



Shaping the Future

Corporate Report 2006

 **BASF**

The Chemical Company

BASF's Segments



Chemicals

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



Plastics

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



Performance Products

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



Agricultural Products & Nutrition

Products from this segment protect crops and thus safeguard harvests. We are strengthening our competitiveness with innovative crop protection products. Our broad range of high-value products for health, nutrition and beauty makes us a preferred partner for customers in the pharmaceutical and cosmetic industries and in the areas of human and animal nutrition. Our research in plant biotechnology focuses on plants for more efficient agriculture, healthier nutrition and for use as renewable raw materials.



Oil & Gas

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

CHANGE IN SALES
BY SEGMENT
COMPARED WITH
PREVIOUS YEAR

CHEMICALS

+43%

PLASTICS

+9%

Segment key data

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

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

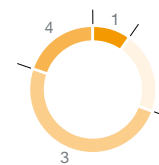
Million €	2006	2005	Change in %
Sales	10,133	8,267	22.6
Income from operations (EBIT) before special items	848	890	-4.7
Income from operations (EBIT)	669	863	-22.5

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

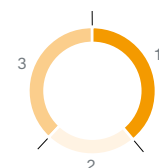
Million €	2006	2005	Change in %
Sales	10,687	7,656	39.6
Income from operations (EBIT) before special items	3,245	2,410	34.6
Income from operations (EBIT)	3,250	2,410	34.9

Sales by division

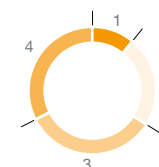
	Million €	%
1 Inorganics	1,134	9.8
2 Catalysts ¹	2,411	20.8
3 Petrochemicals	5,754	49.7
4 Intermediates	2,273	19.7
	11,572	100.0



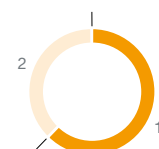
	Million €	%
1 Styrenics	4,994	39.1
2 Performance Polymers	2,932	22.9
3 Polyurethanes	4,849	38.0
	12,775	100.0



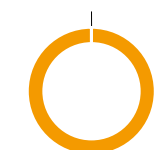
	Million €	%
1 Construction Chemicals ²	1,120	11.0
2 Coatings	2,337	23.1
3 Functional Polymers	3,387	33.4
4 Performance Chemicals	3,289	32.5
	10,133	100.0



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



	Million €	%
Oil & Gas	10,687	100.0



¹ Contains sales from the catalysts and materials services business of Engelhard Corp. acquired on June 6, 2006.

² Contains only the sales of Degussa AG's construction chemicals business acquired on July 1, 2006.

PERFORMANCE
PRODUCTS

+23 %

AGRICULTURAL
PRODUCTS
& NUTRITION

-2 %

OIL & GAS

+40 %

Key Data BASF Group

Economic data

		2006	2005	Change in %
Sales	Million €	52,610	42,745	23.1
Sales by region (location of customer)				
– Europe	Million €	29,529	23,755	24.3
Thereof Germany	Million €	11,062	8,865	24.8
– North America (NAFTA)	Million €	11,522	9,479	21.6
– Asia Pacific	Million €	8,102	6,500	24.6
– South America, Africa, Middle East	Million €	3,457	3,011	14.8
Income from operations before depreciation and amortization (EBITDA)	Million €	9,723	8,233	18.1
Income from operations (EBIT) before special items	Million €	7,257	6,138	18.2
Income from operations (EBIT)	Million €	6,750	5,830	15.8
Income before taxes and minority interests	Million €	6,527	5,926	10.1
Net income	Million €	3,215	3,007	6.9
Earnings per share	€	6.37	5.73	11.2
Dividend per share	€	3.00	2.00	50.0
Equity ratio	%	41.0	49.1	–
Return on assets	%	17.5	17.7	–
Research and development expenses	Million €	1,277	1,064	20.0

Environment, safety and product stewardship*

		2006	2005	Change in %
Operating costs for environmental protection facilities	Million €	657	623	5.5
Investments in environmental protection	Million €	116	78	48.7
Emissions of greenhouse gases (CO ₂ equivalent)**	Million metric tons/year	25	24.8	0.8
Emissions to air (air pollutants)**	Thousand metric tons/year	49.1	50.9	–3.5
Emissions to water** of: – Organic substances	Thousand metric tons/year	32.8	44.2	–25.8
– Nitrogen	Thousand metric tons/year	6	8.8	–31.8
– Heavy metals	Metric tons/year	35	45	–22.2
Transportation accidents	Per 10,000 shipments	0.45	0.47	–4.3
Number of environmental and safety audits		90	83	8.4

Social responsibility

		2006	2005	Change in %
Employees as of December 31		95,247	80,945	17.7
Trainees as of December 31		2,280	2,330	–2.1
Personnel costs	Million €	6,210	5,574	11.4
Donations and sponsoring	Million €	67.2	56.8	18.3
Annual bonus	% of Group companies	73.5	75	–
Lost time accidents*	Per million working hours	1.67	1.78	–6.2
Number of occupational medicine and health protection audits		28	31	–9.7

* Excluding companies acquired in 2006.

** Excluding emissions from oil and gas production

Cover photo: **Dr. Nataliya Poperechna**, head of the Elementary Analysis Laboratory, and **Bernd Vetter**, laboratory assistant, in the Analysis competence center in Ludwigshafen



BASF Corporate Report 2006

Who we are

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

What we achieve

Our goal is to use our products and services to successfully shape the future of our customers, business partners and employees. Through profitable growth we aim to consistently increase the value of our company.

How we shape the future

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



About this report

Our Corporate Report provides an appropriate picture of the aspects of sustainability that are important to the BASF Group. It contains information on the three dimensions of sustainable development: economy, the environment and society. We have developed key contents of this report based on our dialogue with stakeholders and in the light of internal processes.

Our reporting is based on the international G2 recommendations of the Global Reporting Initiative (GRI). We are actively involved in the discussions to develop this initiative (page 83). All data and calculations are based on international standards. The report was developed by our Corporate Communications department, our Sustainability Center and further specialist units.

The financial data and information on assets and earnings in this report are taken from the Consolidated Financial Statements of the BASF Group and the Management's Analysis published in BASF's Financial Report 2006. We follow International Financial Reporting Standards (IFRS) in our accounting and reporting.

Our environmental and safety data are based on the recommendations of the European Chemical Industry Council (CEFIC). In the area of emissions and energy, we cover approximately 98 percent of all emissions from our production sites worldwide. Emissions from joint ventures are reported according to the stake held by BASF. Data on occupational accidents are collected worldwide for both production sites and non-production sites. The number of accidents at sites operated by joint ventures are recorded and reported in full.

Further data on social responsibility, unless otherwise stated, relate to all consolidated Group companies included in the Financial Report. The data cover all BASF Group employees as of December 31, 2006.

The contents of the report have been reviewed by the responsible specialists and then approved by the Board of Executive Directors of BASF Aktiengesellschaft. All information was derived from official BASF documents or was requested from the relevant competence centers or regions. The writing of the report was managed by Communications BASF Group. As in previous years, parts of this report and our reporting processes were subject to scrutiny by an independent third party. Their local audits took place at BASF Aktiengesellschaft in Ludwigshafen, Germany; BASF Coatings in Guadalajara, Spain; São Bernardo do Campo, Brazil; and Münster, Germany; as well as at BASF's site in Guaratinguetá, Brazil. The assurance report is reproduced on page 82. If you require further information on the criteria on which this report is based, please write to corporate.messages@basf.com.

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| You can find out more about our acquisitions in 2006 on page 4 onward.

**Successful acquisitions:
Greater innovative
power puts us ahead.**



Profitable growth is BASF's key goal. To achieve this goal and successfully shape the future, we invested in attractive new businesses in 2006 and further improved our portfolio.

BASF acquired the U.S. catalyst producer Engelhard on June 6 and the Belgian biotechnology company CropDesign on June 26. The acquisitions of the construction chemicals business of Degussa and the resins producer Johnson Polymer both closed on July 1. On December 13, we acquired PEMEAS, a leading producer of components for fuel cells.

Thanks to the commitment of all our employees, the integration of the new businesses is proceeding as planned and is expected to be largely completed by mid-2007.

“BASF has expanded its team in the area of catalysis through the integration of Engelhard. We have strengthened our innovative capabilities and are able to meet our customers’ requirements even faster.”

Dr. Robert Terörde | Catalysis Research and Development, BASF, the Netherlands



MORE INNOVATION

Our innovativeness has grown as a result of our recent acquisitions – for example, through the integration of Engelhard, a pioneer in the area of exhaust catalysts. As a result, BASF has become the world’s leading supplier of catalysts, a market that is heavily driven by innovation.

1,979 patents*

* BASF acquired 1,979 patents as a result of the Engelhard acquisition.

“Commitment is the key to a strong partnership. BASF listened exactly to what we wanted and developed a solution for the floor coatings for our production lines that more than meets our high standards.”

Victor Francisco Ambrosi | Corporate Technology Manager, Environmental Engineering and Energy, FIAT, Brazil

MORE CUSTOMER FOCUS

The acquisitions sharpen our customer focus – that also applies to the acquisition of Degussa’s construction chemicals business. As world leader in this market, our construction chemicals team has outstanding applications know-how and strong customer orientation, both of which complement BASF’s competence in chemistry.

Number 1*

* Degussa’s construction chemicals business, the world leader in its market, became part of BASF in 2006.

“Exchanging ideas and information with my new colleagues is very important. It helps me to understand BASF’s corporate culture better and expand my technical knowledge. I also find out a lot about interesting development opportunities at BASF.”

Elaine Ying | Human Resources and Environment, Health & Safety, BASF, China

MORE DIVERSITY

As a result of the acquisitions, we have gained many new employees worldwide – and with them new perspectives and experience. Our new team members help us to be even more creative in solving challenges and more open in addressing the demands placed on us.

15,000 employees*

* More than 15,000 employees joined BASF in 2006 as a result of acquisitions.

“BASF’s acquisition of Johnson Polymer strengthens our cooperation. Before, we were a customer of both companies. Now we have a single contact who provides us with a complete package of tailor-made solutions.”

Kenji Nagasaki | General Manager, Toyo Ink, Japan



MORE GROWTH

Our recent acquisitions improve BASF’s global position and make us more resilient to cyclicity. An innovative and broader product range ensures optimal positioning in key markets and strengthens relations with our customers.

Sales of €4,230 million*

* Our acquisitions in 2006 contributed €4,230 million to the BASF Group’s sales.

“Our rice plants in this greenhouse are analyzed by digital imaging every week – completely automatically. This is as unique as our data management system and is of enormous benefit to BASF Plant Science.”

Aboubacri Ba | Greenhouse Technology, CropDesign, Belgium



MORE COMPETENCE

Our new employees enrich us with their knowledge. The acquisition of the biotechnology company CropDesign, for example, strengthens our position in research and development in the area of plant biotechnology.

100,000 plants*

* CropDesign studies over 100,000 plants each year to determine the effect of certain genes on plant yield.

Milestones 2006

January

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

Responsible Care Global Charter signed | BASF signs the Responsible Care Global Charter and commits itself to an active role in extending this voluntary initiative by the chemical industry.

Offer to acquire Engelhard | BASF submits an all-cash offer to acquire all shares of U.S. catalyst manufacturer Engelhard Corporation.

February

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

March

"Science Tunnel" opened | The Max Planck Society's "Science Tunnel" opens in Singapore. It is sponsored by BASF and the "Germany – Land of Ideas" initiative.

April

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

Competence center opened | In Singapore, BASF opens its first research laboratory for nanotechnology in Asia.

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

May

SAN business acquired | BASF acquires Lanxess' business with styrene-acrylonitrile (SAN) copolymers in Europe and South America, thus strengthening its position as a leading supplier of these products.

June

Acquisition of Engelhard | BASF acquires U.S. catalyst producer Engelhard Corporation and becomes the world's leading supplier of catalysts.

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

July

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

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

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

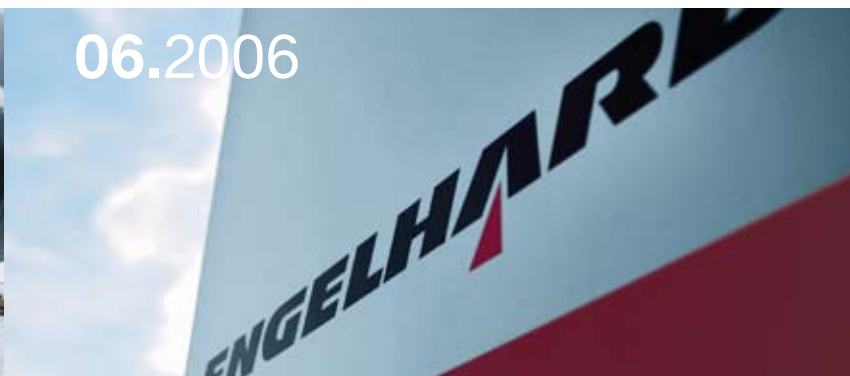
August

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

| Cooperation with Gazprom



| Acquisition of Engelhard



September

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

October

EFSA approval for Hexamoll® DINCH | The innovative specialty plasticizer Hexamoll® DINCH is approved by the European Food Safety Authority (EFSA), opening up significant growth opportunities in food packaging applications in addition to existing markets such as toys and medical devices.

November

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

December

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

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

SELECTED SUSTAINABILITY AWARDS AND RATINGS

Award for BASF's eco-efficiency analysis | In the United States, BASF wins the Sustainable Buildings Industry Council's Best Sustainable Practice Award in the Sustainable Research, Development, Construction Process and Demonstration category.

BASF included in the Global 100 list | BASF is included in the Global 100 list compiled by the New York research house Innovest. This list comprises the world's most successful companies in the areas of environmental protection, social affairs and corporate governance. The Global 100 companies are chosen from more than 1,800 global corporations.

Top marks for sustainability reporting | The U.S. Roberts Environmental Center gives BASF an A+ grade for its sustainability reporting.

BASF again included in Dow Jones Sustainability Index | In 2006, BASF shares are again included in the leading sustainability index for the sixth year in succession.

Recognition for climate protection and sustainability | BASF is again included in the prestigious Climate Leadership Index of companies that address the challenges of climate change and reducing greenhouse gases.

BASF receives #1 ranking for promoting culture | In a survey of around 300 German companies that sponsor cultural events, BASF Aktiengesellschaft takes top position in the "large corporations" category. The survey was carried out by the Federation of German Industries together with the *Handelsblatt* and *Süddeutsche Zeitung* newspapers.

BASF ranked one of the best employers in South America | BASF is one of the best employers in South America according to a multinational survey of 420,000 employees at almost 1,200 companies performed by the Great Place to Work Institute.

| Nanjing site expansion



| First HPPO plant in Antwerp, Belgium



Dear readers,

2006 was a very special year for BASF. The entire BASF team achieved a great deal – that's something we are all proud of. I would like to thank our employees worldwide for their dedication. Their hard work is the basis for our success. This report shows you how we combine economic success, environmental protection and social responsibility. By doing so day to day, we prove that we are the world's leading chemical company. You can find detailed information on our business activities and BASF's consolidated financial statements in our Financial Report, which is published simultaneously with this report.

Growing profitably

We successfully continued on our profitable growth path in 2006. We took advantage of the prevailing economic tailwind to broaden our portfolio, improve our structures, reduce costs and further strengthen our competitiveness. The results were once again outstanding: We increased sales by 23 percent to €52.6 billion, and we earned a high premium of €2.1 billion on our cost of capital.

With the three strategic acquisitions of Engelhard, Degussa's construction chemicals business and Johnson Polymer, we have set our course for the future. We are now even closer to our customers, more innovative and more resilient to economic fluctuations. The integration of these new businesses is proceeding as scheduled, and the synergies are higher than expected.

Shaping the future with chemistry

Innovations are a prerequisite for keeping ahead of the global competition and for creating value. Since 2005, we have increased our research and development spending by more than 20 percent to €1.3 billion in 2007. By 2010, we expect this investment in our future to generate annual sales of more than €4 billion, with at least 20 percent in the form of additional growth. We want to help solve the important questions of the future with our innovations. One of the most urgent questions is how to satisfy the world's growing demand for energy while effectively protecting our climate.

Our answer is to combine energy efficiency and resource conservation. BASF has developed a wide range of solutions in these areas, including technologies and products that save costs and energy through to system solutions that help our customers worldwide in achieving these goals. Our innovative insulating materials provide a good example: Our total global sales of approximately 400,000 metric tons save more than five times as much greenhouse gases as BASF's entire annual emissions. Refurbishing all the older buildings in Germany using these insulating materials and other energy-saving components would not only cut heating bills considerably, but would also save more than 80 million metric tons of CO₂. That is equivalent to half of the annual CO₂ emissions by vehicles in Germany or one-third of the savings agreed by Germany under the Kyoto Protocol.

"A business cannot be successful in the long term if it does not act responsibly toward the environment and society. That is why sustainability is an integral part of our strategy. As 'The Chemical Company,' it is especially important that we constantly extend our efforts in this area."

JÜRGEN HAMBRECHT

Economic success is the basis for a company to survive and remain innovative. At the same time, a business cannot be successful in the long term if it does not act responsibly toward the environment and society. That is why sustainability is an integral part of our strategy. As "The Chemical Company," it is especially important that we constantly extend our efforts in this area. In January 2006, for example, we were a signatory to the Responsible Care Global Charter, which aims to further improve the chemical industry's global performance in the fields of environmental protection, health protection and safety. Furthermore, BASF is in favor of a climate protection agreement that includes all countries.

Reaching ambitious goals

In 2003, we set ambitious global goals that we are actively pursuing. We earned a high premium on our cost of capital for the third year in a row even though we made major acquisitions in 2006. We also achieved significant improvements with regard to environmental protection and safety this past year. For example, we reduced emissions of greenhouse gases per metric ton of sales product by more than 12 percent compared with 2002.

We also celebrated important milestones in our social activities. Knowledge and education are crucial to the future, and in these areas especially we have established a number of projects to improve the competitiveness of the communities in which our sites are located. These projects include our global Kids' Lab, which we also presented in Hong Kong for the first time in 2006, as well as initiatives in local schools in Brazil and Africa. In Europe, and in Germany in particular, we are actively addressing the issue of demographic change and its impact with project Generations@Work.

In this report, we want to show that the future doesn't simply happen. It has to be shaped with courage and passion. BASF is taking on this challenge with full confidence and dedication.

Sincerely yours,



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



Board of Executive Directors

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



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

- Asia Pacific, since April 2006

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

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

Peter Oakley
Economist, 54
With BASF for 30 years

- Agricultural Products
- Fine Chemicals
- Specialty Chemicals Research
- BASF Plant Science

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

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

Klaus Peter Löbbe
Economist, 60
With BASF for 40 years

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



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

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

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

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

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

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

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

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

As of February 26, 2007

Strategies for Value-adding Growth

Chemistry stands for the future that we are helping to shape as the world's leading chemical company. We build on our strengths through innovations and acquisitions. In doing so, we are guided by the principles of sustainability.

Growth through acquisitions

In 2006, we proceeded on our profitable growth path with the acquisitions of Engelhard, the construction chemicals business of Degussa, Johnson Polymer, CropDesign and PEMEAS. We have clear criteria for making acquisitions: We focus on innovative business areas that grow faster than the market and that make us more resilient to cyclicity. The sales and earnings contribution of the new businesses show that we are on the right course. The synergies are higher than expected.

To further improve our market position we will persist in our efforts to optimize our portfolio and implement measures to restructure our businesses and reduce costs. Our global Verbund enables us to operate competitively in all regions.

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

Growth through innovations

We are expanding our research and development activities. In doing so, we focus on market-driven innovations, new business models and the technology areas of the future. A global network of centers of excellence and interdisciplinary cooperation open up opportunities for us and provide us with new business opportunities. We have combined the important technology-driven issues of the future in five "growth clusters":

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

> You can read more about our research activities on pages 38 and 39.

Our four strategic guidelines

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

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

The combination of these four guidelines makes us successful.

| Jürgen Hambrecht

OUR FOUR STRATEGIC GUIDELINES

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



Earn a premium on our cost of capital

We earn a premium on our cost of capital to increase the value of BASF. To achieve this goal, we have been expanding on our value-based management strategy. Earnings before interest and taxes (EBIT) after cost of capital is the key performance and management indicator for our operating divisions and business units. We measure our business decisions and our performance on the basis of how they influence earnings after cost of capital. Every employee can therefore help us to improve our cost structures, use our capital more efficiently and thus grow profitably.

> Read more on page 30.

Help our customers to be more successful

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

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

> Read more on page 35 onward.

Form the best team in industry

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

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

> Read more on page 53 onward.

Ensure sustainable development

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

> Read more on pages 35 and from page 71 onward.

| Eggert Voscherau



| Kurt Bock



Our Values

Long-term success requires strategic goals and clearly defined principles. We have therefore established a system of values that is laid down in our Values and Principles. In this system of values we commit ourselves to conducting our business in a responsible manner. Six Values describe our position and how we act. Our Principles describe each Value.

Living our Values from day to day

Our Values and Principles apply to all our employees. In order for them to be established in a binding manner for our activities in the BASF Group, it is particularly important that executives act as role models. We therefore use the target agreement process as a key management tool, and observance of our Values and Principles form part of the targets agreed with all senior executives in the BASF Group.

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

> You can find our Values and Principles on the Internet at corporate.basf.com/values.

Our Compliance Program

Our Value "Integrity" is reflected in BASF's Compliance Program. We introduced Codes of Conduct throughout the BASF Group in 2000. These take into account legislation at the national level as well as the functions and cultural environment of each Group company. Codes of Conduct now apply to almost all our employees. A few exceptions exist at joint ventures and for a transition phase at new Group companies. In 2002, BASF became one of the first German companies to appoint a Chief Compliance Officer. Together with our compliance organization, he acts as a contact for all questions related to this topic. At the same time he is responsible for managing and developing the Compliance Program Group-wide. The aim of the Compliance Program is to integrate the Codes of Conduct in the awareness and everyday activi-

ties of all employees by providing a combination of information and training. We achieve this primarily through regular, systematic training programs. As well as basic training for all employees, we also provide more detailed courses, for example in antitrust legislation for employees in purchasing, marketing and sales. We also use interactive electronic training programs. Where appropriate, the Codes of Conduct are supplemented by guidelines and other information, for example on gifts and invitations.

In the event of questions regarding the right ethical behavior, all employees can also seek advice from their managers, from the responsible unit, from the Human Resources and Legal departments, or from the compliance organization. Questions can be raised via telephone hotlines that are available year-round, 24 hours a day. Calls are treated confidentially if requested. In most countries, calls to such hotlines are handled by external law offices. Employees can raise matters that they consider to be dubious or legally questionable without suffering negative personal consequences. The reports are passed on to BASF's compliance hotline officers and then followed-up internally.

Backup communication on the subject of compliance and regular compliance audits by the Corporate Audit department provide the program with further support. In 2006, more than 120 such audits were performed throughout the BASF Group. These audits focused in particular on compliance with antitrust regulations as well as compliance with our principles for relations with business partners and representatives of government bodies.

| Martin Brudermüller (left)

OUR SIX VALUES

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



BASF is also a member of Transparency International. This nongovernmental organization has set new standards in the global fight against corruption. We also support this fight at the local level.

Our management systems for sustainability

We expect all our employees to give their personal commitment to our Values and Principles. Specialist units support the implementation of our Values. For example, our safety, health and environmental protection activities are coordinated worldwide by the Environment, Safety & Energy competence center.

> You can find out more at corporate.basf.com/rc-center.

We use specially developed management systems to encourage sustainable enterprise. In 2001, we established a Sustainability Council. The Council ensures that the entire BASF Group is aligned with the principles of sustainable development. Regional networks help us to implement our strategy worldwide.

> You can find out more about our management structures for sustainability at corporate.basf.com/sc-management_e.

We are committed to high standards

High standards are important to us both within the company and in the societal environment. We strive to contribute to the protection and wider recognition of human rights in our spheres of influence. We base our actions on:

- the basic rights set forth in the United Nations' Universal Declaration of Human Rights;
- the International Labor Organization's core labor standards;
- OECD Guidelines for Multinational Enterprises;
- and the 10 principles of the United Nations' Global Compact, of which we are a founding member.

> We document our progress in pursuing the values of the Global Compact in this report, in our contribution to the Global Compact Yearbook 2006 and on the Internet: corporate.basf.com/global_compact_e.

We are committed to the following principles:

- We ensure that our labor conditions conform to international standards.
- We provide our employees with compensation and benefits based on individual and company performance as well as on local market conditions.
- We do not tolerate discrimination based on nationality, gender, religion or other any other personal characteristics.
- BASF strives to maintain good-faith relationships with elected employee representatives. We observe internationally recognized labor standards and orient ourselves toward the customs of the respective countries.
- We condemn all kinds of child labor as well as forced labor or compulsory labor.

We also help our suppliers and business partners to follow these principles.

Corporate Governance

We regard the German Corporate Governance Code as an important tool in the development of corporate governance. We follow the recommendations of the German Corporate Governance Code with a few exceptions that are listed in the Compliance Statement by the Board of Executive Directors and the Supervisory Board.

> You can find the Compliance Statement on page 93 of our Financial Report and on the Internet at corporate.basf.com/governance_e.

We provide details on the members of the Board of Executive Directors and the Supervisory Board as well as information on their remuneration on pages 85 to 89 of our Financial Report.

| John Feldmann



| Andreas Kreimeyer



Our Goals

Earnings

Premium on cost of capital	2006 goal	Status at year-end 2006	More on
Earn an EBIT of at least 10% based on the assets of the operating divisions.	At least €3,464 million	We earned a premium of €2,126 million on our cost of capital of €3,464 million.	> page 30

Environment, Safety and Product Stewardship

The data do not include companies acquired in 2006.

Reduce emissions from chemical operations (baseline 2002)	2012 goals	Status at year-end 2006	Goal	More on
Emissions of greenhouse gases per metric ton of sales product	-10%	<div><div></div></div>	-12.4%	> page 75
Emissions of air pollutants	-40%	<div><div></div></div>	-42.6%	> page 76
Emissions to water: Organic substances	-60%	<div><div></div></div>	-64.2%	> page 76
Nitrogen	-60%	<div><div></div></div>	-73.1%	> page 76
Heavy metals	-30%	<div><div></div></div>	-42.6%	> page 76
Occupational safety (baseline 2002)	2012 goal	Status at year-end 2006	Goal	
Reduce lost time accidents per million working hours.	-80%	<div><div></div></div>	-49%	> page 58
Distribution safety (baseline 2003)	2012 goal	Status at year-end 2006	Goal	
Reduce transportation accidents.	-70%	<div><div></div></div>	-19.6%	> page 79
Health protection (baseline 2004)	2012 goal	Status at year-end 2006	Goal	
Reduce cases of occupational diseases.	-80%	<div><div></div></div>	-25%	> page 59
Product stewardship	2008 goal	Status at year-end 2006		
Complete the minimum data sets for all chemical substances handled by BASF in quantities of more than 1 metric ton per year.	> 98%	We have completed about 98% of data sets in Germany and 93% of data sets for the substances we produce worldwide.		> page 80

| Klaus Peter Löbke

“In 2003, we set ambitious global goals that we are actively pursuing.”

JÜRGEN HAMBRECHT

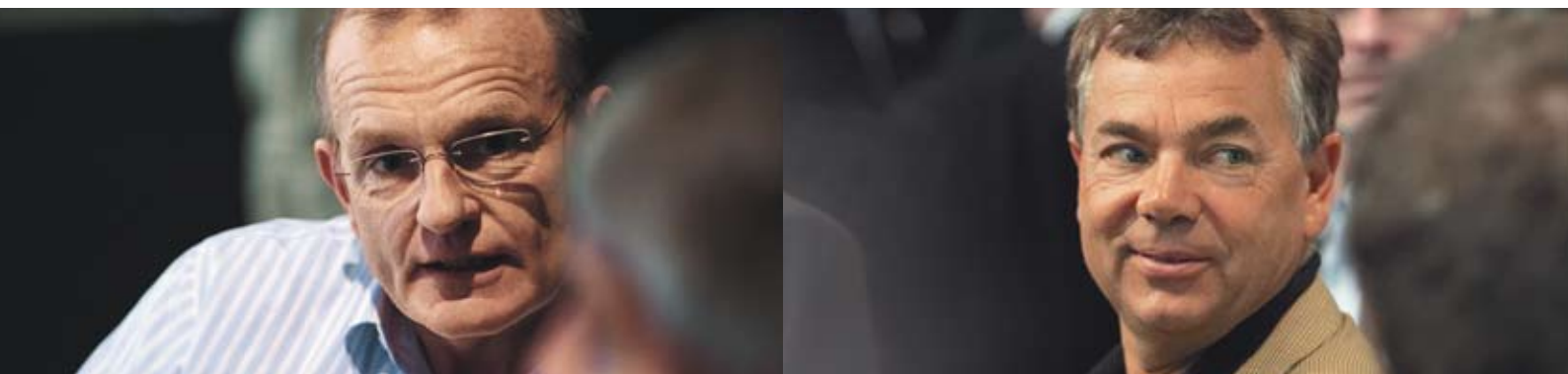


Social Responsibility

Senior executives	Long-term goals	Status at year-end 2006	More on
Increase the proportion of non-German senior executives (baseline 2003: 30%).	Increase the proportion of non-German senior executives.	30%	> page 54
Significantly increase the proportion of female senior executives (baseline 2003: 5.2%).	Significantly increase the proportion of female senior executives.	5.6%	> page 54
Increase the proportion of senior executives with international experience (baseline 2006: 71%)	Increase the proportion of senior executives with international experience	71%	> page 54
Leadership feedback	2008 goal	Status at year-end 2006	
Mandatory leadership feedback for senior executives worldwide.	80% of senior executives have taken part in the standardized leadership feedback process.	16.8%	> page 54
Personnel systems and remuneration	2006 goal	Status at year-end 2006	
Introduce a mandatory system for assessing functions for the BASF Group.	Evaluate functions, e.g., in North and South America and at the Ludwigshafen site.	A mandatory assessment system has been established in Asia Pacific, North and South America and at almost all European sites.	> page 55
Social performance assessment	2006 goal	Status at year-end 2006	
Ensure that internationally recognized labor and social standards are transparent and reviewable at all sites.	Establish an employee hotline for labor and social standards.	An annual survey of international labor and social standards and an employee hotline have been established.	> page 55
Best team	2009 goal	Status at year-end 2006	
Establish a global employee survey for the BASF Group.	Synchronize the contents and timing of regional employee surveys. Determine a KPI index for "best team" for the BASF Group.	All employee surveys contain 12 questions on the key aspects of our strategic guideline "Form the best team in industry."	> page 57

| Stefan Marcinowski

| Peter Oakley



Dialogue with Our Stakeholders

A frank and open dialogue with our many stakeholder groups contributes to our long-term success. The more we actively integrate our stakeholders in projects and partnerships in an open fashion, the greater the confidence they place in our business activities.

We want to create value for all those groups whose interests are diversely linked with those of our company: our shareholders, business partners, employees, neighbors and society. These partners place a wide range of demands on us – demands that we face up to each day.

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

Our specialist units conduct regular surveys to evaluate relations with our stakeholders. We also regularly poll our employees. > More information is available on page 57.

Long-term projects and partnerships

We strengthen relations with our stakeholders through partnerships and projects. We are active in sustainability networks worldwide and cooperate with numerous organizations and associations. In cooperation with Siemens, for example, we hosted a stakeholder dialogue on nanotechnology as part of the econsense forum in 2006. Around 100 participants from the political arena, industry, science as well as environmental and consumer associations discussed how nanotechnology should be developed. In 2006, we also organized a conference in Berlin on the importance of renewable raw materials in cooperation with the German federal environment foundation (DBU) aimed at promoting a constructive dialogue between political representatives, science and industry.

In Brazil, we work with the NGO AccountAbility and Rever Consulting as well as with other companies with the goal of integrating corporate social responsibility into the business strategies of all companies that operate in the country. In Brazil, we also run Latin America's first eco-efficiency center in collaboration with German Technical Cooperation (GTZ) and local partners – the Fundação Espaço ECO Foundation, where we offer corporations and public institutions expertise and technology in the fields of eco-efficiency, environmental education and reforestation.

We also participate in the World Bank's Climate Fund (see page 72) and are a founding member of the United Nations' Global Compact initiative, which aims to align the global economy with the principles of sustainable development. As part of the Global Compact in 2006, for example, we worked with the United Nations to train Egyptian textile manufacturers in how to use BASF's eco-efficiency analysis. As a result, we enable them to meet the demands of world markets while at the same time reducing the impact on the environment. The project received the Federation of German Industry Award for the Environment in 2006 and was nominated for the European Business Award for the Environment.

DIALOGUE WITH OUR NEIGHBORS

We have established Community Advisory Panels (CAPs) worldwide to foster regular and close dialogue with our neighbors, in particular at our production sites. There are currently 60 CAPs at BASF sites.

FURTHER INFORMATION

- Read more on the Internet at corporate.basf.com/globalization.
- Further details on the eco-efficiency analysis are available on page 35.
- More examples can be found at corporate.basf.com/sustainability_reg.

Political Dialogue

We see dialogue with politicians and society as an opportunity: We play a constructive role in shaping our environment, which is subject to rapid change. One of the tasks of the political process is to shape the basic conditions for how companies operate. Ultimately, this also determines companies' success. Our goal is to ensure that such conditions promote our competitiveness and innovativeness.

Political representatives need information from a variety of sources because of the diversity and complexity of the issues they are faced with. This is why politicians seek to enter into dialogue with scientists and experts, industry representatives, labor unions, and environmental and consumer protection organizations. BASF is also part of this dialogue and contributes to projects.

We represent our political interests in accordance with our publicly stated positions. The dialogue is objective and fact-based. Members of our Board of Executive Directors and experts from various management levels at BASF contribute to this constructive exchange of opinions. We support political dialogue at the local level through our liaison offices in Berlin and Brussels.

Climate protection and energy policy

BASF favors an energy policy that pays equal attention to competitiveness, supply security and environmental impact. Climate change calls for global solutions. A climate protection agreement for the period after 2012 should therefore include all major emitters as well as newly industrializing and developing countries, according to their means. Along the entire value chain, BASF products play a major part in saving energy and reducing emissions of greenhouse gases. > Further information is available on page 71 onward.

Chemicals policy

The reform of European chemicals legislation is important and necessary. Over the past years, we have supported the European Commission and national agencies to design regulations that are practicable for manufacturers, importers, processors and the authorities. We have also worked with the E.U. in numerous projects to ensure the efficient and economically viable introduction of REACH and are preparing to implement this new legislation.

> Further information is available on pages 80 and 81.

Nanotechnology

We are convinced that nanotechnology can help to conserve resources and strengthen our competitiveness. Together with politicians and other interest groups, we want to shape the political framework to enable nanotechnology to be developed in a sustainable fashion. We believe that companies, science and politicians have a common duty to create the right conditions for society's acceptance of nanotechnology. > Further information is available on

pages 38 and 39.

Plant biotechnology

By increasing the efficiency of crop production, plant biotechnology offers important perspectives for meeting rising demand for high-quality food for a growing world population as well as the need for renewable raw materials. In order to drive global progress in this technology, we need a comparable framework that promotes innovation. We need corresponding legislation in Europe and Germany if we are not to miss out on opportunities in this area. > Further information is available on pages 39 and 46.

OUR POLITICAL DIALOGUE FOCUSES ON

- Climate protection and energy policy
- Chemicals policy
- Nanotechnology
- Plant biotechnology

Other topics include renewable raw materials, the labor market and social policy, and corporate social responsibility. > You can find more details on all these topics at corporate.basf.com/dialogue.

“A tour of the Ludwigshafen site gives an impressive demonstration of one of BASF’s key competitive advantages: its efficient Verbund of production plants.”

Dr. Christian Schlimm | Analyst, Allianz Global Investors, Germany



Shareholders

We base our communications on transparency and openness. In order to enable investors and analysts to assess BASF’s potential appropriately, we discuss how our business is developing, as well as our goals and our long-term strategy.

“Investors aren’t just interested in financial figures. At the world’s largest single chemical complex, we explain how we conduct our business.”

Magdalena Moll | Investor Relations, BASF, Germany



BASF is the world's leading chemical company. We stand for above-average growth and sustainable value enhancement. To enable our shareholders to assess BASF realistically, we inform them extensively and promptly about all relevant strategic and operational issues.

This transparency builds trust and strengthens the BASF brand in the capital markets. Our goal is to achieve a fair value for our stock.

Dividend per share:
€3.00

Shares

The proposed dividend of €3.00 per share is 50 percent higher than in the previous year and corresponds to an attractive dividend yield of 4.1 percent. In 2006, BASF shares performed well, increasing in value by 17.5 percent.

In 2006, the Dow Jones EURO STOXX 50 Total Return and DAX 30 indices rose by 18.1 percent and 22.1 percent, respectively. Long-term investors have profited from the strong performance of BASF shares in recent years. Shareholders who invested the equivalent of €1,000 in BASF shares at the end of 1996 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of their holding to €3,291 after 10 years. This increase of 229 percent is equivalent to an average annual return of 12.7 percent and is higher than the corresponding return for the EURO STOXX 50 (10.5 percent) and DAX 30 (8.6 percent).

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

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

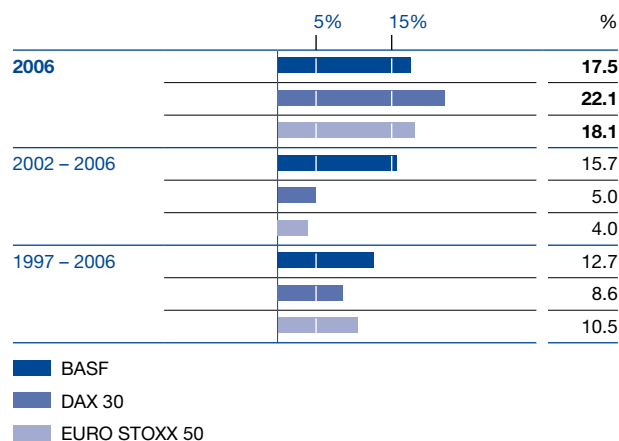
In 2006, BASF Aktiengesellschaft bought back 14.7 million shares on the stock exchange for a total of approximately €938 million and an average price of €63.84 per share.

BASF Aktiengesellschaft had approximately 501 million shares outstanding as of December 31, 2006 (including 1.4 million shares that were bought back and are ear-

marked for cancellation). Based on a year-end share price of €73.85, its market capitalization was €37 billion.

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

Investment in BASF shares average annual performance



Broad base of international shareholders

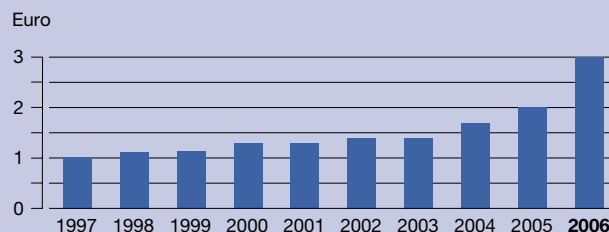
With around 460,000 shareholders, BASF is a large publicly owned company with a high free float. According to a shareholders' survey conducted in January 2006, the development of our shareholder structure reflects the increasing interest of international investors in BASF shares. As of the beginning of 2006, investors outside of Germany held 55 percent of BASF's share capital

YOU CAN REACH OUR INVESTOR RELATIONS TEAM

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

Subscribe to our newsletter at
corporate.basf.com/share/newsletter.

Per-share dividend 1997 – 2006



compared with 52 percent in 2004. British and American investors are particularly well represented, accounting for 17 percent and 14 percent of the share capital, respectively. Institutional investors – for example banks and investment companies – hold 72 percent of the share capital; 28 percent is held by private investors. This distribution has changed little in recent years.

In many countries we offer share purchase programs to encourage our employees to become BASF shareholders. > You can find more details on page 57.

Close dialogue with the capital markets

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

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

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

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

> Information on BASF shares is available on the Internet at corporate.basf.com/share.



USING OPPORTUNITIES FROM ACQUISITIONS

The acquisition of Engelhard has helped us to deepen our customer relations. One example is our cooperation with DAF Trucks, the Netherlands. In September 2006, DAF received an award for its new XF105 model, which already meets the E.U.'s Euro V emissions regulations that are scheduled to take effect in 2008. Compliance with these regulations was largely achieved thanks to a catalyst jointly developed by DAF and Engelhard. We want to be more than just a supplier in the future, too. As a partner to our customers, we help bring new solutions and technologies to market even faster.

The acquisition of Engelhard opens up new opportunities to work together says **Max Holtkamp** (right), engine plant manager, DAF Trucks, and **Peter Macnair**, account manager, BASF.

ENGELHARD

As a result of acquiring the U.S. company Engelhard Corporation, BASF has gained a powerful technology platform and is one of the world's leading suppliers in the catalysts market, which is growing at around 5 percent per year. The purchase price for the shares was approximately €3.8 billion.

DEGUSSA CONSTRUCTION CHEMICALS

BASF has become a world leader in the construction chemicals market by acquiring Degussa's construction chemicals business. With a volume of approximately €13 billion and annual growth of around 5 percent, relatively stable margins and great potential for innovation, the construction chemicals market is very attractive for BASF. The purchase price for equity was €2.2 billion.

Finance

2006 was a record year for the BASF Group. Both sales and earnings increased compared with the previous year. This was due on the one hand to the acquisitions and on the other hand to higher volumes and prices in the existing businesses.

Sales

Sales in 2006 rose by 23.1 percent compared with the previous year to €52,610 million. Higher sales volumes were achieved in almost all areas of our portfolio. In many cases, this was also associated with price increases due to higher raw material costs. In the Oil & Gas segment, sales rose as a result of higher crude oil and natural gas prices. Our acquisitions contributed €4,230 million to the significant increase in sales.

Income from operations

Compared with the previous year, we increased income from operations by 15.8 percent to €6,750 million in 2006. The earnings growth was due primarily to the Oil & Gas and Plastics segments. Earnings in the Agricultural Products & Nutrition segment, however, declined compared with 2005.

The integration of the acquired businesses is progressing according to plan. All acquired businesses contributed to income before acquisition-related special items. The synergies of approximately €290 million per year, which we intend to reach by 2010, are higher than originally expected. In addition, we have established a global program to increase efficiency with which we expect to achieve additional savings of €300 million per year by 2008.

Net income

In 2006, we achieved net income of €3,215 million in 2006. Earnings per share in 2006 increased to €6.37 compared with €5.73 in 2005.

Balance sheet structure

BASF's total assets increased by €9,621 million, primarily as a result of the acquisitions. Stockholders' equity rose by €1,055 million. The equity ratio was 41.0 percent and is thus high compared with our competitors in the industry. Net debt increased significantly as a result of financing for the acquisitions.

Statement of cash flows

At €5,940 million, cash provided by operating activities in 2006 was 13.1 percent higher than in 2005. Net capital expenditures increased by €7,708 million compared with 2005 as a result of the acquisitions.

> You can find more information in the Financial Report and on the Internet at corporate.basf.com/financial-report.

JOHNSON POLYMER

By acquiring Johnson Polymer, a world leader in the production and sale of water-based resins, we are investing in a profitable and innovative business in a market that is growing at around 5 percent per year. The purchase price was €379 million.

CROPDESIGN AND PEMEAS

The acquisition of CropDesign strengthens BASF in the area of genetic research into the use of plant properties.

Through the acquisition of PEMEAS, a leading producer of components for fuel cells, BASF is expanding its presence in the rapidly growing fuel cell market.

Value-based Management

We aim to earn a premium on cost of capital in order to further increase BASF's value. Value-based management is therefore a key element of our strategy BASF 2015. Our value-based management is a comprehensive approach that includes all functions within the company and supports and encourages all employees in acting in an entrepreneurial manner.

EBIT after cost of capital

Earnings before interest and taxes (EBIT) after cost of capital is the key performance and management indicator for our operating divisions and business units.

The BASF Group must achieve an EBIT at least as high as its cost of capital to meet the interest rates payable to providers of debt, to satisfy the returns expected by providers of equity, and to cover tax expenses.

Calculation of the cost of capital percentage

The cost of capital percentage before interest and taxes of 10 percent corresponds to a weighted average cost of capital (WACC) of approximately 6 percent after taxes.

The cost of capital percentage depends primarily on three factors: the capital structure of the BASF Group, the level of interest rates on debt and the return expected by shareholders. We calculate our cost of equity on the basis of the market value of BASF shares. The cost of capital percentage is reviewed annually in the light of current data.

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

Premium of €2,126 million on our cost of capital

EBIT after cost of capital is calculated by subtracting income taxes for oil production that are noncompensable with German taxes (€1,282 million) and the cost of capital (€3,464 million) from the BASF Group's EBIT (€6,750 million). Finally, the EBIT for activities not assigned to the segments (minus €122 million) is subtracted, since this is already provided for in the cost of capital percentage. Based on average operating assets of €34.6 billion for the segments in 2006, we achieved an EBIT after cost of capital of €2,126 million. We thus created corresponding value for our shareholders.

Value-based management throughout the company

We provide our employees worldwide with relevant information on value-based management. Our goal is to make them more aware of business contexts, thus enabling them personally to create value. To do this, we use a business simulation game specially adapted for BASF, an interactive Web-based program and a tailor-made range of seminars.

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

VALUE-BASED MANAGEMENT IN TARGET AGREEMENTS

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

PREMIUM ON OUR COST OF CAPITAL

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

Value-added Statement

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

In 2006, BASF's value added amounted to €13,488 million and increased by 12.1 percent compared with 2005. The majority of value added was distributed to our employees in the form of wages, salaries, social benefits, pensions and so on.

As a result of our strong business performance and the increase in net income in 2006, we are proposing to increase our dividend to €3.00 per share. The total amount payable to shareholders will therefore be

€1,499 million based on the number of qualifying shares on December 31, 2006.

€3,268 million was paid to the state in the form of taxes. The item "Company" refers to retained earnings.

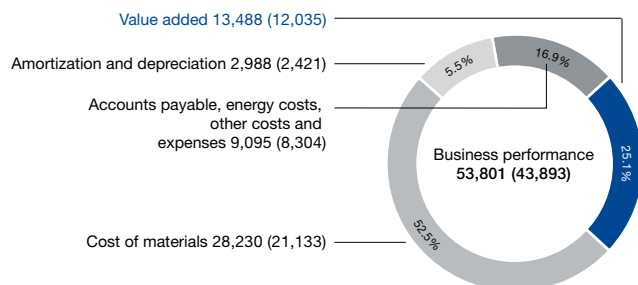
In 2006, BASF spent a total of €67.2 million on donations, sponsoring and funding for our own projects. This amount is contained in "other expenses."

> Further details on donations and sponsoring can be found on page 63.

> Further information on the taxes paid by BASF can be found at corporate.basf.com/taxes.

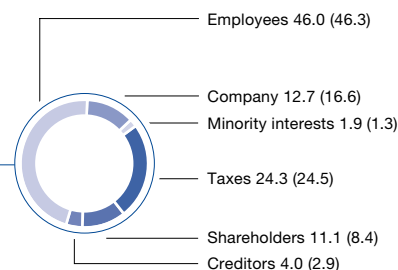
Creation of value added

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



Use of value added

(%, previous year's figures in brackets)




VALUE ADDED

- Value added increased by 12 percent to €13.5 billion

USE OF VALUE ADDED

- €6,210 million for employees
- €3,268 million for taxes
- €1,499 million for shareholders
- €67 million for donations, sponsoring and own social projects

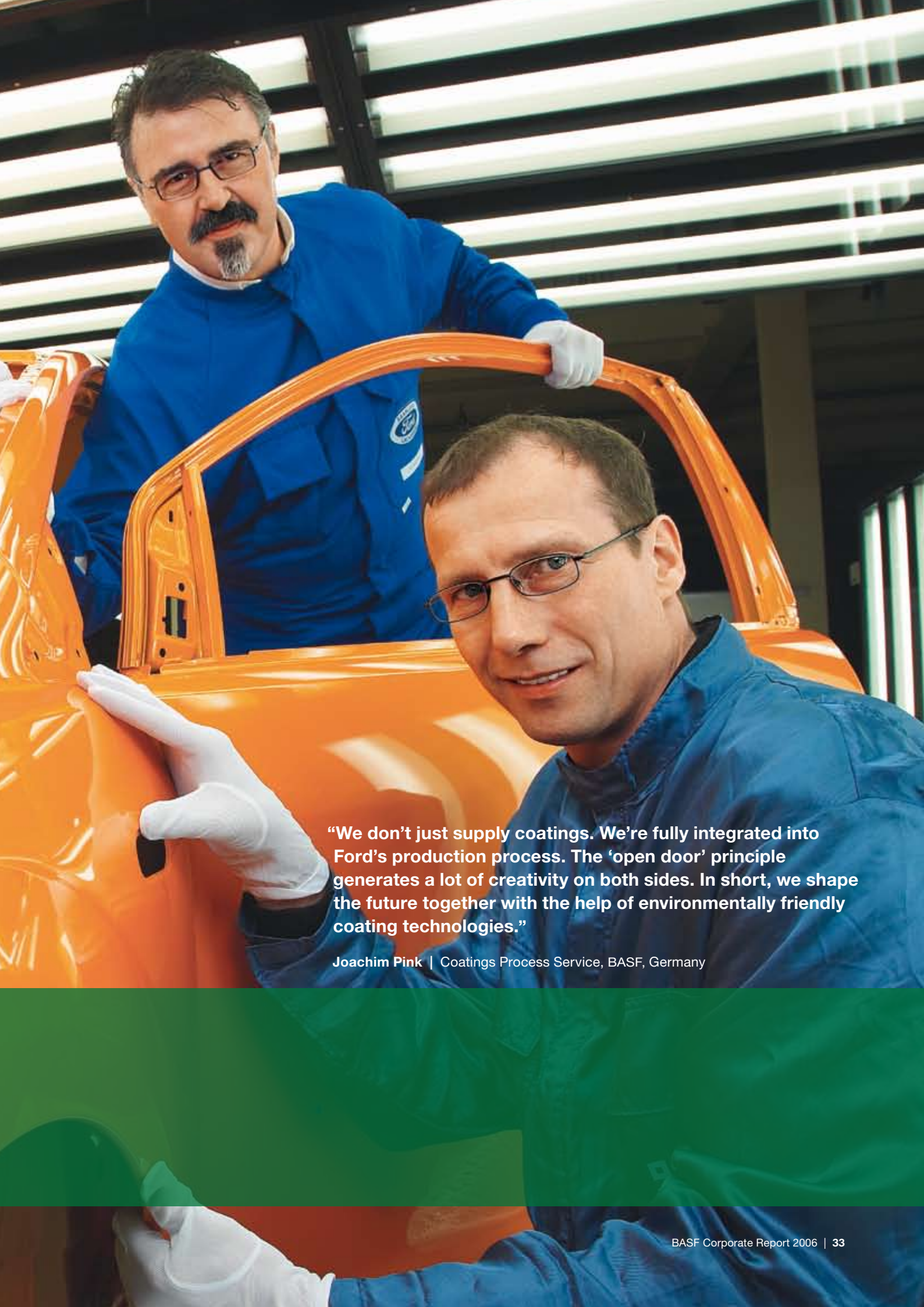


“Our partnership involves working together on a daily basis. That creates many ideas that we develop and implement jointly. A good example is Electric Orange – a color that our team brought to life.”

Roland Goepfert | Coatings Operations and Plastics Production, Ford, Germany

Business Partners

We developed Electric Orange for the Ford Focus ST in close cooperation with our customer. The partnership is beneficial for both parties: Orders for the new orange Ford Focus ST exceeded all forecasts. It was not for nothing that Ford honored BASF Coatings with three Gold World Excellence Awards in 2006.



“We don’t just supply coatings. We’re fully integrated into Ford’s production process. The ‘open door’ principle generates a lot of creativity on both sides. In short, we shape the future together with the help of environmentally friendly coating technologies.”

Joachim Pink | Coatings Process Service, BASF, Germany

We help our customers to be more successful. To do so, we need to work closely with them, and understand their needs and markets. By supplying our customers with optimum products and system solutions tailored to their needs, we help to make them more successful – and this is how we measure our own success.

We help to make our customers more competitive with innovative products, system solutions and services. We also want to make sustainability an increasingly important aspect of our customer relations and provide support with our expertise in this area. This opens up new business opportunities for both them and us.

Research & development:
€1,277 million

Business Opportunities Thanks to Sustainability

Long-term success requires sustainable development. We achieve this by deploying our comprehensive knowledge in the areas of Responsible Care® and sustainable development to make us and our customers more successful. We support our customers' efforts to differentiate themselves using sustainability.

Our sustainability tools

We aim to use our expertise in the areas of environment, safety and health more intensively to enhance our customers' success. True to this goal, we are expanding our sustainability services for our customers. Under the name "SuccESS," we actively incorporate our sustainability expertise into our customer relations and market it on a systematic basis. In the future, we plan to offer our customers services in the areas of safety, environment and strategy as a package solution along with our products. This will extend to aspects such as transportation and product safety, consulting on wastewater and REACH, and our eco-efficiency analysis. Customers will be able to create service packages tailored to their specific requirements. This strategic approach will allow us to offer sustainability as a unique value proposition, hence contributing to BASF's commercial success.

> For more information on "SuccESS," go to corporate.basf.com/success_e.

Eco-efficiency analysis

Our eco-efficiency analysis is an important tool in assessing sustainability. We have already assessed major products using the eco-efficiency analysis in more than 90 percent of our product lines. This tool also helps customers to decide which products and processes are the most suitable for their purposes, both in commercial and environmental terms. To date, we have performed more than 300 eco-efficiency analyses.

As an example, Norwegian fish farmers use our web-based Eco-efficiency Manager program to ensure the optimal composition of their fish feed mixture. Beverages manufacturer Gerolsteiner also benefited from this tool by using the eco-efficiency analysis to improve its packaging system for mineral water.

Socio-eco-efficiency analysis

We have now refined our eco-efficiency analysis to include social criteria. The refined system makes it possible to evaluate the social impact of products and manufacturing processes as well as the environmental impact and the cost factors. The result is SEEbalance®, a socio-eco-efficiency analysis. It incorporates criteria of social relevance such as numbers of employees and trainees, occupational diseases, work-related accidents, spending on research and development, and payments for wages and salaries.

The integrated analysis using SEEbalance makes it possible to include a wide range of criteria in a clear and balanced manner. This tool can be used to establish sustainable alternatives to products and processes, and it can play an important role in making decision processes more efficient.

> You can find out more about BASF's eco-efficiency analysis and SEEbalance at corporate.basf.com/eco-efficiency.

| New generation: A connector made from Ultradur High Speed

PLASTIC WITH ECO-EFFICIENCY SEAL

Ultradur® High Speed is an engineering plastic from BASF with an eco-efficiency seal. Products made from Ultradur High Speed are significantly more cost effective and environmentally friendly than products made from standard plastics. Our customer Molex Automotive Europa uses it for the housings of electrical connectors that are employed in vehicle control units and relay boxes.



Helping Our Customers to be More Successful

We supply our customers with products, system solutions and services that enhance their competitiveness. In this way, we create value and help customers to be more successful. We recognize that our customers' success is a prerequisite for our own.

Creating value for customers

We consistently focus on the specific needs of our customers and markets. As a result, BASF is an efficient and reliable supplier of standard products, an innovative and trustworthy partner in developing products and processes, or is fully integrated into production as part of our customers' value chain. Constant dialogue with our partners is the key to effective cooperation. In our "perspectives" forum, our employees discuss new business opportunities and models with colleagues and customers with the goal of creating more value for both BASF and its customers.

We work together with our customers to develop solutions that create value for both partners. With Opel, for example, we worked on the development of a bumper component made from our plastic Ultramid® for the new Corsa, which is designed to help reduce injuries to pedestrians involved in road traffic accidents. The development process involved the use of our new simulation technology for crash tests, which was integrated seamlessly into Opel's development process. To help make our customer Ford even more successful in the Indian market, BASF took part in a market study in 2006. One of the objectives was to determine the importance of paintwork in shaping car purchasing decisions. In Brazil, we established a customer counseling program for our Suviniil® paint brand. As well as targeting our customers, the program also addresses the needs of their customers – the end consumers, for instance by offering workshops covering everything to do with paint.

Providing rapid and efficient service

We operate a transparent delivery chain to ensure punctual deliveries. We use the electronic marketplaces WorldAccount and Elemica to provide customers with relevant and up-to-date information and to ensure an efficient transaction process. As a result, our products can be ordered worldwide quickly and efficiently, 24 hours a day. In 2006, we thus generated sales of more than €13 billion via e-business last year. We exceeded our 2006 target and increased e-commerce sales to significantly more than 30 percent of total BASF Group sales (excluding the Oil & Gas segment).

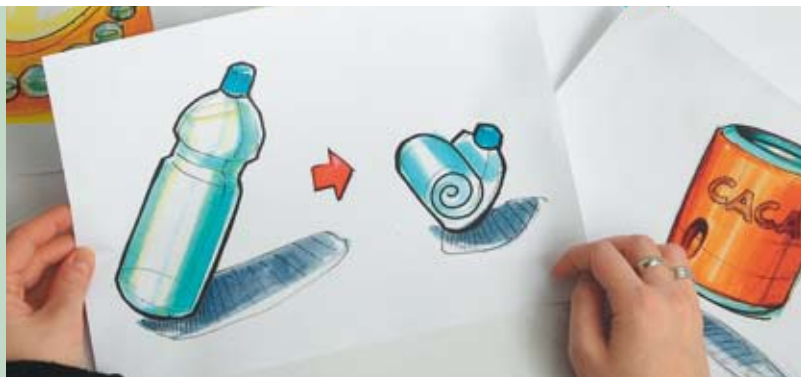
Customers appreciate our commitment

Our customers' satisfaction is shown by numerous awards. As an example, our customer BIC in Brazil conferred the accolade of best plastics supplier on BASF for the third time. Also for the third time, General Motors voted BASF supplier of the year in Mexico and Argentina for its services as a car coatings supplier. Ford paid BASF the tribute of no fewer than three Gold World Excellence Awards in 2006 and placed us on their list of preferred suppliers.

New ideas for the packaging industry: Young people's expectations for the future broaden our perspectives – and those of our customers. The approximately 50 young guest at our Industry Network Packaging's event "pack. it.2006" injected bright new ideas as they joined BASF experts and decision-makers from the packaging industry in designing exciting new packaging concepts.

> Further information at www.packaging.basf.com

| Packaging has a diverse future.



Working closely with customers

Many of our products and technologies are for the automotive industry – coatings, plastics and additives are just a few examples. The Engelhard acquisition now also makes BASF a world leader in the catalyst market.

We practice system partnerships with a number of customers such as Renault, Nissan, DaimlerChrysler, Volkswagen, BMW and Magna Steyr. This form of close cooperation in areas such as material ordering, warehousing and lab work for coatings analysis promotes innovative and efficient solutions for both partners.

Together with the BMW Group, we designed a unique coating technology and a new coating process. In 2006, BMW fully introduced the new coating process for the production of MINI cars in Oxford, United Kingdom. The result: Emissions and energy consumption per unit have been cut by 10 percent.

Supporting innovative concepts

High energy prices call for new approaches to construction and refurbishment. In response, we support low energy construction worldwide, for example in Korea, the United States, France and Germany. Together with partners we developed a new low-energy housing concept for the Polish market in 2006 that combines energy efficiency, design and an attractive financing model.

Energy-efficient construction uses many of our innovative products: The phase change material Micronal® PCM, the pigment Lumogen® Black, and our thermal insulation material Neopor® are just a few examples. In cooperation with Italian partners, we launched a quality seal for Neopor in 2006. The independent Thermal Insulation Research Institute inspects production facilities on a regular basis, thereby ensuring a consistently high quality of products manufactured from Neopor.

Our acquisition of Degussa's construction chemicals business in 2006 further enhanced our expertise in the area of construction and housing.

Offering integrated solutions

Agriculture is another area where we offer our customers more than products. Here, too, we provide integrated solutions that create added value. One example is our "Vigento Toscana" project. Together with Tuscany's regional advice service, we developed a computer-assisted forecasting system that also provides information on the use of agricultural products. Winemakers generate data on the condition of their vines and transfer the information online. The system uses the data to draw up a customized profile of the vineyards and gives winemakers early warning of unfavorable weather conditions and the threat of infestation by pests or fungi. If appropriate, winemakers are sent a recommendation on the use of a crop protection product by e-mail or text message, thus enabling them to mount a rapid and effective response. In this way, we contribute to sustainable agricultural production and help our customers to be more successful.

Diverse activities

As one of the world's leading vitamin suppliers, we launched a novel vitamin A formulation last year. This formulation is special because it is a very easy-to-handle powder.

We support the efforts of the United Nations and the Global Alliance for Improved Nutrition (GAIN) in the fight against malnutrition. Our researchers developed a "Field Test Set" in 2006 – a quick, on-the-spot test to determine the vitamin content of flour fortified with vitamin A.

| Dr. Christian Bonten (left) advises Wolfgang Nestlen.



A million color impressions: At BASF's Design Factory, we help designers to find the right plastic for their new products – starting in the initial conception phase. They can draw their inspiration from 20,000 color samples and 50 different surfaces, which can create up to one million different color impressions. Wolfgang Nestlen from C. Josef Lamy GmbH also knows what nuances can exist between different materials and colors. Customers like him therefore value the service provided by Dr. Christian Bonten, head of BASF's Design Factory.

Growth through Innovation

Innovations are prerequisites for BASF's profitable growth. In recognition of this fact, we are strengthening our Know-how and Research Verbund. We did so last year by means of acquisitions and by building up additional research capacities in our four technology platforms. We increased our total research and development spending to €1,277 million in 2006.

We strengthen our Research Verbund

We expanded our global research activities in 2006, in particular through our acquisition of Engelhard and Degussa's construction chemicals business, but also through the acquisition of Johnson Polymer, CropDesign and PEMEAS. In parallel with the acquisitions, we are strengthening our technology platforms by expanding them in key regions.

More than 8,300 employees worldwide perform research for BASF on innovative products, processes and solutions. In addition, we have some 1,400 alliances with universities, research institutes, startups and industry partners. One example is a catalysis research lab established together with the University of Heidelberg on the university's campus in 2006.

From 2010 onward, we expect to generate annual sales of over €4 billion from product innovations alone. In other words, from new or improved products that have been on the market for a maximum of five years; at least 20 percent of this amount will be additional growth.

Researching the technologies of the future

We combine key technology-driven issues of particular relevance to the future in five growth clusters: energy management, raw material change, nanotechnology, plant biotechnology and white (industrial) biotechnology. These cross-sectional technologies enable our customers – and us – to achieve profitable growth. We have earmarked €850 million for research in these clusters for 2006 through 2008.

Energy management

Innovations from the chemical industry are the key to greater energy efficiency in other sectors. Our products and technologies enable significant energy savings in these areas. We therefore promote the development of new technologies and materials for the use of alternative energy sources, energy storage and conversion. Topics under investigation by our researchers include new materials for organic solar cells, organic light-emitting diodes and innovative hydrogen storage materials. To strengthen this cluster, we acquired PEMEAS – a technology company for fuel cell components based in Frankfurt/Main, Germany – in 2006.

Raw material change

Our goal is to develop process innovations that will add alternative raw materials to our value chains. To achieve this aim, we need to develop processes and catalysts. Renewable raw materials are another area of interest. Glycerol, for instance, is of economic interest to us – this substance is a by-product of biodiesel manufacture, for example, that we aim to use as a raw material.

Nanotechnology

We are a world leader in nanotechnology. We use this technology wherever it is of benefit to us and our customers. We have combined our research and development activities in three areas: nanoparticles, nanostructured surfaces and nanostructured materials. In 2006, we inaugurated our competence center for nanotechnology in Singapore, thereby strengthening our research network in Asia.

INVESTMENTS IN THE GROWTH CLUSTER WHITE BIOTECHNOLOGY

Lactic acid bacteria can be used to provide defense against harmful pathogens. We are making use of this knowledge. With our Berlin-based research partner OrganoBalance, we identify useful bacterial strains suitable for use in personal care or oral hygiene. BASF Future Business is responsible for fermenting the strains and for processing and marketing them. The first oral hygiene products, e.g., mouthwash and toothpaste, are scheduled to be launched in the near future.

ORGANIC LIGHT EMITTING DIODES

Flashlights in credit card format, windows that light up at night – the technology of the future beckons thanks to organic light-emitting diodes (OLEDs). OLEDs are slender, luminescent components composed of organic semiconductor materials. As lighting panels, they offer new options in lighting technology. And they have other advantages too. They will require considerably less electricity than conventional energy-saving bulbs and they should also have a longer lifetime.

In a project funded by the German Ministry of Education and Research, we are developing OLED light tiles together with universities and our industry partners Philips, Osram, Aixtron and Applied Materials. Part of the research is being carried out in our Joint Innovation Lab – Organics Electronics in Ludwigshafen, which was inaugurated in 2006.

Development manager **Dr. Dietrich Bertram**, Philips (left), and **Dr. Patrick Amrhein**, BASF Future Business, are convinced that OLED light tiles will revolutionize the lighting market.



Plant biotechnology

Our acquisition of CropDesign in 2006 boosts our leading position in research and development in this area. We use plant biotechnology to develop products with clear benefits for consumers and the environment. Our research work focuses on plants for more efficient agriculture, healthier nutrition and for use as renewable raw materials.

White (industrial) biotechnology

In expanding the use of white biotechnology, we use our expertise in enzyme catalysis and fermentative production processes to develop new products and processes. BASF is involved in more than 50 research alliances. Since 2006, we are working jointly with the U.S. company Diversa Corporation to identify and find applications for new high-performance enzymes. We are also developing probiotic bacteria for the cosmetics industry.

| Probiotic lactobacilli



| BASF is developing innovative products for oral hygiene.



Chemicals

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

2006 business review

In 2006, we increased sales to third parties by €3,469 million to €11,572 million compared with the previous year. The new Catalysts division, formed after the acquisition of Engelhard Corporation, significantly contributed to this positive sales development. Sales in the other three divisions grew because of higher sales volumes and sales prices. Income from operations increased by 4 percent compared with the previous year to €1,380 million. Special charges resulted from the acquisitions and the mothballing of the THF plant in Caojing, China.

Inorganics

We increased sales by €189 million in 2006 to €1,134 million. High demand in all business units of the division contributed to this increase. Moreover, the sales growth resulted from the acquisition of the electronic chemicals business of Merck KGaA, Darmstadt, Germany, in April 2005. Income from operations was lower than in 2005 because significantly higher natural gas prices reduced margins, particularly for methane-based products. This could not be offset by the earnings from inorganic specialties and basic chemicals. The former catalysts business of the Inorganics division was assigned to the new Catalysts division retroactive to January 1, 2006.

Catalysts

The new Catalysts division consists of the catalysts and materials services business of Engelhard Corporation, acquired in June 2006, and BASF's existing catalyst business. We develop and produce emission-control

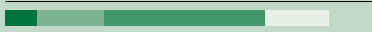


and process catalysts, and market them worldwide. The Materials Services unit supplies precious metals and renders services to our catalyst business and to customers of BASF.

We achieved sales of €2,411 million in 2006. The strong demand for catalysts in the emerging markets primarily contributed to this positive business trend. In addition, the global business for diesel catalysts for use in heavy duty vehicles also developed well. New government directives on emissions have also supported our business. Sales of emission-control catalysts for internal combustion engines North America (NAFTA) declined. The global demand for chemical catalysts and catalysts for oil refining developed well. In the Materials Services business, sales increased due to larger trade volumes and higher precious metals prices. The earnings trend exceeded our expectations before the acquisition of Engelhard.

Petrochemicals


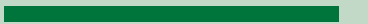
We significantly improved sales by €670 million in 2006 to a total of €5,754 million. Higher volume demand enabled us to increase prices for our cracker products as well as alkylene oxides/glycols, plasticizers and solvents. Earnings exceeded the previous year's very strong level. In addition to plant turnarounds, power outages and flooding caused unplanned shutdowns in Antwerp, Belgium; Port Arthur, Texas; and Tarragona, Spain. Overall, however, our production facilities continued to operate at high capacity utilization rates.

Sales by division

		Million €
2006		11,572
2005		8,103
		

+ 43%

Income from operations

		Million €
2006		1,380
2005		1,326

+ 4%

INNOVATIVE TECHNOLOGIES FOR THE AUTOMOTIVE INDUSTRY

Over the next several years, more stringent standards will go into effect globally to reduce automobile emissions. In cooperation with our customers, we develop sustainable technologies to meet these requirements. As a leading supplier to the automotive industry, we have extended our portfolio to include exhaust catalysts as a result of the integration of Engelhard.

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

Pioneering spirit: **Alfred Punke**, BASF, was part of the team of catalysis specialists that developed the CSF.



Intermediates

We increased sales by €271 million in 2006 to a total of €2,273 million. Business was characterized by high demand in all product lines and regions. We were largely able to offset significantly increased prices of important raw materials by increasing our sales prices. The restructuring introduced in 2005 led to lower fixed costs and higher capacity utilization. Income from operations was negatively impacted by the special charge relating to the mothballing of the THF plant in Caojing, China. As a result, income from operations did not reach the level of the previous year.

Outlook

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

> You can find further information and data on pages 35 to 38 of our Financial Report and on the Internet at corporate.basf.com/chemicals.

Additions to tangible assets

	Million €
2006	639
2005	378

+ 69%

Research and development

	Million €
2006	178
2005	114

+ 56%

Plastics

This segment consists of the three operating divisions Styrenics, Performance Polymers and Polyurethanes. Our plastics are used in a variety of applications, for example in the automotive and electronic industries and in the fields of construction, textiles and packaging.

2006 business review

In 2006, sales increased by €1,057 million compared with 2005 to €12,775 million. Compared with the previous year's strong earnings, we increased income from operations by €177 million to €1,192 million. Overall, we increased both sales volumes and sales prices and were thus able to compensate somewhat for further rises in raw material costs. Despite higher volumes and improved prices, the earnings situation for styrenics continues to be unsatisfactory. We have therefore strengthened our measures to increase efficiency and improve earnings in this division in particular.

Styrenics

In the Styrenics division, we achieved sales of €4,994 million in 2006. Sales were therefore significantly higher than in 2005. The largest increases were reported in Europe; business also grew in Asia. In North America (NAFTA), increased imports from Asia led to persistent price pressure. Thanks to higher prices and volumes and reduced costs, earnings were significantly higher than in 2005.

The styrene copolymers businesses that we acquired from Lanxess AG and Repsol S.A. in 2006 have been successfully integrated. Furthermore, we have expanded our styrene specialties product portfolio in line with market demands. The polystyrene plant in Tarragona, Spain, was closed at the end of the year. This step was necessary due to falling demand for polystyrene and the resulting excess capacity in Western Europe.

Performance Polymers

At €2,932 million, sales in 2006 were slightly higher than in the previous year. We increased sales prices and successfully integrated Leuna-Miramid GmbH and the engineering plastics business of LATI USA, Inc. in North America, both of which were acquired in 2005.

We succeeded in increasing earnings despite a further rise in raw material prices. Price increases as well as worldwide growth in the volume of engineering plastics, contributed significantly to this result. At the BASF Verbund site in Kuantan, Malaysia, we jointly started operations at a PBT plant together with our partner, Toray Industries Inc., Japan. A compounding plant to support our engineering plastics business in North America (NAFTA) started operations in Altamira, Mexico. We have expanded our position in engineering plastics by integrating the businesses we acquired in 2005.

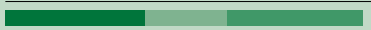

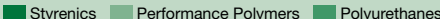
In the polyamides and intermediates business unit, we have further developed our globally managed commodity business model to capitalize profitably on regional market advantages.

We will expand our cooperation with our customers in the areas of development and innovation.

Polyurethanes


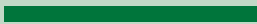
Due to strong demand, we increased sales by €558 million in 2006 to €4,849 million. All of the regions contributed to this growth. In particular, we are exploiting the strong market growth in Asia and started operations at world-scale plants for MDI and TDI in Caojing, China, together with our partners in 2006.

Sales by division

		Million €
2006		12,775
2005		11,718
		

+ 9%

Income from operations

		Million €
2006		1,192
2005		1,015

+ 17%

SAVING ENERGY AND COSTS

Many older buildings have heating requirements of more than 20 liters of heating oil per square meter of living space per year. Products and systems from BASF can be used cost effectively to modernize such buildings into low-energy homes. Our innovative insulating material Neopor® is particularly suitable for retrofitting older buildings with thermal insulation. Combined with other measures, Neopor can reduce heating requirements in older buildings to less than 7 liters of heating oil per square meter and year – the standard for new buildings constructed in accordance with the German Energy Savings Ordinance (EnEV). This conserves resources, reduces energy costs and significantly cuts emissions. Compared to alternative products, Neopor offers greater benefits at lower costs and with a lower environmental impact. For example, Neopor already saves more energy in the first heating period following insulation than was needed in its manufacture.

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



We again increased income from operations, even though prices for raw materials and energy remained extremely high in 2006. At the BASF Verbund site in Antwerp, Belgium, BASF and Dow Chemical held a groundbreaking ceremony for a production facility to manufacture propylene oxide (PO) using hydrogen peroxide (HP). This will be the first plant of its kind to use the new HPPO technology developed jointly by BASF and Dow jointly developed the HPPO technology. The Belgian-based Solvay Group is participating in the production of the precursor hydrogen peroxide.

In Asia Pacific, we are expanding our business through the construction of a production site for polyurethane specialties in Shanghai, China, which is scheduled to start up in 2007.

We are working with Dow to study the economic feasibility of a new world-scale TDI plant in Europe. Our MDI plant in Antwerp, Belgium, will also be expanded to be the largest in the world.

Outlook

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

> You can find further information and data on pages 39 to 41 of our Financial Report and on the Internet at corporate.basf.com/plastics.

Additions to tangible assets

	Million €
2006	471
2005	440

+ 7%

Research and development

	Million €
2006	145
2005	135

+ 7%

Performance Products

The Performance Products segment is made up of the operating divisions **Coatings**, **Functional Polymers** and **Performance Chemicals** as well as the new **Construction Chemicals** division. We develop, produce and market a wide range of innovative products and system solutions that our customers use in the production of cars, paper, packaging, construction materials, adhesives, textiles, leather, hygiene articles, detergents, coatings and fuels.

2006 business review

In 2006, we increased sales by €1,866 million compared with the previous year to €10,133 million. All divisions posted increases in sales volumes. A significant portion of this increase in sales came from the businesses newly acquired in June and July 2006. The construction chemicals business acquired from Degussa AG is managed as a new division. The business with products for paper coating acquired from Engelhard Corporation was assigned to the Functional Polymers division. The pigments business for the coatings and printing ink industry, also acquired from Engelhard, was assigned to the Performance Chemicals division, as was the water-based resins business for the paint and printing ink industries acquired from Johnson Polymer.

Construction Chemicals

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

Sales developed very positively in 2006, in particular for Admixture Systems in Europe and the Middle East, and Construction Systems in Europe and North America (NAFTA). In Asia, the weak construction market in Taiwan and Korea as well as the negative currency effect in Japan, were offset by good volume growth in Southeast Asia and Australia.

Earnings growth was also positive and exceeded our expectations. The integration is being implemented rapidly; the synergy potential arising from the acquisition has been identified and will be systematically realized.

Coatings



Sales in 2006 increased by €157 million to €2,337 million. Earnings also rose. All units and regions contributed to the strong sales and earnings situation. In the area of automotive (OEM) coatings, our business in China, Eastern Europe and South America grew, whereas business in Japan, Western Europe and the United States declined. In automotive refinish coatings, we were able to increase earnings with the body shops of major automotive manufacturers. In industrial coatings, the business with coil coatings in Europe was firmer.

Functional Polymers

We achieved sales of €3,387 million in 2006, which represents an increase of €189 million over the previous year. The inclusion of Engelhard's pigments business contributed to this result. The performance of the individual business units was mixed: Sales of acrylic monomers were at approximately the same level as in 2005, while sales of polymers for adhesives and construction chemicals rose significantly. Sales of superabsorbents also increased.



Income from operations failed to meet the strong level of the previous year, primarily due to margin pressure for acrylic monomers. The business environment for acrylic monomers is characterized by overcapacity, while consolidation in the paper industry adversely impacted our

Sales by division

		Million €
2006		10,133
2005		8,267
	■ Construction Chemicals ■ Coatings ■ Functional Polymers ■ Performance Chemicals	

+ 23%

Income from operations

		Million €
2006		669
2005		863

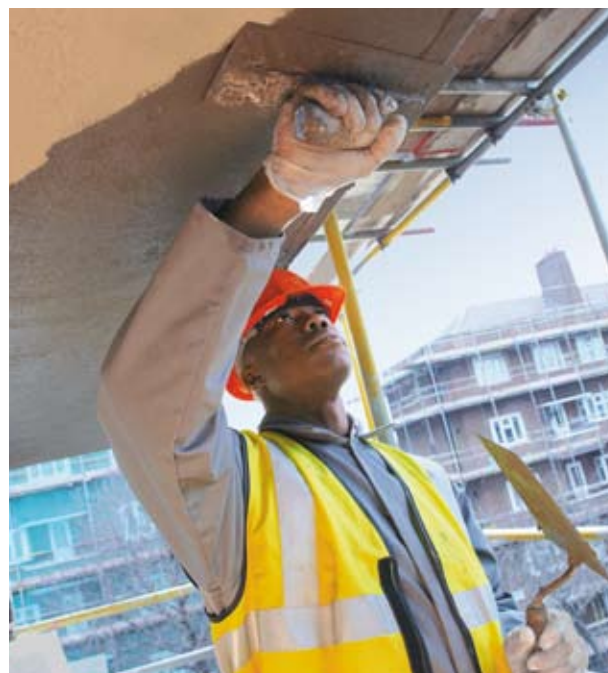
- 22%

NEW STANDARDS IN CONCRETE REPAIR

Refurbishment accounts for approximately half of the construction work in Europe. An important area is concrete repair – from balconies to bridge piers. Through the integration of Degussa's construction chemicals business, we have gained longstanding expertise in this field.

Concrete can best be repaired with concrete-like material. Almost 30 years ago, this led to the creation of the Emaco® range, Europe's first ready-to-use cement-based repair mortars. With Emaco Nanocrete, we have introduced our first range of products that incorporate nanotechnology: Nanostructures form on hardening, which improves density and adhesion. This makes Emaco Nanocrete more durable than the average repair mortar and less likely to crack. Furthermore, it is easier to use, saving both time and money. Emaco Nanocrete already exceeds the stringent E.U. standard for concrete repair that will come into effect at the end of 2008.

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



business in paper chemicals. Price increases were unable to fully offset higher raw material costs.

Performance Chemicals

Sales increased by €400 million to €3,289 million. Of this amount, €275 million was due to the inclusion of the acquired businesses. We increased sales in the existing business thanks to volume growth. In particular, performance chemicals for coatings, plastics and specialties, as well as for the automotive and oil industry posted higher sales than last year. We also increased earnings from the existing business. The earnings for performance chemicals for detergents and formulators were at the high level of the previous year, while earnings from textile chemicals

were lower. In performance chemicals for leather, our restructuring measures allowed us to improve earnings in a persistently challenging market environment.

Outlook

In 2007, we want to increase sales and earnings despite the challenging market situation. We plan to strengthen our portfolio through innovations and accelerate the expansion of our business in Asia.

> You can find further information and data on pages 42 to 45 of our Financial Report and on the Internet at corporate.basf.com/performance_products.

Additions to tangible assets

	Million €
2006	438
2005	239

+ 83%

Research and development

	Million €
2006	288
2005	214

+ 35%

Agricultural Products & Nutrition

This segment consists of the operating divisions Agricultural Products and Fine Chemicals.

Products from the Agricultural Products division protect crops from fungi, insects and weeds, increase quality and safeguard crop yields. BASF Plant Science also conducts research in the area of plant biotechnology. In our Fine Chemicals division, we manufacture vitamins, aroma chemicals, UV absorbers and other high-value products that are used in the nutrition, pharmaceutical and cosmetic industries.

2006 business review: Agricultural Products

At €3,079 million, sales were €219 million lower than in 2005. Lower prices for agricultural commodities and increased energy costs negatively impacted our business in important growing regions. Additionally, weather conditions limited the use of fungicides. Sales in Europe declined by 2 percent to €1,389 million. A late start to the season in Northern Europe reduced demand for fungicides. The development of our business in the growth markets of Central and Eastern Europe was encouraging. In North America (NAFTA), sales declined by 7 percent to €887 million as a consequence of the sale of parts of our generics business. Sales from our ongoing product portfolio were stronger than in 2005 despite the challenging market environment. In Asia, we increased sales by 8 percent to €274 million. In South America, however, sales fell by 21 percent to €529 million. This was mainly due to conditions in Brazil, where our export-oriented customers came under considerable pressure from the appreciation of the Brazilian real. This resulted in a decline in demand and prices, in particular for soybean fungicides.

Income from operations fell by €234 million to €447 million. Our fungicide Opera®, with the active ingredient F 500®, maintained its leading market position in this difficult environment.

Outlook

For 2007, assuming improved seasonal conditions, we anticipate increased sales and earnings. In an intensely competitive environment, our innovative product portfolio puts us in a strong position, allowing us to grow profitably by exploiting significant trends in agriculture. We see par-

ticular opportunities in the area of plant raw materials for energy production.

Plant biotechnology

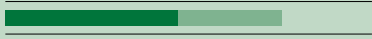


Plant biotechnology is a key technology of the 21st century. From 2006 to 2008, BASF has earmarked €330 million for research in plant biotechnology, one of our five growth clusters.

As one of the leading companies in the area of plant biotechnological research and development, BASF Plant Science operates in eight locations in Europe and North America and has more than 600 employees. We are continuously strengthening our activities. In June 2006, we acquired the Belgian biotechnology company CropDesign. The acquisition complements BASF Plant Science's existing gene discovery and extends its leading position in access to agronomically important genetic traits. CropDesign has specialized in traits that increase crop yields or make plants more resistant to drought, for example.

2006 business review: Fine Chemicals



Sales rose by €123 million to €1,855 million in 2006. The acquisitions of Engelhard Corporation and the Orgamol Group contributed significantly to the sales growth. As part of the acquisition of Engelhard we acquired two business areas: Effect Pigments and Personal Care Materials. The custom synthesis business of Orgamol, acquired in 2005, has been integrated.

Sales by division

		Million €
2006		4,934
2005		5,030
		

– 2%

Income from operations

		Million €
2006		381
2005		623

– 39%

HEALTHY, NON-STRESSED PLANTS PRODUCE MORE

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

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



In October 2006, we announced measures to achieve more cost-efficient marketing structures, which will be implemented by year-end 2007. These measures included the combination of the Human Nutrition and Animal Nutrition businesses to form the unit Nutrition.

Earnings were negatively impacted by special charges due to these restructuring measures.

We improved earnings in the aroma chemicals business, which was expanded by the startup of the geraniol and linalool plants in early 2006. Starting our own production of feed enzymes in 2006 allowed us to increase added value and achieve cost advantages. Furthermore, we reduced fixed costs, particularly relating to marketing and sales.

Outlook

As a result of our measures, we expect an increase in earnings thanks to more efficient structures and processes.

> You can find further information and data on pages 46 to 49 of our Financial Report and on the Internet at:

corporate.basf.com/agro

corporate.basf.com/nutrition

corporate.basf.com/biotechnology

Additions to tangible assets

	Million €
2006	144
2005	125

+ 15%

Research and development

	Million €
2006	404
2005	373

+ 8%

Oil & Gas

Our oil and gas business is conducted through our wholly owned subsidiary Wintershall – the largest German producer of crude oil and natural gas. Our production and exploration activities focus on Europe, North Africa, South America, Russia and the Caspian Sea area. Together with our partner Gazprom, we are expanding our natural gas trading business. In the future, we will also jointly produce natural gas.

2006 business review

Sales rose by €3,031 million to €10,687 million in 2006. The significant increase in oil and gas prices as well as the expansion of our natural gas trading business contributed to this. Income from operations rose by €840 million to €3,250 million.

In the exploration and production business, net sales increased by €1,056 million compared with the previous year to €4,555 million. The price of Brent crude rose by \$11 per barrel to an average of \$65 per barrel. On a euro basis, this represents an increase of €8 per barrel to €52 per barrel. Despite a regularly scheduled maintenance shutdown in Libya, oil and gas production, at 111 million barrels of oil equivalent nearly reached the previous year's high level. Income from operations in the exploration and production business sector increased by €551 million to €2,645 million, as a result of higher prices. Included in this amount are €1,282 million of income taxes on oil production in North Africa and the Middle East that are noncompensable with German corporate income taxes. These taxes are reported as income taxes.

The additions to property, plant and equipment in the exploration and production business sector concerned projects in Germany, the Netherlands, Libya, and Argentina as well as the development of the ZAO Achimgaz joint venture with OAO Gazprom in Western Siberia. In 2006, 32 wildcat and appraisal wells were drilled in the search for new oil and natural gas deposits, 14 of which were successful. We replenished 48 percent of the volumes produced in 2006.


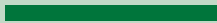
At €6,132 million, our natural gas trading business generated significantly higher sales than in the previous year. Higher prices and increased volumes contributed to

this result. In total, natural gas volumes grew by 6.3 percent to 351 billion kilowatt-hours. Income from operations in our natural gas trading business rose by €289 million to €605 million. Compared with the unsatisfactory situation of the previous year, our margins improved significantly. Spot market trading and the extremely persistent cold weather at the beginning of 2006 had an additional positive impact on earnings. In natural gas trading, we invested primarily in the further expansion of our infrastructure.

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


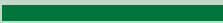
In 2005, we decided to expand our cooperation with our Russian partner Gazprom. Wintershall will receive a stake of 25 percent minus one share in OAO Severneftegazprom (SNG), which holds the license to explore for gas in the Yuzhno Russkoye natural gas field in western Siberia. In addition, Wintershall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

Segment sales

		Million €
2006		10,687
2005		7,656

+ 40%

Income from operations

		Million €
2006		3,250
2005		2,410

+ 35%

**ENSURING RELIABLE ENERGY
SUPPLIES TO EUROPE**

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

Reliable energy supplies need the right infrastructure.



pected to take place in the first half of 2007 and will significantly increase the reserve-to-production ratio of the natural gas reserves.

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

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

Outlook

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

> You can find further information and data on pages 50 to 52 of our Financial Report and on the Internet at corporate.basf.com/oil+gas.

Additions to tangible assets


		Million €
2006		536
2005		569

– 6%

Exploration expenses

		Million €
2006		167
2005		173

– 3%



“As new employees at BASF, we have the opportunity to exchange ideas with colleagues from different units and regions. For me, this is both a professional and a personal benefit.”

Dr. Robert Farrauto | Catalysis Research & Development, BASF, United States

Employees

We aim to develop our employees – and encourage the exchange of ideas worldwide. This is how innovations and new concepts are created, especially when colleagues from different disciplines and with different backgrounds meet.



“By acquiring Engelhard, BASF expanded its Know-how Verbund as well as its portfolio. That opens up new perspectives for us in research and development.”

Dr. Torsten Mäurer | Catalysis Research & Development, BASF, Germany

We offer our employees diverse opportunities to develop their full potential and discover their strengths. Our new colleagues also value this. In the past year, 15,000 new members joined our team – the majority through the integration of Engelhard, Degussa's construction chemicals business and Johnson Polymer.

Together, we ensure our long-term success as the best team in industry and count on the strengths of every single team member.

Education and training:
€123.3 million

The Best Team in Industry

We want to be an attractive employer for our employees worldwide. We therefore respond to the competition for highly skilled professionals by offering a wide range of incentives. The keys to our success include attractive duties, performance-related pay and international development opportunities. We place particular importance on a dialogue-oriented management culture and teamwork.

At the end of 2006, BASF had 95,247 employees worldwide. The net increase of 14,302 compared with the end of 2005 was primarily due to the acquisitions of Engelhard, Degussa's construction chemicals business, Johnson Polymer, CropDesign and PEMEAS. Worldwide, our turnover rate was 1.3 percent in 2006.

In the past year, we again trained more young people than we needed for our own requirements, thus providing them with a better career perspective. Moreover, in 2007 we plan to increase our already strong support for training measures in the communities in which our sites are located. > Further information is available on page 65.

In 2006, approximately 20,400 employees from other companies that provide services and technical support worked at our sites.

Number of employees by region

(as of December 31)

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

Long-term human resources strategies – utilizing the opportunities of demographic change

Demographic change also affects BASF, especially in Europe. The declining population and the age structure of the workforce are factors that pose new challenges to the company in general, and for human resources management in particular. While older employees currently account for a fairly small percentage of our total workforce, the proportion is likely to rise significantly by 2020 at our largest site in Ludwigshafen, Germany. In view of this, we need to maintain the performance, flexibility and productivity of our workforce. To achieve this, we have to promote health, improve our employees' qualifications continually, and attract and retain top talent.

The Generations@Work project was launched in 2006 with this aim in mind. The project's 12 sub-projects cover all aspects of human resources management that are impacted by demographic change. This long-term strategy strengthens our competitive position and makes working conditions sustainable.

Our social responsibility

We operate in all regions of the world and meet our responsibilities as an employer on an international and local level. Forward-looking models drawn up in cooperation with employee representatives are designed to increase our competitiveness, thereby ensuring sustainable employment.

BASF does much more than provide its employees with an income. We supplement our employees' salaries with social benefits to provide them with attractive and fair market compensation. Share programs, supplement-

NEW IDEAS TAKE US FURTHER

If implemented, suggested improvements are awarded a bonus. In 2006, such suggestions saved BASF Aktiengesellschaft more than €23 million.

Age structure of BASF Group in 2006

Number of employees	%
Up to and including 25 years	7.0
Between 26 and 39 years	37.4
Between 40 and 54 years	46.4
55 years and older	9.2

tary health insurance and company pension plans are just a few examples. In this way, many employees in the BASF Group can make their own contribution toward company pension plans. In Germany, collective wage agreements also promote deferred compensation models that apply to many employees. It is becoming increasingly important to make individual arrangements for retirement provisions and BASF supports its employees in this. In 2006, the BASF Group spent €6,210 million on salaries, wages, social security contributions, pension contributions and assistance, 11.4 percent more than in the previous year.

Personnel costs BASF Group

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

Diversity as a competitive advantage

Continued internationalization is one of the focuses of personnel development at BASF. We are recruiting the best specialists and managers worldwide, and we provide intercultural training measures to support the integration of employees from other countries. Such programs are offered by 73 percent of Group companies (2005: 68 percent).

Our long-term goals are to increase both the proportion of non-Germans among our senior executives as well as the proportion of women in senior management. In 2006, the proportion of non-German senior executives was again around 30 percent. The proportion of women in top management declined compared with 2005 to 5.6 percent. Although the absolute number of women in such positions remained unchanged, the total number of management positions increased due to the acquisitions.

We have also set ourselves the goal of further increasing the proportion of senior executives with international experience. In view of global competition, we consider such experience to be a key element of executive development. We define employees with international experience as those who have spent at least one year uninterrupted or two years with interruptions away from their native country. In 2006, this applied to 71 percent of our senior executives compared with 64 percent in 2003.

Our global value system for managers

The BASF Leadership Compass is valid worldwide. The four basic pointers are clarity and a sense of reality, performance and speed, enthusiasm and inspiration, and strategic and operational leadership.

In 2006, we introduced a mandatory leadership feedback system for our senior executives worldwide. This standardized process aims to improve our executives' self-perception, develop their profile and leadership culture, and strengthen teamwork and communication.

Training and education guarantee opportunities

To keep pace with global competition, we need employees who continually extend their training. We therefore support independent, practice-oriented learning – both on and off the job. Our web-based European Learning Portal ELP was launched in September 2006. Available in six languages, ELP offers a wide range of courses that participants can complete at their own pace. Subjects range from project management to information technology. ELP can be adapted and supplemented in each country to suit the needs of the local workforce. The platform also provides a forum for communication between virtual learning groups and project teams.

In 2006, we spent €123.3 million worldwide on education and training (2005: €122.8 million). More than 71,300 employees took part in at least one training measure in 2006 (2005: 65,100). Each of these employees spent an average of 3.7 days on a course (2005: 3.8 days). We are also systematically expanding e-learning opportunities.

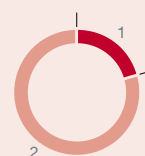
WE PROMOTE DIVERSITY – OUR GOALS

- Increase the proportion of female senior executives
- Increase the proportion of non-German senior executives
- Increase the proportion of senior executives with international experience

Workforce profile 2006

(Previous year's figures in brackets)

All employees		
1 Women	20.7 %	(19.8 %)
2 Men	79.3 %	(80.2 %)



Work to establish a European Learning Portal started in 2006 and is expected to be completed by the end of 2007.

Global standards assure transparency

Our human resources work is based both on Group-wide standards and culture-specific solutions for sites and regions. To enhance the global consistency of our systems, we set ourselves the goal of introducing a mandatory Group-wide job evaluation system. This goal has now been achieved in Asia Pacific, North and South America and at almost all sites in Europe. In view of our acquisitions in 2006, it will take until mid-2008 to complete the process in Germany. We use the system to analyze and rate all functions in terms of eight criteria, including professional, social and decision-making skills. This creates transparency and facilitates comparison across the organization. Management thus receives information for the strategic use and planning of human resources.

We have also set ourselves the goal of systemizing the monitoring processes we use to ensure that our sites comply with the internationally acknowledged labor and social standards to which we are committed as a signatory to the Global Compact. BASF uses two tools for this purpose. The first is a written survey of management at individual Group companies on the following issues: anti-discrimination handling, child labor, forced labor, right of assembly, collective bargaining, diversity, working hours and minimum wages. The second monitoring tool is a hotline set up in 2006 (in Asia in 2007). Where legally permissible, employees worldwide can use this hotline to seek advice confidentially on internationally recognized labor and social standards and draw attention to possible deficits in these areas at our sites.



GLOBAL FAMILY

In 2006, BASF organized its first international holiday exchange program, Global Family. One hundred children (aged between 14 and 19 years) of employees at eight BASF sites spent two weeks of their vacations in the home of a colleague's family in another country. The program thus gave young people experience of a foreign culture and helped them make international friendships. In view of the huge success, we are continuing with the program in 2007 and plan to expand it to 19 sites worldwide. BASF provides organizational and financial support for the exchange program.

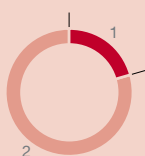
Christian Kruse (left) from Santiago, Chile, explores the sights of the Rhine-Neckar metropolitan region together with his German exchange partner **Thomas Schmidts**.

Workforce profile 2006

(Previous year's figures in brackets)

Management and professionals

1 Women	20.7 %	(19.3 %)
2 Men	79.3 %	(80.7 %)

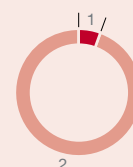


Workforce profile 2006

(Previous year's figures in brackets)

Senior Executives

1 Women	5.6 %	(6.1 %)
2 Men	94.4 %	(93.9 %)



Open dialogue with employee representatives

The 2006 annual meeting of our European employee representatives – Euro Dialog – took place in Hungary. Our acquisitions and the associated integration process were top of the agenda. In Germany, the acquired businesses already have representation on the Group Works Council. In other regions such as Asia and South America, BASF Group companies are engaged in constructive dialogue with their employee representatives, who hold meetings in regional networks.

Ensuring competitive jobs

To help ensure our competitiveness, we conduct annual comparisons of our sites. These benchmark studies show us where there is potential for improvement. This enables us to learn from one another and secures the future of our company.

In the period from 2005 to 2009, BASF plans to invest approximately €6 billion in capital expenditures, modernization and plant maintenance at its largest site in Ludwigshafen, Germany.

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 (2006: 33,220) at the end of 2008. The agreement precludes workforce reduction programs with enforced redundancies until 2010 if the target figure of 32,000 is reached on schedule. Measures to secure sites and maintain competitiveness are an on-going corporate issue, but their success is essential to securing tomorrow's jobs. The viability of the agreement will continue to be reviewed on an annual basis by company management and employee representatives.

In 2006, we continued with our two-phase restructuring program in North America. The program's goal of reducing annual fixed costs by \$400 million was achieved ahead of its planned target of mid-2007. As a result of the

acquisitions, we expect annual synergies of €290 million by 2010. They result primarily from the reduction of duplication in areas such as administration, marketing and sales, and logistics. An example is the integration of Engelhard Corporation, which will lead to a reduction of about 800 positions, the majority of which will be in the United States.

Creation of regional shared service centers

We combine finance and human resources services for the regions at our regional shared service centers (SSCs). This helps to standardize processes, thereby improving the quality and efficiency of our internal services. Our SSC in Kuala Lumpur, Malaysia, also provides IT support for Asia. In Europe, our SSC in Berlin is scheduled to be fully staffed by 2009. Additional regional SSCs already exist in North and South America through the company structures of BASF Corporation in the United States and BASF S.A. in Brazil.

Performance pays off

We have used performance- and achievement-oriented compensation and leadership systems to foster entrepreneurial thinking and acting for many years. Salary systems at our Group companies generally include both fixed and variable components. The size of the variable component depends on two factors: the company's performance as measured by the return on assets of the BASF Group and the employee's individual performance. Performance is rated at an annual review based on our global Competency Framework derived from our Values and Principles. The annual performance review is mandatory for all BASF Aktiengesellschaft employees and is also offered at almost 90 percent of Group companies. Furthermore, 73.5 percent of BASF Group companies offer their employees annual bonuses.

| Dr. James Hung, Shanghai



The integration of our acquisitions offers opportunities for employees, for example, for Steven Hung, previously a manager at Merck Electronic Chemicals in Shanghai, China. Following BASF's acquisition of Merck's global electronic chemicals business in January 2005, Steven swapped jobs with James Hung, previously a regional manager of electronic chemicals at BASF in Hong Kong at the beginning of 2006.

We value employees' opinions

Our employees play a vital role in ensuring BASF's success – our progress depends on their commitment, knowledge and motivation. We regularly conduct surveys to find out what employees think about relevant topics and to involve them in the further development of their working environment. The results show us where our employees see room for further improvement within the BASF Group. And they act as an early warning system, enabling us to identify and respond to human resources risks and thus ensure sustainable jobs.

We have set ourselves the goal of establishing a global employee survey for the BASF Group. We aim to synchronize both the contents and the performance dates of all regional employee surveys by 2009. All employee surveys now contain 12 questions relating to key issues within our strategic guideline "Form the best team in industry." These questions on basic conditions, attitudes and concrete behavior can be used to derive an overall value known as the key performance indicator (KPI) index. Employees of BASF Aktiengesellschaft take part in a survey on work-specific issues every three years. The results are discussed in depth by employees and management in order to identify potential for improvement. Regular monitoring follows to ensure that action is indeed being taken. For example, we performed an employee survey after the startup of our site in Nanjing, China.

Employees help shape integration processes

Employee surveys are a regular feature of our integration processes during acquisitions. We use the survey results to assess progress on integration and check the actual situation against our targets. This generates information of importance to the respective process, while discussion of the results also provides pointers on how to make future integration processes more effective.

Combining career and family

In Germany, it is part of our sustainable human resources policy to help balance career and family. BASF has launched a number of initiatives in this area, including a Parents' Network set up in Ludwigshafen in 2006. To enable parents to return to work sooner, we have built a second daycare center in Ludwigshafen, which opened in January 2007. The new center offers childcare for an additional 30 children aged between 6 months and 3 years. In Ludwigshafen alone, 32.4 percent of 488 employees on parental leave worked part time in 2006.

The swap was not just positive in terms of career experience say Steven and James, who happen to share the same surnames.

Working with a new team has also enhanced their managerial skills: "It wasn't always easy – my staff weren't certain what to expect from BASF at the beginning," says James. "The most important thing is to establish trust, mutual respect and a culture of openness."

| Steven Hung, Hong Kong



We Promote Safe Working Conditions

Safe plants and qualified employees are the basis for ensuring smooth production at BASF. We have therefore committed ourselves to promoting and maintaining safe working conditions. In doing so, the health of our employees is our foremost concern.

2012 goal

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

In 2006, the lost time accident rate in the BASF Group was 1.67 accidents per one million working hours (2005: 1.78). This corresponds to a 6.2 percent reduction compared with the previous year. As a result, we came another step closer to achieving our goal.

Safety at all sites and in all workplaces

In order to achieve our goal, we pay particular attention to three points:

- Ensuring that our managers act as role models
- Systematic assessment of work processes and individual tasks
- Enhancing safety awareness among our employees

We have adapted our local programs and measures to meet the needs at our various sites. Regular workshops and training courses raise the safety awareness of our employees. We also develop new methods and equipment to ensure the safety of our employees. Our employees are given detailed information about occupational safety: In 2006, for example, we published a guideline on the safe handling of nanomaterials.

Safety for partner companies

We expect that employees of all suppliers at our sites work just as safely as our own employees. Our requirements for safety, health and environmental protection are therefore increasingly part of our contracts with partner companies. At our Ludwigshafen site, we have summarized all important aspects of working for BASF in a short and simple form in site regulations and a safety guideline. Since 2003, we have also been carrying out regular checks at this site to ensure that employees of other companies are familiar with our rules for safe working practices. The results are impressive: Around 80 percent of those questioned now pass the safety test the first time round.

We started publishing global accident data for employees of our partner companies in 2005. In 2006, there were 3.8 lost time accidents per million working hours among such employees at our sites (2005: 4.4).

Partner company concept developed further

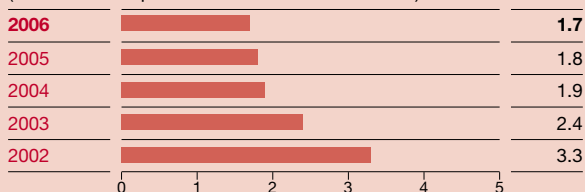
In 2006, we further developed the partner company concept for the Ludwigshafen site. Under the new system we will record and evaluate all companies that carry out services at the site. Three criteria are important for the assessment:

- Work quality
- Observance of regulations on safety, health and environmental protection
- Business factors

In the future, we want to provide greater rewards to companies with excellent safety records.

Lost time accidents (> 1 day)

Per million hours worked
(reduction compared with baseline 2002: 49%)



LEARNING FROM ONE ANOTHER

Learning from other sites to become more efficient – this was the goal of participants in the site benchmarking project at a global conference in Ludwigshafen in 2006. At this event, participants from 35 sites discussed the results of the annual benchmarking of efficiency at our production sites and explored scope for improvement in the various regions.

We Protect and Promote Health

Our company's success depends on the performance of our employees. This is why we protect and promote their health using a globally valid program. Similarly, our occupational medicine specialists work to ensure that our products do not pose a health risk to employees, neighbors, customers or consumers.

We ensure that preventive medicine and health promotion at BASF meet uniformly high standards worldwide. In this way, we support the best team in industry through our health management activities.

2012 goal

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

Such diseases include noise-induced hearing damage, skin and respiratory diseases caused by chemicals, and diseases of the musculoskeletal system. To achieve our goal, we rely on technical and organizational measures as well as medical data. We derive these data from screening tests and regular hazard assessments, for example during occupational medicine plant inspections and audits. With success: In 2006, there were 0.3 occupational diseases per million hours worked. This corresponds to a 25 percent reduction compared with the baseline year 2004.

Occupational medicine and health protection worldwide

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

and criteria used today in the external auditing processes ISO 19011 and OHSAS 18001. This was shown by an audit of our procedures carried out by Deloitte in 2005 in which BASF's audit system for occupational medicine and health protection was evaluated according to ISAE 3000.

In 2006, we established an HIV/AIDS guideline in accordance with our Values and Principles. In the guideline, BASF guarantees that it will not discriminate against employees infected with HIV. We work with external partners and support a number of local HIV projects.

> You can find further information at corporate.basf.com/hiv-policy_e.

Activities for employees, neighbors and customers

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

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

At our Ludwigshafen site, we evaluated a detailed long-term study into possible risks to pregnant women in 2006 and submitted the results for publication in an international journal. The study is particularly valuable because of its large sample size of around 1,200 women from the industry, and the results showed that our health protection schemes in this area are also effective.

STAYING SWEET WITHOUT SUGAR

More than 1,600 employees have participated in our 2006 health campaign and were tested for their risk of diabetes. So far, diabetes or an early form of the disease (prediabetes) was diagnosed in almost 200 participants. If the disease is discovered at an early stage, then the effects can be limited. Employees gain quality of life and BASF saves costs associated with avoidable disability and possible complications. Such programs for prediabetics were previously unknown in Germany, showing BASF to be a pioneer in the area of disease prevention.

> Further information at corporate.basf.com/occupational_health

“We want to inspire children’s interest in science. We’re therefore thrilled to be organizing the first Kids’ Lab in Hong Kong together with BASF.”

Paulina Chan | Assistant Curator, Hong Kong Science Museum



Neighbors and Society

BASF aims to awaken an interest in science among young people. We have therefore been organizing Kids’ Labs together with schools and public bodies for many years. Here, children learn about chemistry by carrying out simple experiments. In 2006, 430 children visited our first Kids’ Lab in Hong Kong.

“I’m so happy to see how excited children are with the Kids’ Lab. I am also pleased to know that our efforts are also appreciated by parents and educational institutes in China.”

Moira Floresta | Sustainable Development, BASF, China



For BASF, a forward-looking company policy means taking responsibility for society and making a positive contribution to its development. In the long term, we can only be successful with the support and trust of our neighbors.

This is why we work constantly to strengthen our reputation as a reliable partner and attractive employer at all our sites. This increases both our own competitiveness and that of the regions in which we operate.

Children in Kids' Lab:
More than 35,000

Social Responsibility

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

The BASF Group spent a total of €67.2 million on community-based, social, educational, scientific, sports, artistic and cultural projects in 2006 (2005: €56.8 million). Of the total amount, 33.6% was in the form of donations and 66.4% went toward sponsorship activities and our own community projects.

Our economic success also depends on the social acceptance of our activities. This applies especially in the communities and regions in which our sites are located. The projects we fund are as diverse as the locations involved. At some sites, financial support is needed to lay the foundation for sustainable development. At others, we enter into joint initiatives with partners. Local BASF decision-makers are responsible for selecting projects and choosing the appropriate form and level of assistance. Our involvement is intended to foster positive social development. That is why BASF acts as a partner to local government, institutions and associations. Our activities are focused above all on contributing to the education and well-being of young people. We also consider the voluntary work conducted by our employees to play an important part in maintaining a functioning community.

> More information is available in German at corporate.basf.com/cc

The allocation of funds within the BASF Group is defined according to a donation and sponsoring policy. Not to support political parties is part of that policy. In the United States, our employees make use of their right to establish a Political Action Committee (PAC). Only employees of BASF Group companies in the United States who are U.S. citizens or Green Card holders are allowed to make donations to the committee. Employee contributions

of approximately \$100,000 were received in 2006 and approximately \$144,000 was donated to individual candidates.

BASF Group donations, sponsoring and own projects in 2006

€67.2 million (2005: €56.8 million)

Million €	2006	%
Science	5.2	7.7
Social	5.7	8.5
Culture	7.0	10.4
Sports	2.0	3.0
Education	43.8	65.2
Other	3.5	5.2
	67.2	100.0

| A brighter home for children in Istanbul

BASF EMPLOYEES HELP OUT

BASF has renovated the “Children – Our Future” children’s home in Istanbul, Turkey, which offers places for more than 30 children aged between 6 and 12 years. BASF not only insulated the building, but also refurbished washrooms and other areas. Finally, BASF employees gave the building a fresh coat of paint, inside and out.



BASF employees take the initiative

Employees at many of our sites carry out voluntary work, which BASF welcomes and supports. This helps people in distress and at the same time helps our employees to strengthen both specialist and social skills. Our employees act as important drivers for BASF's community projects, and campaigns are often launched as a result of their initiatives.

Helping children lies at the heart of many projects. In Shanghai, for example, BASF employees are involved in the Goodwill Teacher project for children from disadvantaged families. They use their skills to teach English to a group of schoolchildren on weekends. BASF employees in Turkey also help socially disadvantaged children: Volunteers renovated a children's home, thus improving the lives of more than 30 children. In Argentina, BASF employees also saw a need for action: They cooperate with other companies to combat malnutrition in children.

Investing in the future

Education is a central issue for BASF. On the one hand, education is a key prerequisite for developing curiosity, imagination and creativity – the key elements of personal development in children and young people. On the other hand, socially just, economically and environmentally compatible development is directly linked to education. By investing in education, we will stay competitive in the long term and secure our future. This is why we are intensifying our commitment in education in the communities in which our sites are located and supporting activities around the world that provide and promote access to education.

In Africa, the support of BASF's social fund for the Lapdesk project has improved educational conditions for 100,000 schoolchildren. In India, we are helping young people from underprivileged backgrounds: Along with basic equipment such as exercise books and writing materials, we provide financial help to enable up to 140 students a year to attend school. BASF supports other school projects in Singapore, Thailand, Bangladesh and the Philippines. In addition, we sponsor science students, for example, in Pakistan and the Philippines.

Awakening an interest in science

As the leading chemical company, we want to encourage an interest in science at an early age worldwide. For many years we have successfully offered our hands-on Kids' Lab to children and young people – in 12 countries to date. Children can carry out experiments and discover the exciting world of chemistry. In 2006, the lab visited Hong Kong for the first time.

In the Rhineland-Palatinate area of Germany, BASF sponsors the Young Researchers science competition for young people and has done so for more than 40 years.

In cooperation with other institutions, we bring science closer to children and young people. At our site in Guaratinguetá, Brazil, we launched the "ReAction" program in collaboration with the city of Guaratinguetá, the chemistry department of São Paulo University and the Espaço Eco Foundation. This program provides further training to science teachers. We also support public schools by providing equipment for experiments.

To encourage an interest in science and innovation among the wider public, BASF supported the Max Planck

| Ana Maria Pimentel with her primary school class



LIFE-LONG LEARNING

At our site in Guaratinguetá, Brazil, we launched the educational program "ReAction" in 2006 together with partners. The program aims to improve science teaching in schools. Around 500 teachers are receiving training courses in the pilot project. This benefits about 10,000 children aged between 6 and 14 years – not just with regard to science, since the program also builds language skills and creativity.

Society's Science Tunnel exhibition in Asia in 2006. This gave visitors in Singapore and Shanghai an opportunity to take a closer look at the world of science and the cutting edge of research in Germany.

Offering young people career opportunities

Professional success usually depends on having recognized qualifications. BASF aims to offer as many young people as possible the opportunity of starting a career. In Germany, we have therefore trained far more young people than we actually need for our own requirements for many years. We also support numerous training projects in collaboration with partners from industry, labor unions and the political sphere. One example is the Training Verbund established by BASF in the Rhine-Neckar metropolitan region. Every year we create additional trainee positions in cooperation with more than 600 partner companies. BASF helps the companies to recruit and supervise the trainees, and provides workshops and trainers. The practical part of the training takes place directly at the partner companies. As a result, the young adults receive first-class training and have good chances of being hired by the partner company once they have completed their training.

Together with the BASF Training Verbund, BASF trained a total of 3,135 young people in Germany in 2006. In the same year, 878 young people were taken on as trainees at BASF, thereof 476 within BASF's Training Verbund. A total of 133 of them were accepted on the "Career Launchpad" scheme, a one-year program that provides one-year internships as preparation for a subsequent traineeship for motivated young adults who otherwise have poor chances of finding a training place.

In addition to the Training Verbund, BASF supports, the Training Initiative for the Palatinate (AiP) as part of the "We Help the Region Win" campaign. AiP sponsored around 300 new trainee positions in 2006 thanks to a BASF donation of €1.5 million. In 2006, BASF's social fund provided the "Jobchance 100" project with sponsorship totaling €2.5 million. This project helped 100 young unemployed people to improve their career skills and find a job or a trainee position.

In 2006, BASF provided its new "EXPRESS" initiative in Ludwigshafen for the first time. In doing so, we offered young adults the opportunity of applying for a traineeship at an early stage. A team of training experts provided information about whether the applicant's profile matched the company's requirements. Suitable candidates were accepted immediately for an aptitude test. If the candidates' profiles did not match the requirements for their ideal career, the experts also advised them on possible alternatives.

| Stefan Starzetz and his trainer Jürgen Ortstadt

CAREER START IN LUDWIGSHAFEN

Stefan Starzetz is training at BASF to become an electrician specializing in automation technology. For example, he is learning, how to automate and maintain equipment in production units, how to improve performance and how to test safety. "There's nowhere else where I could work with this type of equipment. That's why I wanted to train at BASF," says Stefan.



“We Help the Region Win”

BASF is committed to projects in the Rhine-Neckar metropolitan region under the motto “We Help the Region Win.” We want to make the communities in which our Ludwigshafen site is located more attractive for employees and neighbors and thus enhance the region’s competitiveness. To do this, we offer particular support to projects in the areas of:

- Youth and education
- Innovation and science
- Art and culture
- Community and social issues
- Sport and quality of life

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

Action on education

Along with the city of Ludwigshafen and church-sponsored operators of daycare centers in Ludwigshafen, BASF launched the “Action on Education” initiative in 2005. Its seven projects, which are being introduced at around 90 daycare centers, are aimed at promoting early childhood development. As a result, they focus on fundamental preschool educational issues such as encouraging an interest in scientific phenomena and nature, as well as promoting specific language skills.

BASF also supports young people through the “Youth Thinks Future” initiative in which companies work together with schools. Students learn to develop creative products and services for the year 2020 during a five-day business game aimed at encouraging young people to be aware of the importance of innovation, research and strategic planning.

Working together in the Knowledge Factory

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

BASF’s “Language Makes You Strong” project supports kindergartens and daycare centers in Ludwigshafen. Educational measures for children and their parents – especially those who have come from other countries – are used to promote language skills as the foundation for education.

In 2006, the Knowledge Factory launched the “Children at Work” competition, which focused on successful partnerships between companies and kindergartens or elementary schools. The competition looked for projects in which children dealt with technical, creative or scientific tasks and were able to benefit from the practical knowledge of the companies’ employees.

The Knowledge Factory also pursues another goal: promoting entrepreneurship. Through a mentoring program, employees of the member companies provide professional support and advice to young entrepreneurs.

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

BASF EMPLOYEES KEEP CHILDREN FIT

Children need exercise to grow up fit and healthy. We therefore support the “BASF employees keep children fit” project. Our employees provide courses to train coordination skills on a voluntary basis at 40 sports clubs and primary schools in the Rhine-Neckar metropolitan region.

| Children train their coordination by playing hockey.



Process Safety

The activities at our sites take a variety of forms: Local environmental protection and plant safety are part of our social responsibility. This is something we take very seriously because we depend on the trust placed in our activities by the communities in which we operate.

Safe plants at all our sites

Safety is a top priority for us, and preventing accidents and emergencies at our production sites is of utmost importance. Such incidents not only endanger the health of our employees and neighbors, but also cause environmental damage and production losses. In order to be better prepared for any incidents we are continuously expanding our Emergency Response Management System. It covers all our subsidiaries and joint ventures around the world and also extends to suppliers, customers, neighboring companies as well as the cities and towns in the areas in which we operate.

To prevent fires, explosions and chemical leaks, we have introduced a five-step review system worldwide that covers all aspects of safety, health and environmental protection – from plant design to startup.

One of our mandatory tools worldwide is the BASF risk matrix. It is used as part of the hazard assessment process to classify potential risks according to their impact and estimated frequency. The necessary measures are derived from the respective risk categories.

In order to implement uniform safety standards, we attach particular importance to training our safety experts worldwide. In 2006, we held plant safety seminars in Mumbai, India, and Nanjing, China. A total of 50 plant safety experts from Asia Pacific attended the events.

We have established local site incident and crisis management teams at all of our major production sites. Global support is available from Ludwigshafen.

Local environmental protection and biodiversity

BASF supports environmental and wildlife welfare projects at many of its sites. These include initiatives to explain the importance and necessity of environmental protection like the “Youth Environmental Challenge” in the Philippines and “Seeds of Tomorrow” in Guaratinguetá, Brazil. In Brazil, we also support the “Cooperative Against Waste” initiative. So-called environmental agents sort around 70 percent of Guaratinguetá’s waste, resulting in the recycling of reusable material. The initiative contributes to local environmental protection and at the same time offers employment to almost 40 people. We also support renaturation initiatives, for example by providing seedlings. In addition, many of our products help to strengthen biodiversity. One example is the use of BASF’s Habitat® herbicide on the west coast of the United States. This has led to success in the fight against Spartina, an invasive cordgrass that has destroyed the habitat of local species of birds and shellfish.

In 2006, we expanded our efforts in the area of environmentally responsible vegetation management in the United States and founded the Habitat Awards project through which we honor outstanding projects that protect or improve the habitat of people, animals and plants.

UNIFORM GLOBAL STANDARDS FOR PROCESS SAFETY

Our goal is to ensure that all sites meet BASF’s high safety standards. To achieve uniform standards, we place particular emphasis on the education and training of our safety experts worldwide. Regular audits are a further tool for making our sites and plants even safer. > More information about audits is provided on page 74.



Environment

Safety for people and the environment has top priority for BASF. We check the safety and quality standards of transportation companies thoroughly before we trust them with our products. That is also part of our social responsibility.

“Our goal is to ensure that our products reach our customers safely. We are also setting standards for distribution safety in Asia.”

Dr. LeMin Cai | Responsible Care, BASF, China

“High standards also increase safety for carriers. Thanks to BASF’s evaluation system, we can recognize the areas in which we need to improve.”

Xiangjun Wen | Carrier, Sinochem, China



Fossil fuels such as oil, gas and coal will remain the main sources of energy in the coming years.

Prognoses indicate that consumption of these primary fuels is likely to increase by 30 percent by 2020.

As a result, the future calls for an intelligent energy mix that includes all economically and environmentally feasible solutions. This applies to the use of both conventional fuels and renewable energies.

Greenhouse gas reduction*:
12.4%

* Emissions of greenhouse gases per metric ton of sales product

Raw Materials, Energy and Environmental Protection

BASF is committed to sustainable climate protection. Businesses, science, politics and society need to curb further increases in greenhouse gas emissions and find innovative ways of using available resources.

Reducing CO₂ emissions with our products

Our products help to reduce CO₂ emissions: Materials to insulate buildings, plastics that make vehicles lighter, and additives that improve the fuel consumption are just a few examples. Reducing a vehicle's weight by 10 percent can lower fuel consumption by about 5 percent, and our additives cut consumption by a further 2 percent. We are developing additives for the Chinese market to improve fuel quality and reduce emissions of carbon dioxide and nitrogen oxides. Following our successful launch of an engine test facility in China we have expanded activities and aim to test technically more complex diesel fuels in the future.

The use of a special additive in our engineering plastic Ultradur® High Speed improves flow properties, making the production of injection-molded components more energy efficient and cost effective. Replacing all PBT plastics worldwide by Ultradur High Speed would reduce global CO₂ emissions by 220,000 metric tons per year – that corresponds to the annual emissions of 75,000 vehicles.

Our nitrification inhibitor is an example of a product for the agricultural industry. It ensures that ammonium nitrogen contained in fertilizers is not directly metabolized by bacteria in the soil. As a result, less fertilizer can be used to produce the same crop yields, which reduces emissions by more than 400,000 metric tons of CO₂ equivalent per year.

Efficient use of resources in the Verbund

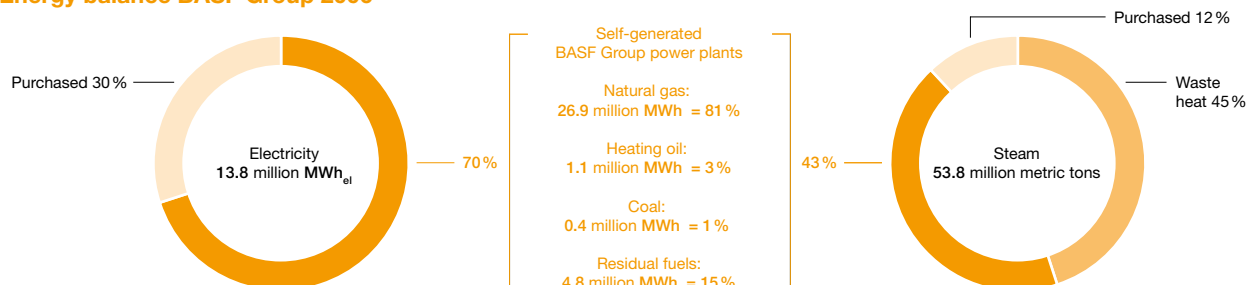
There are economic reasons for us to be interested in saving as much energy as possible, since large amounts of energy are needed to produce certain products. At major production sites around the world, we use a Verbund approach that links production and energy requirements in an intelligent manner: Primary fuels are used optimally both as raw materials and for generating electricity and steam. Heat from production processes is not discharged into the environment but captured to power downstream production plants. Without our Energy Verbund, the total energy needed to generate electricity and steam in BASF's power plants in 2006 would have been about 56 percent higher at approximately 4.4 million metric tons of oil equivalent. That's another example of how the Verbund provides us with a crucial competitive advantage.

In order to use energy even more efficiently, we are now partially using substitute fuels instead of natural gas in our production plants. Previously, this was only the case in our power plants. Substitute fuels are thermally exploitable gases or liquids that arise in production processes and that would otherwise be classified as waste. In spring 2006, the polystyrene plant in Ludwigshafen was the first to be successfully switched to substitute fuels; further plants will follow in 2007.

INNOVATION FOR SUSTAINABLE CLIMATE PROTECTION

We develop innovative techniques and materials for sustainable climate protection with the aid of new technologies such as nanotechnology. Researchers at BASF are working, for example, on new materials for organic solar cells, innovative storage media for hydrogen, and nanopore foams with improved insulating properties. We spend one-third of our entire research budget in the area of resource conservation – in other words in areas such as energy efficiency, climate protection and renewable raw materials. > More about research on page 38.

Energy balance BASF Group 2006



In 2006, 33.2 million MWh of fossil and residual fuels was used worldwide to generate electricity and steam in our central power plants. The amount of primary fuels used (28.4 million MWh) corresponds to 75 percent of the total primary fuel used to generate energy for the BASF Group. 9.6 million MWh_{el} of electrical power and 23.2 million metric tons of steam were generated, primarily by means of cogeneration technology. Compared with conventional generation of electricity and steam, the use of cogeneration saved approximately 11.8 million MWh of fossil fuels. Total electricity requirements amounted to 13.8 million MWh_{el}. A total of 53.8 million metric tons of steam was provided by steam networks.

Safeguarding energy supplies for production sites

To supply our production sites with energy we are increasingly using combined heat and power (CHP) plants to generate both heat and steam. Such cogeneration plants are an extremely effective means of supplying energy. With an overall fuel efficiency of almost 90 percent, they are the front-runners among energy conversion methods suitable for use on an industrial scale and are considered to be state-of-the-art. BASF currently operates 16 cogeneration plants worldwide. Partner companies at BASF sites operate another seven gas turbine plants with steam cogeneration, mainly to supply BASF. Since 2006, our new CHP power plant in Ludwigshafen has reduced CO₂ emissions by more than 500,000 metric tons per year. Worldwide, we produce more than 75 percent of the electricity we need using CHP plants.

Kyoto Protocol and E.U. emissions trading

We are committed to the Kyoto Protocol. We are critical of emissions trading, however, because it is limited to Europe, resulting in higher costs and distorting competition. Climate protection is a global issue that calls for global solutions. A climate protection agreement for the period after 2012 should therefore include all major emitters as well as newly industrializing and developing countries according to their resources. Some of our European sites are directly affected by the E.U.'s trading system – a total of about 40 plants last year. We expect to be assigned sufficient certificates for the trading period between 2006 and 2007. In addition to our considerable climate protection measures at the local level, we are analyzing the possible impact of climate change on our sites.

WE CONTRIBUTE TO ENVIRONMENTAL PROTECTION IN CHINA

China is now the world's third largest market for automobiles – and growth is continuing apace. The downside to this development is the increasing impact on the environment from automotive emissions. Through the acquisition of Engelhard, BASF has also become a leading supplier of exhaust catalysts in China. With over 40 years' experience in Asia, we develop effective and cost efficient technologies to reduce emissions together with our Chinese customers. We thus help them to meet increasingly stringent regulations in China and contribute to a better quality of life.

Global climate protection activities

We can reduce CO₂ emissions and promote sustainable development using the Kyoto Protocol's project mechanisms. In 2002, BASF became the first German company to join the World Bank's climate fund. The Community Development Carbon Fund (CDCF) invests in projects in developing countries that reduce greenhouse gas emissions and simultaneously play a role in development. In return, participants receive certified greenhouse gas emission rights. In 2006, the CDCF signed an agreement with the Kenyan energy supply company KenGen to finance the construction of a geothermal energy plant. This project is expected to reduce emissions of CO₂ by 150,000 metric tons per year. At the same time, an investment is made in the country's infrastructure. This is the first geothermal energy project in Africa.

The modernization of production plants for adipic acid and nitric acid offers enormous potential for reducing emissions of greenhouse gases. At our Ludwigshafen site, we have been reducing emissions of the greenhouse gas nitrous oxide (N₂O) from adipic acid production using a specially developed catalyst since 1997. This catalyst converts N₂O into nitrogen and oxygen – substances that do not damage the atmosphere.

In 2006, we won a contract to supply N₂O reduction technology to PetroChina Company Limited for its adipic acid plant in Liaoyang, China. To promote our clean development mechanisms in China, BASF organized a workshop in Beijing together with partners.

Energy and raw material supplies of the future

In the future, we will continue to rely on a mix of energy and raw materials including coal. For us, coal is an important raw material and fuel – it is available worldwide and reserves are expected to last for several centuries. The new generation of coal-fired power stations is more fuel efficient. Techniques to sequester the CO₂ generated when coal is burned are currently being tested. Our innovations are one of the keys to sustainability. For

instance, we are developing novel solvents with the aim of removing CO₂ from flue gases particularly efficiently. We are contributing these new developments to an E.U.-sponsored research project, for example. We are also working with the Japanese company JGC Corporation on a cost- and energy-efficient process that removes the CO₂ contained in natural gas and uses it in crude oil production.

Renewable raw materials

Compared with other industries, the chemical industry employs the largest proportion of renewable raw materials. However, there are very few economically viable processes that use them to date. Where technically feasible, BASF has used renewable raw materials in its value chains for many years.

Renewable raw materials are CO₂ neutral and help conserve fossil fuels. We offer solutions in a number of areas – from crop protection products and fertilizers for the cultivation of renewable raw materials to catalysts for the production of biofuels and additives to improve their properties.

Together with the German and Chinese governments and other companies, we are part of the German Chinese Sustainable Fuel Partnership. The goal of this project is to develop alternative and sustainable technology concepts in the area of mobility and to demonstrate applications using pilot plants and fleets of vehicles. One pilot project in which BASF is working involves the production and use of biodiesel from the jatropha plant.

In 2006, we also launched Ecovio® – a biodegradable plastic based on a renewable raw material in 2006.

BASF has been listed in the Climate Leadership Index of the Carbon Disclosure Projects for the third year in succession because of our achievements in the area of climate protection and our efforts to reduce greenhouse gas emissions. > More information is available on the Internet at www.cdproject.net.

| China is the world's third largest market for automobiles.



| ChunLei Zhou, BASF, produces catalysts in Shanghai.



We Sustainably Improve Environmental Protection and Safety

Whoever wants to enjoy long-term success has to conduct their business in a sustainable manner. We have set ourselves ambitious goals for environmental protection, product safety, occupational safety and distribution safety that we want to achieve by 2012. In this way we live by our strategic guideline of ensuring sustainable development.

Our goals in the area of environmental protection and safety are aligned with the principles of Responsible Care®, a voluntary global initiative of the chemical industry. Our Responsible Care competence center consists of a global network of experts who manage our activities in the fields of environmental protection, safety and health. Together they develop long-term global standards, which already exist for the planning and construction of new plants, the transportation and storage of chemicals, and product stewardship. At the regional level, our experts ensure that appropriate account is taken of specific local needs.

> You can find out more at corporate.basf.com/rc-center.

Standardized audits ensure transparency

Our goal is to make our sites and plants even safer. Experts for safety, the environment and occupational medicine regularly monitor all our sites and plants on behalf of the Board of Executive Directors. Using clearly defined criteria they track how our standards are implemented. Environmental and safety audits and occupational medicine and health protection audits are conducted separately. The results are combined to give a comprehensive profile for every site, from which measures are then derived. Possible measures range from short-term improvements through to long-term projects that are subject to follow-up audits.

In 2006, 90 environmental and safety audits were carried out at 44 BASF sites. We also conducted 28 occupational medicine and health protection audits at 28 sites.

> You can find additional information on occupational medicine and health protection on page 59.

Our international BASF Audit Group meets annually to standardize and further develop auditing systems worldwide. Our internal auditing system complies with the standards and criteria of externally accepted auditing procedures. This was confirmed in a review by Deloitte & Touche in 2002. We also carry out external certification at the request of our customers. A list of sites certified according to ISO 14001 or EMAS is available at corporate.basf.com/certified.

Certified sites account for approximately half of the BASF Group's sales.

Promoting safety at service providers and suppliers

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

We also carry out toll audits of companies that produce on our behalf, in particular at companies that synthesize and formulate crop protection products. If we detect shortcomings, we offer companies support in eliminating them and make our know-how available so that they can improve to the greatest possible extent. This too, is part of our responsibility for the supply chain.

AUDITS AND ACQUISITIONS

Before making acquisitions we check production plants according to a list of criteria to recognize possible risks in good time. A BASF specialist in the field of environmental protection, safety and health is always involved in these due diligence reviews. Our experts advise the new sites and plants in the first year following an acquisition. Only in the following year do we conduct a normal audit in which the site is also assessed.

Our Global Environmental Goals

We rely on efficient processes to develop and manufacture our products. This contributes to the success of the company because we achieve higher yields with our plants. At the same time, we protect the environment because we use fewer resources and reduce emissions and waste. We understand that sustainable economic growth needs innovative and efficient technologies and products. We work to achieve this because we are growing and expanding our production capacities.

We aim to publish transparent data on our long-term environmental and safety goals. In 2006, we are again reporting changes to emissions to air and water “specifically,” in other words per metric ton of sales product.

In 2003, we announced ambitious environmental goals for our global operations. The results to date show that we are on the right track and that we have currently achieved all of our environmental goals. In view of our goals for growth, however, we need to keep up our efforts in the future to ensure that we maintain our successes in the long term. We are therefore examining how we can further develop our goals with regard to the startup of new production sites, the integration of our acquisitions, and the use of innovative technologies. We will report on this in 2007. Because we are currently establishing new reporting systems for our acquisitions, data for the newly integrated sites are not included in our 2006 reporting.

Emissions to air from oil and gas production

In 2006, emissions of greenhouse gases from oil and gas production totaled 1.5 million metric tons (2005: 1.3 million metric tons). They are reported in terms of CO₂ equivalent. Emissions of air pollutants amounted to 6,400 metric tons (2005: 5,800 metric tons). As a result, oil and gas production is responsible for 12 percent of the BASF Group's emissions. We have not set ourselves targets for emissions resulting from the development of new oil and gas fields because of the difficulty of predicting such emissions.

2012 goal

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

BASF is committed to the goals of the 1997 Kyoto Protocol and to reducing emissions of relevant greenhouse gases. In the period from 1990 to 2002, we reduced emissions of greenhouse gases by 38 percent in absolute terms and by as much as 61 percent in specific terms.

We want to become even better and have set ourselves the goal of reducing our specific greenhouse gas emissions per metric tons of sales product by 10 percent by 2012 compared with 2002. Our projects will further reduce emissions in the next few years.

Each of the various greenhouse gases has a different impact on the greenhouse effect and so emissions are calculated in terms of CO₂ to allow a comparison. The positive trend seen in recent years also continued following the startup of additional plants at our sites in Asia: In 2006, we reduced specific emissions of greenhouse gases by 12.4 percent compared with 2002. Among other things, this was due to the reduction of N₂O emissions from nitric acid production in Antwerp, Belgium, which we achieved by using a catalyst that we developed specially. In absolute terms, emissions of greenhouse gases from BASF's chemical operations worldwide totaled 25.0 million metric tons in 2006 (2005: 24.8 million metric tons).

Specific emissions

Per metric ton of sales product (changes compared with 2005)

Emissions to air	
Greenhouse gases	–1.7%
Air pollutants	–5.9%

Emissions to water	
Nitrogen	–33.5%
Organic substances (COD)	–27.6%
Heavy metals	–24.2%

Greenhouse gas emissions

Thousand metric tons of CO₂ equivalent/year

	GWP factor*	2002	2003	2004	2005	2006
CO ₂ ***	1	18,236	18,960	20,729	19,737	20,250
N ₂ O	310	6,407	4,788	6,696	4,915	4,602
CH ₄	21	10	10	13	16	12
HFC**	140–11,700	61	36	138	116	121
PFC**	6,500–9,200	0	0	0	0	0
SF ₆	23,900	0	0.6	0.6	1	2
		24,714	23,795	27,577	24,785	24,987

* GWP factor: global warming potential of the individual gases compared with CO₂

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

*** CO₂ emissions include process-related and energy-related emissions. Energy-related CO₂ emissions cover both direct emissions arising from the generation of electricity and steam as well as indirect emissions from the import and export of electricity and steam.

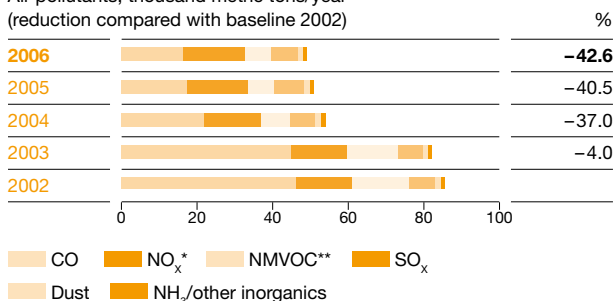
2012 goal

Reduction of emissions of air pollutants: –40%

By 2012, we want to reduce emissions of air pollutants from our chemical plants by 40 percent compared with 2002. Air pollutants include inorganic gases such as carbon monoxide, sulfur dioxide, nitrogen oxides, ammonia and other inorganic compounds, dust, heavy metals and volatile organic compounds (NMVOCs). In 2006, emissions to air from BASF's chemical operations totaled 49,100 metric tons (2005: 50,900 metric tons). Emissions of heavy metals totaled 8 metric tons (2005: 5 metric tons), while ozone-depleting substances, as defined by the Montreal Protocol, amounted to 107 metric tons (2005: 159 metric tons). The increase in heavy metals emissions was due to maintenance measures in individual flue gas treatment systems. Emissions of ozone-depleting substances were reduced by 33 percent thanks to a variety of measures at several sites worldwide.

Emissions to air

Air pollutants, thousand metric tons/year
(reduction compared with baseline 2002)



* NO_x = Sum of NO₂ + NO, calculated as NO₂

** NMVOC = Non-methane volatile organic compounds

2012 goal

Reduction of emissions to water:

Nitrogen: –60%

Organic substances: –60%

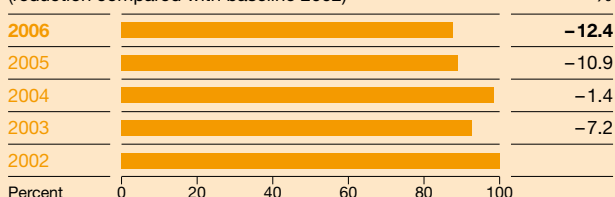
Heavy metals: –30%

By 2012, we want to reduce emissions of both organic substances and nitrogen to water by 60 percent and heavy metal emissions by 30 percent compared with 2002. We more than exceeded our goals with regard to emissions of organic substances and nitrogen in the past year and achieved our goal for heavy metal emissions.

Compared with 2002, we reduced emissions of organic substances by 64.2 percent and nitrogen emissions by 73.1 percent. This achievement was due largely to improvements at our site in Gunsan, Korea, where we made changes to a fermentation process. Heavy metal emissions were cut by 42.6 percent compared with 2002. This was achieved through improvements to production processes in Ludwigshafen and at several sites in Europe.

Reduction of greenhouse gases

Emissions per metric ton of sales product
(reduction compared with baseline 2002)



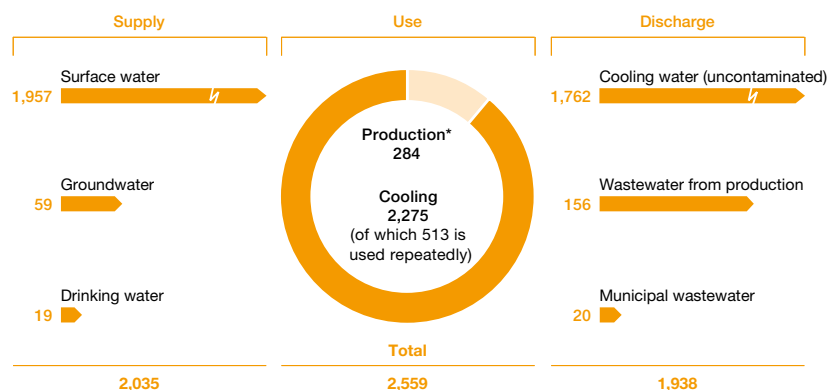
EMISSIONS OF AIR POLLUTANTS REDUCED

Although we increased production volumes by 15.4 percent between 2002 and 2006, we reduced emissions of air pollutants by 42.6 percent in the same period.

We expect further reductions in 2007 when we put a thermoreactor into operation in the phthalic anhydride plant at our Ludwigshafen site.

Water balance BASF Group 2006

Million cubic meters per year



* Sum of production processes, graywater, rising and purification in production

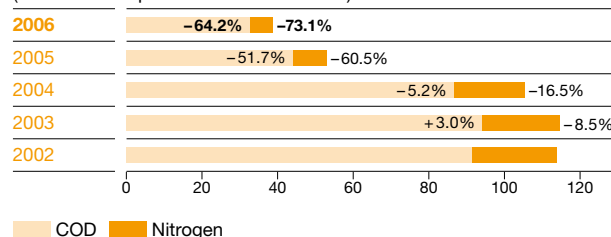
In 2006, BASF discharged a total of 176 million cubic meters of wastewater. Emissions of organic substances to the environment – calculated as chemical oxygen demand (COD) – amounted to 32,800 metric tons (2005: 44,200 metric tons). Emissions of nitrogen to the environment (N total) and phosphorus were 6,000 metric tons (2005: 8,800 metric tons) and 382 metric tons (2005: 430 metric tons), respectively. Wastewater contained 35 metric tons of heavy metals (2005: 45 metric tons). 9.1 million metric tons of wastewater with a COD of 14,800 metric tons was piped to external wastewater treatment facilities.

BASF's water requirements worldwide totaled 2,035 million cubic meters in 2006 (2005: 1,980 million cubic meters). Of this amount, 96 percent was drawn from rivers or lakes. Drinking water accounted for approximately 1 percent, and around 3 percent was groundwater.

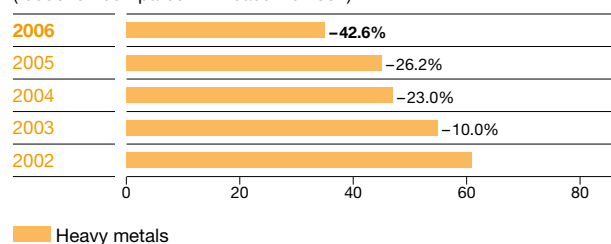
> Information on emissions of individual substances to air or water can be found at corporate.basf.com/emissions_lists.

Emissions to water

Thousand metric tons per year
(reduction compared with baseline 2002)



Metric tons per year
(reduction compared with baseline 2002)



WATER CONSUMPTION AT BASF

We take great efforts to minimize water consumption and maximize the use of recycled water. Water is used for various purposes at BASF. The vast majority is used for cooling. Only a small fraction (11 percent) comes into direct contact with products. Contaminated water from production and graywater are treated appropriately. For example, wastewater is treated biologically in wastewater treatment plants, if necessary in combination with other methods such as neutralization, precipitation or flocculation.

Waste management

Worldwide, BASF produced 1.50 million metric tons of waste in 2006 (2005: 1.55 million metric tons). Oil and gas exploration accounted for 197,000 metric tons. Around 53 percent of our waste was recycled or subjected to thermal recovery. The remainder was disposed of by incineration (45 percent), landfilling (41 percent) or underground storage (14 percent). In line with the customary international categories, 471,000 metric tons of the waste we disposed of was classified as hazardous and 239,000 metric tons as non-hazardous. We are working to further reduce the amount of waste we produce and improve recycling.

Abbreviations used

CH₄ = Methane
 CO = Carbon monoxide
 CO₂ = Carbon dioxide
 COD = Chemical oxygen demand
 HFC = Halogenated fluorocarbons
 MWh = Megawatt hours
 MWh_{el} = Megawatt hours (electrical)
 N = Nitrogen
 N₂O = Nitrous oxide/dinitrogen oxide
 NO = Nitrogen monoxide
 NO₂ = Nitrogen dioxide
 NMVOCs = Non-methane volatile organic compounds
 PFC = Perfluorocarbons
 SF₆ = Sulfur hexafluoride
 SO₂ = Sulfur dioxide

> Further data at: corporate.basf.com/environment2006



COOPERATION WITH LOCAL COMMUNITIES

Waste management is an important aspect of environmental protection and is thus a central issue for BASF. This is one area in which we provide support to the communities in which our sites are located. In 2006, for example, we worked with the city of Altamira, Mexico, and German Technical Cooperation (GTZ) to develop a new waste management concept for the city. Together, we identified the major problems and planned how to reduce the amount of waste generated and increase recycling. In this way, we helped the city to deal with one of its greatest environmental problems.

In Indonesia, we also work with the local authorities and offer support in the area of waste management. Here, our efforts include measures to sensitize the inhabitants of the city of Cengkareng to the problem of waste.

Gerardo Siliceo (right), responsible for waste management in Altamira, discusses possible improvements with **Antonio Márquez**, head of a plastics recycling company.

ENVIRONMENTAL PROTECTION COSTS

The costs of operating environmental protection facilities throughout the BASF Group amounted to €657 million in 2006 (2005: €623 million). In the same period, we also invested €116 million in new and improved environmental protection plants and facilities (2005: €78 million). These capital expenditures involved both end-of-pipe measures as well as environmental protection measures that are integrated into our production processes.

Transporting Products Safely

We supply our products to our customers punctually and in the correct amount and quality. Products therefore have to be transported, stored and handled safely. This is part of our social responsibility.

2012 goal

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

In the past year, we came a further step closer to achieving this goal. In 2006, there were 0.45 transportation accidents per 10,000 shipments (2005: 0.47). This value is based on the accidents reported to us by our logistics partners.

To achieve our goal, we depend on global standards, effective organization and reliable logistics partners.

Safety through assessments

The Safety and Quality Assessment System (SQAS) is a key tool for comprehensive safety that applies to overland transport in Europe. This standardized assessment system for carriers was developed by members of the European Chemical Industry Council (CEFIC). An SQAS report provides details on safety and quality standards at carriers, for example on staff training levels, response times during emergencies and equipment carried by vehicles. Only when we are sure that logistics companies have satisfied all our requirements do we entrust them with our products. In 2005, we started a systematic audit of the logistics companies we use in Asia. To do this, we introduced our own system: the Road Safety Assessment

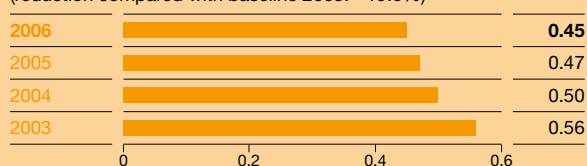
(RSA), which is largely identical to the SQAS system in Europe. Together with other chemical companies, we plan to establish a joint assessment system for transport companies in China. The foundation was laid at a workshop in Shanghai in 2006. An association of international chemical companies in China will sponsor the system, which is scheduled to start up in 2007. The participating companies will then be able to use the results of independent reviewers and check whether transport companies meet their requirements. BASF has criteria that exceed the legal requirements and insists for example that drivers are trained in defensive driving techniques.

Responding to accidents swiftly

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

Transportation accidents

per 10,000 shipments
(reduction compared with baseline 2003: -19.6%)



UNIFORM STANDARDS WORLDWIDE

We have a handbook that sets out our global standards for transporting and storing chemical products. Our global network of safety distribution officers plays an important role in implementing the standards. These experts ensure that national and international regulations are observed when chemicals are shipped.

Responsibility for Our Products Worldwide

We are responsible for ensuring that our products are safe and do not pose a danger to people or the environment when they are used responsibly and in the manner intended. This is why we continuously broaden our substance data and are quick to include new information in risk assessments. We inform our customers, end users and the public about substance properties.

2008 goal

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

In the past years, we have generated the base data sets for more than 93 percent of the substances we produce worldwide. In all regions, we are comparing product portfolios and identifying substances for which data are incomplete. We analyze these substances and close the gaps on an ongoing basis.

The global workshop that we hold every spring is designed to allow the exchange of information on all aspects of product safety and helps establish uniform standards worldwide.

Responsibility for our products worldwide

We use safety data sheets to inform our customers about the properties and possible risks of our products. These data sheets are our most important means of communicating safety information, and we update them when new data become available. Our safety data sheets are now available in 34 languages, and further language versions are planned.

Our customers and partners can obtain information on BASF products around the clock using our global network of emergency hotlines.

We also take steps in good time to ensure occupational health and safety: For example, we have a nanotechnology guideline that provides a basis for the responsible use of nanomaterials. We are also actively involved in the development of product-specific methods for analyzing and evaluating nanomaterials through projects like the E.U.'s Nanosafe2 and Nanocare, which is sponsored by the German Ministry of Education and Research.

Our acquisitions in 2006 – Johnson Polymer, Engelhard and Degussa's construction chemicals business – have been integrated into our product safety network. We use workshops to ensure that these new business areas also meet our high product safety standards.

To encourage the safe use of our products, all BASF companies offer training courses and workshops specially tailored to individual customer needs. On request, we also carry out eco-efficiency analyses for our customers.

[> More information on page 35](#)

Preparations for REACH

The new European chemicals legislation (REACH) increases the demands placed on all chemical companies in Europe with regard to product stewardship. The new requirements for the evaluation and documentation of all safety data on substances produced in or imported to the region will have an impact on all regions worldwide.

REACH – THE NEW EUROPEAN CHEMICALS LEGISLATION

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

Due to its global structure and its extensive product portfolio, BASF is among the companies that will be most heavily affected by REACH. We are aware of the new requirements and started to prepare for the new legislation as far back as the middle of 2004. The implementation of REACH throughout BASF will be managed centrally by our Toxicology and Product Stewardship department, and the necessary resources have been expanded. The operating divisions are represented in a steering committee. REACH coordinators have been appointed by all divisions to implement individual measures. Our central product stewardship experts are responsible for developing efficient structures and processes for the entire BASF Group, while the REACH coordinators ensure, for example, that all products in a given divisions are recorded.

Uniform global standard for product safety

BASF goes a step further in its belief and commitment to safe products and uniform global standards. With the "BASF Voluntary Commitment – Product Stewardship 2015," the Board of Executive Directors has defined the goal of conducting a risk assessment of all substances produced or sold worldwide in the BASF Group in quantities of more than 1 metric ton per year by 2015. This assessment is based on the REACH guidelines. With this initiative, BASF is giving a clear sign for the implementation of the Global Product Strategy proposed by the International Council of Chemical Associations (ICCA).

Environmental and toxicological testing

We subject new chemical substances to all necessary environmental and toxicological tests and apply to the appropriate authorities for registration. Animal studies are needed to comply with legal and regulatory requirements. The new E.U. chemical legislation, REACH, will require additional data on the properties of chemical substances, and this will automatically lead to an increase in the number of animal studies.

We are committed to the ethical principles of animal protection and develop alternative methods to animal studies. We use such alternatives wherever appropriate and possible. To date, however, very few animal-free alternative methods have been recognized by the authorities. Those available are all used at BASF, and we have even helped to develop some of them. For more than 20 years, we have been involved in all relevant research projects to develop alternative and supplementary methods for animal studies and have invested considerable resources. BASF works with national and international institutes and companies in this area. In acute toxicity studies, we are now in a position where we are able to use about 25 percent fewer animals per substance.

| We test all chemical substances thoroughly.



PRODUCT STEWARDSHIP 2015

- New voluntary commitment
- Testing of all substances produced or sold by BASF worldwide in quantities of more than 1 metric ton per year
- Based on a risk assessment
- Follows REACH guidelines
- To be completed by 2015

Assurance Report

To BASF Aktiengesellschaft

Introduction

We have been engaged to review parts of the Corporate Report 2006 of the BASF Group. The management of BASF Aktiengesellschaft (BASF) is responsible for the preparation of the Corporate Report. Our responsibility is to issue an assurance report on the quantitative data covered by the scope of our review.

Standards and Criteria

We conducted our review in accordance with the International Standard on Assurance Engagements (3000): "Assurance Engagements other than Audits or Reviews of Historical Financial Information," issued by the International Auditing and Assurance Standards Board. Regarding our independence we comply with the requirements of the IFAC Code of Ethics for Professional Accountants. A review is not an audit and, accordingly, we do not express an audit opinion.

For the Corporate Report 2006 BASF applies reporting criteria as detailed on page 2. The criteria are geared to the international guidelines of the Global Reporting Initiative (GRI) 2002 in combination with the Health, Safety und Environmental Reporting Guidelines 1998 of the European Chemical Industry Council (CEFIC).

Scope

According to our engagement we reviewed the quantitative data in the sections "Key Data BASF Group" (inner cover page), "Our Goals" (pages 20 to 21), "Employees" (pages 52 to 61), "Neighbours and Society" (pages 62 to 69) and "Environment" (pages 70 to 83) of the Corporate Report 2006 of the BASF Group for the period from January 1, 2006 to December 31, 2006.

Work undertaken

A review is limited primarily to inquiries of company employees and analytical evaluation and therefore does not provide the assurance attainable in an audit. Amongst other things our review included:

- An evaluation of the reporting criteria BASF applied for the Corporate Report.
- A review of the systems and procedures for the recording, collection and processing of data in the areas environment, occupational health and safety, transport safety as well as employees and society based on analytical evaluations and system testing.
- Inquiries of responsible employees at the head office with regard to the strategy, the management and the communication of the sustainability issues reported in the Corporate Report.
- Inquiries of employees and analytical evaluation of data at BASF Coatings in Guadalajara, Spain; São Bernardo do Campo; Brazil; and Münster, Germany; as well as BASF sites in Guaratinguetá, Brazil; and Ludwigshafen, Germany.
- The collection of internal and external documentation related to quantitative data and reported goals.

Additionally we reconciled the financial data reported in the section "Shareholder" (pages 26 to 36) with the data in the annual report as of December 31, 2006 of the BASF Group – released in the Financial Report 2006 of the BASF Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the quantitative data presented in the above mentioned sections of the Corporate Report is not prepared, in all material respects, in accordance with the BASF internal sustainability reporting criteria.

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frankfurt, February 27, 2007

Fischer
Wirtschaftsprüferin

ppa. Dr. Fahrbach

GRI Index

Since 2003, BASF has been participating in the feedback meetings of the Global Reporting Initiative (GRI) and has been working to further develop the guidelines together with experts from industry, nongovernmental organizations, analysts and financial auditors. We reported on the basis of the GRI for the first time in our Corporate Report 2003. The GRI aims to make international reporting comparable.

The G2 Guidelines provided us with valuable orientation when producing our Corporate Report 2006. In our reporting, however, we do not completely adopt the structure proposed by the GRI because it does not always show aspects relevant to sustainability and key issues at our company in a suitable manner. We consider it crucial to set our own

priorities in corporate reporting and thus foster a constructive and critical dialogue with our partners and stakeholders.

This index shows where you can find information on the core elements and indicators of the GRI in this report and in our Financial Report (FR). Our online reporting provides additional information on some indicators at corporate.basf.com/gri-index_e. An extended overview is available on the Internet. The online index contains all GRI reporting elements, all GRI core and additional indicators and shows where details are to be found in our online reporting. We also give a brief explanation if no data are available for a given indicator.

> Further information on GRI at www.globalreporting.org

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Glossary

audits

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

biotechnology

This term covers all processes and products that use living organisms, for example bacteria and yeasts, or their cellular constituents.

compliance

Compliance refers to the company's behavior in accordance with laws, guidelines and voluntary codices.

CO₂ equivalent

A parameter to describe the effect of greenhouse gas emissions. A factor known as the global warming potential (GWP) shows the effect of the individual gases compared with CO₂ (reference value).

corporate governance

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

corporate social responsibility (CSR)

BASF defines corporate social responsibility as the voluntary actions taken by a company to address the ethical, social and environmental impacts of its business operations and the concerns of its principle stakeholders.

earnings before interest and taxes (EBIT)

At BASF, this term is synonymous with income from operations.

eco-efficiency analysis

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

Global Compact

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

growth clusters

BASF has combined its research into important technology-driven issues of the future in five growth clusters: energy management, raw material change, nanotechnology, plant biotechnology and white (industrial) biotechnology.

HPPO process

A technology to produce propylene oxide (PO) using propylene and hydrogen peroxide (HP). HPPO technology has less environmental impact and is economically more attractive than conventional production processes for PO. PO is an intermediate used, for example, in the production of polyurethanes.

key performance indicator (KPI)

A key performance indicator is a quantifiable measurement that can be used to track the progress in achieving important goals within a company.

Kyoto Protocol

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

methylene diphenyldiisocyanate (MDI)

A substance used in the production of polyurethanes.

nanotechnology

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

naphtha

Liquid petroleum that is obtained during the separation of crude oil in refineries. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.

oil equivalent

An international standard for comparing the thermal energy of different fuels.

plant biotechnology

An area of biotechnology in which methods of traditional cultivation are optimized using method from molecular biotechnology and biochemistry.

polybutylene terephthalate (PBT)

PBT is an engineering plastic that is used, for example, for spotlights, computer keyboards and housings for domestic appliances.

REACH

A proposed new E.U. regulatory framework for the registration, evaluation and authorization of chemicals.

Responsible Care®

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

stakeholders

The designation for persons or groups whose interests are interlinked with those of a company in a variety of ways. BASF's stakeholders include shareholders, business partners, employees, neighbors and society, and the environment.

steam cracker

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

sustainable development

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

technology platforms

Our four global technology platforms – Polymer Research, Specialty Chemicals Research, Chemicals Research & Engineering and Plant Biotechnology Research – form the heart of our Know-how Verbund.

tetrahydrofuran (THF)

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

toluene diisocyanate (TDI)

A substance used in the production of polyurethanes.

value-adding chain

Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

Verbund

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

white biotechnology

A branch of biotechnology that deals with products and processes for the chemical, textile and food industries.

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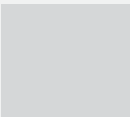
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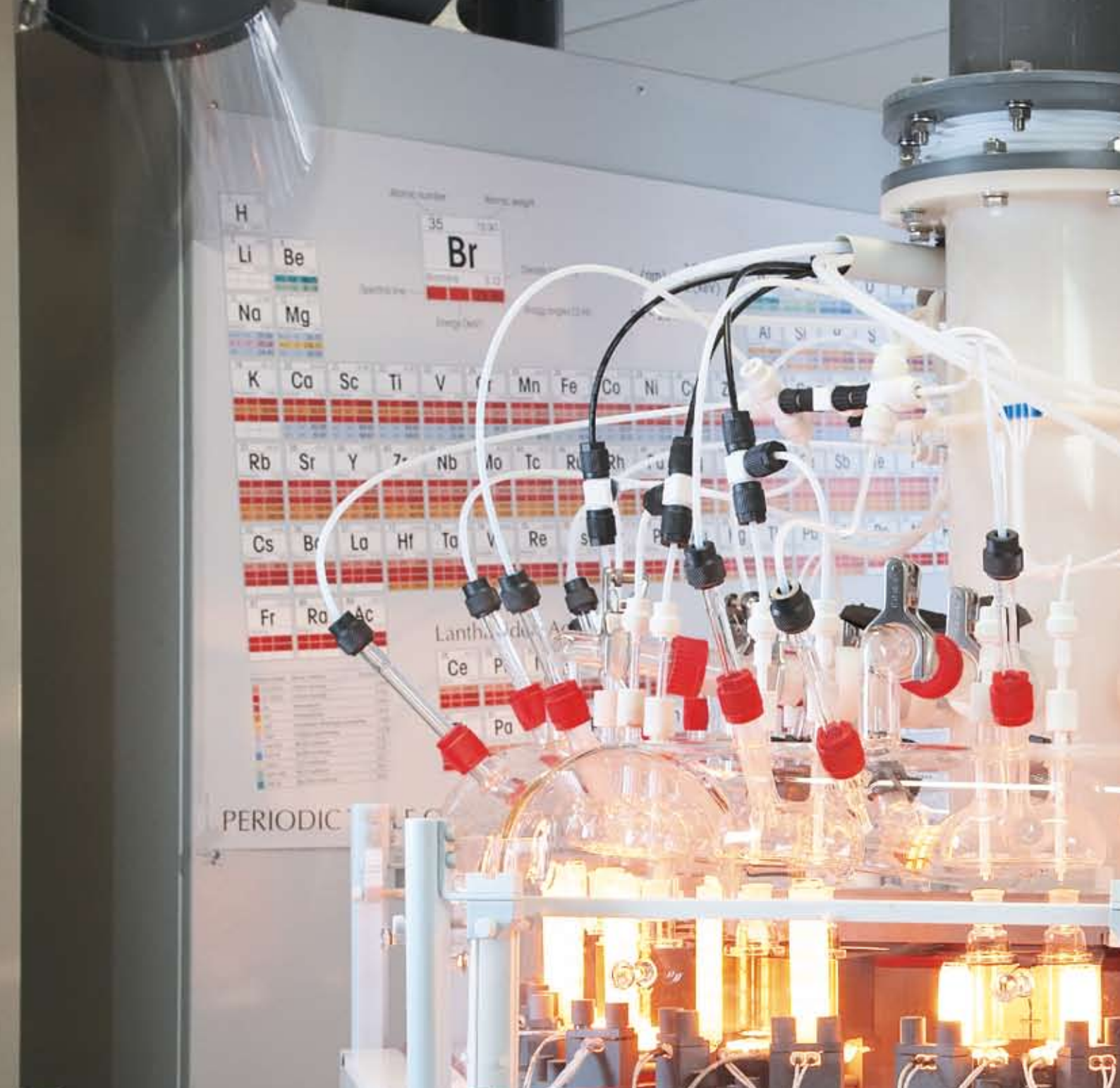
Key data BASF Group 2006

Sales	Million €
BASF Group sales	52,610
Sales by segment	
– Chemicals	11,572
– Plastics	12,775
– Performance Products	10,133
– Agricultural Products & Nutrition	4,934
– Oil & Gas	10,687
– Other	2,509
Sales by region (location of customer)	
– Europe	29,529
– Thereof Germany	11,062
– North America (NAFTA)	11,522
– Asia Pacific	8,102
– South America, Africa, Middle East	3,457
Earnings	Million €
Income from operations (EBIT)	6,750
Income before taxes and minority interests	6,527
Net income	3,215
Other key data	
Equity ratio (%)	41.0
Return on assets (%)	17.5
Research and development expenses (million €)	1,277
Additions to fixed assets (million €)	4,068
Number of employees (December 31, 2006)	95,247
Key BASF share data	€
Year-end price	73.85
High	74.24
Low	58.97
Dividend per share	3.00
Earnings per share	6.37

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