

Investor Release



Dynamic BASF on course for profitable growth

- Strong volume demand: Sales rise to €12.3 billion (up 16%)
- EBIT before special items of €1.9 billion (up 15%)
- Integration of new businesses proceeds smoothly
- Challenging business environment for Agricultural Products & Nutrition
- Optimistic outlook for 2006: Sales and earnings above previous year's strong level

BASF – *The Chemical Company* – has completed the first half of 2006 with record results, and again exceeded the previous year's very strong results.

- Second-quarter sales climbed 16 percent to €12.3 billion and income from operations (EBIT) before special items rose 15 percent to €1.9 billion.
- Cumulative sales in the first half of 2006 amounted to almost €25 billion, or 20 percent more than in the same period of the previous year. Compared with the first six months of 2005, BASF increased EBIT before special items by 17 percent to approximately €3.8 billion.

At the same time, BASF reached important milestones on its path to profitable growth in the first six months. Key events were the purchase of Degussa's construction chemicals business, the takeover

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of Engelhard Corporation and the acquisition of Johnson Polymer and CropDesign. "These portfolio expansions are important elements of our strategy of making BASF even more resilient to cyclicity. The integration of the new businesses is proceeding smoothly," said Dr. Jürgen Hambrecht, Chairman of the Board of Executive Directors of BASF Aktiengesellschaft, in his presentation of BASF's results for the second quarter and first half of 2006.

The business environment was favorable for BASF in the first half. The economic situation has improved, and the outlook seems positive. Asia is growing rapidly, especially China, India and Korea. The economic climate is stable in the United States, and domestic demand is on the upturn in Europe, and, in the meantime, in Germany. There are virtually no signs of the usual summer lull. Volume demand for BASF's products remained strong.

Risks, however, remain in the form of persistently high oil prices, and geopolitical tensions – in particular in the Middle East – are making the markets jittery. Record costs for raw materials have further increased the pressure on the company's margins. Sales prices increases were therefore necessary in many product lines. Price increases to reflect rising costs will also be necessary in the future.

To further improve its market position, BASF will continue to optimize its portfolio, strengthen its service offering with innovations and continue with its restructuring and cost reduction measures worldwide.

BASF reiterates its optimistic outlook for full year 2006

Hambrecht expects the economic situation to continue to develop positively. In the chemical industry, he anticipates global growth of more than 3 percent, although this will differ considerably from region

to region. Hambrecht's goal is for BASF to grow faster than the market. For the full year, BASF expects an average euro/dollar exchange rate of \$1.25 per euro. As a result of persistently high and increased crude oil prices, the company has increased its forecast for the annual average to \$65 per barrel of Brent crude.

"In view of the strong business performance in the first half of 2006, 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," said Hambrecht.

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

Balance sheet remains healthy despite acquisitions

Chief Financial Officer Dr. Kurt Bock pointed out that rating agencies had confirmed BASF's excellent credit ratings despite the fact that financial indebtedness had risen to €11 billion as a result of the acquisitions. "Our equity ratio is still extremely high for this industry at just under 40 percent." Cash provided by operating activities rose further to more than €2.2 billion in the first half.

In the first six months of 2006, BASF bought back shares for a total of €681 million or an average price of €63.04 per share. Of this amount, €342 million was used to buy back shares under the €500 million program that was announced in February 2006 and is scheduled to run until the Annual Meeting in 2007. As a result, BASF has bought back approximately 21.5 percent of its shares since starting its share buyback program in 1999. "We also plan to buy back shares in the future," said Bock.

Segment: Volume demand remains strong

In the **Chemicals** segment, BASF increased sales by 22 percent. This sales growth was due primarily to higher volumes, the additional business from the new Catalysts division and new plants in Nanjing, China. EBIT before special items declined by 15 percent due to high margin pressure as a result of significantly higher prices for raw materials, as well as turnarounds and outages at important plants.

Sales in the **Plastics** segment increased by 8 percent thanks to higher volumes, in particular for styrenics and polyurethanes. Earnings rose 15 percent.

In the **Performance Products** segment, all divisions contributed to sales growth of 5 percent. High margin pressure and rising raw material costs led to a 23 percent decline in earnings compared with the very strong second quarter of 2005.

Sales and earnings declined in the **Agricultural Products & Nutrition** segment. Lower sales in the Agricultural Products business were caused by lower volumes and the sale of major parts of the generics business in North America. In the United States, demand for fungicides was severely impaired by climatic conditions in the course of 2006 to date. The appreciation of the Brazilian real contributed to the decline in earnings in South America.

In the Fine Chemicals division, BASF increased sales and earnings due to strong business with aroma chemicals and as a result of the contract manufacturing and personal care acquisitions. Overcapacities and high raw material costs continue to put pressure on margins for lysine and vitamin C. The division's earnings rose, thanks also to continued cost reduction measures.

Sales and earnings in the **Oil & Gas** segment climbed 50 percent due to persistently high crude oil prices and considerably higher sales volumes in the natural gas trading business.

Sales growth in all regions

The strongest impulses for growth in the second quarter came from Europe and Asia, where sales by location of company rose by double-digit amounts.

In **Europe**, second-quarter sales by location of company totaled €7.5 billion. This corresponds to an increase of 21 percent compared with the same period of 2005. EBIT before special items in this region rose by 26 percent, due above all to the contribution of the Oil & Gas segment.

Sales in **North America** (NAFTA) rose by more than 5 percent. This sales growth was due primarily to the acquisition of Engelhard Corporation and higher sales volumes in the Polyurethanes division.

EBIT before special items declined by 25 percent to €263 million. Among other things, this was due to the planned turnaround of the steam cracker in Port Arthur, Texas, and lower sales volumes of agricultural products.

The **Asia Pacific** region remains the growth market, and sales climbed by 18 percent. The company's new Verbund site in Nanjing, China, made a significant contribution to this sales growth. A few weeks ago, BASF signed a \$500 million agreement with its partner Sinopec to invest in further downstream plants and expand the capacity of the steam cracker. EBIT before special items in Asia Pacific rose by 32 percent to €125 million.

In **South America, Africa, Middle East**, sales by location of company increased by 8 percent. EBIT before special items was negatively impacted by higher costs associated with the significant revaluation of the Brazilian real.

BASF is the world's leading chemical company: The Chemical Company. Its portfolio ranges from chemicals, plastics, performance products, agricultural products and fine chemicals to crude oil and natural gas. As a reliable partner to virtually all industries, BASF's intelligent system solutions and high-value products help its customers to be more successful. BASF develops new technologies and uses them to open up additional market opportunities. It combines economic success with environmental protection and social responsibility, thus contributing to a better future. BASF has approximately 94,000 employees and posted sales of more than €42.7 billion in 2005. BASF shares are traded on the stock exchanges in Frankfurt (BAS), London (BFA), New York (BF) and Zurich (AN). Further information on BASF is available on the Internet at www.basf.com.

Forward-looking statements

This release 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. We do not assume any obligation to update the forward-looking statements contained in this release.