



 **BASF**

The Chemical Company

Dynamic BASF on Course for Profitable Growth

Second-Quarter Results 2006

April – June 2006
published on August 2, 2006

- Strong sales growth of 16%
- EBIT before special items up 15%
- New growth opportunities from acquisitions
- Outlook: Higher sales and EBIT before special items compared with 2005

Overview	2nd Quarter			1st Half		
	2006	2005	Change in %	2006	2005	Change in %
Million €						
Sales	12,322	10,581	16.5	24,837	20,664	20.2
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	2,374	2,149	10.5	4,775	4,168	14.6
Income from operations (EBIT) before special items	1,910	1,657	15.3	3,775	3,220	17.2
Income from operations (EBIT)	1,797	1,587	13.2	3,646	3,086	18.1
Financial result	23	(82)	.	44	(37)	.
Income before taxes and minority interests	1,820	1,505	20.9	3,690	3,049	21.0
Net income	920	778	18.3	1,870	1,639	14.1
Earnings per share (€)	1.82	1.48	23.0	3.69	3.08	19.8
EBIT before special items in percent of sales	15.5	15.7	-	15.2	15.6	-
Cash provided by operating activities	760	977	(22.2)	2,208	2,081	6.1
Additions to fixed assets*	4,957	850	483.2	5,557	1,212	358.5
Excluding acquisitions	491	482	1.9	964	844	14.2
Amortization and depreciation*	577	562	2.7	1,129	1,082	4.3
Segment assets (end of period)**	35,241	28,631	23.1	-	-	-
Personnel costs	1,430	1,393	2.7	2,822	2,670	5.7
Number of employees (end of period)	86,794	80,946	7.2	-	-	-

* Tangible and intangible fixed assets (including acquisitions)

** Tangible and intangible fixed assets, inventories and business-related receivables

Contents

1 BASF Group Business Review	13 Consolidated Statements of Income
3 BASF Shares	14 Consolidated Balance Sheets
4 Significant Events and Outlook	15 Consolidated Statements of Cash Flows
6 Chemicals	16 Consolidated Statements of Recognized Income and Expense
7 Plastics	17 Consolidated Statements of Stockholders' Equity
8 Performance Products	18 Segment Reporting
9 Agricultural Products & Nutrition	20 Explanations to the Interim Financial Statements
10 Oil & Gas	
11 Regions	
12 Overview of Other Topics	

Cover photo:

Shah Kazi, senior research engineer from the BASF Catalysts R&D Center in Iselin, New Jersey and Dr. Henrik Junicke, product manager for catalysts in Ludwigshafen.

News from our innovation centers

Wax in the wall for a pleasant indoor climate

BASF's phase-change material Micronal® PCM absorbs daytime temperature peaks

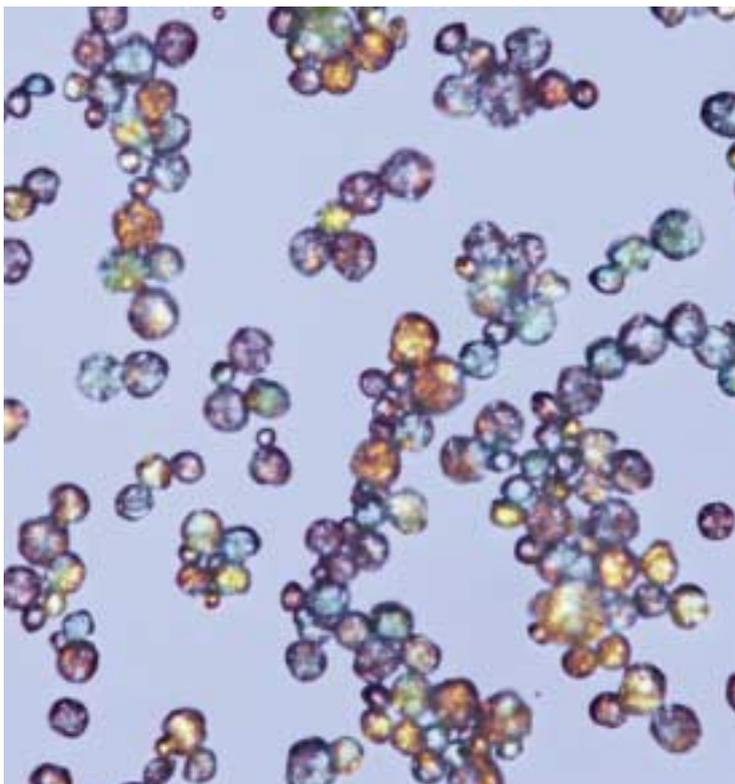
Summer, sun, sunshine – although much longed for throughout the winter months, they can soon become too much of a good thing when they arrive. Modern lightweight construction houses and steel and glass office complexes with transparent frontages can become more like saunas overnight. BASF's SmartBoard™ offers a solution to this problem. The cooling properties of this innovative gypsum wallboard are provided by the raw material Micronal® PCM, a microencapsulated latent heat store based on paraffin wax that absorbs excess heat. PCM stands for phase change material. Micronal® is an effective thermal buffer due to the physical phenomena that occur when wax changes from the solid to the liquid state. During this phase transition, a large amount of thermal energy (known as latent heat) is consumed without the temperature of the material itself changing.

The waxes contained in Micronal® PCM melt at 23C or 26C (73/79F) depending on the application. When they melt, they absorb large amounts of heat from the environment, thereby preventing the room temperature from rising further. At night, when the outside temperature falls, the heat bound when the wax solidifies is released and the heat store is ready for a new summer's day.

Thanks to microencapsulation the wax can be safely integrated into building materials like wall plaster, mortar or gypsum boards: Microscopically small droplets of wax are enclosed in a virtually indestructible acrylic polymer shell that withstands even drilling and sawing. Depending on the material, between 20 and 40 percent Micronal® PCM may be used.

The ready-to-use gypsum wallboard Micronal® PCM SmartBoard™ is very user-friendly: although only 1.5 centimeters thick, each square meter contains around three kilograms of Micronal® PCM, and its heat insulating capacity corresponds to that of a brick wall 12 centimeters thick. As a result, it acts as an important functional component of the building that actively improves the indoor climate.

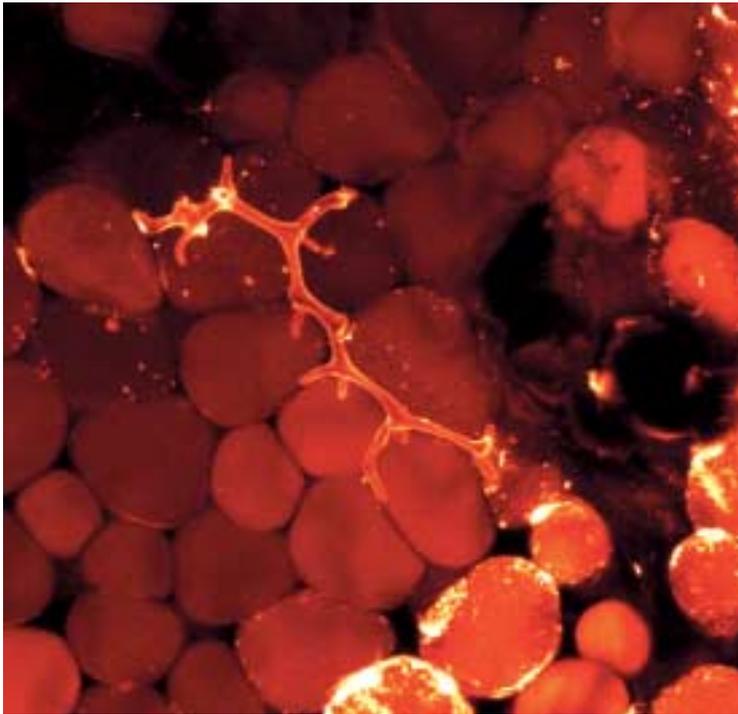
The SmartBoard™ wallboards can be obtained directly through BASF's subsidiary BTC Specialty Chemical Distribution GmbH in Cologne. But several other industrial partners are also offering PCM construction materials based on Micronal® PCM. The German company H+H Celcon, for example, has incorporated BASF's phase-change material in aerated cement blocks. The heat storage capacity of the blocks, which are sold under the brand name CelBloc Plus and recognizable by their characteristic green color, is thus considerably enhanced.



The perspex microcapsules – about 5 micrometers in diameter – contain a storage medium such as paraffin. When the contents melt, heat is taken up and is given out again only when the material solidifies.

News from our innovation centers

Biotechnologists fight dreaded potato disease



Microscope image of the fungus *Phytophthora infestans* (light red structure in the center of the picture). The fungus spreads through leaf tissue in potatoes and causes potato blight.

Two genes from wild potatoes protect crops

Phytophthora infestans is every potato farmer's nightmare. Once this harmful fungus shows up, the dreaded potato blight can't be far behind. This disease can result in considerable crop losses. In the mid-19th century, it caused a famine in Ireland, and even today around 20 percent of potato harvest losses in the world are due to this disease. Researchers at BASF Plant Science GmbH have now developed a genetically improved potato that is resistant to this harmful pathogen.

The starting point for this modern innovation is a remote valley in the Central American Andes. Various wild types of potato grow here and potato blight is also rampant. But not all the potato plants are infested. Some seem to have developed a very effective strategy to protect themselves against the pathogen that causes the disease.

Scientists discovered that the resistant potato plants had at least one gene that the infested plants did not have. This gene ensures that the plant recognizes the harmful fungus in the first place. To set its defense mechanisms in motion, the plant needs to know that the fungus is there.

That is precisely the problem with the modern cultivated potato. These plants would be able to fight off the fungus if they were only able to recognize its presence. This encouraged scientists to attempt to transfer the benefits of the wild potato to its cultivated counterpart. Conventional breeding methods were attempted for years but without success. Although the new types were partially resistant, they had other negative properties such as the lower yield typical of the wild potato. The breakthrough finally came in recent years with the aid of biotechnology: Scientists isolated a resistance gene of the wild potato and transferred it to the cultivated potato.

Because the fungus adapts to varying environmental conditions, mutates and forms a large number of variants, scientists from BASF Plant Science identified other resistance genes in the wild potato. Together with potato breeders, a potato with two additional genes taken from the wild potato has now been developed.

The potato from BASF Plant Science has already demonstrated its resistance in the greenhouse. Field trials are now being carried out at a number of locations to investigate whether various climatic conditions adversely affect the resistance of the genetically improved potato. The potato can be launched on the market as soon as these trials have been completed and following E.U. approval.

BASF Group Business Review

- Sales volumes up 7%
- Sales growth of 16%
- EBIT before special items up 15%

Sales

Compared with the same period of the previous year, sales in the second quarter of 2006 increased by 16% to €12.3 billion. The sales growth was due to the following factors:

Factors influencing sales in comparison with previous year

% of sales	2nd Quarter	1st Half
Volumes	7	7
Prices	7	9
Acquisitions/divestitures	2	2
Currencies	0	2
	16	20

The new Catalysts division has been assigned to the Chemicals segment. This division includes the catalysts business and precious metals trading acquired on June 6, 2006 as part of Engelhard Corporation as well as our own existing catalysts business, which was formerly part of the Inorganics division. In addition to the effect of the activities of Engelhard, which contributed sales of €240 million, sales in the Chemicals segment were boosted by the Verbund site in Nanjing, China, which started operations in June 2005. Furthermore, sales increased due to sales price increases to pass on significantly higher raw material costs.

In the Plastics segment, sales rose considerably due to higher sales volumes in the Styrenics and Polyurethanes division.

Second-quarter sales by segment

		Million €	
Chemicals	2006	2,443	22%
	2005	2,007	
Plastics	2006	3,168	8%
	2005	2,924	
Performance Products	2006	2,197	5%
	2005	2,098	
Agricultural Products & Nutrition	2006	1,389	(5)%
	2005	1,465	
Oil & Gas	2006	2,481	50%
	2005	1,650	

In the Performance Products segment, all operating divisions posted higher sales due to higher volumes and a slight increase in sales prices.

Volumes and sales prices declined in the Agricultural Products & Nutrition segment. Together with the divestiture of major parts of the generics business in North America, this resulted in significantly lower sales in the Agricultural Products division. The Fine Chemicals division posted significantly higher sales thanks to the pharmaceutical contract manufacturing business of the Orgamol Group that was acquired in the fourth quarter of 2005 and the personal care business acquired from Engelhard Corporation.

Sales in the Oil & Gas segment rose strongly due to higher volumes and prices.

Special items	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2006	2005	2006	2005	2006	2005	2006	2005
Million €								
Special items in:								
– Income from operations	(16)	(64)	(113)	(70)		(65)		(109)
– Financial result	–	–	–	–		222		–
	(16)	(64)	(113)	(70)		157		(109)

Earnings

Compared with the same period of 2005, we increased income from operations (EBIT) before special items by 15% to €1,910 million.

Margins in the Chemicals segment declined due to significantly higher prices for energy and raw materials. In addition, earnings were negatively affected by maintenance turnarounds at several plants as well as plant outages.

In the Plastics segment, increased raw material costs reduced our margins. Nevertheless, higher volumes led to a rise in earnings.

Earnings in the Performance Products segment declined due to severe pressure on margins, in particular in the Functional Polymers division.

Second-quarter earnings in the Agricultural Products division were impacted by lower volumes due to the late start to the season in Europe as well as subdued demand from customers in North America.

In the Fine Chemicals division, earnings increased as a result of the contribution from the acquired businesses as well as a reduction in fixed costs compared with the same period of the previous year.

The Oil & Gas segment posted the strongest earnings growth, due partly to higher crude oil prices and increased volumes in the natural gas trading business.

Compared with the same period of 2005, second-quarter EBIT rose by 13% to €1,797 million. Special items in income from operations were related to the integration of Engelhard Corporation, as well as expenses for restructuring, which are primarily recorded under “Other” in the course of the year. The reduction of a fine imposed by the E.U. in 2001 for anti-trust violations related to vitamin sales resulted in special income of €66 million.

Second-quarter EBIT before special items

Million €			
Chemicals	2006		351 (15)%
	2005		415
Plastics	2006		315 15%
	2005		274
Performance Products	2006		209 (23)%
	2005		272
Agricultural Products & Nutrition	2006		183 (39)%
	2005		302
Oil & Gas	2006		868 50%
	2005		579

The financial result increased by €105 million to €23 million. This was due in particular to lower net financing costs for pension obligations recorded under “Other financial result” following the transfer of approximately €3.7 billion to a contractual trust arrangement at the end of 2005.

Income before taxes and minority interests rose by 21% to €1,820 million.

The tax rate was 47.6% compared with 46.3% in the second quarter of 2005. Taxes for oil production that are noncompensable with German corporate income tax amounted to €383 million compared with €267 million in the same period of the previous year.

Net income increased 18% to €920 million. Earnings per share were €1.82 compared with €1.48 in the second quarter of 2005.

BASF Shares

- **BASF shares better than DAX 30 and EURO STOXX 50 indices in the second quarter**
- **Shares buybacks for €285 million in the second quarter of 2006**

BASF shares

	2nd Quarter 2006	1st Half 2006
Performance (with dividends reinvested)		
BASF (%)	(0.14)	(0.16)
DAX 30 (%)	(4.80)	+5.09
EURO STOXX 50 (%)	(3.66)	+3.97
Share prices and trade (XETRA trading)		
Average (€)	64.07	63.78
High (€)	69.49	69.49
Low (€)	58.97	58.97
Close (€)	62.78	62.78
Average daily trade in shares (million shares)	3.37	3.20

BASF share performance

After a relatively flat period in the first quarter of 2006, the price of BASF's stock increased significantly in April and reached a record high of €69.49 on April 21. In May, the stock pared gains in a market characterized by high crude oil prices and anticipated interest rate increases and closed the quarter with a performance of -0.14% (assuming reinvestment of the €2.00 per share dividend paid on May 5). As a result, BASF shares performed better than the DAX 30 and EURO STOXX 50 indices, which declined by 4.80% and 3.66%, respectively, in the second quarter.

Share buybacks

In the second quarter of 2006, BASF Aktiengesellschaft bought back 4.54 million shares for a total of €285 million and an average price of €62.83 per share.

Up to the end of the second quarter, BASF had bought back shares for a total of €342 million under the €500 million share buyback program that was announced in February 2006. This program is scheduled to run until the Annual Meeting in 2007.

We also plan to buy back shares in the future.

Up-to-date information on BASF shares is available on the Internet at www.basf.de/share.

You can reach BASF's investor relations team by calling +49 621 60-48230 or by sending an e-mail to investorrelations@basf.com.

Significant Events and Outlook

Acquisition of Engelhard Corporation

Following the acceptance of BASF's cash offer by the majority of shareholders, BASF gained control of Engelhard Corporation on June 6, 2006. BASF owns 100% of the company since June 9, 2006.

As a result of this acquisition, we will become a leading supplier in the fast growing market for catalysts. The combination of the two companies' R&D activities will create a unique Know-how Verbund and thus open up further potential for innovation and growth in the area of catalysis.

The acquisition involves 50 production sites and 22 R&D centers in more than 20 countries. Approximately 7,300 Engelhard employees have transferred to BASF as a result of the acquisition. The purchase price for Engelhard shares amounted to \$4.8 billion or approximately €3.8 billion.

Engelhard Corporation reported the following results for fiscal 2005:

Key data Engelhard Corporation

Million \$	2005
Sales	4,597
Income from operations	299
Assets	3,879

The catalysts business will be managed in BASF's new Catalysts operating division and reported as part of the Chemicals segment. Engelhard's remaining businesses will be integrated primarily in BASF's Performance Products segment and in the Fine Chemicals operating division.

The companies acquired as a result of the acquisition are included in BASF Group's consolidated financial statements as of June 6, 2006.

Acquisition of Degussa's construction chemicals business

The acquisition of the construction chemicals business of Degussa AG by BASF Aktiengesellschaft was completed on July 1.

With BASF's chemical expertise and Degussa's know-how in construction chemicals applications, we offer our customers a greater range of innovative products and help them to be more successful in the competitive construction sector. BASF's strong presence in Asia will additionally generate growth opportunities in this region's booming construction sector.

The acquisition includes production sites and sales centers in over 50 countries as well as an R&D center in Trostberg, Germany. Approximately 7,400 employees have transferred from Degussa to BASF. The purchase price for equity was just under €2.2 billion. In addition, the transaction was associated with debt of €0.5 billion.

Degussa reported the following results for its construction chemicals business in fiscal 2005:

Key data Degussa Construction Chemicals

Million €	2005
Sales	1,968
Income from operations	223
Assets	1,472

The activities will be reported in the new Construction Chemicals division, which is part of the Performance Products segment. The companies acquired as a result of the acquisition will be included in BASF Group's consolidated financial statements as of July 1, 2006. The acquisition price of €2.7 billion for Degussa's construction chemicals business is reported under "Other receivables" as of June 30, 2006.

Further significant events

The acquisition of Johnson Polymer was completed on July 1, 2006. It provides BASF with a range of water-based resins that complements our portfolio of high solids and UV resins for the coatings and paints industry and will strengthen our market presence, in particular in North America.

The acquisition of Johnson Polymer involves one production site each in the United States and in the Netherlands, as well as technical centers and offices in Asia Pacific. The purchase price was \$470 million on a cash and debt-free basis.

In 2005, Johnson Polymer posted sales of approximately \$360 million and had 430 employees worldwide. The business will be integrated into the Performance Chemicals division and included in BASF Group's consolidated financial statements as of July 1, 2006. The acquisition price of €376 million for Johnson Polymer is reported under "Other receivables" as of June 30, 2006.

BASF acquired CropDesign on June 27, 2006. This Belgian biotechnology company will be integrated in BASF Plant Science GmbH, in which all of our plant biotechnology activities are combined. CropDesign will strengthen our research network thanks to the workforce of over 70 employees at its research facilities in Ghent, Belgium.

On July 10, BASF and the China Petroleum & Chemical Corporation (SINOPEC Corp.) signed a \$500 million agreement to expand their joint Verbund site in Nanjing, China. BASF-YPC Co. Ltd. – the 50-50 joint venture between BASF and SINOPEC – plans to invest in additional downstream plants and expand the capacity of its steam cracker. The new activities are expected to come on stream in 2009.

On July 7, 2006, the Supervisory Board of BASF Aktiengesellschaft extended the appointment of BASF Chairman Dr. Jürgen Hambrecht until the end of the Annual Meeting in 2011.

At the same time, the Supervisory Board extended the appointments of Klaus Peter Löbbe and Dr. Stefan Marcinowski to the Board of Executive Directors. Löbbe's appointment will now run until the end of the Annual Meeting in 2008, Marcinowski's until May 2012.

Outlook

We expect the following conditions in 2006:

- Average oil prices (Brent) of about \$65/barrel
- An average euro/dollar exchange rate of \$1.25 per euro and a further increase in interest rates
- Global economic growth and chemical production growth (excluding pharmaceuticals) of more than 3%

On this basis, we expect that our business will continue to develop positively in the further course of the year. Persistently high oil prices are likely to lead to an increase in raw material costs and margin pressure. Additional sales price increases are therefore necessary.

Major risk factors continue to be the political situation in unstable areas, especially in the Middle East, and the development of the crude oil price.

In view of the strong business performance in the first half, we remain optimistic for the full year: We expect to post significantly higher sales and higher EBIT before special items compared with the previous year's strong level.

Furthermore, our acquisitions will contribute to sales in the second half, bringing total sales to more than €50 billion. We anticipate an additional contribution to EBIT before special items.

Chemicals

- Higher sales and volumes in all divisions
- Margins and earnings decline due to high raw material and energy prices as well as plant shutdowns
- New Catalysts operating division

Overview Chemicals	2nd Quarter			1st Half		
	2006	2005	Change in %	2006	2005	Change in %
Million €						
Sales	2,443	2,007	22	4,682	3,829	22
Thereof Inorganics	285	250	14	570	439	30
Catalysts	259	18	.	280	36	.
Petrochemicals	1,324	1,227	8	2,698	2,363	14
Intermediates	575	512	12	1,134	991	14
EBITDA	409	477	(14)	861	1,021	(16)
EBIT before special items	351	415	(15)	668	841	(21)
EBIT before special items in percent of sales	14.4	20.7	-	14.3	22.0	-
EBIT	263	345	(24)	580	771	(25)
Assets	10,903	6,026	81	-	-	-

We increased sales significantly in the second quarter. In addition to higher volumes and sales prices, sales were boosted by Engelhard's catalyst business, which was acquired at the beginning of June (volumes 6%, prices 4%, portfolio 12%). EBIT before special items was negatively impacted by significantly higher prices for raw materials and energy as well as by plant turnarounds and outages. EBIT contains special charges related to the integration of Engelhard Corporation.

Inorganics

Sales rose especially due to strong demand for inorganic basic chemicals and specialties. Significantly higher prices for natural gas put pressure on margins, especially for methane-based derivatives, and led to a decline in earnings.

The catalysts business unit, which was previously part of the Inorganics division, was assigned to the new Catalysts division with effect from January 1, 2006. The previous year's figures were restated accordingly.

Catalysts

BASF acquired Engelhard Corporation at the beginning of June and has started the integration process. Effective June 6, Engelhard's catalysts business and precious metals trading are reported in this new operating division together with BASF's existing catalyst business.

Petrochemicals

Higher prices and additional volumes from production at the site in Nanjing, China, led to an increase in sales compared with the same period of 2005. Business with plasticizers and solvents was strong. Earnings were significantly lower, however, due to high and rising raw material costs, as well as plant turnarounds and outages. Following shutdowns lasting several weeks, plants in Ludwigshafen, Antwerp, Belgium, and Port Arthur, Texas, are again operating at high capacity utilization rates.

Intermediates

As in previous quarters, demand continued to rise in the second quarter of 2006. Sales were higher than in the same period of 2005. Very high prices for raw materials worldwide could only be passed on to a limited extent in the form of higher sales prices. Earnings were at the same level as in the previous year.

Plastics

- Further increase in sales and earnings
- Higher volumes of polyurethanes and styrenics
- Startup of new plants in Kuantan, Malaysia, and Caojing, China

Overview Plastics	2nd Quarter			1st Half		
	2006	2005	Change in %	2006	2005	Change in %
Million €						
Sales	3,168	2,924	8	6,259	5,724	9
Thereof Styrenics	1,232	1,128	9	2,383	2,264	5
Performance Polymers	738	732	1	1,488	1,421	5
Polyurethanes	1,198	1,064	13	2,388	2,039	17
EBITDA	442	400	11	898	780	15
EBIT before special items	315	274	15	647	543	19
EBIT before special items in percent of sales	9.9	9.4	–	10.3	9.5	–
EBIT	314	280	12	645	548	18
Assets	6,867	6,591	4	–	–	–

The Plastics segment posted an increase in sales compared with the second quarter of 2005 due to higher volumes and virtually stable prices (volumes 9%, prices –1%, portfolio –1%, currencies 1%). Earnings rose to an even greater extent. This was due in particular to improved earnings in the Styrenics division and continued strong earnings in the Polyurethanes division.

Styrenics

Sales were higher than in the same period of the previous year, in particular thanks to strong demand in Europe and Asia. Earnings increased significantly compared with the weak second quarter of 2005. Margins, however, remain unsatisfactory. Earnings were additionally impacted by the shutdown of the styrene plant in Ludwigshafen for maintenance.

In order to expand our specialties business, we have opened a service center called designfabrik® in Ludwigshafen through which we support our customers in the early stages of product development.

Performance Polymers

Second-quarter sales and earnings were at the same level as in 2005. Sales volumes of engineering plastics developed positively in Asia and Europe. The business acquired from Leuna-Miramid in November 2005 contributed to this effect.

Together with our partner Toray, we started operations at a world-scale production plant for polybutylene terephthalate (PBT) at our Verbund site in Kuantan, Malaysia, as scheduled in April 2006. The capacity utilization of the plant is already high as a result of the customer base that has been systematically established.

Polyurethanes

We increased sales significantly thanks to strong demand, in particular in North America. Earnings were increased slightly compared with the previous year's high level.

In Caojing, China, we are currently starting operations as planned at the integrated isocyanate complex for MDI and TDI that we have built with Huntsman and Chinese partners.

Together with DOW and Solvay we will start construction work on plants for hydrogen peroxide and propylene oxide (HPPO) in Antwerp, Belgium, in September 2006.

Performance Products

- Higher sales due to increased volumes in all divisions
- Decline in earnings due to rise in raw material costs
- Acquisition of Degussa's construction chemicals business and resins producer Johnson Polymer

Overview Performance Products	2nd Quarter			1st Half		
	2006	2005	Change in %	2006	2005	Change in %
Million €						
Sales	2,197	2,098	5	4,344	4,006	8
Thereof Coatings	576	555	4	1,167	1,027	14
Functional Polymers	848	809	5	1,640	1,551	6
Performance Chemicals	773	734	5	1,537	1,428	8
EBITDA	298	366	(19)	627	670	(6)
EBIT before special items	209	272	(23)	457	497	(8)
EBIT before special items in percent of sales	9.5	13.0	-	10.5	12.4	-
EBIT	209	282	(26)	456	506	(10)
Assets	5,884	4,938	19	-	-	-

In the Performance Products segment, all divisions posted higher second-quarter sales compared with the same period of 2005 (volumes 2%, prices 1%, portfolio 2%). Rising raw material costs negatively affected margins, and earnings were lower than in the previous year's second quarter.

The construction chemicals business acquired from Degussa will be reported in the new operating division Construction Chemicals with effect from July 1, 2006. Johnson Polymer, a producer of water-based resins for the coatings and printing inks industry that was acquired by BASF, will become part of the Performance Chemicals division as of July 1, 2006.

The pigments business of Engelhard Corporation is reported in the Functional Polymers and Performance Chemicals divisions effective June 6, 2006.

Coatings

We increased sales of automotive coatings in Asia and North America. This growth occurred despite a slight decline in automotive production in North America. In Europe, sales of industrial coatings grew in particular. Earnings increased compared with the same period of 2005.

Functional Polymers

We improved sales of functional polymers thanks in particular to higher volumes of polymers for construction chemicals, adhesive raw materials and superabsorbents. Prices for acrylic monomers came increasingly under pressure due to additional capacities in Asia. The business environment in the paper industry is negatively affected by ongoing restructuring activities among our customers. Overall, earnings were lower than in the strong second quarter of 2005.

The high level of prices in almost all product lines is making it increasingly difficult to pass on increased raw material costs promptly to our customers.

Performance Chemicals

We increased volumes and sales, in particular for performance chemicals for the automotive and oil industry. Further increases in raw material costs could be passed on to the market only to a limited extent. Thanks to strict cost management, earnings were at almost the same level as in the second quarter of 2005.

Agricultural Products & Nutrition

- Difficult market environment for agricultural products
- Fine Chemicals division improves sales and earnings

Overview Agricultural Products	2nd Quarter			1st Half		
			Change			Change
	2006	2005	in %	2006	2005	in %
Million €						
Sales	924	1,043	(11)	1,852	2,002	(7)
EBITDA	217	351	(38)	550	683	(19)
EBIT before special items	165	295	(44)	378	571	(34)
EBIT before special items in percent of sales	17.9	28.3	–	20.4	28.5	–
EBIT	164	291	(44)	444	575	(23)
Assets	5,025	5,540	(9)	–	–	–

Sales were significantly lower than in the second quarter of 2005. This was due primarily to a decline in sales volumes and the divestiture of major parts of the North American generics business (volumes –6%, prices/currency –1%, portfolio –4%).

In Europe, business was negatively affected by the late start to the season, which resulted in the application of smaller amounts of crop protection products. The agricultural economy in North America was impacted by higher operating costs and lower sales prices for

agricultural produce. In addition, retailers reduced high inventory levels of fungicides that were established in 2005 in expectation of the rapid spread of Asian soy-bean rust.

Earnings declined due to the drop in volumes. The further appreciation of the Brazilian real also contributed to the decline.

On the basis of business to date, we do not expect to be able to match the previous year's level of sales and earnings.

Overview Fine Chemicals	2nd Quarter			1st Half		
			Change			Change
	2006	2005	in %	2006	2005	in %
Million €						
Sales	465	422	10	913	817	12
EBITDA	96	12	.	136	62	119
EBIT before special items	18	7	157	29	27	7
EBIT before special items in percent of sales	3.9	1.7	–	3.2	3.3	–
EBIT	63	(19)	.	73	1	.
Assets	1,760	1,326	33	–	–	–

Sales increased thanks to the pharmaceutical contract manufacturing business that we acquired in October 2005 and the personal care business of Engelhard Corporation (volumes –1%, prices/currencies –2%, portfolio 13%).

While growth rates remained high in the aroma chemicals business, sales of lysine and vitamin C continued to decline.

EBIT before special items improved considerably compared with the same period of 2005. This was due

in particular to the pharmaceutical contract manufacturing business. We are continuing with our cost reduction measures to combat the persisting pressure on margins for lysine, vitamin C and pharmaceutical active ingredients.

EBIT contains special income of €66 million resulting from the reduction of a fine imposed by the E.U. for anti-trust violations related to vitamin sales as well as special charges for restructuring measures.

Oil & Gas

- Sales and earnings 50% up on previous year
- Considerably higher volumes in natural gas trading
- Achimgaz joint venture starts production wells

Overview Oil & Gas	2nd Quarter			1st Half		
	2006	2005	Change in %	2006	2005	Change in %
Million €						
Sales	2,481	1,650	50	5,466	3,490	57
Thereof Exploration and production	1,219	862	41	2,300	1,555	48
Natural gas trading	1,262	788	60	3,166	1,935	64
EBITDA	973	686	42	1,926	1,276	51
Thereof Exploration and production	835	609	37	1,542	1,068	44
Natural gas trading	138	77	79	384	208	85
EBIT before special items	868	579	50	1,716	1,063	61
Thereof Exploration and production	766	533	44	1,404	919	53
Natural gas trading	102	46	122	312	144	117
EBIT before special items in percent of sales	35.0	35.1	-	31.4	30.5	-
Thereof Exploration and production	62.8	61.8	-	61.0	59.1	-
Natural gas trading	8.1	5.8	-	9.9	7.4	-
EBIT	868	579	50	1,716	1,063	61
Thereof Exploration and production	766	533	44	1,404	919	53
Natural gas trading	102	46	122	312	144	117
Assets	4,802	4,210	14	-	-	-
Thereof Exploration and production	2,232	2,063	8	-	-	-
Natural gas trading	2,570	2,147	20	-	-	-

Persistently high crude oil prices and considerably higher sales volumes in the natural gas trading business sector (volumes 7%, prices/currencies 43%) led to a significant increase in sales and earnings compared with the strong second quarter of 2005.

In the **exploration and production** business sector, sales and earnings increased significantly compared with the same period of the previous year as a result of persistently high crude oil prices. Compared with the second quarter of 2005, the average price of Brent crude rose by approximately \$18/barrel to just under \$70/barrel. In euro terms, this corresponds to an increase of €14/barrel to €55/barrel.

The **natural gas trading** business sector again increased sales volumes considerably in both Germany and Western Europe. Sales prices were also raised compared with the previous year's second quarter. Significantly higher sales and earnings were posted as a result.

Our Achimgaz joint venture with Gazprom started its first two production wells in the second quarter. The construction work on the remaining facilities is proceeding according to schedule. We therefore aim to start production around the end of the year.

In April 2006, BASF and Gazprom signed an agreement on BASF's participation in the Yuzhno Russkoye gas field. The contracts are expected to be completed by the end of the year.

Regions

- **Europe: Strong increase in sales and earnings due to Oil & Gas segment**
- **North America: Sales growth due to acquisition of Engelhard Corporation; earnings impaired by plant turnarounds and weaker agricultural products business**
- **Asia: Additional growth from Verbund site in Nanjing, China**

Regions	Sales (location of company)			Sales (location of customer)			EBIT before special items		
	2006	2005	Change in %	2006	2005	Change in %	2006	2005	Change in %
Million €									
2nd Quarter									
Europe	7,499	6,178	21	7,051	5,829	21	1,513	1,199	26
Thereof Germany	5,544	4,141	34	2,439	2,053	19	1,125	772	46
North America (NAFTA)	2,720	2,585	5	2,738	2,588	6	263	351	(25)
Asia Pacific	1,707	1,451	18	1,871	1,560	20	125	95	32
South America, Africa, Middle East	396	367	8	662	604	10	9	12	(25)
	12,322	10,581	16	12,322	10,581	16	1,910	1,657	15
1st Half									
Europe	15,285	12,280	24	14,466	11,680	24	2,933	2,333	26
Thereof Germany	11,301	8,451	34	5,411	4,254	27	2,140	1,514	41
North America (NAFTA)	5,357	4,850	10	5,355	4,831	11	561	622	(10)
Asia Pacific	3,355	2,750	22	3,648	2,926	25	240	182	32
South America, Africa, Middle East	840	784	7	1,368	1,227	11	41	83	(51)
	24,837	20,664	20	24,837	20,664	20	3,775	3,220	17

Sales by location of company in **Europe** rose by 21% in the second quarter of 2006. EBIT before special items climbed 26% to €1,513 million. This strong improvement was due above all to the Oil & Gas segment.

Companies in **North America** increased sales in dollar and euro terms by 5%. This sales growth was due to the acquisition of Engelhard Corporation and higher sales volumes in the Polyurethanes division. EBIT before special items declined by 25% to €263 million. The planned plant turnarounds and a decline in sales of fungicides negatively impacted earnings in the Petrochemicals and Agricultural Products divisions, respectively.

Sales by location of company in **Asia Pacific** increased by 17% in local currency terms and by 18% in euro terms. EBIT before special items rose by 32% to €125 million. All segments contributed to the sales growth, in particular the Chemicals segment as a result of the Verbund site in Nanjing, China, which started operations in June 2005.

In **South America, Africa, Middle East** sales by location of company rose 4% in local currencies and 8% in euro terms. EBIT before special items was negatively impacted by higher costs due to the further significant appreciation of the Brazilian real. Higher earnings from gas production in Argentina were unable to offset this effect.

Overview of Other Topics

Research and development

In the first half of 2006, we increased spending on research and development by 15% as planned to €583 million. Of the amount spent in the first six months of this year, approximately 80% fell under the operational responsibility of the operating divisions. Corporate research costs accounted for the remaining 20%.

We have expanded our global network of centers of excellence in the key areas of catalysis and nanotechnology. Through the acquisition of Engelhard Corporation we have significantly expanded our research capacity in process and environmental catalysis and are now a world leader in this area. Together with the University of Heidelberg, we plan to establish a joint laboratory for homogeneous catalysis by fall 2006. To strengthen our research network in Asia, we opened a research laboratory for nanostructured surfaces in Singapore at the end of April.

Employees

The number of BASF Group employees rose by 5,849 compared with the end of 2005 to 86,794 as of June 30, 2006.

This increase was due in particular to the acquisition of Engelhard Corporation. Simultaneously, employees left BASF as a result of continued measures to increase efficiency.

In Europe, the number of employees increased by 0.5% in the first six months of 2006. The greatest increase of 44.5% was in North America (NAFTA) as a result of the acquisition of Engelhard Corporation. Employee numbers increased by 11% in Asia Pacific and by 2.5% in South America, Africa, Middle East.

Employees by region	June 30, 2006	Dec. 31, 2005
Europe	56,904	56,614
North America (NAFTA)	14,202	9,826
Asia Pacific	10,733	9,669
South America, Africa, Middle East	4,955	4,836
	86,794	80,945

Compared with the first half of 2005, personnel costs rose by 5.7% to €2.8 billion in the same period of 2006.

Consolidated Statements of Income

Million €	2nd Quarter			1st Half		
	2006	2005	Change in %	2006	2005	Change in %
Sales	12,322	10,581	16.5	24,837	20,664	20.2
Cost of sales	8,658	7,083	22.2	17,546	13,928	26.0
Gross profit on sales	3,664	3,498	4.7	7,291	6,736	8.2
Selling expenses	1,143	1,085	5.3	2,246	2,089	7.5
General and administrative expenses	207	193	7.3	393	357	10.1
Research and development expenses	278	256	8.6	583	506	15.2
Other operating income	168	56	200.0	418	182	129.7
Other operating expenses	407	433	(6.0)	841	880	(4.4)
Income from operations	1,797	1,587	13.2	3,646	3,086	18.1
(Expenses)/Income from financial assets	30	42	(28.6)	45	113	(60.2)
Interest result	(55)	(51)	(7.8)	(103)	(91)	(13.2)
Other financial result	48	(73)	.	102	(59)	.
Financial result	23	(82)	.	44	(37)	.
Net income before taxes and minority interests	1,820	1,505	20.9	3,690	3,049	21.0
Income taxes	866	697	24.2	1,719	1,319	30.3
Net income before minority interests	954	808	18.1	1,971	1,730	13.9
Minority interests	34	30	13.3	101	91	11.0
Net income	920	778	18.3	1,870	1,639	14.1
Earnings per share (€)						
Number of shares, in million (weighted)	506	527	(4.0)	507	532	(4.7)
Dilutive effect	-	-	-	-	-	-
Earnings per share (€)						
Undiluted	1.82	1.48	23.0	3.69	3.08	19.8
Diluted	1.82	1.48	23.0	3.69	3.08	19.8

Consolidated Balance Sheets

Million €	June 30, 2006	June 30, 2005	Change in %	Dec. 31, 2005	Change in %
Long-term assets					
Intangible assets	6,938	3,773	83.9	3,720	86.5
Property, plant and equipment	14,782	13,709	7.8	13,987	5.7
Investments accounted for using the equity method	261	1,168	(77.7)	244	7.0
Other financial assets	1,099	974	12.8	813	35.2
Deferred taxes	899	1,425	(36.9)	1,255	(28.4)
Other long-term assets	557	362	53.9	524	6.3
	24,536	21,411	14.6	20,543	19.4
Short-term assets					
Inventories	6,122	5,331	14.8	5,430	12.7
Accounts receivable, trade	7,825	6,815	14.8	7,020	11.5
Other receivables and miscellaneous short-term assets	5,492	1,869	193.8	1,586	246.3
Liquid funds	496	3,156	(84.3)	1,091	(54.5)
	19,935	17,171	16.1	15,127	31.8
Total assets	44,471	38,582	15.3	35,670	24.7

Million €	June 30, 2006	June 30, 2005	Change in %	Dec. 31, 2005	Change in %
Stockholders' equity					
Subscribed capital	1,289	1,342	(3.9)	1,317	(2.1)
Capital surplus	3,130	3,072	1.9	3,100	1.0
Retained earnings	12,337	11,244	9.7	11,928	3.4
Other comprehensive income	356	416	(14.4)	696	(48.9)
Minority interests	476	435	9.4	482	(1.2)
	17,588	16,509	6.5	17,523	0.4
Long-term liabilities					
Provisions for pensions and similar obligations	1,193	4,837	(75.3)	1,547	(22.9)
Other provisions	2,749	2,463	11.6	2,791	(1.5)
Deferred taxes	1,203	788	52.7	699	72.1
Financial indebtedness	5,920	3,496	69.3	3,682	60.8
Other long-term liabilities	1,323	1,014	30.5	1,043	26.8
	12,388	12,598	(1.7)	9,762	26.9
Short-term liabilities					
Accounts payable, trade	3,215	2,369	35.7	2,777	15.8
Provisions	2,856	2,759	3.5	2,763	3.4
Tax liabilities	1,178	1,078	9.3	887	32.8
Financial indebtedness	5,037	1,510	233.6	259	.
Other short-term liabilities	2,209	1,759	25.6	1,699	30.0
	14,495	9,475	53.0	8,385	72.9
Total stockholders' equity and liabilities	44,471	38,582	15.3	35,670	24.7

Consolidated Statements of Cash Flows

Million €	1st Half	
	2006	2005
Net income	1,870	1,639
Depreciation and amortization of long-term assets	1,129	1,082
Changes in net working capital	(611)	(573)
Miscellaneous items	(180)	(67)
Cash provided by operating activities	2,208	2,081
Payments related to tangible and intangible assets	(983)	(875)
Acquisitions/divestitures	(6,987)	(51)
Financial investments and other items	268	13
Cash used in investing activities	(7,702)	(913)
Proceeds from capital increases/repayments	(663)	(858)
Changes in financial liabilities	6,772	1,494
Dividends	(1,124)	(942)
Cash provided by/used in financing activities	4,985	(306)
Net changes in cash and cash equivalents	(509)	862
Cash and cash equivalents as of beginning of year and other changes	901	2,126
Cash and cash equivalents	392	2,988
Marketable securities	104	168
Liquid funds	496	3,156

Cash provided by operating activities was €2,208 million in the first half of 2006 compared with €2,081 million in the same period of 2005. The increase was primarily due to the rise in earnings.

Cash used in investing activities was €7,702 million compared with €913 million in the same period of the previous year. Approximately €7 billion was spent in the second quarter on the acquisitions described under "Significant Events and Outlook."

In cash provided by financing activities, share buy-backs and dividend payments led to a cash outflow of €1,805 million. In the first six months of 2006, we bought back 10.8 million shares for €681 million or an average of €63.04 per share.

At €10.957 billion, financial indebtedness was €7,016 million higher than on December 31, 2005.

On April 11, BASF Aktiengesellschaft issued a euro benchmark bond with a volume of €1 billion and a maturity of five years. The coupon is 4.0% per year. In addition, on June 22, BASF Aktiengesellschaft issued a three-year floating rate note and a 10-year euro fixed-rate benchmark bond, each with a nominal volume of €500 million. The coupon of the 10-year bond is 4.5 percent per year. In addition, commercial paper equivalent to approximately €4.4 billion was outstanding as of June 30, 2006.

As of June 30, 2006, net debt was €10,461 million and the equity ratio was 39.5%.

Consolidated Statements of Recognized Income and Expense

Income and expense items	1st Half	
	2006	2005
Million €		
Net income before minority interests	1,971	1,730
Fair value changes in available-for-sale securities	(2)	(22)
Cash-flow hedges	23	(3)
Change in foreign currency translation adjustments	(360)	501
Actuarial gains/losses from pension and other obligations	368	(874)
Deferred taxes	(132)	340
Minority interes	(15)	23
Total income and expenses recognized in equity	(118)	(35)
Total income and expense for the period	1,853	1,695
Thereof BASF	1,767	1,581
Thereof minority interests	86	114

Development of income and expense recognized directly in equity	Retained earnings	Other comprehensive income				Total income and expense recognized directly in equity
	Actuarial gains/losses	Foreign currency translation adjustments	Fair value changes in available-for-sale securities	Cash-flow hedges	Total of other comprehensive income	
Million €						
As of January 1, 2006	(894)	475	258	(37)	696	(198)
Additions	368	-	-	23	23	391
Releases	-	(360)	(2)	-	(362)	(362)
Deferred taxes	(131)	7	1	(9)	(1)	(132)
As of June 30, 2006	(657)	122	257	(23)	356	(301)
As of January 1, 2005	(234)	(226)	193	(27)	(60)	(294)
Additions	-	501	-	-	501	501
Releases	(874)	-	(22)	(3)	(25)	(899)
Deferred taxes	340	(10)	8	2	-	340
As of June 30, 2005	(768)	265	179	(28)	416	(352)

Consolidated Statements of Stockholders' Equity

January – June 2006	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Other com- prehensive income	Minority interests	Stock- holders' equity
Million €							
As of January 1, 2006	514,379,000	1,317	3,100	11,928	696	482	17,523
Share buyback and cancellation of own shares including own share intended to be cancelled	(10,799,000)	(28)	30	(683)	-	-	(681)
Capital injection by minority interests	-	-	-	-	-	18	18
Dividends paid	-	-	-	(1,014)	-	(110)	(1,124)
Net income	-	-	-	1,870	-	101	1,971
Income and expense recognized directly in equity	-	-	-	237	(340)	(15)	(118)
Change in scope of consolidation and other changes	-	-	-	(1)	-	-	(1)
As of June 30, 2006	503,580,000	1,289	3,130	12,337	356	476	17,588

January – June 2005	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Other com- prehensive income	Minority interests	Stock- holders' equity
Million €							
As of January 1, 2005	540,440,410	1,384	3,028	11,923	(60)	328	16,603
Share buyback and cancellation of own shares including own share intended to be cancelled	(16,402,229)	(42)	44	(869)	-	-	(867)
Capital distribution to minority interests	-	-	-	-	-	10	10
Dividends paid	-	-	-	(904)	-	(38)	(942)
Net income	-	-	-	1,639	-	91	1,730
Income and expense recognized directly in equity	-	-	-	(534)	476	23	(35)
Change in scope of consolidation and other changes	-	-	-	(11)	-	21	10
As of June 30, 2005	524,038,181	1,342	3,072	11,244	416	435	16,509

Segment Reporting

2nd Quarter	Sales			EBITDA			Income from operations (EBIT) before special items			Income from operations (EBIT)		
	2006	2005	in %	2006	2005	in %	2006	2005	in %	2006	2005	in %
Million €												
Chemicals	2,443	2,007	21.7	409	477	(14.3)	351	415	(15.4)	263	345	(23.8)
Plastics	3,168	2,924	8.3	442	400	10.5	315	274	15.0	314	280	12.1
Performance Products	2,197	2,098	4.7	298	366	(18.6)	209	272	(23.2)	209	282	(25.9)
Agricultural Products & Nutrition	1,389	1,465	(5.2)	313	363	(13.8)	183	302	(39.4)	227	272	(16.5)
Thereof Agricultural Products	924	1,043	(11.4)	217	351	(38.2)	165	295	(44.1)	164	291	(43.6)
Fine Chemicals	465	422	10.2	96	12	.	18	7	157.1	63	(19)	.
Oil & Gas	2,481	1,650	50.4	973	686	41.8	868	579	49.9	868	579	49.9
Other*	644	437	47.4	(61)	(143)	57.3	(16)	(185)	91.4	(84)	(171)	50.9
	12,322	10,581	16.5	2,374	2,149	10.5	1,910	1,657	15.3	1,797	1,587	13.2

2nd Quarter	Research and development expenses			Assets**			Additions to fixed assets***			Amortization and depreciation***		
Chemicals	35	28	25.0	10,903	6,026	80.9	3,233	369	.	146	132	10.6
Plastics	32	35	(8.6)	6,867	6,591	4.2	116	120	(3.3)	128	120	6.7
Performance Products	59	47	25.5	5,884	4,938	19.2	921	134	.	89	84	6.0
Agricultural Products & Nutrition	99	92	7.6	6,785	6,866	(1.2)	282	33	.	86	91	(5.5)
Thereof Agricultural Products	83	75	10.7	5,025	5,540	(9.3)	37	14	164.3	53	60	(11.7)
Fine Chemicals	16	17	(5.9)	1,760	1,326	32.7	245	19	.	33	31	6.5
Oil & Gas	-	-	-	4,802	4,210	14.1	115	156	(26.3)	105	107	(1.9)
Other*	53	54	(1.9)	9,230	9,951	(7.2)	290	38	.	23	28	(17.9)
	278	256	8.6	44,471	38,582	15.3	4,957	850	483.2	577	562	2.7

Segment Reporting

1st Half	Sales			EBITDA			Income from operations (EBIT) before special items			Income from operations (EBIT)		
	2006	2005	in %	2006	2005	in %	2006	2005	in %	2006	2005	in %
Million €												
Chemicals	4,682	3,829	22.3	861	1,021	(15.7)	668	841	(20.6)	580	771	(24.8)
Plastics	6,259	5,724	9.3	898	780	15.1	647	543	19.2	645	548	17.7
Performance Products	4,344	4,006	8.4	627	670	(6.4)	457	497	(8.0)	456	506	(9.9)
Agricultural Products & Nutrition	2,765	2,819	(1.9)	686	745	(7.9)	407	598	(31.9)	517	576	(10.2)
Thereof Agricultural Products	1,852	2,002	(7.5)	550	683	(19.5)	378	571	(33.8)	444	575	(22.8)
Fine Chemicals	913	817	11.8	136	62	119.4	29	27	7.4	73	1	.
Oil & Gas	5,466	3,490	56.6	1,926	1,276	50.9	1,716	1,063	61.4	1,716	1,063	61.4
Other*	1,321	796	66.0	(223)	(324)	31.2	(120)	(322)	62.7	(268)	(378)	29.1
	24,837	20,664	20.2	4,775	4,168	14.6	3,775	3,220	17.2	3,646	3,086	18.1

1st Half	Research and development expenses			Assets**			Additions to fixed assets***			Amortization and depreciation***		
	2006	2005	in %	2006	2005	in %	2006	2005	in %	2006	2005	in %
Chemicals	66	55	20.0	10,903	6,026	80.9	3,395	457	.	281	250	12.4
Plastics	73	69	5.8	6,867	6,591	4.2	334	202	65.3	253	232	9.1
Performance Products	119	97	22.7	5,884	4,938	19.2	1,002	188	433.0	171	164	4.3
Agricultural Products & Nutrition	196	178	10.1	6,785	6,866	(1.2)	319	64	398.4	169	169	0.0
Thereof Agricultural Products	163	143	14.0	5,025	5,540	(9.3)	52	26	100.0	106	108	(1.9)
Fine Chemicals	33	35	(5.7)	1,760	1,326	32.7	267	38	.	63	61	3.3
Oil & Gas	-	1	-	4,802	4,210	14.1	190	250	(24.0)	210	213	(1.4)
Other*	129	106	21.7	9,230	9,951	(7.2)	317	51	.	45	54	(16.7)
	583	506	15.2	44,471	38,582	15.3	5,557	1,212	358.5	1,129	1,082	4.3

* "Other" includes the fertilizers business and other businesses as well as expenses, income and assets not allocated to the segments. This item also includes foreign currency results from financial indebtedness that are not allocated to the segments, from hedging of forecasted sales as well as from currency positions that are macro-hedged [€38 million in the second quarter (2005: €(94) million) and €93 million in the first half (2005: €(139) million)].

** The assets of "Other" includes the assets of the fertilizers business and other businesses as well as assets that are not allocated to the segments (financial assets, liquid funds, financial receivables, deferred taxes; first half 2006: €7,189 million, first half 2005: €8,180 million).

*** Intangible and tangible fixed assets

Explanations to the Interim Financial Statements

1. Basis of presentation

The Consolidated Financial Statements of BASF Group for the year ended December 31, 2005 were prepared according to the International Financial Reporting Standards (IFRS) valid as of the balance sheet date. The current interim financial statements were prepared using the same accounting policies. BASF's Financial Report for fiscal 2005 is available on the Internet at **corporate.basf.com/financial-report**.

The previous year's figures have been adjusted as follows in accordance with the changes made effective December 31, 2005: Expenses in the Oil & Gas segment related to exploration for oil and gas deposits and to dry holes are now recorded as other operating expenses rather than as research and development expenses. In association with the change to IAS 19, actuarial gains and losses from the valuation of pension obligations are recognized against retained earnings in the reporting period in which they occur.

Compared with the end of 2005, the assumptions used to determine expenses for pension benefit were changed as follows with effect from June 30, 2006: The interest rate was increased from 4.25% to 4.75% and the expected pension increase from 1.50% to 1.75%.

The interim financial statements have not been audited.

2. Scope of consolidation

The Consolidated Financial Statements include BASF Aktiengesellschaft, the parent company, as well as all material subsidiaries on a fully consolidated basis. Material jointly operated companies are proportionally consolidated. The number of fully and proportionally consolidated companies has developed as follows:

	2006	2005
As of January 1	180	160
Thereof proportionally consolidated	15	12
First-time consolidations	91	28
Thereof proportionally consolidated	–	4
Thereof changes in the consolidation method	–	(1)
Deconsolidations	4	8
Thereof proportionally consolidated	–	–
As of June 30/December 31	267	180
Thereof proportionally consolidated	15	15

First-time consolidations since January 1, 2006 comprised:

- A total of 79 companies associated with the acquisition of Engelhard Corporation, United States;
- The biotechnology company CropDesign N.V., Belgium, acquired in May;
- BASF Services Europe GmbH, Berlin, which performs finance and human resources services for BASF companies in Europe; and
- Ten previously unconsolidated companies with headquarters in Germany, Australia, China, Malta and Switzerland due to their increased importance.

Four companies have been deconsolidated since the beginning of 2006 due to their decreased significance or merger with other BASF companies.

Companies accounted for using the equity method were as follows:

	June 30, 2006	Dec. 31, 2005
Affiliated companies	11	11
Joint ventures	2	2
Other associated companies	3	3
	16	16

Companies acquired in association with the purchase of Degussa's construction chemicals business will be included in BASF's Consolidated Financial Statements as of July 1, 2006. Companies acquired in association with the purchase of Johnson Polymer will also be consolidated as of July 1, 2006.

3. Acquisitions/divestitures

Effect of acquisitions and divestitures on BASF Group assets	June 30, 2006	
	Million €	%
Long-term assets	4,818	46.4
Thereof goodwill	2,089	20.1
Intangible assets	1,214	11.7
Property, plant and equipment	1,260	12.1
Short-term assets	5,559	53.6
Thereof Inventories	655	6.3
Accounts receivable, trade	484	4.7
Other receivables and miscellaneous short-term assets	4,366	42.1
Assets	10,377	100.0

The total purchase price for Degussa's construction chemicals business and for Johnson Polymer of €3,048 million is reported under "Other receivables" as of June 30, 2006.

The provisional purchase price allocation for Engelhard Corporation is included in the above table under the respective balance sheet items. The activities acquired from Engelhard Corporation increased sales by €288 million in the second quarter of 2006.

■ Important Dates

- November 2, 2006
Interim Report Third Quarter 2006
- February 22, 2007
Annual Results 2006
- April 26, 2007
Interim Report First Quarter 2007
and Annual Meeting
- August 1, 2007
Interim Report Second Quarter 2007
- October 30, 2007
Interim Report Third Quarter 2007

■ Contacts

- Corporate Media Relations:
Michael Grabicki
Phone: +49 621 60-99938
Fax: +49 621 60-92693
- Investor Relations:
Magdalena Moll
Phone: +49 621 60-48230
Fax: +49 621 60-22500
- General inquiries
Phone: +49 621 60-0
Fax: +49 621 60-42525
- Internet: corporate.basf.com
- BASF Aktiengesellschaft
67056 Ludwigshafen
Germany

Forward-looking statements

This report contains forward-looking statements under the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates and projections of BASF management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and 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 those that may be expressed or implied by such statements. Such factors include those discussed in BASF's Form 20-F filed with the Securities and Exchange Commission. The Annual Report on Form 20-F is available on the Internet at corporate.basf.com/20-f-report. We do not assume any obligation to update the forward-looking statements contained in this report.

You can find this and other publications from BASF on the Internet at corporate.basf.com

You can also order the reports

- by telephone: +49 621 60-91827
- by fax: +49 621 60-20162
- on the Internet: corporate.basf.com/mediaorders