BASF AKTIENGESELLSCHAFT
Form 20-F
March 14, 2006

As filed with the Securities and Exchange Commission on March 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-15050

BASF AKTIENGESELLSCHAFT

(Exact Name of Registrant as Specified in Its Charter)

BASF CORPORATION*

(Translation of Registrant s name into English)

Federal Republic of Germany (Jurisdiction of incorporation or organization)	Carl Bosch Strasse 38 Ludwigshafen, GERMANY 67056 (Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares representing BASF ordinary shares of no par value	New York Stock Exchange
BASF ordinary shares of no par value	New York Stock Exchange **

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2005, there were 514,379,000 BASF ordinary shares of no par value outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ý No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No ý

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý **Accelerated filer** o **Non-accelerated filer** o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

*** BASF Corporation is also the name of a wholly owned subsidiary of the Registrant in the United States.**
**** Not for trading, but only in connection with the registration of American Depositary Shares.**

BASF Aktiengesellschaft is incorporated as a stock corporation organized under the laws of the Federal Republic of Germany. As used in this Annual Report, BASF Aktiengesellschaft refers solely to the ultimate parent company of the BASF Group. BASF refers to BASF Aktiengesellschaft and its consolidated subsidiaries.

The Consolidated Financial Statements of BASF are based on the International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB).

The reconciliation of significant deviations to U.S. generally accepted accounting principles (U.S. GAAP) is described in Note 5 to the Consolidated Financial Statements included in Item 18.

The translation of euros into dollars has been made solely for the convenience of the reader at the noon buying rate of the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2005, which was U.S. $1.1842 = 1.00. No representation is made that such amounts in euros could have been or could be converted into dollars at that or any other exchange rate on such date or any other dates.

Forward-Looking Information May Prove Inaccurate

This Annual Report contains certain forward-looking statements and information relating to BASF that are based on the current expectations, estimates and projections of its management and information currently available to BASF. These statements include, but are not limited to, statements about BASF s strategies, plans, objectives, expectations, intentions, expenditures, and assumptions and other statements contained in this Annual Report that are not historical facts. When used in this document, the words anticipate, believe, estimate, expect, intend, plan, project and other similar expressions are generally intended to identify forward-looking statements.

These statements reflect the current views of BASF with respect to future events. They are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. In addition, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate.

Many factors could cause the actual results, performance or achievements of BASF to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors include, among others:

changes in general political, economic and business conditions in the countries or regions in which BASF operates;

changes in the laws or policies of governments or other governmental or quasi-governmental activities in the countries in which BASF operates;

changes in the composition of BASF Group companies, joint venture activities, divestitures, and the successful integration of acquisitions;

increased price competition and the introduction of competing products by other companies;

the ability to develop, introduce and market innovative products and applications;

the length and depth of product and industry business cycles, particularly in the automotive, construction, electrical and textile industries;

changes in the demand for, supply of, and market prices of crude oil, refined products, natural gas and petrochemicals, including changes in production quotas in OPEC countries and the deregulation of the natural gas transmission industry in Europe;

the cost and availability of feedstock and other raw materials, including naphtha, and the price of steam cracker products;

the ability to pass increases in raw material costs on to customers;

changes in the degree of patent and other legal protection afforded to BASF s products;

regulatory approval, particularly in the areas of fine chemicals, agricultural products and plant biotechnology, and market acceptance of new products including genetically modified competitive products;

unexpected negative results from research and development and testing of current product candidates;

the ability to maintain plant utilization rates and to implement planned capacity additions and expansions;

the ability to reduce production costs by implementing technological improvements to existing plants;

the existence of temporary industry surplus production capacity resulting from the integration and start-up of new world-scale plants;

potential liability resulting from pending or future litigation, including litigation and investigations relating to antitrust violations in the vitamins business until early 1999;

potential liability for remedial actions under existing or future environmental regulations;

changes in currency exchange rates, interest rates and inflation rates; and

changes in business strategy and various other factors referenced in this Annual Report.

Many of these factors are macroeconomic in nature and are, therefore, beyond the control of BASF s management. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. BASF does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Annual Report.

TABLE OF CONTENTS

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The following selected financial data for the years 2005 and 2004 are excerpted from the Consolidated Financial Statements of BASF, which have been audited by Deloitte & Touche GmbH, independent accountants during this period. Starting from January 1, 2005 the accounting and reporting of the BASF Group is performed according to International Financial Reporting Standards (IFRS). Figures for 2004 have been restated accordingly. For further information, please see Note 3 of Item 18. Selected data are also provided in accordance with U.S. GAAP for the 2001 through 2005 reporting periods.

BASF s accounting and valuation methods conform to U.S. GAAP to the extent permissible under IFRS. See Notes 1 and 5 to the Consolidated Financial Statements in Item 18 for further information. The selected financial data presented below in accordance with U.S. GAAP for the years 2004 and 2005 have been derived from the Consolidated Financial Statements included in Item 18. Data for 2001, 2002, and 2003 have been derived from prior years statements. The reconciliation of the differences between IFRS and U.S. GAAP is described in Note 5 to the Consolidated Financial Statements included in Item 18.

The translation of euros into U.S. dollars for 2005 has been made solely for the convenience of the reader at the noon buying rate of the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2005, which was U.S. $1.1842 = 1.00. No representation is made that such euro amounts could have been or could be converted into dollars at that or any other exchange rate on such date or any other dates.

	2005	2005 (Million and Million $, except per share data and certain other data)	2004
Income Statement Data			
IFRS			
Sales, net of natural gas taxes	$50,619	42,745	37,537
Gross profit on sales	15,605	13,178	11,815
Income from operations	6,904	5,830	5,193
Thereof special items	*(365)*	*(308)*	*(37)*
Financial result	114	96	(846)
Income before taxes and minority interests	7,018	5,926	4,347
Income before minority interests	3,752	3,168	2,133
Net income	3,561	3,007	2,004
Basic earnings per share	6.79	5.73	3.65
Balance Sheet Data			
IFRS			
Long-term assets	24,326	20,543	20,518
Short-term assets	17,914	15,127	14,930
Total assets	**42,240**	**35,670**	**35,448**
Stockholders equity	20,751	17,523	16,602
Thereof subscribed capital	*1,560*	*1,317*	*1,383*
Long-term liabilities	11,560	9,762	10,372
Short-term liabilities	9,929	8,385	8,474
Total stockholders equity and liabilities	**42,240**	**35,670**	**35,448**
Capital Expenditures and Depreciation			
Additions to intangible assets and property, plant and equipment	2,988	2,523	2,163
Amortization of intangible assets and depreciation of property, plant and equipment	2,846	2,403	2,492
Key Ratios			
Return on sales (%) (1)	13.6	13.6	13.8
Return on assets (%) (2)	17.7	17.7	13.2
Return on equity after taxes (%) (3)	18.6	18.6	12.9

(1) Return on sales (%) is calculated by dividing income from operations by net sales. This ratio is synonymous with operating margin.

(2) Return on assets (%) is calculated by dividing income before taxes and minority interests plus interest expenses by the average amount of total assets of the current and the previous year.

(3) Return on equity after taxes (%) is calculated by dividing net income, excluding extraordinary income after taxes, by the average amount of stockholders equity of the current and the previous year.

	2005	2005	2004	2003	2002	2001
		(Million and Million $, except per share data and certain other data)				
U.S. GAAP						
Net income*	$3,625	3,061	1,863	1,320	1,716	5,655**
*Thereof from continuing operations**	*3,625*	*3,061*	*1,863*	*1,320*	*1,716*	*(265)***
Basic earnings per share*	6.90	5.83	3.39	2.35	2.96	9.38**
Income from continuing operations per share*	6.90	5.83	3.39	2.35	2.96	(0.44)**
Diluted earnings per share*	6.90	5.83	3.39	2.35	2.96	9.38**
Stockholders equity*	21,250	17,945	17,159	17,324	18,040	18,659**

* Change in accounting policy for inventories Amounts in accordance with U.S. GAAP for 2001 through 2003 restated for the change in accounting for inventories. BASF Group is required to comply with the International Financial Reporting Standards (IFRS) for the 2005 reporting year due to a mandate by the European Union. In order to capture this development in the 2004 reporting year, IFRS have been followed to the greatest extent permissible under German GAAP. As the LIFO method is not allowed under IFRS, inventory valuation has been changed to the average cost method, which has also been adopted for U.S. GAAP. A change from the LIFO method to another method requires a restatement of previously reported financial information.

** unaudited

Weighted Average of Shares Outstanding Used in Determining Earnings per Share:

	2005	2004	2003	2002	2001
Basic earnings per share	525,124,659	548,714,243	561,886,993	579,118,368	602,586,176
Diluted earnings per share	525,124,659	548,714,243	561,886,993	579,118,368	602,586,176

REPORTABLE OPERATING SEGMENT DATA

	2005	2005 (Million and Million $)	2004
Chemicals			
Sales	$9,596	8,103	7,020
Income from operations	1,570	1,326	1,284
Thereof special items	*(192)*	*(162)*	*(93)*
Assets	7,278	6,146	5,219
Plastics			
Sales	13,876	11,718	10,532
Income from operations	1,202	1,015	694
Thereof special items	*(19)*	*(16)*	*(58)*
Assets	7,862	6,639	6,187
Performance Products			
Sales	9,790	8,267	8,005
Income from operations	1,022	863	1,128
Thereof special items	*(32)*	*(27)*	*278*
Assets	5,759	4,863	4,538
Agricultural Products and Nutrition			
Thereof Agricultural Products			
Sales	3,905	3,298	3,354
Income from operations	806	681	602
Thereof special items	*12*	*10*	*(64)*
Assets	6,106	5,156	4,985
Thereof Fine Chemicals			
Sales	2,051	1,732	1,793
Income from operations	(69)	(58)	56
Thereof special items	*(95)*	*(80)*	*(41)*
Assets	1,754	1,481	1,308
Oil & Gas			
Sales	9,066	7,656	5,263
Income from operations	2,854	2,410	1,643
Thereof special items			*(10)*
Assets	5,797	4,895	4,063
Others			
Sales	2,334	1,971	1,570
Income from operations	(483)	(407)	(214)
Thereof special items	*(39)*	*(33)*	*(49)*
Assets	7,686	6,490	9,148
BASF Group			
Sales	50,619	42,745	37,537
Income from operations	6,903	5,830	5,193
Thereof special items	*(365)*	*(308)*	*(37)*
Assets	42,241	35,670	35,448

Dividends

The following table lists the annual dividends payable per BASF Share in euros and the U.S. dollar equivalent for each of the years indicated. The table also discloses the dividend amount per BASF Share for 2005 proposed by the Supervisory Board and the Board of Executive Directors for approval at the Annual Meeting to be held on May 4, 2006. The table does not reflect the related tax credits available to eligible taxpayers. See Item 10. Additional Information Taxation of Dividends and Item 8. Financial Information Dividend Policy for further information.

	Dividend Paid for Each BASF Share	
Year Ended December 31,	**Euro**	**Dollar**
2005	2.00	2.37
2004	1.70	2.30
2003	1.40	1.76
2002	1.40	1.47
2001	1.30	1.16

The euro dividend amounts are translated solely for the convenience of the reader into U.S. dollars (rounded to the nearest cent) at the Noon Buying Rate on the dividend payment date. For the dividend proposed to be paid in 2006 for the year ended December 31, 2005, the euro amount is translated into U.S. dollars (rounded to the nearest cent) on the basis of the Noon Buying Rate on December 31, 2005 of $1.1842 = 1.00.

Exchange Rate Information

On January 1, 2002, the euro became the sole legal tender for business transactions in Germany and the other eleven countries participating in the European Monetary Union.

Since January 4, 1999, BASF Shares have been quoted in euros on the Frankfurt Stock Exchange. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect, among other things, the U.S. dollar amount received by holders of BASF s ADRs upon conversion by the depositary of any cash dividends paid in euros on BASF Shares. It will also affect the U.S. dollar equivalent of the euro price of BASF Shares on the Frankfurt Stock Exchange, which will affect the market price of the ADRs on the New York Stock Exchange.

The table below sets forth, for the periods and dates indicated, the high, low, period-average and period-end Noon Buying Rates for euros expressed in U.S. dollars for one euro. No representation is made that the euro or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or euros, as the case may be, at any particular rate.

	U.S. Dollar for One Euro			
			Period	Period
Year	High	Low	Average (1)	End
2005	1.3476	1.1667	1.2400	1.1842
2004	1.3625	1.1801	1.2478	1.3538
2003	1.2597	1.0361	1.1411	1.2597
2002	1.0485	0.8594	0.9495	1.0485
2001	0.9520	0.8370	0.8909	0.8901

(1) The average of the Noon Buying Rates on the last business day of each full month during the relevant period.

The high and low exchange rates for the euro for each month during the previous six months is set forth below:

	U.S. Dollar for One Euro	
Month	High	Low
February, 2006	1.2100	1.1860
January, 2006	1.2287	1.1980
December, 2005	1.2041	1.1699
November, 2005	1.2067	1.1667
October, 2005	1.2148	1.1914
September, 2005	1.2538	1.2011

The Noon Buying Rate for the euro on March 1, 2006 was quoted by the Federal Reserve Bank of New York at 1.1899 U.S. dollars for one euro.

As of January 4, 1999, the commencement date of euro trading, the Noon Buying Rate for the euro was quoted at $1.1812 = 1.00.

Because a substantial portion of the BASF Group s revenues and expenses are denominated in currencies other than the euro, results of operations and cash flows may be materially affected by movements in the exchange rate between the euro and the respective currencies to which the Group is exposed. For a discussion of the effect exchange rate fluctuations have on the BASF Group s business and operations and also the hedging techniques used to manage the Group s exposure to such fluctuations, see Item 5. Operating and Financial Review and Prospects Exchange Rate Exposure and Risk Management and Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Risk Factors

BASF s business, financial condition or results of operations could suffer adverse material effects due to any of the following risks. While all the risks considered material are described below, these are not the only risks BASF faces. Additional risks not known by BASF or not presently considered material might also impair BASF s business operations.

Certain developments in the global economy generally may adversely affect BASF s sales and earnings

Four major economic factors may pose risks affecting BASF s sales and earnings: 1. Oil price developments could be different from estimated tendency to decline, 2. The U.S. dollar may further devaluate against the euro and Asian currencies, 3. China s economy might experience a significantly reduced growth rate compared with expectations, 4. The U.S. interest rate level could increase faster and higher than anticipated.

Decreasing demand for chemical products in the United States and Asia, as well as ongoing economic weakness in Europe, could consequently have an adverse effect on both sales and earnings. Those areas that are subject to commoditization, such as BASF s basic inorganic chemicals, petrochemicals, intermediates and plastics operations are particularly vulnerable, whereas BASF s agricultural, nutrition and cosmetics operations and natural gas trading are less likely to suffer. BASF is also regionally diversified, and therefore less likely to suffer from weakness in a specific region.

Changes in regulatory controls could reduce the profitability of BASF s current products and could delay BASF s introduction of new products

BASF must comply with a broad range of regulatory controls on the testing, manufacturing and marketing of many of its products. BASF expects that regulatory controls worldwide, and especially in the European Union (E.U.), will become increasingly more demanding. The proposed new E.U. chemicals policy (REACH) could require a significant increase in testing for chemical products. These tests could be very cost intensive and time consuming, and could lead to increased costs and reduced operating margins for BASF s chemical products. The new legislation is not expected to be in force before 2007 in the respective countries in Europe.

Under the E.U. Directive on Emission Trading, governments have to impose total CO_2 (carbon dioxide) caps on specific energy intensive installations. These caps aim to enable E.U. member states to meet their Kyoto targets. The National Allocation Plans (NAPs) have been assigned in 2004 for the first period from 2005 until 2007. BASF expects to comply with these targets during the next years. BASF does not anticipate specific capital expenditure exceeding the general administration and adjustment costs that the European industry is facing. Significant capital expenditure and possible limitations of BASF s growth strategy could occur, if the allocation situation changes dramatically after 2007.

BASF is exposed to foreign currency and interest rate risks

BASF conducts a significant portion of its operations outside of Europe and is therefore exposed to risks associated with the fluctuations of foreign currencies. BASF is subject to interest rate risks in the ordinary course of its business.

Risk management is centralized at BASF Aktiengesellschaft and BASF Group companies designated for that purpose. BASF hedges against financial risks through derivative instruments such as forward exchange contracts, currency options, interest rate and currency swaps and combined instruments. There can be no assurance, however, that BASF s hedging strategy will be effective and that foreign currency and interest rate fluctuations will not adversely affect BASF s results of operations. See Item 11. Quantitative and Qualitative Disclosures About Market Risk and Note 29 included in Item 18 for additional information about the nominal value and market value of BASF s financial instruments.

BASF is also subject to credit risks to the extent that counterparties to transactions may not be able to perform their contractual obligations. Although BASF aims to limit the risk of default by entering into transactions only with top-rated financial institutions and by adhering to fixed limits, defaults with respect to significant contracts may adversely affect BASF s operating results.

Significant variations in the cost and availability of raw materials, energy, precursors and intermediates may adversely affect BASF s operating results

BASF uses significant amounts of raw materials and energy in manufacturing a wide variety of products. Significant variations in the cost and availability of raw materials, energy, precursors and intermediates may adversely affect BASF s operating results. To control these price and supply risks, BASF purchases raw materials through negotiated long-term contracts, with prices that periodically float. Additionally required purchases on spot markets are made using optimized procedures. Supply contracts for the most strategically important raw materials are negotiated and concluded centrally for the BASF Group. For more information, see Item 4. Information on the Company Supplies and Raw Materials.

BASF s individual business units constantly monitor changes in their relevant supply markets and take action to minimize their risks accordingly.

Cyclicality may adversely affect BASF s operating margins

The results of BASF s Chemicals, Plastics and Performance Products segments are affected by cyclicality and migration of various industries in which they operate, including the automotive, construction, electrical and electronics as well as the textile industries. BASF s strategy to deal with these risks is to constantly expand its cyclically resilient businesses, such as agrochemicals, active ingredients for pharmaceuticals and nutrition, and trading and transmission of natural gas. In cyclical businesses, BASF seeks to maintain cost leadership. BASF strives to anticipate customer migration tendencies and adjusts to customer industries by continued investment activities in emerging growth markets.

The results of BASF s crop protection business are dependent on weather conditions and can be affected by local and regional economic circumstances

Sales volumes of BASF s crop protection products are subject to the agricultural sector s dependency on weather conditions. Adverse weather conditions in a particular growing region could materially negatively affect the results of operations of BASF s crop protection business. Demand for crop protection products is further influenced by the agricultural policies of governments and multinational organizations. In addition, BASF s crop protection products are typically sold pursuant to contracts with long payment terms. These extended payment periods make BASF s crop protection business susceptible to losses from receivables during local or regional economic crises and may adversely affect BASF s operating results.

Exploration risk may adversely affect the business of BASF s Oil & Gas segment

The future growth of the exploration and production unit of our Oil & Gas segment is dependent on successful findings. The search for new oil and natural gas reserves involves certain geological risks that relate to the availability of hydrocarbon products and the quality thereof. The exploration and production industries are experienced in dealing with these risks diligently. We diversify our risks through a balanced exploration portfolio.

Failure to develop new products and production technologies may harm BASF s competitive position and operating results

BASF s operating results depend on the development of commercially viable new products and production technologies. BASF devotes substantial resources to research and development. Because of the lengthy development process, technological challenges and intense competition, there can be no assurance that any of the products BASF is currently developing, or may begin to develop in the future, will become market-ready and achieve substantial commercial success.

Negative developments in equity and bond markets may make extraordinary contributions to pension funds necessary

The fund assets required to cover future pension obligations are actuarially determined using assumptions concerning the expected return on plan assets. The plan assets are partially comprised of equity investments. Declining returns on equity and bond markets could trigger additional contributions to the pension plans to cover future pension obligations.

BASF is dependent upon hiring and retaining highly qualified management and technical personnel

Competition for highly qualified management and technical personnel is intense in the industries in which BASF operates. BASF s future success depends in part on its continued ability to hire, integrate and retain highly skilled employees.

BASF is subject to the risks associated with the use of information technology

BASF is dependent upon technology for the distribution of information within the BASF Group and to customers and suppliers. This information technology is subject to risks associated with defects, errors, failures and computer viruses. To control potential risks relating to information technology, BASF uses the latest hardware and software and has integrated uniform information technology infrastructures, backup systems, replicated databases, virus and access protection, encoding systems and a high degree of internal networking. There can be no assurance, however, that BASF s information technology systems will not fail and cause material disruptions to BASF s business.

BASF is subject to security risks

Assessing security risks on a worldwide basis and determining their potential impact on BASF has become an extremely difficult undertaking since the terrorist attacks in the United States. BASF s corporate security is in close contact with local security offices through its Group-wide network, and takes controlled precautionary steps with the help of constantly updated security measures and recommendations (e.g., travel restrictions, tighter access controls for production plants, up-dating of rescue and evacuation plans, emergency services, etc.) to protect the company and its employees.

BASF is subject to risks arising from acquisitions and investment decisions

The implementation of decisions related to acquisitions and investments is associated with complex risks due to the high level of capital involved and the long-term capital commitment.

Litigation could harm BASF s operating results and cash flows

For further information see Item 8. Financial Information Legal Proceedings and Note 27 to the Consolidated Financial Statements included in Item 18.

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE COMPANY

BASF Aktiengesellschaft was incorporated as a stock corporation under the laws of the Federal Republic of Germany on January 30, 1952 under the name Badische Anilin- und Soda-Fabrik AG. In 1973, the company changed its name to BASF Aktiengesellschaft. BASF Aktiengesellschaft s headquarters are located in Ludwigshafen, Germany; its registered office is located at Carl Bosch Strasse 38, 67056 Ludwigshafen, Federal Republic of Germany, telephone 011-49-621-60-0. The company s agent for U.S. federal securities law purposes is BASF Corporation, located at 100 Campus Drive, Florham Park, NJ 07932, telephone (973) 245-6000.

Major recent acquisitions and divestitures include the following: On July 20, 2004, BASF divested its 30% share in DyStar to Platinum Equity. BASF also divested its printing systems business to CVC Capital Partners on November 30, 2004. On August 1, 2005, BASF, along with Shell Chemicals, our 50% joint venture partner, sold Basell, a polyolefin joint venture, to Nell Acquisition S.a.r.l., a subsidiary of Access Industries. BASF acquired the global electronic chemicals business from Merck KGaA on April 15, 2005. On October 1, 2005, BASF purchased the Swiss fine chemicals firm Orgamol S.A.

On January 9, 2006, Iron Acquisition Corporation, Florham Park, New Jersey, a 100% subsidiary of BASF Aktiengesellschaft, announced a cash offer for all the shares of Engelhard Corporation, Iselin, New Jersey, in the amount of $37 per share. The total cost of the transaction based on the price per share would be approximately $4.9 billion.

On February 28, 2006, BASF Aktiengesellschaft reached an agreement with Degussa AG, Düsseldorf, Germany, to acquire Degussa s construction chemicals business. The purchase price for equity is approximately 2.2 billion plus assumption of liabilities. As a result, the transaction value for BASF is currently estimated at approximately 2.7 billion. The transaction, which still requires approval from the relevant authorities, is expected to close by the middle of 2006. See Item 8. Financial Information and Note 33 of Item 18. Financial Statements for further details.

Major recent capital expenditures include:

Segment	Location	Project	Projected Annual Capacity at Completion of Project (metric tons)	Start-up/ Projected Start-up of Operations
Chemicals	Caojing, China	Tetrahydrofuran / polytetrahydrofuran	80,000 / 60,000	2005
	Antwerp, Belgium	Expansion steam cracker		2007
		ethylene	1,080,000	
		propylene	650,000	
		benzene	280,000	
	Nanjing, China	Integrated production site major products include:	(1)	2005
		ethylene	600,000	
		propylene	300,000	
		ethylene glycols	350,000	
		aromatics	300,000	
		oxo alcohols	250,000(2)	
		organic acids	80,000	
	Port Arthur, Texas	Butadiene	410,000(3)	2004
Plastics	Antwerp, Belgium	Propylene oxide	300,000(4)	2008
	Antwerp, Belgium	Hydrogen peroxide	230,000(5)	2008
	Caojing, China	MDI (diphenylmethane diisocyanate)	240,000(6)	2006
	Caojing, China	TDI (toluene diisocyanate)	160,000(7)	2006
	Pudong, China	Compounding engineering plastics	45,000	2006
	Kuantan, Malaysia	Ultradur (PBT)	60,000(8)	2006
	Pudong, China	Polyurethanes specialties		2007
	Schwarzheide, Germany	Ecoflex	6,000	2006
Performance Products	Nanjing, China	Acrylic monomers	160,000(1)	2005
		Acrylic esters	215,000	2005

(1) Conducted through a joint venture between Sinopec Corp., China (50%) and BASF (50%) (capacity reflects total joint venture capacity).

(2) Calculated as butyraldehyde

(3) Conducted through a joint venture between Shell Chemical Company, Texas (60%), BASF (24%) and Total Petrochemicals USA, Inc., Texas (16%) (capacity reflects total joint venture capacity).

(4) Conducted through a joint venture with The Dow Chemical Company, Michigan (capacity reflects total joint venture capacity).

(5) Conducted through a joint venture with Solvay S.A., Belgium, and The Dow Chemical Company, Michigan (capacity reflects total joint venture capacity).

(6) Conducted through a joint venture with Sinopec Shanghai Gao Qiao Petrochemical Corporation, China; Shanghai Chlor-Alkali Chemical Co. Ltd., China and the Shanghai Hua Yi (Group) Company, China as well as Huntsman China Investments B.V., Netherlands (capacity reflects total joint venture capacity of which BASF has a 35% share).

(7) Conducted through a joint venture with Sinopec Shanghai Gao Qiao Petrochemical Corporation, China and the Shanghai Hua Yi (Group) Company, China (capacity reflects total joint venture capacity of which BASF has a 70% share).

(8) Conducted through a joint venture with Toray Industries Inc., Japan (capacity reflects total joint venture capacity of which BASF has a 50% share).

16

BUSINESS OVERVIEW

Introduction

BASF is a transnational chemical company that comprises the parent company, BASF Aktiengesellschaft of Ludwigshafen, Germany, and 179 consolidated subsidiaries. The company has customers in more than 170 countries and operates more than 100 production sites.

For the year ended December 31, 2005, BASF reported sales of 42,745 million, income from operations of 5,830 million, and net income after taxes and minority interests of 3,007 million. Based on customer location, BASF s activities in Europe accounted for 55.6% of BASF s total sales in 2005; North America (which includes the United States, Mexico and Canada) accounted for 22.2% of sales; the Asia Pacific region accounted for 15.2% of sales; and the South America, Africa, Middle East region accounted for 7.0% of sales.

Structure

BASF has five separate business segments: Chemicals, Plastics, Performance Products, Agricultural Products & Nutrition and Oil & Gas. These business segments encompass BASF s 12 operating divisions. For financial reporting purposes, the two operating divisions of BASF s Agricultural Products & Nutrition business segment are separate reportable operating segments: Agricultural Products and Fine Chemicals.

Effective January 1, 2005, companies in Asia are reported in the region Asia Pacific. The African and Middle Eastern companies, formerly reported in the region Asia Pacific, are now reported together with the South American companies in the region South America, Africa, Middle East.

BASF s operations are linked with what is referred to as the Verbund structure. Verbund loosely translates as integration, but the meaning encompasses far more than what is traditionally associated with backward or forward integration. In production processes, BASF does not simply look forward and backward to find potential efficiencies, but rather examines every input and every output of these processes. At Verbund sites, BASF uses byproducts of chemical reactions, which might otherwise have to be disposed of, as raw materials for other processes. In addition, many chemical processes release heat energy, which BASF converts into steam and then uses to drive other processes within a Verbund site. This allows our Verbund sites to consume less fossil fuel than would otherwise be required. The close proximity of plants to each other at a Verbund site also allows the use of pipelines to transport intermediate products, instead of railcars, barges or trucks, thus resulting in further savings. By reusing byproducts and residual materials, using energy and other raw materials efficiently, and keeping the distances that substances need to be transported to a minimum, BASF reduces the impact on the environment and saves money. This concept of benefiting from interconnectivity is applied to other areas as well, such as R&D, purchasing, and managing customer relationships, where globally interactive teams maximize BASF s productivity.

Group Strategy

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

Innovations are crucial for profitable growth. We are therefore strengthening our global research and development activities. We have combined the important technology-driven issues of the future in five growth clusters : energy management, raw material change, nanotechnology, plant biotechnology and white (industrial) biotechnology. Interdisciplinary cooperation is the key to success.

We want to use the potential offered by these broad-spectrum technologies to open up new and attractive business opportunities for our customers and ourselves. For example, we are already one of the world s leading companies in the field of nanotechnology, which we use in many applications such as polymer dispersions, pigments and catalysts.

BASF is one of the world s leading companies with regard to research and development in the field of plant biotechnology. We aim to shape this attractive market of the future using our powerful technology platform. Our research activities in this area focus on more efficient agriculture, improved nutrition, and plants as green factories to produce specific chemical substances. By expanding white biotechnology, we aim to use our expertise in the areas of enzyme catalysis and fermentative manufacturing processes to develop new products and processes outside the current key areas of fine chemicals and intermediates.

Four guidelines for our future

Four strategic guidelines describe BASF s path to the future:

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

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

Earn a premium on our cost of capital

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

The BASF Group must achieve an EBIT of 10% on its operating assets to satisfy the returns expected by providers of equity and debt, and to cover tax expenses. The cost of capital percentage before interest and taxes of 10% corresponds to a weighted average cost of capital (WACC) of approximately 6% after taxes. The WACC calculation is an internationally recognized method of determining a company s cost of capital. The return desired by shareholders and the interest rates on debt capital are determined and weighted according to their share of total capital. We calculate our cost of equity on the basis of the market value of BASF shares. The cost of capital percentage is reviewed annually. EBIT after cost of capital is calculated by subtracting income taxes for oil production that are noncompensable with German taxes (see Note 10 of Item 18) and the cost of capital from BASF Group s EBIT. Finally, EBIT for activities not assigned to the segments is added, since this is already provided for

in the cost of capital percentage.

Help our customers to be more successful

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

Form the best team in industry

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

Ensure sustainable development

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

Sustainability considerations are important criteria when developing new products and processes. We combine our expertise in this area in our Expert Services Sustainability, thus contributing to the sustainable success of our customers.

CHEMICALS

Segment Overview

The Chemicals segment produces a wide range of products, from basic petrochemicals and inorganic chemicals to higher-value intermediates, allowing BASF to fully exploit the benefits of its Verbund. The segment is organized into the Inorganics, Petrochemicals, and Intermediates divisions. Key information is provided in the following table:

	2005	2004
	(Million)	
Sales to third parties	8,103	7,020
Percentage of total BASF sales	19%	19%
Intersegmental transfers	3,826	3,395
Income from operations	1,326	1,284
Capital expenditures	639	601

The products are sold to a multitude of industries including the chemical, construction, automotive, electrical, electronics, detergents, colorants, coatings, health and nutrition industries. Although most of the segment s sales are to external customers, 32.1% of the segment s total sales are intersegmental transfers to other BASF operations for the manufacture of higher-value products. The products manufactured for captive use

include many basic and intermediate chemicals.

The Chemicals segment forms the basis of BASF s Verbund because its divisions both intensively consume and manufacture products along the company s core value-adding chains. Most of the commodity products are produced at our major Verbund sites in Ludwigshafen, Germany; Antwerp, Belgium; Geismar, Louisiana; Freeport, Texas; Kuantan, Malaysia; and our newly constructed site at Nanjing, China (a 50% joint venture with our partner SINOPEC), which became operational in 2005. In addition, we have dedicated chemical operations near our customers to foster closer relationships with them: for example, our production of tetrahydrofuran and polytetrahydrofuran in Caojing (China, Asia) or our plasticizer production in Pasadena (Texas, NAFTA).

The principal raw materials used in the Chemicals segment are naphtha, natural gas, butane, propane, sulfur and salt. The segment purchases approximately 5% of its raw materials from other BASF operations. Natural gas, a key raw material for the Chemicals segment, is acquired both through BASF s joint venture WINGAS GmbH and from external sources. All other principal raw materials are purchased from external sources. BASF does not rely on any dominant supplier for the raw materials of its Chemicals segment.

Segment Strategy

The Chemicals segment focuses on the supply of cost-efficient standard chemicals for internal demand and on offering a broad range of intermediate and higher added-value products to external customers. Success factors for the Chemicals segment are cost leadership, economies of scale, leading process technology and efficient production processes. The high and steady internal demand for chemical building blocks produced by the Chemicals segment ensures a high capacity utilization of BASF s plants. BASF s capital expenditures and research and development efforts are focused on building world-scale plants as well as on developing new technologies, improved processes and new products. Key strategies of the Chemicals segment include the following:

Optimize our costs of production for our standard products

Expand our Verbund with new products: In Europe, BASF is constantly identifying new opportunities to expand its Verbund, such as the start-up of the new cyclohexane production plant in Ludwigshafen in the fourth quarter of 2005.

Adapt our product portfolio to market demand: In North America, BASF is restructuring its plasticizer business with new production facilities at its site in Pasadena, Texas to ensure a more robust supply of plasticizers to its North American customers.

Expanding existing businesses in high growth regions: In Asia, BASF expanded its electronics chemicals business by setting-up a new business unit in Hong Kong. This global business unit for electronic materials combines BASF s existing businesses in electronic chemicals with the acquired electronic chemicals business of Merck KGaA, Darmstadt, Germany (April 2005).

BASF s Chemicals segment aims to grow profitably by advancing its global production activities. At the new Verbund site in Nanjing, China, BASF started production with its joint venture partner Sinopec in June 2005. At our Verbund site in Kuantan, Malaysia, which is operated with our joint venture partner PETRONAS, the butanediole complex started operation in 2004. The output of this plant will also be a main precursor for our new polybutyleneterephthalate (PBT) plant to be started up mid 2006 with our joint venture partner Toray, Japan.

Research and Development

In 2005, the Chemicals segment invested approximately 114 million in research and development. Research activities are focused on the development of improved or new production processes as well as on the development of innovative products. We concentrate on extending our product range with new customer-oriented products and applications.

With Hexamoll® DINCH, we have developed an innovative type of plasticizer which is especially suited for sensitive products such as toys, medical devices or food contact applications. After completing the various regulatory procedures, we introduced Hexamoll® into numerous sensitive applications during 2005.

In close collaboration with JGC Corporation, Japan, we are currently developing a new technology for removing and storing carbon dioxide (CO_2) contained in natural gas with the goal of reducing processing costs by 20%. The joint effort, sponsored by the Japanese Ministry of Economy, Trade and Industry, was started in 2005 and will run for eight years. BASF also provides the gas treatment technology in an R&D project of the European Union for the capture of CO_2 from combustion gases in power stations.

Another advance in the Chemicals segment s product innovations is our portfolio of ionic liquids with the brand name BasionicsTM, for which BASF received the 2005 IChemE Award from the Institution of Chemical Engineers (IChemE), the British association of chemical and process engineers. To further advance these products, BASF has set up a research partnership with the University of Alabama to study the dissolution and processing of cellulose by means of ionic liquids, such as for use in fiber manufacturing.

Products

The Chemicals segment has the following major product lines:

Inorganics division

Inorganic Specialties

BASF offers a wide range of inorganic specialties which includes carbonyl iron powder, hydroxylamine free base, hydroxylammonium sulfate, boron specialties and BASF s innovative Catamold® line of products for powder injection molding of metal and ceramic components. The Catamold® line is especially suited for manufacturing tiny, intricate devices such as watch casings and orthodontic appliances. BASF sells these products globally to manufacturers in the automotive, construction and medical sectors, among other industries.

Electronic Materials

BASF produces inorganic specialties in electronic grade, such as hydroxylamine free base for use in manufacturing semiconductors, light-emitting diodes, and flat and plasma screen displays.

Inorganic Chemicals

BASF produces inorganic chemicals, which are the starting materials for superabsorbers, fertilizers, and other high-value chemicals. The products range from basic chemicals such as chlorine, sodium hydroxide, nitric acid and sulfuric acid to inorganic salts such as sodium and potassium alcoholates to ammonium salts. More than half of these products are for captive use within BASF s Verbund. The remaining products are sold primarily to other chemical companies.

Glues and Impregnating Resins

BASF offers a wide variety of tailor-made adhesives for the wood products industry. These adhesives are used to bind together the particles, fibers and strands found in all types of particle boards. In addition, BASF produces impregnating resins, which are used to manufacture decorative paper and laminated flooring. BASF is also a producer of glues and impregnating resin raw materials such as ammonia, formaldehyde, methanol, urea and melamine. Europe is the primary market for this group of products.

Petrochemicals division

Cracker Products

BASF produces the entire range of cracker products from ethylene and propylene to benzene and C_4 cuts. Of these, propylene is the most important starting product for BASF s value-adding chains. Benzene is used captively, while the residues from benzene extraction are sold as gasoline components. Butadiene is used captively to produce dispersions and ABS (acrylonitrile-butadiene-styrene) and is also sold in the merchant market. Isobutene (a C_4 hydrocarbon) serves as the starting material for the polyisobutene value-adding chain of gasoline additives and as the basic building block in vitamin synthesis. In Europe, all n-butenes are used in the synthesis of plasticizers and detergent alcohols. Higher olefins are marketed to the adhesives industry.

Alkylene Oxides and Glycols

Ethylene oxide derived from ethylene is used mainly to produce surfactants, ethanolamines, glycols and glycol ethers. Ethylene glycol is a product used in antifreeze by the automotive industry and for the production of fibers, films and PET (polyethylene terephthalate) plastic bottles by polyester manufacturers. Propylene oxide is synthesized from propylene and serves as a base for a wide variety of products, including hydraulic fluids, solvents and propylene glycol.

Solvents

BASF offers a wide range of oxygenated, halogen-free solvents that are used to dissolve other chemicals and facilitate chemical reactions. BASF is the world s largest producer of oxo alcohols and is also a major producer of acetates, glycol ethers, glycol ether acetates and specialty solvents such as cyclohexanone. BASF sells most of these products globally, primarily to the coatings, pharmaceuticals and cosmetics industries.

Plasticizers and Plasticizer Raw Materials

BASF manufactures standard and specialty plasticizers, which are used in chemical processes to make rigid plastics flexible. BASF also sells the plasticizer precursor phthalic anhydride for use in dyestuffs and unsaturated polyester resins, and markets plasticizers based on higher alcohols. Our newest specialty product is the plasticizer Hexamoll® DINCH, used for sensitive applications.

Intermediates division

Amines

BASF is among the world s top three producers of amines, which are principally used to make detergents and cleaning products, process chemicals, agricultural products, and pharmaceuticals. BASF offers approximately 140 different amines worldwide. Key products include ethanolamines, ethyleneamines, alkylamines, alkylalkanolamines and various specialty and aromatic amines. Several chiral intermediates are of increasing importance for pharmaceuticals and agricultural products. As gas treatment technology we offer aMDEA®, short for activated methyldiethanolamine, for the removal of acid gases like hydrogen sulphide and carbon dioxide.

Butanediol and its derivatives

BASF is the world s largest manufacturer of 1,4-butanediol, which is a chemical building block for products such as polyesters and polyurethanes. Its derivatives are used to manufacture products ranging from fibers to paints and include tetrahydrofuran, PolyTHF®, gamma-butyrolactone and N-methylpyrrolidone.

Polyalcohols and Specialties

Polyalcohols such as 1,6-hexanediol (HDO®) and neopentylglycol (Neol®) are mainly used as raw materials for a wide range of coatings. In addition, BASF offers specialties like carbonates and various special acetylenics, such as vinylmonomers and alkylpyrrolidones.

Acids and Specialty Intermediates

This product group comprises both commodity acid products and specialty intermediate products. Carbon acids such as formic acid, propionic acid and 2-ethylhexanoic acid can be used to manufacture preservatives for the feed and food industries as well as auxiliaries for textile and leather applications. Specialty intermediates, such as derivatives of phosgene including acid chlorides and chloroformates, glyoxal and its derivatives, glutaraldehyde, and various other chemicals such as formamide and triphenylphosphine are often used in the manufacture of paper, polymers, textiles and leather products.

Division Information

Inorganics

BASF s Inorganics division manufactures about 750 products of which approximately 55% are used captively. The remaining amount is sold to external customers worldwide in a broad range of industries.

In 2005, the Inorganics division s sales to third parties were 1,017 million. Thereof, Europe accounted for 67%; Asia Pacific for 21%; North America (NAFTA) for 9%; and South America, Africa, Middle East for 3%.

The Inorganics division expanded its business with electronic materials by setting-up a new global business unit (based in Hong Kong), which encompasses the acquired electronic chemicals business of Merck KGaA, Darmstadt, Germany. The acquisition was closed in April 2005 and includes Merck s production sites and distribution centers for high-purity chemicals in Taiwan, Malaysia, China, Singapore, France, the Netherlands and Germany. Through the acquisition of these new activities, BASF has become a leading supplier of electronic chemicals for the rapidly growing semiconductor and flat screen industries. The business acquired from Merck helps to develop BASF s electronic chemicals business and significantly strengthens BASF s market position in Europe and Asia.

The Inorganics division competes on the basis of strong customer relationships, comprehensive product service and price. In the market for specialty products, the division also competes based on its ability to offer innovative products, such as electronic grade chemicals, catalysts and powder injection molding products. The Inorganics division sells its products primarily through BASF s own sales force.

The Inorganics division s main competitors include Arkema, Norsk Hydro and Gentek. In the market for catalysts, the division s main competitors include Süd-Chemie, Criterion Catalyst & Technology Company, and Procatalyse, while in the market for glues and impregnating resins, Nordkemi and Arkema are among BASF s competitors.

Petrochemicals

The Petrochemicals division sells more than 200 products and represents the first step in BASF s Verbund approach to integration for the company s petrochemical-based, high-value products.

In 2005, the Petrochemicals division s sales to third parties were 5,084 million. Thereof, North America (NAFTA) accounted for 52%; Europe for 37%; Asia Pacific for 9%; and South America, Africa, Middle East for 2%.

The Petrochemicals division sells products through BASF s own sales force as well as through wholesalers. Specialty chemical and other chemical companies are the primary external customers of this division, some of which are also competitors of BASF. Steam crackers, the core of the petrochemicals division, mainly supply products for captive use within the company, although BASF does maintain positions in the merchant markets for olefins to ensure high capacity utilization. Approximately 40% of the division s sales are to other BASF divisions.

The Petrochemicals division produces commodities that are subject to strong cyclicality in pricing. Changes in raw materials prices have an almost immediate effect on the division s financial performance. Competition in the market is based on strong customer relationships, comprehensive product services and price.

BASF considers Celanese, Degussa, Dow Chemical, Eastman Chemicals, ExxonMobil Chemical, Formosa Plastics Corporation, INEOS, SABIC, Sasol, Shell Chemicals and SINOPEC to be the main competitors of its Petrochemicals division.

Intermediates

The Intermediates division manufactures approximately 600 products that are sold worldwide. The customers typically purchase the division s chemical products as precursors for their higher-value chemicals such as plastics, polyurethanes, textile fibers, resins, paints, surfactants, colorants, coatings, pharmaceuticals and agricultural products.

In 2005, the Intermediates division s sales to third parties were 2,002 million. Thereof, Europe accounted for 51%; Asia Pacific for 26%; North America (NAFTA) for 18%; and South America, Africa, Middle East for 5%.

Many of the Intermediates division s products are more resilient to economic cycles than products in the Chemicals segment s other divisions, and many are the result of multi-step production processes within BASF before they are sold to external customers. The division additionally sells many of its products within BASF, with internal transfers accounting for approximately 25% of the division s total sales.

The keys to the Intermediates division s success are achieving technological and cost leadership, offering customized products and, increasingly, developing a global production presence. In 2005, we started up wholly owned plants for tetrahydrofuran and polytetrahydrofuran (PolyTHF®) in Caojing, China.

BASF sells this division s products through its own sales force as well as through distributors. BASF is among the top three producers worldwide of the main products of its four strategic intermediates business units. In the amines markets, BASF considers its main competitors to be Air Products, Dow and Huntsman. In the butanediol and derivatives market, the company s major competitors are ISP Invista, Lyondell, Dairen, Mitsubishi Chemicals and new entrants, especially from China. Eastman Chemical and Ube Industries are considered to be the main competitors in the areas of polyalcohols and specialties. Finally, the main competitors for BASF s acids and specialty intermediates business are Kemira and Perstorp.

PLASTICS

Segment Overview

BASF is one of the world s leading plastics manufacturers and offers one of the industry s most comprehensive product ranges. The segment is organized into three divisions: Styrenics, Performance Polymers, and Polyurethanes. Key information is provided in the following table:

	2005	2004
	(Million)	
Sales to third parties	11,718	10,532
Percentage of total BASF sales	27%	28%
Intersegmental transfers	471	677

Income from operations	1,015	694
Capital expenditures	490	473

The Plastics segment purchases over two-thirds of its raw materials from external suppliers. The principal raw materials are benzene, toluene, ethylene, propylene, butadiene, acrylonitrile, cyclohexane, and ammonia. BASF has a policy of maintaining multiple suppliers for raw materials of its Plastics segment in order to remain independent from any dominant supplier. However, it cannot be guaranteed that a short-term bottleneck in the supply for a particular raw material will not occur.

For products such as styrene and isocyanates where economies of scale are most important, plants tend to be located at our Verbund sites. However, for higher margin products such as polyurethane systems, plants tend to be regionally located to foster closer relations with our customers.

Segment Strategy

BASF s Plastics segment seeks to strengthen its position in the styrenics, nylon and polyurethane value-adding chains of chemistry through the following strategies:

Marketing and selling products more efficiently than competitors in key regional markets: To support this strategic goal, BASF is realigning its businesses with standard products, specialties and systems solutions to meet the changed market and customer demands and is introducing new business models for the respective products.

Establishing efficient business processes for standard products: In the standard products business, BASF is streamlining its portfolio to include only a limited number of product lines combined with appropriate marketing processes to consistently deliver high-quality products at minimum costs with maximum reliability.

Increasing sales of selected specialty products: BASF is expanding its position in the market for specialty products that can be easily derived from the company s value-adding chains of chemistry. These have the potential to generate competitive advantages for both the customers and BASF.

Boosting the efficiency of the company s global production activities: BASF is shifting production from older or smaller plants to more efficient world-scale plants that rely on new technologies and offer substantial economies of scale. In Asia, the company is continuing to expand its production capacities and is building on its well-established base in the region.

Optimizing the regional portfolios: To increase efficiency significantly, BASF is improving processes and cost structures in Europe and consolidating businesses in North America. In Asia, BASF continues to strengthen its position as one of the leading global manufacturers of plastics.

Working closely with customers in developing new specialties and systems solutions: For specialties as well as systems solutions, BASF is cooperating with customers in the early development phases of new applications, which is a significant factor for the long-term success of our business.

Using e-commerce more extensively as a distribution channel: BASF s sales through e-commerce channels such as our proprietary PlasticsPortal increased by more than 50% to over 3 billion in 2005. BASF expects that sales via these distribution channels will continue to increase in the future.

Research and Development

In 2005, the Plastics segment spent approximately 135 million on research and development activities. We consider R&D to be a key element in ensuring the long-term success of our Plastics segment. Our R&D activities are focused on manufacturing processes and product development, including systems solutions for customers.

We seek to improve existing manufacturing processes and also to develop new cost-effective manufacturing alternatives. A good example of this is the new hydrogen peroxide to propylene oxide (HPPO) technology. Together with Dow, we developed this innovative process, which generates only the end product propylene oxide (PO) and avoids co-products. This process is a highly cost-effective method to produce PO, and plants using this technology require a significantly lower investment compared to those based on conventional PO production processes. The construction of a world scale plant using this process is scheduled to begin in 2006 at our Antwerp Verbund site.

In product development, we work together with customers in order to develop innovative new products and improvements to our existing products. By working with customers from the start, we can ensure that the results of our efforts are marketable. For example, our Ultradur® High Speed has been well received by the market as it allows our customers in the automotive and electronics industry to reduce their manufacturing costs by reducing production times.

Products

The Plastics segment contains the following significant product lines:

Styrenics division

PS (Polystyrene)

BASF s polystyrene products range from rigid and transparent general-purpose plastics to high impact-resistant grades that customers shape using injection molding, extrusion and blow molding. Primary applications include packaging and household appliances.

EPS (Expandable Polystyrene)

BASF sells expandable polystyrene under the brand names Styropor® and Neopor®. The advantages of expandable polystyrene include heat insulation, high compressive strength, shock absorption, low weight, and moisture resistance. Primary applications include building insulation and packaging.

XPS (Extruded Polystyrene)

BASF sells extruded polystyrene under the brand name Styrodur®. It is a green, extruded, rigid polystyrene foam that is made using environmentally friendly carbon dioxide as a blowing agent. Styrodur® offers heat insulation, low water absorption, and compressive strength. The primary application is building insulation.

SAN (Styrene Acrylonitrile Copolymers)

Luran® is BASF s trade name for SAN plastic. It is transparent, chemical and dishwasher resistant, and offers a high degree of stiffness and resistance to temperature change. Primary applications include household and toiletry items and packaging.

ABS (Acrylonitrile-Butadiene-Styrene Copolymers)

Terluran® is the trade name for BASF s top styrene copolymer plastic. It offers superior surface quality, mechanical properties and chemical resistance. Primary applications include electrical and electronic equipment and automotive components.

ASA (Acrylonitrile-Styrene-Acrylate Copolymers)

Luran® S is the trade name for BASF s styrene copolymer plastic modified with rubber to make it resistant to weathering, aging and chemicals. Primary applications include exterior automotive components, electrical and electronic equipment.

MABS (Methacrylate-Acrylonitrile-Butadiene-Styrene Copolymer)

Terlux® is the trade name for BASF s MABS plastic. It offers transparency, luster, toughness and resistance to chemicals. Primary applications include hygiene and cosmetic product containers as well as medical equipment housings.

MF (Melamine Resin Foam)

BASF sells melamine resin foam under the brand name Basotect®. It is a flexible foam material that absorbs sound and offers high heat resistance and good flame retardant attributes. Primary applications include automotive components and soundproofing materials.

Performance Polymers division

PA (Polyamide) and Intermediates

Ultramid® and Capron® are the trade names for BASF s engineering plastics based on nylon 6, nylon 6,6 and other copolymers. They offer toughness and strength as well as both heat and chemical resistance. Primary applications include automotive engine intake manifolds and flame retardant plastics for electrical components such as switches.

Ultramid® is also the trade name for BASF s base resin of nylon 6 and 6,6 sold in the fibers and extrusion market. Primary applications include carpets and textiles as well as films for food packaging.

Intermediates include caprolactam for nylon 6 and adipic acid and hexamethylenediamin for nylon 6,6.

PBT (Polybutylene Terephthalate)

Ultradur® is the trade name for BASF s engineering plastic based on PBT. It features high stiffness, strength, dimensional stability, and heat and aging resistance. Primary applications include electrical connectors and automotive components.

POM (Polyoxymethylene)

Ultraform® is the trade name for BASF s POM plastic. It offers high stiffness and strength, resilience and low wear. Primary applications include clips and fasteners as well as mechanical and precision engineering devices such as shafts and gears.

PES (Polyethersulfone) and PSU (Polysulfone)

Ultrason® S and E are the trade names for BASF s PES and PSU plastics. The most important features of Ultrason are stiffness and resistance to water and oily substances even at high temperatures. Other important features include electrical insulation properties and dimensional stability. Primary applications include automobile oil circulation systems, headlight reflectors, microwave dishes, and medical equipment.

Polyurethanes division

MDI (Diphenylmethane Diisocyanate)

MDI is a versatile isocyanate that can be used to make flexible foams as well as semi-rigid and rigid polyurethane plastics. Primary applications include furniture interiors, automotive components, and shoe soles.

TDI (Toluene Diisocyanate)

TDI is an isocyanate used primarily in the manufacture of flexible foams. Primary applications include foam cushions for furniture and automotive components.

Polyether Polyols

Polyether Polyols are combined with isocyanates to make virtually all polyurethane products, other than those made with polyester polyols. Primary applications include rigid and flexible foams.

Polyester Polyols

Polyester Polyols are combined with isocyanates to make primarily semi-rigid polyurethane plastics. Primary applications include cable sheathing and shoe soles.

Polyurethane Systems

BASF s worldwide polyurethane systems group offers tailor-made polyurethane products for a wide variety of applications. BASF develops ready-to-use, tailor-made polyurethane systems for customers. Automotive OEM (original equipment manufacturer) suppliers comprise a significant customer group for polyurethane systems. OEM suppliers make seats, steering wheels, fenders and dashboards using BASF s polyurethane systems.

TPU (Thermoplastic Polyurethane Elastomers)

TPU is sold under the trade name Elastollan® and is based on both polyether polyols and polyester polyols. It is supplied in granular form to customers who use it primarily to make flexible plastic cable coverings. Customers for these products are primarily in the automotive and cable and wire industries.

Cellular Elastomers

Cellular Elastomers are sold under the names Cellasto®, Elastocell® and Emdicell® and are shock-absorbing, rigid plastics. Microcellular polyurethane parts for antivibration applications are sold, for example, as molded end products for use as shock absorbers and buffers in the automotive industry.

Division Information

Styrenics

BASF is one of a small number of global producers of styrenics, supplying customers in all major geographic markets worldwide. BASF continues to fine-tune Verbund structures at its production sites and to carry out backward integration where appropriate.

In 2005, the Styrenics division s sales to third parties were 4,518 million. Thereof, Europe accounted for 44%; Asia Pacific for 27%; North America (NAFTA) for 22%; and South America, Africa, Middle East for 7%.

Demand for styrenics continues to rise due to overall economic growth in both industrial and emerging markets. BASF believes that cost-efficient business processes with an appropriate number of products manufactured in highly competitive world-scale plants are crucial to ensuring the continued competitiveness of its styrenics products. As a consequence of our continuous process of restructuring, the EPS (expandable polystyrene) production in South Brunswick, New Jersey, ceased in the second quarter of 2005. The extended plant in Altamira, Mexico now supplies the NAFTA region. With the sale of the polystyrene business to INEOS Americas, LLC in the USA and Canada, the

division s strategy was further realigned.

Rising volatility of raw material prices, overcapacities in the market, and pricing pressure from low cost producers, especially in Asia, are leading to reduced margins. Thus, cost leadership in production and efficient business processes are crucial for BASF to continue to meet the demands of our customers for consistent quality, reliable supply and competitive prices. BASF is therefore optimizing its business models for the standard products PS, ABS and EPS by streamlining the product portfolio and business processes.

In specialties, BASF seeks profitable growth by focusing on specific market needs as well as by increasing application development and global sales. Starting in 2005, BASF is concentrating specialties in a newly established global business organization.

The Styrenics division sells products primarily through its own regional sales force, supported by BASF technical and marketing experts. The Styrenics division is increasingly relying on e-commerce (BASF s PlasticsPortal, EDI and VMI) for distributing its products.

The principal global competitors of the Styrenics division are Dow and Total. The division also competes in North America with Nova and in Europe with Enichem. In Asia, BASF competes with other regional competitors, such as Chi Mei, Loyal and LG Chem.

Performance Polymers

BASF is one of the world s leading producers of engineering plastics, extrusion products and fiber intermediates. In 2005, BASF acquired the German compounding company Leuna-Miramid GmbH, which will be integrated into BASF s engineering plastics division. BASF Corporation acquired the North American business for major engineering plastics from LATI USA, Inc., in 2005 as well.

In 2005, the Performance Polymers division s sales to third parties were 2,909 million. Thereof, Europe accounted for 45%; North America (NAFTA) for 28%; Asia Pacific for 24%; and South America, Africa, Middle East for 3%.

Performance Polymers products are sold worldwide, and more than 85% of the customers are engineering plastics customers. This customer base consists largely of high-performance plastic molder and plastics component manufacturers in the automotive, consumer electronics, electrical equipment and packaging industries. These customers often rate product performance and customer support as important, but prices are becoming increasingly critical to customers in choosing a supplier.

To compete effectively in this market, the Performance Polymers division seeks to increase its preferred supplier status with global customers, many of whom demand collaboration in developing specific plastics applications. The division works with suppliers to automotive manufacturers to develop specific applications for parts such as engine components, airbag housings and electronic connectors.

The division s customers for engineering plastics, particularly in the automotive industry, are primarily global companies that demand uniform worldwide standards for products and services in all major markets. BASF sells engineering plastics products primarily through its own regional sales force supported by BASF s technical centers in Germany, the United States and Japan. These centers not only help customers to develop applications but also independently research new markets and applications in which plastics can replace more conventional materials such as metal. In Asia, the division is expanding its sales force to build on its solid position in the market.

The large-volume markets for caprolactam and other fiber intermediate products are characterized by cyclicality, price competition and commodity pricing. Growth rates are usually low compared to the engineering plastics and extrusion market. The markets for extrusion grades, particularly films for food packaging, are gaining importance as they are less cyclical and show high growth rates, particularly in China.

The Performance Polymers division sells products primarily through its own regional sales force, supported by BASF technical and marketing experts. The division is increasingly relying on e-commerce as a channel for distributing its products and operates its own website, PlasticsPortal.com.

Major global competitors of the Performance Polymers division are Celanese, DSM, DuPont, General Electric, Lanxess, Rhodia, Solutia and UBE.

Polyurethanes

BASF s Polyurethanes division is one of the world s three largest producers of polyurethanes: important specialty plastics used to produce a wide spectrum of rigid, flexible, foamed and compact components for consumer products.

In 2005, the Polyurethanes division s sales to third parties were 4,291 million. Thereof, Europe accounted for 37%; North America (NAFTA) for 30%; Asia Pacific for 27%; and South America, Africa, Middle East for 6%.

BASF offers over 3,500 customized polyurethane solutions. These products, the vast majority of which are sold to external customers, are used to make a variety of automotive parts, including bumpers, steering wheels and instrument panels. BASF s polyurethanes can also be found in household goods, such as mattresses and upholstery, and in sports equipment, such as in-line

skates and athletic shoes. The fashion industry is increasingly using BASF s polyurethanes, particularly to manufacture synthetic leathers.

To build on its strong relationships with customers, the Polyurethanes division is expanding its regional activities, focusing above all on the Asian market. In Caojing, China, BASF commenced construction of an integrated manufacturing facility for MDI and TDI with its local and international joint venture partners that is scheduled to come onstream in 2006. BASF also expanded the capacity of its MDI plant in Antwerp, Belgium, in 2005.

For polyurethane systems and special elastomers, strong relationships with leading industry customers are crucial because of the highly individualized nature of these products. To strengthen its relationships with customers, BASF has established a global network of system houses. System houses are production sites that work closely with customers to provide products specially formulated for individual needs. The Polyurethanes division currently has 27 system houses around the world in locations near customers. BASF will continue to establish or acquire more.

Global demand for all polyurethane products is expected to continue growing faster than the global economy as the economic expansion continues. The market for polyurethane basic materials is less cyclical than the market for most other standard plastics, primarily because polyurethane basic materials are relatively specialized. Competition in the market for basic materials is based primarily on price, although product quality and technical application assistance are also important to customers.

The markets for polyurethane systems and special elastomers are even less cyclical than those for polyurethane basic materials. Competition in the market for polyurethane systems and special elastomers is based primarily on a supplier s ability to satisfy customers technical application needs by providing tailor-made formulations of isocyanates and polyols and also on a supplier s ability to accommodate customers just-in-time manufacturing by delivering customized products quickly and at the appropriate time.

The main competitors of the Polyurethanes division are Bayer, Dow, Huntsman, Lyondell and Shell Chemicals.

PERFORMANCE PRODUCTS

Segment Overview

BASF is a leading global producer of performance chemicals, coatings and functional polymers through its Performance Products segment. This segment produces a broad range of high-value chemicals, formulations and integrated chemical systems solutions for the automotive, coatings, oil, paper, packaging, textile, leather, detergent, sanitary care, construction and chemical industries.

	2005	2004
	(Million)	
Sales to third parties	8,267	8,005
Percentage of total BASF sales	19%	21%

Intersegmental transfers	352	291
Income from operations	863	1,128
Capital expenditures	347	304

The Performance Products segment purchases approximately 50% of its raw materials from other BASF operations and does not rely on a dominant external supplier. The segment s principal raw materials are propylene, oxo alcohols, butadiene, styrene, ethylene oxide, propylene oxide, naphthalene, aliphatic alcohols, pigments, solvents and resins. The segment s products often represent the final stages in many value-adding chains within BASF s Verbund.

The bulk of the production for the Performance Products segment is located at our Verbund sites to take advantage of the efficiencies offered by these sites. However, in certain cases, plants are located near our customers to reduce transportation costs, such as for polymer dispersions, or in the case of automotive OEM coating, to meet our customer s just in time delivery needs.

Segment Strategy

The key elements of the segment s success are:

Developing products, chemical system solutions, and application technologies that are tailor-made to the specific requirements of customers and ensuring sustainable development;

Introducing new business models, such as the system supplier for coating materials in the coatings division, in which we assume responsibility for the chemical management in customers processes;

Striving for cost and technology leadership as well as establishing and expanding regional manufacturing plants with economies of scale;

Setting up development and application centers to better serve regional customers, particularly in the high growth Asia region; and

Systematically controlling costs for standard products.

Research and Development

In 2005, the segment spent 214 million on research and development activities. The main focus of the segment s research and development is on innovative and eco-efficient products and system solutions that are tailor-made for the processes and technologies of our customers. The goal is to help customers be more successful in their markets, thus opening growth potential for them and for BASF. Close cooperation with customers holding leading market positions is of great importance in order to fully exploit the research resources and reduce the time to market. In addition, state-of-the-art application centers and pilot plants, for instance for coatings, paper making, or pressure-sensitive adhesives, are a key success factor. These plants and application centers serve to deepen our understanding of the customers processes and assess new chemical systems under real application conditions. In 2005, we established new technical application centers in Thane, India for textile chemicals and in Shanghai, China for textile and leather chemicals, chemicals for detergents and formulators as well as polymer dispersions.

Recent examples of successful innovations and system solutions include the following:

Developing Belmadur®: an innovative BASF technology that enhances the quality of domestic wood species and enables them to compete with tropical hardwood by providing regenerative raw materials for a wide variety of applications. We are now working together with partners in the wood industry to develop new applications and markets for this innovative process.

Expanding our range of coating products with a new, complete UV product portfolio for automotive refinishing coatings. As a result, we will position ourselves at the leading edge of this trend, e.g., with a new high scratch resistant refinish clearcoat. Car owners benefit from the outstanding reflow properties of this clearcoat which allow light scratches to repair themselves.

Launching a new innovative generation of Acrodur® binders for non-wovens, e.g., as a therm-ocuring binder in the production process of glass fibers with various applications. These water-based acrylate resins make moldings ecologically more favorable, since they can replace the previously used binders such as phenol and formaldehyde resins.

Products

The Performance Products segment contains the following significant product lines:

Performance Chemicals division

Pigments and Resins for Coatings and Plastics

The Performance Chemicals division offers organic and inorganic pigments, pigment preparations, non-textile dyes, process chemicals and resins. Resins are film-forming components used in UV (ultraviolet) curing coatings, urethane systems, and melamine based coatings. Pigments are insoluble dry coloring materials for paints, plastics, inks and other special applications. BASF s pigments and resins are used primarily in automotive, decorative, and industrial paint applications, as well as in the plastics industry.

Isobutene Derivatives

Isobutene is the starting material for polyisobutene, the most important component for BASF s branded fuel additives. Through its highly reactive polyisobutenes, BASF has established a new standard in the fuel and lubricant additives market. BASF is the only industry supplier with a product portfolio spanning low to ultra-high molecular polyisobutenes as well as polyisobutene derivatives.

Surfactants

BASF produces a wide range of nonionic surfactants based on aliphatic alcohols, ethylene oxide and propylene oxide. Such products are used in detergents and cleaners, textile and leather auxiliaries.

Hydrocyanic Acid Derivative

BASF produces several chelating agents based on hydrocyanic acid, which serve as process chemicals in various industries. Applications include pulp manufacturing, electroplating, laundry detergents, cleaners and photographic chemicals.

Performance Chemicals for Textiles

BASF offers textile and dyeing auxiliaries, pigment preparations for textile printing, and inks for ink-jet printing technology. BASF s product range covers a wide spectrum of textile applications.

Leather Dyes and Chemicals

BASF is one of the world s leading producers of leather chemicals and dyes, producing a full range of products for nearly every aspect of the leather production process.

Coatings division

Automotive OEM (Original Equipment Manufacturer) Coatings Solutions

BASF offers complete automobile coatings solutions as well as extensive technical support to major vehicle manufacturers. All of the world s leading automobile manufacturers are long-standing customers of BASF.

Automotive Refinish / Commercial Transport Coatings Solutions

For the refinishing of cars and commercial vehicles, BASF offers topcoat and undercoat materials under the well-known brand names Glasurit®, R-M® and Salcomix®. Most of these systems, which are sold to paint distributors and automotive repair shops, increasingly use solvent-reducing waterborne coatings as well as high-solid systems.

Industrial Coatings Solutions

BASF offers environmentally efficient systems for coating industrial products. Application technologies include precoatings, powder, electro-deposition and liquid coatings that are used on household appliances, commercial vehicles, industrial buildings and radiator components. BASF is the second largest coil coatings producer.

Decorative Paints

BASF is the leading producer of decorative paints for interior and exterior use in the South American market. BASF s dispersion and building paints are marketed under the Suvinil® trademark and enjoy a high level of customer recognition.

Functional Polymers division

Acrylic Monomers

BASF is the world s largest producer of acrylic monomers, which are sold directly to internal and external customers in the form of acrylic acid, acrylic esters and special acrylates. Acrylic monomers are used as precursors to manufacture polymer dispersions for various applications, superabsorbents, detergents, flocculants and fibers for a wide range of industries.

Polymer Dispersions for the Adhesives and Construction Industries

BASF s polymers products consist mainly of polymer dispersions for the manufacture of adhesives, paints and finishes, non-woven materials, and chemicals for the construction industry. BASF is especially strong in its technical expertise for construction chemicals, adhesive raw materials, dispersions for paints and other coating materials.

Paper Chemicals

BASF offers the paper industry a comprehensive range of chemical products for many aspects of the paper production process, including the manufacture of untreated paper, paper finishing and wastewater treatment. The Functional Polymers division s product range of paper chemicals consists of paper-processing chemicals, paper dyes and polymer dispersions for paper coating.

Superabsorbents

BASF sells superabsorbents globally to the personal hygiene industry, which uses these products to manufacture diapers and other sanitary care products.

Division Information

Performance Chemicals

BASF is one of the world s largest manufacturers of high-value performance chemicals, which the company sells to a broad range of customers worldwide in a wide variety of industries including the plastics, coatings, construction, detergent, automotive, oil, leather and textile industries.

BASF s strength is its Verbund approach: This gives the Performance Chemicals division an advantage over small and medium-sized companies that lack the cost advantages of integration.

In 2005, the Performance Chemicals division s sales to third parties were 2,889 million. Thereof, Europe accounted for 56%; Asia Pacific for 18%; North America (NAFTA) for 17%; and South America, Africa, Middle East for 9%.

The Performance Chemicals division comprises five different businesses: Performance Chemicals for Coatings, Plastics, and Specialties; for Automotive and Oil Industry; for Detergents and Formulators; for Textiles; and for Leather. Each business follows its own strategy, focusing on innovative products and systems solutions for growing markets. The division sells its products globally, with roughly 90% of its products to external customers. BASF s own regional sales network sells most of the Performance Chemicals division s products. Distributors sell the remainder of the products, primarily to smaller customers. In the Asia Pacific region, we are increasing our sales activities to meet the needs of the growing markets, especially for the textile and leather industries, which are continuing to relocate their activities from Europe and North America to Asia. Due to the decreasing markets for textile and leather chemicals in Europe, we are restructuring European production activities for these businesses and expanding those in Asia. In addition, we are building a new production plant for coatings raw materials in Caojing, China.

BASF views the detergents industry as one of the division s most important markets. The company is one of the largest producers of nonionic surfactants. Surfactants enhance cleansing efficiency and are used, for example, in household detergents and dishwashing agents as well as in industrial and institutional cleaning applications.

The Performance Chemicals division s principal competitors vary according to industry. However, the most significant competitors of the division are Ciba, Clariant, Shell, Sasol, Dow, Akzo Nobel and Bayer.

Coatings

BASF offers innovative and environmentally friendly products for the automotive industry, including both finishes and refinishes, and for particular segments of the industrial coatings market. BASF also sells decorative paints in South America for interior and exterior use in residential and commercial buildings.

In 2005, the Coatings division s sales to third parties were 2,180 million. Thereof, Europe accounted for 47%; North America (NAFTA) for 25%; South America, Africa, Middle East 17%; and Asia Pacific for 11%.

BASF s Coatings division provides customers with innovative high-solid, waterborne and powder coating systems that reduce or eliminate solvent emissions and are considered environmentally and economically efficient. For example, BASF sees significant growth opportunities for its Integrated Process II for automotive OEM coatings, which is in the market roll-out phase. This innovative system simplifies the conventional process by requiring fewer coating layers, thus offering substantial cost saving potential while reducing the environmental impact of auto body painting.

The key to the division s success is maintaining preferred supplier status with major customers by collaborating with them to develop system solutions, such as tailor-made products and services. These system solutions help the division to differentiate its product offerings from those of its competitors and foster lasting relationships with customers. As an example, BASF s Suvinil® line of decorative paints competes in South America primarily on the basis of brand recognition, product quality and price.

BASF sells products of the Coatings division to customers, particularly those in the automotive industry, primarily through its own sales force. Third-party distributors also sell products of the automotive refinish coatings, industrial coatings and South American decorative paint

businesses. The Coatings division sells all of its products to external customers.

The Coatings division also uses e-commerce as an important distribution channel, in particular for its automotive refinish coatings. In North America, customers of BASF s automotive refinish technologies business can order products online at bodyshopmall.com. For customers in Europe, the division has established similar e commerce portals to sell its Glasurit® and R-M® brands.

BASF considers DuPont, PPG Industries and Akzo Nobel to be the primary global competitors of the Coatings division, while Nippon Paint Company and Kansai Paint Company are considered to be the division s key competitors in Asia.

Functional Polymers

BASF s Functional Polymers division is one of the largest producers of acrylic acid and its downstream products, which are mainly superabsorbents and dispersions. In a polymer dispersion, submicron polymer particles are suspended in water. Polymer dispersions are used in a multitude of industries, including the manufacture of paper, decorative paints, adhesives, construction chemicals, non-woven materials, carpets, fibers and plastics. The Functional Polymers division also manufactures wet-end chemicals for paper production. The most important customers of the Functional Polymers division are in the paper, construction, adhesive, sanitary care, coatings, and chemicals industries.

In 2005, the Functional Polymers division s sales to third parties were 3,198 million. Thereof, Europe accounted for 49%; North America (NAFTA) for 26%; Asia Pacific for 16%; and South America, Africa, Middle East for 9%.

The Functional Polymers division s strategic goal is to achieve long-term profitable growth in all regions and to increase market share in the rapidly growing markets in Asia.

The Functional Polymers division continues to strengthen its position in Asia, the fastest-growing market worldwide. In 2005, BASF completed the construction of its second Asian Verbund site in Nanjing, China, where the division started the production of acrylic acid and its esters in the first quarter. In Shanghai, China, additional capacity for the production of polymer dispersions used as paper coating binders came onstream in 2005.

The division sells approximately 90% of its products to external customers. The vast majority of the division s products are primarily sold through BASF s own regional sales network. Some smaller customers purchase products through distributors.

The Functional Polymers division continues to develop e-commerce as a distribution channel for its products. The division is increasingly selling its products through Elemica Holding Ltd., an independent business-to-business e-commerce company. The division s participation in WorldAccount, BASF s integrated global extranet platform, is targeted at its customers in the adhesive, construction and paper industries.

Acrylic monomers are predominantly commodities and can therefore be affected by cyclicality. Other products, particularly polymer dispersions for adhesives, paints and non-wovens; superabsorbents; and paper process chemicals, are relatively resilient to economic cycles and compete primarily on the basis of product innovation and quality.

BASF s main competitor in acrylic monomers and polymer dispersions is Rohm & Haas. Dow and Hercules are BASF s main competitors in paper chemicals. In the superabsorbents business, BASF s main global competitors are Degussa and Nippon Shokubai.

AGRICULTURAL PRODUCTS & NUTRITION

Segment Overview

This segment consists of the Agricultural Products and Fine Chemicals divisions, which are treated as separate reportable operating units. The segment offers opportunities for high returns and is typically more resilient to economic cycles. In addition, the segment includes the activities of BASF Plant Science. Key financial information is provided in the following table:

	2005	2004
	(Million)	
Agricultural Products		
Sales to third parties	3,298	3,354
Percentage of total BASF sales	8%	9%
Intersegmental transfers	29	26
Income from operations	681	602
Capital expenditures	74	100
Fine Chemicals		
Sales to third parties	1,732	1,793
Percentage of total BASF sales	4%	5%
Intersegmental transfers	28	30
Income from operations	(58)	56
Capital expenditures	222	153

Plant biotechnology

BASF is one of the world s leading companies in the field of research and development into plant biotechnology. Plant biotechnology is one of the company s five growth clusters and BASF plans to provide a further 270 million for research in this area in the next three years. We plan to contribute to this attractive market of the future with our technology platform and an extensive project portfolio. Our activities in plant biotechnology are combined in our subsidiary BASF Plant Science.

Among other things, we are focusing on crops for improved nutrition and plants as renewable raw materials green factories to produce specific chemical substances. This includes plants with optimized constituent components such as oils, proteins, starches, vitamins or fatty acids. Another focus is to use biotechnology to protect plants from pests and to increase the yield of important crops such as corn (maize), wheat and soybeans. This also involves developing plants that are more resistant to drought. In 2005, we signed an extensive licensing agreement and research cooperation with the Belgian biotechnology company CropDesign that we expect to give us a competitive advantage.

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

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

Agricultural Products

Overview

The Agricultural Products division is a leading innovator and supplier of fungicides, insecticides and herbicides. The division s products are used by farmers to improve crop yields and crop quality and by other customers for uses in non-crop areas such as in public health, structural/urban pest control, turf and ornamental plants, vegetation management, and forestry.

Capital expenditures in the Agricultural Products division included mainly optimization measures at several sites.

Strategy

The Agricultural Products division directs major resources at meeting the needs of the high-value agricultural markets in Western and Central Europe, North America, Brazil and Japan. The division aims to sustain its role as a leading innovator by continuing significant research and development activities focusing on fungicides, insecticides and selected herbicides, where it expects further market growth and high demand for innovations. Profitability of the Agricultural Products division is driven by:

- New products from its research pipeline or from acquisitions;
- Alignment of resources as well as product and service offering to customers needs; and
- Effective management of assets and costs.

The division is well positioned for continued profitable growth: We have a significant presence in core markets, a strong late stage R&D pipeline, a high share of patent-protected products and high customer satisfaction.

BASF aims to grow profitably through innovation and acquisition, especially with new fungicides and insecticides and in specific applications such as seed treatment. Products recently launched from the research pipeline include the fungicides F 500® and boscalid.

The division continues to implement cost and asset optimization measures in mature or non-core segments. In 2005, it divested its triforine fungicide, its phorate insecticide, its non-European imazamethabenz herbicide business, and a manufacturing plant in Resende, Brazil.

Major Products

F 500® (pyraclostrobin)

F 500® (pyraclostrobin) is a major new fungicidal active ingredient of the strobilurin class of chemistry. It is highly effective, safe for crops and has a favorable toxicological and ecotoxicity profile. As of the end of 2005, F 500® had been approved in more than 50 countries for over 100 crops in over 100 indications. Products containing F 500® have been launched successfully in all regions. Therefore, BASF has updated the 2007 sales target for products containing F 500® from 400 million to 500 million, assuming normal agricultural growing conditions.

Boscalid

Boscalid is one of the most recent active ingredients from our research and is highly effective for controlling fungal diseases, especially in fruits and vegetables. With its broad spectrum of activity and crop uses, boscalid will become the backbone of our specialty crop business and will complement our strobilurines and other molecules. Launched for the 2003/04 season, it received registrations in over 40 countries for almost 200 crops in over 100 indications by the end of 2005.

Fipronil

Fipronil is an active ingredient of a new class of insecticide chemistry and was acquired from Bayer CropScience on March 21, 2003. It plays a strategic role in BASF s insecticides portfolio. Fipronil puts the Agricultural Products division in a position to strongly participate in ongoing and future shifts in demand towards more modern insecticides. Furthermore, it strengthens BASF s position in other attractive market segments, such as structural/urban pest control, turf and ornamental plants. BASF also expects to create synergies between fipronil and its current portfolio, especially in fungicides.

The CLEARFIELD® Production System

The CLEARFIELD® Production System combines herbicide-resistant seeds developed using enhanced plant breeding methods with custom-designed herbicide solutions. CLEARFIELD® crops currently being marketed include canola, sunflower, corn, rice and wheat. Because the CLEARFIELD® technology does not involve the introduction of genetic material from other sources, it is characterized as non-GMO (genetically modified organisms), offering advantages to the growers for certain markets.

Research and Development

BASF s research and development activities in Agricultural Products cover all three areas of crop protection: fungicides, insecticides and herbicides. Agrochemical research activities are directed to the discovery of active ingredients with economic, biological and ecological advantages. BASF Plant Science conducts research in the area of agronomic traits for the division. Development activities are primarily focused on high-value segments in core markets and for core active ingredients.

In 2005, research and development spending in the Agricultural Products division was approximately 9% of the division s sales to third parties.

BASF is currently working on developing six new active ingredients and on a new herbicide tolerance project. These inventions are being prepared for market launch and have a peak sales potential of 700 million. Eight additional crop protection active ingredients with a peak sales potential of 1.2 billion are currently being introduced to the market. In 2005, BASF launched the fungicide metrafenone to the market and

reclassified one new insecticide from its promising discovery pipeline to its development pipeline.

	Uses	Total Peak Sales Potential
Projects in market launch		about 1,200 million
4 fungicides	Cereals, Soybeans, Specialty Crops	
3 herbicides	Cereals, Corn	
1 insecticide	Non-Crop	
Projects in development (launch targeted for 2006 and later)		about 700 million
2 fungicides	Cereals, Rice, Specialty Crops	
2 herbicides	Corn, Non-crop	
1 herbicide tolerance	Soybeans	
2 insecticide	Specialty Crops, Non-crop	
Total		**about 1,900 million**

Markets and Distribution

In 2005, the Agricultural Products division s sales to third parties were 3,298 million. Thereof, Europe accounted for 43%; North America (NAFTA) for 29%; South America, Africa, Middle East for 20%; and Asia Pacific for 8%.

The Agricultural Products division markets its products globally, focusing on high-value markets. The following table shows sales by product group:

Product Group	2005 Sales (Million)
Fungicides	1,310
Herbicides	1,222
Insecticides and other agrochemical products	766
Agricultural Products	**3,298**

The Agricultural Products division directs marketing and sales efforts through multi-staged marketing channels, which include wholesalers and commercial distributors.

The global market for agricultural products is seasonal, since the main markets for these products are in the Northern Hemisphere. Sales are higher in the first and second quarters of the year, when the growing season in North America and Europe is underway. Sales during the second half of the year, driven primarily by the main growing season in South America, are lower.

BASF considers the main competitors of the Agricultural Products division to be Syngenta, Bayer CropScience, Monsanto, Dow and DuPont.

Governmental Regulation

In most countries, crop protection products (including genetically modified plants) must obtain government regulatory approval prior to marketing. The regulatory framework for crop protection and environmental health products is directed at ensuring the protection of the consumer, the applicator and the environment. The strictest standards are applied in the United States, Japan and Western Europe.

It generally takes five to seven years from the discovery of a new active ingredient until the dossier is submitted to the appropriate regulatory agency for product approval. The standard time frame for registration of an agricultural product is typically 30 to 36 months.

Fine Chemicals

Overview

BASF s Fine Chemicals division develops, manufactures and sells more than 1,000 different products. The Fine Chemicals division serves steadily growing markets driven by a growing world population with increasing needs in healthcare and lifestyle by being a leading supplier of vitamins; carotenoids; pharmaceutical active ingredients and advanced intermediates; polymers for the pharmaceuticals, cosmetics and human nutrition industries; aroma chemicals; UV (ultraviolet light) filters; amino acids; enzymes; and non-antibiotic growth promoters and organic acids for the animal nutrition industry. In all of the division s main product groups except amino acids, BASF is one of the top two suppliers. With the start of our feed enzyme production in Ludwigshafen, Germany, planned for early 2006, we will strengthen our leading position in the animal nutrition business. Virtually all of the division s products are sold to external customers.

About 60% of the division s raw material purchases are bulk commodities from external and internal sources, such as nutrients for vitamin premixes; sugar and molasses for lysine and pseudoephedrine production; and urea and acetanhydride for purines. There are currently no restrictions in supply for these commodity products. No single product accounts for more than 4% of our total external purchases of specialty (non-commodity) raw materials.

Strategy

The Fine Chemicals division aims to achieve superior growth and leading positions in the markets it serves by leveraging chemical expertise, global presence, reliability of technical service and product quality. The division is focused on delivering innovative products and customized solutions to the markets it serves. New production technologies are continuously being developed and applied to reduce costs. The division envisages strong growth in its exclusive synthesis business for the pharmaceuticals industry, which is still in its emerging stages.

Products

Vitamins

BASF is the second largest vitamins producer worldwide, and vitamins account for approximately one third of sales in the Fine Chemicals division. BASF markets all of the 13 naturally occurring vitamins. In six of these vitamins, which include the five most significant vitamins C, E, A, B2 and Calpan, BASF has a production position. The Fine Chemicals division sells vitamins mainly to the human and animal nutrition industries, with a growing presence in the cosmetics industry.

Carotenoids

These are nature-identical products that provide certain health benefits and are also used to color foods. This product line includes beta-carotene, canthaxanthine and astaxanthine for the food, feed and nutritional supplement industries for human and animal nutrition.

Active Ingredients and Advanced Intermediates

The main products in this category are caffeine, pseudoephedrine, theophylline, ibuprofen, povidone iodine and our new isotretinoin. Beverage manufacturers account for approximately 80% of the caffeine demand, and pharmaceutical applications consume the remaining share. Theophylline and pseudoephedrine are used to treat respiratory diseases. Ibuprofen is used in a variety of over-the-counter and prescription products to treat mild to moderate pain, and isotretinoin is the standard for systemic acne therapy.

Contract Manufacturing

BASF offers a range of customized manufacturing and formulation capabilities to the worldwide pharmaceuticals industry. These activities are complemented by flexible, multi-product cGMP plants, in particular at the Minden site in Germany, and BASF s chemical and biotechnological R&D skills.

Polymers

The Fine Chemicals division sells highly functional polymers for such diverse uses as binders, disintegrants, coatings and solvents for the pharmaceutical industry, filtration aids for beverages, ingredients in hair care products such as hairsprays, styling mousses, gels and hair conditioners for the cosmetics industry.

Amino Acids

Amino acids, such as lysine, are feed additives that serve as an efficient protein source for animal nutrition.

Enzymes

Enzymes, which are proteins that function as biochemical catalysts, are used for animal nutrition to improve feed absorption. BASF s enzyme product line includes Natuphos®, Natustarch®, and Natugrain®.

Organic Acids

These are used as preservatives for grains and compound feeds and more recently as growth-enhancing agents. BASF offers a wide range of organic acid products that suppress the growth of molds and bacteria. BASF is the leading supplier of standard and tailor-made organic acids for the feed industry in Europe and Asia. With Formi®, BASF offers the first non-antibiotic growth enhancer, an alternative to antibiotics that are to be banned in animal breeding in Europe as of 2006.

Cosmetics Ingredients

These are raw materials for personal care products with the major applications being hair, skin, sun and oral care. The Fine Chemicals division is the world market leader in UV absorbers for cosmetic applications and offers the full range of UVA and UVB absorbers.

Aroma Chemicals

These are raw materials for flavor and fragrance compounds that are used in many consumer products industries such as the food, personal care and the fabrics and home care industries.

Research and Development

The focus of the Fine Chemicals division s R&D activities changed in 2005 from process innovation to product innovation. The major product launches comprise various new vitamin and carotenoid formulations, a new conditioning polymer, a new UV filter and a new formulation aid for pharma ingredients. In 2005, the Fine Chemicals division spent approximately 4% of its sales to third parties on Research and Development

activities (2004: approximately 5%).

Process improvements mainly for biotechnological processes are ongoing to further improve our cost position.

Markets and Distribution

In 2005, the Fine Chemicals division s sales to third parties were 1,732 million. Thereof, Europe accounted for 46%; North America (NAFTA) for 25%; Asia Pacific for 20%; and South America, Africa, Middle East for 9%.

The main customers of the Fine Chemicals division are global players in the animal nutrition, human nutrition, pharmaceuticals, personal care, and flavors and fragrances industries. A significant percentage of the division s products are sold in small, specialty volumes and are often tailor-made to meet specific customer specifications.

BASF sells the majority of its fine chemicals products through its own sales force. Key account managers are assigned to major customers. Through its sales and marketing departments, BASF works closely with customers to develop systems and solutions as well as new products. BASF also sells its fine chemicals products through its global e-commerce platform, WorldAccount.

BASF s competitive position depends to a large extent on its ability to compete on price, product quality and customer service. BASF expects the trend toward globalization and consolidation for both the manufacturing and the consumer industries to continue. The trend toward commoditization for certain fine chemicals, such as vitamins, is also continuing. Due to the unsatisfactory earnings trend, we have started a restructuring program to improve efficiency in this segment.

BASF considers its main competitors in the animal nutrition area to be DSM, Archer Daniels Midland, Novo Nordisk, Adisseo Group, Rhodia, Eisai and new entrants from China. In the human nutrition area, BASF s main competitors are DSM of the Netherlands and several Asian companies. In pharmaceutical active ingredients, BASF considers Albemarle Corporation, International Specialty Products and FMC Corporation to be its main competitors, as well as a number of Chinese and Indian suppliers. In cosmetics and aroma chemicals, LC United, International Specialty Products, Millennium Specialty Chemicals, National Starch & Chemical, Givaudan, Symrise and Kuraray are BASF s main competitors.

Governmental Regulation

BASF s various Fine Chemicals products are subject to regulation by government agencies throughout the world. The primary emphasis of these requirements is to assure the safety and effectiveness of BASF s products. Of particular importance in the United States is the Food and Drug Administration (FDA), which regulates many of BASF s Fine Chemicals products. The FDA oversees the marketing, manufacturing and labeling of cosmetics (e.g., sunscreen agents), pharmaceuticals (e.g., pharmaceutical active ingredients), foods (e.g., dietary supplements, including vitamins) and feeds (e.g., vitamins, carotenoids). The Federal Trade Commission regulates claims made in the advertising of dietary supplements. Animal health products are also regulated in the United States by the United States Department of Agriculture and the Environmental Protection Agency.

In the E.U., similar regulatory systems are established on the national level of different member states as well as on the pan-European government level. Positive lists and negative lists in Europe regulate the usage of various substances in order to ensure consumer safety. Before the substances are added to these lists, they are subject to a rigorous approval procedure.

In countries other than the United States and those of the E.U. in which BASF conducts business, BASF is subject to regulatory and legislative environments that are similar to or sometimes even more restrictive than those described above.

OIL & GAS

Segment Overview

BASF conducts the activities of its Oil & Gas segment through its 100% subsidiary Wintershall AG. Wintershall and its affiliated companies are active in two sectors: Oil and Natural Gas Exploration and Production, and Natural Gas Distribution and Trading. Key information is provided in the table below:

	2005	2004
	(Million)	
Sales to third parties, net of natural gas taxes	7,656	5,263
Percentage of total BASF sales	18%	14%
Intersegmental transfers	723	546
Sales including intersegmental transfers	8,379	5,809
Royalties	281	243
Sales including intersegmental transfers, less royalties	8,098	5,566
Income from operations*	2,410	1,643
Capital expenditures	624	388

* Income taxes on oil production in North Africa and the Middle East that are noncompensable with German corporate income tax in the amount of 1,072 million (2004: 668 million) are not deducted from income from operations but are reported as income taxes. Please see Note 10 to the Consolidated Financial Statements included in Item 18.

Segment Strategy

In Europe, the segment strategy is driven by the integration of the Exploration and Production business and the Natural Gas Distribution and Trading business. Our Gas for Europe concept is based on the increasing demand for natural gas imports into Western Europe. Thus, one of the key drivers of our upstream activities is exploration for and development and production of gas in and around Europe with our midstream business bringing the gas to market.

Wintershall focuses on building strong alliances with its business partners to develop new projects. The most prominent examples include our participation with Gazprom, Russia in the Baltic Sea pipeline project, the development of the Achimov formation in the Urengoy field in Western Siberia, and negotiations with Gazprom to jointly develop one of the largest undeveloped Russian gas fields, Yushno-Russkoye, in Western Siberia.

In the Oil and Natural Gas Exploration and Production business, we have increased production by 41% since 1999. This is in line with our long-term objective to increase production during the current decade by 50%. BASF s goal is to maintain a robust ratio of proved reserves to production and a balanced portfolio of assets operated both by Wintershall and by third parties. To ensure the company s ongoing competitiveness and efficiency, Wintershall focuses geographically on a limited number of hydrocarbon provinces. These are Europe, North Africa, South America (Southern Cone) and Russia (including the Caspian Sea).

The Natural Gas Distribution and Trading strategy is based on a strong infrastructure including pipeline and storage facilities that are strategically located for gas imports to and distribution within Germany as well as for transit to other European countries. Marketing activities are regionally focused on Germany, the countries bordering Germany, and the U.K. To support the business expansion into other European countries, we have initiated projects to build additional storage capacities outside of Germany, such as Saltfleetby in the U.K. and Haidach in Austria.

Reserves

The Oil & Gas segment s most significant oil reserves are in Libya and Germany. The most significant natural gas reserves are in Argentina, Germany and the Netherlands. The Oil & Gas segment s proved oil and gas reserves and proved developed oil and gas reserves by geographic area were as follows:

	Germany	Libya	Argentina	The Netherlands	Rest of World	Total	Rest of World (at equity)
At December 31, 2005							
Oil (millions of barrels)							
Proved reserves	79	329	57	2	2	469	11
Proved developed reserves	50	317	44	2	2	415	11
Gas (billions of cubic feet)							
Proved reserves	395	217	1,462	249	24	2,347	
Proved developed reserves	346	209	1,000	187	21	1,763	
At December 31, 2004							
Oil (millions of barrels)							
Proved reserves	82	362	48	1	8	501	13
Proved developed reserves	53	335	36	1	7	432	13
Gas (billions of cubic feet)							
Proved reserves	439	217	1,530	265	12	2,463	
Proved developed reserves	389	201	954	189	12	1,745	
At December 31, 2003							
Oil (millions of barrels)							
Proved reserves	93	407	52	0	10	562	14
Proved developed reserves	60	338	28	0	10	436	14
Gas (billions of cubic feet)							
Proved reserves	453	226	1,463	253	16	2,411	
Proved developed reserves	395	137	604	151	16	1,303	

At 2005 levels of production, proved oil reserves would last approximately seven years, and proved gas reserves would last approximately nine years. For additional information on reserves, please see Supplementary information concerning oil and gas producing activities (unaudited) included in Item 18.

Exploration and Production

The net quantities of oil and gas produced as well as the average sales price and production cost (lifting cost) per unit of oil and gas produced in each of the last three years were as follows:

	2005	2004	2003
Oil			
Net quantities produced (millions of barrels)	65	64	65

Average sales price less royalties (per barrel)	34.36	22.54	18.90
Average production cost (lifting cost) (per barrel)	3.42	3.06	3.20
Gas			
Net quantities produced (billions of cubic feet)	272	258	228
Average sales price less royalties (per thousand cubic feet)	2.44	2.26	2.04
Average production cost (lifting cost) (per thousand cubic feet)	0.56	0.53	0.57

Wintershall s total gross and net productive wells, total gross and net developed acres and total gross and net undeveloped acres (both leases and concessions) as of December 31, 2005, were as follows:

	Germany	Libya	Argentina	The Netherlands	Rest of World (1)	Total	Rest of World (at equity)
Oil							
Total gross productive wells	507.0	72.0	57.0	8.0	248.0	892.0	12.0
Total net productive wells	240.0	65.9	18.2	8.0	12.4	344.5	6.0
Gas							
Total gross productive wells	140.0		186.0	128.0	9.0	463.0	
Total net productive wells	65.0		46.2	21.7	4.1	137.0	
Oil and Gas Acreages (thousand of acres)							
Total gross developed acres	187.5	41.9	274.9	109.3	75.4	689.0	1.0
Total net developed acres	66.3	39.9	67.4	18.8	7.2	199.6	0.5
Total gross undeveloped acres	2,937.4	995.5	8,683.1	3,114.5	15,776.3	31,506.8	5,165.4
Total net undeveloped acres	1,377.0	407.1	3,732.4	846.1	5,178.5	11,541.1	2,582.7

(1) Consolidated activities only

In 2005, Wintershall spent 492 million for exploration, acquisition and investment, compared with 425 million in 2004. Thereof, 239 million was spent in Europe (2004: 199 million), 94 million in South America (2004: 76 million), 89 million in North Africa/Middle East (2004: 125 million) and 70 million in Russia/Caspian Sea (2004: 25 million).

Either directly or through its subsidiaries, Wintershall was involved in the drilling and completion of 16 exploration and appraisal wells, which resulted in 11 successful wells. As of December 31, 2005, Wintershall had begun drilling nine additional exploratory wells.

Europe

In Germany, the offshore field Mittelplate, with approximately 200 million barrels of proved initial reserves, is the country s largest known oil reservoir. Wintershall and its 50% partner RWE DEA AG, have completed a pipeline from the offshore production platform to the onshore facilities and can now increase production of this field. This eliminates the need to transport oil through the national park Wattenmeer via double hull barges, which were used incident-free for the last 19 years.

In 2005, Wintershall slightly increased its production of natural gas and crude oil in the Netherlands by starting up two new gas fields and successfully rehabilitating an oil field. One additional gas discovery is under development. Wintershall is one of the largest gas producer in the Netherlands. In the U.K. Southern North Sea, Wintershall was awarded six exploration blocks. In Norway, Wintershall farmed into an offshore block operated by Norsk Hydro. Furthermore, Wintershall received shares of 20% each in two offshore licenses during the APA 2005 bidding round.

North Africa/Middle East

In Libya, Wintershall operates six onshore oil fields and produces associated natural gas for local consumption. Production could be increased, compared to 2004, by bringing a new oil field on stream. Successful exploration led to additional hydrocarbon findings. During 2005, Wintershall continued its efforts to tie-in satellite fields to its own pipeline system with the goal of fully utilizing the associated gas produced. Offshore Libya, Wintershall holds a 12.5% interest in the Al Jurf oil field.

Onshore Mauritania, two production sharing contracts were signed. In Morocco, two exploration licenses were relinquished. Exploration drilling in Qatar led to an oil discovery that will trigger appraisal activities in 2006.

South America/Southern Cone

Wintershall produces substantial volumes of its natural gas in Argentina. The Carina gas field development off the coast of Tierra del Fuego has been completed, and the field has been on stream since mid 2005. Production startup of the adjacent Aries gas field is expected for early 2006. Furthermore, Wintershall continued its exploration efforts with both operated and non-operated licenses. Exploration activities offshore Brazil were abandoned in 2005.

Russia/Caspian Sea

BASF has a cooperation agreement with Gazprom that provides a legal and commercial framework for field development projects. Wintershall and Gazprom are cooperating in the development of large gas/condensate fields in Western Siberia. The first project, the development of the Achimov formation in a part of the Urengoy field, reached the operational phase early in 2005. Start of drilling is scheduled for early 2006. In addition, Wintershall and Gazprom are negotiating Wintershall s participation in the development of the Yushno Russkoye gas field in Western Siberia.

In the Volga region, the joint venture company Wolgodeminoil, with its partners Wintershall and Lukoil, continued oil exploration and production activities.

Offshore Turkmenistan, Wintershall took a share of 20% in each of two blocks offered by the operator Maersk in 2005. Part of the commitment is the current drilling of the first exploration well.

Risks and opportunities

In general, oil and gas exploration and production activities require high levels of investment and entail special economic risks and opportunities. These activities tend to be highly regulated, and companies engaging in these activities generally may face intervention by governments in matters such as:

The award of exploration and production licenses,

The imposition of specific drilling and other work-related obligations,

Environmental protection measures,

Control over the development and abandonment of fields and installations, and

Restrictions on production.

Crude oil prices are subject to international supply and demand and other factors that are beyond an oil company s control. Such factors can also affect the price of natural gas sold under long-term contracts, because in Germany and in many other countries, natural gas pricing is typically tied to prices of refined products pursuant to a specified time lag. Crude oil prices are generally set in U.S. dollars, while costs may be incurred in a variety of currencies. Fluctuations in exchange rates can therefore give rise to foreign exchange exposures.

As with most international oil and gas companies, substantial portions of the oil and gas reserves of Wintershall are located in countries which can be considered politically and economically less stable than the OECD countries. To date, political risks have not significantly affected the Oil & Gas segment or had a material adverse effect on BASF s financial condition or results of operations.

Wherever possible, Wintershall arranges capital investment guarantees by the German government to protect its investments. German government guarantees currently cover a total investment volume by Wintershall of approximately 625 million, including inventory of raw materials and supplies.

General uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of any reserve estimate is a function of the quality of available data, reservoir engineering, as well as geological interpretation and judgment. Results of drilling, testing and production after the date of the estimate may require substantial upward or downward revisions. In addition, changes in oil and natural gas prices could have an effect on the economically recoverable reserves. Accordingly, reserve estimates could be materially different from the quantities of oil and natural

gas that are ultimately recovered. To reduce uncertainties, Wintershall has used independent, internationally recognized auditors for some years to perform reserves audits of its major oil and gas fields.

Natural Gas Distribution and Trading

BASF conducts its natural gas distribution and trading activities pursuant to an extensive agreement with OOO Gazexport, a subsidiary of Gazprom. Wintershall and OAO Gazprom established two joint ventures:

WINGAS, in which Wintershall has a 65% share and

WIEH, in which Wintershall has a 50% share, although profit distributions are differentiated according to customers and countries of sale.

WINGAS owns and operates a large pipeline system in Germany that is more than 2,000 kilometers in length and is currently the third largest German natural gas transmission and distribution company. The company also owns and operates the largest underground natural gas storage site in western Europe with a working gas capacity of 157 billion cubic feet. In the United Kingdom, the development of proprietary gas storage facilities continues as scheduled. The natural gas field Saltfleetby, which was acquired in 2004, is going to be converted into a gas storage facility. In May, WINGAS entered into a joint-venture contract with Rohöl-Aufsuchungs AG (RAG) and OOO Gazexport, each partner with 1/3 ownership. According to the contract, the Austrian natural gas field Haidach is going to be converted into a gas storage facility.

So far, WINGAS has invested more than 3 billion. Capital expenditures in 2005 totaled 244 million. The main project was the extension of the STEGAL, which connects the WINGAS pipeline system with the Czech pipeline system as well as the Polish network via JAGAL.

In September 2005, Gazprom, E.ON AG (Germany) and BASF signed a memorandum of understanding to jointly build the North European Gas Pipeline (NEGP). Gazprom will participate with 51%, BASF and E.ON AG with 24.5% each. NEGP will run from Vyborg in Russia through the Baltic Sea to the vicinity of Greifswald in Germany where it will be connected with the pipeline systems of WINGAS and E.ON Ruhrgas.

Procurement of Russian gas is supplemented by purchases of West European gas. In 2005, WINGAS entered into several procurement contracts with a range of West European suppliers to diversify its procurement portfolio as well as to optimize the operation of its pipeline systems. Moreover, WINGAS used procurement opportunities at West European trading hubs, such as the National Balancing Point (NBP) in Great Britain and Zeebrugge in Belgium.

WIEH exclusively acts as a trading company, purchasing Russian natural gas and marketing it to WINGAS and Verbundnetz Gas AG (VNG), a transmission and distribution company in eastern Germany in which Wintershall has a 15.8% share. WIEH also markets Russian natural gas in central Europe through its wholly owned Swiss subsidiary WIEE.

Due to new European and German legislation, the WINGAS gas transmission division will be spun off into an independently operating company on January 1, 2006.

The sales volume of WINGAS, WIEH and WIEE totaled 1,127 billion cubic feet compared with 1,037 billion cubic feet the year before. BASF s consolidated sales volume in 2005 was 797 billion cubic feet, representing a 11% increase over the previous year s sales volume of 718 billion cubic feet.

WINGAS s biggest customer is BASF s own Verbund site in Ludwigshafen. In 2005, BASF purchased approximately 102 billion cubic feet for its Ludwigshafen site and other sites in Germany and Belgium. Approximately 29 billion cubic feet were sold to other BASF companies in Germany and Great Britain, and 10 billion cubic feet were sold to WIEH.

ENVIRONMENTAL MATTERS

BASF is subject to extensive, evolving and increasingly stringent international and local environmental laws and regulations concerning: the production, distribution, handling and storage of our products; the disposal of materials; the practices and procedures applicable to construction and operation of sites; the exploration and production of oil and gas; and the maintenance of safe conditions in the workplace.

These Environmental protection and remediation laws and regulations govern primarily:

The protection of humans and the environment from the harmful effects of dangerous chemical substances;

Emissions into the air and other releases into the environment; and

The purification and discharge of wastewater and waste management, focusing on waste avoidance and reuse of waste.

Although BASF believes that its production sites and operations currently fully comply with all applicable laws and regulations, these laws and regulations have required, and in the future could require, BASF to take action to remediate the effects on the environment of the prior disposal or release of chemicals, petroleum substances, or waste. Such laws and regulations have applied, and in the future could apply, to various sites, including BASF s chemical plants, oil fields, waste disposal sites, chemical warehouses and natural gas storage sites. In addition, such laws and regulations have required, and in the future could require, BASF to install additional controls for certain emission sources, undertake changes in its operations in future years and remediate soil or groundwater contamination at current and/or former sites and facilities.

BASF s operating costs for environmental protection totaled 623 million in 2005. These costs are recurring or one-time costs associated with sites or measures that are incurred in the avoidance, reduction or elimination of deleterious effects on the environment. They include the costs of disposal sites, such as wastewater treatment plants and residue incinerators. They also comprise different levies such as effluent levies and water levies, costs for disposal services by third parties, monitoring, analyses and surveillance carried out by mobile and stationary units as well as research and development costs for reducing the incidence of residues. BASF spent approximately 78 million in 2005 on capital expenditures for pollution control devices and equipment.

BASF also incurs costs to remediate the impact of the past disposal as well as the release of chemicals or petroleum substances or waste, both at its own sites and at third-party sites to which BASF sent waste for disposal. Worldwide, BASF had established provisions of 253 million for anticipated investigation and clean-up costs at such sites as of December 31, 2005, and 204 million as of December 31, 2004.

In the United States, liability for remediation of contamination is imposed generally pursuant to the federal Comprehensive Environmental Response Compensation and Liability Act (Superfund) and analogous state laws. Although such U.S. laws generally allow the recovery of the total cost of cleanup from any single responsible party, cleanup costs typically are shared among several responsible parties at third-party sites

where multiple parties sent waste to the site for disposal, and sometimes at owned or operated sites where a predecessor or other third-party disposed of waste on-site. BASF has been notified that it may be a potentially responsible party at such sites. The proceedings related to these sites are in various stages. The cleanup process has not been completed at most sites. The number, potential liability and financial viability of other parties are typically not fully resolved, and the status of the insurance coverage for most of these proceedings is uncertain. Consequently, BASF cannot accurately determine the ultimate liability for investigation or cleanup costs at these sites. As events progress at each site for which BASF has been named a potentially responsible party or is otherwise involved in remediation of contamination, BASF accrues, as appropriate, a liability for site cleanup. Such liabilities include all costs that are probable and can be reasonably estimated. In establishing these liabilities, BASF considers its shipments of waste to a site and its percentage of total waste shipped to the site (in the case of third-party sites); the types of waste involved; the conclusions of any studies; the magnitude of any remedial actions which may be necessary; and the number and

viability of other potentially responsible parties. Although the ultimate liability may differ from estimates, BASF routinely reviews liabilities and revised estimates, as appropriate, based on the most current information available.

BASF has established and continues to establish provisions for environmental remediation liabilities where the amount of such a liability can be reasonably estimated. BASF sets up or adjusts accruals as new remediation commitments arise or additional information becomes available. For further information, see Note 24 to the Consolidated Financial Statements included in Item 18.

BASF establishes provisions for currently known potential soil contamination at BASF sites that are still in operation. In general, investigations into potential contamination and subsequent cleanups are only required when a site is closed and the existing production facilities dismantled. Taking into account BASF s experience to date regarding environmental matters and currently known facts, BASF believes that capital expenditures and remedial actions necessary to comply with existing laws and conditions governing environmental protection, exceeding the existing provisions, will not have a material effect on BASF s consolidated financial condition or results of operations.

In connection with the onshore and offshore oil and gas activities conducted by BASF s subsidiary, Wintershall, BASF is subject to an increasing number of international and national laws, regulations and directives governing the protection of the environment. In connection with the exploration, drilling, production, storage, transportation and distribution of oil and gas, these regulations may, among other things:

Require permits;

Restrict the types, quantities and concentration of substances that may be released into the environment;

Limit or prohibit such activities on land within environmentally protected areas; and/or

Impose criminal or civil liability for pollution of soil, water and air as a result of such activities.

Wintershall performs environmental impact studies where new oil and gas activities are planned and complies with environmental protection principles when onshore and offshore sites are abandoned. Environmental laws and regulations have an increasing impact on the oil and gas industries and therefore on Wintershall. It is impossible to accurately predict the effect of future developments in such laws and regulations on Wintershall s future earnings and operations. BASF can make no assurance that Wintershall will not incur material costs and liabilities relating to environmental matters.

In recent years, the operations of all chemical companies have become subject to increasingly stringent legislation and regulations related to occupational safety and health, product registration and environmental protection. Such legislation and regulations are complex and constantly changing, and there can be no assurance that future changes in laws or regulations would not require BASF to install additional controls for certain of its emission sources, to undertake changes in its manufacturing processes, or to investigate possible soil or groundwater contamination and remediate proven contamination at sites where such cleanup is not currently required.

In the area of emissions trading, the BASF Group has been assigned certificates for nearly 5 million metric tons of CO_2/year for the first trading period (2005-2007) for all of its European sites. In the second trading period (2008-2012), conditions are expected to be stricter due to higher reduction targets in all E.U. countries, the complete inclusion of chemical plants, and the extension of the legislation to further climate gases.

The European Union is currently preparing new legislation on chemicals (REACH) that will alter the registration, evaluation and approval of chemical substances. The new legislation is not expected to come into force before 2007. It is not yet possible to place a final figure on the associated costs.

SUPPLIES AND RAW MATERIALS

Raw materials procurement

The major raw materials that feed BASF s Verbund production sites are hydrocarbon-based raw materials such as naphtha and LPG (liquefied petroleum gas). These are feedstocks for the steam crackers that are operated in Ludwigshafen, Germany; Antwerp, Belgium; Port Arthur, Texas and since 2005 in Nanjing, China. BASF monitors the market for naphtha, and hedges its exposure by using swaps and options. Other important hydrocarbon-based raw materials are natural gas, benzene and propylene. For its German operations, BASF primarily sources its natural gas from Russia by means of long-term natural gas supply contracts. In the United States, BASF secures its natural gas requirements based on shorter term supply contracts related to national sources with various suppliers. Other important raw materials for BASF include cyclohexane, ammonia, titanium dioxide and methanol.

BASF applies e-commerce as a tool to continuously improve the efficiency of its procurement processes. This has a positive impact on process times and process quality. BASF uses the electronic marketplace cc-hubwoo, in which we own a stake, for procuring technical goods and services. BASF has integrated the marketplace Elemica in the purchasing processes for raw materials. Elemica is used as a trading platform for chemical products by more than 230 customers and suppliers.

BASF has a policy of maintaining, when possible, multiple sources of supply for its raw materials. BASF has not experienced any difficulty in obtaining sufficient supplies of raw materials in recent years and believes it will generally be able to obtain them at competitive market prices in the future. However, BASF cannot guarantee that unforeseen developments will not adversely affect its ability to obtain sufficient, competitively priced raw materials in the future.

ORGANIZATIONAL STRUCTURE

BASF Aktiengesellschaft is the ultimate parent company of the BASF Group. The Group operates in five separate business segments which encompass BASF s 12 operating divisions. The business segments are reportable segments except for the business segment Agricultural Products & Nutrition, which is treated as two reportable segments, disclosing separately the Agricultural Products and Fine Chemicals divisions.

Business operations are run by 57 regional and global business units, organized along business or product lines. As profit centers, they are responsible for all business operations from production to marketing and sales and their processes are customer-oriented.

In addition to its operating divisions and business units, BASF has three corporate divisions that support the Board of Executive Directors in directing the company s activities, and eleven competence centers that oversee strategic activities and set global standards. The corporate divisions are Legal, Taxes & Insurance; Planning & Controlling; and Finance. The competence centers are Global Procurement and Logistics; Information Services; Human Resources; Environment, Safety & Energy; Corporate Engineering; Chemicals Research & Engineering; Specialty Chemicals Research; Polymer Research; Plant Biotechnology Research; Occupational Medicine & Health Protection; and University Relations & Research Planning.

The following table sets forth significant subsidiaries owned, directly or indirectly, by BASF Aktiengesellschaft:

Name of Company	Percentage owned (%)
BASF Coatings AG, Münster-Hiltrup, Germany	100
BASF Schwarzheide GmbH, Schwarzheide, Germany	100
Elastogran GmbH, Lemförde, Germany	100
Wintershall AG, Kassel, Germany	100
BASF Antwerpen N.V., Antwerp, Belgium	100
BASF Española S.A., Tarragona, Spain	100
BASF Corporation, Florham Park, New Jersey	100
BASF S.A., São Bernardo do Campo, Brazil	100
BASF Company Ltd., Seoul, South Korea	100
BASF Petronas Chemicals SDN. BHD., Petaling Jaya, Malaysia	60

DESCRIPTION OF PROPERTY

BASF owns and operates numerous production and manufacturing sites throughout the world. The principal offices of BASF Aktiengesellschaft are located in Ludwigshafen, Germany. In addition, BASF operates regional headquarters, sales offices, distribution centers and research and development facilities worldwide. We believe that our production sites are well aligned with both our present capacity requirements, and our future growth strategy. We are constantly evaluating the location, efficiency and capacity of our plants, and taking action where appropriate.

At the heart of BASF s integration strategy are its Verbund production sites, which produce a wide range of products. BASF produces approximately 8,000 products, which can vary significantly in quantity produced and sales price. The following is a description of our operational Verbund sites and production capacities of certain significant products. Capacities are listed in metric tons per year unless otherwise noted.

Segment	Product	Production Sites					
		Ludwigs-hafen, Germany	Antwerp, Belgium	Geismar, Louisiana and Freeport, Texas	Kuantan, Malaysia, and Nanjing, China	Other Sites	Total World Capacity / Notes
Acreage / number of plants:		**1,760 / 250**	**1,470 / 54**	**2,800 / 32**	**370 / 22**		
Chemicals	Ammonia	x	x				1,525,000
	Chlorine	x					360,000
	Formaldehyde condensation products	x					750,000
	Ethylene	x	x	x	x	x	2,850,000(1) (10)
	Propylene	x	x		x	x	2,310,000(1) (4) (10)
	Benzene	x	x		x	x	850,000(1) (10)
	Butadiene	x				x	515,000(2)
	Oxo C_4 alcohols (calculated as butyraldehyde)	x		x	x	x	1,320,000(3) (10)
	Plasticizers	x			x	x	395,000(3)
	Ethylene oxide	x	x	x	x		1,175,000(10)
	Ethanolamines and derivatives	x	x				255,000
	Alkylamines	x	x		x	x	221,000(10)
	1,4-Butanediol	x		x	x	x	500,000(5) (3)
	Polytetrahydrofuran	x		x		x	194,000
	1,6-Hexanediol	x		x			