BASF Aktiengesellschaft
Financial Statements 2006

BASF
The Chemical Company

Contents

The Financial Statements and Management's Analysis of BASF Aktiengesellschaft (BASF AG) for the financial year 2006 are filed with and published in the electronic Federal Gazette.

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

Organization of the BASF Group
The 14 operating divisions bear bottom-line responsibility and manage our 68 global and regional business units. Ten of the fourteen 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 incorporate the Financial Statements of BASF AG which are prepared in accordance with International Financial Reporting Standards (IFRS).

In following, we comment on the Financial Statements of BASF AG, which are based on the German Commercial Code *(Handelsgesetzbuch, HGB).*

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 and from the sale of products of other European BASF Group companies as well as 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.

Corporate Governance
The corporate governance processes within BASF apply equally to BASF AG and the BASF Group. For this reason, the information on corporate governance in BASF AG Financial Statements (pages 9 to 23) and in BASF Group Consolidated Financial Statements correspond. The section on corporate governance includes the compensation report with disclosures according to Section 289 (2) Nr. 5 HGB and Section 289 (4) HGB, which form part of the Managment's Analysis audited by the external auditor.

Million €	**2006**	2005
Sales	**15,734**	**14,935**
Gross profit on sales	**3,661**	**3,904**
Income from operations (EBIT)	**911**	**808**
Income from financial assets	1,987	1,267
Interest result	(252)	(171)
Other financial result	(392)	(191)
Financial result	**1,343**	**905**
Income before taxes*	**2,254**	**1,713**
Net income	**1,951**	**1,273**

* Income from ordinary operations

Sales

Change

	2006		2005	
	Million €	%	Million €	%
Change in volumes	**586**	4.0	(277)	(2.0)
Change in prices	**451**	3.0	734	+5.2
Currency effects	**(36)**	(0.2)	18	+0.1
Commissions, licenses, other businesses, etc.	**(202)**	(1.4)	386	+2.8
	799	**5.4**	**861**	**+6.1**

Regions

Million €	**2006**	2005
Europe	12,374	11,479
Thereof Germany	4,628	4,451
North America (NAFTA)	966	926
Asia, Pacific	1,644	1,727
South America, Africa, Middle East	750	803
	15,734	**14,935**

Income from operations
BASF AG sales in 2006 increased by 5.4% in comparison with 2005. Increased sales were posted in nearly all businesses. Higher volumes as well as increased sales prices contributed to the positive sales development.

Despite pressure on margins due to the high raw material prices, we increased income from operations (EBIT) in 2006 by €103 million to €911 million. Following losses on currency balances in 2005 of €42 million, we generated currency gains in 2006 of €78 million. Additionally, the negative impact of special charges (substantially restructuring measures) were reduced from €214 million to €100 million.

Financial result
The increase of the financial result by €438 million to €1,343 million resulted from an increase in income from financial assets of €720 million to €1,987 million. In particular, higher dividends and income transfers led to this increase.

The interest result declined from €(171) million in 2005 to €(252) million in 2006 as a result of increased expenses related to the acquisitions.

The decline in other financial result by €201 million to €(392) million was primarily the result of write-downs of loans and the provision related to the mothballing of the THF production plant in Caojing, China.

Net income
At €1,951 million, net income was €678 million higher than in 2005.

This was due to an improvement in income from operations and the financial result as well as the reduction of tax expenses.

Balance sheet structure and financial position

	2006		2005	
	Million €	%	Million €	%
Fixed assets	19,143	51.5	18,602	59.8
Current assets and other assets	18,037	48.5	12,505	40.2
Total assets	**37,180**	**100.0**	**31,107**	**100.0**
Stockholders' equity	10,197	27.4	10,199	32.8
Provisions	6,195	16.7	6,105	19.6
Liabilities and other liabilities	20,788	55.9	14,803	47.6
Total stockholders' equity and liabilities	**37,180**	**100.0**	**31,107**	**100.0**

Balance sheet structure

The balance sheet total rose by 20% in comparison with the previous year. The increase was substantially due to the acquisitions of Engelhard Corp., the conctruction chemicals business from Degussa, and Johnson Polymer.

BASF AG financed the acquisitions through the issuance of commercial paper and three new bond issues. This led to an increase in liabilities of €5,220 million. BASF AG granted a loan to BASF US Verwaltung GmbH, which largely covered the increase in current assets.

Moreover, fixed assets rose by €541 million, which was largely due to the increase in financial assets related to capital increases of subsidiaries.

Retained earnings within stockholders' equity declined by €937 million due to share buybacks. Stockholders' equity remained nearly unchanged, however, due to the increase in net income of €678 million in comparison to the previous year as well as profit carried forward of €274 million.

Financial position

In 2006, we again increased cash provided by operating activities compared to the previous year. At €2,818 million, an increase of 53% was achieved in comparison to the very high level of the previous year.

Cash used in investing and financial activities amounted to €(6,412) million in comparison to €119 million in 2005. This change was largely due to the acquisitions in 2006. Liquid funds declined by €352 million to €3,863 million. This includes €3.7 billion which were transferred into the BASF Pesnionstreuhand e.V. in 2005, which manages the assets as a managerial trustee for BASF AG and as an administrative trustee for the beneficiaries. According to the German Commercial Code (HGB) these committed funds shall continue to be shown in the balance sheet of BASF AG.

Employees

In 2006, BASF AG's personnel costs amounted to €2.77 billion (2005: €2.75 billion). The company had 33,220 employees as of December 31, 2006 (2005: 34,143).

In 2004, company management and employee representatives signed a "Stability Through Change" agreement for the Ludwigshafen production site. Under the agreement, the headcount will be 32,000 at the end of 2008.

The agreement precludes workforce reduction programs with enforced redundancies until 2010 if the target figure of 32,000 is reached on schedule. Measures to secure sites and maintain competitiveness are an on-going corporate issue, but their success is essential to securing tomorrow's jobs. The viability of the agreement will continue to be reviewed on an annual basis by company management and employee representatives.

BASF promotes employee participation in the company. In 2006, a total of 441,840 BASF shares were acquired by employees of BASF AG under the "plus" share purchase program. The employees have the chance to receive additional free shares from the company, provided they hold their shares for a longer period.

Research and development

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

In 2006, BASF employed more than 8,300 employees in research and development worldwide. In addition, we have approximately 1,400 research cooperations with universities, research institutes, startup companies and industrial partners. For instance, last year we opened the catalysis research laboratory CarLa in cooperation with the University of Heidelberg on the university's campus.

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

In 2006, BASF AG spent €817 million on research and development. This represents 5% of sales. In 2007, we intend to further invest in research and development in order to strengthen our competitive position in the long-term.

Environmental protection and occupational safety

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

The operating costs relating to environmental protection in BASF AG amounted to €347 million in 2006 (2005: €321 million). In the same period, we also invested €81 million in new and improved environmental protection plants and facilities (2005: €49 million). 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. Safety is also a prerequisite for smooth production.

At our Ludwigshafen site, we reduced the lost time accident rate by 3% compared with 2005 to 1.8 accidents per million working hours.

We have established uniform global standards for the transportation and storage of chemical products. These standards also apply to our partner companies. Our safety checks and training ensure that our partners fulfill the high demands made on them.

Principles and objectives of our financial management
Financial management in the BASF Group is largely centralized and is supported by regional competence centers. Our financing and investment policy is value-based, with risk management taking precedence over return. The risks associated with currencies, interest rate changes and creditworthiness are systematically analyzed and limited using modern processes and financial instruments.

We manage the capital structure of BASF with efficient financial planning tools while taking into account selected financial ratios.

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, evaluated and monitored centrally. The Board of Executive Directors regularly receives reports on the risk situation of the BASF Group. We continually monitor certain risk areas with the help of performance data and indicators. Reports are immediately submitted if pre-defined risk thresholds are reached. The Board of Executive Directors are informed by means of monthly reports from the Corporate Controlling unit on the current and expected development of the business as well as the risks. Strategic opportunities and risks are assessed as part of the regularly monitored product division and regional strategies and weighed up against one another. The examination of the functioning and effectiveness of our risk management system, as well as its continual development and its integration into business processes is made by the external auditors on an annual basis and by our Corporate Audit department on an interim basis. In 2006, we continued to further develop the risk management process throughout the BASF Group in accordance with internationally accepted standards, such as the Enterprise Risk Management (ERM) - Integrated Framework of the COSO (Committee of Sponsoring Organizations of the Treadway Commission). One of the focal points lay in the development of a new IT system.

Risks of future development

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

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

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

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

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 hedged using derivative instruments. Commentary on the use of derivatives is provided in Note 22 to the Financial Statements.

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

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

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

Supply risks

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

Assessment of BASF AG's overall risk situation

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

Supplementary Report

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

Outlook

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

We have based our business planning on the following assumptions:

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

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

Goals and measures:

- **Sales:** In 2007, we expect higher sales than in the previous year.
- **Earnings:** In 2007, we aim to post net income at the 2006 level.
- **Dividends and share buybacks:** We want to offer our shareholders an attractive dividend yield. We therefore aim to increase our dividend annually, matching each year at least the level of the year before. Moreover, we also intend to continue to buy back shares in the future.
- **Capital expenditures and financing:** Planned capital expenditures in 2007 amount to €350 million and will therefore likely be below the level of depreciation and amortization. We aim to finance these planned expenditures from cash provided by operating activities.

Corporate Governance Report

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

BASF accords good corporate governance great importance. We therefore support the German Corporate Governance Code, which we regard as an important tool in the capital market-driven development of corporate governance and control. We follow the recommendations of the German Governance Code in its revised version of June 2006 with few exceptions. You can find the 2006 joint Declaration of Conformity by the Board of Executive Directors and the Supervisory Board at the end of this section on page 23. In the same manner, BASF also fulfils most of the non-obligatory proposals of the German Corporate Governance Code.

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

As BASF's shares are listed on the New York Stock Exchange (NYSE), BASF is also subject to U.S. capital market legislation, including the Sarbanes-Oxley Act (SOA) of 2002, as well as the regulations of the U.S. Securities and Exchange Commission (SEC) and the NYSE.

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

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

Values and Principles of the BASF Group/ Code of Conduct

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

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

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

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

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

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

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

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

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

> The members of the Board of Executive Directors and the Supervisory Board, including their membership of the boards of other companies, are listed on pages 12 to 14. The compensation of the Board of Executive Directors and the Supervisory Board are shown in detail in the Compensation Report on pages 15 to 19.

Shareholders' rights

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

Disclosure according to Section 289 (4) of the German Commercial Code (HGB)

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

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

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

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

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

In the case of a change of control, members of the Board shall, under certain additional conditions, receive compensation whose details are listed in the compensation report on page 17. A change of control is assumed when a shareholder informs BASF of a shareholding of at least 25% or the increase of such a holding. In addition, employees of BASF Aktiengesellschaft and its Group companies who are designated as 'executives' (Obere Führungskräfte) will receive a severance payment if their contract of employment is terminated by BASF within 18 months of the change-of-control event, provided the employee has not given cause for the termination. The employee whose service contract has been terminated in such a case will receive a severance payment to the maximum of 1.5 times the annual salary (fixed component) depending on the number of months that have passed since the change-of-control event.

Directors' and Officers' liability insurance

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

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

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

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

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

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

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

Management and Supervisory Boards

Board of Executive Directors

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

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

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

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

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

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

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

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

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

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

Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensation report

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

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

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

Remuneration of Board members

The compensation of Board members is determined and reviewed every two to three years by the Nomination and Compensation Committee of the Supervisory Board (Personalausschuss) (see page 10). The last review took place on April 27, 2006. The determination of the amount and structure of the compensation depends on the company's size and its financial position as well as the performance of the Board of Executive Directors. Globally operating European-based companies serve as a reference.

The compensation of Board members is composed of

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

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

The compensation components are shown in detail below:

1. The annual fixed compensation is paid in equal monthly payments.
2. The Board member's annual variable compensation (variable bonus) is based on the return on assets (ROA). The variable bonus for the prior fiscal year is payable after the Annual Meeting.
   Board members, as other employee groups, may contribute a portion of their bonus (Gehaltsumwandlungsbeträge) up to a maximum of €30,000 annually into a deferred compensation program. Board members have taken advantage of this offering to varying degrees.
3. Board members may also participate in the stock option program (BOP) for senior executives (see table of stock options).
4. Non-monetary compensation and other additional compensation include: delegation allowances, accident insurance premiums and other similar benefits, as well as the personal use of, or benefit from, communication equipment, company cars and security measures made available by the company. The members of the Board did not receive loans or advances from the company.
5. For details on the company pension benefits, see page 17.

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

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

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

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

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

Long-term incentive components (stock options)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Beyond this, Supervisory Board members did not receive any further compensation in 2006 for services rendered personally, in particular, the rendering of advisory and agency services.
For information on the shareholdings of Board and Supervisory Board members see page 11.

Report of the Supervisory Board

Dear Shareholders,

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

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

Meetings

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

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

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

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

Corporate governance and compliance statement

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

In its meeting on December 6, 2006, the Supervisory Board approved the new joint compliance statement by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act. BASF follows the recommendations of the German Corporate Governance Code, in its version of June 12, 2006, with very few exceptions: For example, the remuneration of the Board of Executive Directors is dealt with in the Supervisory Board's Nomination and Compensation Committee rather than in a plenary session of the Supervisory Board. The individual remuneration details for the members of the Board of Executive Directors and Supervisory Board, which were not published in 2006, are published for the first time in the Financial Report 2006 in accordance with the provisions of the German Law on the Disclosure of the Compensation of Members of the Board of Management. The complete text of the compliance statement is provided on page 23 of the Financial Report and is also permanently available to shareholders on BASF's website.

The compensation report containing full details on the structure and amount of the compensation for the Board of Executive Directors and the Supervisory Board, including the pension benefits of the members of the Board are found on pages 15 to 19. The Management's Analysis 2006 contains for the first time, on pages 10 and 11 of the Corporate Governance Report, disclosures according to Section 289 (4) and Section 315 (4) of the German Commercial Code (HGB) concerning certain commercial principles and legal relationships of the company. The Supervisory Board would like to point out that neither the Board of Executive Directors nor the Supervisory Board of BASF Aktiengesellschaft are aware of any agreement on voting rights or significant agreements that exist in the event of a change of control following a takeover bid.

Committees

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

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

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

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

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

Financial Statements of the BASF Group and BASF Aktiengesellschaft

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

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

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

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

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

Composition of the Supervisory Board and Board of Executive Directors

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

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

Ludwigshafen, February 27, 2007

The Supervisory Board

Dr. Jürgen F. Strube
Chairman of the Supervisory Board

Compliance Statement 2006 in accordance with the German Corporate Governance Code

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

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

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

2. Deviations

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

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

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

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

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

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

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

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

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

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

Ludwigshafen, December 6, 2006

The Supervisory Board
of BASF Aktiengesellschaft

The Board of Executive Directors
of BASF Aktiengesellschaft

Auditor's Report

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 the BASF Aktiengesellschaft, Ludwigshafen am Rhein, for the business year from January 1, 2006 to December 31, 2006. 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 Company's management. 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 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the 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 management, 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 am Main, February 21, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wesner
Wirtschaftsprüfer

Kuhn
Wirtschaftsprüfer

Statement of Income

Million €	Explanations in Note	2006	2005
Sales	(2)	**15,733.8**	**14,934.6**
Cost of sales		12,073.3	11,030.9
Gross profit on sales		**3,660.5**	**3,903.7**
Selling expenses		1,513.4	1,484.4
General and administrative expenses		322.1	330.7
Research and development expenses		817.1	728.1
Other operating income	(3)	642.4	294.2
Other operating expenses	(4)	739.5	846.4
Income from operations		**910.8**	**808.3**
Income from financial assets		1,987.2	1,267.1
Interest result		(252.1)	(170.9)
Miscellaneous financial result		(391.9)	(191.3)
Financial result	(5)	**1,343.2**	**904.9**
Income before taxes*		**2,254.0**	**1,713.2**
Income taxes	(6)	302.7	384.2
Net income before revaluations		**1,951.3**	**1,329.0**
Revaluations	(7)	–	(55.5)
Net income		**1,951.3**	**1,273.5**

* Income from ordinary operations

Balance Sheet

ASSETS

Million €	Explanations in Note	2006	2005
Intangible assets	(9)	183.6	207.3
Property, plant and equipment	(10)	1,519.3	1,564.3
Financial assets	(11)	17,439.8	16,830.3
Fixed assets		**19,142.7**	**18,601.9**
Inventories	(12)	**1,360.4**	**1,253.8**
Accounts receivable, trade		1,540.8	1,451.0
Receivables from affiliated companies		10,457.8	4,823.5
Miscellaneous receivables and other assets		406.2	384.9
Receivables and other assets	(13)	**12,404.8**	**6,659.4**
Marketable securities		3,723.1	481.3
Cash and cash equivalents		140.3	3,733.8
Liquid funds	(14)	**3,863.4**	**4,215.1**
Current assets		**17,628.6**	**12,128.3**
Deferred taxes	(6)	**374.7**	**332.8**
Prepaid expenses	(15)	**33.5**	**43.7**
Total assets		**37,179.5**	**31,106.7**

STOCKHOLDERS' EQUITY AND LIABILITIES

Million €	Explanations in Note	2006	2005
Subscribed capital	(16)	1,279.2	1,316.8
Capital surplus	(16)	3,031.8	2,996.0
Retained earnings	(17)	3,660.8	4,597.4
Profit retained	(17)	2,225.1	1,288.4
Stockholders' equity		**10,196.9**	**10,198.6**
Special reserves	(1)	**108.3**	**111.0**
Provisions for pensions and similar obligations	(18)	3,177.7	3,103.1
Provisions for taxes		1,004.4	886.6
Other provisions	(19)	2,012.8	2,115.2
Provisions		**6,194.9**	**6,104.9**
Financial indebtedness		7,619.7	2,400.0
Accounts payable, trade		563.6	455.1
Liabilities to affiliated companies		12,070.9	11,415.6
Miscellaneous liabilities		326.6	319.8
Liabilities	(20)	**20,580.8**	**14,590.5**
Deferred income		**98.6**	**101.7**
Total stockholders' equity and liabilities		**37,179.5**	**31,106.7**

Notes to the Financial Statements

Basis of presentation
The Financial Statements of BASF AG are prepared according to the German Commercial Code *(Handelsgesetzbuch, HGB)* and the German Stock Corporation Act *(Aktiengesetz)* using the cost-of-sales method.

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 was 11 years in 2006 and 9 years in 2005 based on the following useful lives:

	2006	2005
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. If the reason for the impairment no longer exits in subsequent years, the asset is written up to an amount which may not exceed the acquisition cost.

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:

	2006	2005
Buildings and structural installations	23 years	22 years
Industrial plant and machinery	11 years	11 years
Working and office equipment and other facilities	9 years	10 years

Write-downs are made on property, plant and equipment whenever events or changes in circumstances indicate that the net book 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 book value and the discounted future cash flows. If the reason for the impairment no longer exits in subsequent years, the asset is written up to an amount which may not exceed the acquisition cost.

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 according to the principle of individual valuation.

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. If the reason for the impairment no longer exits in subsequent years, the asset is written up to an amount which may not exceed the acquisition cost.

Financial activities are shown under in income from financial assets, interest result and miscellaneous financial result in the income statement.

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, social services, voluntary social benefits and pensions 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 values for tax purposes. No valuation adjustments 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 determined using the projected unit credit method according to IAS 19 “Employee Benefits” and are based on actuarial computations. The obligation is valued using the “Richttafeln Heubeck 2005 G” as well as assumptions regarding future pay and pension increases. The discount rate used is 4.5%.

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 recognized 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.

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 3.75%. Wage and salary payments due during the passive phase of agreements are accrued through installments at nominal value.

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 22.

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 €	**2006**	2005
Based on segment		
Chemicals	4,020.3	3,520.0
Plastics	4,401.5	3,992.5
Performance Products	4,013.0	3,774.6
Agricultural Products & Nutrition	2,458.1	2,603.1
Other	840.9	1,044.4
	15,733.8	**14,934.6**
Based on region		
Europe	12,374.0	11,478.8
Thereof Germany	4,627.5	4,451.2
North America (NAFTA)	966.1	925.6
Asia, Pacific	1,643.8	1,727.2
South America, Africa, Middle East	749.9	803.0
	15,733.8	**14,934.6**

3. OTHER OPERATING INCOME

The increase in other opertating income of €348,2 million was primarily due to three factors: a positive currency result of €78 million compared to negative currency result of €42 million in 2005; the reversal of provisions for legal, damage claims, guarantees and related commitments of €153 million; and the reduction of a fine of €65 million imposed by the E.U. for anti-trust violations related to vitamins in 2001.

Release of special reserves of €6.5 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

The decline in other operating expenses may largely be explained by the omission of the negative currency result in 2005.

Appropriation to special reserves of €3.8 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. FINANCIAL RESULT

Million €	**2006**	2005
Income from participating interests and similar income	514.3	485.9
Thereof from affiliated companies	490.4	349.0
Income from profit transfer agreements	1,432.9	852.9
Income from tax allocation to affiliated companies	249.5	178.7
Losses from loss transfer agreements	119.0	115.7
Write-downs of, and losses from retirement of loans	90.5	134.7
Net income from financial assets	**1,987.2**	**1,267.1**
Income from other securities and financial assets	37.2	23.6
Thereof from affiliated companies	35.2	20.7
Other interest, income from sale of marketable securities and similar income	348.0	95.8
Thereof from affiliated companies	275.4	34.3
Interest and similar expenses	637.3	290.3
Thereof to affiliated companies	304.1	159.7
Interest result	**(252.1)**	**(170.9)**
Write-downs of, and losses from, retirement of loans, other financially determined assets as well as securities held as current assets	202.5	1.1
Interest expense for long-term provisions for personnel costs	159.4	172.1
Miscellaneous other financial result	(30.0)	(18.1)
Other financial result	**(391.9)**	**(191.3)**
Financial result	**1,343.2**	**904.9**

“Write-downs of, and losses from, retirement of loans, other financially determined assets as well as securities held as current assets“ includes for the first time losses on the disposal and valuation of assets of the Contactual Trust Arrangement (CTA). They were more than offset by income from CTA assets shown under other financial result.“ This item also includes income from hedging transactions as well as provisions for guarantees and the write down on the loan to the BASF manufacturing company in Caojing, China, in connection with the mothballing of the THF production plant.

6. INCOME TAXES

Million €	**2006**	2005
Current taxes	195.3	383.7
Deferred taxes	107.4	0.5
Income taxes	302.7	384.2
Deferred taxes on revaluations	–	34.0
Other taxes	18.7	23.2
Tax expense	**321.4**	**373.4**

The amendment to Section 37 of the German Corporate Income Tax Act (KStG) due to the SE Introductory Act (SEStEG) leads to a claim on the remaining corporate income tax credit as of December 31, 2006. The credit will be realized in ten annual installments starting in 2008. Therefore the present value of the credit is recognized as of December 31, 2006 which reduced current income taxes by €51.8 million.

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

Million €	**2006**	2005
Fixed assets	55.0	19.2
Inventories and accounts receivable	40.4	9.6
Provisions for pensions and similar obligations	88.1	138.5
Other provisions, other	191.2	165.5
Total	**374.7**	**332.8**
Thereof short-term	34.0	38.7

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

7. REVALUATIONS

There were no valuation adjustments in 2006. In 2005, in conformance with BASF Group accounting, provisions for pensions, partial retirement and anniversaries were recalculated for the first time in accordance with IAS 19 "Employee Benefits" retroactively to January 1, 2005. This change in accounting policy resulted in an expense of €89.5 million. Deferred tax assets of €34.0 million were recognized.

8. OTHER INFORMATION

Cost of materials

Million €	**2006**	2005
Cost of raw materials, plant supplies and purchased merchandise	9,770.9	8,805.2
Cost of purchased services	1,541.6	1,363.9
	11,312.5	**10,169.1**

Personnel costs

Million €	**2006**	2005
Wages and salaries	2,152.5	2,142.3
Social security contributions and expenses for pensions and assistance	617.9	605.2
Thereof for pensions	225.9	247.4
	2,770.4	**2,747.5**

Average number of employees

	2006	2005
Non-exempt employees	26,182	27,105
Exempt employees	5,565	5,449
Employees with trainee contracts	1,291	1,519
Employees with limited-term contracts	279	248
	33,317	**34,321**

Compensation for the Board of Executive Directors and Supervisory Board of BASF Aktiengesellschaft

Million €	**2006**	2005
Board of Executive Directors' compensation		
Performance-related and fixed payments	19.2	15.3
Market value of options granted in the fiscal year on date of grant	3.4	5.6
Pension benefits	4.7	3.7
Supervisory Board's compensation	4.1	3.4
Total compensation of former members of the Board of Executive Directors and their surviving dependents	6.0	5.8
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	75.1	77.7
Loans to the Board of Executive Directors and the Supervisory Board	–	–
Guarantees to members of the Board of Executive Directors and the Supervisory Board	–	–

Performance-related compensation for Board members is based on the return on assets, which corresponds to earnings before taxes plus borrowing costs as a percentage of average assets.

On January 1, 2006, the Board consisted of 9 members (2005: 8). In addition, two Board members were delegated abroad (2005: 1 member), which resulted in a noticeable increase in delegation-related expenses. On a comparable basis, cash compensation rose by 8.5% over the 2005 level.

Moreover, in 2006, the members of the Board of Executive Directors were granted 184,156 options under the BASF stock option program.

Option rights of active and former members of the Board resulted in personnel expenses of €8.4 million (2005: €6.3 million).

The individual compensation of the members of the Board of Executive Directors and the Supervisory Board are reported in the Compensation Report on pages 15 to 19 of Management's Analysis.

The members of the Board of Executive Directors and the Supervisory Board as well as their memberships on other supervisory boards are shown on pages 12 to 14.

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

9. INTANGIBLE ASSETS

Developments in 2006

Million €	Concessions, trademarks and similar rights and values*	Goodwill	Advance Payments	Total
Acquisition costs				
Balance as of January 1, 2006	645.3	107.1	6.7	759.1
Additions	25.1	–	0.7	25.8
Disposals	338.5	–	–	338.5
Transfers	0.9	–	(0.9)	0.0
Balance as of December 31, 2006	332.8	107.1	6.5	446.4
Amortization				
Balance as of January 1, 2006	524.5	27.3	–	551.8
Additions	43.9[1]	5.6	–	49.5
Disposals	338.5	–	–	338.5
Balance as of December 31, 2006	229.9	32.9	–	262.8
Net book value as of December 31, 2006	**102.9**	**74.2**	**6.5**	**183.6**
Net book value as of December 31, 2005	120.8	79.8	6.7	207.3

* Including licenses in such rights and values
[1] Thereof impairment losses of €4.8 million

10. PROPERTY, PLANT AND EQUIPMENT

Developments in 2006

Million €	Land, land rights and buildings*	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition cost					
Balance as of January 1, 2006	2,483.1	9,278.3	1,202.7	146.2	13,110.3
Additions	16.6	139.6	51.1	147.9	355.2
Disposals	4.2	48.0	40.5	11.4	104.1
Transfers	10.2	75.4	22.7	(108.3)	0.0
Balance as of December 31, 2006	2,505.7	9,445.3	1,236.0	174.4	13,361.4
Depreciation					
Balance as of January 1, 2006	2,017.0	8,470.5	1,058.5	–	11,546.0
Additions	38.7[1]	282.4[2]	64.7[3]	–	385.8
Disposals	2.9	47.2	39.6	–	89.7
Transfers	0.2	(0.6)	0.4	–	0.0
Write-ups	.	–	–	–	.
Balance as of December 31, 2006	2,053.0	8,705.1	1,084.0	–	11,842.1
Net book value as of December 31, 2006	**452.7**	**740.2**	**152.0**	**174.4**	**1,519.3**
Net book value as of December 31, 2005	466.1	807.8	144.2	146.2	1,564.3

* Including buildings on land owned by others
[1] Thereof impairment losses of €0.1 million
[2] Thereof impairment losses of €12.0 million
[3] Thereof impairment losses of €0.3 million

11. FINANCIAL ASSETS

Developments in 2006
Participations

Million €	Shares in affiliated companies	Shares in participating interests	Total participations
Acquisition costs			
Balance as of January 1, 2006	15,766.1	389.8	16,155.9
Additions	11,394.2	4.6	11,398.8
Disposals	10,027.8	21.7	10,049.5
Balance as of December 31, 2006	17,132.5	372.7	17,505.2
Depreciation			
Balance as of January 1, 2006	257.3	43.4	300.7
Additions	86.1	3.9	90.0
Disposals	5.1	18.3	23.4
Write-ups	7.5	–	7.5
Balance as of December 31, 2006	330.8	29.0	359.8
Net book value as of December 31, 2006	**16,801.7**	**343.7**	**17,145.4**
Net book value as of December 31, 2005	15,508.8	346.4	15,855.2

The relatilvely high additions and disposals relating to participations result from BASF AG‘s invovlement in the acquisitions of the Engelhard Group and the construction chemicals business of Degussa as well as from the partial relocation of Group‘s internal financial services within the BASF Group.

Developments in 2006
Loans and other investments

Million €	Loans to affiliated companies	Loans to participating interests	Other loans and investments	Loans and investments	Total financial assets
Acquisition cost					
Balance as of January 1, 2006	955.6	16.5	22.9	995.0	17,150.9
Additions	106.7	3.9	3.0	113.6	11,512.4
Disposals	779.1	1.5	7.3	787.9	10,837.4
Balance as of December 31, 2006	283.2	18.9	18.6	320.7	17,825.9
Depreciation					
Balance as of January 1, 2006	16.2	0.0	3.7	19.9	320.6
Additions	17.7	0.3	0.5	18.5	108.5
Disposals	11.5	–	0.3	11.8	35.2
Write-ups	–	–	0.3	0.3	7.8
Balance as of December 31, 2006	22.4	0.3	3.6	26.3	386.1
Net book value as of December 31, 2006	**260.8**	**18.6**	**15.0**	**294.4**	**17,439.8**
Net book value as of December 31, 2005	939.4	16.5	19.2	975.1	16,830.3

12. INVENTORIES

Million €	2006	2005
Raw materials and factory supplies	219.9	173.6
Work-in-process, finished goods and merchandise	1,105.7	1,025.1
Construction in progress	34.2	54.4
Advance payments	0.6	0.7
	1,360.4	**1,253.8**

"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 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 €35 million (2005: €33 million) for raw materials and approximately €115 million (2005: €66 million) for finished goods and merchandise.

13. RECEIVABLES AND OTHER ASSETS

	2006		2005	
Million €		**Thereof non-current**		Thereof non-current
Accounts receivable, trade	1,540.8	–	1,451.0	0.1
Receivables from affiliated companies	10,457.8	.	4,823.5	–
Receivables from associated companies and other participating interests	36.7	–	50.0	–
Other assets	369.5	172.6	334.9	62.3
	12,404.8	**172.6**	**6,659.4**	**62.4**

The accrued items, in particular accrued interest and taxes, amounted to €54.8 million in 2006 and €7.1 million in 2005. This includes interest accruals of €53.0 million for securities managed by the CTA.

14. LIQUID FUNDS

Liquid funds and marketable securities contains €3,675.6 million that was transferred to BASF Pensionstreuhand e.V. to secure the pension obligations as part of the Contractual Trust Arrangement (CTA). According to HGB, these committed funds shall continue to be shown in the balance sheet of BASF AG. The CTA was established in December 2005. As of December 31, 2005 the funds were still held as fixed-term deposits. According to plan, most of the assets were held in the form of securities in 2006.

15. PREPAID EXPENSES

Million €	**2006**	2005
Discounts	10.8	7.5
One-time payment wage agreement	–	15.8
Miscellaneous	22.7	20.4
	33.5	**43.7**

The discount from the issuance of the 3.50% Euro Bond 2003/2010, the 3.375% Euro Bond 2005/2012, the 4.00%Euro Bond 2006/2011, the 4.5% Euro Bond 2006/2016 and the 3-Month EURIBOR Bond 2006/2009 is capitalized and amortized as interest expense over the term of the underlying obligations.

Miscellaneous prepaid expenses include prepayments related to ongoing business activities.

16. CAPITAL AND RESERVES

	Outstanding shares	Subscribed capital €	Capital reserves €
Outstanding shares as of December 31, 2006	501,090,000	1,282,790,400.00	3,031,734,155.93
Repurchased shares intended to be cancelled	(1,410,000)	(3,609,600.00)	0.00
Outstanding shares as disclosed in the financial statements	499,680,000	1,279,180,800.00	3,031,734,155.93

Of the total of 14,699,000 shares that were repurchased in 2006, 1,410,000 shares were not cancelled. Therefore, these shares were not capitalized, but rather the subscribed capital is shown net of these shares at December 31, 2006. A total of 13,969,000 shares were cancelled as of December 31, 2006. Thereof were included 680,000 shares that were acquired for the purpose of cancellation in 2005. The subscribed capital of BASF AG was reduced by the resulting attributable amount of €35,760,640 (13,969,000 shares).

	Conditional capital		Authorized capital	
Million €	**2006**	2005	**2006**	2005
As of January 1	**411.7**	**424.0**	**500.0**	**500.0**
Conditional capital to ensure the exercise of options on BASF shares in the event of the issuance of stock warrants, retirement due to expiry (April 1, 2006)	(384.0)			
Conditional capital for the stock option program BOP 1999/2000, BOP 2001/2005, decrease due to expiration of option rights	(5.3)	(12.3)		
As of December 31	**22.4**	**411.7**	**500.0**	**500.0**

Share repurchase

The Board of Executive Directors received approval at the Annual Meeting on May 4, 2006, to repurchase BASF's shares to a maximum amount of 10% of subscribed capital by November 3, 2007. The shares shall be purchased on the stock exchange or through a public purchase offer addressed to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the highest market price on the buying day and may not be lower than 25% of that market price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 10% higher than the highest market price on the third trading day prior to the publishing of the public purchase offer. This authorization supersedes the validity of the prior authorization to repurchase BASF shares granted by the Annual Meeting on April 28, 2005.

In addition, the Board of Executive Directors has been authorized at the Annual Meeting on May 4, 2006 to purchase BASF 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 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 2006, BASF AG acquired a total of 14,699,000 shares, or 2.86% of the issued shares. The average purchase price was €63.84 per share. As of the balance sheet date, 1,410,000 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, 2006. A total of 13,969,000 shares were cancelled in 2006. Thereof were included 680,000 shares that were acquired in 2005.

In 2006, BASF bought back shares for a total of €938.4 million. €3.6 million thereof was expensed through the reduction of subscribed capital and €936.6 million through the reduction of other retained earnings. €1.7 million thereof was related to the purchase of 680,000 shares in 2005.

Conditional capital

Of the conditioned capital, €22.4 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. 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.

Disclosure in compliance with Section 21 (1) of the German Securities Trading Act (WpHG)

AxA Investment Managers Deutschland GmbH notified us in the name of and with the express authority of AxA S.A., 25 Avenue Matignon, 75008 Paris, France, that the voting rights of Axa. S.A. in BASF Aktiengesellschaft exceeded the threshold of 5% on January 3, 2007 and now amount to 5.17 % of the voting rights. These voting rights are to be credited to Axa S.A. pursuant to Section 22 (1) sentence 1, Nr. 6 in connection with Section 22 (1) sentence 2 of the German Securities Trading Act.

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 €	2006
As of January 1	**2,996.0**
Reclassification of retained earnings corresponding to the nominal amount of shares cancelled during 2005	35.8
As of December 31	**3,031.8**

17. RETAINED EARNINGS AND PROFIT RETAINED

Million €	2006
Other retained earnings	
As of January 1	4,597.4
Share repurchase	936.6
Transfer from net income	–
As of December 31	**3,660.8**
Profit retained	
Profit carried forward	273.8
Net income	1,951.3
Transfer to other retained earnings	–
As of December 31	**2,225.1**

18. 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.

19. OTHER PROVISIONS

	2006		2005	
Million €		**Thereof current**		Thereof current
Environmental protection and remediation costs	163.3	20.2	146.2	20.5
Personnel costs	1,191.8	628.6	1,101.6	614.3
Sales risks	132.5	109.2	81.9	81.9
Integration, shutdown and restructuring costs	40.1	38.8	145.3	141.5
Legal, damage claims, guarantees and related commitments	187.7	121.0	281.1	84.8
Maintenance and repair costs	28.1	22.8	48.5	39.0
Other	269.3	227.9	310.6	247.9
	2,012.8	**1,168.5**	**2,115.2**	**1,229.9**

In 2006, provisions in the amount of €227.5 million were reversed in income (2005: € 65.5 million).

20. LIABILITIES

Financial indebtedness

Million €	**2006**	2005
3.5% Euro Bond 2003/2010 of BASF Aktiengesellschaft	1,000.0	1,000.0
3.375% Euro Bond 2005/2012 of BASF Aktiengesellschaft	1,400.0	1,400.0
4% Euro Bond 2006/2011 of BASF Aktiengesellschaft	1,000.0	–
4.5% Euro Bond 2006/2016 of BASF Aktiengesellschaft	500.0	–
3-Month EURIBOR Bond 2006/2009 of BASF Aktiengesellschaft	500.0	–
Commercial paper	3,219.3	–
Bonds and other liabilities to the capital markets	**7,619.3**	**2,400.0**
Liabilities to credit institutions	0.4	–
	7,619.7	**2,400.0**

Liabilities to affiliated companies

Million €	**2006**	2005
Accounts payable, trade	1,130.0	872.9
Advances received on account of orders	–	2.7
Other liabilities	10,940.9	10,540.0
	12,070.9	**11,415.6**

Miscellaneous liabilities

Million €	**2006**	2005
Advances received on account of orders	7.3	21.5
Liabilities to companies in which participations are held	81.0	101.4
Other miscellaneous liabilities	238.3	196.9
Thereof taxes	56.0	33.0
Thereof liabilities relating to social security	17.5	47.3
Miscellaneous liabilities	**326.6**	**319.8**

Maturities of liabilities

	2006		2005	
Million €	**Less than 1 year**	**More than 5 years**	Less than 1 year	More than 5 years
Financial indebtedness	3,219.7	1,900.0	–	1,400.0
Accounts payable, trade	561.0	–	449.5	–
Liabilities to affiliated companies	10,460.9	–	10,935.6	480.0
Advances received on account of orders	7.3	–	21.5	–
Liabilities to companies in which participations are held	81.0	–	101.4	–
Other liabilities	218.1	18.3	193.6	1.0
	14,548.0	**1,918.3**	**11,701.6**	**1,881.0**

Secured liabilities

Million €	2006	2005
Other liabilities	37.7	15.5

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.

21. CONTIGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

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

Contigent liabilities

Million €	2006	2005
Bills of exchange	5.2	5.3
Thereof to affiliated companies	–	0.3
Guarantees	715.0	966.4
Thereof to affiliated companies	293.2	388.1
Warranties	473.2	961.3
Thereof to affiliated companies	471.7	867.6
	1,193.4	**1,933.0**

Other financial obligations

Million €	2006	2005
	366.8	**484.8**
Thereof to affiliated companies	71.1	131.9

Long-term contracts for purchase commitments
BASF AG purchases raw materials globally, both on the basis of long-term contracts and in spot markets. In this connection, concluded commodity swap contracts are netted with the respective transactions. The fixed and determinable portions of long-term purchase contracts with a remaining term of more than one year are as follows:

Million €	2006	2005
	6,241.2	**6,346.9**
Thereof to affiliated companies	1,820.3	1,753.2

22. DERIVATIVES AND OTHER FINANCIAL 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 within determined limits and with creditworthy banks and partners.

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 continually. 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 €	**2006**	2005
Forward exchange contracts	54.4	45.1
Currency options	38.1	(29.6)
Combined interest rate and currency swaps	34.6	151.8
Commodity derivatives	(8.6)	(3.7)
	118.5	**163.6**

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 €25.2 billion, forward exchange contracts account for €23.7 billion, currency options account for €1.2 billion and interest rate swaps/currency swaps account for €0.1 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 €67.2 million. Costs for purchase of derivatives amounting to were capitalized as miscellaneous assets €59.1 million or carried as liabilities under miscellaneous liabilities €6.7 million.

23. SERVICES PROVIDED BY THE EXTERNAL AUDITOR

BASF AG used the following services of KPMG (2005: Deloitte):

Million €	**2006**	2005
Annual audit	4.3	2.3
Audit-related services	0.1	1.8
Tax consultation services	–	0.2
Other services	0.8	–
Total	**5.2**	**4.3**

The annual audit involved expenses for the auditing of the financial statements of BASF Aktiengesellschaft as well as the Consolidatied Financial Statements of the BASF Group. The increase in auditing expenses in 2006 resulted from BASF AG's assumption of the expenses related to the auditing of the opening balance sheets of the newly acquired companies. Other services concerned due diligence contracts as well as confirmations of the conformance with certain legal requirements.

Ludwigshafen, February 20, 2007

The Board of Executive Directors

PUBLISHER

BASF Aktiengesellschaft
Communications BASF Group
67056 Ludwigshafen
Germany

CONTACTS

Corporate Media Relations
Michael Grabicki: Phone: +49 621 60-99938, Fax: +49 621 60-92693

Investor Relations
Magdalena Moll: Phone: +49 621 60-48230, Fax: +49 621 60-22500

General inquiries
Phone: +49 621 60-0, Fax: +49 621 60-42525

Internet
corporate.basf.com/financial-report

BASF Aktiengesellschaft, 67056 Ludwigshafen, Germany

ZOAC 0705 E