The Chemical Company

BASF Aktiengesellschaft
Financial Statements 2005

Contents

The Financial Statements and Management's Analysis of BASF Aktiengesellschaft (BASF AG) for the financial year 2005 are published in the Federal Gazette and filed in the Commercial Register of the District Court of Ludwigshafen (Rhine) HRB 3000.

The Financial Statements of BASF AG and the Management's Analysis as well as the List of Shares Held by BASF AG are also available on the Internet at **corporate.basf.com/cg_reports.**

Management's Analysis

Structure and organization

Corporate legal structure: BASF AG, 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 AG's shares are available for public trading on stock exchanges.

Organization: Twelve operating divisions bear bottom-line responsibility and manage our 57 regional and global business units. Nine of the twelve divisions of the BASF Group operate within BASF AG. As a result, the operational business of BASF AG represents only a portion of the global overall business. The Financial Statements of BASF AG therefore do not allow a representative assessment of the BASF Group and only the Consolidated Financial Statements of the BASF Group provide a complete overview.

Accounting principles

The Consolidated Financial Statements of the BASF Group, which are performed in accordance with International Financial Reporting Standards (IFRS), incorporate the Financial Statements of BASF AG. In following, we comment on the Financial Statements of BASF AG, which are based on the German Commercial Code *(Handelsgesetzbuch, HGB).* Significant differences between the Financial Statements of BASF AG according to IFRS and HGB involve amortization methods, valuation of inventories and provisions as well as the treatment of financial instruments.

Results of operations

To assess the net income of BASF AG a differentiation must be made between income from operations from BASF AG's own production, the sale of these products as well as from the sale of products of other European BASF Group companies and the income from the function of BASF AG as a parent company. This function as a parent company is primarily reflected in the financial result.

Million €	2005	2004
Sales	**14,935**	**14,074**
Gross profit on sales	**3,904**	**3,760**
Income from operations (EBIT)	**808**	**941**
Income from financial assets	1,267	1,265
Interest result	(171)	(149)
Other financial result	(191)	(260)
Financial result	**905**	**856**
Income before taxes*	**1,713**	**1,797**
Net income	**1,273**	**1,363**

* Income from ordinary operations

Sales

Change	2005		2004	
	Million €	%	Million €	%
Change in volumes	**(277)**	(2.0)	822	6.3
Change in prices	**734**	5.2	404	3.1
Currency effects	**18**	0.1	(259)	(2.0)
Commissions, licenses, other businesses, etc.	**386**	2.8	47	0.4
	861	**6.1**	**1,014**	**7.8**

Regions

Million €	2005	2004
Europe	**11,479**	10,938
Thereof Germany	**4,451**	4,192
North America (NAFTA)	**926**	843
Asia Pacific	**1,727**	1,472
South America, Africa, Middle East	**803**	821
	14,935	**14,074**

Income from operations

BASF AG's business developed strongly in 2005. Higher sales volumes were achieved in almost all regions. In particular, the segments Plastics and Performance Products posted significantly higher sales. 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. The appreciation of the U.S. dollar had only a minor overall impact on sales.

Income from operations in 2005 contained special charges of around €214 million, compared with €119 million in the previous year. An expense of €116 million resulted from a grant to the BASF Pensionskasse VVaG due to solvency requirements. Restructuring measures accounted for special charges of €75 million.

The decline in income from operations was primarily due to the higher level of special charges as well as expenses of €42 million from hedging currency risks. Measures to increase efficiency at the Ludwigshafen site that were introduced in previous years and continued in 2005 had a lasting positive effect on income.

Financial result

The changes within income from financial assets more or less offset one another. Higher income transfers and dividends from subsidiaries counterbalanced a decline in sale. In 2005, the financial result included the gain from the sale of our stake in Basell.

In order to improve transparency, the financial result was restructured in 2005. The new item "other financial result" now includes interest from long-term provisions for personnel costs, which was previously included in income from operations. The figure for 2004 has been restated accordingly.

Net income

At €1,273 million, net income was €90 million lower than in 2004.

Of this change, €56 million was due to the revaluation of long-term provisions for personnel costs. As of January 1, 2005, provisions for pensions, for part-time programs for employees nearing retirement age and for service anniversaries are valued in accordance with IAS 19 "Employee Benefits."

Proposed appropriation of profit

BASF AG recorded 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 and financial position

	2005		2004	
	Million €	%	Million €	%
Fixed assets	18,602	59.8	18,607	69.9
Current assets	12,505	40.2	8,013	30.1
Total assets	**31,107**	**100.0**	**26,620**	**100.0**
Stockholders' equity	10,199	32.8	11,264	42.3
Provisions	6,105	19.6	5,807	21.8
Liabilities	14,803	47.6	9,549	35.9
Total stockholders' equity and liabilities	**31,107**	**100.0**	**26,620**	**100.0**

Compared with 2004, the balance sheet total rose 17%.

In 2005, BASF AG assumed loans to other Group companies by BASF AB, Sweden. This transfer increased fixed assets by €722 million. The sale of the joint venture Basell reduced participations. Intangible assets, property, plant and equipment decreased by €235 million.

Within current assets, receivables from affiliated companies rose €2,117 million to €4,824 million. Among other things, this was caused by the transfer of €327 million in short-term loans from BASF AB, Sweden.

Retained earnings within stockholders' equity declined by €1,435 million due to share buybacks. Liabilities rose due to higher financial investments of Group companies at BASF AG. Financial indebtedness rose as a result of the issue of the 3.375% Euro Bond with a volume of €1.4 billion. The bond matures in May 2012. The 5.75% Euro Bond with a volume of €1.25 billion was repaid on schedule in 2005. As in 2004, there were no liabilities to credit institutions.

Financial position

In 2005, cash provided by operating activities was high at €1,843 million. This represents a rise of 26% compared with very strong level in 2004.

Cash used in investing and financial activities amounted to €119 million compared with €78 million in 2004. Liquid funds increased by €2,351 million to €4,215 million.

In order to finance pension obligations, we transferred approximately €3.7 billion into the newly founded BASF Pensionstreuhand e.V., which will manage the assets as a managerial trustee for BASF AG and as an administrative trustee for the beneficiaries (see more under "Employees"). Under the German Commercial Code, these assets have still to be shown on the balance sheet of BASF AG.

Employees

In 2005, BASF AG's personnel costs amounted to €2.75 billion (2004: €2.72 billion). The company had 34,143 employees as of December 31, 2005 (2004: 35,303).

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 AG will be approximately 32,000. 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 AG'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.

BASF promotes employee investment in the company with the "plus" share purchase program. In 2005, a total of 458,720 shares were acquired by employees of BASF AG. If the employees keep their shares for a longer period, they receive additional free shares from the company.

With effect from the end of 2005, BASF AG 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. 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.

Research and development

Innovations are crucial to BASF AG'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.

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.

In 2005, BASF AG spent €728 million on research and development activities. This corresponds to 5% of sales. In 2006, we will continue to invest in research and development to effectively strengthen our competitive position.

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.

The cost of operating environmental protection facilities throughout BASF AG amounted to €321 million in 2005 compared with €327 million in 2004. In the same period, we also invested €49 million in new and improved environmental protection plants and facilities. These capital expenditures include both end-of-pipe and production-integrated measures.

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 lost time accident rate at the Ludwigshafen site was 1.8 per one million working hours. This corresponds to a reduction of 14% compared with 2004.

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.

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.

Risk management system
Principles and objectives of risk management: BASF AG is integrated into the risk management system of BASF Group. 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. Special organizational controls exist for exchange rate hedging measures, investments and the use of derivative financial instruments.

Risks of future development
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.

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.

Financial risks: We monitor and control financial risks in the Treasury department of the Corporate Center. 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 23 to the Financial Statements.

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.

We use credit insurance to hedge our credit and default risks from our customers.

We limit country-specific risks through internal country ratings, which are continuously adapted to changing economic, political and social conditions. We selectively use credit insurance and bank guarantees as the main tools 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.

Market 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.

Assessment of BASF AG's overall risk situation

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

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 AG, 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 inapplicable 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.

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. Until February 3, 2006, 54.896 Engelhard shares had been offered for sale. 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.

Outlook

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.

Taking into account the economic assumptions described above, we expect BASF AG's business to develop positively in 2006.

Goals and measures:

- Sales: We aim to continue to grow faster than the market.
- Earnings: In 2006, we aim to post net income at the 2005 level
- 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.
- Capital expenditures: Planned capital expenditures in 2006 will amount to almost €425 million and are thus expected to be at the level of depreciation and amortization. We aim to finance these planned investments from cash provided by operating activities.

Report of Independent Auditors

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of BASF Aktiengesellschaft, Ludwigshafen am Rhein, for the business year from January 1 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Board of Executive Directors of BASF Aktiengesellschaft. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Article 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* [German Institute of Public Auditors]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by Board of Executive Directors of BASF Aktiengesellschaft, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt, February 21, 2006

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Künnemann	Dr. Beine
Wirtschaftsprüfer	Wirtschaftsprüfer

Statement of Income Year ended December 31

Million €	Explanations in Note	2005	2004
Sales	(2)	**14,934.6**	**14,073.9**
Cost of sales		11,030.9	10,314.0
Gross profit on sales		**3,903.7**	**3,759.9**
Selling expenses		1,484.4	1,516.3
General and administrative expenses		330.7	307.4
Research and development expenses		728.1	694.2
Other operating income	(3)	294.2	358.8
Other operating expenses	(4)	846.4	659.9
Income from operations	(5)	**808.3**	**940.9**
Income from financial assets		1,267.1	1,264.7
Interest result		(170.9)	(149.1)
Miscellaneous financial result		(191.3)	(260.0)
Financial result	(6)	**904.9**	**855.6**
Income before taxes*		**1,713.2**	**1,796.5**
Income taxes	(7)	384.2	434.0
Net income before revaluations		**1,329.0**	**1,362.5**
Revaluations	(8)	(55.5)	0.0
Net income		**1,273.5**	**1,362.5**

* Income from ordinary operations

Balance Sheet at December 31

ASSETS

Million €	Explanations in Note	2005	2004
Intangible assets	(10)	207.3	267.9
Property, plant and equipment	(11)	1,564.3	1,739.0
Financial assets	(12)	16,830.3	16,600.5
Fixed assets		**18,601.9**	**18,607.4**
Inventories	(13)	**1,253.8**	**1,467.5**
Accounts receivable, trade		1,451.0	1,399.6
Receivables from affiliated companies		4,823.5	2,706.6
Miscellaneous receivables and other assets		384.9	250.5
Receivables and other assets	(14)	**6,659.4**	**4,356.7**
Marketable securities		481.3	93.6
Cash and cash equivalents		3,733.8	1,771.0
Liquid funds	(15)	**4,215.1**	**1,864.6**
Current assets		**12,128.3**	**7,688.8**
Deferred taxes	(7)	**332.8**	**299.3**
Prepaid expenses	(16)	**43.7**	**24.1**
Total assets		**31,106.7**	**26,619.6**

STOCKHOLDERS’ EQUITY AND LIABILITIES

Million €	Explanations in Note	2005	2004
Subscribed capital	(17)	1,316.8	1,383.5
Capital surplus	(17)	2,996.0	2,928.9
Retained earnings	(18)	4,597.4	6,032.5
Profit retained	(18)	1,288.4	918.7
Stockholders’ equity		**10,198.6**	**11,263.6**
Special reserves	(1)	**111.0**	**113.3**
Provisions for pensions and similar obligations	(19)	3,103.1	3,037.3
Provisions for taxes		886.6	623.1
Other provisions	(20)	2,115.2	2,146.1
Provisions		**6,104.9**	**5,806.5**
Bonds and other liabilities to capital market		2,400.0	2,250.0
Accounts payable, trade		455.1	443.8
Liabilities to affiliated companies		11,415.6	6,272.8
Miscellaneous liabilities		319.8	371.3
Liabilities	(21)	**14,590.5**	**9,337.9**
Deferred income		**101.7**	**98.3**
Total stockholders’ equity and liabilities		**31,106.7**	**26,619.6**

Notes to the Financial Statements

Basis of presentation
The Financial Statements of BASF AG are based on the accounting and valuation principles of the German Commercial Code *(Handelsgesetzbuch, HGB)* and the German Stock Corporation Act *(Aktiengesetz).*

(1) Accounting and valuation methods
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.

Intangible assets: Intangible assets are valued at acquisition cost less scheduled straight-line amortization. The weighted average amortization period remained at 9 years in 2005.

	2005	2004
Goodwill	19 years	19 years
Software	4 years	4 years
Patents, licenses, know-how, other rights	8 years	8 years

The Company evaluates intangible assets whenever significant events or changes in circumstances occur which might impair recovery of recorded asset costs.

Property, plant and equipment: Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation over their estimated useful lives. Low-value assets are fully depreciated in the year of acquisition and are shown as disposals. Movable depreciable fixed assets that are functionally integrated are treated as a single asset item.

The cost of self-constructed plants includes direct costs, appropriate allocations of material and manufacturing costs, and an appropriate share of the administrative costs for those areas involved in the construction of the plants. Borrowing costs, costs for voluntary social benefits and pension costs for the period of construction are not capitalized. Movable fixed assets are mostly depreciated by the declining balance method, with a change to straight-line depreciation when this results in higher depreciation amounts. Immovable fixed assets are predominantly depreciated using the straight-line method.

The weighted average periods of depreciation are as follows:

	2005	2004
Buildings and structural installations	22 years	22 years
Industrial plant and machinery	11 years	11 years
Working and office equipment and other facilities	10 years	10 years

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.

Financial assets: Shares in affiliated or associated companies, other shares, participations and securities held as fixed assets are shown at acquisition cost or, where an other-than-temporary impairment of value occurs, at the appropriate lower values.

Interest-bearing loans are stated at cost; non-interest-bearing loans or loans at below market interest rates are stated at their present value. Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due. In such circumstances, the Company recognizes an impairment loss based on the estimated fair value of the loan.

Inventories: Inventories are carried at acquisition costs or production costs. They are valued at market values if lower than cost. These lower values are the replacement costs for raw materials and factory supplies and merchandise and, in the case of work in process and finished products, the expected sales proceeds less costs to be incurred prior to sale or lower reproduction cost.

Production costs include, in addition to direct costs, an appropriate allocation of overhead cost of production using normal utilization rates of the production plants. Financing costs, pensions, or voluntary social benefits are not included in production costs.

Construction-in-progress relates mainly to chemical plants under construction for BASF Group companies. Profits are recognized at finalization and billing of a project or part of a project. Expected losses are recognized by write-downs to the lower attributable values.

Receivables and other assets: Receivables are generally carried at their nominal value. Notes receivable and loans generating no or a low-interest income are discounted to their present values. Lower attributable values due to risks of collectibility and transferability are covered by appropriate valuation allowances.

Cash and cash equivalents: Cash and cash equivalents comprise other marketable securities, cash at banks and cash on hand. Securities are valued at cost. They are valued at quoted or market values if lower than cost.

Deferred tax assets: Deferred tax assets are recorded for taxable temporary differences between the valuation of assets and liabilities in the Financial Statements and the carrying amounts for tax purposes. No valuation allowances were made for deferred tax assets.

Special reserves: To the extent that recognition of special reserves on the balance sheet is required for fiscal acceptance, the amount is set in accordance with fiscal legislation. This refers primarily to transmissions of revealed inner reserves in accordance with Section 6b of the German Income Tax Act *(Einkommenssteuergesetz).*

Provisions: Provisions for pensions are based on actuarial computations made predominantly according to the projected unit credit method according to IAS 19 “Employee Benefits.” The obligation is valued on basis of “Richttafeln Heubeck 2005 G” regarding projected benefit obligations. Actuarial profits and losses are distributed over the average remaining service years if a corridor is exceeded.

Tax provisions are recognized for German trade income tax and German corporate income tax in the amount necessary to meet the expected payment obligations.

Other provisions are recorded for the expected amounts of contingent liabilities and probable losses from pending transactions. Maintenance provisions are established to cover omitted maintenance procedures as of the end of the year, and are expected to be incurred within the first three months of the following year. The amount provided is based on reasonable commercial judgment.

Provisions are established for environmental protection measures and risks if the measures are necessary to comply with legal or regulatory obligations or if conditions are likely to be imposed due to technological developments and do not result in items to be capitalized as production costs.

Provisions for required recultivation associated with the operation of landfill sites are built up in installments over the expected service lives. Since January 1, 2005, provisions for regular shutdowns within prescribed intervals of certain large-scale plants as required by technical surveillance authorities are no longer accrued. The existing provisions will be used for upcoming measures until 2008. The impact on earnings will be minor.

Provisions for long-service bonuses and pre-retirement part-time programs are calculated based on actuarial principles corresponding to the projected unit credit method of IAS 19 taking into account the rate of compensation increase and the adequate periodical interest rate. 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 discounted at an interest rate of 3.0%. Wage and salary payments due during the passive phase of agreements are accrued through installments at nominal value. 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.

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. Long-term foreign currency receivables are recorded at the rate prevailing on the acquisition date or at the lower rate on the balance sheet date. Long-term foreign currency liabilities are recorded at the rate prevailing on the acquisition date or at the higher rate on the balance sheet date. Foreign-currency receivables or liabilities that are hedged are carried at hedge rates.

Derivative financial instruments: Derivative financial instruments are treated as pending transactions and are not recorded as assets or liabilities. Underlying transactions and hedging measures are combined and valued together, when applicable. Profits from hedging transactions, which cannot be allocated to a particular underlying transaction, are recorded in income upon maturity. Unrealized losses from hedging transactions, which cannot be allocated to a particular underlying transaction, are recognized in earnings and included in provisions.

The use of derivative financial instruments to hedge against foreign currency, interest rate and price risks are described in detail in Note 23.

Use of estimates 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 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.

(2) Sales

Million €	2005	2004
Based on segment		
Chemicals	3,520.0	3,507.0
Plastics	3,992.5	3,646.2
Performance Products	3,774.6	3,570.6
Agricultural Products & Nutrition	2,603.1	2,677.1
Other	1,044.4	673.0
	14,934.6	**14,073.9**
Based on region		
Europe	11,478.8	10,938.2
Thereof Germany	4,451.2	4,192.0
North America (NAFTA)	925.6	842.7
Asia Pacific	1,727.2	1,471.6
South America, Africa, Middle East	803.0	821.4
	14,934.6	**14,073.9**

(3) Other operating income

Release of special reserves of €12.0 million mainly included the transfer of capital gains from the sale of fixed assets to additions to fixed assets in accordance with Section 6b of the German Income Tax Act.

(4) Other operating expenses

Appropriation to special reserves of €9.7 million was primarily related to the transfer of capital gains from the sale of fixed assets to additions to fixed assets in accordance with Section 6b of the German Income Tax Act.

(5) Income from operations

Interest from long-term provisions for personnel, which was previously included in functional costs, is now included in “Other financial result.” The figure for 2004 has been adjusted accordingly. This reporting change is associated with the modified valuation in accordance with IAS 19 as well as the restructuring of the financial result.

Starting in 2005, packaging and filling costs are reported as manufacturing costs rather than selling expenses. The figures for 2004 were also restated.

(6) Financial result

Million €	2005	2004
Income from participating interests and similar income	664.6	1,080.1
Thereof from affiliated companies	527.7	1,062.3
Income from profit transfer agreements	852.9	738.6
Losses from loss transfer agreements	115.7	275.7
Write-downs of, and losses from retirement of loans	134.7	278.3
Net income from financial assets	**1,267.1**	**1,264.7**
Income from other securities and financial assets	23.6	15.5
Thereof from affiliated companies	20.7	12.8
Other interest, income from sale of marketable securities and similar income	95.8	55.7
Thereof from affiliated companies	34.3	28.7
Interest and similar expenses	290.3	220.3
Thereof to affiliated companies	159.7	84.0
Interest result	**(170.9)**	**(149.1)**
Write-downs of, and losses from, retirement of loans, other financially determined assets as well as securities held as current assets	1.1	50.2
Interest expense for long-term provisions for personnel costs	172.1	185.7
Miscellaneous other financial result	(18.1)	(24.1)
Other financial result	**(191.3)**	**(260.0)**
Financial result	**904.9**	**855.6**

In order to improve transparency, the financial result was restructured in 2005. The item “Other financial result” has been introduced and the items “Write-downs of, and losses from retirement of loans” and “Write-downs of, and losses from, retirement of financial assets as well as securities held as current assets” have been included in net income from financial assets and other financial result, respectively. “Other financial result” now includes interest from long-term provisions for personnel costs, which was previously included in income from operations. The figures for 2004 have been restated accordingly.

(7) Income taxes

Million €	2005	2004
Current taxes	383.7	373.7
Deferred taxes	0.5	60.3
Income taxes	384.2	434.0
Deferred taxes on revaluations	34.0	–
Other taxes	23.2	17.8
Tax expense	**373.4**	**451.8**

Deferred taxes result from the following differences between valuations in the Financial Statements and valuations for tax purposes:

Million €	2005	2004
Fixed assets	19.2	25.0
Inventories and accounts receivable	9.6	7.7
Provisions for pensions and similar obligations	138.5	117.0
Other provisions, other	165.5	149.6
Total	**332.8**	**299.3**
Thereof short-term	38.7	45.8

Deferred taxes are calculated at a tax rate of 38%.

(8) Revaluations

In conformance with BASF Group accounting, provisions for pensions, partial retirement and anniversaries were recalculated in accordance with IAS 19 “Employee Benefits” retroactively to January 1, 2005. Pensions were previously valued in accordance with FAS 87, while provisions for partial retirement and anniversaries were calculated based on actuarial principles and discounted at an interest rate of 5.5%. This change in methodology resulted in an expense of €89.5 million. €34.0 million was treated as deferred taxes on the assets side for this purpose.

(9) Other information

Cost of materials

Million €	2005	2004
Cost of raw materials, plant supplies and purchased merchandise	8,805.2	7,944.1
Cost of purchased services	1,363.9	1,365.8
	10,169.1	**9,309.9**

Personnel costs

Million €	2005	2004
Wages and salaries	2,142.3	2,165.7
Social security contributions and expenses for pensions and assistance	605.2	558.3
Thereof for pensions	247.4	181.9
	2,747.5	**2,724.0**

Average number of employees

	2005	2004
Non-exempt employees	27,105	28,159
Exempt employees	5,449	5,447
Employees with trainee contracts	1,519	1,859
Employees with limited-term contracts	248	287
	34,321	**35,752**

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 the Board of Executive Directors and the Supervisory Board	–	–
Contingent liabilities for the benefit of the Board of Executive Directors and the Supervisory Board	–	–

The return on assets of the BASF Group – income from ordinary activities plus interest expenses as a percentage of average assets – is used as the criterion to determine the size of variable performance-related bonuses.

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 option rights 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 in 1999 through 2004, which result in personnel costs over the vesting period.

In 2005, the exercising of option rights granted under the BASF stock options program in 1999 through 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 dependents. The cash payments do 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 AG. 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 €119,000 on the basis of the proposed dividend of €2.00 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 a deputy chairman of 1.5 times this additional amount.

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 29 to 31.

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.

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 AG 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 *(Wertpapierhandelsgesetz),* 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 one 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 reported transactions are published on the Internet at **corporate.basf.com/governance_e.**

Compliance Statement

The Board of Executive Directors and the Supervisory Board of BASF AG have issued a Compliance Statement with regard to the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporations Act. The Compliance Statement is available on the Internet at **corporate.basf.com/governance_e.**

List of Shares Held

The List of Shares Held by BASF AG in accordance with Section 287 of the German Commercial Code is filed in the Commercial Register of the District Court of Ludwigshafen (Rhine) HRB 3000. The List of Shares Held can be obtained from BASF AG and is also available on the Internet at **corporate.basf.com/cg_reports.**

(10) Intangible assets

Developments in 2005 Million €	Concessions, trademarks and similar rights and values*	Goodwill	Advance Payments	Total
Acquisition costs				
Balance as of January 1, 2005	822.6	107.1	12.5	942.2
Additions	20.2	–	1.2	21.4
Disposals	204.5	–	–	204.5
Transfers	7.0	–	(7.0)	0.0
Balance as of December 31, 2005	645.3	107.1	6.7	759.1
Amortization				
Balance as of January 1, 2005	652.6	21.7	–	674.3
Additions	76.3[1]	5.6	–	81.9
Disposals	204.4	–	.	204.4
Balance as of December 31, 2005	524.5	27.3	.	551.8
Net book value as of December 31, 2005	**120.8**	**79.8**	**6.7**	**207.3**
Net book value as of December 31, 2004	170.0	85.4	12.5	267.9

* Including licenses in such rights and values
[1] Thereof impairment losses of €16.9 million

(11) Property, plant and equipment

Developments in 2005 Million €	Land, land rights and buildings*	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2005	2,472.2	9,133.4	1,194.0	197.4	12,997.0
Additions	6.4	92.5	44.5	81.3	224.7
Additions from mergers	11.1	76.6	3.7	1.0	92.4
Disposals	14.6	133.0	56.2	.	203.8
Transfers	8.0	108.8	16.7	(133.5)	0.0
Balance as of December 31, 2005	2,483.1	9,278.3	1,202.7	146.2	13,110.3
Depreciation					
Balance as of January 1, 2005	1,976.0	8,236.3	1,045.7	–	11,258.0
Additions	41.9	295.0[1]	61.1[2]	–	398.0
Additions from mergers	9.9	74.9	3.3	–	88.1
Disposals	12.6	131.7	53.8	–	198.1
Transfers	1.8	(4.0)	2.2	–	0.0
Write-ups	–	–	–	–	–
Balance as of December 31, 2005	2,017.0	8,470.5	1,058.5	–	11,546.0
Net book value as of December 31, 2005	**466.1**	**807.8**	**144.2**	**146.2**	**1,564.3**
Net book value as of December 31, 2004	496.2	897.1	148.3	197.4	1,739.0

* Including buildings on land owned by others
[1] Thereof impairment losses of €9.3 million
[2] Thereof impairment losses of €0.3 million

(12) Financial assets

Developments in 2005 Participations Million €	Shares in affiliated companies	Shares in participating interests	Total participations
Acquisition costs			
Balance as of January 1, 2005	15,813.7	904.9	16,718.6
Additions	182.6	10.1	192.7
Disposals	240.8	514.6	755.4
Transfers	10.6	(10.6)	0.0
Balance as of December 31, 2005	15,766.1	389.8	16,155.9
Depreciation			
Balance as of January 1, 2005	263.7	257.5	521.2
Additions	83.4	4.7	88.1
Disposals	100.4	208.2	308.6
Transfers	10.6	(10.6)	0.0
Balance as of December 31, 2005	257.3	43.4	300.7
Net book value as of December 31, 2005	**15,508.8**	**346.4**	**15,855.2**
Net book value as of December 31, 2004	15,550.0	647.4	16,197.4

Developments in 2005 Loans and other investments Million €	Loans to affiliated companies	Loans to participating interests	Other loans and investments	Loans and investments	Total financial assets
Acquisition costs					
Balance as of January 1, 2005	338.5	100.4	23.9	462.8	17,181.4
Additions	874.5	16.5	5.8	896.8	1,089.5
Disposals	257.4	100.4	6.8	364.6	1,120.0
Balance as of December 31, 2005	955.6	16.5	22.9	995.0	17,150.9
Depreciation					
Balance as of January 1, 2005	21.1	35.3	3.3	59.7	580.9
Additions	.	–	1.0	1.0	89.1
Disposals	2.4	35.3	0.3	38.0	346.6
Write-ups	2.5	–	0.3	2.8	2.8
Balance as of December 31, 2005	16.2	0.0	3.7	19.9	320.6
Net book value as of December 31, 2005	**939.4**	**16.5**	**19.2**	**975.1**	**16,830.3**
Net book value as of December 31, 2004	317.4	65.1	20.6	403.1	16,600.5

(13) Inventories

Million €	2005	2004
Raw materials and factory supplies	173.6	167.6
Work-in-process, finished goods and merchandise	1,025.1	1,003.4
Construction in progress	54.4	295.7
Advance payments	0.7	0.8
	1,253.8	**1,467.5**

"Work-in-process" and "Finished goods and merchandise" are combined into one item due to the production conditions in the chemical industry.

The acquisition or production costs of raw materials, work-in-process, finished goods and merchandise are mainly determined by the last-in-first-out (LIFO) method. Factory supplies are carried predominantly at average cost. For inventories valued on LIFO basis, LIFO reserves (i.e., the difference between LIFO-valuation and valuation at average cost or lower quoted or market values) are about €33 million (2004: €18 million) for raw materials and approximately €66 million (2004: €59 million) for finished goods and merchandise.

(14) Receivables and other assets

	2005		2004	
Million €		Thereof non-current		Thereof non-current
Accounts receivable, trade	1,451.0	0.1	1,399.6	0.3
Receivables from affiliated companies	4,823.5	–	2,706.6	–
Receivables from associated companies and other participating interests	50.0	–	94.5	–
Other assets	334.9	62.3	156.0	24.7
	6,659.4	**62.4**	**4,356.7**	**25.0**

The accrued items, in particular accrued interest and taxes, amounted to €7.1 million in 2005 and €1.5 million in 2004.

(15) Liquid funds

Liquid funds and marketable securities contains €3,660.0 million that was transferred to BASF Pensionstreuhand e.V. to secure the pension obligations as part of the Contractual Trust Arrangement (CTA).

(16) Prepaid expenses

Million €	2005	2004
Discounts	7.5	7.4
One-time payment wage agreement	15.8	–
Miscellaneous	20.4	16.7
	43.7	**24.1**

The discount from the issuance of the 3.50% Euro Benchmark Bond 2003/2010 and the 3.375% Euro Bond 2005/2012 is capitalized and amortized as interest expense over the term of the underlying obligations. The wage agreement reached in May 2005 included a one-time payment for the entire term of the agreement (19 months). Prepaid expenses were recognized for the portion of the payment related to 2006. Miscellaneous prepaid expenses include prepayments related to ongoing business activities.

(17) Capital and reserves

	Outstanding shares	Subscribed capital (€)	Capital reserve (€)
Outstanding shares as of December 31, 2005	515,059,000	1,318,551,040.00	2,995,973,515.93
Repurchased shares intended to be cancelled	(680,000)	(1,740,800.00)	0.00
Outstanding shares as disclosed in the financial statements	514,379,000	1,316,810,240.00	2,995,973,515.93

Of the total of 26,062,229 shares that were repurchased in 2005, 680,000 shares were not cancelled. Therefore, these shares were not capitalized, but rather the subscribed capital is shown net of these shares at December 31, 2005. A total of 26,182,229 shares were cancelled as of December 31, 2005. Thereof were included 800,000 shares that were acquired for the purpose of cancellation in 2004. The subscribed capital was reduced by the resulting attributable amount of €67,026,506.24 (26,182,229 shares). In 2005, a conditional capital increase occurred amounting to €2,096.64 (819 no-par shares) as a result of the exercise of exchange rights by former Wintershall shareholders.

	Conditional capital		Authorized capital	
Million €	**2005**	**2004**	**2005**	**2004**
As of January 1	424.0	425.3	500.0	500.0
Cancellation of previously authorized capital at the Annual Meeting on April 29,2004				(500.0)
Increase due to authorization to issue new shares against cash or contribution in kind at the Annual Meeting on April 29, 2004				500.0
Conditional capital for the BASF stock option program BOP 1999/2000, BOP 2001/2005 reduction resulting from exercise or expiration of option rights	(12.3)	(1.3)		
As of December 31	**411.7**	**424.0**	**500.0**	**500.0**

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 the strike price, as the options themselves, while the price received for options sold may not fall beneath this value.

The Board of Executive Directors is authorized to cancel repurchased shares without further shareholder approval. A sale of repurchased BASF shares requires the respective authorization through the Annual Meeting unless the shares are utilized to serve options from the BASF stock option program BOP 1999/2000 and BOP 2001/2005, or, with the authorization of the Supervisory Board, to acquire companies, parts of companies or holding in companies in return for the transfer of shares.

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. As of the balance sheet date, 680,000 shares of BASF stock were held by BASF AG. 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. A total of 26,182,229 shares were cancelled by December 31, 2005. Thereof were included 800,000 shares that were acquired in 2004.

In 2005, BASF bought back shares for a total of €1,434.7 million. €1.7 million thereof was expensed through the reduction of subscribed capital and €1,435.1 million through the reduction of retained earnings. €2.1 million thereof was related to the purchase of 800,000 shares in 2004.

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 up 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 1999/2000. An amount of less than €0.1 million is reserved to meet compensation claims of former shareholders of Wintershall. These compensation claims expired in July 2004.

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 reserves

Million €	2005
As of January 1	2,928.9
Reclassification of retained earnings corresponding to the nominal amount of shares cancelled during 2005	67.1
As of December 31	**2,996.0**

(18) Retained earnings and profit retained

Million €	2005
Other retained earnings	
As of January 1	6,032.5
Share repurchase	(1,435.1)
Transfer from net income	0.0
As of December 31	**4,597.4**
Profit retained	
Retained earnings	14.9
Net income	1,273.5
Transfer to other retained earnings	0.0
As of December 31	**1,288.4**

(19) Provisions for pensions and similar obligations

BASF AG employees are granted basic benefits by BASF Pensionskasse VVaG, a legally independent BASF pension fund that is financed from the return on its financial assets, from members' contributions and by the company. Additional company pension commitments are financed by pension provisions.

Assumptions used to determine the defined benefit obligation (weighted average)

	2005	2004
Interest rate	4.25%	5.25%
Projected increase of wages and salaries	2.50%	2.50%
Projected pension increase	1.50%	1.50%

Assumptions used to determine expenses for pension benefit (weighted average)

	2005	2004
Interest rate	5.25%	5.75%
Projected increase of wages and salaries	2.50%	2.50%
Projected pension increase	1.50%	1.50%

(20) Other provisions

	2005		2004	
Million €		Thereof current		Thereof current
Environmental protection and remediation costs	146.2	20.5	147.8	14.3
Personnel costs	1,101.6	614.3	998.6	573.0
Sales risks	81.9	81.9	100.6	100.6
Integration, shutdown and restructuring costs	145.3	141.5	267.9	263.7
Legal, damage claims, guarantees and related commitments	281.1	84.8	295.7	8.1
Maintenance and repair costs	48.5	39.0	56.3	26.1
Other	310.6	247.9	279.2	228.0
	2,115.2	**1,229.9**	**2,146.1**	**1,213.8**

(21) Liabilities

Liabilities to affiliated companies

Million €	2005	2004
Accounts payable, trade	872.9	839.4
Advances received on account of orders	2.7	40.2
Other liabilities	10,540.0	5,393.2
	11,415.6	**6,272.8**

Miscellaneous liabilities

Million €	2005	2004
Advances received on account of orders	21.5	8.0
Liabilities to companies in which participations are held	101.4	139.3
Other miscellaneous liabilities	196.9	224.0
Thereof taxes	33.0	38.9
Thereof liabilities relating to social security	47.3	47.8
	319.8	**371.3**

Maturities of liabilities

	2005		2004	
Million €	**Less than 1 year**	**More than 5 years**	Less than 1 year	More than 5 years
Bonds and other liabilities to the capital market	–	1,400.0	1,250.0	1,000.0
Accounts payable, trade	449.5	–	440.1	–
Liabilities to affiliated companies	10,935.6	480.0	5,725.1	480.0
Advances received on account of orders	21.5	–	8.0	–
Liabilities to companies in which participations are held	101.4	–	139.0	–
Other liabilities	193.6	1.0	220.0	1.5
	11,701.6	**1,881.0**	**7,782.2**	**1,481.5**

Secured liabilities

Million €	2005	2004
Other liabilities	15.5	39.9

The above liabilities are collateralized by securities. In addition, BASF AG 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.

(22) Contingent liabilities and other financial commitments

The contingent liabilities and other financial commitments listed below are stated at nominal value.

Contingent liabilities

Million €	2005	2004
Bills of exchange	5.3	5.4
Thereof to affiliated companies	0.3	0.2
Guarantees	966.4	622.8
Thereof to affiliated companies	388.1	208.7
Warranties	961.3	853.7
Thereof to affiliated companies	867.6	774.4
	1,933.0	**1,481.9**

Other financial obligations

Million €	2005	2004
	484.8	936.6
Thereof to affiliated companies	131.9	143.5

Long-term contracts for purchase commitments

BASF AG purchases raw materials globally, both on the basis of long-term contracts and in spot markets. The fixed and determinable portions of long-term purchase contracts with a remaining term of more than one year are as follows:

Million €	2005	2004
	6,346.9	5,475.4
Thereof to affiliated companies	1,753.2	1,541.7

(23) Financial instruments and derivative instruments

Derivative instruments

BASF AG is exposed to foreign currency, interest rate and price risks during the normal course of business. To provide security for those risks derivative instruments are used on a centrally determined strategy. 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 and financing. The leverage effect that can be achieved with derivatives is deliberately not used. The derivative instruments held by BASF AG are not held for the purpose of trading.

Where derivatives have a positive market value, BASF AG is exposed to credit risks in the event of non-performance of their counterparts. The credit risk is minimized by exclusively trading contracts with major creditworthy financial institutions.

To ensure efficient risk management, market risks are centralized at BASF AG, except when certain subsidiaries have been authorized to close derivative contracts under the principles mentioned above. BASF AG has developed and implemented internal guidelines based on the principles of separation of functions for completion and execution of derivative instruments.

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 secure them are monitored constantly. The same is true of the derivative instruments, which are used to replace transactions in original financial instruments. For this purpose, market quotations or computer or mathematical models are used to determine the current market values not only of the underlying transactions but also of the derivative transactions, and these are compared with each other.

Foreign exchange and interest rate risk management
Foreign currency derivatives are primarily aimed at hedging the exchange rate risk against the U.S. dollar, the British pound and the Japanese yen. Foreign exchange contracts, or combined interest/currency derivatives were concluded to hedge loans granted to Group companies.

Fair value of financial instruments

Million €	2005	2004
Forward exchange contracts	45.1	31.2
Currency options	(29.6)	76.4
Combined interest rate and currency swaps	151.8	41.2
Interest rate swaps	–	(35.0)
Commodity derivatives	(3.7)	(5.6)
	163.6	**108.2**

The fair market values correspond to the difference between the cost and resale value, which is 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. Of the total nominal value of €10.2 billion, forward exchange contracts account for €5.0 billion, currency options account for €3.9 billion and interest rate swaps/currency swaps account for €1.1 billion. The nominal values are the totals of the purchases and sales of the particular derivatives on a gross basis.

Commodity derivatives are used to hedge raw material prices, e.g., for naphtha. Provisions for probable losses from fluctuations of foreign exchange rates, interest rates or prices amounted to €46.8 million. Costs for purchase of derivatives amounting to were capitalized as miscellaneous assets (€188.3 million) or carried as liabilities under miscellaneous liabilities (€7.5 million).

(24) Services provided by the external auditor
BASF AG used the following services of Deloitte & Touche:

Million €	2005	2004
Annual audit	2.3	2.3
Audit-related services	1.8	0.5
Tax consultation services	0.2	0.1
Other services	–	0.2
	4.3	**3.1**

The annual audit concerned the audit of the BASF AG financial statements. Audit-related services concerned billed services, primarily for audits relating to documentation of the internal control systems required by the Sarbanes-Oxley Act, due diligence as well as confirmation of the conformance to certain contractual obligations.

Tax consultation services primarily concerned tax consultation services in connection with planned or existing transactions and transfer price analyses.

Ludwigshafen, February 20, 2006

The Board of Executive Directors

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)

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