	**0.1**
Long-term liabilities	117.6	1.1	2.6	.
Thereof financial indebtedness	2.0	0.1	–	–
Short-term liabilities	135.2	1.6	15.7	0.2
Thereof financial indebtedness	45.9	3.2	–	–
Stockholders' equity and liabilities	**252.8**	**0.7**	**18.3**	**0.1**
Contingent liabilities and other financial obligations	71.7	2.5	–	–

*Primarily due to purchase price payments

On May 5, 2005, BASF and Shell Chemicals sold their 50-50 joint venture Basell to Nell Acquisition S.a.r.l., Luxembourg, 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. The business and production plant sold belonged to the Styrenics division.

Divestitures in 2004 concerned primarily the sale of the printing systems business to CVC Capital Partners.

Divestitures had the following effects on the sales and the balance sheet of the BASF Group:

Divestitures	2005 Million €	2005 %	2004 Million €	2004 %
Sales	(636.1)	(1.7)	(246.7)	(0.7)
Long-term assets	(1,028.3)	(5.0)	(119.0)	(0.5)
Thereof property, plant and equipment	(52.2)	(0.4)	(85.4)	(0.6)
Short-term assets	1,435.9	9.6	314.6	2.5
Thereof liquid funds*	1,530.8	66.8	674.0	104.9
Assets	**407.6**	**1.1**	**195.6**	**0.6**
Stockholders' equity	362.7	2.2	360.4	2.2
Long-term liabilities	50.3	0.5	(59.6)	(0.5)
Thereof financial indebtedness	–	–	–	–
Short-term liabilities	(5.4)	(0.1)	(105.2)	(1.5)
Thereof financial indebtedness	–	–	(0.3)	(0.1)
Stockholders' equity and liabilities	**407.6**	**1.1**	**195.6**	**0.6**
Contingent liabilities and other financial obligations	–	–	(4.5)	(0.1)

*In particular, due to proceeds from divestitures

Discontinuing operations

There were no discontinuing operations in 2005.

Planned acquisitions/divestitures

On January 9, 2006, the Iron Acquisition Corporation, Florham Park, New Jersey, a one-hundred percent subsidiary of BASF Aktiengesellschaft, announced a cash offer for all the shares of Engelhard Corporation, Iselin, New Jersey, in the amount of $37 per share. The total cost of the transaction based on the price per share is approximately $4.9 billion. The extended offer expires on March 3, 2006.

BASF is continuing to complement its portfolio with the purchase of the Degussa construction chemicals business. Exclusive negotiations between BASF and Degussa began on February 14, 2006.

For additional details, please see the supplementary report (page 56).

3. Effects of the conversion to IFRS

The consolidated financial statements of BASF Group were based on the accounting and valuation principles of the German Commercial Code (*Handelsgesetzbuch*) and the German Stock Corporation Act (*Aktiengesetz*) as well as the accounting standards of the German Accounting Standards Committee (*Deutscher Standardisierungsrat*), collectively German GAAP up to and including the 2004 reporting year. International Financial Reporting Standards (IFRS) were followed to the greatest extent allowable under German GAAP.

Due to the mandate by the European Union on July 19, 2002, BASF, as a listed company, has completely converted to the International Financial Reporting Standards (IFRS) in accordance with IFRS 1 "First-time Adoption" starting from January 1, 2005. The previous year's figures were restated appropriately. Effects of the conversion were netted against equity as of January 1, 2004.

The conversion affected the following items:

Reconciliation of stockholders' equity to IFRS

Million €	Note	January 1, 2004	December 31, 2004
Stockholders' equity in accordance with German GAAP		**15,878.4**	**15,765.0**
Capitalization of interest cost	**(a)**	322.4	314.3
Capitalization of internally generated intangible assets	**(b)**	114.4	80.6
Accounting for pensions	**(c)**	(160.8)	(62.7)
Accounting for provisions	**(d)**	186.4	178.8
Accounting for financial instruments	**(e)**	(22.6)	196.3
Valuation of inventories	**(f)**	102.2	11.8
Reversal of goodwill amortization and write-offs due to impairment	**(g)**	–	108.7
Other adjustments	**(h)**	(71.2)	52.6
Tax effects of planned dividend payments and other tax effects	**(i)**	57.9	(43.2)
Valuation adjustments relating to companies accounted for using the equity method	**(j)**	53.2	–
Adjustments in accordance with IFRS		**581.9**	**837.2**
Stockholders' equity in accordance with IFRS		**16,460.3**	**16,602.2**

The results for the 2004 reporting year are presented according to IFRS. The retroactive adjustment of the results for 2004 led to the following reconciliation items:

Reconciliation of income from operations to IFRS

Million €	Note	2004
Income from operations in accordance with German GAAP		**4,855.6**
Capitalization of interest cost	**(a)**	(63.6)
Capitalization of internally intangible generated assets	**(b)**	(53.5)
Accounting for pensions	**(c)**	65.6
Accounting for provisions	**(d)**	13.9
Accounting for financial instruments	**(e)**	95.2
Valuation of inventories	**(f)**	(3.4)
Reversal of goodwill amortization and write-offs due to impairments	**(g)**	150.4
Other adjustments	**(h)**	(22.8)
Change in presentation of net financing cost of personnel obligations		155.1
Adjustments in accordance with IFRS		**336.9**
Income from operations in accordance with IFRS		**5,192.5**

Reconciliation of income after taxes and minority interests to IFRS

Million €	Note	2004
Net income after minority interests in accordance with German GAAP		**1,883.0**
Capitalization of interest cost	**(a)**	4.3
Capitalization of internally generated intangible assets	**(b)**	(32.5)
Accounting for pensions	**(c)**	41.1
Accounting for provisions	**(d)**	(8.5)
Accounting for financial instruments	**(e)**	150.1
Valuation of inventories	**(f)**	(2.1)
Reversal of goodwill amortization and write-offs due to impairments	**(g)**	112.9
Other adjustments	**(h)**	16.4
Tax effects of planned dividend payments and other tax effects	**(i)**	(107.2)
Valuation adjustments relating to companies accounted for using the equity method	**(j)**	(53.2)
Adjustments in accordance with IFRS		**121.3**
Net income after minority interests in accordance with IFRS		**2,004.3**

The significant adjustments to IFRS are explained below:

(a) Capitalization of interest cost

According to IFRS, borrowing costs for property, plant and equipment that are directly attributable to the construction period may be capitalized in the period in which they are incurred if the construction period is lengthy. Previously, in accordance with German GAAP, borrowing costs for construction were not capitalized. Under U.S. GAAP the capitalization of construction interest costs is required. In order to minimize the differences between IFRS and U.S. GAAP the allowed alternative treatment of capitalizing interest incurred in lengthy construction projects has been followed.

(b) Capitalization of internally generated intangible assets

Costs incurred for computer software developed or obtained for the Company's internal use are to be capitalized as intangible assets and amortized over the expected useful life of the software under IFRS. According to German GAAP, the capitalization of costs for internally generated intangible assets is not permissible. IAS 38 "Intangible Assets" covers the capitalization of development costs.

(c) Accounting for pensions

Pension obligations arising from direct promises of the Company to the employees were already recorded in the 2004 annual financial statements according to IAS 19 "Employee Benefits." This led to a new valuation whereby the formerly deferred actuarial gains and losses were offset against retained earnings as of January 1, 2004.

Pension benefits are also provided by legally independent funds, particularly the "BASF Pensionskasse VVaG" ("BASF Pensionskasse"). As BASF guarantees the commitments of the these funds, they are classified as defined benefit plans according to IFRS and are to be included in the Group consolidated financial statements. This was not permissible under German GAAP. The inclusion of these pension plans was done retroactively to January 1, 2004 according to IFRS. Actuarial gains and losses were not recognized according to IFRS 1 "First-time Adoption."

BASF exercises the option introduced by an amendment to IAS 19 "Employee Benefits," which allows actuarial gains and losses to be recognized against retained earnings in the year they are incurred.

Additionally, financing costs for pensions and other personnel obligations are offset against the expected return on plan assets (2004: €155.1 million) and not shown, as previously, before EBIT, but rather separately under “other financial results.”

(d) Accounting for provisions

The reconciliation item contains the following deviations:

- Provisions are made for deferred maintenance and mandated modifications in connection with the operation of plants according to German GAAP. IFRS requires that these measures are expensed in the period they occur.
- Under IFRS, provisions for certain environmental measures and recultivation obligations are set-up in the amount of the expected obligations and at the same time increase the acquisition cost of the respective assets. According to German GAAP, such costs were accumulated, whereas according to IFRS they are capitalized and depreciated using the straight-line method.
- According to German GAAP, provisions are established for cyclical major overhauls whereas IFRS requires that such expenses are capitalized upon performance and are depreciated until the next regularly scheduled overhaul.
- Long-term provisions are discounted under IFRS. German GAAP stipulates the use of nominal values.

(e) Accounting for financial instruments

IFRS requires that derivatives are valued on the balance sheet at market value and shown as “Other receivables” or “Other liabilities.” Changes in market value, as long as they do not fulfill the strict requirements of hedge accounting, affect income. Under German GAAP, unrealized gains on swaps and other forward contracts are deferred until settlement or termination while unrealized expected losses from pending transactions are charged to income each period.

Under German GAAP, long-term receivables and liabilities denominated in a foreign currency are converted into euros at the exchange rates at the dates when the transactions took place or the lower exchange rates at year end for receivables and the higher exchange rates for liabilities. IFRS requires conversion at the exchange rate at the end of the year.

Under IFRS, available-for-sale securities are recorded at market values on the balance sheet date. Changes in valuation are recognized outside of profit and loss in equity. Write-downs do not affect income. Under German GAAP, such securities and other investments are valued at the lower of acquisition cost or market value at the balance sheet date and affect income.

(f) Valuation of inventories

As the LIFO method is not allowed under IFRS, the valuation of inventories was already changed to the weighted-average method as of January 1, 2004.

According to German GAAP, raw materials and supplies are to be discounted based on lower replacement costs. Under IFRS write-downs are only allowed based on lower net realizable value.

(g) Reversal of goodwill amortization and write-offs due to impairment

Goodwill was amortized over its useful life in accordance with German GAAP. IFRS 3 “Business Combinations,” however, requires that goodwill is tested for impairment at least once a year according to IAS 36 “Impairment of Assets.” Based on IFRS 1 “First-time Adoption” and IFRS 3 “Business Combinations” regularly scheduled depreciation on goodwill was not to be made after January 1, 2004. According to impairment tests carried out at the transition date, and at year-end 2004 and 2005, no impairment write-offs were necessary.

(h) Other adjustments

These refer primarily to the treatment of government grants which are not recognized as income intially but rather reduce the acquisition cost of the respective item of property, plant and equipment. They also refer to reclassifications in the consolidated income statement which is discussed in more detail on the next page under “Presentation.”

(i) Tax effects of planned dividend payments and other tax effects

According to IFRS, deferred taxes are recognized for the tax effect of planned dividend distributions from BASF Group companies considering the current financial plans and the change in the German Corporate Income Tax Act (Section 8b KStG).

(j) Valuation adjustments relating to companies accounted for using the equity method

Significant changes resulting from the conversion to IFRS primarily concern the capitalization and the straight-line amortization of internally-generated software as well as the accounting for capitalized interest for Group companies accounted for using the equity method. As a result of these adjustments, the book value of these financial assets under IFRS was higher than that recorded under German GAAP as of January 1, 2004. The negative reconciliation item to income under IFRS was related to write-downs of these participations.

Presentation

The presentation of the income statement as well as the balance sheet is in accordance with IAS 1 "Presentation of Financial Statements." Individual positions were summarized to improve clarity and are presented in detail in the notes to the financial statements.

Consolidated Balance Sheets

IFRS requires the differentiation between long-term and short-term assets. German GAAP, by contrast, distinguished between fixed assets and current assets. The item "investments accounted for using the equity method" contains in 2004, in particular, our stake in the Basell joint venture, which was sold on May 2, 2005. In equity, the new item "other comprehensive Income" is presented to account for changes that do not affect income. The option under IFRS 1 to net the translation adjustment against retained earnings as of January 1, 2004 was exercised. Liabilities are segmented according to maturity, whereas they are segmented into provisions and liabilities under German GAAP.

Consolidated Statements of Income

Financing costs for pensions and other personnel obligations netted against expected returns of pension plan assets are not reported before EBIT but after EBIT in a new item "other financial results." This also includes the capitalization of interest cost, the accrued interest of other provisions and changes in the fair value of interest rate derivatives.

4. Earnings per share

Earnings per share

	2005	2004
Net income under IFRS (Million €)	3,006.7	2,004.3
Number of shares (1,000)		
Weighted-average number of shares	525,125	548,714
Earnings per share under IFRS (€)	5.73	3.65

The calculation of earnings per common share is based on the weighted-average number of common shares outstanding during the applicable period. The calculation of diluted earnings per common share reflects the dilutive effect of all potential common shares that were outstanding during the respective period. Shares awarded under the BASF employee participation program "plus" have been included in the computation of diluted earnings per share. Due to a resolution by the Board of Executive Directors and the Supervisory Board in 2002, settlements of stock options from the BASF stock option program (BOP) for senior management are made in cash, therefore such stock options have no dilutive effect.

The earnings per share were not impacted by any dilutive effect in 2005 and in 2004, as the impact of potential common shares was anti-dilutive in each year.

5. Reconciliation of net income and stockholders' equity to U.S. GAAP

The Consolidated Financial Statements comply with U.S. GAAP as far as permissible under IFRS. The remaining differences concern the following adjustments:

Reconciliation of net income to U.S. GAAP

Million €	Note	2005	2004
Income after taxes and minority interests to IFRS		**3,006.7**	**2004.3**
Adjustments required to conform with U.S. GAAP			
Accounting for pensions	**(a)**	(72.6)	(24.6)
Accounting for provisions	**(b)**	6.5	6.1
Valuation adjustments relating to companies accounted for using the equity method	**(e)**	–	(108.4)
Acquisitions	**(f)**	(21.8)	–
Other adjustments	**(g)**	166.9	(11.0)
Deferred taxes	**(h)**	(26.2)	(2.4)
Minority interests	**(i)**	1.1	(1.2)
Adjustments to U.S. GAAP		**53.9**	**(141.5)**
Net income in accordance with U.S. GAAP		**3,060.6**	**1,862.8**
Earnings per share in accordance with U.S. GAAP (€)		**5.83**	**3.39**
Dilutive effect		–	–
Diluted earnings per share in accordance with U.S. GAAP (€)		**5.83**	**3.39**

Reconciliation of stockholders' equity to U.S. GAAP

Million €	Note	2005	2004
Stockholders' equity in accordance with IFRS as of December 31		**17,523.5**	**16,602.2**
Minority interests		(481.8)	(328.5)
Stockholders' equity excluding minority interests		**17,041.7**	**16,273.7**
Adjustments required to conform with U.S. GAAP			
Accounting for pensions	**(a)**	920.1	1,020.1
Accounting for provisions	**(b)**	113.0	105.0
Accounting for financial instruments	**(c)**	(12.1)	–
Reversal of goodwill amortization and write-offs due to impairment	**(d)**	344.5	325.7
Valuation adjustments relating to companies accounted for using the equity method	**(e)**	39.0	39.0
Acquisitions	**(f)**	(21.8)	–
Other adjustments	**(g)**	(0.1)	(145.7)
Deferred taxes	**(h)**	(463.4)	(441.7)
Minority interests	**(i)**	(16.1)	(17.0)
Adjustments to U.S. GAAP		**903.1**	**885.4**
Stockholders' equity in accordance with U.S. GAAP as of December 31		**17,944.8**	**17,159.1**

The calculation of earnings per share is described in detail in Note 4.

Earnings per share

	2005	2004
Net income in accordance with U.S. GAAP (Million €)	3,060.6	1,862.8
Number of shares (1,000)		
Weighted-average undiluted number of shares	525,125	548,714
Dilutive effect	–	–
Weighted-average diluted number of shares	525,125	548,714
Basic earnings per share in accordance with U.S. GAAP (€)	**5.83**	**3.39**
Dilutive effect	–	–
Diluted earnings per share in accordance with U.S. GAAP	**5.83**	**3.39**

(a) Accounting for pensions

Pension provisions and expenses which fall under the scope of SFAS 87 are based on the same assumptions as under IFRS (see Note 23). BASF excercises the option allowing actuarial gains and losses to offset directly against retained earnings outside of profit and loss in the year in which they are incurred. According to SFAS 87, these items are charged to income as soon as they exceed 10% of the greater of the Projected Benefit Obligation (PBO) and the pension plan assets. In addition, a difference results because an Additional Minimum Liability reduces stockholders' equity according to U.S. GAAP.

The Accumulated Benefit Obligation (ABO) amounted to €11,398.0 million in 2005 compared with €9,419.9 million in 2004. This obligation relates to pension plans whose plan assets do not completely cover the ABO.

Current funding situation

	2005		2004	
Million €	**ABO**	**Plan Assets**	**ABO**	**Plan Assets**
Unfunded pension plans	582.2	–	3,563.1	–
Partially funded pension plans	6,954.6	6,756.6	1,727.5	1,686.3
Total of pension plans that are not fully funded	**7,536.8**	**6,756.6**	**5,290.6**	**1,686.3**
Fully funded pension plans	3,861.2	4,258.6	4,129.3	4,518.0
	11,398.0	**11,015.2**	**9,419.9**	**6,204.3**

The balance of the expected return on plan assets and the interest costs pertaining to the pension obligation is recognized in the financial results (see Note 9) as an allowable IFRS option. According to U.S. GAAP, these items are considered in personnel costs. As a result earnings before interest and taxes (EBIT), according to U.S. GAAP, would be lower in 2005 by €120.8 (2004: €134.8 million), and the financial result accordingly higher.

Actuarial losses amounted to €2,587.1 million as of December 31, 2005 and €1,505.8 million as of December 31, 2004. Based on these amounts, €62.2 million was amortized in 2005 and €15.4 million in 2004 in the income statement. As of December 31, 2005, unrecognized prior service costs existed in the amount of €54.2 million and as of December 31, 2004, €64.3 million. Based on these amounts, €10.4 million was amortized in 2005 and €9.2 million in 2004 in the income statement. Disclosure requirements according to SFAS 132 "Employers Disclosures about Pensions and Other Postretirement Benefits" (revised 2003) are contained in Note 23.

(b) Accounting for provisions

The reconciliation item contains the following deviations:

Provisions for part-time programs for employees nearing retirement age: In these financial statements agreed upon top-up payments within the pre-retirement part-time programs are immediately accrued in their full amount, and discounted at a rate of 3.0%. A provision is also recorded for the expected costs for agreements that are anticipated to be concluded during the term of the collective bargaining agreements, taking into consideration the ceilings on the number of employee participants provided in such collective bargaining agreements. In accordance with U.S. GAAP, provisions may only be recorded for employees who have accepted an offer, and the supplemental payments are accrued over the employee's remaining service period. This resulted in a decrease in income under U.S. GAAP of €29.4 million in 2005 and €22.3 million in 2004. Stockholders' equity increased by €125.3 million in 2005 and by €154.7 million in 2004.

Provisions for restructuring measures: SFAS 146, "Accounting for Costs Associated with Exit and Disposal Activities" requires expected costs associated with the exit or disposal of business activities to be accrued only when a liability against a third party exists. In case of a retention period, severance payments to employees are accrued over the term of this period.

Discounting of provisions and liabilities: According to IFRS, long-term provisions and liabilities are to be discounted to their present value if the effect from discounting is material. Under U.S. GAAP, however, discounting is only permissible when the amount and timing of the cash flows can be reliably predicted. This resulted in an income effect of €10.8 million in 2005 and €47.0 million in 2004, and a decrease in equity of €30.5 million in 2005 and of €41.3 million in 2004.

(c) Accounting for financial instruments

The guidelines for accounting for financial instruments according to IAS 39 "Financial Instruments: Recognition and Measurement" and SFAS 133 "Accounting for Derivatives and Hedging Activities" are very similar in concept. The reconciliation items relate to the differing treatment of fair value changes of derivatives within equity, which are a component of a cash-flow hedge for a future transaction. According to IAS 39, for hedging future transactions, there is an option regarding the accounting treatment of these fair value changes. BASF has chosen the option to net these changes in valuation against the acquisition costs of the non-financial assets or debts. The other option allows the valuation changes to be charged off through the income statement, in the same period in which the hedged transaction flows through the income statement. According to SFAS 133, only the second method is allowed, while netting out against acquisition costs is prohibited. This timing difference leads to a difference in equity, and has no impact on income.

(d) Reversal of goodwill amortization and write-offs due to impairment

Goodwill is only written down if an impairment exists according to SFAS 142 as of January 1, 2002. According to IFRS 1 "First-time Adoption" in conjunction with IFRS 3 "Business combinations," regularly scheduled amortization of goodwill has been replaced by impairment testing effective as of January 1, 2004. The amortization on goodwill in 2002 and 2003 has been reversed and added to stockholders' equity.

(e) Valuation adjustments relating to companies accounted for using the equity method

Herein are contained differences from companies accounted for under the equity method that result from different dates on which the scheduled amortization for goodwill has to be discontinued under U.S. GAAP (2002) and IFRS (2004).

(f) Acquisitions

A difference between U.S. GAAP and IFRS with respect to the first-time consolidation involves the treatment of research and development projects of acquired businesses. Whereas these costs are expensed in the first year of consolidation under U.S. GAAP, IFRS requires that these costs are capitalized as intangible assets and amortized over their useful lives. This resulted in a decrease of income of €25.5 million. Stockholders' equity decreased similarly by €25.5 million in 2005. There were no research and development costs in connection with acquisitions in 2004.

According to U.S. GAAP, contingent purchase price adjustments of acquisitions are only accounted for at the time of payment of the contingent price adjustment. IFRS 3, however, requires the recognition of these purchase price adjustments at estimated values in the first consolidation of an acquired business. If a negative difference exists as a result of these differing practices, it is to be booked immediately to the income statement according to IFRS, whereas according to U.S. GAAP it reduces the values assigned to the acquired assets. This resulted in an income effect of €3.7 million in 2005. Stockholders' equity increased corresepondingly by €3.7 million in 2005. There were no such discrepancies in 2004 as a result of contingent price adjustments.

(g) Other adjustments

This item primarily includes the elimination of provisions for the fair value of stock options granted, differences arising from the accounting of sale and leaseback transactions as well as provisions for major overhauls of large scale plants.

Following a resolution by the Board of Executive Directors, stock options are to be settled in cash. Under U.S. GAAP, such obligations are to be accounted for as stock appreciation rights based on the intrinsic value of the options on the balance sheet date. However, options granted in prior years, for which cash settlement was not foreseen, are to be accounted for in accordance with SFAS 123 as equity instruments based upon the fair value on the grant date. In the present Financial Statements, all obligations resulting from stock options are accounted for based upon the fair value on the balance sheet date. A provision is accrued over the vesting period of the options. The different accounting methods led to an increase in net income in accordance with U.S. GAAP of €6.1 million in 2005, and €16.1 million in 2004.

In the present Financial Statements, obligations resulting from stock options are shown as provisions. In accordance with U.S. GAAP, options for which cash settlement was not originally foreseen are recorded as additions to stockholders' equity. Overall, the accounting for stock options resulted in a decrease in stockholders' equity of €17.4 million in 2005, and €9.4 million in 2004.

Under IFRS, anticipated costs necessary for the major overhaul of large scale plants prescribed at certain intervals are capitalized as a part of the respective asset and depreciated on a straight-line basis over the period until the next regularly scheduled major overhaul. According to U.S. GAAP, provisions for such costs were established. In 2005 the accounting method was changed to IFRS. The cumulative effect of €117.0 million was recognized in income.

Gains from the sale of assets which continue to be used under operating leases are to be recognized in income under IFRS, if the sale is an arm's length transaction. U.S. GAAP requires the deferral of the gain and its recognition in income over the useful life of the asset.

(h) Deferred taxes

The adjustments required to conform with U.S. GAAP would result in taxable temporary differences between the valuation of assets and liabilities in the Consolidated Financial Statements and the carrying amount for tax purposes. Resulting adjustments for deferred taxes primarily relate to the following:

		Stockholders' equity		Income	
Million €	**Note**	**2005**	**2004**	**2005**	**2004**
Accounting for pensions	(a)	(348.5)	(384.2)	27.4	10.2
Accounting for provisions	(b)	(51.6)	(46.0)	(5.2)	10.7
Accounting for financial instruments	(c)	4.3	–	(5.3)	–
Reversal of goodwill amortization and write-offs due to impairment	(d)	(96.2)	(86.9)	–	–
Acquisitions	(f)	9.3	–	9.3	–
Other adjustments	(g)	19.3	75.4	(52.4)	(23.3)
		(463.4)	**(441.7)**	**(26.2)**	**(2.4)**

(i) Minority interests

The portion of U.S. GAAP valuation adjustments applying to minority interests is shown separately.

Consolidation of majority-owned subsidiaries:

First-time consolidations of subsidiaries require the restatement of prior years' figures. The effect of first-time consolidated companies on the net worth, financial position and results was immaterial; an adjustment was therefore not performed.

New U.S. GAAP accounting standards not yet adopted

SFAS 123R "Share-Based Payment" (revised 2004) replaces SFAS 123 "Accounting for Stock-Based Compensation". This disallows the former optional treatments contained in APB 25 "Accounting for Stock Issued to Employees." According to SFAS 123R, all listed companies must recognize stock-based payment as an expense during the vesting period. Equity instruments granted as payment are valued at their market value at the time of granting. The market value at reporting date is calculated to value share-based payment which is to be settled in cash. SFAS 123R applies to all reporting years commencing after June 15, 2005. As BASF already recognizes share-based payment as an expense, SFAS 123R will have no material effects on BASF's Consolidated Financial Statements.

SFAS 154, governing the accounting and reporting of voluntary changes in accounting methods, replaces APB Opinion Nr. 20 "Accounting Changes" and FASB Statement No. 3 "Reporting Accounting Changes in Interim Financial Statements." According to SFAS 154, future impacts on income as a result of voluntary changes in accounting methods will no longer be shown as a separate item "cumulative change in accounting principle" on the income statement of the current period but rather as an adjustment of the financial statements for all previously published periods as if the new method had always been used.

EITF 04-13 "Inventory Exchanges" determines when a purchase and sale of inventory is to be seen as a barter transaction. According to APB Opinion No. 29 "Accounting for Non-monetary Transactions," barter transactions may not be shown on the income statement. The key criterion is whether the purchase and sale are closely connected. EITF 04-13 clearly states that no sales revenues may be recognized from these transactions if sale and purchase of inventories are clearly connected. Furthermore, EITF 04-13 has specified the scope of FASB Statement No. 153 "Exchanges of Non-monetary Assets." EITF 04-13 is to be applied to all new transactions that were concluded in the reporting years beginning after March 15, 2006. No revenue was recognized for barter transactions as defined in these standards. The rules are essentially similar to those in IFRS.

Other changes in stockholders' equity

The option allowed by IFRS 1 to offset currency translation adjustments against retained earnings as of January 1, 2004 was exercised. Under U.S. GAAP, the translation adjustment is to be carried forward unchanged under "other comprehensive income." According to U.S. GAAP, specifically SFAS 130, certain expenses and income are recognized outside of profit or loss (Other Comprehensive Income):

Million €	**2005**	**2004**
Net income in accordance with U.S. GAAP (before other comprehensive income)	3,060.6	1,862.8
Change of foreign currency translation adjustments		
Gross	765.6	(291.3)
Deferred taxes	(33.1)	17.2
Changes in unrealized holding gains on securities		
Gross	66.7	95.6
Deferred taxes	4.5	0.3
Changes in unrealized losses from cash flow hedges		
Gross	(21.2)	(54.0)
Deferred taxes	11.6	18.7
Additional minimum liability for pensions		
Gross	(1,179.7)	(514.7)
Deferred taxes	457.1	197.0
Other comprehensive income (loss), net of tax	**71.5**	**(531.2)**
Comprehensive income, net of tax	**3,132.1**	**1,331.6**

Million €	2005	2004
Stockholders' equity in accordance with U.S. GAAP (before accumulated other comprehensive income)	19,408.9	18,694.7
Accumulated other comprehensive income		
Foreign currency translation adjustments		
Gross	(603.4)	(1,369.0)
Deferred taxes	36.1	69.2
Unrealized holding gains on securities		
Gross	262.9	196.2
Deferred taxes	(40.9)	(45.4)
Unrealized losses from cash flow hedges		
Gross	(79.3)	(58.1)
Deferred taxes	31.7	20.1
Additional minimum liability for pensions		
Gross	(1,730.7)	(551.0)
Deferred taxes	659.5	202.4
Accumulated other comprehensive income	**(1,464.1)**	**(1,535.6)**
Total stockholders' equity in accordance with U.S. GAAP including comprehensive income	**17,944.8**	**17,159.1**

6. Reporting by segment and region

The Company is a worldwide manufacturer and supplier of about 8,000 products. The Company offers a wide range of products, including 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 12 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 section on pages 14 onward).

The Chemicals segment is made up of the divisions Inorganics, Petrochemicals and Intermediates. Plastics is composed of the divisions Styrenics, Performance Polymers and Polyurethanes. Performance Products comprises the divisions Performance Chemicals, Coatings and Functional Polymers. The segment Agricultural Products & Nutrition comprises the divisions Agricultural Products and Fine Chemicals. The Oil & Gas Segment consists of the operating division Oil & Gas, which conducts oil and gas exploration and production and trades in natural gas.

Business activities not allocated to any operating division are shown as "other" and comprise the sale of feedstock, remaining fertilizers activities, engineering and other services as well as rental income. The income from operations recorded as "other" includes mainly costs of research related to the Group of €225.0 million in 2005 and €168.0 million in 2004. "Other" also includes foreign currency results from financial indebtedness, hedging of forecasted sales, as well as from foreign currency positions that were macro-hedged of €(97.0) million in 2005 and €54.0 million in 2004.

Transfers between the reportable segments are shown separately and generally valued 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.

Exploration expenses in the Oil & Gas segment are reported under other operating expenses as of 2005. Prior years' figures were restated accordingly.

Segments

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
Return on operating assets (%)*	23.3	15.9	18.4	13.4	.	9.6	53.8	103.3	.	19.9
Debt	1,766	1,676	1,766	951	538	1,489	1,836	903	9,614	18,147
Research and development expense	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

2004 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	7,020	10,532	8,005	3,354	1,793	5,147	5,263	2,482	1,570	37,537
Change (%)	22.0	19.9	4.9	5.6	(2.8)	2.5	9.9	14.7	14.0	12.5
Intersegmental transfers	3,395	677	291	26	30	52	546	173	462	5,423
Sales including transfers	10,415	11,209	8,296	3,380	1,823	5,199	5,809	2,655	2,032	42,960
Income from operations	1,284	694	1,128	602	56	658	1,643	1,303	(214)	5,193
Assets	5,219	6,187	4,538	4,985	1,308	6,293	4,063	1,899	9,148	35,448
Thereof goodwill	11	125	237	1,509	2	1,511	64	64	25	1,973
Thereof property, plant and equipment	3,283	2,857	1,892	661	639	1,300	2,814	1,255	917	13,063
Return on operating assets (%)*	25.2	11.6	24.2	11.4	4.2	9.9	41.3	69.6	.	18.5
Debt	1,836	1,836	2,287	1,100	704	1,804	1,902	1,081	9,181	18,846
Research and development expense	98	136	217	272	90	362	.	.	173	986
Investment in property, plant and equipment and intangible assets	601	473	304	100	153	253	388	329	144	2,163
Depreciation and amortization of property, plant and equipment and intangible assets	573	499	375	285	150	435	455	330	155	2,492
Thereof due to impairments	52	.	4	25	.	25	.	.	70	151

* EBIT calculations based on average assets of the segments

Regions

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 (December 31)	56,614	45,620	9,826	9,669	4,836	80,945

2004 Million €	Europe	Thereof Germany	North America (NAFTA)	Asia Pacific	South America, Africa, Middle East	BASF Group
Location of customers						
Sales	21,343	7,382	8,182	5,309	2,703	37,537
Change (%)	10.0	4.4	14.2	18.8	16.4	12.5
Share (%)	56.9	19.7	21.8	14.1	7.2	100.0
Location of companies						
Sales	22,536	15,216	8,165	4,911	1,925	37,537
Sales including transfers	25,527	17,751	8,655	5,461	1,803	41,446
Income from operations	4,236	3,131	286	361	310	5,193
Assets	21,815	14,567	7,254	4,888	1,491	35,448
Thereof property, plant and equipment	7,245	5,067	2,364	3,013	441	13,063
Investment in property, plant and equipment and intangible assets	1,202	816	271	608	82	2,163
Depreciation and amortization of property, plant and equipment and intangible assets	1,530	975	608	250	104	2,492
Employees (December 31)	57,540	46,666	10,578	8,916	4,921	81,955

The region “Asia Pacific” has been shown separately since January 1, 2005 due to its increasing importance. Africa, which was included in the “Asia Pacific and Africa” region until 2004 and the Middle East have been combined with the formerly independent region “South America.” The values for the previous year have been appropriately restated.

7. Other operating income

Million €	2005	2004
Release and adjustment of provisions	118.4	154.4
Income from miscellaneous revenue generating activities	85.3	71.7
Gains from foreign currency transactions	43.3	145.6
Gains from foreign currency conversion	57.3	12.1
Gains from disposal of assets and divestitures	107.4	448.7
Other	188.5	213.6
	600.2	**1,046.1**

Release and adjustment of provisions relate principally to sales and purchase provisions, provisions for lawsuits and damage claims and various other items in the normal course of business. Provisions are reversed or adjusted if the circumstances at closing date indicate that they are no longer probable or that the probable amount has been reduced.

Income 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 realized gains on receivables and liabilities denominated in foreign currencies, gains resulting from conversion of receivables, liabilities and other items denominated in foreign currencies at the balance sheet date and gains from changed fair values of currency derivatives.

Gains from conversion of financial statements of group companies in foreign currencies includes gains from currency exposures of financial statements in foreign currency, which are converted into euros under the temporal method. They are related to a higher net asset exposure or lower net liability exposure after conversion into euros than at the previous balance sheet date.

Gains from the disposal of assets primarily include divestitures in the Agricultural Products segment to optimize the portfolio in 2005, and the sale of the printing systems business in 2004.

Other includes reversal of valuation allowances on receivables, miscellaneous sales and various other sundry items.

8. Other operating expenses

Million €	2005	2004
Integration and restructuring measures	446.5	542.8
Environmental protection and safety measures, costs of demolition and planning costs related to the preparation of capital expenditure projects not subject to mandatory capitalization	158.3	168.3
Amortization of intangible assets and depreciation of property, plant and equipment	204.6	209.3
Thereof internally generated assets	61.7	78.6
Costs from miscellaneous revenue-generating activities	84.7	69.7
Losses from foreign currency transactions	189.5	30.3
Losses from foreign currency conversion	23.0	44.1
Losses from disposal of assets	15.5	12.2
Oil and gas exploration expenses	172.9	194.9
Other	480.1	394.3
	1,775.1	**1,665.9**

Integration and restructuring measures in 2005 primarily concerned the restructuring of the Fine Chemicals division as well as measures to further improve the efficiency at the sites in Ludwigshafen, Germany, and Feluy, Belgium. In 2004, this item included additional charges from the Ludwigshafen Site Project and restructuring measures in North America.

Further expenses were related to the cost of demolition and removal of fixed assets as well as the preparation of capital expenditure projects not subject to mandatory capitalization.

Costs from miscellaneous revenue-generating activities refer to costs relating to the items shown as miscellaneous revenue-generating activities (see Note 7).

Losses from foreign currency transactions include losses from foreign currency items and forward contracts as well as the valuation of receivables and liabilities in foreign currencies at the exchange rate on the balance sheet date.

Other expenses were incurred as a result of write-offs of no longer usable inventory in the amount of €103.0 million in 2005 and €83.0 million in 2004 as well as for other reasons affecting various items.

9. Financial result

Million €	2005	2004
Income (losses) from companies accounted for using the equity method	**5.6**	**(7.2)**
Income from participations in affiliated and associated companies	53.5	10.5
Income from the disposal or write-ups of participations	310.7	38.1
Income from profit transfer agreements	9.0	2.3
Losses from loss transfer agreements	(13.6)	(15.2)
Write-down of, and losses from, retirement of participations	(17.9)	(625.4)
Income from tax allocation to participating interests	0.7	1.2
Other income from participations	**342.4**	**(588.5)**
Interest expenses	(351.9)	(288.9)
Interest income	153.3	66.3
Interest and dividend income from securities and receivables	28.6	16.5
Interest result	**(170.0)**	**(206.1)**
Write-ups/profits from the sale of securities and receivables	16.1	13.7
Write-downs/losses from the disposal of securities and receivables	(6.7)	(40.3)
Net financing from long-term personnel provisions	(121.7)	(137.7)
Interest accrued on other interest-bearing liabilities	(50.8)	(48.8)
Capitalization of interest cost	43.0	72.5
Other financial expenses and income	38.2	96.7
Other financial result	**(81.9)**	**(43.9)**
Financial result	**96.1**	**(845.7)**

Income from the disposal or write-ups of participations contains the gain of the sale of our 50% share of Basell in 2005. In the prior year, in contrast, valuation adjustments on participations were necessary, which were shown under write-down of, and losses from, retirement of financial assets as well as securities held as current assets.

10. Income taxes

Million €	2005	2004
German corporate income tax, solidarity surcharge, German trade income taxes	433.4	532.4
Foreign income tax	1,970.1	1,396.5
Taxes for prior years	81.5	(16.1)
Current taxes	**2,485.0**	**1,912.8**
Deferred taxes	273.1	300.7
Income taxes	**2,758.1**	**2,213.5**
Thereof income taxes on oil-producing operations	1,450.0	911.0
Other taxes	151.4	150.4
Tax expense	**2,909.5**	**2,363.9**

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

Million €	2005	2004
Germany	1,524.5	1,270.5
Foreign oil production branches of German companies	1,514.6	975.0
Foreign	2,886.5	2,101.3
	5,925.6	**4,346.8**

In Germany a uniform corporate tax of 25% and thereon a solidarity surcharge of 5.5% is uniformly levied on all distributed and undistributed earnings. In addition to corporate income tax, income generated in Germany is subject to a trade income tax that varies depending on the municipality in which the company is located. After accounting for trade income tax, which is a deductible operating expense, BASF has a weighted-average trade income tax rate of 15.3%. Because German trade income tax is deductible, it also reduces the assessment basis for corporate income tax. For German companies, deferred taxes are 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 29% in 2005 and 29% in 2004.

Income taxes on foreign oil-producing operations in certain regions are compensated up to the level of the German corporate income tax on this foreign taxable income. The non-compensable amount is shown separately in the following table.

“Other taxes” includes real estate taxes and other comparable taxes in the amount of €90.0 million in 2005 and €93.0 million in 2004; they are allocated to the appropriate functional costs.

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

	2005 Million €	%	2004 Million €	%
German corporate income tax	1,481.4	25.0	1,086.7	25.0
Solidarity surcharge	13.4	0.2	12.7	0.3
German trade income tax net of corporate income tax	141.2	2.4	177.5	4.1
Foreign tax-rate differential	113.5	1.9	44.5	1.0
Tax exempt income	(208.4)	(3.5)	(209.2)	(4.8)
Non-deductible expenses	155.6	2.6	325.3	7.5
Income after taxes of companies accounted for using the equity method	(1.4)	.	1.8	.
Taxes for previous years	81.5	1.4	(16.1)	(0.4)
Income taxes on oil-producing operations non-compensable with German corporate income tax	1,072.5	18.1	667.7	15.4
Deferred taxes for planned dividend distributions	9.5	0.2	107.5	2.5
Other	(100.7)	(1.7)	15.1	0.3
Income taxes/effective tax rates	**2,758.1**	**46.6**	**2,213.5**	**50.9**

Tax exempt earnings arose from the sale of participations or securities. This particularly concerned the sale of the joint venture Basell in 2005 and the sale of the printing systems business in 2004. The non-deductible expenses in 2004 include primarily write-downs of participations. Deferred tax assets on tax loss carryforwards including those for prior years are recorded. If expected future taxable profits of a company make it more likely than not that the future tax benefits will not be realized, adequate valuation allowances are established.

Deferred taxes result from the following temporary differences between the valuation of assets and liabilities under IFRS and for tax purposes.

Deferred tax assets

	Tax assets		Tax liabilities	
Million €	**2005**	**2004**	**2005**	**2004**
Intangible assets	(111.0)	(30.0)	282.2	125.2
Property, plant and equipment	(456.8)	(333.6)	343.0	775.7
Financial assets	12.7	21.6	0.2	55.3
Inventories and accounts receivable	3.6	(57.7)	110.8	36.5
Provisions for pensions	641.0	331.7	2.9	(73.0)
Other provisions and liabilities	415.2	491.2	(44.2)	(127.4)
Tax loss carryforwards	840.0	816.7	–	–
Other	44.7	210.3	4.4	155.7
Valuation allowances	(134.7)	(113.6)	–	–
Thereof for tax loss carryforwards	(37.3)	(41.6)	–	–
Total	**1,254.7**	**1,336.6**	**699.3**	**948.0**
Thereof short-term	369.4	207.3	137.5	145.7

The assessment of the probability of a reversal of the temporary difference between the book and tax values or the use of a tax loss carryforward are decisive for the value of a deferred tax asset. The carrying amount of a deferred tax asset is recognized to the extent to which it is probable that sufficient taxable profit relating to the same taxation authority will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Based on experience and the expected development of taxable income, it is assumed that the advantages of deferred tax assets recognized will be realized.

Deferred tax assets were offset against deferred tax liabilities of the same maturity to the degree that these relate to the same taxation authority.

Deferred tax assets for undistributed earnings of subsidiaries in the amount of €7,918.7 million in 2005 and €7,245.3 million in 2004 were not recognized, as they are not subject to such taxation or that they are reinvested for indeterminate periods of time. For these timing differences, the calculation of deferred taxes would have only had to consider the respective withholding tax or the German taxation of 5% on dividends paid.

The regional distribution of tax loss carryforwards is as follows:

Million €	2005	2004
Germany	30.1	26.3
Foreign	2,114.5	2,142.4
	2,144.6	**2,168.7**

German tax losses may be carried forward indefinitely. Foreign loss carryforwards exist primarily in North America (NAFTA). These expire starting in 2020. North America (NAFTA) recorded a loss before taxes in 2004. Loss carryforwards in the NAFTA region could be reduced due to higher earnings but the reduction was partially offset by the appreciation of the U.S. dollar. Considering the restructuring measures that are being implemented and expected future profits as a result, no write-downs on deferred tax assets were made.

Write-downs on tax loss carryforwards of €72.2 million in 2005 and €87.0 million in 2004 were made.

Tax liabilities comprise tax liabilities and tax provisions. Tax liabilities primarily concern the assessed income tax and other taxes. Tax provisions mainly concern income taxes for the current and the previous year.

Tax liabilities

Million €	2005	2004
Tax provisions	330.7	309.0
Tax liabilities	556.5	335.3
	887.2	**644.3**

11. Minority interests

Million €	2005	2004
Minority interests in profits	179.0	145.5
Minority interests in losses	18.2	16.5
	160.8	**129.0**

Minority interests in profits relate primarily to the Group companies engaged in trading and distribution of natural gas and to the operating company for the steam cracker in Port Arthur, Texas. Minority interests in losses mainly related to BASF Plant Science.

See Note 22 for a detailed analysis of consolidated subsidiaries with minority shareholdings.

12. Other information

Additional information on consolidated statements of cash flows

Cash provided by operating activities includes the following cash flows:

Million €	2005	2004
Income tax payments	2,252.4	1,543.0
Interest payments	220.3	226.6
Dividends received	68.1	47.6

Personnel costs

Million €	2005	2004
Wages and salaries	4,553.0	4,579.1
Social security contributions and expenses for pensions and assistance	1,021.4	1,035.8
Thereof for pension benefits	242.4	227.4
	5,574.4	**5,614.9**

German Group companies incurred costs for employee representatives to comply with statutory regulations of €11.4 million in 2005 and €11.2 million in 2004.

Average number of employees

	Fully-consolidated companies		Proportionally-consolidated companies		BASF Group	
	2005	2004	2005	2004	2005	2004
Europe	56,284	59,783	270	252	56,554	60,035
Thereof Germany	45,618	47,830	16	14	45,634	47,844
North America (NAFTA)	9,934	11,002	466	488	10,400	11,490
Asia Pacific	8,732	7,911	1,694	1,912	10,426	9,823
South America, Africa, Middle East	4,827	5,000	–	–	4,827	5,000
BASF Group	**79,777**	**83,696**	**2,430**	**2,652**	**82,207**	**86,348**
Thereof with trainee contracts	2,329	2,549	2	2	2,331	2,551
Thereof with limited-term contracts	1,709	1,738	12	233	1,721	1,971

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 80,992 in 2005 and 85,022 in 2004.

The number of employees in 2005 fell primarily due to ongoing measures to improve the efficiency of our sites in Europe and North America. As a result of the acquisition of the electronic chemicals business from Merck KGaA, the number of employees increased by 578 in 2005.

As a result of the sale of the fibers business, 1,214 employees transferred to Honeywell in 2004. The sale of the printing systems resulted a reduction in the number of employees by 326 in 2005 and 2,029 in 2004.

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 Commerical Code. 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 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 Codex according to Section 161 of the German Stock Corporation Act was signed by the Board of Executives and the Supervisory Board. The statement of compliance may be seen on the Internet at **corporate.basf.com/cg_berichte.**

13. Compensation for the Board of Executive Directors and Supervisory Board of BASF Aktiengesellschaft

Compensation for the Board of Executive Directors and Supervisory Board

Million €	2005	2004
Board of Executive Directors' compensation	15.3	14.0
Thereof fixed payments	5.0	4.8
Thereof performance-related payments	10.3	9.2
Exercise of option rights by the Board of Executive Directors	1.4	0.6
Supervisory Board's compensation	3.4	2.7
Thereof fixed payments	0.5	0.5
Thereof performance-related payments	2.9	2.2
Total compensation of former members of the Board of Executive Directors and their surviving dependents	5.8	6.0
Exercise of option rights by former members of the Board of Executive Directors and their surviving dependents	2.9	1.3
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	77.7	69.9
Loans to members of the Board of Executive Directors and the Supervisory Board	–	–
Guarantees to members of the Board of Executive Directors and the Supervisory Board	–	–

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

In 2005, the members of the Board of Executive Directors were also granted 209,792 options under the BASF stock option program. Together with the options granted in previous years and the options already exercised, current and former members of the Board of Executive Directors hold 618,456 options. In 2005, the issue of options resulted in additional personnel costs totaling €6.3 million. Of this amount, €1.4 million was related to options issued in 2005, and €4.9 million to options issued between 1999 and 2004, which result in personnel costs over the vesting period.

In 2005, the exercising of options granted in 1999 resulted in cash payments totaling €1.4 million to members of the Board of Executive Directors and €2.9 million to previous members or their surviving dependents. Cash payments do not influence personnel costs associated with the issuing of options, as the payments were charged against provisions established for this purpose in previous years. See Note 28 for further details.

The change in pension provisions for former members of the Board of Directors compared to 2004 was largely due to the use of a lower interest rate in the valuation.

Compensation of the Supervisory Board is further detailed on page 79 of the 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 76 to 78.

14. Intangible assets

Developments 2005 **Million €**	**Marketing, 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	1766.1
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 lists. There were no material write-ups.

Concessions for oil and gas production of €59.8 million purchased by companies in the Oil & Gas segment were included under “other rights and values.” The oil and gas concessions allow the production of oil and gas in certain locations and involve obligations to deliver a small portion of the amounts produced to local companies. The rights to produce oil and gas expire at the end of the license period.

The emission rights granted without charge were capitalized in the line “transfer” as “other rights and values.” Their book value on the balance sheet date equates to the acquisition costs of €52.2 million.

Developments 2004 **Million €**	**Marketing, 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, 2004	672.5	728.3	916.3	2,038.3	282.0	714.5	5,351.9
Changes in scope of consolidation	35.0	3.5	3.1	1.2	–	1.6	44.4
Additions	22.1	13.3	11.9	16.6	30.5	46.2	140.6
Disposals	16.5	8.2	50.8	9.2	38.2	51.9	174.8
Transfers	(5.6)	1.7	53.1	(1.9)	–	16.8	64.1
Exchange differences	0.5	(11.3)	(5.6)	(72.6)	(2.2)	(33.8)	(125.0)
Balance as of December 31, 2004	708.0	727.3	928.0	1,972.4	272.1	693.4	5,301.2
Amortization							
Balance as of January 1, 2004	300.1	175.5	532.9	–	99.9	268.2	1,376.6
Changes in scope of consolidation	–	–	1.7	–	–	1.0	2.7
Additions	92.7	71.6	88.2	–	78.6	108.3	439.4
Disposals	8.5	9.5	55.2	–	32.8	49.0	155.0
Transfers	23.7	28.9	14.2	–	–	(10.4)	56.4
Exchange differences	(0.1)	(5.4)	(2.0)	–	(1.9)	(16.1)	(25.5)
Balance as of December 31, 2004	407.9	261.1	579.8	–	143.8	302.0	1,694.6
Net book value as of December 31, 2004	**300.1**	**466.2**	**348.2**	**1,972.4**	**128.3**	**391.4**	**3,606.6**

* Including licenses on such rights and values

Additions in 2004 relate to the acquisition of the polyurethane foams business from Foam Enterprises, Inc., United States.
There were no significant write-downs in 2004. There were no material write-ups.

15. Property, plant and equipment

Developments 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
Change in scope of consolidation	8.1	16.3	6.5	5.8	36.7
Additions	234.8	742.8	94.5	1115.7	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
Change 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 explained in detail in the Management's Analysis under "Liquidity and Capital Resources" on page 32.

Write-downs of €76.5 million in 2005 primarily relate to restructuring measures in the Intermediates division in Asia. There were no material write-ups.

Developments 2004 **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, 2004	6,567.2	29,775.6	2,762.1	2,173.7	41,278.6
Change in scope of consolidation	26.3	92.7	11.2	22.8	153.0
Additions	55.0	490.1	85.3	1,391.7	2,022.1
Disposals	227.7	692.5	197.4	32.8	1,150.4
Transfers	142.0	1,093.4	3.4	(1,417.5)	(178.7)
Exchange differences	(87.6)	(520.4)	(68.5)	(5.9)	(682.4)
Balance as of December 31, 2004	6,475.2	30,238.9	2,596.1	2,132.0	41,442.2
Depreciation					
Balance as of January 1, 2004	3,927.8	21,398.8	2,224.9	4.4	27,555.9
Change in scope of consolidation	8.6	77.9	9.2	–	95.7
Additions	251.6	1,600.9	184.9	15.4	2,052.8
Disposals	172.3	580.0	177.5	0.2	930.0
Transfers	(0.9)	8.0	(21.0)	0.1	(13.8)
Exchange differences	(42.3)	(289.1)	(49.7)	–	(381.1)
Balance as of December 31, 2004	3,972.5	22,216.5	2,170.8	19.7	28,379.5
Net book value as of December 31, 2004	**2,502.7**	**8,022.4**	**425.3**	**2,112.3**	**13,062.7**

Additions in 2004 primarily concern the construction of our Verbund site in Nanjing, China.

Write-downs of €111.9 million in 2004 primarily relate to European sites of the Chemicals segment as well as restructuring measures in North America (NAFTA).

16. Investments accounted for using the equity method and other financial assets

Developments 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
Change 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	(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
Depreciation					
Balance as of January 1, 2005	554.0	100.0	30.8	20.3	1.4
Change 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 21, 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 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	1160.3	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	(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	1105.8	1,405.5
Depreciation					
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**

Developments 2004 **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 January 1, 2004	1,698.7	357.5	75.2	335.3	14.4
Change in scope of consolidation	(21.3)	(30.2)	–	7.8	–
Additions	9.5	7.7	19.2	2.7	1.2
Disposals	72.0	61.8	–	0.2	3.4
Transfers	39.7	(0.7)	(6.6)	80.7	(0.1)
Exchange differences	(0.1)	(0.5)	(1.3)	(0.6)	–
Balance as of December 31, 2004	1,654.5	272.0	86.5	425.7	12.1
Depreciation					
Balance as of January 1, 2004	–	89.7	19.0	0.1	1.9
Change in scope of consolidation	–	0.2	–	–	–
Additions	554.0	28.6	11.8	20.2	–
Disposals	–	10.7	–	–	–
Transfers	–	(7.6)	–	–	(0.5)
Exchange differences	–	(0.2)	–	–	–
Balance as of December 31, 2004	554.0	100.0	30.8	20.3	1.4
Net book value as of December 31, 2004	**1,100.5**	**172.0**	**55.7**	**405.4**	**10.7**

Developments 2004 **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, 2004	127.9	117.0	65.2	1092.5	2,791.2
Changes in scope of consolidation	(8.3)	–	–	(30.7)	(52.0)
Additions	77.3	13.3	13.1	134.5	144.0
Disposals	1.0	–	–	66.4	138.4
Transfers	0.6	(23.2)	(14.5)	36.2	75.9
Exchange differences	(0.2)	(5.0)	1.8	(5.8)	(5.9)
Balance as of December 31, 2004	196.3	102.1	65.6	1160.3	2,814.8
Depreciation					
Balance as of January 1, 2004	29.8	–	3.9	144.4	144.4
Changes in scope of consolidation	42.8	–	–	43	43
Additions	11.0	–	0.7	72.3	626.3
Disposals	–	–	–	10.7	10.7
Transfers	(18.1)	–	(0.3)	(26.5)	(26.5)
Exchange differences	–	–	(0.1)	(0.3)	(0.3)
Balance as of December 31, 2004	65.5	–	4.2	222.2	776.2
Net book value as of December 31, 2004	**130.8**	**102.1**	**61.4**	**938.1**	**2,038.6**

Disposals in 2005 within investments accounted for using the equity method 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 recorded at market value.

The market values of available-for-sale "long-term securities" and "shares in other participations" as well as the changes of market values recognized in other comprehensive income (OCI) are summarized below:

	2005			2004		
Million €	**Original acquisition cost**	**Book/ market value**	**Recognized in OCI**	**Original acquisition cost**	**Book/ market value**	**Recognized in OCI**
Shares in funds	4.0	4.0	–	9.7	9.8	0.1
Shares in other participations and securities	221.2	397.4	202.8	277.6	406.3	149.0
	225.2	**401.4**	**202.8**	**287.3**	**416.1**	**149.1**

The disposal of available-for-sale securities generated proceeds of €6.4 million as well as income of €0.5 million in 2005. The disposal of available-for-sale securities generated income of less than €0.1 million in 2004. The sale of other participations generated proceeds of €65.2 million as well as income of €7.4 million in 2005. Write-downs of €8.3 million in 2005 as well as €20.2 million in 2004 due to impairments of other participations were made.

17. Inventories

Million €	**2005**	**2004**
Raw materials and factory supplies	1,213.8	1,026.3
Work-in-process, finished goods and merchandise	4,148.5	3,552.3
Advance payments and construction in progress	67.9	66.8
	5,430.2	**4,645.4**

"Work-in-process" and "finished goods and merchandise" are combined into one item due to the production conditions in the chemical industry. Construction in progress relates mainly to inventory not invoiced at balance sheet date.

Write-downs on inventory amounted to €3.6 million in 2005 and €12.5 million in 2004. Of the total inventory €1,074.3 million in 2005 and €900.0 million in 2004 was valued at net realizable value. Write-backs (reversals of impairment losses) are made if the reasons for the previous years' write-downs no longer apply. Write-backs amounted to €35.4 million in 2005 and €21.2 million in 2004.

Inventories were valued using the weighted-average cost method.

18. Other receivables and other assets

Million €	2005	Thereof short-term	2004	Thereof short-term
Receivables from affiliated companies	383.8	383.8	286.0	286.0
Prepaid expenses	136.1	123.0	150.0	132.2
Defined benefit assets	288.3	–	185.5	–
Miscellaneous receivables and other assets	1,302.2	1,079.6	1,984.8	1,714.6
Thereof:				
Receivables from associated companies and other participating interests	55.7	52.1	73.3	73.2
Other assets	1,246.5	1,027.5	1,911.5	1,641.4
	2,110.4	**1,586.4**	**2,606.3**	**2,132.8**

Prepaid expenses include pre-payments for operating expenses of €32.9 million in 2005 and €29.3 million in 2004 as well as pre-payments for insurance premiums of €28.0 million in 2005 and €23.2 million in 2004.

Composition of other assets

Million €	2005	2004
Tax refund claims	276.7	244.1
Loans and interest receivables	134.0	187.6
Deferrals from financial derivatives	296.6	935.0
Employee receivables	31.7	36.6
Rents and deposits	55.7	44.7
Insurance claims	12.4	2.9
Receivables from joint venture partners	129.8	36.3
Other	309.6	424.3
	1,246.5	**1,911.5**

Deferrals from financial derivatives decreased primarily due to an increase in exchange rates of the relevant currencies. Prepaid expenses amounted to €3.9 million in 2005 and €5.2 million in 2004.

Valuation allowances for doubtful accounts

Million €	As of January 1, 2005	Additions affecting income	Releases affecting income	Additions not affecting income	Releases not affecting income	Balance as of December 31, 2005
Accounts receivable, trade	336.3	86.2	87.5	38.4	17.6	355.8
Other assets	33.0	16.7	4.6	8.0	6.6	46.5
	369.3	**102.9**	**92.1**	**46.4**	**24.2**	**402.3**

Valuation allowances for doubtful accounts Million €	As of January 1, 2004	Additions affecting income	Releases affecting income	Additions not affecting income	Releases not affecting income	Balance as of December 31, 2004
Accounts receivable, trade	333.0	81.3	55.8	12.7	34.9	336.3
Miscellaneous receivables and other assets	40.4	16.4	8.7	0.2	15.3	33.0
	373.4	**97.7**	**64.5**	**12.9**	**50.2**	**369.3**

Additions and releases not affecting income related primarily to changes in scope of consolidation, to translation adjustments and write-offs of receivables previously written down.

Contingent assets in 2005 and 2004 were immaterial.

19. Marketable securities

Liquid funds includes the following marketable securities:

	2005		2004	
Million €	**Original acquisition cost**	**Book/ market value**	**Original acquisition cost**	**Book/ market value**
Fixed-term, interest-bearing certificates	13.5	13.7	12.4	12.9
Shares	122.0	169.3	156.1	191.5
Other securities	–	–	0.2	0.2
	135.5	**183.0**	**168.7**	**204.6**

The sale of short-term securities in 2005 resulted in proceeds of €65.5 million and income of €32.3 million. The sale of short-term securities in 2004 resulted in proceeds of €20.0 million and income of €9.2 million.

Maturities of fixed-term securities

	2005		2004	
Million €	**Original acquisition cost**	**Market value**	**Original acquisition cost**	**Market value**
Less than 1 year				
Between 1 and 5 years	13.5	13.7	12.4	12.9
More than 5 years				
	13.5	**13.7**	**12.4**	**12.9**

20. Capital and reserves

	Conditional capital		Authorized capital	
Million €	**2005**	**2004**	**2005**	**2004**
January 1	424.0	425.3	500.0	500.0
Conditional capital for the stock option program BOP 1999/2000 and the BOP 2001/2005, decrease due to exercise and experation of option rights	(12.3)	(1.3)		
Cancellation of the prior authorization at the annual meeting on April 29, 2004				(500.0)
Increase due to authorization for the issuance of new shares against cash or contributions in kind at the annual meeting on April 29, 2004				500.0
December 31	**411.7**	**424.0**	**500.0**	**500.0**

Subscribed capital

Million €	Outstanding shares	Subscribed capital	Capital reserves
Outstanding shares as of December 31, 2005	515,059,000	1,318.5	3,100.2
Repurchased shares intended to be cancelled	(680,000)	(1.7)	–
Outstanding shares as disclosed in the financial statements	**514,379,000**	**1,316.8**	**3,100.2**

Share repurchase
The Board of Executive Directors received approval at the Annual Meeting on April 28, 2005, to repurchase BASF's shares to a maximum amount of 10% of subscribed capital by October 27, 2006. 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 validity of the prior authorization to repurchase BASF shares granted by the Annual Meeting on April 29, 2004.

In addition, the Board of Executive Directors has been authorized at the Annual Meeting on April 28, 2005 to purchase shares through the use of put and call options. The price paid for options purchased may not exceed the theoretical value calculated with recognized financial models using the same assumptions, such as strike price, as the options themselves, while the price received for options sold may not fall beneath this value.

In 2005, a total of 26,062,229 shares, or 4.8% of the issued shares, were acquired. The average purchase price was €55.05 per share. A total of 26,182,229 shares were cancelled by December 31, 2005. Thereof were included 800,000 shares that were acquired in 2004. As of the balance sheet date, 680,000 shares of BASF stock were held by BASF. These were acquired for the purpose of cancellation. Therefore, these shares were not capitalized, but rather the subscribed capital is shown net of these shares at December 31, 2005. During 2004, 16,203,000 shares, or 2.9% of the issued shares, were acquired. The average purchase price was €44.79 per share. These were cancelled in 2004 and 2005.

Conditional capital
Of the conditioned capital, €384.0 million serves to fulfill the exercising of warrants related to option bonds. The Board of Executive Directors was authorized at the Annual Meeting on April 26, 2001, to do so until April 1, 2006. An additional €27.4 million is reserved to fulfill stock options granted under the BASF Stock Option Program (BOP) 2001/2005 to the members of the Board of Executive Directors and other senior executives of BASF and its subsidiaries; up to €0.3 million is reserved to fulfill stock options from the Stock Option Program /2000.

Authorized capital

At the Annual Meeting of April 29, 2004, shareholders authorized the Board of Executive Directors, with the approval of the Supervisory Board, to increase subscribed capital by issuing new shares in an amount of up to €500.0 million against cash or contribution in kind 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 premiums from the issuance of shares, the fair value of warrants attached to option bonds and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for issue of BASF shares at par value.

21. Retained earnings and other comprehensive income

Million €	2005	2004
Legal reserves	291.7	258.6
Other retained earnings and profit retained	11,636.3	11,664.5
Retained earnings	**11,928.0**	**11,923.1**

The changes in scope of consolidation did not lead to a change in the legal reserves in 2005 but led to a reduction of less than €0.1 million in 2004. Transfers from "other retained earnings and profit retained" increased legal reserves by €33.1 million in 2005, €15.5 million in 2004. The offsetting of actuarial gains and losses resulted in a reduction of retained earnings by €659.9 in 2005 and €233.9 in 2004.

Other comprehensive income

Certain expenses and income have been recorded according to IFRS outside of the income statement. Included among these 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 historical exchange rate at the time of acquisition and the rate used to translate the equity of a company as of the balance sheet date is recorded directly in equity and only flows through the income statement upon the disposal of a company.

Cash flow hedges

In 2005, the acquisition costs of inventories were reduced by €17.4 million through cashflow hedges. The entry affecting the income statement related to interest expenses.

The total ineffective portion of all fair value changes of derivatives in 2005 affecting the income statement amounted to €3.9 million.

Valuation of securities at fair value

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

22. Minority interests

Company	Partner	2005 Equity stake (%)	2005 Million €	2004 Equity stake (%)	2004 Million €
WINGAS GmbH, Kassel, Germany	Gazprom-Group, Moscow, Russia	35.0	81.4	35.0	88.1
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochemical Corp. Ltd., Nanjing, China	40.0	45.3	40.0	49.5
BASF India Ltd., Mumbai, India	Publicly traded shares	47.3	28.4	47.3	23.7
BASF PETRONAS Chemicals Sdn. Bhd., Petaling Jaya, Malaysia	PETRONAS (Petroliam Nasional Bhd.), Kuala Lumpur, Malaysia	40.0	117.2	40.0	97.3
BASF SONATRACH PropanChem S.A., Tarragona, Spain	SONATRACH, Algiers, Algeria	49.0	36.9	49.0	20.6
BASF FINA Petrochemicals Ltd., Port Arthur, Texas	Total Petrochemicals Inc., Houston,Texas	40.0	124.4	40.0	18.1
Other			48.2		31.2
			481.8		**328.5**

23. Provisions for pensions and similar obligations

In addition to government pension schemes, most employees are entitled to Company pension benefits from either defined contribution or defined benefit plans or both. Benefits generally depend on years of service, contribution or compensation and consider the legal, fiscal and economic conditions of the countries where companies are located. To control the risks of changing conditions in the capital markets, as well the increasing life-expectancies, employees will be increasingly offered defined contribution plans in the future.

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 returns on its assets. 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 €135.5 million was made to the equity of the BASF Pensionskasse in 2005, which did not flow through the income statement.

Additional employee pension commitments at German Group companies were previously financed almost exclusively via pension provisions. In December 2005, BASF established a Contractual Trust Arrangement (CTA), “BASF Pensionstreuhand e.V.,” and contributed liquid funds of €3,660 million to finance employee pension commitments of BASF Aktien-gesellschaft. 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 provisions.

In the case of non-German subsidiaries, pension entitlements 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 of the reporting period. The most recent actuarial mortality tables are used.

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

Assumptions used to determine the defined benefit obligation (weighted average)	**Germany in %**		**Foreign in %**	
	(in %) 2005	**(in %) 2004**	**(in %) 2005**	**(in %) 2004**
Interest rate	4.25	5.25	5.18	5.58
Projected increase of wages and salaries	2.50	2.50	4.55	3.80
Projected pension increase	1.50	1.50	0.51	0.51

Assumptions used to determine expenses for pension benefit (weighted average)	**Germany in %**		**Foreign in %**	
	2005	**2004**	**2005**	**2004**
Interest rate	5.25	5.75	5.58	5.93
Projected increase of wages and salaries	2.50	2.50	3.80	3.88
Projected pension increase	1.50	1.50	0.51	0.60
Expected return on plan assets	5.16	6.25	8.21	8.39

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 5.5%.

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 the current yield level and the inflation trend into consideration. Due to yet lower interest rates and the expectations of lower future inflation rates, the long-term expected return on debt securities has been lowered, compared with the prior year.

The portfolio structure of the pension plan assets is as follows:

Plan asset portfolio structure	**Average target allocation (in %) 2006**	**Plan assets % 2005**	**Plan assets % 2004**
Equities	36	31	45
Debt securities	55	30	48
Real estate	6	3	5
Other	3	36	2
	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 in cash, and will be invested according to the target allocation in 2006.

The target asset allocation has been defined using asset liability studies and is reviewed regularly. This ensures that plan assets are aligned with plan liabilities. The current portfolio structure is generally oriented towards the target asset allocation. In addition, current market views are taken into consideration. In order to mitigate investment risks and to benefit from a large number of return sources, individual investments are globally diversified.

Development of the defined benefit obligation

Million €	2005	2004
Defined benefit obligation as of January 1	9,814.1	9,220.3
Service cost	192.7	185.9
Interest cost	527.4	528.6
Benefits paid	(566.0)	(589.2)
Participants' contributions	39.3	40.5
Change in actuarial assumptions	1,530.4	521.2
Settlements and other changes	77.2	30.5
Exchange rate changes	292.4	(123.7)
Defined benefit obligation as of December 31	**11,907.5**	**9,814.1**

Development of plan assets

Million €	2005	2004
Plan assets as of January 1	6,204.3	5,952.4
Expected return on plan assets	421.7	409.6
Difference between expected and actual returns	438.4	192.8
Employer contributions	244.5	99.8
One-time contribution to fund the CTA by BASF AG	3,660.0	–
Participants' contributions	39.3	40.5
Benefits paid	(336.2)	(344.6)
Exchange rate changes	254.2	(110.7)
Other changes	89.0	(35.5)
Plan assets as of December 31	**11,015.2**	**6,204.3**

The pension funds held securities issued by BASF Group companies, whose total market value amounted to €13.4 million on December 31, 2005 (2004: €8.6 million). The market value of rental properties held by BASF pension funds rented to BASF Group companies amounted to €43.8 million as of December 31, 2005 (2004: €43.8 million). No material transactions took place between the pension funds and BASF group companies, or related companies in 2005 and in 2004.

The pension provisions were as follows:

Reconciliation of the defined benefit obligation to the pension provisions

Million €	2005	2004
Defined benefit obligation as of December 31	11,907.5	9,814.1
Less plan assets as of December 31	11,015.2	6,204.3
Funded status	**892.3**	**3,609.8**
Unrecognized past service cost	(2.7)	(3.5)
Asset ceiling in accordance with IAS 19.58	1.9	–
Capitalized defined benefit asset	288.3	185.5
Provisions for pensions	**1,179.8**	**3,791.8**
Provisions for similar obligations	366.8	332.3
Provisions for pensions and similar obligations	**1,546.6**	**4,124.1**

Actuarial gains and losses are charged directly against retained earnings in the reporting period they occur. Expenses from past service costs are amortized over the average service period of the entitled employees until the benefits become vested.

€1,075.9 million and €364.5 million in actuarial losses were charged outside of income and profit to retained earnings in 2005 and 2004 respectively. Since the introduction of this accounting policy, a total of €1,440.4 million has been charged against retained earnings, not taking deferred taxes into account.

The current funding situation of the defined benefit obligation is disclosed in the following table:

Current funding situation

	2005		2004	
Million €	**DBO**	**Plan assets**	**DBO**	**Plan assets**
Unfunded pension plans	606.3	–	3,638.5	–
Partially funded pension plans	7,299.2	6,758.5	1,853.0	1,687.7
Total of pension plans that are not fully funded	**7,905.5**	**6,758.5**	**5,491.5**	**1,687.7**
Fully funded pension plans	4,002.0	4,256.7	4,322.6	4,516.6
	11,907.5	**11,015.2**	**9,814.1**	**6,204.3**

Due to rising DBOs, the pension liabilities exceeded plan assets for the first time in 2005 for several pension plans leading to their inclusion in the partially funded plan category.

The following overview shows the differences between the actuarial assumptions and the actual development relating to the DBO and the plan assets.

Differences between actuarial assumptions and the actual development

Million €	**2005**	**2004**
Defined benefit obligation	11,907.5	9,814.1
Thereof impact of experience adjustments	19.5	22.6
Plan assets	11,015.2	6,204.3
Thereof impact of experience adjustments	438.4	192.8
Funded status	**892.3**	**3,609.8**

Payments arising from pension obligations existing as of December 31, 2005 are due as follows:

Expected payments resulting from pension obligations existing as of December 31, 2005

	Million €
2006	570.1
2007	586.0
2008	591.6
2009	602.9
2010	633.3
2011 through 2015	3,362.3

Composition of expenses for pension benefits

Million €	2005	2004
Service cost	192.7	185.9
Amortization of past service cost	1.9	6.0
Settlement gains/losses	(3.6)	(10.2)
Expenses for similar obligations	0.1	.
Expenses for defined benefit plans charged to income from operations	**191.1**	**181.7**
Interest cost	527.4	528.6
Expected return on plan assets	(421.7)	(409.6)
Expenses for similar obligations	15.1	15.8
Expenses for defined benefit plans charged to financial result	**120.8**	**134.8**
Expenses for defined contribution plans	**51.7**	**45.7**
Expenses for pension benefits	**363.6**	**362.2**

The estimated contribution payments for defined benefit plans for 2006 are €119.6 million.

In addition, contributions to public pension plans amounted to €317.7 million in 2005 and €307.6 million in 2004.

24. Other provisions

	2005		2004	
Million €	**Total**	**Thereof short-term**	**Total**	**Thereof short-term**
Recultivation obligations	589.4	0.2	534.8	0.2
Environmental protection and remediation costs	252.9	63.8	203.9	38.8
Personnel costs	1,599.2	929.0	1,473.1	842.9
Sales and purchase risks	919.0	917.0	758.7	757.4
Integration, shutdown and restructuring costs	266.3	241.8	324.3	316.9
Legal, damage claims, guarantees and related commitments	446.9	238.3	425.6	141.0
Other	1,480.0	372.4	1,019.4	266.9
	5,553.7	**2,762.5**	**4,739.8**	**2,364.1**

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-time service bonuses and anniversary payments, variable compensation including related social security contributions and other accruals as well as provisions for early retirement and short-working programs for employees nearing retirement. Most German BASF 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 period. 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 or similar obligations.

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

Additions in 2005 and in 2004 consisted primarily of personnel measures at the Ludwigshafen site. Additions in2005 also concern restructuring measures in the NAFTA region.

Expenses in 2005 include restructuring expenses within the Agricultural Products and Nutrition segment.

Amounts paid in 2005 and 2004 are related to the execution of restructuring measures initiated in the prior year.

Provisions for **guarantees, damage claims, legal and related commitments** are recorded for the expected cost of outstanding litigation and claims of third parties, including regulatory authorities, other guarantees and warranties for antitrust proceedings. The significant proceedings are described in Note 27.

Other also includes long-term tax provisions. These relate to amounts accrued for expected tax payments as well as risks associated with tax audits.

Provisions developed as follows:

Million €	January 1, 2005	Additions	Interest compounding	Utilization	Releases	Other changes	December 31, 2005
Recultivation obligations	534.8	54.0	18.7	(8.4)	(11.4)	1.7	**589.4**
Environmental protection and remediation costs	203.9	68.9	2.4	(28.0)	(4.6)	10.3	**252.9**
Personnel costs	1,473.1	905.3	16.6	(784.4)	(36.2)	24.8	**1,599.2**
Sales and purchase risks	758.7	1,363.8	.	(1,157.1)	(96.6)	50.2	**919.0**
Integration, shutdown and restructuring costs	324.3	161.1	0.3	(202.7)	(20.4)	3.7	**266.3**
Legal, damage claims, guarantees and related commitments	425.6	107.1	11.4	(94.8)	(28.8)	26.4	**446.9**
Other	1,019.4	914.0	0.6	(418.5)	(56.8)	21.3	**1,480.0**
	4,739.8	3,574.2	50.0	(2,693.9)	(254.8)	138.4	**5,553.7**

25. Liabilities

Financial indebtedness

Million €	2005	2004
3.5% Euro Bond 2003/2010 of BASF Aktiengesellschaft	994.8	993.5
3.375% Euro Bond 2005/2012 of BASF Aktiengesellschaft	1,396.0	–
5.75% Euro Bond 2000/2005 of BASF Aktiengesellschaft	–	1,249.0
Other bonds	308.9	267.3
Commercial paper	–	7.6
Bonds and other liabilities to the capital market	**2,699.7**	**2,517.4**
Liabilities to credit institutions	1,241.3	780.0
	3,941.0	**3,297.4**

Financial liabilities are denominated predominantly in the following currencies:

Million €	2005	2004
U.S. dollar	718.9	540.2
Euro	2,631.9	2,368.8
Malaysian ringgit	16.3	17.7
Korean won	9.3	16.8
Chinese renminbi	529.1	276.3
Other	35.5	77.6
	3,941.0	**3,297.4**

The weighted-average interest rate on short-term borrowings was 4.7% on December 31, 2005 (2004: 4.2%). Financial liabilities have the following maturities as of December 31, 2005:

Million €	2005	2004
2006	259,3	1.452,8
2007	12,3	20,0
2008	97,8	14,6
2009	45,7	31,4
2010	1.041,3	25,7
2010 and thereafter	2.484,6	1.752,9
	3.941,0	**3.297,4**

The 3.375% Euro Bond 2005/2012 of BASF Aktiengesellschaft was issued in May 2005 in the amount of €1,400 million and matures in May 2012. The effective interest rate of this bond is 3.42 %. The 3.5 % Euro Benchmark Bond 2003/2010 of BASF Aktiengesellschaft was issued in June 2003 in the amount of €1,000 million. The effective interest rate of this bond is 3.63%. The 5.75% Euro Bond 2000/2005 of BASF Aktiengesellschaft was repaid in July of 2005. The effective interest rate of this bond was 5.92%. Interest payments of both currently outstanding bonds is due annually in arrears.

"Other bonds" consist primarily of industrial revenue and pollution control bonds that are used to finance investments in the United States. The weighted-average interest rate of these bonds was 2.7% in 2005, and 1.5% in 2004. The weighted-average effective interest rate of these bonds was 2.7% in 2005, and 1.5% in 2004. The average maturity amounted to 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, won und renminbi result from the local financing of investments in Malaysia, Korea and China.

BASF Aktiengesellschaft had committed and unused credit lines with variable interest rates of €2,119.2 million as of December 31, 2005, and €1,835.4 million as of December 31, 2004. Additional uncommitted credit lines of BASF Aktiengesellschaft amounted to €227.0 million as of December 31, 2005, and €227.0 million as of December 31, 2004.

Other liabilities

Million €	2005		2004	
		Thereof short-term		Thereof short-term
Advances received on account of orders	121.3	121.3	109.8	109.4
Liabilities on bills	47.5	45.0	70.1	70.1
Liabilities to companies in which participations are held	333.1	268.2	362.5	259.4
Liabilities relating to social security	174.1	174.0	155.0	155.0
Non-trade liabilities to joint venture partners	683.0	116.9	687.6	119.8
Liabilities arising from deferrals from financial derivatives	185.4	154.0	83.7	70.3
Liabilities arising from financing leases	117.5	15.9	24.6	6.9
Miscellaneous	814.6	717.0	876.0	736.2
Total	**2,476.5**	**1,612.3**	**2,369.3**	**1,527.1**
Deferred income	265.3	86.7	350.9	114.3
Other liabilities	**2,741.8**	**1,699.0**	**2,720.2**	**1,641.4**

Liabilities to companies in which participations are held include the portion of liabilities that are not eliminated to jointly owned companies accounted for using the proportional consolidation method of €80.0 million as of December 31, 2005, and €31.6 million as of December 31, 2004. Further liabilities relating to associated companies accounted for using the equity or cost method were €253.1 million as of December 31, 2005, and €330.9 million as of December 31, 2004.

Maturities of liabilities

Million €	2005			2004		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Bonds and other liabilities to the capital market	–	1,009.0	1,690.7	1,256.5	2.5	1,258.4
Liabilities to credit institutions	259.3	188.0	794.0	196.6	82.6	501.1
Accounts payable, trade	2,777.0	-	-	2,371.5	-	–
Liabilities to affiliated companies	187.7	1.0	63.9	227.2	67.1	36.0
Advances received on account of orders	121.3	–	–	109.4	0.4	–
Liabilities on bills	45.0	2.5	–	70.1	–	–
Liabilities to associated companies	80.5	–	–	32.2	–	–
Miscellaneous liabilities	1,264.5	427.2	548.2	1,202.5	517.4	457.9
	4,735.3	**1,627.7**	**3,096.8**	**5,465.7**	**670.0**	**2,253.4**

Leasing liabilities are detailed in Note 30.

Collateralized liabilities and contingent liabilities are shown below:

Secured liabilities and contingent liabilities

Million €	2005	2004
Liabilities to credit institutions	4.2	4.3
Other liabilities	7.1	7.3
Contingent liabilities	–	–
	11.3	**11.6**

Certain liabilities are collateralized with mortgages or securities. In addition, BASF Aktiengesellschaft has given covenants in favor of BASF Pensionskasse VVaG with regard to adhering to certain balance sheet ratios and to forgo encumbering property as security for creditors.

26. Accounts payable and other financial obligations

The contingencies listed below are stated at nominal value.

Contingent liabilities

Million €	2005	2004
Bills of exchange	8.9	10.3
Thereof to affiliated companies	0.3	0.2
Guarantees	330.8	248.2
Thereof to affiliated companies	50.6	7.8
Warranties	93.8	69.6
Granting collateral on behalf of third-party liabilities	12.7	13.0
	446.2	**341.1**

Other financial obligations

Million €	2005	2004
Remaining cost of construction in progress	1,927.8	1,700.7
Thereof purchase commitment	692.2	378.6
Thereof for the purchase of intangible assets	2.2	-
Obligation arising from long-term leases (excluding financing leases)	827.4	812.4
Payment and loan commitments and other financial obligations	92.4	15.9
	2,847.6	**2,529.0**

Obligations from long-term rental and lease contracts (not financing leases) are due as follows:

	Million €
2006	171.9
2007	137.6
2008	103.0
2009	83.5
2010	67.4
2011 and thereafter	264.0
	827.4

Property, plant and equipment held under long-term leases primarily concern buildings and computer infrastructure. Leasing obligation are explained in detail in Note 30.

Purchase commitments for raw materials and natural gas from long-term contracts

The Company has entered into long-term purchase contracts for natural gas, the vast majority of which are coupled with long-term supply contracts to customers. In addition, the Company purchases raw materials globally, both on the basis of long-term contracts and in spot markets. In general, such commitments are at prices that are regularly adjusted to market conditions. The fixed and determinable portions of long-term purchase contracts with a remaining term of more than one year as of December 31, 2005, are as follows:

	Million €
2006	9,934.1
2007	6,316.0
2008	4,814.0
2009	4,193.4
2010	3,413.8
2011 and thereafter	32,245.3
	60,916.6

For information regarding possible contingent liabilities in connection with the acquisition of Englehard Corporation, Iselin, New Jersey, please see the Supplementary Report on page 56.

27. Risks from litigation and claims

Antitrust Claims 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 Europe between 1989 and early 1999. 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 B_4 (choline chloride) in the mid-1990s. BASF has appealed against both decisions. Further proceedings are still pending in Brazil and Australia.

A few State court lawsuits on behalf of indirect purchasers are still pending in the United States in connection with said antitrust law violations. Further claims for damages have been filed in the United Kingdom. A class action filed in Australia has been settled, with court approval still outstanding.

For these proceedings, the company has established provisions that it anticipates to be sufficient.

BASF Aktiengesellschaft has been named as a defendant in Empagran S.A. v. 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 alleges 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 has denied plaintiffs' petition, which BASF and the other defendants have opposed, on January 6, 2006. The proceedings are, therefore, terminated and the case is finally dismissed.

Meridia Class Actions against BASF Corporation and BASF Aktiengesellschaft

In various class actions in the United States, Knoll Pharmaceutical Corporation (KPC) and BASF Corporation (and in two cases BASF Aktiengesellschaft) as well as Abbott Laboratories, Inc. and Glaxo Wellcome were sued for an unknown amount of damages as well as for the reimbursement of costs for preventive medical check-ups. The claims are based on the alleged hazardousness, alleged insufficient trials, and failures during the regulatory approval process of Meridia® (trade name of the obesity drug sibutramine). Both actions against BASF Aktiengesellschaft have been dropped or dismissed. The claims against BASF Corporation have similarily been voluntarily dismissed. All cases have now been settled, with payment made by Abbott Laboratories which acquired KPC from BASF.

Additional Proceedings

The Supreme Court of Minnesota in its decision dated February 19, 2004, upheld a jury verdict against BASF Corporation in an amount of $52 million (with interest now totaling $60 million). The court held that the sale of the plant protection products Poast® and Poast Plus® at different sales prices violated consumer protection laws. BASF believes that different sales prices are justified because the products are based on different patented formulas and also must be sold as different products under relevant EPA regulations. BASF filed a petition for a Writ of Certiorari seeking review by the United States Supreme Court. BASF's petition was granted, and the case was remanded to the Minnesota Supreme Court for reconsideration of its prior opinion in light of an intervening U.S. Supreme Court ruling in another case. The Court's new ruling is expected during the first quarter of 2006.

In 2005, class action lawsuits against BASF Aktiengesellschaft and BASF Corporation had been filed at U.S. courts. It was alleged that sales of urethanes and "urethanes products" had violated antitrust laws. BASF will vigorously defend those lawsuits.

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. Although the evidence induced by the Commission against the company is considered weak, a fine against the company cannot be excluded. Therefore, the company has established provisions for the costs of this proceeding that it anticipates to be sufficient.

28. Stock-based compensation

BASF stock option program (BOP)

In 2005, BASF continued the BASF stock option program (BOP) for senior executives of the company worldwide. 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 is determined by the amount of variable compensation designated by the participant and the weighted-average market price quotation for BASF shares on the first business day after the annual meeting, which was €50.03 on April 29, 2005 (base price).

For each BASF share of the 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[SM] (MSCI Chemicals). The value of right B will be the base price of the option multiplied by twice the percentage outperformance of BASF shares compared to the MSCI Chemicals index on the exercise date. 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, 2005 and may be exercised following a two-year vesting period, between July 1, 2007 and June 30, 2013. During the exercise period, it is not possible to exercise options during certain periods (closed periods). Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right expires. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment and will be principally settled in cash.

The stock option programs BOP 1999 to BOP 2004 were structured in a similar way to the BOP 2005 program. 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 2001–2004) 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 1999 and 2000). The options may be exercised following a vesting period of two years (BOP 2001–2004) or three years (BOP 1999 and 2000).

The benchmark index used to determine the value of right B for BOP 1999 and 2000 is the Dow Jones EURO STOXX[SM] Total Return Index (EURO STOXX[SM]). 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.

Details on the fair value and the number of options issued are described below.

Fair value and parameters used as of December 31, 2005[1]

	Program years BASF stock option program	
	2005	**2004**
Fair value	€26.44	€35.73
Dividend yield of BASF shares	2.63%	2.63%
Risk free interest rate	3.22%	3.17%
Volatility of BASF shares	26.26%	24.66%
Volatility index[2)]	17.29%	15.58%
Correlation BASF quotation: index[2)]	85.05%	68.74%

[1] It is assumed that the options will be exercised, based upon the potential gains.
[2] 2005: MSCI Chemicals; 2004: DJ Chemicals

The values for volatility were determined on the basis of the monthly closing prices over a historical period corresponding to the remaining exercise term.

Options outstanding	2005		2004	
	Weighted-average base price (€)	Options (Number)	Weighted-average base price (€)	Options (Number)
Options outstanding as of January 1	43.64	4,643,465	43.99	3,833,959
Options granted	50.03	1,807,800	42.73	1,115,964
Options expired and forfeited[1]	43.79	66,950	43.15	64,464
Options exercised	43.36	983,706	45.02	241,994
Options outstanding as of December 31	**45.83**	**5,400,609**	**43.64**	**4,643,465**
Thereof exercisable options	44.16	2,493,669	45.46	312,181

[1] Option rights lapse 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 5.86 years on December 31, 2005 and 5.70 years on December 31, 2004. The base prices were within a range of €38.94 to €50.03 in 2005, and €38.94 to €47.87 in 2004.

Because of a resolution by the Board of Executive Directors and the Supervisory Board in 2002, to settle stock options in cash, options outstanding as of December 31, 2005 are valued with the fair value as of the balance sheet date. This amount is accrued as a provision over the respective vesting period. An amount of €48.5 million was charged to income in 2005, and €36.4 million was charged to income in 2004. Previously accrued provisions were increased from €81.8 million on December 31, 2004 to €101.0 million on December 31, 2005. The total intrinsic value of exercisable options amounted to €51.2 million on December 31, 2005 and €2.4 million on December 31, 2004.

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 each 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 expires 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 shares held under the program	2005	2004
Number of shares held as individual investment as of January 1	2,405,230	2,091,400
Number of shares added to the individual investment	565,000	468,320
Number of subscription rights lapsed	(175,100)	154,490
Number of shares held as individual investment as of December 31	**2,795,130**	**2,405,230**

The free shares to be provided by the company are valued at the fair value of 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 €39.57 for the program in 2005 and €32.44 for the program in 2004.

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 €12.2 million was recorded in 2005 and €10.4 million in 2004 for the employee stock program.

29. 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 if they have a corresponding underlying position or planned transaction arising from the operating business, cash investments, financing or planned sales. The leverage effect that can be achieved with derivatives is deliberately 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 pre-defined 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 rigorous 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. The same is true of the derivative instruments, which are used to replace transactions in original financial instruments.

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 accounts payable and receivable that are not denominated in the local currency of BASF Group companies, or for future foreign currency transactions.

To hedge the exchange rate risk against the U.S. dollar, the British pound, the Brazilian real, and the Korean won, foreign exchange forward contracts, combined interest and currency swaps and currency options are used.

Default 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 assets excluding contingent liabilities 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 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.

Book value of interest-bearing financial instruments

Million €	December 31, 2005 Fixed-interest rate	December 31, 2005 Variable-interest rate	December 31, 2004 Fixed-interest rate	December 31, 2004 Variable-interest rate
Loans	195.6	5.1	217.6	76.7
Securities	13.7	–	12.8	–
Financial indebtedness	2,831.3	1,109.7	2,520.8	776.6

Fair value of financial instruments

The fair value of a financial instrument is the price at which the instrument could be exchanged between willing parties. When pricing on an active market is available, for example 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 debts is determined on the basis of interbank interest rates.

For trade accounts receivable, liquid funds and other assets, trade accounts payable and other liabilities, the book value of short-term items 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 valued at acquisition cost. The book value of these participations amounts to €606.8 on December 31, 2005, and €633.1 on December 31, 2004. The book value of financial indebtedness amounted to €3,941.0 million in 2005 and €3,297.4 million in 2004. The market value of financial indebtedness amounted to €3,963.4 million in 2005 and €3,334.2 million in 2004. The difference between book and market values resulted primarily due to changes in market interest rates.

Derivative instruments at market value

	Nominal value as of December 31		Market value as of December 31	
Million €	**2005**	**2004**	**2005**	**2004**
Foreign currency contracts	5,675.5	5,265.3	35.1	541.1
Currency options	3,407.3	2,122.1	(33.5)	66.9
Foreign currency derivatives	**9,082.8**	**7,387.4**	**1.6**	**608.0**
Interest swaps	199.1	908.9	(2.4)	(43.8)
Combined interest and currency swaps	1,438.5	2,108.0	127.8	308.9
Interest derivatives	**1,637.6**	**3,016.9**	**125.4**	**265.1**
Commodity derivatives/Other derivatives	**873.7**	**355.5**	**(15.8)**	**(21.8)**

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 taken into account.

Positive fair values of derivatives are contained within the item other receivables in the amount of €296.6 million in 2005 and €935.0 million in 2004. Negative fair values in the amount of €185.4 million in 2005 and €83.7 million in 2004 are shown under other liabilities.

Commodity derivatives in the amount of €4.4 million are used in line with cash flow hedge accounting to hedge prices for raw materials, e.g., naphtha. The hedged raw-material inflows will most likely impact the cash-flow and income statement in 2006.

30. 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 €	December 31, .2005 Acquisition cost	 Net book value
Land, land rights and building, incl. buildings on land owned by others	78.9	63.0
Machinery and technical equipment	114.6	65.3
Miscellaneous equipment and fixtures	83.5	28.0
Advance payments and construction in progress	–	–
	277.0	**156.3**

Liabilities from financing leases Million €	Minimum leasing payments	Interest portion	Leasing liability
2006	22.9	7.0	15.9
2007	20.6	6.6	14.0
2008	18.7	6.2	12.5
2009	17.0	5.8	11.2
2010	17.7	5.4	12.3
After 2010	77.5	25.9	51.6
	174.4	**56.9**	**117.5**

In the current year less than €0.1 million in additional lease payments were booked to the minimum lease expense (through the income statement) due to contractual obligations.

Offsetting these leasing liabilities, expected minimum lease payments from sub-lessees amounted to €0.1 million.

In addition, BASF is a lessee in operating leases. The resulting lease obligations totalling €827.4 million come due in the following years:

Liabilities due to operating lease contracts	2005 Less than 1 year	 1–5 years	 More than 5 years in total
Nominal value of the future minimum payments	171.9	391.5	264.0

Offsetting these leasing liabilities, expected minimum lease payments from sub-lessees amounted to €13.9 million.

Minimum lease payments in the amount of €15.6 million, conditional lease payment of €0.6 million, and payments received from sub-lessees of €3.3 million are included in the operating results of the current year.

BASF as lessor

BASF acts as the lessor only in a minor capacity for financing leases. Receivables from financing leases are below €0.5 million as of December 31, 2005. Nominal minimum payments arising from operating leases amount to €7.3 million within one year, and €27.2 million within the next five years.

31. Related-party transactions

IAS 24 requires the disclosure of transactions with related parties; both with companies that are not fully consolidated, as well as with individuals. Material supply relationships exist between the proportionally consolidated Group companies Wintershall Erdgas Handelshaus GmbH, Wintershall Erdgas Handelshaus, Switzerland, and companies of the BASF Group for the supply of oil and gas. The unconsolidated portion of these supplies amounted to €632.1 million in 2005 and €457.4 million in 2004.

In addition, a material supply relationship existed between the BASF Group and the Basell Group, which was accounted for by the equity method until 2005. Deliveries to the Basell Group amounted to €284.8 in 2005 and €254.0 in 2004.

All transactions were at arm's length.

Please see Note 17 for details regarding payables and receivables with companies accounted for proportionally, at acquisition cost, or according to the equity method.

There were no transactions between group companies and related individuals that were significant, or of an unusual nature.

32. Services provided by the external auditor

BASF Group companies have used the following services of Deloitte & Touche GmbH:

Million €	**2005**	**2004**
Annual audit	12.8	11.7
Audit-related services	5.1	1.8
Tax consultation services	0.9	1.6
Other services	0.5	0.5
	19.3	**15.6**

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.

Audit-related services concerned billed services primarily for due diligence, confirmation of the conformance to certain contractual obligations as well as audits relating to documentation of the internal control systems required by the Sarbanes-Oxley Act.

Tax consultation services primarily concerned tax consultation services in connection with planned or existing transactions, transfer price analysis, as well as consultation with employees on foreign delegation assignments.

Other services concern amounts billed in connection with the handling of insurance damage claims as well as numerous other services.

Costs for the audit of BASF Aktiengesellschaft amounted to €2.3 million in both 2005 and 2004. For other contracted services not related to the annual audit for BASF Aktiengesellschaft, fees paid to Deloitte amounted to €2.0 million in 2005 and €0.8 million in 2004.

Costs for the audit of proportionally consolidated companies amounted to €0.4 million in 2005 and €0.4 million in 2004. For other contracted services not related to the annual audit for proportionally consolidated companies, fees amounted to €0.02 million in 2005 and €0.1 million in 2004.

Glossary

2-ethylhexanol
A completely synthetic alcohol used, for example, in the production of plasticizers.

2-propylheptanol
Starting product in the production of plasticizers and auxiliaries for chemical and technical industry.

acrylic monomers
Acrylic monomers are part of the product range of the Performance Chemicals 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

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. BASF is using plant biotechnology to develop plants that enable a healthier diet through improved constituents, as well as crops with better cultivation characteristics. In addition, BASF is concentrating on the biocatalytic production of vitamins, amino acids, enzymes and chiral intermediates.

C_4 complex
Part of the production complex in Port Arthur, Texas. Here, three successive chemical processes are used to obtain butadiene, alkylate gasoline and propylene from a C_4 stream (a mixture of various hydrocarbons each containing four carbon atoms) from the steam cracker.

Coatings
The Coatings division develops, produces and markets automotive OEM, automotive refinish coatings, industrial coatings and decorative paints.

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.

downstream plant
A plant that is downstream of the steam cracker in the chemical value-adding process.

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 satisfy the returns expected by providers of equity and debt on the assets employed.

EBITDA
Earnings before interest, taxes, depreciation and amortization

economies of scale
Cost advantages derived from modern world-scale plants.

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 insulating materials. 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.

FASB
The Financial Accounting Standards Board is a U.S.-based body that is accountable to the U.S. Securities and Exchange Commission (SEC). It prepares and publishes Statements of Financial Accounting Standards (SFAS).

fermentation
Fermentation is a process in which biological materials are reacted with the aid of bacterial, fungal or cell cultures, or with enzymes.

Fine Chemicals
In the Fine Chemicals division, we develop, produce and market high-value products for human and animal nutrition and for the cosmetics and pharmaceutical industries. Our primary products are vitamins, pharmaceutical active ingredients, polymers for pharmaceuticals and cosmetics, carotenoids, aroma chemicals, UV filters, the amino acid lysine, as well as enzymes for animal nutrition.

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, carpeting 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).

futures
A binding agreement between two partners to buy or sell a specific amount of an exactly defined commodity or financial instrument at a particular price on a stipulated future date.

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 propylene and hydrogen peroxide (HP).

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 Regulation, IFRS are mandatory for listed companies 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, heterogeneous catalysts, impregnating resins and powder injection molding technologies.

insecticide
An active ingredient used to destroy harmful insects.

Intermediates
The Intermediates division produces and sells amines, diols and polyalcohols, as well as carboxylic acids and specialties such as phosgene derivatives, glyoxal and derivatives, and chiral intermediates for a variety of chemical syntheses; 25% of the division‘s volumes are for captive use within 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 in the heating market, 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; established in the North American Free Trade Agreement. This economic region is one of BASF's four business regions.

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 a few hundred nanometers. 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 by-product 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 of 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, crude oil and natural gas trading, and the leasing of natural gas storage and transport facilities.

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: a type of plastic

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 fiber 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. For example, plants can be developed that contain constituents that allow a healthier diet, that grow under adverse conditions, or that form substances that would otherwise have to be produced using complicated chemical processes.

PolyTHF®
Polytetrahydrofuran: a starting material for elastic fibers

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 domestic appliances and mattresses, and as specialty plastics for the automobile and footwear industries.

REACH
A proposed new EU regulatory framework for the registration, evaluation and authorization of chemicals.

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

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 operating assets
The return on operating assets describes the return made by an individual segment or the BASF Group on its allocated assets. It is calculated as income from operations as a percentage of average operating assets.

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 (SOX)
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 costs or one-time payments that significantly affect the earnings of a segment or the BASF Group. Special items include payments arising from restructuring measures and severance payments.

steam cracker
A large 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 interest rate is exchanged for a floating one for an agreed nominal amount.

TDI
Toluene diisocyanate: a polyurethane basic product

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.

U.S. GAAP
United States Generally Accepted Accounting Principles

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 by-products 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.

white biotechnology
An area of biotechnology that deals with products and processes in the chemical, textile and food industries.

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 (see also: economies of scale). BASF is therefore committed to cost-effective large-scale plants of this kind in all major economic regions.

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Ten-year Summary[1]

Million €	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Financial Statement										
Sales	24,939	28,520	27,643	29,473	35,946	32,500	32,216	33,361	37,537	42,745
Income from operations (EBIT)	2,195	2,731	2,624	2,009	3,070	1,217	2,641	2,658	5,193	5,830
Income from ordinary activities	2,257	2,726	2,771	2,606	2,827	609	2,641	2,168	4,347	5,926
Extraordinary income	–	–	–	–	–	6,121	–	–	–	–
Income before taxes and minority interests	2,257	2,726	2,771	2,606	2,827	6,730	2,641	2,168	4,347	5,926
Income before minority interests	1,452	1,639	1,664	1,245	1,282	5,826	1,599	976	2,133	3,168
Net income	1,427	1,654	1,699	1,237	1,240	5,858	1,504	910	2,004	3,007
Capital expenditures and depreciation										
Additions to tangible and intangible assets	2,416	2,564	3,722	3,253	6,931	3,313	3,055	3,415	2,163	2,523
Thereof tangible assets	1,861	2,229	2,899	2,764	3,631	3,037	2,677	2,293	2,022	2,188
Deprecation of tangible and intangible assets	1,797	2,028	2,260	2,662	2,916	2,925	2,464	2,452	2,492	2,403
Thereof tangible assets	1,606	1,732	1,843	2,018	2,245	2,307	2,012	1,951	2,053	2,035
Number of employees										
At year-end	105,589	104,979	105,945	104,628	103,273	92,545	89,389	87,159	81,955	80,945
Annual average	108,266	105,885	106,928	107,163	105,784	94,744	90,899	88,167	85,022	80,992
Personnel costs	5,637	5,790	6,010	6,180	6,596	6,028	5,975	5,891	5,615	5,574
Key data										
Earnings per share (€)	2.32	2.67	2.73	2.00	2.02	9.72[2]	2.60	1.62	3.65	5.73
Earnings per share in accordance with U.S. GAAP (€)			2.84	2.14	2.45	9.38	2.96	2.35	3.39	5.83
Cash provided by operating activities	3,476	3,291	3,744	3,255	2,992	2,319	2,313	4,878	4,634	5,250[3]
Return on sales (%)	8.8	9.6	9.5	6.8	8.5	3.7	8.2	8.0	13.8	13.6
Return on assets (%)	11.4	12.6	11.9	10.2	9.9	3.1	8.4	7.4	13.2	17.7
Return on equity after tax (%)	14.8	14.6	13.2	9.1	9.0	36.6[2]	9.3	6.0	12.9	18.6
Appropriation of profits										
Net income of BASF AG[4]	870	943	1,074	1,007	1,265	5,904	1,045	1,103	1,363	1,273
Transfer to retained earnings[4]	332	307	381	304	50	5,153	247	334	449	–
Dividend	537	636	693	695	1,214	758	789	774	904	1,029[5]
Dividend per share (€)	0.87	1.02	1.12	1.13	1.30	1.30	1.40	1.40	1.70	2.00
					+0.70[6]					
Number of shares as December 31 (in thousands)	618,052	622,063	623,794	620,985	607,399	583,401	570,316	556,643	540,440	515,059

[1] Starting in 2005, the accounting and reporting of the BASF Group is performed in accordance with International Financial Reporting Standards (IFRS). The previous year's figures have been restated in accordance with IFRS. The figures for years up to and including 2003 were prepared in accordance with 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, 2005.

[6] Special dividend of stockholders' equity charged with 45% corporate income tax

Ten-year Summary[1]

Balance Sheet (German GAAP)

Million €	1996	1997	1998	1999	2000	2001	2002	2003
Intangible assets	1,297	1,497	1,965	2,147	4,538	3,943	3,464	3,793
Tangible assets	8,217	9,076	10,755	12,416	13,641	14,190	13,745	13,070
Financial assets	2,093	2,132	1,826	1,507	3,590	3,360	3,249	2,600
Fixed assets	**11,607**	**12,705**	**14,546**	**16,070**	**21,769**	**21,493**	**20,458**	**19,463**
Inventories	3,665	3,876	3,703	4,028	5,211	5,007	4,798	4,151
Accounts receivable, trade	3,714	4,299	4,017	4,967	6,068	5,875	5,316	4,954
Other receivables	1,341	1,765	1,856	2,211	3,369	2,384	2,947	3,159
Deferred taxes	69	45	1,077	1,225	1,270	1,373	1,204	1,247
Liquid funds	1,957	1,846	1,503	1,508	870	743	363	628
Current assets	**10,746**	**11,831**	**12,156**	**13,939**	**16,788**	**15,382**	**14,628**	**14,139**
Assets	**22,353**	**24,536**	**26,702**	**30,009**	**38,557**	**36,875**	**35,086**	**33,602**
Subscribed capital	1,580	1,590	1,595	1,590	1,555	1,494	1,460	1,425
Capital surplus	2,515	2,567	2,590	2,675	2,746	2,914	2,948	2,983
Paid-in capital	4,095	4,157	4,185	4,265	4,301	4,408	4,408	4,408
Retained earnings	6,262	7,418	8,695	9,002	8,851	12,222	12,468	12,055
Currency translation adjustment	(129)	201	39	549	662	532	(330)	(972)
Minority interests	248	255	331	329	481	360	396	388
Stockholders' equity	**10,476**	**12,031**	**13,250**	**14,145**	**14,295**	**17,522**	**16,942**	**15,879**
Pensions and other long-term provisions	5,052	4,824	5,561	5,812	6,209	6,809	6,233	6,205
Tax and other short-term provisions	2,391	2,463	2,185	2,826	3,334	3,332	2,764	2,982
Provisions	**7,443**	**7,287**	**7,746**	**8,638**	**9,543**	**10,141**	**8,997**	**9,187**
Financial indebtedness	1,042	1,126	1,316	1,294	7,892	2,835	3,610	3,507
Accounts payable, trade	1,628	1,972	1,871	2,316	2,848	2,467	2,344	2,056
Other liabilities	1,764	2,120	2,519	3,616	3,979	3,910	3,193	2,973
Liabilities	**4,434**	**5,218**	**5,706**	**7,226**	**14,719**	**9,212**	**9,147**	**8,536**
Provisions and liabilities	**11,877**	**12,505**	**13,452**	**15,864**	**24,262**	**19,353**	**18,144**	**17,723**
Thereof long-term liabilities	6,223	6,094	6,898	7,529	9,059	9,955	9,211	10,285
Total stockholders' equity and liabilities	**22,353**	**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 previous year's figures have been restated in accordance with IFRS. The figures for years up to and including 2003 were prepared in accordance with German GAAP.

Balance Sheet (IFRS)

Million €	2004	2005
Intangible assets	3,607	3,720
Property, plant and equipment	13,063	13,987
Investments accounted for using the equity method	1,100	244
Other financial assets	938	813
Deferred taxes	1,337	1,255
Other long-term assets	473	524
Long-term assets	**20,518**	**20,543**
Inventories	4,645	5,430
Accounts receivable, trade	5,861	7,020
Other receivables and miscellaneous short-term assets	2,133	1,586
Liquid funds	2,291	1,091
Short-term assets	**14,930**	**15,127**
Assets	**35,448**	**35,670**
Subscribed capital	1,383	1,317
Capital surplus	3,028	3,100
Paid-in capital	4,411	4,417
Retained earnings	11,923	11,928
Other comprehensive income	(60)	696
Minority interests	328	482
Stockholders' equity	**16,602**	**17,523**
Provisions for pensions and other obligations	4,124	1,547
Other provisions	2,376	2,791
Deferred taxes	948	699
Financial indebtedness	1,845	3,682
Other liabilities	1,079	1,043
Long-term liabilities	**10,372**	**9,762**
Accounts payable, trade	2,372	2,777
Provisions	2,364	2,763
Tax liabilities	644	887
Financial indebtedness	1,453	259
Other liabilities	1,641	1,699
Short-term liabilities	**8,474**	**8,385**
Total stockholders' equity and liabilities	**35,448**	**35,670**

Registered trademarks/owners

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

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

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

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

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

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

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

Important dates

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

Annual Meetings

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

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