

BASF AKTIENGESELLSCHAFT  
Form 20-F  
March 17, 2004

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As filed with the Securities and Exchange Commission on March 17, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**FORM 20-F**

(Mark One)

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

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-15909

**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**

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American Depositary Shares representing  
BASF ordinary shares of no par value

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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:**

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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, 2003, there were 556,643,410 BASF ordinary shares of no par value outstanding.

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  No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

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\*  
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.

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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 accounting and valuation principles of the German Commercial Code (*Handelsgesetzbuch*), the accounting standards issued by the German Accounting Standards Board (GASB) and the German Stock Corporation Act (*Aktiengesetz*), collectively known as "German GAAP."

The accounting principles conform to U.S. generally accepted accounting principles (U.S. GAAP) to the extent permissible under the German Commercial Code. The reconciliation of remaining significant deviations to U.S. GAAP is described in Note 4 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, 2003, which was U.S. \$1.2597 = €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" and "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.

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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 and the successful integration of acquisitions, divestitures and joint venture activities;
- /\*/* 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;

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- /\*/* 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.

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## 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 each of the years in the five-year period ended December 31, 2003 are excerpted from the Consolidated Financial Statements of BASF, which have been audited by Deloitte & Touche GmbH, independent accountants during this period. These data are set forth in accordance with generally accepted accounting principles in Germany (German GAAP) and U.S. GAAP for all periods presented.

BASF's accounting and valuation methods conform to U.S. GAAP to the extent permissible under the German Commercial Code based on the accounting standards issued by the German Accounting Standards Board (GASB). See Notes 1 and 4 to the Consolidated Financial Statements in Item 18 for further information. In 2001, BASF changed its accounting for deferred income taxes and the method of depreciating certain fixed assets as described in Note 2 to the Consolidated Financial Statements. As a result, the selected financial data for 2001 are not directly comparable to that of prior years. The selected financial data presented below in accordance with U.S. GAAP for the years 2001, 2002 and 2003 have been derived from the Consolidated Financial Statements included in Item 18. The reconciliation of the differences between German GAAP and U.S. GAAP is described in Note 4 to the Consolidated Financial Statements.

The translation of euros into U.S. dollars for 2003 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, 2003, which was U.S. \$1.2597 = €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.

	2003	2003	2002	2001	2000	1999
	(euros in millions, except per share data and certain other data)					
<b>Income Statement Data</b>						
<b>German GAAP</b>						
Sales, net of petroleum and natural gas taxes <sup>(1)</sup>	\$ 42,025	€33,361	€32,216	€32,500	€35,946	€29,473
Gross profit on sales	12,632	10,028	10,400	10,312	12,691	11,081
Income from operations	3,348	2,658	2,641	1,217	3,070	2,009
<i>Thereof special items</i>	(422)	(335)	(240)	(1,076)	(330)	(941)
Income from ordinary activities	2,731	2,168	2,641	609	2,827	
Extraordinary income before taxes				6,121		
Income before taxes and minority interests	2,731	2,168	2,641	6,730	2,827	2,606

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Income before minority interests	1,229	976	1,599	5,826	1,282	1,245
Net income	1,146	910	1,504	5,858	1,240	1,237
Basic earnings per share	2.04	1.62	2.60	9.72	2.02	2.00
<b>Balance Sheet Data</b>						
<b>German GAAP</b>						
Fixed assets	24,518	19,463	20,458	21,493	21,769	16,070
Current assets including deferred taxes and prepaid expenses	17,811	14,139	14,628	15,382	16,788	13,939
<b>Total assets</b>	<b>42,328</b>	<b>33,602</b>	<b>35,086</b>	<b>36,875</b>	<b>38,557</b>	<b>30,009</b>
Stockholders' equity	20,003	15,879	16,942	17,522	14,295	14,145
<i>Thereof subscribed capital</i>	<i>1,795</i>	<i>1,425</i>	<i>1,460</i>	<i>1,494</i>	<i>1,555</i>	<i>1,590</i>
Provisions and Liabilities	22,326	17,723	18,144	19,353	24,262	15,864
<i>Thereof long-term</i>	<i>12,956</i>	<i>10,285</i>	<i>9,211</i>	<i>9,955</i>	<i>9,059</i>	<i>7,529</i>
<b>Total stockholders' equity and liabilities</b>	<b>42,328</b>	<b>33,602</b>	<b>35,086</b>	<b>36,875</b>	<b>38,557</b>	<b>30,009</b>
<b>Capital Expenditures and Depreciation</b>						
Additions to fixed assets	4,461	3,541	3,289	4,053	8,637	3,800
Depreciation and amortization of fixed assets	3,379	2,682	2,501	2,945	2,921	2,681
<b>U.S. GAAP Reconciliation</b>						
Net income	1,685	1,338	1,717	5,692	1,454	1,325
<i>Thereof from continuing operations</i>	<i>1,685</i>	<i>1,338</i>	<i>1,717</i>	<i>(238)</i>	<i>1,302</i>	<i>1,329</i>
Basic earnings per share	3.00	2.38	2.96	9.45	2.37	2.14
Income from continuing operations per share				(0.39)	2.13	2.15
Diluted earnings per share	3.00	2.38	2.96	9.45	2.35	2.12
Stockholders' equity	21,695	17,222	17,920	18,538	15,229	14,753
<b>Key Ratios</b>						
Return on sales (%) <sup>(2)</sup>	8.0	8.0	8.2	3.7	8.5	6.8
Return on assets (%) <sup>(3)</sup>	7.4	7.4	8.4	3.1	9.9	10.2
Return on equity after taxes (%) <sup>(4)</sup>	6.0	6.0	9.3	(1.0)	9.0	9.1

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

	2003	2002	2001	2000	1999
Basic earnings per share	561,886,993	579,118,368	602,586,176	612,806,123	618,073,268
Diluted earnings per share	561,886,993	579,118,368	602,586,176	621,581,022	627,161,758

(1) Since 2000, natural gas taxes only.

(2) Return on sales (%) is calculated by dividing income from operations by net sales.

(3)

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Return on assets (%) is calculated by dividing income from ordinary activities plus interest expenses by the average amount of total assets of the current and the previous year.

(4)

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.

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### REPORTABLE OPERATING SEGMENT DATA

	2003	2003	2002	2001	2000	1999
	(euros in millions, except per share data and certain other date)					
<b>Chemicals</b>						
Sales	\$ 7,246	€ 5,752	€ 5,317	€ 4,494	€ 4,504	€ 3,289
Income from operations	495	393	635	362	640	629
<i>Thereof special items</i>	(135)	(107)	(41)	(63)	(5)	(37)
Assets	5,946	4,720	4,997	4,847	4,232	3,386
<b>Plastics</b>						
Sales	11,069	8,787	8,477	8,185	11,030	8,628
Income from operations	373	296	582	(2)	902	656
<i>Thereof special items</i>	(84)	(67)	(11)	(182)	101	2
Assets	7,052	5,598	6,174	6,344	6,086	6,937
<b>Performance Products</b>						
Sales	9,615	7,633	8,014	8,154	8,418	7,553
Income from operations	602	478	646	99	586	708
<i>Thereof special items</i>	(113)	(90)	(7)	(298)	(32)	(74)
Assets	5,865	4,656	5,218	6,048	6,266	4,975
<b>Agricultural Products and Nutrition<sup>(1)</sup>, thereof Agricultural Products</b>						
Sales	4,001	3,176	2,954	3,478	2,428	1,745
Income from operations	295	234	61	18	(443)	195
<i>Thereof special items</i>	(76)	(60)	(38)	(182)	(341)	(3)
Assets	6,957	5,523	5,092	6,377	6,607	1,949
<b>Fine Chemicals</b>						
Sales	2,324	1,845	1,970	1,984	1,739	1,636
Income from operations	157	125	(6)	(210)	(5)	(774)
<i>Thereof special items</i>	(10)	(8)	(124)	(283)	(50)	(829)
Assets	1,641	1,303	1,392	1,488	1,368	1,338
<b>Pharmaceuticals discontinued operations</b>						
Sales				364	2,526	2,197
Income from operations				30	243	(13)
<i>Thereof special items</i>				29	(62)	(164)
Assets					2,228	1,887
<b>Oil &amp; Gas</b>						
Sales	6,035	4,791	4,199	4,516	3,957	3,051
Income from operations	1,719	1,365	1,210	1,308	1,310	741
<i>Thereof special items</i>					44	138
Assets	4,675	3,711	3,648	3,149	3,540	3,003
<b>Others</b>						
Sales	1,735	1,377	1,285	1,325	1,344	1,374
Income from operations	(294)	(233)	(487)	(388)	(163)	(133)
Assets	10,192	8,091	8,565	8,622	8,230	6,534

**BASF Group**

Sales	42,025	33,361	32,216	32,500	35,946	29,473
Income from operations	3,348	2,658	2,641	1,217	3,070	2,009
<i>Thereof special items</i>	<i>(422)</i>	<i>(335)</i>	<i>(240)</i>	<i>(1,076)</i>	<i>(330)</i>	<i>(941)</i>
Assets	42,328	33,602	35,086	36,875	38,557	30,009

(1) Until 2001 including the pharmaceuticals business

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**Dividends**

The Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft propose dividends based on BASF Aktiengesellschaft's year-end unconsolidated financial statements. The proposal is then voted on at BASF's Annual Meeting, which is usually held at the end of April/beginning of May of the following year. Official invitation to the Annual Meeting is issued about six weeks in advance.

Since all BASF Shares are in bearer form, dividends are either remitted to the custodian bank on behalf of the stockholder, generally within two business days following the Annual Meeting, or, in the case of stockholders personally possessing certificates, available immediately following the Annual Meeting upon submission of the dividend coupon at the offices of BASF Aktiengesellschaft in Ludwigshafen, Germany, or the offices of BASF Aktiengesellschaft's appointed paying agents. On the dividend record date record holders of BASF's American Depository Receipts (ADRs) will be entitled to receive payment in full of the declared dividend in respect of the year for which it is declared. Cash dividends payable to ADR holders will be paid to The Bank of New York, as depository, in euros and, subject to certain exceptions, will be converted by the depository into U.S. dollars. The amount of dividends received by holders of ADRs may be affected by fluctuations in exchange rates. See "Exchange Rate Information" for further information.

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 2003 proposed by the Supervisory Board and the Board of Executive Directors for approval at the Annual Meeting to be held on April 29, 2004. The table does not reflect the related tax credits available to eligible taxpayers. See "Item 10. Additional Information - Taxation of Dividends" for further information.

Year Ended December 31,	Dividend Paid for Each BASF Share	
	Euro	Dollar
2003	1.40	1.76
2002	1.40	1.47
2001	1.30	1.16
2000	2.00 <sup>(1)</sup>	1.88
1999	1.13	1.03

(1) Thereof special dividend of €0.70 per qualifying share to distribute in full equity charged with 45% corporate income tax.

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 2004 for the year ended December 31, 2003, 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, 2003 of \$1.2597 = €1.00.

**Exchange Rate Information**



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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 depository 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.

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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.

Year	Period			
	High	Low	Average <sup>(1)</sup>	Period End
2003	1.2597	1.0361	1.4111	1.2597
2002	1.0485	0.8594	0.9495	1.0485
2001	0.9520	0.8370	0.8909	0.8901
2000	1.0335	0.8270	0.9207	0.9388
1999	1.1812	1.0016	1.0588	1.0071

(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:

Month	U.S. dollar for one euro	
	High	Low
February, 2004	1.2848	1.2426
January, 2004	1.2853	1.2389
December, 2003	1.2597	1.1956
November, 2003	1.1995	1.1417
October, 2003	1.1833	1.1596
September, 2003	1.1650	1.0845

The Noon Buying Rate for the euro on March 5, 2004 was quoted by the Federal Reserve Bank of New York at 1.2401 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 material adverse 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 may also impair BASF's business operations.

***Continuing weakness in the market for chemical products and in the global economy generally may adversely affect BASF's sales and earnings***

Continued weak demand for chemical products in the United States, as well as ongoing economic weakness in Europe and Asia could 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,

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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 (EU), will become increasingly demanding. The proposed new EU chemicals policy 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.

In addition, the EU Directive on Emissions Trading could reduce BASF's growth opportunities in Europe. Governments have to impose total CO<sub>2</sub> (carbon dioxide) caps on specific energy intensive installations. These caps aim to enable EU member states to meet their Kyoto targets e.g., Germany (21)% and Belgium (7.5)%, based on 1990 carbon dioxide emission levels. Further details will be defined by the National Allocation Plans (NAPs), which must be submitted to the EU Commission for acknowledgment by March 2004. These NAPs might entail disadvantages for our European sites. Compliance with the directive could require significant capital expenditures by BASF and could limit BASF's ability to pursue its growth strategy.

***BASF is exposed to foreign currency and interest rate risks***

BASF conducts a significant portion of its operations outside of Europe and therefore is 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, and 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 to the Consolidated Financial Statements 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."

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

***Cyclicalities may adversely affect BASF's operating margins***

The results of BASF's Chemicals, Plastics and Performance Products segments are affected by cyclicalities in various industries in which they operate, including the automotive, construction, electric 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.

***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 adversely 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 typically are 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 to a large extent dependant 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 plan to cover future pension obligations. The amortization of additional contributions, which are deferred as prepaid pension, increase future pension expenses.

***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.

***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.

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 3000 Continental Drive-North, Mount Olive, New Jersey 07828-1234, telephone (973) 426-2600.

**BUSINESS OVERVIEW**

**Introduction**

BASF is a transnational chemical company that is comprised of the parent company, BASF Aktiengesellschaft of Ludwigshafen, Germany, and 153 consolidated subsidiaries. The company has customers in more than 160 countries and operates production sites in 41 countries.

For the year ended December 31, 2003, BASF reported sales of €33,361 million, income from operations of €2,658 million, and net income after taxes and minority interests of €910 million. Based on customer location, BASF's activities in Europe accounted for 57.3% of BASF's total sales in 2003; North America (which includes the United States, Mexico and Canada) accounted for 21.5% of sales; the Asia, Pacific Area, Africa region accounted for 15.9% of sales; and South America accounted for 5.3% 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. Major recent acquisitions and divestitures include the following: BASF purchased the worldwide engineering plastics business of Honeywell International, Morris Township, New Jersey and sold its worldwide nylon fibers business to Honeywell on May 1, 2003. The Plastics and Fibers segment was thereafter renamed Plastics. BASF acquired the insecticide fipronil, and certain fungicides for seed treatment from Bayer CropScience on March 21, 2003.

BASF's business segments 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 that might otherwise have to be disposed of, as raw materials for other processes. In addition, many chemical processes give off 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 closely linked plants at a Verbund site also allow 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. In addition to production, this concept is applied to other areas; from R&D to purchasing to customer connections, the advantages of Verbund are applied throughout BASF.

## **Group Strategy**

In response to the evolving global chemical industry, BASF announced in December 2003 a renewed strategy: BASF 2015. As an evolution of BASF's previous strategy, four strategic guidelines, along with a new logo and a new slogan ("BASF: The Chemical Company") were introduced. The new strategic guidelines; earning a premium on our cost of capital, helping our customers to be successful, forming the best team in the industry, and ensuring sustainable development, will guide BASF's business in the future. As the world's largest chemical company, based on sales of €33,361 million in 2003, BASF aims to actively capitalize both on the structural and technological changes that will affect the global chemical industry, and economy as a whole over the next decade.

### ***Earning a premium on our cost of capital***

BASF's measures its performance based on earnings before interest and taxes (EBIT) minus cost of capital employed. The expected cost of capital for the year 2004 is 10% before taxes. EBIT after cost of capital will also be used as a key performance indicator for our divisions.

### ***Helping BASF's customers be successful***

BASF aims to offer tailor-made solutions for our customers' problems and thereby be the partner of choice for specialty products. In order to do this we must understand our customer's businesses as well as we understand our own. By starting to cooperate with the customer at a very early stage in the product development process, and also continuing cooperation in the further improvement of established products, applications and processes, we can ensure our own success.

BASF seeks to offer our standard products reliably, in a defined quality, and at an appropriate price. To be profitable in this area we need highly efficient and lean structures and the lowest manufacturing costs for our products. We ensure this by using cost-efficient raw material purchasing, innovative production methods and intelligent marketing approaches.

### ***Forming the best team in the industry***

Attracting and developing the best talent is a critical success factor. BASF considers its committed and skilled employees to be one of the company's particular strengths and also believes the company benefits from the national and cultural diversity of its staff. Furthermore, BASF supports teamwork and believes it has an impact in particular on the effectiveness of the company's research and development activities.

### ***Ensuring sustainable development***

For BASF, sustainable development means combining business success, environmental protection and social responsibility. Our successful eco-efficiency analysis is a good example. With it we can show which products and processes are superior from environmental as well as economic viewpoints. This is becoming increasingly important to our customers and partners and gives us a competitive advantage in the market. BASF further demonstrates its commitment to sustainable development by setting long-term environmental goals for itself, such as a 40% reduction of air pollution, and a 60% reduction of organic substances to water by 2012. BASF also takes pride in its membership in the Dow Jones Sustainability World Index for the third year running.

### ***Continuing with proven strategies***

BASF considers these new guidelines to be a refinement of our existing strategies, and not a revolutionary change of direction. Elements of BASF's existing strategies therefore remain in place.

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Specific plans for achieving our goals, in particular earning a premium on our cost of capital, include the following:

### Focusing resources on promising business areas

BASF's financial yardstick, EBIT after cost of capital will guide its selection of areas in which to invest its resources. To expand our business portfolio profitably in the next decade and beyond, BASF will exploit the commercial benefits of its innovations, expand manufacturing capacities for its most profitable products and actively manage its portfolio.

BASF discontinues business activities that are unlikely to show long-term profitability and acquires innovative businesses with a high potential for growth. Between 1994 and 2003, BASF sold businesses, which at the time of their divestiture, generated sales valued at approximately €10.5 billion. During the same period, the company acquired businesses, which at the time of their acquisition, generated sales valued at approximately €10 billion. BASF also enters into strategic alliances with the aim of achieving profitable growth in our key businesses and value-adding chains.

### Enhancing BASF's long-term competitiveness

BASF believes that cost leadership is crucial to the company's long-term competitiveness. To achieve this, BASF relies on both technological advances in its production processes, and the inherent efficiency in its integrated large-scale plants to maintain high operational efficiency. BASF relies on the technology platforms in its research and development units to develop and implement process and product innovations effectively.

BASF's goal is to operate the most competitive sites in the chemical industry. BASF believes that to continue to secure its long-term performance in the chemicals business, it must use the highly integrated nature of its major manufacturing sites (Verbund sites) as effectively and extensively as possible while consolidating the company's portfolio of production sites. Where appropriate, BASF capitalizes on the cost advantages of its Verbund structures by building new plants at existing Verbund sites or by building new Verbund sites such as those in Nanjing, China, and Kuantan, Malaysia. However, for customers who place a high value on being served locally, BASF can gain a competitive advantage by operating regional sites for manufacturing customized products.

BASF's marketing and sales competence and its access to competitively-priced raw materials, energy and precursors are also of strategic importance. Where necessary, BASF ensures access by using its technological and market strength to enter into partnerships and alliances with strong global or regional partners.

BASF continuously seeks to reduce costs, especially those relating to our standard products. At our Ludwigshafen site alone, BASF aims to eliminate €450 million in annual costs by 2005 as part of the Ludwigshafen Site Concept. To this end BASF has introduced a series of optimization measures for raw materials, energy consumption, processes and personnel at its most important Verbund site in Ludwigshafen, Germany. By the end of 2003 BASF had already made changes projected to save €100 million annually.

### Investing in growth markets

BASF focuses its resources on expanding selected businesses in specific regions. Building production capacities in growth markets is a crucial element of BASF's strategy, as it allows the company to supply regional markets locally. Local production also increases the company's flexibility and reduces the risks posed by temporary currency fluctuations and weak regional growth.

BASF estimates that by 2010 the chemical market in Asia excluding Japan will be approximately as large as the market for chemicals in Europe. Asia is therefore a key market for BASF. The company

aims to establish itself quickly as one of the most important chemical manufacturers in this market. In Europe and North America, BASF is concentrating its resources on growth markets in which the company believes it has competitive advantages.

BASF aims to be among the top three competitors in the markets it serves. The company already derives more than two-thirds of its sales from product groups in which it is one of the top three suppliers, and it aims to further increase this proportion.

**Segment Overview**

BASF's Chemicals segment is one of the largest chemical producers in the world based on sales. The Chemicals segment produces a wide range of products, from basic petrochemicals and inorganic chemicals to higher-value intermediates, allowing BASF to exploit fully the benefits of its Verbund approach to integration. Key information is provided in the following table:

	2003		2002		2001
	(euros in millions)				
Sales to third parties	€5,752		€5,317		€4,494
Percentage of total BASF sales	17%		17%		14%
Intersegmental transfers	€2,680		€2,598		€2,452
Income from operations	€ 393	€	635	€	362
Capital expenditures on tangible and intangible assets	€ 527	€	495	€	929

The Chemicals segment produces a wide variety of chemicals that are sold to a multitude of industries including the chemical, construction, automotive, electrical, electronics, detergents, colorants, coatings, health and nutrition industries.

The Chemicals segment exemplifies the benefits of BASF's Verbund approach to integration because its divisions both intensively consume and manufacture products along the company's core value-adding chains. Virtually all products that the segment sells to external customers are produced within this integrated network. Although most of the segment's sales are to external customers, 31.8% 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.

**Segment Strategy**

The Chemicals Segment represents the foundation for BASF's Verbund approach to integration of chemical production. It focuses on the supply of cost-efficient standard chemicals for internal demand and on offering a broad range of intermediate and higher-value products for external customers. Success factors for the chemicals segment in a competitive environment are cost leadership, including competitively priced raw materials, economies of scale, leading technology and efficient production processes. The high and steady internal demand for the basic chemical building blocks produced by the Chemicals segment ensures a high capacity utilization of BASF's world-scale plants, e.g., steam crackers, ammonia plants, etc. 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.

The Chemicals segment's global strategy is to maintain its leading market position in Europe, improve its cost structure in North America, and expand its operations in Asia. In Europe, BASF conducted scheduled upgrades for several production plants. In 2003, parts of the existing production plants for chlorine in Ludwigshafen, Germany, were modernized; changing the process to the more cost-efficient membrane process. Also, the capacity for ethylene oxide was increased in Ludwigshafen.

In North America, the Chemicals segment improved its production structure with the completion of the world's largest naphtha steam cracker in Port Arthur, Texas, at the end of 2001. Operated in conjunction with its 40% partner, ATOFINA S.A, this steam cracker supplies propylene, ethylene and other products to BASF's Verbund sites in Geismar, Louisiana, and Freeport, Texas. In 2003, the mechanical construction of the C<sub>4</sub> complex, financed jointly by BASF and its partners ATOFINA S.A. and Shell, was completed. The C<sub>4</sub> complex includes an extraction unit for butadiene, an inalkylation, as well as a metathesis unit. The latter will produce an additional 300,000 tons of propylene per year. The C<sub>4</sub> complex is integrated into the steam cracker in Port Arthur, Texas and is planned to start operations by the end of the first quarter 2004. The closure of two out of three ethylene oxide plants in 2002 and the capacity expansion of the remaining plant in Geismar, Louisiana, in 2003 improve BASF's cost structure by optimizing economies of scale.

In Asia, BASF has a number of major projects underway. These include the expansion of the Verbund site in Kuantan, Malaysia with our joint venture partner PETRONAS. BASF began manufacturing at the site in mid-2000. During 2003, BASF completed construction of a new butanediol complex in Kuantan, Malaysia. The output of this plant will be a precursor for our new polybutyleneterephthalate (PBT) plant, which we are constructing with our joint venture partner Toray. BASF is also constructing a new Verbund site in Nanjing, China with our joint

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venture partner Sinopec. The construction work is well in progress and proceeding according to schedule. BASF expects plants at the Nanjing site to begin operations in 2005. In addition, in 2003 BASF started the construction of a new plant for tetrahydrofuran (THF) and polytetrahydrofuran (PolyTHF®) in Caojing, China.

In 2003, the Chemicals segment invested approximately €108 million in research and development. Research activities are focused on improving value-adding production chains that serve the segment and on developing higher-value products. BASF is developing new products and production processes, in particular for organic and inorganic intermediates and industrial chemicals.

The main capital expenditure projects of the Chemicals segment currently include:

Location	Project	Projected Annual Capacity at Completion of Project (metric tons)	Projected Start-Up-of Operations
Caojing, China	Tetrahydrofuran/ polytetrahydrofuran	80,000/ 60,000	2005
Nanjing, China	Integrated production site major products include:	(2)	2005
	ethylene	600,000	
	ethylene glycol	300,000	
	aromatics	300,000	
	oxo alcohols	250,000	
	organic aides	80,000	
Port Arthur, Texas	Butadiene	410,000 <sup>(1)</sup>	2004

(1) Conducted through a joint venture between Shell Chemical Company (60%), BASF (24%) and ATOFINA S.A. (16%) (capacity reflects total joint venture capacity).

(2) Conducted through a joint venture between Sinopec (50%) and BASF (50%) (capacity reflects total joint venture capacity).

### Inorganics

#### Overview

BASF's Inorganics division sells approximately 750 products of which approximately 55% are allocated for captive use. This allows BASF's other divisions to benefit from reduced energy, transportation and infrastructure costs and from improved efficiencies in purchasing and logistics. These internal transfers are based on market prices, and include large amounts of chlorine, sodium hydroxide, ammonia, formaldehyde, methanol and nitric acid as startup materials to create higher-value products. This captive use within BASF provides steady demand that helps maintain high capacity utilization rates at the division's production plants. The remaining amount is sold to external customers worldwide in a broad range of industries.



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The principal raw materials used in the Inorganics division are natural gas, sulfur and salt. The division purchases approximately 30% of its raw materials from other BASF operations. Natural gas, the main raw material, is acquired through BASF's joint venture WINGAS GmbH. All other principal raw materials are purchased from external sources. BASF does not rely on any dominant supplier for the raw materials of its Inorganics division.

The most important production site for the Inorganics division is BASF's Verbund site in Ludwigshafen, Germany, where the division produces its entire range of products. The division also produces basic inorganic chemicals such as ammonia, formaldehyde, nitric acid and sulfuric acid at the company's Verbund site in Antwerp, Belgium.

In September 2003 BASF has completed the acquisition of the Callery Chemical Division of Mine Safety Appliances Company. The acquisition includes Callery's production site in Evans City, Pennsylvania. The transaction broadens the Inorganics division's portfolio in the field of high margin inorganic specialties such as alcoholates as well as boron and potassium specialties. Moreover the acquisition supports an expansion into the important non-cyclical life science markets. Offering customers inorganic specialties and innovative products, especially in the areas of electronic grade chemicals, catalysts and powder injection molding products allows BASF to maintain a competitive edge and thus contributes to division's profitability. BASF aims to expand its business in inorganic specialties and catalysts for which the company can obtain higher margins.

The Inorganics division's sales to third parties were €738 million in 2003.

### **Products**

The Inorganics division consists of four major product lines:

#### *Inorganic Specialties and Electronic Grade Chemicals*

BASF offers a wide range of inorganic specialties which includes carbonyl iron powder, hydroxylamine free base, hydroxylammonium sulfate, boron trifluoride 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. BASF also produces some inorganic specialties in electronic grade, such as hydroxylamine free base, for use in manufacturing semiconductors, light-emitting diodes, flat screens and plasma screens. The strategic goal for inorganic specialties is the extension of our product portfolio, which shall be achieved by internal growth and targeted acquisitions.

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#### *Inorganic Chemicals*

BASF produces inorganic chemicals through value-adding chains of production based on nitrogen, sulfur and sodium chloride. Some of these are 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. The strategic goal is to guarantee the BASF group a cost-effective supply of basic inorganic chemicals.

#### *Glues and Impregnating Resins*

BASF offers a wide variety of tailor-made, wood-to-wood adhesives. These adhesives are used to bind together the particles, fibers and strands found in all types of particleboards, and are also used for surface bonding of wooden components. 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. The strategic goal for the product line is profitable growth through new products developed in cooperation with selected customers and through an increased global presence with high margin specialties, particularly in Asia.

#### *Catalysts*

Catalysts are substances that are frequently added to chemical processes to facilitate the target reaction. Developing and manufacturing catalysts plays an important role in BASF's strategy to protect and expand its technological leadership because catalysts often help increase product yields, and reduce energy usage. BASF's catalysts are used in internal processes and are also sold to customers around the world. The strategic goal for our catalyst business is to grow faster than the chemical industry average, with high margin products.

The production capacities as of December 31, 2003 for the Inorganics division's major products are as follows:

<b>Product</b>	<b>Annual Production Capacity (metric tons)</b>		<b>Primary Applications</b>
Ammonia	1,255,000	/*/	Fertilizers
		/*/	Glues and impregnating resins
		/*/	Dyestuffs
		/*/	Animal nutrition
		/*/	Fiber products
Chlorine	360,000	/*/	Plastics
		/*/	Solvents
		/*/	Inorganic salts
Formaldehyde condensation products	750,000	/*/	Glues and impregnating resins
Formaldehyde	510,000	/*/	Glues and impregnating resins Solvents
		/*/	
Hydroxylamine free base 50% aqueous solution	7,000	/*/	Semiconductors and treatment of metal surfaces
Methanol	450,000	/*/	Glues and impregnating resins
		/*/	Chemical intermediates
		/*/	Solvents
		/*/	Vitamins
Melamine	65,000	/*/	Glues and impregnating resins
Sulfuric acid and oleum	720,000	/*/	Fiber products
Sulfur dioxide	150,000	/*/	Bleaching and reducing agents
Sodium hydroxide	360,000	/*/	Chemicals
Urea	545,000	/*/	Fertilizers
		/*/	Glues and impregnating resins

### ***Markets and Distribution***

In 2003, Europe accounted for 79% of the Inorganics division's sales to external customers; North America for 9%; South America for 2%; and the Asia, Pacific Area, Africa region for 10%.

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 catalysts. The Inorganics division sells its products primarily through BASF's own sales force.

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

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## Petrochemicals

### *Overview*

The Petrochemicals division sells more than 200 different products and represents the first step in BASF's Verbund approach to integration for the company's petrochemical-based, high-value products. The principal raw materials used in this division are naphtha and natural gas. The Petrochemicals division purchases approximately 10% of its raw materials from other BASF operations, the majority of which is natural gas acquired from WINGAS GmbH. All other principal raw materials are bought from external sources. BASF does not rely on any dominant supplier for the raw materials of the Petrochemicals division.

The Petrochemicals division's principal products include the basic building blocks of petrochemicals, which are produced primarily in steam crackers. In a steam cracker, steam is used to crack naphtha mainly into ethylene and propylene. Other materials produced in this process include aromatics such as benzene, and C<sub>4</sub> cuts (a mixture of C<sub>4</sub> hydrocarbons) a source of butadiene, isobutene and n-butenes. BASF also produces acetylene a chemical based on natural gas and provides industrial gases for consumption at BASF's Verbund sites in Ludwigshafen, Germany, and Antwerp, Belgium.

The division's products, which are used internally in BASF's value-adding chains of production, include large amounts of ethylene, propylene, butadiene, benzene, acetylene, oxo alcohols, phthalic anhydride, ethylene oxide, ethylene glycols, propylene oxide, propylene glycol and industrial gases. This captive use within BASF provides steady demand that helps maintain high capacity utilization rates at the division's production plants.

In Europe, BASF operates steam crackers in Ludwigshafen, Germany, and Antwerp, Belgium. Although the steam crackers mainly supply products for captive use within the company, BASF maintains positions in the merchant markets for ethylene to ensure high capacity utilization. Since the end of 2001, BASF and its 40% partner ATOFINA S.A. have run a steam cracker at ATOFINA's refinery located in Port Arthur, Texas, with an annual production capacity of 920,000 metric tons of ethylene and 550,000 metric tons of propylene. It supplies olefins and aromatics to BASF's Verbund sites in Geismar, Louisiana, and Freeport, Texas.

In Asia, the Petrochemicals division is expanding its operations. In Nanjing, China, a steam cracker and several downstream production facilities are expected to start operations in 2005.

The Petrochemicals division's sales to third parties were €3,264 million in 2003.

### *Products*

The following are the Petrochemicals division's main product lines:

#### *Cracker Products*

BASF produces the entire range of cracker products from ethylene and propylene to benzene and C<sub>4</sub> cuts. Of these, propylene is the most important starting product for BASF's value-adding chains of production in petrochemicals. Benzene is used captively both in Ludwigshafen and Antwerp, 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<sub>4</sub> hydrocarbon) serves as the starting material for the polyisobutene value-adding chain of gasoline additives as well 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.

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#### *Industrial Gases*

These products include industrial gases such as hydrogen, carbon monoxide and oxygen and are largely for captive use within BASF to manufacture higher-value chemicals.

#### *Alkyene Oxides and Glycols*

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Ethylene oxide derived from ethylene is used mainly to produce surfactants, ethanolamines, glycols and glycol ethers. BASF is one of Europe's largest producers of ethylene glycol, a product used in antifreeze in the automotive industry. BASF also supplies ethylene glycol to polyester manufacturers for the production of fibers, films and PET (polyethylene terephthalate) plastic bottles. Propylene oxide is synthesized from propylene and serves as a base for a wide variety of products, including surfactants, 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 and glycol ether acetates, as well as the specialty solvents dimethylformamide (DMF), dimethylacetamide (DMAC) and 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.

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Production capacities as of December 31, 2003 for the major products in the Petrochemicals division are as follows:

Product	Annual Production Capacity (metric tons)		Primary Applications
Ethylene	2,340,000 <sup>(1)</sup>	/*/ /*/ /*/ /*/	Plastics Specialty chemicals Solvents Dispersions
Propylene	1,700,000 <sup>(1)(3)</sup>	/*/ /*/ /*/ /*/	Plastics Plasticizers Solvents Specialty chemicals
Benzene	635,000 <sup>(1)</sup>	/*/	Plastics
Acetylene	90,000	/*/ /*/ /*/	Plastics Vitamins Pharmaceuticals
Oxo C <sub>4</sub> alcohols (calculated as butyraldehyde)	1,070,000 <sup>(2)</sup>	/*/ /*/ /*/	Plasticizers Dispersions Solvents
Phthalic anhydride	242,000 <sup>(2)</sup>	/*/ /*/ /*/	Plasticizers Resins Dyestuffs
Higher oxo alcohols	240,000	/*/ /*/	Plasticizers Detergents (ethoxylates)
Plasticizers	455,000 <sup>(2)</sup>	/*/ /*/ /*/	Wire & Cable Film & Sheeting Coated Fabrics

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Ethylene oxide	925,000	/*/ /*/	Nonionic surfactants Ethylene glycols
Propylene oxide	125,000	/*/	Nonionic surfactants Propylene glycol
Ethylene glycols	360,000	/*/ /*/	Antifreeze Polyester
Propylene glycol	80,000	/*/ /*/	Unsaturated polyesters, solvents Polyester
Glycol ethers	125,000	/*/	Solvents, brake and hydraulic fluids

- (1) Includes the total production capacity conducted through a joint venture between BASF (60%) and ATOFINA S.A. of: Ethylene 920,000 metric tons, Propylene 550,000 metric tons, Benzene 110,00 metric tons.
- (2) Includes the total production capacity conducted through a joint venture between BASF (60%) and PETRONAS of: Oxo C<sub>4</sub> alcohols 250,000 metric tons, Phthalic anhydride 40,000 metric tons, Plasticizers 100,00 metric tons.
- (3) Includes the total production capacity conducted through a joint venture between BASF (51%) and Sonatrach of: Propylene 350,000 metric tons.

### **Markets and Distribution**

In 2003, Europe accounted for 48% of the Petrochemicals division's sales to external customers; North America for 44%; South America for 1%; and the Asia, Pacific Area, Africa region for approximately 7%.

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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, and some of the customers are also competitors of BASF. Approximately 40% of the division's sales are to other BASF divisions. The remaining amount is sold to approximately 2,200 customers worldwide.

The Petrochemicals division produces commodities that are subject to strong cyclical pricing. Changes in the costs of raw materials 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 Shell Chemicals and BP Chemicals plc; Eastman Chemicals Corp.; Exxon Chemicals Company; The Dow Chemical Co.; SABIC EuroPetrochemicals B.V.; and European Oxo GmbH to be the main competitors in its Petrochemicals division.

### **Intermediates**

#### **Overview**

The Intermediates division manufactures approximately 600 products that are sold to around 3,000 customers worldwide. These customers typically purchase the division's chemical products as precursors for their higher-value chemicals. Customers of the Intermediates division are largely active in the manufacture of plastics, polyurethanes, textile fibers, resins, paints, surfactants, colorants, coatings, pharmaceuticals and agricultural products.

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The Intermediates division purchases approximately 80% of its feedstock from other BASF operations. The principal raw materials that the division uses are methanol, formaldehyde, acetylene, C<sub>4</sub> aldehyde, acrylonitrile, ammonia, ethylene oxide, hydrogen, carbon monoxide, butane, ethylene and chlorine.

Many of the Intermediates division's products are more resilient to economic cycles than the products in the Chemicals segment's other divisions, and many are the result of multi-step production processes within BASF before intermediates are sold to external customers. The division additionally satisfies high demand within BASF for cost-efficient precursors for the production of agricultural products, pharmaceuticals, paint resins, plastics, adhesives, dyes, pigments and process chemicals for the textile, leather and paper industries. Internal transfers to other BASF operations, in particular of amines, account 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. Currently, we are building plants representing a wholly-owned investment for tetrahydrofuran and polytetrahydrofuran (PolyTHF®) in Caojing, China. The plants will utilize BASF's newly developed proprietary technology to convert butane directly to tetrahydrofuran and subsequently to PolyTHF®. This innovative technology will ensure BASF's leading cost position.

The Intermediates division's sales to third parties were €1,750 million in 2003.

### **Products**

The Intermediates division has three major product areas:

#### Amines

BASF is among the world's top three producers of amines, which are principally used to make detergents and cleaning products, process chemicals and agricultural products as well as pharmaceuticals. BASF offers approximately 140 different amines worldwide. Key products include

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ethanolamines, ethyleneamines, alkylamines, alkylalkanolamines and several specialty and aromatic amines. Amines are sold globally, but Europe is BASF's primary market for these products.

#### Diols and Polyalcohols

BASF produces and sells the products of this area globally: 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 produce products ranging from fibers to paints and include tetrahydrofuran, PolyTHF®, gamma-butyrolactone and N-methylpyrrolidone. The polyalcohols such as 1,6-hexanediol and neopentylglycol (Neol®) are used as raw materials for a wide range of coatings.

#### Acids and Specialty Intermediates

This product group is comprised of both commodity acid products and specialty intermediate products. Carbon acids such as formic acid, propionic acid, 2-ethylhexanoic acid and adipic acid can be used to manufacture preservatives for the feed and food industries, as well as auxiliaries for textile and leather applications. The Intermediates division sells these products globally. In contrast, BASF regards the following products as specialty intermediates: Derivatives of phosgene like acid chlorides and chloroformates, glyoxal and its derivatives, glutardialdehyde and various other chemicals such as formamide, triphenylphosphine and several chiral intermediates. These chemicals are often used in the manufacture of paper, polymers, textiles and leather products and are of increasing importance for pharmaceuticals and agricultural products. Europe is BASF's primary market for these products, but BASF has targeted Asia as well as North America for future substantial growth.

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As of December 31, 2003 the production capacities of the major products of the Intermediates division are as follows:

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Product	Annual Production Capacity (metric tons)		Primary Applications
Alkylamines	190,000	/*/	Agricultural products Water treatment Pharmaceuticals Rubber chemicals
Ethanolamines/ alkylalkanolamines/ ethyleneamines	255,000	/*/	Detergents and cleaning agents Water treatment Agricultural products Gas purification
Specialty amines	100,000	/*/	Surfactants Rubber industry applications Agricultural products Polyurethane and epoxies
Acid and alkyl chlorides, chloroformates	60,000	/*/	Organic peroxides Pharmaceuticals
1,4-Butanediol	575,000 <sup>(1)(3)</sup>	/*/	Plastics Polyurethanes
Polytetrahydrofuran (PolyTHF®)	138,000	/*/	Fibers Polyurethanes
N-Methylpyrrolidone	68,000	/*/	Electronics, solvents
Glyoxal® (40% solution)	80,000	/*/	Textile resins
1,6-Hexanediol	42,000	/*/	Plastics Coating resins
Formic acid/propionic acid	180,000/ 80,000	/*/	Preservatives
Formamide	100,000	/*/	Sequestering agents
Maleic anhydride	135,000	/*/	Unsaturated polyester resins
Neopentylglycol (Neol®)	135,000 <sup>(2)</sup>	/*/	Coatings
Trimethylolpropane	20,000	/*/	Coatings
Chiral intermediates (ChiPros )	4,500	/*/	Life sciences

(1) Of which 25,000 metric tons through Idemitsu BASF Co. Ltd. a joint venture between Idemitsu Petrochemicals Co. Ltd. and BASF (capacity reflects total joint venture capacity). BASF raised its share from 50 to 67 percent in 2003.

(2) Of which 15,000 metric tons through BASF JCIC Neopentylglycol Co. Ltd. a 60-40 joint venture between BASF and Jilin Chemical Industrial Company Ltd. (capacity reflects total joint venture capacity).

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- (3) Of which 100,000 metric tons per year through BASF PETRONAS Chemicals Sdn. Bhd. a 60-40 joint venture between BASF and PETRONAS (Malaysia).

### **Markets and Distribution**

In 2003, Europe accounted for approximately 55% of the Intermediates division's sales to external customers. North and South America together accounted for approximately 20% and the Asia, Pacific

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Area, Africa region for approximately 25%. BASF sells this division's products through its own sales force as well as through distributors.

BASF is among the top three producers worldwide in the main products of its three strategic intermediates' business units. In the amines markets, BASF considers its main competitors to be Air Products Corporation, The Dow Chemical Company and Huntsman Corporation. In BASF's diols and polyalcohols activities, the company's major competitors are respectively: International Specialty Products Inc., Invista Inc., Lyondell Chemical Company, Dairen Chemical Company, Mitsubishi Chemicals Corporation, Eastman Chemical Company and Ube Industries, Ltd. Finally the main competitors in BASF's acids and specialty intermediates business are Sydsvenska Kemi OY, BP Amoco plc and Celanese AG.

## 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. On May 1, 2003 BASF took over the worldwide engineering plastics business of Honeywell International, Morris Township, New Jersey and transferred its worldwide nylon fibers business to Honeywell. At the same time the segment was renamed Plastics.

	2003	2002 (euros in millions)		2001
Sales to third parties	€8,787	€8,477		€8,185
Percentage of total BASF sales	26%	26%		25%
Intersegmental transfers	€ 541	€ 436	€ 406	
Income from operations	€ 296	€ 582	€ (2)	
Capital expenditures on tangible and intangible assets	€ 539	€ 636	€ 891	

### **Segment Strategy**

BASF's goal is to strengthen its position as one of the leading global competitors in the plastics industry a position which is based primarily on its styrenics, nylon and polyurethane value-adding chains of chemistry.

To achieve this goal, BASF is pursuing the following strategy in this segment:

*/\*/*

*Marketing and selling products more efficiently than competitors in key regional markets:* To support this strategic goal, BASF has set up global sales teams, which are dedicated to specific industry branches.

*/\*/*



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*Establishing efficient lowest cost business processes for the 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 aims to expand 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 both for the customers and BASF.

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/\*/

*Boosting the efficiency of the company's global production activities:* BASF shifts production from older or smaller plants to more efficient world-scale plants, which 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.

/\*/

*Working closely with customers in developing new products and applications*

/\*/

*Using e-commerce more extensively as a distribution channel:* BASF's sales through e-commerce channels such as our proprietary PlasticsPortal exceeded €1 billion in 2003. BASF expects sales via these distribution channels will continue increasing in the future.

In 2003, the Plastics segment spent approximately €142 million on research and development activities. These included: improving existing manufacturing processes, developing cost-effective manufacturing alternatives, building partnerships and working together with customers to develop innovative applications and products.

The main capital expenditure projects of the Plastics segment currently include:

Location	Project	Projected Annual Capacity at Completion of project (metric tons)	Projected Start-Up of Operation
Caojing, China	MDI (diphenylmethane diisocyanate)	240,000 <sup>(1)</sup>	2006
	TDI (toluene diisocyanate)	160,000 <sup>(2)</sup>	2006
Yeosu, Korea	MDI expansion	160,000	2004
Altamira, Mexico	EPS expansion	150,000 <sup>(3)</sup>	2005
Antwerp, Belgium	Terluran (ABS)	200,000	2004
Kuantan, Malaysia	Ultradur (PBT)	60,000 <sup>(4)</sup>	2006

(1) Conducted through a joint venture with SINOPEC and the Hua Yi Group of China as well as Huntsman-ICI Polyurethanes and Nippon Polyurethanes (capacity reflects total joint venture capacity of which BASF has a 35% share).

(2) Conducted through a joint venture with SINOPEC and the Hua Yi Group of China (capacity reflects total joint venture capacity of which BASF has a 70% share).

(3)

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Conducted through the joint venture Polioles S.A. de C.V. (capacity reflects total joint venture capacity of which BASF has a 50% share).

- (4) Conducted through a joint venture with Toray (capacity reflects total joint venture capacity of which BASF has a 50% share).

### Styrenics

#### Overview

BASF is one of a small number of global producers of styrenics, supplying customers in all major geographic markets of the world. The Styrenics division purchases approximately 40% of its raw materials from within BASF. The division's principal raw materials are benzene, ethylene, butadiene and acrylonitrile. BASF continues to fine-tune Verbund structures at its production sites and to carry out backward integration where appropriate.

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. Major projects over the last two years included a repositioning of the standard product portfolio; modernizing the ethyl benzene and styrene plants in Ludwigshafen, Germany, and Antwerp, Belgium; and setting up a joint venture with Shell Eastern Petroleum Pte. Ltd. to bring a world-scale SM/PO (styrene monomer/propylene oxide) plant in Singapore on stream in the second half of 2002. We are consolidating our North American expandable

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polystyrene (EPS) production with the phased closure of our 90,000 ton EPS plant in South Brunswick, New Jersey by the end of 2004, and the transfer of production to our joint venture in Altamira, Mexico.

In Asia, which BASF views as a long-term growth market for the Styrenics division, the company aims to expand its market presence by improving the capacity of existing plants in the region. In Europe, the division is focusing on efficient ethyl benzene and styrene operations and competitive polystyrene production. In North America, BASF is aiming to improve the performance of its polystyrene and styrene copolymers businesses by concentrating its production activities, improving logistics and streamlining its workforce.

The Styrenics division's sales to third parties were €3,626 million in 2003.

#### Products

The Styrenics division's key product lines include:

##### 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. Styrolux complements BASF's polystyrene product portfolio and combines toughness with transparency.

Primary applications:

/\*/

Packaging

/\*/

Household appliances

/\*/

Housings for consumer electronics

##### EPS (Expandable Polystyrene)

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BASF sells expandable polystyrene under the brand name Styropor®. Styropor® is a leading product in the building insulation market. Neopor®, a new product with superior insulation capabilities, has been introduced in the European market. Expandable polystyrene's advantages include heat insulation, high compressive strength, shock absorption, low weight, and moisture resistance.

Primary applications:

/\*/

Building insulation

/\*/

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:

/\*/

Electrical and electronics equipment

/\*/

Household appliances

/\*/

Automotive components

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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:

/\*/

Exterior automotive components

/\*/

Sports equipment such as surfboards and boats

/\*/

Electrical and electronic equipment

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:

/\*/

Household and toiletry items

/\*/  
Packaging

/\*/  
Office and household 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:

/\*/  
Hygiene and cosmetic product containers

/\*/  
Medical equipment housings

/\*/  
Office equipment housings

ABS/PA Blend (Blend of Acrylonitrile-Butadiene-Styrene Copolymer and Polyamide)

Terblend® N is the trade name for BASF's blend of plastics that offers a very high degree of toughness, excellent processibility and luster.

Primary applications:

/\*/  
Automotive components

/\*/  
Garden equipment

/\*/  
Children's toys

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. Sales of Styrodur®, which offers heat insulation, low water absorption, and compressive strength, are concentrated in Europe.

Primary application: Building insulation

EPP (Expandable Polypropylene)

BASF sells expandable polypropylene, which is often used to make foam components, under the brand name Neopolen® P. Sales are concentrated in Europe and North and South America.

Primary applications:

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*/\*/* Automotive components

*/\*/* Packaging

*/\*/* Sports equipment

### 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. The product's primary markets are Europe, the United States and Japan.

#### Primary applications:

*/\*/* Automotive components

*/\*/* Soundproofing materials

*/\*/* Household and consumer applications

Production capacities as of December 31, 2003 for the major products in the Styrenics division are as follows:

<b>Product</b>	<b>Annual Production Capacity (metric tons)</b>
Styrene and styrene-based polymers (styrene monomer, polystyrene, expandable polystyrene, copolymers)	5,756,000 <sup>(1)</sup>
XPS (extruded polystyrene)	1,250,000 <sup>(2)</sup>
MF (melamine resin foam)	320,000 <sup>(2)</sup>

(1) Capacity reflects total joint venture capacities. These include:

*/\*/* 550,000 metric tons of styrene monomer through a joint venture between BASF (50%) and Shell Nederland Chemie B.V.;

*/\*/* 550,000 metric tons of styrene monomer through a joint venture between BASF (50%) and Shell Eastern Petroleum Pte.Ltd;

*/\*/* 120,000 metric tons of styrene monomer, 140,000 metric tons of polystyrene and 52,000 metric tons of expandable polystyrene through a joint venture between BASF (60%) and Yangzi Petrochemical Corporation; and

*/\*/* 57,000 metric tons of expandable polystyrene through a joint venture between BASF (50%) and Alfa Group.

(2) Measured in cubic meters.

### **Markets and Distribution**

In 2003, Europe accounted for approximately 46% of the Styrenics division's sales; North America for approximately 19%; the Asia, Pacific Area, Africa region for approximately 30%; and South America for 5%.

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 market for styrenics is global and characterized by intense price competition. Demand for styrenics continues to rise due to overall economic growth in both industrial and emerging markets.

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

## **Performance Polymers**

### *Overview*

BASF is one of the world's leading producers of engineering plastics and fiber intermediates. In 2003 BASF divested the nylon fibers business to, and purchased the engineering plastics business from, Honeywell International Inc.

Products are sold to more than 2000 customers worldwide, more than 85% of which are engineering plastics customers. This customer base consists largely of high-performance plastic molders and plastic 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 further strengthen its market position, particularly in North America, BASF acquired the nylon 6,6 business of Ticona and the technical polymers business of Celanese AG, effective December 31, 2003.

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 plastic applications. The division works with suppliers to automotive manufacturers to develop specific applications for parts such as engine components, airbag housings and electronic connectors.

In Europe and North America, the division is continuing with a restructuring program to improve the division's long-term earnings potential. This includes consolidating its product portfolio by eliminating unprofitable product lines, entering into strategic alliances for its specialty products and streamlining its workforce in these regions. BASF is also expanding the division's activities in Asia, a region to which many customers have relocated operations, to support both regional consumption and exports. The restructuring measures of the last year include the discontinuation of the Ultraform® acetal production at the BASF plant in Theodore, Alabama. This plant was dismantled during the first half of 2003.

The Performance Polymers division's principal raw materials are cyclohexane, ammonia and propylene, which are purchased mostly from external suppliers. BASF does not rely on any dominant supplier for the raw materials of its Performance Polymers division.

The Performance Polymers division's sales to third parties were €2,239 million in 2003.

### *Products*

The Performance Polymers division offers the following product lines:

#### Engineering Plastics

##### *PA (Polyamide)*

Ultramid®, Capron® and Nypel® (from Honeywell) are the trade names for BASF's plastics based on nylon 6, nylon 6,6 and other copolymers manufactured by BASF. They offer toughness and strength as well as both heat and chemical resistance.

Primary applications:

/\*/

Automotive engine intake manifolds, pedals and engine covers

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/\*/  
Flame retardant plastics for electrical components such as switches and circuit breakers

/\*/  
Housings for electrical equipment

/\*/  
Films for food packaging

*PBT (Polybutylene Terephthalate)*

Ultradur® is the trade name for BASF's plastic based on PBT. It features high stiffness, strength, dimensional stability and heat and aging resistance.

Primary applications:

/\*/  
Electrical connectors

/\*/  
Automotive components such as windshield wiper arms

/\*/  
Housings for automotive transmission 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:

/\*/  
Clips and fasteners

/\*/  
Speaker grilles

/\*/  
High-end children's toys

/\*/  
Mechanical and precision engineering devices such as shafts and gears

*PES (Polyether Sulfone) 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:

/\*/  
Automobile oil circulation systems, headlight reflectors and housings

/\*/

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Microwave dishes, infant formula bottles

/\*/

Medical equipment

### Intermediate Products including Caprolactam, Polycaprolactam, Adipic Acid, Adiponitrile and Hexamethylenediamine

Caprolactam forms the basis for manufacturing polycaprolactam, the main precursor for nylon 6. BASF sells a variety of caprolactam products, including caprolactam in its pure form, nylon 6, for use in engineering plastics and Ultramid BS®, a nylon 6-based spinning polymer. Adipic acid, acrylonitrile and hexamethylenediamine form the basis for nylon 6,6. BASF sells a variety of nylon 6,6 products, including adipic acid and hexamethylenediamine in their pure forms, Ultramid A®, which is used for engineering plastics, and Ultramid AS®, a nylon 6,6-based spinning polymer. BASF sells most of these products globally.

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Primary applications include precursors for fibers used in:

/\*/

Carpeting

/\*/

Apparel

/\*/

Upholstery fabrics

Production capacities as of December 31, 2003 for the major products in the Performance Polymers division are as follows:

Product	Annual Production Capacity (metric tons)
Polyamide	650,000
PBT	100,000 <sup>(1)</sup>
POM	40,000
PES and PSU	5,000
Polyamide precursors	1,290,000

(1) Conducted through a 50-50 joint venture with GE Plastics N.V. (capacity reflects total joint venture capacity).

### **Markets and Distribution**

In 2003, Europe accounted for 49% of the Performance Polymers division's sales; North America for 29%; the Asia, Pacific Area, Africa region for 21%; and South America for 1%.

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 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.



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The markets for caprolactam and the other fiber intermediate products are characterized by cyclical, price competition and commodity pricing.

The Performance Polymers division is increasingly relying on e-commerce as a channel for distributing its products, and operates its own website; PlasticsPortal.

Major global competitors include: Bayer AG, Celanese AG, E.I. du Pont de Nemours and Company, General Electric Company, DSM N.V., Solutia Inc., and Rhodia.

### **Polyurethanes**

#### *Overview*

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.

BASF offers over 3,500 customized polyurethane solutions. These products are often 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.

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The Polyurethanes division sells its products to customers in two principal ways:

*Polyurethane Basic Materials:* The Polyurethanes division sells individual polyurethane basic materials (isocyanates and polyols) to customers. The customers then apply their own technology to formulate the liquid basic materials so that when combined they will react and solidify into a material with particular properties.

*Polyurethane Systems:* A polyurethane system consists of pre-fabricated, ready-to-use formulations of isocyanates and polyols. The Polyurethanes division sells these specially formulated, tailor-made isocyanates and polyols to customers. When the customer combines them, these liquid chemicals react and solidify into a material that possesses the technical properties specified by the customer.

The Polyurethanes division also sells polyurethane special elastomers, which are specialized end products used mainly in the automotive and electrical industry.

The Polyurethanes division's principal raw materials are toluene, benzene and propylene. The division benefits significantly from BASF's Verbund approach to integration, purchasing approximately 80% of its precursors from other BASF operations. The Polyurethanes division sells the vast majority of its products to external customers.

To build on its strong relationships with customers, the Polyurethanes division is expanding its regional activities, focusing above all on the Asian market. In Yeosu, Korea a new plant for the production of TDI (*Toluene Diisocyanate*) based on new technology went onstream in the third quarter of 2003. For the support of our growth in Asia the expansion of the existing MDI-plant (*Diphenylmethane Diisocyanate*) was commenced, and is expected to be completed in the third quarter of 2004. 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.

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 specially formulated products for individual needs. The Polyurethanes division currently has 24 system houses around the world in locations near customers. BASF will continue to establish or acquire more.

The Polyurethanes division's sales to third parties were €2,922 million in 2003.

#### *Products*

The Polyurethanes division's product lines include:

Polyurethane Basic Materials

The Polyurethanes division sells basic materials globally to customers that make polyurethane plastics by reacting isocyanates with polyols.

*Isocyanates MDI (Diphenylmethane Diisocyanate)*

MDI is a versatile chemical that can be used to make flexible foams as well as semi-rigid and rigid polyurethane plastics.

Primary applications:

*/\*/*  
Furniture interiors

36

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*/\*/*  
Automotive components

*/\*/*  
Carpet backings

*/\*/*  
Shoe soles

*Isocyanates TDI (Toluene Diisocyanate)*

TDI is a chemical used primarily in the manufacture of flexible foams.

Primary applications:

*/\*/*  
Foam cushions for furniture

*/\*/*  
Automotive components

*/\*/*  
Athletic track surfaces

*Polyether Polyols*

Polyether polyols are combined with isocyanates to make virtually all polyurethane products, other than those made with polyester polyols.

Primary applications:

*/\*/*  
Rigid foams

*/\*/*  
Flexible foams

*Polyester Polyols*

Polyester polyols are combined with isocyanates to make primarily semi-rigid polyurethane plastics.

Primary applications:

/\*/  
Cable sheathing

/\*/  
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 polyurethane systems for customers, fulfilling customers' specific engineering requirements at its system houses around the world. 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.

Polyurethane Special Elastomers

BASF sells polyurethane special elastomers, consisting of TPU (thermoplastic polyurethane elastomers) and cellular elastomers, mainly in Europe, South America, North America and Japan.

*TPU*

BASF sells TPU under the trade name Elastollan®. Elastollan 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*

The trade names for BASF's cellular elastomers, or shock-absorbing, rigid plastics, are Cellasto®, Elastocell® and Emdicell®. BASF is the world's largest producer of microcellular polyurethane parts for antivibration applications and sells them, for example, as molded end-products for use as shock absorbers and buffers in the automotive industry.

Production capacities as of December 31, 2003 for the major products in the Polyurethanes division are as follows:

Product	Annual Production Capacity (metric tons)
Isocyanates	1,050,000
Polyols	650,000
TPU (thermoplastic polyurethane)	45,000
Propylene oxide <sup>(1)</sup>	500,000 <sup>(2)</sup>

(1) Only for Polyurethane Application

(2) Partially conducted through a 50-50 joint venture with Shell Nederland Chemie B.V. and through a 50-50 joint venture with Shell Eastern Petroleum Pte. Ltd. (capacities reflects total joint venture capacities).

**Markets and Distribution**

In 2003, Europe accounted for approximately 42% of the Polyurethanes division's sales; North America for approximately 29%; the Asia, Pacific Area, Africa region for approximately 26%; and South America for approximately 3%.

Global demand for all polyurethane products is expected to continue growing as the global economy continues to expand. 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 AG, The Dow Chemical Company, Huntsman, Lyondell Chemical Company and Shell Chemicals U.K.

**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 that it sells to many global companies in the

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automotive, coatings, oil, paper, packaging, printing, textile, leather, detergent, sanitary care, construction, and chemical industries. Key information is provided in the following table:

	2003		2002		2001	
	(euros in millions)					
Sales to third parties	€7,633		€8,014		€8,154	
Percentage of total BASF sales	23%		25%		25%	
Intersegmental transfers	€	301	€	326	€	322
Income from operations	€	478	€	646	€	99
Capital expenditures on tangible and intangible assets	€	236	€	288	€	418

The segment's products often represent the final stages in many value-adding chains within BASF's Verbund approach to integration. The key elements of the segment's success are developing products, integrated chemical systems and application technologies tailored to the specific requirements of customers. Establishing and expanding regional manufacturing plants and application development centers also allows us to better serve regional customers.

**Segment Strategy***Performance Chemicals*

The Performance Chemicals division aims primarily to differentiate itself from competitors on the basis of product quality and performance. To compete successfully with low-cost suppliers and new competitors especially from Asia, the division undertook restructuring measures over the past years to improve its cost structures, and focus its capital spending on the most efficient technologies and processes

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available. The division aims to further strengthen its position in major markets through close cooperation with key customers. In this division, BASF is intensifying its marketing activities in Asia and North America.

### Coatings

The division focuses on four product lines – automotive coatings, automotive refinish coatings, industrial coatings and, for the South American market, decorative paints. The division has developed the "system supplier for coating materials" partnership model, which in combination with a new pricing mechanism contributes to optimizing the quality and cost of automotive finishing, to the mutual benefit of paint suppliers as well as their customers within the automotive industry.

### Functional Polymers

The Functional Polymers division aims to build on its position as a leading supplier of acrylic acid and its derivatives, to improve its cost and technology leadership, to expand its businesses in all regions and to grow profitably by introducing innovative products. BASF is currently building new plants for acrylic acid and acrylic esters in Nanjing, China, which are expected to be in operation by 2005.

The main capital expenditure projects for the Performance Products segment currently include:

<b>Location</b>	<b>Project</b>	<b>Projected Annual Capacity at Completion of Project (metric tons)</b>	<b>Projected Start-Up of Project</b>
Nanjing, China	New plant for acrylic monomers	160,000	2005

In 2003, capital expenditures for the Performance Products segment totaled €236 million. The segment also spent €240 million on research and development activities in 2003.

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## **Performance Chemicals**

### *Overview*

BASF is one of the world's largest manufacturers of high-value performance chemicals, which the company sells to over 10,000 customers worldwide in a wide variety of industries including the detergent, printing, coating, leather, automotive, oil, and textile industries.

BASF believes that its Verbund approach to integration gives the Performance Chemicals division an advantage over small and medium-sized companies that lack the cost advantages of integration. The Performance Chemicals division purchases approximately 45% of its raw materials from other BASF operations. The division consumes a multitude of raw materials and has no principal raw materials or dominant suppliers. The Performance Chemicals division sells roughly 90% of its products to external customers.

The Performance Chemicals division is made up of business units, which are each responsible for marketing and selling the division's products to specific industries. 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.

In the business units servicing the pigment, textile and leather industries, the division has adapted its capacity by narrowing its product line, by restructuring and consolidating production sites and by transferring production capacity from Europe to Asia, where the fastest-growing customer base is located.

The Performance Chemicals division's sales to third parties were €3,147 million in 2003.

### *Products*

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The Performance Chemicals division sells its products globally. The major product groups of the Performance Chemicals division are:

### 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.

### Printing Systems

The printing systems product group offers a complete range of commercial inks for different print technologies and plates for flexography and letterpress print processes. BASF offers printing inks for use in the printing industry, to produce print media such as newspapers and magazines, color advertising materials, books and brochures. BASF also sells printing inks for use in the packaging industry as well as pigments for printing inks.

### Isobutene Derivative Chemistry

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

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portfolio spanning low to ultra high molecular polyisobutenes, and is also one of the world's largest manufacturers of polyisobutene derivatives such as polyisobuteneamine.

### Surfactants

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

### Hydrocyanic Acid Derivative Chemistry

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 as well as 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.

Production capacities for the major products in the Performance Chemicals division as of December 31, 2003 were:

<b>Product</b>	<b>Annual Production Capacity</b>
Organic pigments	34,500 metric tons
HDI	10,000 metric tons

Printing inks	200,000 metric tons
Printing plates	1,000,000 square meters
Polyisobutene	100,000 metric tons
Nonionic surfactants	430,000 metric tons

### ***Markets and Distribution***

In 2003, Europe was the Performance Chemicals division's principal market, accounting for 59% of its sales. The Asia and Pacific Area accounted for 20%; North America for 16%; and South America for 5%.

BASF's own regional sales network sells most of the Performance Chemicals division's products. Distributors sell the balance of products, primarily to smaller customers. The Performance Chemicals division's principal competitors vary according to industry.

#### *Coatings, Plastics and Specialties*

BASF considers itself to be among the industry leaders along with Ciba, Clariant and Bayer in supplying pigments, resins, and additives to the coatings, plastics and specialties industries. BASF sells these products primarily in Europe from large production sites in Germany, but also supports its regional marketing activities through production sites in Brazil and China.

#### *Printing Industry*

The primary market for BASF's printing systems products is Europe, but Asian competitors such as DIC/Sun Group are the global market leaders.

#### *Automotive and Oil Industry*

This business unit sells the division's fuel additives mainly in North America and Europe. BASF's main competitors include Ethyl, Clariant, Shell, and Infineum.

#### *Detergents and Formulators*

BASF and Sasol Chemical Industries Ltd., are the leading suppliers of nonionic surfactants to the detergents industry. Other major suppliers include Shell International B.V., and Cognis Corp. In chelating agents, BASF, Akzo Nobel N.V. and The Dow Chemical Company are the worldwide leading suppliers.

#### *Textiles*

BASF, Clariant and Ciba are the world's top three producers of performance chemicals for textiles. BASF is concentrating its sales and marketing activities of these products on Asia and Europe.

#### *Leather*

In leather dyes and chemicals, BASF and Clariant are the world's leading producers. Other important competitors include Bayer, TFL Ledertechnik GmbH & Co. KG, Stahl International B.V., and a host of small regional producers. The most important markets for BASF's leather products are Asia, Europe and South America. BASF manufactures these products in 12 countries to best meet the needs of a highly fragmented market comprised primarily of small and mid-sized customers.

### **Coatings**

**Overview**

BASF is one of the world's leading producers of high-quality coating products, offering 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.

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. BASF sees significant growth opportunities for the zero emission clearcoat SlurryGloss®, which has been launched recently. This innovative technology can be used in existing paint shops and offers an outstanding product performance.

The key to the Coatings division's success is maintaining preferred supplier status with major customers by working with them to develop system solutions, which are tailor-made products and services. These system solutions help the division differentiate its product offerings from those of its competitors and foster lasting relationships with customers. In developing these system solutions, the Coatings division also draws on advances stemming from BASF's research and development activities. Currently, the Coatings division is focusing its research activities on the further development of future technologies for the automotive industry such as coil coatings and on developing environmentally friendly coating technologies with high quality characteristics such as scratch resistance, e.g., ultraviolet (UV) curing and dualcure technologies (the combination of UV and thermal curing). These offer a huge potential for further quality improvements as well as process time reduction.

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Being able to deliver tailor-made products quickly is also important to the division's success. Customers that use automotive and industrial coatings require in particular quick delivery of coatings at specified times to accommodate their just-in-time manufacturing. To satisfy these needs, BASF's Coatings division locates its operations near its customers' production sites.

The Coatings division purchases approximately 15% of its raw materials from other BASF operations. The division's principal raw materials are pigments, solvents, resins and additives. The division does not rely on a dominant supplier. The Coatings division sells all of its products to external customers.

The Coatings division's sales to third parties were €2,015 million in 2003.

**Products**

The Coatings division's products are sold on a global basis, with the exception of decorative paints, which are only sold in South America. The division has the following product lines:

*Automotive OEM (Original Equipment Manufacturer) Coatings*

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

*Automotive Refinish Coatings*

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

*Industrial Coatings*

BASF offers environmentally efficient systems for coating industrial products. Application technologies include powder, liquid, electro-deposition, and coil coatings that are used on household appliances, commercial vehicles, industrial buildings and radiators components. Wood finishes in the furniture and construction industry represent another use for BASF's industrial coatings. BASF is the second largest coil coatings producer.

*Decorative Paints*



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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.

Production capacities as of December 31, 2003 for the major products in the Coatings division are as follows:

<b>Product</b>	<b>Annual Production Capacity (metric tons)</b>
Electrodeposition coatings	210,000
Powder coatings	30,000
Solventborne coatings	400,000
Waterborne coatings	45,000
Waterborne (decorative paints)	320,000

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### ***Markets and Distribution***

In 2003, Europe accounted for 47% of the Coatings division's sales. North America accounted for 30% and South America for 14%, while the Asia, Pacific Area, Africa region accounted for 9% of the division's sales.

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 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](http://bodyshopmall.com). For customers in Europe the division has established similar e-commerce portals to sell its Glasurit® and R-M® brands.

Although price is important to the division's customers, competition is also based on the ability of coatings suppliers to collaborate with customers and quickly deliver tailor-made products and applications, particularly to vehicle manufacturers using just-in-time manufacturing. BASF's Suvinil® line of decorative paints competes in South America primarily on the basis of brand recognition, product quality and price.

BASF considers E.I. du Pont de Nemours and Company, PPG Industries, Inc. and Akzo Nobel N.V. to be the primary global competitors of the Coatings division, while Nippon Paint Company Ltd. and Kansai Paint Company Ltd. are considered to be the division's competitors in Asia.

### **Functional Polymers**

#### ***Overview***

BASF's Functional Polymers division is one of the largest producers of acrylic acid and its derivative products, which are mainly superabsorbents and dispersions. Dispersions are used in a multitude of industries, including the manufacture of paper, decorative paints, adhesives, 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 the paper, construction, adhesive, sanitary care and coatings industries.

The Functional Polymers division operates cost effective plants in all regions. Most plants are part of the company's Verbund. Approximately 70% of the division's raw materials are purchased from other BASF operations through this Verbund. Such raw materials include styrene, butadiene, oxo alcohols and above all propylene, which is used to produce acrylic acid. The division sells most of its products to external customers, but also sells approximately 10% of its products to other BASF operations.

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The Functional Polymers division continues to strengthen its position in Asia, the fastest growing region worldwide. BASF is constructing its second Asian Verbund site in Nanjing, China, where the division will start the production of acrylic acid and its esters by 2005. In China and Indonesia, new capacities for dispersions production will come onstream within the next two years.

The Functional Polymers division's sales to third parties were €2,471 million in 2003.

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### **Products**

The Functional Polymers division sells its products globally. The division has the following four major product groups that are to a significant extent based on acrylic acid and its derivatives:

#### 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 acrylics. Acrylic monomers are used as precursors to manufacture dispersions, 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, as well as non-woven materials and chemicals for the construction industry. BASF is especially strong in its technical expertise and technology for adhesive raw materials, as well as in 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 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.

Production capacities as of December 31, 2003 for the major products of the Functional Polymers division are as follows:

<b>Product</b>	<b>Annual Production Capacity (metric tons)</b>
Acrylic monomers	850,000 <sup>(1)</sup>
Superabsorbents	305,000

(1) Including the Kuantan plant that is a joint venture between BASF (60%) and PETRONAS (40%) (capacity reflects total joint venture capacity).

### **Markets and Distribution**

The biggest market for the Functional Polymers division is Europe, which accounted for 49% of the division's sales in 2003. North America accounted for approximately 27%; the Asia, Pacific Area, Africa region for 19%; and South America for 5% of sales in 2003. The Functional Polymers division's strategic goal is to increase market share in rapidly growing markets, especially in Asia.

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BASF sells the vast majority of the division's products primarily through its own regional sales network. Some smaller customers purchase products through distributors. Many of the division's products, particularly dispersions, contain up to 50% water. To minimize transportation costs, BASF manufactures these products at local plants and markets and sells them on a regional basis. Acrylic monomers and superabsorbents, however, are distributed globally from production sites in all regions. The largest plants are located at BASF's verbund sites in Ludwigshafen, Germany; Antwerp, Belgium; Freeport, Texas; Kuantan, Malaysia; and from 2005, Nanjing, China.

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The Functional Polymers continues to develop e-commerce as a distribution channel for its products. The division is selling acrylic monomers 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 have commodity-like attributes and can be affected by cyclicity. Other products, particularly 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 polymers is Rohm and Haas Co. of the United States. The Dow Chemical Company and Hercule are BASF's main competitors in paper chemicals. In the superabsorbents business, BASF's main global competitors are Degussa AG and Nippon Shokubai Co., Ltd.

### AGRICULTURAL PRODUCTS & NUTRITION

#### Segment Overview

This segment consists of the Agricultural Products and Fine Chemicals divisions, which are treated as separate reportable operating segments. The segment offers opportunities for high returns and is typically resilient to economic cycles. In addition, the segment includes the activities of BASF Plant Science, which seeks to develop crops with improved properties, such as: greater agricultural efficiency, improved nutrition, and plants that may be used as "green factories." Key information is provided in the following table:

	2003		2002		2001
	(euros in millions)				
<b>Agricultural Products</b>					
Sales to third parties	€	3,176	€	2,954	€ 3,478
Percentage of total BASF sales		10%		9%	11%
Intersegmental transfers	€	24	€	21	€ 30
Income from operations	€	234	€	61	€ 18
Capital expenditures on tangible and intangible assets	€	1,133	€	88	€ 130
<b>Fine Chemicals</b>					
Sales to third parties	€	1,845	€	1,970	€ 1,984
Percentage of total BASF sales		6%		6%	6%
Intersegmental transfers	€	20	€	36	€ 29
Income from operations	€	125	€	(6)	€ (210)
Capital expenditures on tangible and intangible assets	€	140	€	157	€ 199
<b>Pharmaceuticals discontinued operations</b>					

Sales to third parties	€	364
Percentage of total BASF sales		1%
Intersegmental transfers	€	5
Income from operations	€	30
Capital expenditures on tangible and intangible assets	€	20

The Agricultural Products & Nutrition business segment sells its products primarily to customers in the farming, food processing, animal and human nutrition, personal care and pharmaceuticals industries. The segment's products include agricultural products such as fungicides, insecticides and herbicides; and fine chemicals such as vitamins, carotenoids, pharmaceutical active ingredients;

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polymers for pharmaceuticals, cosmetics and human nutrition; aroma chemicals; UV (ultraviolet) filters; amino acids; feed enzymes; and organic acids.

The business segment contributes to BASF's Verbund approach to integration by sourcing a number of precursors from the company's chemical operations and using them to create higher value products. The Fine Chemicals division in particular benefits from efficiencies derived from internally purchasing precursors for manufacturing vitamins and other nutrition products.

### Segment Strategy

While each of the divisions in the Agricultural Products & Nutrition business segment faces competition and sets goals particular to its industry, they share the following strategic objectives:

/\*/

maximizing returns from their existing product portfolios,

/\*/

ensuring a steady flow of innovative, profitable and safe products through focused research and development as well as an increased number of collaborative efforts and licensing agreements.

Agricultural Products division focuses on meeting the customer needs with innovative products to improve the yields and quality of agricultural crops in attractive market segments. BASF is in a leading position in the significant agricultural markets of Europe, North and South America, and Asia Pacific. With the acquisition of the insecticide Fipronil, and certain fungicides from Bayer CropScience, we have improved this position further. BASF aims to turn innovations from its strong research and development rapidly into market success and aligns its product portfolio and organization to customer needs.

The Fine Chemicals division aims to achieve leading positions in the markets it serves. The division is pursuing this strategy by exploiting economies of scale, developing new production technologies that reduce costs, expanding its global presence, and attaining preferred supplier status with customers. BASF seeks to realize significant growth potential in tailored contract manufacturing under cGMP guidelines for the pharmaceuticals industry by capitalizing on its strengths in R&D, production expertise and backward integration. BASF is continuously building up this business, which is still in its emerging stages.

### Plant Biotechnology

Plant Biotechnology is one promising technology for the solution to important questions regarding the future: health, nutrition, and the supply of raw materials for a steadily growing world population.

All BASF activities involving plant biotechnology are incorporated in BASF Plant Science. BASF Plant Science coordinates an international research and technology platform with seven sites in four countries in Europe and North America with a staff of about 400. In addition, BASF Plant Science has established numerous complementary cooperations with research institutes, universities and biotechnology companies in Europe and North America. BASF Plant Science has the goal of becoming a leading competitor in the plant biotechnology market and a major supplier to the agricultural and nutritional industry.

The research activities of BASF Plant Science are concentrated in developing more efficient agriculture, improved nutrition and use of plants as "green factories." These include for example plants with a higher level of vitamins or with omega-3 fatty acids that can prevent cardiovascular diseases.

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## Agricultural Products

### *Overview*

The Agricultural Products division is a leading supplier and marketer of fungicides, insecticides and herbicides. The division's products are used by farmers to improve crop yields and crop quality and by customers for uses in public health, structural/urban pest control, turf and ornamental plants.

Resources are directed at meeting the needs of the high value agricultural markets in Western and Central Europe, North America, Brazil and Japan. The division believes itself to be well positioned for profitable growth; building on a significant presence in core markets, a strong late stage R&D pipeline, and a high share of patent protected products. Profitability of the division is driven by:

- /\*/* Highly effective research and development activities
- /\*/* New products from its late stage research pipeline or from recent acquisitions
- /\*/* Alignment of product and service offering to customers' needs
- /\*/* Control of costs, especially through active product portfolio management
- /\*/* Effective management of assets, such as management of production facilities to minimize idle capacities

Products recently launched from the research pipeline are the fungicides F 500® and Boscalid. On March 21, 2003, BASF has closed the acquisition of the insecticide Fipronil and certain fungicides for seed treatment from Bayer CropScience.

In mature and in non-core segments the division focuses on streamlining its product portfolio and its operations. In 2001 the division started further consolidation of its product portfolio and expects to significantly reduce complexity, costs, and to further focus resources. As part of the streamlining effort, a number of active ingredients, formulations and articles are being eliminated, phased out or divested. By the end of 2003 the division had eliminated about a third of its active ingredients. Additionally it has divested its global business with the herbicide Acifluorfen and its soil fumigant portfolio (Basamid, Dichloropropene, Metam-Sodium).

Capital expenditures in the Agricultural Products division included mainly optimization measures at several sites as well as a new laboratory building in Limburgerhof, Germany.

### *Products*

F 500® (pyraclostrobin), a major new fungicidal active ingredient of the strobilurin class of chemistry, has received registration by 2003 for over 30 countries. F 500® controls major plant pathogens from all classes of fungi, and is applied in many crops including cereals, soybeans, grapes, vegetables and fruits. It is highly effective, safe for crops and has a favorable toxicological and ecotoxicity profile. F 500® has been approved for over 100 crops in over 50 indications and is marketed under the brands Comet® and Opera® in most of Europe and South America as well as under the brands of Headline® and Cabrio® in North America since January 2003. Market introduction was negatively impacted by the drought related market decline in Europe. In North and South America, the introduction developed as planned sales exceed our expectations. Assuming a more normal weather patten in Europe, peak sales could surpass our target of €300 million in 2004.

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Boscalid, one of the most recent active ingredients from our research, 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, more mature active ingredients. In 2003 it has received registrations in over

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11 countries for over 100 crops in over 80 indications and has been launched in time for the 2003/04 season.

Fipronil, an active ingredient of the new insecticide chemistry, was acquired from Bayer CropScience effective March 21, 2003. It fills a strategic gap in the insecticides portfolio and puts the Agricultural Products division in a position to strongly participate in ongoing and future shifts in product usage towards more modern insecticides. Furthermore, it strengthens BASF's position in other attractive market segments, such as in public health, structural/urban pest control, turf and ornamental plants. BASF expects to create synergies with its current portfolio, especially in fungicides.

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.

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The following table lists the Agricultural Products division's other major active ingredients, the products containing these actives and the crops and regions they are used in:

Active Ingredient	Brand Name	Applications	Primary Markets
<i>Fungicides</i>			
Boscalid	Bellis®, Cantus®	Canola, Fruits, Ornamentals, Turf, Vegetables, Vines	Europe, North America
Dimethomorph	Acrobat®, Forum®	Potatoes, Vines	South America, Europe
Dithianon	Delan®	Fruits, Vines	Europe, Asia
Epoxiconazole	Opus®	Cereals, Coffee, Rice, Sugar beets	Europe, South America
Metconazole	Caramba®	Cereals, Flax, Vegetables	Europe, South America
Metiram	Polyram®	Vines, Potatoes, Fruits, Vegetables	Europe, Asia, South America
Kresoxim-methyl	Allegro®, Juwel®, Ogam®, Mentor®, Stroby®/Sovran®	Cereals, Grapes, Fruits, Vegetables	Europe, North America
Prochloraz	Sportak®	Cereals	Europe
Pyraclostrobin	Opera®, Comet®, Headline®, Cabrio®	Cereals, Grapes, Fruits, Vegetables	Europe, North America, South America, South Africa

***Insecticides***

Alphacypermethrin	Fastac® Mageos®, Contest®	Citrus, Fruits, Vines	Europe, Asia, South America
Chlorphenapyr	Phantom®, Mythic®, Stealth®	Fruits, Vegetables, Cotton, Ornamentals; Non Crop: Termites	North America, Europe, Asia
Fipronil	Regent®, Prince®, Termidor®, Goliath®	Corn, Rice, Structural/Urban Pest Control	North America, Europe, Asia, South America
Terbufos	Counter®	Corn, Sugar beets, Bananas	North America, South America

***Herbicides***

Bentazon	Basagran®	Vegetables, Cereals, Potatoes, Rice, Soybeans, Turf, Corn, Flax	North America, South America, Europe, Asia
Dicamba	Banvel®, Clarity®, Distinct®	Corn, Cereals	North America, Europe
Dimethenamid	Frontier®, Guardsman®	Corn, Soybeans	North America, Europe
Dimethenamid-P	Outlook®	Corn, Broadleaf crops	North America
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Imidazolinones	Pivot®, Pursuit®, Lightning®, Odyssey®, Onduty®, Raptor®	Corn Canola, Soybeans	North America, South America, Asia, Europe
Metazachlor	Butisan®, Novall®, Nimbus®	Canola, Vegetables	Europe
Pendimethalin	Stomp®, Prowl®, Herbadox®	Corn, Cereals, Rice, Soybeans, Vegetables	North America, Europe
Picolinafen	Pico®	Cereals	Europe, Asia
Quinclorac	Facet®, Accord®	Rice, Cereals	North America, South America, Asia

***Research and Development***

BASF's research and development activities in Agricultural Products cover all three areas of crop protection: fungicides, insecticides and herbicides. The division's research and development is located in Ludwigshafen and Limburgerhof, Germany, and at Research Triangle Park (RTP) in Raleigh, North Carolina. In addition to these global research centers, BASF has a network of experimental and research stations that are located in key markets around the world.

In 2003, research and development spending in the Agricultural Products division was approximately 8% of the division's sales to third parties.

Including recent market introductions, BASF's product pipeline has 13 projects to be launched by 2008. BASF estimates the total peak sales potential of these projects at around €1.6 billion, based on present exchange rates, making it one of the strongest pipelines in the industry:

	Product Group	Uses	Total Peak Sales about €800 million
<b>Projects in launch (2002/03)</b>			
Pyraclostrobin (F 500®)	Fungicide	Cereals, Soybeans, Vines, Vegetables	
Chlorfenapyr	Insecticide	Termites	
Boscalid	Fungicide	Vines, Fruits, Vegetables	
<b>Projects in development (launch targeted before 2007/08)</b>			about €700 million
Tritosulfuron	Herbicide	Cereals, Corn	
Dimoxystrobin	Fungicide	Cereals	
Orysastrobin*	Fungicide	Rice	
Metrafenone*	Fungicide	Cereals, Vines	
n.n.	Herbicide	Corn	
n.n.	Insecticide	Vegetables, Potatoes	
n.n.	Herbicide	Cereals	
<b>Total</b>			about €1,500 million

\*

International Non-proprietary Name (INN) provisionally approved

The success of a new active ingredient is driven by its economic, biological or ecological advantages. BASF believes that fungicides and insecticides provide the most attractive targets for its research activities while it sees only few unmet needs in herbicides and has realigned resource allocation accordingly. Development activities are being directed more strongly to high value segments in key markets and for core active ingredients leading to a significant reduction of development spending by 2005. Cost reduction measures in 2003 included the exit of the experimental station in Nelspruit (South Africa) and the research station in Gosport (United Kingdom).

### *Markets and Distribution*

The Agricultural Products division markets its products globally, focusing on strategic markets. Sales to third parties were €3,176 million in 2003. The following tables show sales by product group and region:

### **Product Group**

2003 Sales



(euros in millions)

Fungicides	1,088
Insecticides and other agrochemical products	790
Herbicides	1,298
<b>Regions</b>	

**2003 Sales**  
(euros in millions)

Europe	1,447
North America	892
South America	520
Asia/Pacific/Africa	317

BASF has plants for synthesizing active ingredients at BASF's Verbund site in Ludwigshafen and in Schwarzheide, Germany; Hannibal, Missouri; Beaumont, Texas; Tarragona, Spain; Thane, India; and at BASF's Brazilian sites in Guaratinguetá and Resende. Products for final sale are formulated in facilities that are usually located close to the market. The formulating of products is carried out either at BASF plants or together with partners.

The Agricultural Products division delivers high performance products and competes primarily on innovation, product quality and service. BASF 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, which are driven primarily by the main growing season in South America, are lower.

Over the last years, the agrochemical industry has been going through a process of consolidation. As a result, the number of basic suppliers of crop protection products has decreased. BASF considers the main competitors of the Agricultural Products division to be Syngenta AG, Bayer CropScience AG, as well as Monsanto Co., The Dow Chemical Company and E.I. du Pont de Nemours and Company.

BASF forecasts the market for agricultural products to grow in the medium to long term. The main driver is a growing world population, a rising demand for food and feed and the resulting need for more effective agricultural production systems.

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### ***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 to ensure 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 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 high-value specialty products to approximately 8,000 customers. 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; raw materials for aroma chemicals; UV (ultraviolet light) filters; amino acids; enzymes; non-antibiotic growth promoters; and organic acids for the animal nutrition industry. In all of the division's main product groups BASF is one of the top three suppliers. In the fourth quarter of 2003 we started of our new Vitamin B<sub>2</sub> plant based on proprietary fermentation technology in Gunsan, Korea. With the start of our feed enzyme production planned for late 2005, we will strengthen our leading

position in the animal nutrition business.

The Fine Chemicals division benefits from BASF's Verbund approach to integration by purchasing approximately 35% of its raw materials from other BASF operations. 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.

The key elements of the division's success are establishing a global sales presence and achieving preferred supplier status with major customers, as this status promotes lasting relationships and often generates higher sales volumes. BASF believes that its Fine Chemicals division generally has a good cost position in comparison with its competitors. In the few areas where the division's production costs do not compare favorably with those of competitors, BASF improves processes in existing plants and transfers production capacities from smaller facilities to world-scale plants.

The Fine Chemicals division aims to expand its role as a contract manufacturer for the pharmaceutical industry. We believe the mid- and long-term fundamentals in the pharmaceutical industry remain positive despite the current environment of overcapacities and lower registrations of new chemical entities. We are investing in our own facilities and are considering acquisitions to build a leading position until the end of the decade.

## **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

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vitamins. In six of these vitamins, which include the five most significant vitamins; C, E, A, B<sub>2</sub> and Calpan, BASF has a production position. The Fine Chemicals division sells vitamins mainly to the human and animal nutrition industries. In 2001, BASF acquired the vitamins business of Takeda Chemical Industries Ltd. thereby strengthening its position in the water-soluble products. The company estimates that as a result of the acquisition it holds around one fourth of the world market for vitamins. The first phase of the investment program is almost completed with important plants (vitamin E, B<sub>2</sub>, precursors) coming onstream recently or scheduled to do so in 2004. The second phase, including an investment in vitamin C, is expected to be completed in 2007. BASF's vitamins sales are evenly divided among Europe, North America and Asia.

### Carotenoids

Carotenoids 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. BASF is the world's second largest supplier of carotenoids. More than half of the division's carotenoid sales are in Europe.

### Active Ingredients and Advanced Intermediates

The main products in this category are caffeine, pseudoephedrine, theophylline, ibuprofen and povidone iodine and lately paroxetine 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. Isotretinoin is the standard for systemic acne therapy, paroxetine represents the lead molecule for the treatment of depression. All of BASF's production sites for these products have cGMP (current good manufacturing practice) certification, the quality standard necessary for approval by regulatory authorities. BASF sells these products worldwide, with the United States being the most important market, followed by Western Europe. BASF is a leading producer worldwide of all the products in this category.

### 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 skill.

### Polymers

The Fine Chemicals division sells highly functional polymers for applications in the cosmetics, pharmaceuticals and food industries. In pharmaceuticals, polymers are used as binders, disintegrants, coatings and solvents for the manufacture of finished dosage forms. The cosmetics industry uses polymers mainly in hair care products such as hairsprays, styling mousses, gels and hair conditioners. In the food industry, polymers are applied as filtration aids for beverages such as beer, wine and soft drinks. BASF sells polymers mainly in Europe.

### Amino Acids

Amino acids are feed additives that serve as an efficient protein source for animal nutrition. An important product is lysine, of which BASF is among the top three producers. The Fine Chemicals division produces lysine at BASF's site in Gunsan, Korea. BASF has a strong foothold in the Asian market for amino acids, with the region accounting for half of the sales for this product group.

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### 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®. As a consequence of DSM's acquisition of Roche's Vitamins and Fine Chemicals Division, the BASF DSM enzyme alliance was terminated in October 2003. BASF has become independent in this field, and having acquired all relevant intellectual property from DSM, will construct its own enzyme production facility. Most of BASF's enzyme sales are divided approximately equally between Europe and North America.

### Organic Acids

Organic acids 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. Formi® was acquired from Norsk Hydro AS in 2002.

### Cosmetics Ingredients

Cosmetic ingredients 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

Aroma chemicals 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. The new lysmeral plant, which has been onstream since 2002, further strengthens BASF's position as the leading manufacturer of petrochemicals-based aroma chemicals. With the new Citral plant, BASF will also strengthen its position in aroma chemicals and in the fat-soluble vitamins production, in which Citral also serves as the key intermediate. The plant is scheduled to come onstream on time in early 2004.

### **Research and Development**

The Fine Chemicals division's research and development activities focus on constantly improving BASF's cost position while generating a flow of new products. In 2003, the Fine Chemicals division spent approximately 4% of its consolidated sales on research and development activities, essentially unchanged from 2002.

One third of the Fine Chemicals division's research and development expenses in 2003 was spent on products for the animal nutrition industry. For both the human nutrition and pharmaceuticals business units around 20% was spent. The rest was allocated for applications in the cosmetics ingredients and aroma chemicals sectors.

Variable production costs of biotechnological production processes are reduced through continuous improvement in the bacteria strains and fermentation processes for the amino acid lysine, vitamin B<sub>2</sub> and precursors of vitamin C.

**Markets and Distribution**

The Fine Chemicals division's sales to third parties were €1,845 million in 2003. In 2003, Europe accounted for 45% of the Fine Chemicals division's sales; North America for 25%, the Asia, Pacific

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Area, Africa region for 24%; and South America for 6%. The following table shows the Fine Chemicals division's sales for 2003 by customer industry:

**Customer Industry**

	<b>Sales (euros in millions)</b>
Animal nutrition	805
Human nutrition	379
Pharmaceuticals	337
Personal care, cosmetics and aroma chemicals	324

The main customers of the Fine Chemicals division are global players in the animal nutrition, human nutrition, pharmaceuticals, personal care and aroma chemical 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 chemical 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 chemical 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.

BASF considers its main competitors in the animal nutrition area to be DSM, Archer Daniels Midland Co., Novo Nordisk A/S, Adisseo Group, Rhodia S.A., Eisai Co. Ltd. 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 Inc. and FMC Corporation of the United States 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 Co., Givaudan, Symrise and Kurarai 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.

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## OIL &amp; 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*

Wintershall searches for and produces oil and natural gas in 10 countries on four continents. Wintershall markets approximately 75% of its crude oil production through its wholly owned subsidiary Wintershall Oil AG of Zug, Switzerland.

*Natural Gas Distribution and Trading*

BASF conducts natural gas distribution and trading activities through two joint ventures – WINGAS GmbH (WINGAS) and Wintershall Erdgas Handelshaus GmbH (WIEH) – in partnership with Gazprom. WINGAS owns and operates a natural gas distribution pipeline system in Germany that is more than 2,000 kilometers in length. The company also owns and operates an underground natural gas storage site, with a working gas capacity of 157 billion cubic feet, making it the largest in Western Europe. WIEH acts exclusively 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% ownership interest. WIEH also markets Russian natural gas in Central Europe through its Swiss subsidiary Wintershall Erdgas Handelshaus Zug AG (WIEE), Switzerland.

Against the background of progressively more liberalized European markets, WINGAS is expanding its activities beyond the borders of its home market of Germany. In 2003 WINGAS established the distribution company WINGAS Belgium S.p.r.L., and plans to set up a joint venture with Norsk Hydro in the U.K. in 2004. In addition, WINGAS took a 25% stake in HubCo-North West European Hub Service Company (HubCo). HubCo offers international gas-traders a fully integrated hub service at the trading point in Bunde/Emden (Germany).

The Oil & Gas segment sells all of the oil and most of the natural gas it produces to third parties, however WINGAS also supplies BASF with natural gas consumed at BASF's Verbund site in Ludwigshafen, Germany and at other BASF companies. Key information is provided in the table below:

	2003	2002 (euros in millions)	2001
Sales to third parties, net of natural gas taxes	€4,791	€4,199	€4,516
Natural gas taxes	504	303	268
Intersegmental transfers	498	363	413
Sales incl. intersegmental transfers	5,289	4,562	4,929
Royalties	251	210	312
Sales incl. intersegmental transfers, less royalties	5,038	4,352	4,617
Income from operations	1,365	1,210	1,308
Capital expenditures on tangible and intangible assets	323	920	229

The Oil and Gas segment's sales to third parties, net of natural gas taxes, accounted for 13.9% of BASF's total sales in 2001 and 13.0% of BASF's total sales in 2002. In 2003, the segment accounted for 14.4% of BASF's total sales.

**Segment Strategy**

The Oil & Gas segment seeks to increase production of oil and gas by 50% within the current decade and thus strengthening its natural hedge function within the BASF group. This will be

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accomplished by strengthening its exploration activities, developing new fields, optimizing production in existing concessions, and seeking complementary acquisitions. To ensure the company's ongoing competitiveness, Wintershall focuses on the following core regions:

/\*/

Europe

/\*/

North Africa

/\*/

South America (Southern Cone)

/\*/

Russia/Caspian Sea

Wintershall's goal is to maintain a ratio of proved reserves to production of approximately 10 years and a suitable portfolio of assets operated by Wintershall and by third parties. Wintershall's strategy for achieving these goals is:

/\*/

Increasing oil and gas production in Germany and the Southern North Sea through further exploration activities and field developments

/\*/

Expanding its activities in North Africa to offset the depletion of existing oil reserves and to expand its gas and condensate production

/\*/

Using current and future gas production in the core regions mentioned as well as its own gas distribution and marketing expertise as a basis for a "Gas to Europe" concept

/\*/

Expanding oil and gas activities in Russia through strategic partnerships such as Wintershall's partnership with Gazprom

/\*/

Increasing production of gas from existing and new fields in Argentina in order to meet long-term growing demand for natural gas in the Southern Cone region

/\*/

Exploring in new offshore concessions in Brazil and in the Caspian Sea with the goal of establishing new production activities in both regions

In the natural gas marketing and distribution business, WINGAS currently is the third largest natural gas transmission and distribution company in Germany. Ongoing liberalization of the European natural gas market requires natural gas distributors to give third parties access to their pipelines. This creates significant growth opportunities for WINGAS, since the company is eligible to transport natural gas through its competitors' extensive transmission networks. Additionally, increases in market share will be realized by expanding WINGAS's activities into new regions in Europe.

#### **Exploration and Production of Oil and Natural Gas**

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The exploration and production of oil and natural gas have been Wintershall's core businesses, with producing assets in Germany, the Netherlands, Libya, Argentina, Russia, and Dubai.

BASF believes that Wintershall presently has finding and development costs that are below the industry average. Unlike major oil and gas exploration and production companies, Wintershall focuses its exploration and production activities on a select number of core regions where a combination of technical expertise, local operating experience and strategic partnerships allow it to develop petroleum resources at below-average costs.

Wintershall is the operator of most of the significant exploration and production projects in which it has an interest. In projects where it is not the operator, Wintershall participates in operating decisions pursuant to agreements with operators.

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The Oil & Gas segment presently conducts activities in the following countries:

Country	Activities	Country	Activities
Argentina	Oil and gas exploration and production	The Netherlands	Oil and gas exploration and production
Brazil	Oil and gas exploration	Qatar	Oil and gas exploration
Dubai	Oil exploration and production	Romania	Gas exploration and production
Germany	Oil and gas exploration and production	Russia	Oil and gas exploration and production
Libya	Oil and gas exploration and production	United Kingdom	Gas exploration

### *Reserves*

The Oil & Gas segment's most significant oil reserves are in North Africa and Germany, with the substantial share of these reserves being located in Libya. 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	North Africa and Middle East	Argentina	Rest of World	Total	Rest of World (at equity)
<b>At December 31, 2003</b>						
Oil (millions of barrels)						
Proved reserves	93	417	52	0	562	14
Proved developed reserves	60	348	28	0	436	14
Gas (billions of cubic feet)						
Proved reserves	453	226	1,463	269	2,411	
Proved developed reserves	395	137	604	167	1,303	
<b>At December 31, 2002</b>						
Oil (millions of barrels)						
Proved reserves	92	422	50	1	565	17
Proved developed reserves	76	369	33	1	479	17
Gas (billions of cubic feet)						
Proved reserves	482	208	1,341	328	2,359	
Proved developed reserves	425	149	684	105	1,363	
<b>At December 31, 2001</b>						

Oil (millions of barrels)					
Proved reserves	101	442	39	582	19
Proved developed reserves	70	412	28	510	19
Gas (billions of cubic feet)					
Proved reserves	500	172	1,225	134	2,031
Proved developed reserves	500	171	612	57	1,340

At 2003 levels of production proved oil reserves would last approximately nine years, and proved gas reserves would last approximately 11 years.

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### 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:

	2003		2002		2001	
<b>Oil</b>						
Net quantities produced (millions of barrels)	65		60		60	
Average sales price less royalties (per barrel)	€	18.90	€	19.10	€	20.39
Average production cost (lifting cost) (per barrel)	€	3.20	€	3.44	€	3.60
<b>Gas</b>						
Net quantities produced (billions of cubic feet)	228		189		186	
Average sales price less royalties (per thousand cubic feet)	€	2.04	€	1.92	€	2.57
Average production cost (lifting cost) (per thousand cubic feet)	€	0.57	€	0.52	€	0.54

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, 2003, were as follows:

	Germany	North Africa and Middle East <sup>(1)&gt;</sup>	Argentina	Rest of World <sup>(1)&gt;</sup>	Total	Rest of World (at equity)
<b>Oil</b>						
Total gross productive wells	512.0	285.0	57.0	7.0	861.0	11.0
Total net productive wells	238.7	64.8	18.2	7.0	328.7	5.5
<b>Gas</b>						
Total gross productive wells	144.0	0.0	150.0	127.0	421.0	
Total net productive wells	67.1	0.0	35.7	25.3	128.1	
<b>Oil and Gas Acreages (thousand of acres)</b>						
Total gross developed acres	187.3	99.7	256.2	111.6	654.8	0.9
Total net developed acres	66.2	34.3	60.4	16.7	177.6	0.4
Total gross undeveloped acres	2,864.2	1,929.0	9,187.3	5,015.1	18,995.6	5,589.1
Total net undeveloped acres	1,456.3	711.6	4,231.1	1,946.0	8,345.0	2,794.5



(1)

Consolidated activities only.

In 2003, Wintershall spent €385 million for exploration, acquisition and investment, compared with €999 million in 2002. Thereof, €151 million were spent in Europe (2002: €749 million), €147 million in North Africa/Middle East (2002: €124 million), €67 million in South America (2002: €111 million) and €20 million in Russia/Caspian Sea (2002: €15 million).

Either directly or through its subsidiaries, Wintershall was involved in the drilling and completion of 12 exploratory wells, which resulted in seven successful wells. As of December 31, 2003, Wintershall had begun drilling five additional exploratory wells.

In 2003, approximately 70% of the Oil & Gas segment's oil reserves and production activities were in North Africa and the Middle East. The substantial majority of these reserves and production activities were in Libya, where the segment operates several onshore oilfields and produces associated natural gas for local consumption. Offshore Libya Wintershall holds a 12.5% interest in the Al Jurf oil field, which started production in September 2003. BASF does not believe the ILSA (Iran-Libya Sanctions) Extension Act adopted by the United States government will have a material adverse effect on BASF's financial condition or results of operations. Remaining oil production takes place primarily in the

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Mittelplate offshore oil field in the German North Sea as well as in Dubai, Argentina, the Netherlands and Russia.

With approximately 200 million barrels of proved initial reserves, the Mittelplate field is the largest known German oil reservoir. Wintershall and its partner, RWE-Dea AG, with a 50% interest each, have been producing oil from an offshore production platform since 1987. As of 1998, the Mittelplate field has also been developed from an onshore site by extended-reach wells. In 2003, oil production increased to 15.4 million barrels of which 9.3 million barrels were produced through extended-reach wells. The partners intend to connect the offshore production platform by pipeline to the onshore facilities, thus further increasing the production of the field. The project realization is subject to the approvals of the authorities.

In October 2003 the new core region Russia/Caspian Sea, Wintershall had become the operator for a highly prospective exploration block offshore Dagestan, Russia by acquisition of 70% interest in OOO Megatron NVK.

Wintershall produces 43% of its natural gas in Argentina. In 2001, Wintershall, with its partners, decided to develop the Carina and Aries gas fields off the coast of Tierra del Fuego. As a result of the economic development in Argentina, the project schedule has been adjusted in accordance with expected gas demand. In 2003 Wintershall successfully managed to strengthen its exploration portfolio by acquiring the block La Invernada in the Neuquen basin and an interest in the Geminis prospect offshore Tierra del Fuego, both in the vicinity of our producing assets. In the Central Patagonian frontier area Cañadon Asfalto basin Wintershall together with Repsol YPF were granted two exploration blocks for which the official governmental approval is still pending; however field work has already commenced.

Wintershall more than doubled its reserves and future production in the Netherlands through the acquisition of Clyde Netherlands B.V. in 2002. Wintershall is now the third largest gas producer in the country. With the production start-up of two new gas fields in October 2003 Wintershall now operates a total of 23 offshore platforms in the North Sea. Clyde also contributes substantially to Wintershall's exploration portfolio. Highly qualified staff strengthens Wintershall's global Center of Expertise for Offshore Activities. The acquisition of Clyde combined two companies whose portfolios complement each other. Offshore UK, Wintershall was granted five exploration blocks in July 2003, which are located at the border with the Netherlands.

The Oil & Gas segment has a 49.95% participation interest in and is the operator of the first natural gas offshore field on the German continental shelf, approximately 300 kilometers off the German North Sea coast. Since production start-up in 2000 the field production capacity has been maintained at 45 billion cubic feet per year. The major partners in this project include Exxon Mobil Production Deutschland GmbH and RWE-Dea AG. N.V. Nederlandse Gasunie, a Dutch natural gas distributor has contracted to purchase the natural gas produced from this field.

BASF has a cooperation agreement with Gazprom that provides a framework for future project-specific agreements. The agreement also contemplates the joint participation of Wintershall and Gazprom in the exploration and production of oil and gas primarily in Russia. Wintershall and Gazprom are specifically planning to participate in the development of large gas/condensate fields in Western Siberia. For development of the vast gas and condensate reserves of the Achimov formation in the Urengoy field the joint venture company Achimgaz was established in July 2003. Joint venture partners are OOO Urengoygazprom, a subsidiary of Gazprom, and Wintershall with 50% interest each.

In general, oil and gas exploration and production activities require high levels of investment and entail particular economic risks and opportunities. These activities tend to be highly regulated, and

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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 obligations

/\*/

Environmental protection measures

/\*/

Control over the development and abandonment of fields and installations

/\*/

Restrictions on production

Crude oil prices are subject to international supply and demand and other factors that are beyond an oil company's control. Political and economical developments can affect world supply of and demand for oil, and therefore oil prices as well. Such factors can also affect the price of natural gas sold under long-term contracts because, under long-term contracts in Germany and in many other countries, natural gas pricing typically is 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 therefore can 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 outside the European Union and North America, some of which can be considered politically and economically less stable than European Union or North American countries. These reserves and the related operations may be subject to political risks. 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 €523 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 and engineering, and 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. However, according to company standards, Wintershall conducts reserves audits of its major oil and gas fields through independent, internationally recognized auditors.

### **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. To promote the joint marketing of mainly Russian, as well as Western European natural gas predominantly in Germany, Wintershall and OAO Gazprom established two joint ventures:

/\*/

WINGAS GmbH (WINGAS) of Kassel, Germany, in which Wintershall has a 65% ownership interest; and

/\*/

Wintershall Erdgas Handelshaus GmbH (WIEH), of Berlin, Germany, in which Wintershall has a 50% ownership interest, although profit distributions are differentiated according to customers and sales countries.

WINGAS owns and operates a large pipeline system in Germany for the distribution of natural gas and also owns and operates one underground natural gas storage site. WIEH acts exclusively as a trading company, purchasing Russian natural gas and marketing it to WINGAS and other natural gas providers in Germany. WIEH also markets Russian natural gas in Central Europe through its wholly owned Swiss subsidiary, Wintershall Erdgas Handelshaus Zug AG (WIEE), Switzerland.

In the medium term, the natural gas distribution and trading business generates stable margins and represents a source of noncyclical income for BASF. In addition, this business ensures a reliable and cost efficient source of natural gas for BASF's Verbund site in Ludwigshafen, Germany, and for other BASF companies.

Since 1991, WINGAS has invested more than €2.7 billion (of which Wintershall's share was €1.8 billion) in its natural gas distribution and trading activities in Germany. The high-pressure pipeline system currently spans more than 2,000 kilometers (km). The pipeline system presently consists of four primary legs:

/\*/

MIDAL (*Mitte-Deutschland-Anbindungs-Leitung*), which is the longest pipeline of the WINGAS network, extending over 702 km from the North Sea to southern Germany. To supply the metropolitan area of Hamburg, the Rehden-Hamburg-Gasleitung (RHG) branches from MIDAL north of Bielefeld, forming a 132 km-long branch-pipe.

/\*/

STEGAL (*Sachsen-Thüringen-Erdgas-Leitung*), which is a 345 km pipeline that comes from the east and meets MIDAL south of Kassel. STEGAL supplies eastern Germany with natural gas and connects the WINGAS pipeline system with Czech and Slovakian pipeline systems that transport Russian natural gas.

/\*/

WEDAL (*West-Deutschland-Anbindungs-Leitung*), which is a 319 km pipeline that establishes a direct connection between the WINGAS pipeline system and the Belgium transit grid via the Interconnector to the UK market, ensuring a link to the Western European natural gas network. WEDAL runs between Aachen and Bielefeld.

/\*/

JAGAL (*Jamal-Gas-Anbindungs-Leitung*), which is a 338 km pipeline that links the large YAMAL gas field in Russia to WINGAS's pipeline network system. JAGAL begins in Frankfurt/Oder and links up with STEGAL just south of Leipzig.

In addition to its natural gas pipeline network, WINGAS also owns and operates a natural gas storage site in Rehden, Germany. It is the largest underground gas storage site in Western Europe, with a working gas capacity of 157 billion cubic feet.

In 2003, WINGAS purchased 217 billion cubic feet of natural gas from WIEH, which in turn purchases all of its gas from Gazprom's subsidiary Gazexport. In 2003, WINGAS bought 160 billion cubic feet directly from Gazexport so that in total 377 billion cubic feet or 68% were purchased from Russian sources. WINGAS also bought 98 billion cubic feet from North Sea suppliers, primarily from EDF Trading Ltd. and Conoco, 68 billion cubic feet in the main forward market and 12 billion cubic feet low caloric gas from Wintershall.

In 2003, WINGAS entered into new supply contracts with municipalities, industrial companies and in the forward market. In addition WINGAS started during the reporting year deliveries to industrial customers in Belgium via third party access through the network of the Belgium pipeline system. In total the sales volume increased from 456 billion cubic feet to 559 billion cubic feet. This growth was due to the increase in the supply to new customers and to the low temperatures during the last winter. The sales volume of WINGAS, WIEH and WIEE totaled 978 billion cubic feet compared with 814 billion cubic feet for 2002. The BASF consolidated sales volume in 2003 was 647 billion cubic feet, representing a 24% increase over the previous year's sales volume of 524 billion cubic feet.

WINGAS's biggest customer is BASF's own Verbund site in Ludwigshafen. In 2003, the site purchased approximately 93 billion cubic feet, or approximately 17% of WINGAS's distribution volume. Approximately 19 billion cubic feet, or approximately 3%, was sold to other BASF companies; 33% to transmission companies; 19% to regional distributors, municipalities and industrial companies; and 28% was sold in foreign markets of which the main part was sold mainly at trading hubs. In 2003, most of the natural gas WINGAS distributed in Germany was sold to

approximately 60 customers via long-term natural gas supply agreements.

WINGAS is currently the third largest natural gas transmission and distribution company in Germany. Capital expenditures in 2003 totaled €36 million. The enlargement of STEGAL's transport capacity with its €21 million initial investment represents the largest project. This targeted expansion measure will secure additional transport of Russian natural gas to Western Europe, which will help to compensate in the medium term for the declining natural gas offshore production in the North Sea.

#### ENVIRONMENTAL MATTERS

BASF is subject to extensive, evolving and increasingly stringent international and local environmental laws and regulations concerning: the production, distribution, the 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, as well as the maintenance of safe conditions in the workplace.

These Environmental protection and remediation laws and regulations govern primarily:

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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

/\*/

The purification and discharge of waste water 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 or 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 €667 million in 2003. 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, 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 also spent approximately €159 million in 2003 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 has sent waste for disposal. Worldwide, BASF had established provisions of €248 million for anticipated

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investigation and clean-up costs at such sites as of December 31, 2003, and €264 million as of December 31, 2002.

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,

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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 liability can be reasonably estimated. The provisions made are considered to be in accordance with U.S. GAAP. 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.

BASF establishes provisions for currently known potential soil contamination at BASF sites that are still in operation, or in case of the accidental release of chemicals around the world. In general investigations into potential contamination and subsequent cleanup 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 facts currently known, BASF believes that capital expenditures and remedial actions necessary to comply with existing laws and conditions governing environmental protection 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

/\*/

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

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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 predict accurately the effect of future developments in such laws and regulations on Wintershall's future earnings and operations. Some risk of environmental costs and liabilities is inherent in Wintershall's oil and gas activities, as it is with other companies engaged in similar businesses. 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.

### SUPPLIES AND RAW MATERIALS

#### Raw materials procurement

Through its Verbund strategy, BASF operates in an integrated manufacturing environment that processes basic raw materials to produce thousands of products for sale as finished goods at various points in these manufacturing processes. Large amounts of raw materials purchased by BASF are therefore used as feedstocks in these value-adding chains of production.

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 materials are used as feedstocks for the steam crackers that are operated in Ludwigshafen, Germany; Antwerp, Belgium; and Port Arthur, Texas. BASF monitors the market for naphtha, and actively hedges its exposure by using swaps and options. Other important hydrocarbon-based raw materials are natural gas, benzene and propylene. BASF primarily sources its natural gas from Russia by means of long-term natural gas supply contracts with Gazprom. These contracts are conducted through BASF's joint ventures with Gazprom, WINGAS and WIEH. Other important materials at BASF include cyclohexane, ammonia, titanium dioxide and methanol.

BASF believes the company can purchase raw materials most efficiently through its network of global and regional procurement teams. High-volume raw materials or those of strategic importance, such as raw materials used at the start of BASF's value-adding chains of chemistry, tend to be purchased by global procurement teams in order to leverage BASF's purchasing power and secure a stable supply of key raw materials. Regional procurement teams play an essential role in purchasing raw materials for the company's regional production sites.

BASF has a policy of maintaining, when possible, multiple sources of supply for materials and is not dependent on a limited number of suppliers for essential 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. BASF however, cannot give any assurance that its ability to obtain sufficient raw materials at any time will not be adversely affected by unforeseen developments. In addition, the prices of raw materials may vary, perhaps significantly, from year to year.

### **Technical goods and services procurement**

The technical goods and services that BASF purchases are related primarily to the company's manufacturing activities, which involve significant capital expenditures to design and build plants and later to maintain them. These expenditures therefore also cover the maintenance of sites and offices around the world.

BASF's global and regional procurement teams work with engineers and technical staff to identify where and how technical goods and services can be procured most efficiently. To this end, the standardization of goods and services is a key driver for reducing costs. Standardizing goods and services tends not only to be more cost effective, but reduces the expenses associated with servicing and maintenance during the total life cycle. Furthermore, the company's procurement teams work closely with suppliers to support them in developing system solutions.

### **E-commerce**

BASF is using e-commerce to increase the efficiency of its procurement processes. For example, increasingly in the chemicals industry, buyers and sellers are connecting their respective enterprise resource planning (ERP) systems through online marketplaces. BASF's ERP is linked to Elemica Holding Ltd., a neutral electronic marketplace for the purchase and sale of basic, intermediate, specialty and fine chemicals.

Electronic marketplaces are also playing a strategic role in BASF's technical goods and services procurement. BASF is a founding partner in cc-chemplorer, a marketplace for maintenance, repair and operations-related products and services for the chemical industry. BASF believes that its involvement in such e-commerce activities is making a positive contribution to the speed and quality of its procurement activities.

## **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 business segment Agricultural Products & Nutrition, which is treated as two reportable segments, disclosing separately the Agricultural Products and Fine Chemicals divisions. The divested Pharmaceuticals division was formerly included as a third reportable segment in the business segment formerly known as Health and Nutrition.

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.

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In addition, to its operating divisions and business units, BASF has three corporate divisions which support the Board of Executive Directors in directing the company's activities, and nine competence centers which oversee strategic activities and set global standards. The corporate divisions are Legal, Taxes & Insurance; Planning & Controlling and Finance. The competence centers are Logistics; Information Services; Human Resources; Environment, Safety & Energy; Purchasing; Corporate Engineering; Chemicals Research & Engineering; Specialty Chemicals Research and Polymer Research.

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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, Mount Olive, New Jersey	100
BASF S.A., São Bernardo do Campo, Brazil	100
BASF Company Ltd., Seoul, Korea	100

### 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.

At the heart of BASF's integration strategy are its Verbund production sites. The following is a description of these sites including the number of production plants:

Location	Production	
	Acreage	Plants
Ludwigshafen, Germany	1,760	250
Antwerp, Belgium	1,470	54
Geismar, Louisiana	2,290	20
Freeport, Texas	510	12

Kuantan, Malaysia

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An additional Verbund site is currently under construction in Nanjing, China, with the joint venture partner SINOPEC.

See "Item 4. Information on the Company – Environmental Matters" for information on environmental issues related to BASF's properties. Additional information regarding BASF's property, plant and equipment is contained in Note 14 to the Consolidated Financial Statements included in Item 18.

For information on BASF's oil and natural gas exploration and production activities, see "Item 4. Information on the Company – Oil & Gas" and "Supplementary information concerning oil and gas producing activities (unaudited)" in Item 18.

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## Item 5. Operating and Financial Review and Prospects

### OVERVIEW

BASF is a transnational chemical company that aims to increase its corporate value through growth and innovation. The company's product range includes high-performance products, including chemicals, plastics, coatings systems, dispersions, agricultural products, fine chemicals as well as crude oil and natural gas.

BASF is comprised of the parent company, BASF Aktiengesellschaft of Ludwigshafen, Germany, and 153 consolidated subsidiaries and affiliated companies. The company has customers in more than 160 countries and operates production sites in 41 countries.

BASF conducts its worldwide operations through 12 operating divisions, which have been aggregated into five business segments based on the nature of the products and production processes, type of customers, channels of distribution and nature of the regulatory environment. The business segments are reportable segments, with the exception of Agricultural Products & Nutrition, which is treated as two reportable segments, Agricultural Products and Fine Chemicals, respectively. The divested Pharmaceuticals division was until 2001 included as a third reportable segment in the business segment Health & Nutrition.

The reportable operating segments are:

/\*/

Chemicals

/\*/

Plastics

/\*/

Performance Products

/\*/

Agricultural Products and Nutrition

/\*/

Agricultural Products

/\*/

Fine Chemicals

/\*/



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Pharmaceuticals (discontinued operations)

/\*/

Oil & Gas

### BASIS OF PRESENTATION

#### Overview

The Consolidated Financial Statements of BASF included in Item 18 of this report have been prepared based on BASF's accounting and valuation principles in accordance with German GAAP as required by the German Commercial Code (*Handelsgesetzbuch*), the standards of the German Accounting Standards Committee (GASC) and the German Stock Corporation Act (*Aktiengesetz*).

There are certain differences relating to accounting and valuation methods that are required under U.S. GAAP but are not allowed under German GAAP. The effects of BASF's reconciliation of the remaining differences between German GAAP and U.S. GAAP for the years ended December 31, 2003 and 2002 are described in Note 4 to the Consolidated Financial Statements included in Item 18.

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#### Outlook for 2004

After three years of weak global growth, we see more favorable mid-term prospects than in previous years, despite latent risks in the Middle East. We are planning our activities based on the following premises:

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Improved investment climate and a gradually improving consumer climate

/\*/

An average crude oil price (Brent) of \$28/barrel in 2004

/\*/

U.S. dollar remains weak and volatile

Under these premises, we anticipate that the global economy will regain momentum. The United States and Asia's growth markets will lead the way in strengthening the global recovery process. The global chemical industry will recover in pace with increasing demand from industrial customers. The impetus for growth in chemical production will come from the recovery in the United States and Asia.

In the following descriptions of results of operations in the segments, we make forecasts for sales and earnings in 2004. These forecasts are based on the assumption of the above described scenario.

#### Critical Accounting Policies

Critical accounting policies are those that are most important to the portrayal of the company's financial condition and results of operations. These policies require management's difficult, subjective and complex judgments in the preparation of the financial statements and accompanying notes. Management makes estimates and assumptions about the effect of matters that are inherently uncertain, relating to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. The company's most critical accounting policies are discussed below.

#### *Pension provisions and similar obligations*

Obligations arising from company pension plans are based on actuarial computations made by external actuaries according to the projected unit credit method. Accordingly, assumptions must be made with regard to discount factors, salary and pension trends, and, in the case of externally financed obligations, with regard to the growth and return on the fund assets used to finance future obligations.

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These assumptions are redefined as of each balance sheet date, taking account of current circumstances. Discount factors are based on returns for securities or bonds with high credit ratings. The expected return on fund assets is based on long-term developments as observed in the capital markets as well as the respective portfolio structures. If the actual developments deviate from the assumptions made, the resulting actuarial profits or losses beyond a given limit are distributed over the future years of service of employees.

See Note 23 to the Consolidated Financial Statements for further details with regard to the change in pension obligations and financing status.

### *Provisions for legal damages*

The evaluation of risks associated with claims for damages and litigation and the determination of the amounts of related provisions are subject to considerable judgment. In particular, this relates to pending regulatory proceedings and claims for damages associated with antitrust violations in the vitamins business.

It is currently not possible to estimate the full consequences of litigations. Corresponding provisions are established to the extent that they are considered probable and the amount can be reasonably estimated. The level of provisions also considers the outcomes of similar cases and legal opinions, taking into account the current circumstances. The actual outcome of legal proceedings may

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differ considerable from these estimates. See also Note 27 to the Consolidated Financial Statements for further information with regard to litigation and claims.

### *Deferred taxes on loss carryforwards*

Tax loss carryforwards are primarily related to restructuring measures at subsidiaries in the North American (NAFTA) region. In countries in the NAFTA region, these carryforwards may be set against future taxable income for up to 20 years.

The realization of deferred tax assets on these carryforwards is dependent upon the economic development of our subsidiaries in the NAFTA region. An evaluation is affected by difficulties in predicting long-term economic developments. Significant valuation allowances were not made to deferred tax assets on tax-loss carryforwards in 2003 in view of the long carryforward period and in expectation of stable economic developments in the NAFTA region.

See also Note 10 to the Consolidated Financial Statements for further information on deferred taxes.

### *Goodwill*

From 2002 onward, goodwill is no longer to be amortized under U.S. GAAP. Instead, goodwill is written off only if the carrying value of goodwill is impaired. The value of goodwill has to be reviewed at least once per year at the reporting unit level. An impairment exists if the book value of the goodwill at the reporting unit exceeds the fair value, generally determined based upon the discounted value of expected future cash flows.

To review the value of goodwill, however, it is necessary to make assumptions with regard to the long-term profitability of the operating units against the background of macroeconomic developments. To a significant extent, goodwill is associated with the acquisition of the insecticide fipronil from Bayer CropScience in March 2003 and of the crop protection business of American Home Products Corporation in 2000. The value of these goodwills is subject to the long-term development of the global market for crop protection products and the continued profitability of this business.

Write-offs due to impairment were not necessary in 2003. As a result, the amortization expenses recorded in accordance with German GAAP are reversed in the reconciliation to U.S. GAAP (see Note 4 to the Consolidated Financial Statements).

### *Provisions for environmental protection measures and site remediation*

The company records liabilities for environmental issues in the accounting period in which its responsibility is established and the cost can be reasonably estimated. At environmental sites in which more than one potentially responsible party has been identified, the company records a liability for its allocable share of costs related to its involvement with the site, as well as an allocable share of costs related to insolvent parties or

unidentified shares. At environmental sites in which the company is the only potentially responsible party, a liability is recorded for the total estimated costs of remediation before consideration of recovery from insurers or other third parties. The process of estimating environmental liabilities is complex and dependent on; physical and scientific data at the site, uncertainties as to remedies and technologies to be used, and the outcome of discussions with regulatory agencies.

See also Note 24 to the Consolidated Financial Statements for further explanations with regard to the accrual of provisions for environmental protection measures and site remediation.

### ***Impairment of long-lived Assets***

Impairment tests of long-lived assets are made when conditions indicate a possible loss. Impairment tests are based on a comparison of undiscounted cash flows to the recorded value of the asset. The estimate of the cash flows is based on information available at that time including factors such as: expected sales, customer trends, operating efficiencies, material and energy prices, etc. If an impairment is indicated, the asset value is written down to its fair value based upon market prices or, if not available, upon discounted cash flows. The assumptions used in the cash flow projections reflect the market conditions at the time an impairment becomes known.

### **New U.S. GAAP accounting standards not yet adopted**

FIN 46, "Consolidation of Variable Interest Entities", which was issued in January 2003 and revised in December 2003, requires consolidation of variable interest entities by the primary beneficiary, even in the absence of a majority of the voting rights, FIN 46 is to be applied for interests in special purpose entities for periods ending after December 15, 2003 and for interests in all other entities for periods ending after March 15, 2004. The application of FIN 46 within the BASF group was analyzed, and it was determined that it would not have a significant impact on the assets, profitability, or financial situation of the BASF Group.

### **Off Balance Sheet Arrangements, Contingent Liabilities and Other Financial Obligation**

Our unconsolidated entities are not considered special-purposes entities, and do not constitute other off-balance sheet arrangements.

Contingent liabilities and other financial obligations are described in Note 26 to the Consolidated Financial Statements in Item 18.

## RESULTS OF OPERATIONS

### **Group**

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in Item 18 of this Annual Report.

Income from operations in 2003 was somewhat higher than in 2002 despite a persistently difficult business environment and despite a higher level of special items. Our measures to increase efficiency and reduce costs offset higher raw materials costs and insufficient sales prices resulting from global competitive pressures. Net income declined significantly due to a lower financial result and higher tax expense due, among other things, to legislative changes.

The following table sets forth sales and income for BASF. Sales are net of petroleum and natural gas taxes.

### **Sales and Earnings**

2003

2002

2001

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%  
Change  
from  
Previous  
Year  
(euros in millions, except per share data)

	€	%	€	%	€
Sales	33,361.2	3.6	32,215.5	(0.9)	32,499.6
Gross profit	10,028.2	(3.6)	10,400.0	0.9	10,311.8
Gross profit as a percentage of sales (%)	30.1	(6.8)	32.3	1.9	31.7
Income from operations	2,658.2	0.7	2,640.7	117.0	1,216.9
Income from operations as a percentage of sales (%)	8.0	(2.4)	8.2	121.6	3.7
Special items	(335.0)	(39.9)	(239.5)	77.7	(1,076.1)
Financial Result	(490.2)		0.2		(608.2)
Income before taxes and minority interests	2,168.0	(17.9)	2,640.9	333.7	608.7
Net income	910.2	(39.5)	1,504.4	(74.3)	5,858.2
Net income as a percentage of sales (%)	2.7	(42.6)	4.7	(73.9)	18.0
Basic earnings per share	1.62	(37.7)	2.60	(73.3)	9.72
Amounts in accordance with U.S. GAAP					
Net income	1,337.7	(22.1)	1,716.9	(69.8)	5,692.4
from continuing operations	1,337.7	(22.1)	1,716.9		(238.2)
from discontinued operations including gain from disposal					5,892.6
cumulative effect of implementing SFAS 133					38.0
Basic earnings per share	2.38	(19.6)	2.96	(68.7)	9.45
from continuing operations	2.38	(19.6)	2.96		(0.39)
from discontinued operations including gain on disposal					9.78
cumulative effect of implementing SFAS 133					0.06
diluted earnings per share	2.38	(19.6)	2.96	(68.7)	9.45

Income from operations in 2003 contains special charges of €335 million. This amount includes €305 million for restructuring measures taken to increase efficiency as part of the Ludwigshafen Site Project and to reorganize our service divisions in North America (NAFTA). The proceeds from the sale of the soil improvement products business in December offset most of the costs of integrating the fipronil business acquired by the Agricultural Products division.

Income from operations in 2002 included special charges of €240 million. This was €836 million less than in the previous year. Charges of €124 million were incurred as a result of restructuring measures. These were due to the closure of ethylene oxide and glycol plants in the Chemicals segment in Geismar, Louisiana; various optimization and restructuring measures in the Agricultural Products & Nutrition segment; and measures to improve efficiency associated with the Site Concept at the Ludwigshafen production site. Further special charges of €116 million resulted primarily from the €100 million provision for claims for damages related to the vitamins business. The financial result included special income of €301 million related in particular to the sale of marketable securities and of a lease financing company.

In 2001, the high special charges of €1,076 million in income from operations were caused by our comprehensive restructuring program, which resulted in charges of €747 million. Moreover, an

additional provision of approximately €200 million had to be made for the fines imposed by the E.U. Commission for antitrust violations in the vitamins business.

**2003 Compared with 2002**

Sales

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Sales in 2003 rose €1,145 million compared with the previous year to €33,361 million. The following factors contributed to the change in sales:

	2003	
	euros in millions	as % of sales
Volume	€ 2,421	7.6
Prices	692	2.1
Currency exchange	(2,345)	(7.3)
Acquisitions and additions to scope of consolidation	638	2.0
Divestitures	(261)	(0.8)
	€ 1,145	3.6

We achieved higher sales volumes primarily in the Chemicals, Plastics and Oil & Gas segments. Some divisions were able to impose price increases to compensate somewhat for the increase in raw materials costs.

The weakness of the U.S. dollar caused sales to decline considerably in euro terms in North America (NAFTA), South America and Asia. In local currency terms, however, sales rose by 10% in North America, by 13% in South America and by 25% in Asia.

Acquisitions increased sales by €633 million, primarily due to the acquisition of the global fipronil business from Bayer CropScience and the purchase of Honeywell's engineering plastics. Additions to the scope of consolidation contributed €5 million to sales.

Divestitures reduced comparable sales by €261 million, primarily due to the sale of our nylon fibers business to Honeywell.

### Gross Profit

After deducting production costs from sales, we recorded a gross profit of €10,028 million in 2003. The decline of €372 million or 3.6% resulted mainly from considerably higher raw materials costs. Lower capacity utilization in the second half of the year also had a negative impact. The ratio of gross profit to sales declined to 30.1% from 32.3% in 2002.

### Income from Operations

Income from operations was slightly higher than in 2002. Improvements in the Agricultural Products & Nutrition, Oil & Gas and Other segments offset the decline in Chemicals, Plastics and Performance Products. At €2,658 million, income from operations in 2003 was €17 million higher than in the previous year and as a ratio of sales was 8.0%, compared with 8.2% in 2002.

### Income before Taxes

Compared with 2002, income before taxes declined €473 million to €2,168 million in 2003. This decline is due to the almost identical decline in the financial result by €490 million. In 2002, the financial result contained gains from the sale of securities. In 2003, income from financial assets also declined and certain financial assets had to be written down (see Note 8 to the Consolidated Financial Statements in Item 18).

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### Net Income/Earnings Per Share

Income before taxes and minority interests was €2,168 million and the tax expense was €1,192 million or 55%. After deducting these taxes and minority interests of €66 million, net income in 2003 was €910 million, or €594 million lower than in 2002. This decline was due to lower income before taxes and minority interests as well as tax expenses that were €150 million higher than in the previous year. In 2003, a tax refund claim of €124 million that was accounted for as tax receivable in 2002 had to be written off, resulting in an increase in tax expense of €248 million compared with the previous year. This write-off of the tax refund claim for a reduction in corporate income tax associated with paid dividends was incurred due to changes in German tax law in 2003 (see Note 10 to the Consolidated Financial Statements in Item 18). In addition, foreign income taxes on oil production rose, primarily due to the production of higher volumes of oil.

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Earnings per share in 2003 were €1.62, compared with €2.60 in the previous year. In accordance with U.S. GAAP, we posted net income of €1,338 million or €2.38 per share in 2003 compared with €1,717 million or €2.96 per share in 2002.

### Sales and earnings forecasts

Assuming a moderate upturn in the chemical industry, we expect slightly higher sales and an increase in income from operations in 2004, driven primarily by our restructuring, cost-reduction and portfolio optimization measures.

### **2002 Compared with 2001**

#### Sales

In 2002, sales were slightly lower than the previous year's level and decreased €284 million, or 0.9%, to €32,216 million. Sales growth in the Chemicals and Plastics & Fibers segments was not quite enough to offset the decline in the Agricultural Products & Nutrition and Oil & Gas segments.

The following factors contributed to the change in sales:

	2002	
	euros in	as %
	millions	of sales
Volume	€ 2,547	7.8
Prices	(1,680)	(5.2)
Currency exchange	(941)	(2.9)
Acquisitions and additions to scope of consolidation	205	0.6
Divestitures and deconsolidations	(415)	(1.2)
	€ (284)	(0.9)

Sales volumes were up substantially in 2002. We achieved significant growth in the Chemicals and Plastics & Fibers segments. As a result of new plants, in particular the new steam cracker in Port Arthur, Texas, we were able to increase production significantly in the Petrochemicals division. In addition to covering internal requirements, we sold larger volumes to external customers.

The selling prices for our products remained under pressure. Some divisions were able to impose price increases to offset higher raw material costs, but overall prices declined by 5.2%. The rise in the value of the euro against the U.S. dollar and Japanese yen, as well as a devaluation of South American currencies had a significantly negative impact on sales.

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Portfolio changes, which amounted to €(286) million were 0.8 percent lower than in 2001 and did not have a substantial impact. Acquisitions primarily, the Intermediates division's acquisition in mid-2001 of the Italian SISAS Group's activities in Feluy, Belgium accounted for a €118 million increase in sales.

Divestitures reduced comparable sales by €404 million, primarily due to the divestiture of the pharmaceuticals business at the end of February 2001.

Additions to the scope of consolidation contributed €76 million, or 0.2%, to sales.

### Gross Profit

After deducting production costs from sales, we achieved a gross profit of €10,400 million in 2002. The increase of €88 million, or 0.9%, caused the gross margin to rise to 32.3% compared with 31.7% in 2001. This was due to the positive development of production costs, which declined more sharply than sales (1.7% compared with 0.9%). The decline in production costs was due in particular to the higher utilization rate of production facilities and cost reductions as a result of restructuring measures.

### Income from Operations

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Following a weak year marked by high restructuring charges, income from operations in 2002 almost returned to the level of previous years. Income from operations of €2,641 million in 2002 was €1,424 million or 117% higher than in the previous year, and represented 8.2% of sales, compared with 3.7% in 2001.

Excluding special items of €240 million in 2002 and €1,076 million in 2001, income from operations rose by 25.6% to €2,881 million. This was primarily due to improved earnings in the Chemicals and Plastics & Fibers segments as well as in Performance Products.

### Income from Ordinary Activities/Income before Taxes

Income from ordinary activities rose from €609 million in 2001 to €2,641 million in 2002. Lower special charges as well as higher special income accounted for €1,210 million of this increase of €2,032 million. On a comparable basis, income from operations contributed €588 million and the financial result €234 million to an increase of €822 million.

### Extraordinary Income

There was no extraordinary income in 2002. The high extraordinary income in the previous year of €6,121 million, or €5,976 million net of taxes, resulted from the sale of our pharmaceuticals business to Abbott Laboratories Inc., Abbott Park, Illinois.

### Net Income/Earnings Per Share

Income before taxes and minority interests was €2,641 million and the tax expense was €1,042 million, or 39.5%. After deducting these taxes and minority interests of €95 million, net income in 2002 was €1,504 million. In comparison with the previous year, in which there was a loss of €118 million excluding extraordinary income, net income rose by €1,622 million.

Earnings per share in 2002 were €2.60 compared with ordinary earnings per share of €(0.20) in the previous year. In addition, there was extraordinary income per share of €9.92 in the previous year. In 2002, net income in accordance with U.S. GAAP was €1,717 million or €2.96 per share compared with €5,692 million or €9.45 per share in 2001.

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## Chemicals

### Segment data (euros in millions)

	2003	% Change from Previous Year	2002	% Change from Previous Year	2001
Sales to third parties	€ 5,752	8.2	€ 5,317	18.3	€ 4,494
<i>Thereof Inorganics</i>	€ 738	6.2	€ 695	(2.7)	€ 714
<i>Petrochemicals</i>	€ 3,264	12.5	€ 2,902	39.6	€ 2,079
<i>Intermediates</i>	€ 1,750	1.7	€ 1,720	1.1	€ 1,701
Intersegmental transfers	2,680	3.2	2,598	6.0	2,452
Sales incl. intersegmental transfers	8,432	6.5	7,915	14.0	6,946
Income from operations	393	(38.1)	635	75.4	362
Special items	(107)		(41)	34.9	(63)
Operating margin (%)	6.8	(42.9)	11.9	46.9	8.1
Assets	€ 4,720	(5.5)	€ 4,997	3.1	€ 4,847
Return on operational assets (%)	8.1	(37.2)	12.9	61.3	8.0
Research and development expenses	€ 108	10.2	€ 98	(10.1)	€ 109
Capital expenditures on tangible and intangible assets	€ 527	6.5	€ 495	(46.7)	€ 929

The Chemicals segment is comprised of the Inorganics, Petrochemicals and Intermediates divisions. As of July 1, 2001, the former Specialty Chemicals operating division was dissolved and the strategic business units of glycols, alkylene oxides as well as ethylene and propylene oxides were transferred to the Petrochemicals operating division. The other activities of the Specialty Chemicals operating division

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were allocated to the Performance Products operating division. The previous year's segment data have been restated.

### *2003 Compared with 2002*

#### Segment Overview

In 2003, we increased sales to third parties by €435 million compared with the previous year to €5,752 million (volumes 12.0%, portfolio 0.7%, prices 5.0%, currency -9.5%). Higher sales volumes made a major contribution to growth in all three divisions, in particular in the Petrochemicals division.

Income from operations declined by €242 million to €393 million. All three divisions were affected. This was due mainly to the weak U.S. dollar, continuing overcapacities for a number of products, and increasing pressure on margins. Modernization measures, scheduled plant maintenance and startup costs for our investment projects in Asia also had a negative impact on income from operations.

Compared with 2002, assets declined by €277 million to €4,720 million. We further optimized production structures in Europe and North America by closing unprofitable plants and investing in new, profitable ones. In the Petrochemicals and Intermediates divisions, the capital expenditure projects at the new Verbund site in Nanjing, China, and in Caojing, China, continued on schedule. A number of world-scale plants will make a substantial contribution to our production in the growing Asian market from 2005 onward. In the Petrochemicals division, we constructed a C<sub>4</sub> complex in Port Arthur, Texas, with our partners ATOFINA, United States, and Shell, United States. This plant is scheduled to start operations in 2004 and is linked with our steam cracker.

We are expecting to achieve higher sales and income from operations in 2004 by raising prices.

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#### Inorganics

We increased sales to third parties in 2003 by €43 million to €738 million (volumes 3%; acquisition of Callery Chemical 3%, prices 3%, currency -3%).

Income from operations decreased in comparison with the previous year. This was due to a decline in margins for basic inorganic chemicals, inorganic specialties and electronic grade chemicals as a result of negative price and currency effects. These effects could not be fully offset by higher sales volumes of glues, impregnating resins and catalysts. The conversion of part of the chlorine production facilities to an energy-efficient membrane technology as well as other modernization measures at the Ludwigshafen site had a negative impact on income from operations but will lead to an improvement in income from 2004 onward.

The acquisition of Callery Chemical from the Mine Safety Appliances Company (MSA) completed in mid-September 2003, has expanded our profitable and fast-growing business with inorganic specialties. With this acquisition we have expanded our range of alcoholates and boron compounds and have added potassium specialties to our portfolio.

In 2004, we expect higher sales and a slight improvement in income from operations from factors including the Callery Chemical acquisition. We aim to continue expanding our profitable business areas in innovative specialties such as heterogeneous catalysts, electronic grade chemicals and powder injection molding technology.

#### Petrochemicals

In 2003, we increased sales to third parties by €362 million to €3,264 million (volumes 16%, portfolio 1%, prices 8%, currency -12%). Cracker products in Europe were an important factor in this increase. Sales of alkylene oxides and glycols also rose. We maintained the previous year's level of sales for plasticizers and solvents.

Income from operations remained below the previous year's level despite the increase in sales. Prices for raw materials, especially crude oil and naphtha, were very volatile and rose over the course of the year, as was the case for natural gas and energy. We were unable to increase our sales prices sufficiently and quickly enough, and margins therefore declined. The cost of plant shutdowns for scheduled maintenance and technical problems at our steam cracker in Port Arthur, Texas, also had a negative impact on income from operations.



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Capital expenditures increased slightly compared with the previous year. In Port Arthur, Texas, together with our partners ATOFINA and Shell, we built a C<sub>4</sub> complex for metathesis, inalkylation and butadiene extraction that is scheduled to start operations in 2004. Together with our partner SINOPEC, Beijing, China, we are investing in our new Verbund site in Nanjing, China, which is scheduled to begin operations in 2005.

We are expecting higher sales in 2004 and higher income from operations by improving margins.

### Intermediates

In 2003, sales to third parties increased by €30 million to €1,750 million (volumes 9%, prices 1%, currency -8%). We increased volumes of amines, diols and polyalcohols in particular.

Income from operations was well below the previous year's level and was negatively impacted by significantly higher raw materials prices, in particular for natural gas and butadiene. The increasing weakness of the U.S. dollar intensified competitive pressure from the U.S. dollar zone in all regions. European competitors lowered prices because of insufficient capacity utilization. This resulted in a decline in margins for our products. Income from operations also contains charges for startup costs for investment projects in Asia as well as impairment charges for production plants.

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The higher level of capital expenditures compared with the previous year related primarily to projects in China: We are building integrated production plants for THF and PolyTHF® in Caojing and plants for methylamine, dimethylformamide, formic acid and propionic acid in Nanjing, China.

In 2004, we expect higher sales, especially in Asia, and higher income from operations.

### *2002 Compared with 2001*

#### Segment Overview

In the Chemicals segment, sales to third parties increased in 2002 to €5,317 million from €4,494 million in 2001. Sales in the Intermediates division were slightly above the previous year's level, while sales in the Inorganics division were slightly lower. In the Petrochemicals division, sales increased substantially. This was due primarily to the startup of new production capacities, in particular the new steam cracker in Port Arthur, Texas. Higher sales volumes contributed 25.7% to the increase in sales. Price and currency fluctuations had a negative effect of 9.6%.

Intersegmental transfers increased 6.0% from €2,452 million in 2001 to €2,598 million in 2002.

Income from operations rose in 2002 by 75.4% to €635 million, compared with €362 million in 2001. The increase in earnings resulted primarily from higher sales volumes and a corresponding improvement in capacity utilization at our production facilities, significantly lower startup costs for new plants and the restructuring and cost-cutting measures introduced in 2001, which are beginning to take effect. All divisions reported higher earnings compared with 2001, with Petrochemicals posting the largest increase.

Special items in the Petrochemicals division related to the closure of two ethylene oxide plants and one glycol plant at the site in Geismar, Louisiana.

Through the increase in inventories and receivables, assets increased 3.1% from €4,847 million in 2001 to €4,997 million in 2002. We further optimized our production activities in Europe and North America by closing unprofitable plants and investing in profitable, new production facilities. In the growing Asian market, we will achieve another milestone in the development and expansion of local production facilities with the forthcoming completion of the butanediol plant at our Verbund site in Kuantan, Malaysia.

#### Inorganics

In the Inorganics division, sales to third parties in 2002 declined 2.7% to €695 million from €714 million in 2001. Despite a difficult business environment, we increased sales volumes 6%. In most product lines our selling prices declined on average by 9%. Sales of catalysts, glues, impregnating resins and basic inorganic chemicals were below the previous year's levels, but sales of inorganic specialties and electronic grade chemicals were higher due to higher sales volumes.

Income from operations improved compared with the previous year.

In 2002, we again achieved high capacity utilization rates in our plants for large-volume inorganic products, which form an important foundation for most of BASF's value-adding chains. Through such economies of scale, we were able to supply the Ludwigshafen and Antwerp Verbund sites cost-effectively. To consolidate and extend our cost leadership in the Inorganics division, we began in 2002 to refit a world-scale chlorine plant to use a state-of-the-art membrane process.

In addition to large-volume inorganic products, our product range includes innovative specialties such as heterogeneous catalysts, electronic grade chemicals and powder injection molding technology. We will continue to expand these profitable business areas in the future.

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### Petrochemicals

In the Petrochemicals division, sales to third parties in 2002 increased to €2,902 million and were 39.6% higher than in 2001. We were able to increase sales in all product lines. Sales volumes were stable throughout the year and therefore capacity utilization at our plants was generally high. In addition, the startup of the steam cracker in Port Arthur, Texas, in December 2001 and the expansion of the cracker in Antwerp, Belgium, led to increased sales volumes. Higher volumes led to a 49% increase in sales, whereas price and currency fluctuations reduced sales by 11%.

Income from operations rose significantly. This was due to higher volumes in all product lines and regions. In addition, earnings were no longer burdened by high startup costs for the steam cracker in Port Arthur, Texas, and the new plants in Kuantan, Malaysia. Special items were also lower. Special charges of €25 million in 2002 related in particular to the closure of two ethylene oxide plants and one ethylene glycol plant at the site in Geismar, Louisiana.

We substantially expanded business volumes in cracker products. Rising crude oil prices and naphtha costs could be passed on to the market only in the first half of the year.

Sales and earnings in plasticizers and solvents exceeded the previous year's levels. However, the markets for both product lines continue to suffer from excess capacity and, as a result, from strong price and margin pressures. We will address these challenges with significant cost reductions through further rationalization and closure of production plants. In June, we started production of our new product Hexamoll® DINCH, a plasticizer for use in applications with stringent requirements such as foodwrap, medical devices and toys. This new product was favorably received by our customers.

Business in the alkylene oxides and glycols product line picked up considerably in Europe due to the expansion of ethylene oxide capacity in Antwerp, Belgium. Earnings improved as a result of high capacity utilization. In the United States, we closed underperforming production plants in Geismar, Louisiana, and are exiting gradually from the ethylene glycol business in this region.

In 2002, capital expenditures were significantly lower compared with the high levels in recent years associated with major projects in Kuantan, Malaysia; Port Arthur, Texas; and Tarragona, Spain. Important ongoing projects are the metathesis and butadiene extraction plant in Port Arthur, Texas, which is scheduled to start operations in late 2003 or early 2004, as well as investments at our new Verbund site in Nanjing, China, which we are developing together with our partner SINOPEC.

### Intermediates

Business with intermediates recovered in 2002, in particular in Europe and Asia, after a modest second half of 2001. Sales to third parties in 2002 increased by €19 million to €1,720 million. Increased volumes contributed 6% to the increase in sales. Price and currency fluctuations accounted for an 8% reduction in sales. Translated to euros, the weak U.S. dollar more than offset price increases.

Income from operations improved compared with 2001. This improvement could be traced in part to higher sales volumes for our products as well as to the normalization of natural gas prices in North America, which were high at the beginning of 2001. The availability of many of our products was restricted due to production problems at some of our competitors and plant shutdowns in Ludwigshafen, Germany, and Feluy, Belgium, related to maintenance or expansion measures.

Capital expenditures were lower than in the previous year. Numerous projects were completed in 2002. In particular, we started operations at new plants for PolyTHF® (polytetrahydrofuran), specialty amines and glyoxal in Ludwigshafen. In Freeport, Texas, we expanded our Neol®

(neopentylglycol) capacity with a new plant.

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## Plastics

### Segment data (euros in millions)

	2003	% Change from Previous Year	2002	% Change from Previous Year	2001
Sales to third parties	€ 8,787	3.7	€ 8,477	3.6	€ 8,185
<i>Thereof Styrenics</i>	€ 3,626	7.1	€ 3,387	3.7	€ 3,267
<i>Performance Polymers</i>	€ 2,239	(1.4)	€ 2,270	1.3	€ 2,241
<i>Polyurethane</i>	€ 2,922	3.6	€ 2,820	5.3	€ 2,677
Intersegmental transfers	541	24.1	436	7.4	406
Sales incl. intersegmental transfers	9,328	4.7	8,913	3.7	8,591
Income from operations	296	(49.1)	582		(2)
Special items	(67)		(11)	94.0	(182)
Operating margin (%)	3.4	(50.7)	6.9		*
Assets	€ 5,598	(9.3)	€ 6,174	(2.7)	€ 6,344
Return on operational assets (%)	5.0	(46.2)	9.3		*
Research and development expenses	€ 142	2.9	€ 138	(5.5)	€ 146
Capital expenditures on tangible and intangible assets	€ 539	(15.3)	€ 636	(28.6)	€ 891

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negative

The Plastics segment comprises the Styrenics, Performance Polymers and Polyurethanes divisions. As of July 1, 2001, the former operating divisions of Engineering Plastics and Fiber Products were merged to create the Performance Polymers operating division. The previous year's segment data have been restated. On May 1, 2003 BASF took over the worldwide engineering plastics business of Honeywell International, Morris Township, New Jersey, and transferred its worldwide nylon fibers business to Honeywell. At the same time the segment was renamed Plastics.

### 2003 Compared with 2002

#### Segment Overview

Sales to third parties rose by €310 million to €8,787 million in 2003 (volumes 9.2%, portfolio -0.9%, prices 4.6%, currency -9.2%).

Compared with the previous year, income from operations fell by €286 million to €296 million. The Styrenics and Performance Polymers divisions posted significantly lower income from operations; the Polyurethanes division increased its income slightly. Income from operations in this segment mainly declined due to higher raw materials costs and the significant loss incurred in fiber intermediates.

Assets and capital expenditures were reduced in 2003. We lowered inventories and receivables. In 2004, we will continue to reposition our plastics business. As of December 31, 2003, we acquired the nylon 6,6 business of Ticona LLC, United States. This is part of the expansion of our engineering plastics business. The planned transfer of Styropor® production from South Brunswick, New Jersey, to our joint venture Polioles S.A. de C.V. in Altamira, Mexico, and the expansion of capacity there will improve our cost position in styrenics.

For 2004, we expect sales at the previous year's level and an improvement in income from operations.

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### Styrenics

Sales to third parties in 2003 rose by €239 million to €3,626 million (volumes 7%, prices 10%, currency -10%). In particular, higher sales volumes of styrene monomers contributed to the increase in sales.

Income from operations declined significantly compared with the previous year. We significantly increased prices for polymers but were not able to pass on higher raw materials costs to our customers to a sufficient extent. This was due mainly to excess capacity and the resulting pressure on margins.

In 2003, we continued to improve our production structures: At the end of the year, we started operations at a world-scale Styrolux® plant in Altamira, Mexico. Since the European market is supplied entirely from the Styrolux® plant in Antwerp, we were able to shut down the Styrolux® plant in Ludwigshafen. We took the first steps toward our exit from the polystyrene compounds business in Europe. In addition, we have decided to transfer Styropor® production at our site in South Brunswick, New Jersey, to Altamira, Mexico, where we already operate a Styropor® plant in a joint venture.

In 2004, we expect to maintain our sales level and improve income from operations. We aim to do this by further reducing costs, streamlining our portfolio and by simplifying business processes.

### Performance Polymers

In 2003, sales to third parties declined slightly by €31 million to €2,239 million (volumes 5%, portfolio -2%, prices 3%, currency -7%).

Despite a substantial reduction of fixed costs, income from operations was negative. The drastic rise in raw materials costs in 2003 could not be passed on to our customers to a sufficient extent because they were affected by the weak economy. Moreover, the decline in the value of the U.S. dollar led to a lower earnings contribution from our exports to Asia out of Europe. Income from operations was severely affected by completely unsatisfactory margins for nylon fiber intermediates, sales of which are largely to the cyclical carpet and textile industries. On the other hand, despite weak demand for automobiles, we successfully expanded our nylon engineering plastics business, mainly through the acquisition of the injection molding and extrusion business of Honeywell, United States, in April 2003.

Together with our joint venture partner Toray Industries, Japan, we plan to build a production facility for polybutylene terephthalate in Kuantan, Malaysia, to strengthen our business with engineering plastics, particularly in Asia. Effective December 31, 2003, we acquired nylon 6,6 business of Ticona LLC, United States.

We expect to increase sales and income from operations in 2004 on the basis of our optimized product portfolio and synergies from the integration of the businesses we acquired.

### Polyurethanes

In 2003, sales to third parties rose by €102 million to €2,922 million (volumes 15%, portfolio -1%, prices 0%, currency -10%). Sales volumes of our products increased especially in Asia and Europe.

We increased income from operations compared with 2002 despite very high raw materials costs and persistently unsatisfactory margins. This was due primarily to higher sales volumes of our products as well as increased productivity.

Capital expenditures were lower than in 2002 and mainly focused on Asia. At our integrated production site in Yeosu, South Korea, we built a world-scale production plant for TDI that operates using an improved process and which started operation in the third quarter of 2003. We have begun expanding the existing MDI facility in Yeosu, South Korea. This expanded facility will enable us to achieve an even greater share of growth in the Asian markets. At the end of 2003, we began the

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construction of a new production site in Caojing, China. Working with our joint venture partners, we want to complete an additional integrated production facility for MDI and TDI within three years.

We expect improved sales and income from operations in 2004, as a result of strong growth in the polyurethanes market. We will also continue measures to improve our cost structure.

### *2002 Compared with 2001*

#### Segment Overview

Sales to third parties in 2002 increased 3.6% to €8,477 million from €8,185 million in 2001. Stronger customer demand led to significantly higher sales volumes, which accounted for an 11.6% increase in sales. Declining prices and negative currency effects reduced sales by 8%. Sales increased in all three divisions, in particular for polyurethane products and styrenics.

Income from operations rose to €582 million, compared with a loss of €2 million in 2001. All three divisions contributed significantly to the increase in earnings, which was due in particular to much stronger demand and correspondingly good capacity utilization, the closure of underperforming plants started in 2001, and a reduction in fixed costs. Earnings also improved due to a significantly lower level of special items.

Capital expenditures were lower than in 2001.

At the beginning of 2003 agreements were signed with Honeywell International Inc., Morris Township, New Jersey, to acquire their engineering plastics business and sell our nylon fibers business to Honeywell. Through these portfolio swaps, we are further strengthening our position as a leading international supplier of engineering plastics. The two transactions are likely to be neutral with regard to sales and earnings in 2003.

#### Styrenics

In the Styrenics division, sales to third parties rose 3.7% in 2002 to €3,387 million compared with €3,267 million in the previous year. Sales increased due to significantly higher demand compared with 2001 in the face of negative price/currency effects.

Income from operations increased considerably in 2002. This was due primarily to higher capacity utilization. The second and third quarters in 2002 were affected by rising raw material costs as well as a worldwide shortage of styrene. The higher raw material costs could not be passed on in full to the market. Asia was the largest growth market for styrene. Overall, we significantly improved income from operations compared with 2001 in all major regions.

A Styrodur® plant was closed in Antwerp, Belgium. Production was transferred to a new plant that can be operated with lower production and logistic costs started operations in Tarragona, Spain. The replacement plants for ethyl benzene/styrene at the Ludwigshafen site started operations at the end of 2002 and will ensure more efficient supplies of styrene.

#### Performance Polymers

In the Performance Polymers division, sales to third parties in 2002 rose by 1.3% to €2,270 million from €2,241 million in 2001. Sales volumes increased by 9%, in particular due to increasing demand for nylon 6 precursors as well as the continuing expansion of our worldwide engineering plastics business. Prices remained under pressure, largely due to the strength of the euro, which was unfavorable for our export business.

As a result of the restructuring measures we introduced in 2001 and continued in 2002, we have significantly reduced fixed costs, especially in the NAFTA region. The scheduled shutdown of

Ultraform® production in the United States and the sale of our industrial fibers business (Basofil®) will support this trend and allow for a further improvement in earnings.

High capacity utilization at our production plants also contributed to the improvement in income from operations.

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At the beginning of 2003 agreements were signed with Honeywell International Inc., Morris Township, New Jersey, to acquire their engineering plastics business and sell our nylon fibers business to Honeywell.

### Polyurethanes

In the Polyurethanes division, sales to third parties in 2002 increased by 5.3% to €2,820 million from €2,677 million in 2001. Volume growth compared with 2001 contributed 12% to the increase in sales. Demand for polyurethanes rose, in particular in Asia and the United States. Price and currency fluctuations accounted for a 7% reduction in sales.

Income from operations increased compared with 2001 despite high raw material costs and persistently unsatisfactory margins. Productivity increases and cost-cutting measures contributed to earnings in addition to the development in sales volumes. We were able to improve our cost structure through the new TDI (toluene diisocyanate) plant in Geismar, Louisiana, which started operations in May 2002 and replaced an old plant. We will be able to reduce costs further in 2003, the first full year of plant operation.

In addition to the TDI plant in the United States, the largest capital expenditures in the Polyurethanes division were the expansion of our MDI (diphenylmethane diisocyanate) plant in Antwerp, Belgium, which came onstream in late 2002, and the construction of an SM/PO (styrene monomer/propylene oxide) plant in Singapore, by the ELLBA Eastern (Pte.) Ltd. joint venture with Shell. This plant started operations in the second half of 2002 and is intended to significantly improve supplies of propylene oxide in Asia.

### Performance Products

#### Segment data (euros in millions)

	2003	% Change from Previous Year	2002	% Change from Previous Year	2001
Sales to third parties	€ 7,633	(4.8)	€ 8,014	(1.7)	€ 8,154
<i>Thereof Performance Chemicals</i>	€ 3,147	(5.9)	€ 3,343	(0.1)	€ 3,345
<i>Coatings</i>	€ 2,015	(5.7)	€ 2,137	(6.6)	€ 2,287
<i>Functional Polymers</i>	€ 2,471	(2.5)	€ 2,534	0.5	€ 2,522
Intersegmental transfers	301	(7.7)	326	1.2	322
Sales incl. intersegmental transfers	7,934	(4.9)	8,340	(1.6)	8,476
Income from operations	478	(26.0)	646		99
Special items	(90)	(11.9)	(7)	97.7	(298)
Operating margin (%)	6.3	(22.2)	8.1		1.2
Assets	€ 4,656	(10.8)	€ 5,218	(13.7)	€ 6,048
Return on operational assets (%)	9.7	(15.7)	11.5		1.6
Research and development expenses	€ 240	8.1	€ 222	12.7	€ 197
Capital expenditures on tangible and intangible assets	€ 236	(18.1)	€ 288	(31.1)	€ 418
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Performance Products segment consists of the Performance Chemicals, Coatings and Functional Polymers divisions. In 2001, the business segment Colorants & Finishing Products was renamed Performance Products. As of July 1, 2001, the former operating divisions Dispersions, Colorants as well as some parts of Specialty Chemicals were combined to form the operating division Performance Chemicals.

### 2003 Compared with 2002

#### Segment Overview

Compared with 2002, sales to third parties declined €381 million to €7,633 million (volumes 1.9%, portfolio 0.3%, prices -0.1%, currency -6.9%). All divisions were affected by the decline in sales, which was primarily due to negative currency effects and a difficult business environment in some customer industries. In addition, persistent pressure on prices reduced sales in the Performance Chemicals and Coatings divisions.

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Income from operations fell €168 million to €478 million. This was predominantly caused by the weak U.S. dollar and higher raw materials costs which could not be offset fully by price increases. Restructuring measures also reduced income from operations. The implementation of cost-reduction measures and our focus on more profitable products were unable to offset the negative effects on income.

In 2003, the segment's assets fell by €562 million to €4,656 million. Capital expenditures were considerably lower than the level of depreciation and amortization. We significantly reduced inventories and receivables.

In 2004, we anticipate a slight increase in sales and a significant improvement in income from operations due to cost-reduction measures.

### Performance Chemicals

At €3,147 million, sales to third parties were €196 million lower than in 2002 due to currency translation effects (volumes 0%, portfolio 1%, prices -1%, currency -6%).

Income from operations fell short of the previous year's strong level, both overall and in all business areas with the exception of printing systems. Demand for our products remained generally unsatisfactory due to the difficult economic situation. Because of the decline in the value of the U.S. dollar, our exports to North America (NAFTA) and South America resulted in much lower income in euro terms. Asian currency weakness likewise led to a decline in income from operations, even though we increased sales volumes in the region, especially for textile and leather chemicals.

In May 2003, we acquired the medium molecular weight polyisobutylenes business substances employed in chewing gum, adhesives, sealants and films from ExxonMobil Chemical, United States. Through this acquisition, we have expanded our product range and increased capacity utilization by being able to supply new customers.

We reduced inventories and receivables.

In 2004, we expect sales to rise. We also aim to improve income from operations by continuing to lower our fixed costs and by raising margins.

### Coatings

Sales to third parties in 2003 fell by €122 million to €2,015 million (volumes 5%, prices -2%, currency -9%). The negative currency effect was due to the devaluation of the U.S. dollar, South American currencies and the Japanese yen.

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We increased income from operations compared with the previous year despite the difficult economic situation and the cost of restructuring measures we have initiated, in particular for our industrial coatings business in Europe. We improved our income from automotive coatings despite a decline in automobile production in Europe, NAFTA and Japan. We achieved this success through effective service concepts, which enable us to optimize total coating process costs for our customers and to increase our profits. In refinish coatings, we achieved stable, adequate margins in a stagnating market. In South America, we strengthened our market leadership in decorative paints with our Suviniil® brand.

We expect increased sales and income from operations in 2004. We are expanding our presence in the growth markets of Eastern Europe and China. In addition, we are restructuring our industrial coatings business and continuing measures to increase efficiency in all regions and business units.

### Functional Polymers

At €2,471 million, sales to third parties in 2003 were €63 million lower than in 2002 (volumes 0%, prices 3%, currency -6%). The weak U.S. dollar reduced sales in euro terms, in particular in North America (NAFTA) and in South America. In Europe, on the other hand, we posted higher sales.

Income from operations declined compared with the previous year due primarily to unsatisfactory earnings in the first half of 2003. It was not possible to pass on higher raw material costs quickly and to the full extent by increasing prices. Income declined in particular in our superabsorbents and paper chemicals businesses. Our market development and cost reduction efforts could not offset the decline in income.

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In Nanjing, China, we continued the construction of our second Verbund site in the Asian growth region. Production of acrylic acid and acrylic esters at this site is scheduled to start in 2005.

We reduced inventories and receivables.

In 2004, we expect higher sales and an increase in income from operations due to improved margins and lower fixed costs.

### **2002 Compared with 2001**

#### Segment Overview

Sales to third parties in the Performance Products segment declined 1.7% in 2002 to €8,014 million, compared with €8,154 million in 2001. Higher sales volumes led to a 6.1% increase in sales, in particular in the Performance Chemicals and Functional Polymers divisions. Ongoing price pressure and negative currency effects in all divisions reduced sales by 7.8%.

Income from operations rose from €99 million in 2001 to €646 million in 2002. This was due to significantly lower special items, an improved cost structure due to the restructuring measures introduced in 2001, and portfolio optimization with a focus on more profitable products.

In 2002, assets in the segment declined to €5,218 million from €6,048 million in 2001. Depreciation was in excess of capital expenditures. Inventories and receivables were reduced.

#### Performance Chemicals

Despite the difficult global economic climate, sales to third parties of 3,343 million remained just below previous year's level of €3,345 million. Growth was strong in Asia. In South America, sales declined due to the currency crises in Brazil and Argentina, as well as to the difficult economic environment. A 7% increase in sales volumes was offset by negative price and currency effects, in particular the strengthening of the euro against the U.S. dollar.

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All business units contributed to a significant increase in income from operations.

In performance chemicals for coatings, plastics and specialties, we maintained business at a satisfactory level despite intense competition. Our printing plates business grew against the market trend. We have widened our product range for the automotive and oil industry and increased production through cost-effective capacity expansions. Our plants for products for the detergents and cleaning agents industry are operating at a high level of capacity utilization. Despite significant expansion in Asia, sales of textile and leather chemicals declined slightly overall.

We reduced working capital through our efforts to lower inventory levels and a decline in receivables.

#### Coatings

In the Coatings division, sales to third parties in 2002 declined 6.6% to €2,137 million compared with €2,287 million in 2001. Sales volumes were below the previous year's level, mainly because our decorative paint customers in South America reduced their inventories during the first half of the year. Overall, we were able to increase prices slightly. The decline in sales was due primarily to currency effects, in particular the devaluation of the Brazilian real as well as the weakening of the U.S. dollar and the Japanese yen against the euro.

Trends in our business units were as follows: Automotive (OEM) coatings performed well at a high level despite a decline in automobile production. This success can be ascribed to tried and tested service concepts through which we expand cooperation with our customers and optimize the total costs of the coating process. Further, our success is based on the market launch of innovative and eco-efficient products, such as our new cathodic dip coating Cathoguard® 500. Automotive refinish coatings are a strong pillar of our coatings business. Here, we have stabilized our good position with our new Glasurit® and R-M® global brands. Our newly launched Salcomix® mixing system rounds out our portfolio. In industrial coatings, restructuring and innovation were the top priorities. This applies to production, marketing and sales as well as customer and portfolio management. Our efforts have improved our cost structures. In South America, we have solidified the leading position of our Suvinil® brand in the market for decorative paints.



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Compared with the previous year, we were able to improve income from operations substantially in all business units through measures to improve efficiency, cost reductions and restructuring. An important contribution came from a reduction in fixed costs compared with 2001, in particular in our industrial coatings business in Europe. Devaluation losses in Argentina burdened earnings.

### Functional Polymers

In the Functional Polymers division, sales to third parties in 2002 increased by 0.5% to €2,534 million from €2,522 million in 2001. Higher sales volumes contributed to an 11% increase in sales, which was largely offset by negative price and currency effects of a 10%. We were able to substantially increase sales volumes in all product groups, in particular in acrylic monomers, paper coating binders and dispersions for the construction industry. In Asia, the increase in sales volumes was larger than in the other regions.

We were able to improve income from operations considerably compared with the previous year, despite continued strong competitive pressure due to global excess capacity. The restructuring measures we completed had a particularly positive effect on earnings.

In Nanjing, China, we laid the foundation stone for BASF's second Verbund site in the Asian growth region. We expect to start producing acrylic acid and acrylic esters at this site in 2005. In Hamina, Finland, we started operations at a new plant for paper coating binders, which will allow us to supply the

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important Scandinavian market from production in the region. We also successfully brought our new superabsorbents plant in Antwerp, Belgium, onstream.

### **Agricultural Products & Nutrition**

The Agricultural Products & Nutrition segment comprises the Agricultural Products division and the Fine Chemicals division. For reporting purposes each division is considered a reportable segment. The following data relate to the divisions.

#### **Agricultural Products**

#### **Segment data (euros in millions)**

	2003	% Change from Previous Year	2002	% Change from Previous Year	2001
Sales to third parties	€ 3,176	7.5	€ 2,954	(15.1)	€ 3,478
Intersegmental transfers	24	14.3	21	(30.0)	30
Sales incl. intersegmental transfers	3,200	7.6	2,975	(15.2)	3,508
Income from operations	234	283.6	61	238.9	18
Special items	(60)	(57.9)	(38)	79.1	(182)
Operating margin (%)	7.4	252.4	2.1	320.0	0.5
Assets	€ 5,523	8.5	€ 5,092	(20.2)	€ 6,377
Return on operational assets (%)	4.4	300.0	1.1	266.7	0.3
Research and development expenses	€ 239	(16.1)	€ 285	(17.4)	€ 345
Capital expenditures on tangible and intangible assets	€ 1,133		€ 88	(32.3)	€ 130

#### **2003 Compared with 2002**

Sales in 2003 rose €222 million to €3,176 million (volumes 5.7%, portfolio 9.8%, prices 1.0%, currency -9.0%). This increase was due to the successful market introduction of our new fungicide F 500®, the products acquired in March 2003 from Bayer CropScience comprising the insecticide fipronil and selected fungicides as well as the improved economic environment in South America. These influences offset negative currency effects from the appreciation of the euro against the U.S. dollar and other currencies.

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In Europe, sales climbed 10% to €1,447 million. Despite higher sales in local currencies primarily due to the successful launch of new products, sales in North America declined 6% to €892 million because of the stronger euro. In South America, despite negative currency effects, we increased sales 55% to €520 million thanks to new products and an improved market environment. In Asia, sales decreased 11% to €317 million.

In 2003, we improved income from operations by €173 million to €234 million. Special items of €60 million from the integration of the business acquired from Bayer CropScience had a negative effect on income. These special items were primarily related to the use of inventory stepped-up to higher market values. Other special charges were offset by the sale of our soil improvement products business to Kanesho Soil Treatment BVBA, Belgium, for €65 million.

Assets rose by €431 million to €5,523 million primarily due to the acquisition of the insecticide fipronil and selected fungicides from Bayer CropScience for €1,185 million (including inventories).

Research and development expenses were reduced by €46 million to €239 million. We achieved this mainly by realizing synergies from the integration of the crop protection business that we acquired in

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2000 from American Home Products, United States, for example by closing research sites. As a percentage of sales, research expenses declined to 7.5% from 9.6% in 2002. We have further strengthened our active ingredient research for insecticides and fungicides and have reduced our herbicide research activities because there are fewer opportunities in this market.

In 2004, we expect sales and income after currency effects to improve in a market that continues to be intensely competitive. The launch of new products will contribute to this improvement, as will the acquired products' full contribution to sales and income.

### ***2002 Compared with 2001***

Sales in the Agricultural Products segment in 2002 were €2,954 million, compared with €3,478 million in 2001 (volumes -12%, prices/currency -3%). Sales volumes declined in particular in North and South America. The negative price and currency effects were due primarily to the weakening of the U.S. dollar against the euro and the devaluation of the Brazilian real.

Sales development differed considerably from region to region. In North America, sales declined 25% to €945 million due to lower sales volumes and negative currency effects. In South America, we reduced our credit risk by maintaining our restrictive sales policy in Argentina and by repurchasing inventory from the market in Brazil. Sales in South America declined 38% to €335 million as a result of these measures and negative currency effects. Sales in Europe rose by 4.3% to €1,320 million, while in Asia they declined 13% to €354 million.

In 2002, we achieved income from operations of €61 million, compared with €18 million in 2001, thereby improving income from operations by €43 million. Special items reduced earnings by €38 million. Our earnings situation is unsatisfactory and a series of measures have been introduced to improve it significantly.

In 2002, capital employed was reduced to a total of €5,092 million from €6,377 million in 2001. This was due in particular to a reduction of inventories and receivables as well as a decline in non-current assets by scheduled amortization and depreciation, which exceeded capital expenditures.

Expenses for research and development declined 17.4% to €285 million following the closure of the research center in Princeton, New Jersey; as a percentage of sales, these expenses declined from 9.9% to 9.6%.

Following the integration of the crop protection business acquired from American Home Products Corp. (AHP) in 2000, we realized annual integration synergies of more than €250 million for the first time in 2002. In 2003, we will introduce measures to further reduce costs by approximately €100 million.

In the Agricultural Products division, an agreement was reached on October 28, 2002 to acquire the insecticide fipronil and a series of fungicides from Bayer CropScience AG. The acquisition is subject to approval by the relevant antitrust authorities.

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## Fine Chemicals

**Segment data**  
(euros in millions)

	2003	% Change from Previous Year	2002	% Change from Previous Year	2001
Sales to third parties	€ 1,845	(6.3)	€ 1,970	(0.7)	€ 1,984
Intersegmental transfers	20	(44.4)	36	24.1	29
Sales incl. intersegmental transfers	1,865	(7.0)	2,006	(0.3)	2,013
Income from operations	125		(6)	97.1	(210)
Special items	(8)	93.5	(124)	56.2	(283)
Operating margin (%)	6.8		*		*
Assets	€ 1,303	(6.4)	€ 1,392	(6.5)	€ 1,488
Return on operational assets (%)	9.3		*		*
Research and development expenses	€ 70	(14.6)	€ 82	5.1	€ 78
Capital expenditures on tangible and intangible assets	€ 140	(10.8)	€ 157	(21.1)	€ 199

\* negative

**2003 Compared with 2002**

Sales to third parties fell €125 million to €1,845 million in 2003 (volumes 2.9%, portfolio 0.2%, prices -0.3%, currency -9.1%). We increased sales of products for animal nutrition (lysine, carotenoids and organic acids) and of water-soluble vitamins for human nutrition, especially vitamin C. Sales of fat-soluble vitamins for animal and human nutrition declined. We achieved higher sales of cosmetic raw materials, while North American sales to the pharmaceuticals industry decreased because of the weak U.S. dollar. In Asia, we were able to increase sales slightly despite negative currency effects.

Income from operations improved €131 million to €125 million due to a lower level of special charges, which declined from €124 million in 2002 to €8 million in 2003. Higher sales volumes, higher sales prices for lysine and vitamin C, and cost savings from rationalizations in vitamin production and the restructuring of our business in North America also had a positive effect on income from operations.

Following the dissolution of our long-term cooperation with DSM N.V., the Netherlands, we will pursue business with the feed enzyme phytase independently in the future and plan to build a production plant for this enzyme.

In 2003, the assets of the Fine Chemicals division declined €89 million to €1,303 million. We reduced inventories and receivables. Amortization of intangible assets continued as planned. Tangible assets grew as a result of capacity expansion for vitamin E and new plants for vitamin B<sub>2</sub> and citral.

We expect sales and income from operations to increase in 2004.

**2002 Compared with 2001**

In the Fine Chemicals segment, sales to third parties in 2002 declined 0.7% to €1,970 million (volumes 7%, prices/currency -8%). The animal nutrition business posted higher sales of fat-soluble vitamins as well as enzymes. In human nutrition, sales of carotenoids and caffeine were higher. In both animal and human nutrition, sales of water-soluble vitamins declined. In our business with the pharmaceutical industry, the new area of contract manufacturing showed particularly strong growth. Sales in the cosmetic ingredients product line were affected by slow growth in the cosmetics industry.

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In 2002, income from operations was €(6) million compared with €(210) million in 2001. This was due in particular to a lower level of special charges, which declined from €283 million in 2001 to €124 million in 2002. In both years, these special charges were primarily related to antitrust violations in the vitamins business prior to 1999. Higher volumes as well as cost savings due to restructuring measures in North American manufacturing and in the premix business contributed positively to our earnings in 2002.

In 2002, assets in the Fine Chemicals segment were reduced by 6.5% to €1,392 million from €1,488 million in 2001. This was due to scheduled depreciation of intangible assets as well as reductions in inventory and receivables. Tangible assets were slightly higher than in 2001. Additions to fixed assets included capacity expansion for vitamin E, carotenoids and Lysmeral®, as well as new plants for vitamin B<sub>2</sub> and citral.

### Oil & Gas

#### Segment data (euros in millions)

	2003	% Change from Previous Year	2002	% Change from Previous Year	2001
Sales to third parties	€ 4,791	14.1	€ 4,199	(7.0)	€ 4,516
<i>Thereof natural gas trading</i>	€ 2,627	20.9	€ 2,173	(3.5)	€ 2,251
Intersegmental transfers	498	37.2	363	(12.1)	413
Sales incl. intersegmental transfers	5,289	15.9	4,562	(7.4)	4,929
Royalties	251	19.5	210	(32.7)	312
Sales incl. intersegmental transfers, less royalties	5,038	15.8	4,352	(5.7)	4,617
Income from operations	1,365	12.8	1,210	(7.5)	1,308
<i>Thereof natural gas trading</i>	311	3.3	301	33.2	226
Special Items	0		0		0
Operating margin (%)	28.5	(1.0)	28.8	(0.7)	29.0
Assets	€ 3,711	1.7	€ 3,648	15.8	€ 3,149
Return on operational assets (%)	37.1	4.2	35.6	(9.0)	39.1
Research and development expenses	€ 123	8.8	€ 113	18.9	€ 95
Capital expenditures on tangible and intangible assets	€ 323	(64.9)	€ 920	301.7	€ 229
<b>2003 Compared with 2002</b>					

Sales to third parties rose €592 million in 2003 to €4,791 million (volumes 13.0%, portfolio 2.2%, prices 0.1%, currency -1.2%). The significant increase in sales volumes and higher prices for crude oil more than offset the negative effects of the weaker U.S. dollar.

In 2003, sales to third parties in our natural gas trading business rose €454 million compared with the previous year to €2,627 million due mainly to increased volumes. Gas sales volumes from all gas trading companies increased by 20.1% to 286.5 billion kilowatt-hours. On a consolidated basis, gas sales volumes rose to 189.4 billion kilowatt-hours from 153.4 billion in 2002. WINGAS GmbH (BASF share: 65%) again posted growth in Germany that exceeded the market average. Substantial increases were also achieved in Belgium and Great Britain.

In the future, we plan to expand these activities in cooperation with OAO Gazprom, Russian Federation. Over the medium term, the importance of Russian natural gas for Central and Western Europe will continue to increase because of declining production volumes from the North Sea and

projected higher natural gas consumption. We founded subsidiaries in Belgium in 2003 to strengthen our Western European activities, and plan to create a gas marketing company in Great Britain in 2004 together with Norsk Hydro ASA, Norway.

Exploration and production increased sales to third parties by €138 million compared with 2002 to €2,164 million in 2003. The average price of crude oil (Brent) rose compared with the previous year by \$4/barrel to \$29/barrel. As a result of the severe weakening of the U.S. dollar against the euro, the price of oil on a euro basis fell by about 3%. We expanded our crude oil and natural gas production by 11.6% to 104 million barrels of oil equivalent. This includes 5.4 million barrels from Clyde Netherlands B.V., the Netherlands, which we acquired in November 2002 and which was included for the full year for the first time in 2003. Without these portfolio measures the increase in exploration would have been

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6.6%. We began operating three new fields in the Netherlands and North Africa and expanded production in North Africa following the withdrawal of OPEC production limits. In July 2003, we founded the Achimgaz joint venture with Gazprom. This company will produce natural gas and condensate from the Achimov horizon of the Urengoy field in western Siberia and plans to spend a total of up to \$700 million on the project. This will expand our long-standing and established partnership with Gazprom for natural gas trading into exploration and production activities. In October 2003, we acquired a 70% interest in the exploration company OOO Megatron N.V.K., Russian Federation, which owns a block with very promising geological structures in the Caspian region of Russia.

Income from operations improved by €155 million to €1,365 million in 2003. At €311 million, natural gas trading again reached the strong level of the year 2002, which benefited from unusually good margins, in particular in the first few months of the year. In exploration and production, the expansion of oil and gas production resulted in an increase income of €145 million to €1,054 million in 2003. Income taxes on oil production in North Africa and the Middle East are not deducted from income from operations, but are reported as income taxes (see Note 10 to the Consolidated Financial Statements).

Assets in the Oil & Gas segment rose €63 million to €3,711 million compared with 2002 due to the continued expansion of our business. Additions to tangible assets mainly involved exploration and production for projects in North Africa, the Netherlands, Argentina and Germany. Exploration activities were conducted at the previous level and were successful at seven of 17 exploratory and expansion holes in 2003.

In 2003, proved reserves of crude oil remained constant at 76 million metric tons. Due to higher production of crude oil, the reserve-to-production ratio declined to nine years compared with 10 years in 2002. Proved reserves of natural gas increased 2% in 2003 to 65 billion cubic meters. Due to higher production of natural gas, the reserve-to-production ratio declined from 12 years in 2002 to 11 years in 2003.

In 2004, we expect prices for crude oil to decline in the course of the year and that the U.S. dollar will again weaken somewhat against the euro compared with the average rate in 2003. Although we will be able to expand our market position through increased production of oil and gas and higher volumes in natural gas trading, we anticipate that we will not be able to maintain the strong level of income posted in 2003.

### ***2002 Compared with 2001***

In the Oil & Gas segment, sales to third parties in 2002 declined 7% to €4,199 million from €4,516 million in 2001 (volumes 5.6%, prices/currency -13.1%). A further increase in sales volumes did not result in higher sales, because the effects were offset by the weakening of the U.S. dollar against the euro and lower average prices for natural gas in 2002.

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Sales to third parties in our natural gas trading business declined 3.5% in 2002 to €2,173 million, compared with €2,251 million in 2001. The decline in natural gas prices was a major contributing factor. Natural gas prices are correlated with crude oil prices with a time lag. In 2002, this led to a lower price level than in 2001. We were able to increase natural gas sales volumes 11% to 239 billion kilowatt-hours despite stagnating overall demand in Germany as a result of mild weather.

In our exploration and production activities, sales declined by 10.6% to €2,016 million compared with €2,254 million in 2001. At \$25 per barrel, the average price of U.K. Brent quality crude oil in 2002 barely changed in comparison with the previous year. As a result of the substantial weakening of the U.S. dollar against the euro in the second half of 2002, sales on a euro basis, were negatively influenced by a 3.0% price/currency effect. Our production of 93 million barrels of crude oil and natural gas oil equivalent achieved the previous year's level despite further limitations on our oil production in North Africa because of OPEC resolutions. This amount includes initial quantities from the Clyde Netherlands B.V. acquisition since the beginning of November 2002. Through this acquisition, we have more than doubled both our production and our reserves in the Netherlands and in the Dutch North Sea, and gained a very attractive exploration portfolio.

Compared with 2001, intersegmental transfers declined from €413 million to €363 million in 2002, primarily as a result of lower natural gas prices.

Income from operations decreased €98 million to €1,210 million in 2002, nearly reaching the previous year's high level. Natural gas trading increased its contribution to earnings. Despite difficult economic conditions, Argentina was again the source of a significant contribution to total earnings.

Income from operations is shown before income taxes on oil-producing operations in North Africa and the Middle East. These taxes are recorded as income tax expenses (see Note 10 to the Consolidated Financial Statements).

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Assets in the Oil & Gas segment increased 15.8% to €3,648 million in 2002 from €3,149 million in 2001, primarily due to the acquisition of Clyde Netherlands B.V. Additions to tangible assets mainly involved development projects for exploration and production activities in North Africa, Argentina and Germany. Exploration activities were conducted intensively and with very positive results. In 2002, we discovered five new gas fields in the Netherlands, Argentina and Romania and one new oil field in Libya. We have achieved internationally competitive finding and development costs by using the most advanced technologies and focusing on particularly promising regions.

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### LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth the summarized cash flows of BASF in each of the last three fiscal years:

#### Statement of cash flow

	2003	2002 (euros in millions)	2001
Net income*	€ 910	€ 1,504	€ (118)
Depreciation of fixed assets	2,682	2,502	2,933
Changes in net current assets	1,118	(1,033)	(682)
Miscellaneous items	168	(660)	186
<b>Cash provided by operating activities</b>	<b>€4,878</b>	<b>€ 2,313</b>	<b>€ 2,319</b>
Additions to tangible and intangible fixed assets	(2,071)	(2,410)	(2,811)
Acquisitions and divestitures, net	(1,394)	(262)	7,043
Financial investments and other items	205	508	(112)
<b>Cash provided by investing activities</b>	<b>€(3,260)</b>	<b>€ (2,164)</b>	<b>€ 4,120</b>
Share repurchase/proceeds from capital increases	(500)	(462)	(1,124)
Changes in financial indebtedness	(2)	1,040	(4,293)
Dividends paid	(857)	(843)	(1,266)
<b>Cash provided by financing activities</b>	<b>€(1,359)</b>	<b>€ (265)</b>	<b>€ (6,683)</b>
Changes in cash assets affecting liquidity	259	(116)	(244)
Initial cash assets and other changes	222	347	604
<b>Cash and cash equivalents at year end</b>	<b>€ 481</b>	<b>€ 231</b>	<b>€ 360</b>
Marketable securities	147	132	383
Liquid funds	628	363	743

\* Excluding extraordinary income

*2003 Compared with 2002*

Cash provided by operating activities

In 2003, cash provided by operating activities was €2,565 million higher than in 2002, despite significantly lower net income. This was due to cash released from current assets because we significantly reduced inventories and reduced payment terms. In addition, there was an increase in expenses that did not lead to cash outflows, such as depreciation and amortization and additions to provisions. By contrast, in 2002, provisions were reduced through payments and contributions were made to pension funds in the United States.

Cash used in investing activities

We spent €2,071 million on additions to tangible and intangible assets. As planned, we reduced them compared with 2002, bringing them significantly below the level of amortization and depreciation on tangible and intangible fixed assets.

Expenditures for acquisitions totaled €1,480 million. Proceeds from divestures amounted to €86 million. In particular, acquisitions involved the acquisition of the fipronil business from Bayer CropScience and the purchase of Honeywell's engineering plastics business.

We spent €191 million on financial assets, marketable securities and financial receivables. The sale and disposal of fixed assets and securities of current assets generated proceeds of €396 million. Cash used in investing activities amounted to €3,260 million.

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On a regional basis, capital expenditures on tangible and intangible fixed assets were as follows:

	2003 (%)	2002 (%)
Europe	66	65
North America (NAFTA)	13	12
South America	2	3
Asia, Pacific Area, Africa	19	20
	<u>100</u>	<u>100</u>

In the **Chemicals segment**, capital expenditures and acquisitions increased 6.5% compared with the previous year to €527 million in 2003. Major projects included:

- /\*/  
Construction of the Verbund site in Nanjing, China, with our partner SINOPEC;
- /\*/  
Construction of a C<sub>4</sub> complex as part of the Verbund with the steam cracker in Port Arthur, Texas;
- /\*/  
Construction of a butanediol plant at the Verbund site in Kuantan, Malaysia;
- /\*/  
Acquisition of Callery Chemical from the Mine Safety Appliances Company, United States, to strengthen our business with inorganic specialties; and
- /\*/  
Modernization of part of the chloralkali electrolysis plant in Ludwigshafen by conversion to the membrane process.

In the **Plastics segment**, capital expenditures and acquisitions in 2003 totaled €539 million. This was a decline of 15.3% compared with the previous year. The largest projects were as follows:

/\*/

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Construction of an ABS plant in Antwerp, Belgium;

/\*/

Startup of a Styrolux® plant in Altamira, Mexico;

/\*/

Expansion of production capacity for MDI in Yeosu, South Korea;

/\*/

Startup of a TDI plant in Yeosu, South Korea;

/\*/

Acquisition of engineering plastics from Honeywell, United States; and

/\*/

Acquisition of the nylon 6,6 business from Ticona LLC, United States.

In the **Performance Products segment**, capital expenditures and acquisitions in 2003 declined 18.1% to €236 million. The most important investment projects were as follows:

/\*/

Startup of the methanesulfonic acid plant in Ludwigshafen; and

/\*/

Construction of plants for acrylic acid and acrylates at the new Verbund site in Nanjing, China.

In the **Agricultural Products & Nutrition segment**, we spent €1,273 million on capital expenditures and acquisitions in 2003 compared with €245 million in 2002. Major projects included:

/\*/

Acquisition of the insecticide fipronil and selected fungicides from Bayer CropScience in March 2003 for €1,185 million (including inventories);

/\*/

Construction of a new plant for citral, a precursor for vitamins and fragrances, in Ludwigshafen; and

/\*/

Completion of a vitamin B2 plant in Gunsan, South Korea.

In the **Oil & Gas segment**, we invested €323 million in 2003. At €920 million, investments in 2002 were significantly higher due to the acquisition of Clyde Netherlands B.V., the Netherlands. The majority of the investments in 2003 were made in exploration and production. Key projects were:

/\*/

Developing new natural gas deposits in the Dutch North Sea;

/\*/

Optimizing and expanding hydrocarbon production in North Africa; and

/\*/

Continuing expansion of our Mittelplate offshore oil field in the German North Sea.

### Cash used in financing activities



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Cash used in financing activities in 2003 was €1,359 million. We bought back 13.7 million shares for €500 million at an average price of €36.55 per share.

We paid out a total of €857 million in dividends and profit transfers in 2003. Dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2002 totaled €789 million or €1.40 per share. €68 million in profits was paid or transferred to shareholders of fully or proportionally consolidated companies.

Financial indebtedness decreased to €3,507 million due to currency translation effects. We issued a €1 billion Euro Benchmark Bond maturing in 2010, taking advantage of the favorable capital market situation to refinance a portion of our short-term debt. Financial indebtedness is discussed in detail in Note 25 to the Consolidated Financial Statements of Item 18.

### Liquid funds

Total liquid funds at the end of 2003 amounted to €628 million, or 1.9% in terms of total assets.

### Commitments for investments

In 2004, BASF is planning capital expenditures of €1.9 billion, e.g., below the level of depreciation. Of this amount, 57% is scheduled to be invested in Europe; 10% in North America (NAFTA); 4% in South America; and 29% in the Asia, Pacific Area, Africa region. Major projects by segment include:

#### *Chemicals segment*

/\*/

Construction of a steam cracker at the new Verbund site currently under construction in Nanjing, China

/\*/

Plants for oxo alcohols, ethylene oxide and glycol, methylamines, dimethylformamide as well as formic acid and propionic acid at the Verbund site in Nanjing, China

/\*/

Plants for THF and PolyTHF® in Caojing, China

#### *Plastics segment*

/\*/

A PBT plant in Kuantan, Malaysia

/\*/

Construction of production plants for TDI and MDI in Caojing, China

/\*/

Startup of expanded production capacity for MDI in Yeosu, Korea

/\*/

Expansion of production capacity for Styropor® in Altamira, Mexico

#### *Performance Products segment*

/\*/

Plants for acrylic acid and acrylates at the new Verbund site currently under construction in Nanjing, China

#### *Agricultural Products & Nutrition segment*

/\*/

Expansion of production capacity for carotenoids in Ludwigshafen

/\*/

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Expansion of production capacity for crosprovidones (Divergan® and Kollidon® brands) and construction of a plant for Crosspure® F (recyclable filter material for the beverage industry) in Ludwigshafen

### *Oil & Gas segment*

*/\*/*

Pipeline connection to the Mittelplate German offshore oil field

*/\*/*

Development of new natural gas reserves in the Dutch North Sea and Argentina

### **2002 Compared with 2001**

#### Cash from Operating Activities

In 2002, cash provided by operating activities was €2,313 million. In spite of significantly higher net income, cash provided by operating activities only remained at the previous year's level. This was caused by cash expenses being charged against provisions for restructuring measures established in 2001. Further funds were required for the payment of fines for antitrust violations involving the vitamins business and compensation payments to direct purchasers of vitamins in the United States following the conclusion of corresponding settlements. The antitrust violations relating to the vitamins business occurred several years ago. The contribution of \$475 million to the pension fund in the United States also led to a cash outflow. This contribution constitutes a prepaid pension asset and will be recognized in subsequent years' earnings as net periodic pension cost.

#### Investing Activities

We spent €2,410 million on additions to tangible and intangible assets. We thus substantially reduced capital expenditures compared with 2001 as planned.

Expenditures for acquisitions totaled €267 million. They involved in particular the purchase of Clyde Netherlands B.V., which has concessions for oil and gas exploration in the Dutch North Sea.

The sale of securities held as current assets, as well as of fixed assets generated total proceeds of €900 million. Including the funds thus released, outflows for capital expenditures and acquisitions were €2,164 million.

On a regional basis, capital expenditures on tangible and intangible fixed assets were as follows:

	2002 (%)	2001 (%)
Europe	65	47
North America (NAFTA)	12	23
South America	3	4
Asia, Pacific Area, Africa	20	26

In the **Chemicals segment**, capital expenditures and acquisitions declined 46.7% to €495 million in 2002 compared with €929 million in 2001. Major projects included:

#### Europe

*/\*/*

Modernization of the chloralkali electrolysis plant in Ludwigshafen, Germany, involving conversion to a membrane process

*/\*/*

Startup of expanded glyoxal capacity in Ludwigshafen, Germany

## Edgar Filing: BASF AKTIENGESELLSCHAFT - Form 20-F

/\*/

Startup of expanded capacity for PolyTHF® (polytetrahydrofuran) in Ludwigshafen, Germany

### North and South America

/\*/

Construction of a C<sub>4</sub>-complex downstream of the new steam cracker in Port Arthur, Texas

/\*/

Startup of the new neopentylglycol plant in Freeport, Texas

### Asia

/\*/

A plant for producing butanediol at the new Verbund site in Kuantan, Malaysia

In the **Plastics segment**, capital expenditures and acquisitions in 2002 totaled €636 million. This corresponds to a decline of 28.6% compared with the previous year. The largest projects were as follows:

### Europe

/\*/

Startup of the replacement plants for ethyl benzene/styrene in Ludwigshafen, Germany

/\*/

Completion of a capacity expansion for Ultrason® production in Ludwigshafen, Germany

/\*/

Startup of expanded Cellasto® production in Lemförde, Germany

/\*/

Startup of expanded MDI (diphenylmethane diisocyanate) production capacity in Antwerp, Belgium

/\*/

Plant for Basotect® in Schwarzheide, Germany

### North and South America

/\*/

A Styrolux® plant in Altamira, Mexico

/\*/

Startup of the replacement plant for TDI (toluene diisocyanate) in Geismar, Louisiana

### Asia

/\*/

A TDI (toluene diisocyanate) plant in Yeosu, Korea

/\*/

Startup of the new plant for propylene oxide and styrene monomer in Singapore at the ELLBA Eastern (Pte.) Ltd. joint venture with Shell

In the **Performance Products segment**, capital expenditures and acquisitions in 2002 declined by 31.1% to €288 million. In 2001 they stood at €418 million. Major investment projects initiated or completed were as follows:

### Europe

/\*/

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Startup of the new plant for the manufacture of superabsorbents in Antwerp, Belgium

/\*/

Startup of the new plant for paper coating binders in Hamina, Finland

/\*/

A plant for methanesulfonic acid in Ludwigshafen, Germany

/\*/

Capacity expansion for triphenylphosphine in Ludwigshafen, Germany

In the **Agricultural Products & Nutrition segment**, capital expenditure and acquisitions in 2002 totaled €245 million. This was €104 million less than in the previous year.

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The Agricultural Products division invested a total of €88 million in 2002. Investment was related to optimization projects at various sites. The previously announced acquisition of a package of crop protection products from Bayer CropScience AG is expected to be completed in spring 2003.

The Fine Chemicals division spent €157 million on capital expenditures and acquisitions in 2002. The division's capital expenditures in 2001 totaled €199 million, which included the acquisition of Takeda's vitamins business. The most important investments in 2002 included expansion of the plant for vitamin E and precursors in Ludwigshafen, Germany, and construction of a new vitamin B<sub>2</sub> plant in Gunsan, Korea.

In the **Oil & Gas segment**, we invested €920 million compared with €229 million in the previous year. The majority of this was in exploration and production. In addition, Wintershall Nederland B.V. acquired Clyde Netherlands B.V., which has substantial oil and gas activities in the Dutch North Sea and further operations on the Dutch mainland, from ConocoPhillips, Houston, Texas.

### Financing activities

In 2002, cash used in financing activities was €265 million. We bought back 13.1 million shares for €500 million at an average price of €38.20 per share.

We paid out a total of €843 million in dividends and profit transfers in 2002. Dividend payments to the shareholders of BASF Aktiengesellschaft for fiscal year 2001 totaled €758 million, or €1.30 per share. €85 million in profits was paid or transferred to shareholders in fully or proportionally consolidated companies.

Financial indebtedness increased due in particular to the issuance of commercial paper by BASF Aktiengesellschaft using the cost-effective CP Markets Internet platform. Financial indebtedness is discussed in detail in Note 25 to the Consolidated Financial Statements of Item 18.

### Liquid funds

Cash and cash equivalents decreased by €129 million in 2002. Marketable securities declined to €132 million due to the sales made in the past year. Total liquid funds at the end of 2002 amounted to €363 million. Liquid funds as a percentage of total assets was 1.0% and was considerably lower than 2.0% in 2001.

## EXCHANGE RATE EXPOSURE AND RISK MANAGEMENT

BASF conducts its business in many currencies other than the euro. About 58% of BASF's 2003 sales, 55% of 2002 and 2001 sales were to customers in Europe, about 42% of 2003 sales and 45% of 2002 and 2001 sales were to customers outside Europe. Moreover, about 39% of BASF's 2003 sales, 41% of 2002 sales, and about 40% of BASF's 2001 sales were attributable to BASF operations conducted outside Europe.

As a result of BASF's foreign currency exposure, exchange rate fluctuations have a significant impact in the form of both translation risk and transaction risk on BASF's Consolidated Financial Statements. Translation risk is the risk that BASF's Consolidated Financial Statements

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expressed in euros for a particular period or as of a certain date may be affected by changes in the prevailing rates of the various currencies of the reporting subsidiaries against the euro. Transaction risk arises when the currency structure of BASF's costs and liabilities deviates to some extent from the currency structure of BASF's sales proceeds and assets.

The effect of exchange rate fluctuations on BASF's income from operations for 2003, 2002 and 2001 is shown in BASF's Consolidated Financial Statements under the line items "Other operating income" and "Other operating expense." See Notes 6 and 7 to the Consolidated Financial Statements

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for further information. The net effect of exchange rate fluctuations on BASF's income from operations amounted to a net loss of €31.5 million in 2003, a net loss of €132.5 million in 2002 and a net loss of €62.6 million in 2001. The variance between 2003 and 2002 was primarily due to the weakening of the U.S. dollar and of currencies dependent on the U.S. dollar in Asia, South America and, in particular, in the NAFTA region. The variance between 2002 and 2001 was primarily due to the weakening of the U.S. dollar and the devaluation of the Brazilian real and the Argentine peso.

In 2003, foreign currency translation adjustments had a negative effect of €642.2 million on stockholders' equity primarily due to the weakening of the U.S. dollar and of currencies dependent on the U.S. dollar in Asia, South America and, in particular, in the NAFTA region. In 2002, foreign currency translation adjustments had a negative effect of €862.0 million on stockholders' equity due to the weakening of the U.S. dollar and the devaluation of the Brazilian real. In 2001, the negative effect of €129.5 million on stockholders' equity was primarily due to the devaluation of the Argentine peso and the deconsolidation of the pharmaceuticals business.

Exchange rate risk management is centralized at BASF Aktiengesellschaft. BASF bases its foreign exchange risk management generally on exposures derived from receivables and payables on the balance sheet. Future sales revenues or expenses are only considered if such transactions are based on fixed contracts. Receivables and payables in a particular currency are netted. Normally at BASF, receivables generated from export sales exceed payables from raw material purchases resulting in substantial net exposures in U.S. dollar and relatively small exposures in the British pound and the Japanese yen.

To mitigate the impact of currency exchange rate fluctuations, the exposure to currency risk is assessed on a daily basis. BASF applies a selective hedging strategy a varying portion of the exposure in each currency is hedged, based on forecasts of the exchange rate development versus the euro.

In 2003, BASF's hedging transactions have been aimed primarily at minimizing exchange rate risks against the U.S. dollar, the Canadian dollar, the Australian dollar, the British pound, the Mexican peso, the Japanese yen, the Singapore dollar and the Brazilian real. See "Item 11. Quantitative and Qualitative Disclosure About Market Risk" and Note 29 to the Consolidated Financial Statements for further information.

### RESEARCH AND DEVELOPMENT

BASF's research and development activities aim to develop new and improved products, find new applications for existing products and develop more cost-efficient and environmentally sound manufacturing processes.

BASF spent €1.10 billion on research and development activities in 2003 compared with €1.14 billion in 2002 and €1.17 billion in 2001, not including the expenses of the discontinued pharmaceuticals business. Of the total R&D expenditures the Chemical segment spent 10%, Plastics 13%, Performance Products 22%, Agricultural Products 22%, Fine Chemicals 6%, Oil & Gas 11%, and Others 17%. Excluding the expenditures for Oil and Gas exploration the company spent 58% of the research budget on developing new products and improving existing products. Developing new and improved processes accounted for about 31% of spending, while 11% was spent on discovering new research methods and technologies. Excluding Oil and Gas, BASF spent 88% of its annual research budget in Germany, 5% in other European countries and 7% in North America.

BASF employs about 7,500 people worldwide in various research and development activities. About 5,500 employees are involved in research and development work in Ludwigshafen, making the facility one of the world's largest research centers in the chemical industry.

The center in Ludwigshafen and a number of decentralized research sites worldwide, form an efficient network that makes an important contribution to BASF's Verbund approach to integration.

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BASF has three main research and development platforms in Ludwigshafen that support the company's global activities. In addition, BASF conducts research activities through about 1,100 cooperative agreements with universities, research institutes and industrial partners in many countries worldwide and through various research joint ventures. Product and market-related development worldwide is conducted in close cooperation with customers and joint-venture partners.

The biggest share of BASF's research spending is devoted to the area of agriculture and nutrition. The Limburgerhof Agricultural Center in Germany and the research center in Research Triangle Park (RTP) in Raleigh, North Carolina, develop agricultural products, using our network of experimental and research stations around the world. BASF conducts its own plant biotechnology research and is also involved in various biotechnology research joint ventures. The activities are concentrated in BASF Plant Science GmbH, which currently employs about 400 people worldwide.

In April 2001 BASF Future Business GmbH, a 100% subsidiary of BASF Aktiengesellschaft, was founded with the goal of more quickly developing specific new business areas together with partners both inside and outside the BASF Group. Additionally BASF Venture Capital GmbH, a wholly-owned subsidiary of BASF Future Business GmbH, was established in April 2001. By the year 2005 BASF Venture Capital GmbH intends to invest a total of €100 million in innovative businesses worldwide. Both companies will focus on high-growth markets and future challenges especially in the field of material sciences.

BASF puts great emphasis on obtaining patents, trademarks, copyrights and designs to protect its investment in research and development and the developed intellectual property. The company seeks the optimum protection for significant product and process developments.

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#### Item 6. Directors, Senior Management and Employees

In accordance with the German Stock Corporation Act (*Aktiengesetz*), BASF Aktiengesellschaft has a Board of Executive Directors (*Vorstand*) and a Supervisory Board (*Aufsichtsrat*). The two Boards are separate, and no individual is simultaneously a member of both Boards.

The Board of Executive Directors is responsible for managing the business of BASF Aktiengesellschaft in accordance with the German Stock Corporation Act and BASF Aktiengesellschaft's Articles of Association. The Board of Executive Directors also represents the company in its dealings with third parties and in court.

The principal function of the Supervisory Board is to appoint and supervise the Board of Executive Directors. The Supervisory Board may not make management decisions, but BASF's Articles of Association or the Supervisory Board itself may require the prior consent of the Supervisory Board for certain types of transactions.

Members of both the Board of Executive Directors and the Supervisory Board owe a duty of loyalty and care to BASF Aktiengesellschaft. In exercising these duties, the applicable standard of care is that of a diligent and prudent business person. Members of both Boards must take into account a broad range of considerations when making decisions, foremost the interests of BASF Aktiengesellschaft, including its shareholders, employees and creditors and, to a certain extent, the interests of society. The members of the Board of Executive Directors and the Supervisory Board are personally liable to BASF Aktiengesellschaft for breaches of their duties of loyalty and care.

#### BOARD OF EXECUTIVE DIRECTORS

The number of members of the Board of Executive Directors is determined by the Supervisory Board, subject to a minimum of two members. As of December 31, 2003, BASF Aktiengesellschaft's Board of Executive Directors had eight members. On May 6, 2003 Dr. Jürgen F. Strube and Max Dietrich Kley retired as members of the Board of Executive Directors.

Pursuant to the Memorandum and Articles of Association of BASF Aktiengesellschaft, any two members of the Board of Executive Directors or one member and the holder of a special power of attorney (*Prokura*) may bind the company.

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The Board of Executive Directors must report regularly to the Supervisory Board on the current business of BASF Aktiengesellschaft, on the company's business policies and other fundamental matters regarding the future conduct of the company's business, on the company's profitability, particularly on its return on equity, on the risk exposure of the company and the risk management, as well as on any exceptional matters that may arise from time to time. The Supervisory Board is also entitled to request special reports at any time.

The Supervisory Board appoints members to the Board of Executive Directors for a maximum term of five years. Members of the Board of Executive Directors may be re-appointed or have their terms extended for one or more terms of no more than five years.

Under certain circumstances, such as a serious breach of duty or a bona fide vote of no confidence by a majority of votes at a shareholders' meeting, a member of the Board of Executive Directors may be removed by the Supervisory Board prior to the expiration of her or his term. A member of the Board of Executive Directors may not deal with or vote on matters relating to proposals, arrangements or contracts between that member and the company.

The Articles of Association of BASF Aktiengesellschaft require decisions of the Board of Executive Directors to be made by a simple majority unless the law requires a larger majority. In case of a tie, the vote of the chairman of the Board is decisive.

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The following table lists the current members of the Board of Executive Directors, their ages as of December 31, 2003, the years in which they were first appointed to the Board and in which their running term ends and their outside directorships:

### **Dr. Jürgen Hambrecht**

Age: 57

First year appointed: 1997

Year term expires: 2007

#### **Professional career**

1976      Joined BASF Aktiengesellschaft's Polymers Laboratory, responsible for polystyrene, styrenic copolymers and polyphenylene ethers

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1985      Head of Research and Purchasing at BASF Lacke und Farben AG, Münster, Germany (now BASF Coatings AG)

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1990      President, Engineering Plastics division

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1995      President, East Asia division based in Hong Kong

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1997      Appointed to the Board of Executive Directors

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2002      Appointed Chairman of the Board of Executive Directors effective May 6, 2003

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#### *Position & Main Areas of Responsibility*

Chairman of the Board of Executive Directors    Legal, Taxes & Insurance, Planning & Controlling, Communications, Investor Relations, Global HR-Executive Management and Development.

#### *Memberships on Supervisory Boards*

Bilfinger + Berger Bauaktiengesellschaft, Frankfurt, Germany

### **Eggert Voscherau**

Age: 60

First year appointed: 1996

Year term expires: 2006

**Professional  
career**

1969	Joined BASF
1981	Management position BASF Brasileira S.A., São Paulo, Brazil
1984	Managing Director, BASF Brasileira S.A., São Paulo, Brazil
1987	President, Crop Protection division, Ludwigshafen, Germany
1991	President, North American Consumer Products division (Pharmaceuticals, Crop Protection and Fine Chemicals); in addition, from 1994 president of Latin America North division
1996	Appointed to the Board of Executive Directors
1997	Chairman and Chief Executive Officer of BASF Corporation
2002	Appointed Vice Chairman of the Board of Executive Directors, effective May 6, 2003

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*Position & Main Areas of Responsibility*

Vice Chairman and Industrial Relations Director, Human Resources, Environment, Safety & Energy, Occupational Medicine & Health Protection, Ludwigshafen Verbund Site, Antwerp Verbund Site, Europe region, BASF Schwarzheide GmbH.

*Memberships on Supervisory Boards*

Dresdner Bank Lateinamerika AG, Hamburg, Germany

Haftpflichtverband der Deutschen Industrie V.a.G., Hanover, Germany (German Industry Liability Association)

Basell N.V., Hoofddorp, the Netherlands

**Dr. Kurt Bock**

Age: 45

First year appointed: 2003

Year term expires: 2007

**Professional  
career**

1985	Joined BASF Aktiengesellschaft in the Finance Department
1987	Executive Assistant to BASF's Chief Financial Officer
1991	Head of Technology, Director Planning and Controlling, Engineering Plastics division, BASF Aktiengesellschaft
1992	Senior Vice President, Finance, Robert Bosch GmbH, Stuttgart, Germany
1994	Senior Vice President, Finance and Accounting, Robert Bosch GmbH
1996	Managing Director, Robert Bosch Limitada, Campinas, Brazil



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1998	Chief Financial Officer, BASF Corporation, Mount Olive, USA
2000	President Logistics and Information Services, BASF Aktiengesellschaft Ludwigshafen
2002	Appointed to the Board of Executive Directors effective January 1, 2003

### *Position & Main Areas of Responsibility*

Executive Director and Chief Financial Officer Finance, Logistics, Purchasing, Information Services, Internal Audit, South America region.

### *Memberships on Supervisory Boards*

Basell N.V., Hoofddorp, the Netherlands

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### **Dr. John Feldmann**

Age: 54 First year appointed: 2000 Year term expires: 2004

#### **Professional career**

1988	Joined BASF Aktiengesellschaft in product management for detergent additives
1990	Group Leader, Strategic Planning
1993	Vice President, Strategic Planning department
1996	President, South East Asia/Australia regional division, headquartered in Singapore
1999	Head of cross-divisional negotiating teams, Ludwigshafen, Germany
2000	Appointed to the Board of Executive Directors

### *Position & Main Areas of Responsibility*

Executive Director Styrenics, Performance Polymers, Polyurethanes, Oil & Gas, Polymer Research.

### *Memberships on Supervisory Boards*

Basell N.V., Hoofddorp, the Netherlands

### **Dr. Andreas Kreimeyer**

Age: 48 First year appointed: 2003 Year term expires: 2007

#### **Professional career**

1986	Joined BASF Aktiengesellschaft's Main Laboratory to work in biotechnical research
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1989	Head of biological pilot plant, Main Laboratory
1991	Group Leader Fermentations, Main Laboratory
1993	Assistant to the Chairman of the Board of Executive Directors
1995	Vice President, Regional Development at BASF South East Asia Pte. Singapore
1998	President, Fertilizers division
2000	President, Dispersions division (in 2001 renamed Functional Polymers division)
2003	Appointed to the Board of Executive Directors

### *Position & Main Areas of Responsibility*

Executive Director Performance Chemicals, Functional Polymers, Asia.

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### **Klaus Peter Löbbe**

Age: 57

First year appointed: 2002

Year term expires: 2006

#### **Professional career**

1966	Joined BASF Aktiengesellschaft and initially worked as trainee and product manager
1975	Delegated to BASF Japan Ltd.
1987	Head of Diols Marketing, Intermediates division
1990	Group Vice President, Marketing, Intermediates division
1993	President, Industrial Chemicals division
1996	President, Coatings division and Chairman of the Board of Executive Directors of BASF Coatings AG
2002	Appointed to the Board of Executive Directors and Chairman and Chief Executive Officer of BASF Corporation based in Mount Olive, New Jersey

### *Position & Main Areas of Responsibility*

Executive Director Coatings, NAFTA.

### **Dr. Stefan Marcinowski**

Age: 50

First year appointed: 1997

Year term expires: 2007

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### Professional career

1979 Joined BASF Aktiengesellschaft's Main Laboratory to work in biotechnological research

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1986 Assistant to the Chairman of the Board of Executive Directors

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1988 Senior Vice President, Public Relations department

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1992 Vice-Presidente Executivo, BASF S.A., São Paulo, Brazil

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1995 President, Plastic Foams & Reaction Resins division

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1997 Appointed to the Board of Executive Directors

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### *Position & Main Areas of Responsibility*

Executive Director and Research Executive Director Inorganics, Petrochemicals, Intermediates, Chemical Research & Engineering, Corporate Engineering, University Relations & Research Planning.

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### **Peter Oakley**

Age: 50

First year appointed: 1998

Year term expires: 2008

### Professional career

1977 Joined the Economics Department of BASF Aktiengesellschaft

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1980 Financial Controller within the Southeast Asia Regional division

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1984 Head of Finance, Administration and Logistics at BASF China Ltd., Hong Kong

---

1991 Group Vice President of the Crop Protection business in North America, based in Raleigh, North Carolina

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1995 President, Crop Protection division

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1998 Appointed to the Board of Executive Directors

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### *Position & Main Areas of Responsibility*

Executive Director Agricultural Products, Fine Chemicals, Specialty Chemicals Research, Plant Biotechnology.

## SUPERVISORY BOARD

The Supervisory Board consists of 20 members, 10 of whom are elected by shareholders at BASF Aktiengesellschaft's Annual Meeting and 10 of whom are elected by employees as required by the German Codetermination Act (*Mitbestimmungsgesetz*). Any Supervisory Board member elected by the shareholders at BASF Aktiengesellschaft's Annual Meeting may be removed by a majority of the votes cast at a subsequent meeting of shareholders. Any Board member elected by the employees may be removed by three-quarters of the votes cast by the class of employees that the member represents.

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All current shareholder representatives on the Supervisory Board were elected at the Annual Shareholders Meeting on May 6, 2003. The members of the Supervisory Board representing the Company's employees were elected on February 25, 2003 except for Ralf Sikorski who was appointed by the district court of Ludwigshafen on August 7, 2003 as a replacement for Gerhard Zibell.

The Supervisory Board appoints a chairman and a deputy chairman from among its members. The chairman of the Supervisory Board must be elected by a majority of two-thirds of the Board members. If a majority is not reached in the first vote, the members of the Supervisory Board, who were elected by the shareholders, elect the chairman.

At least half of the total required number of members of the Supervisory Board must be present or participate in decision-making to constitute a quorum. Unless otherwise provided for by law or BASF Aktiengesellschaft's Articles of Association, resolutions are passed by a simple majority of the votes cast. In the event of a tie, a second vote is held, and the chairman may cast a deciding vote.

Supervisory Board members are elected to terms of approximately five years. The terms expire at the end of the Annual Meeting after the fourth fiscal year following the year in which the members were elected. The current terms of all Supervisory Board members expires at the end of the Annual Meeting in 2008. Compensation for Board members is determined by BASF Aktiengesellschaft's Articles of Association.

To our great sadness, Helmut Werner died on February 6, 2004. On March 2, 2004, the district court of Ludwigshafen appointed Hans Dieter Pörsch, member of the board of directors of Volkswagen AG, to replace Helmut Werner on the Supervisory Board.

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The following table lists the current members of BASF Aktiengesellschaft's Supervisory Board, their respective ages as of December 31, 2003, their principal occupation and the year in which they were first elected or appointed to the Supervisory Board:

Name	Age	Principal Occupation	Year First Elected/Appointed
DR. JÜRGEN F. STRUBE Chairman	64	Retired Chairman of the Board of Executive Directors of BASF Aktiengesellschaft	2003
ROBERT OSWALD <sup>(1)</sup> Deputy Chairman	48	Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft Chairman of the works council of BASF Group	2000
RALF-GERD BASTIAN <sup>(1)</sup>	46	Member of the workers council of the Ludwigshafen site of BASF Aktiengesellschaft	2003
WOLFGANG DANIEL <sup>(1)</sup>	46	Deputy Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft	1996
DR. FRANCOIS DIEDERICH	51	Professor at Zurich Technical University	1998
MICHAEL DIEKMANN	48	Chairman of the Board of Executive Directors of Allianz AG	2003
DR. TESSEN VON HEYDEBRECK	58	Member of the Board of Executive Directors of Deutsche Bank AG	1998
ARTHUR L. KELLY	66	Chief Executive Officer of KEL Enterprises L.P., Chicago, Illinois	2000
ROLF KLEFFMANN <sup>(1)</sup>	54	Chairman of the works council of Wintershall AG's Barnstorf oil plant	1998

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MAX DIETRICH KLEY	63	Retired Deputy Chairman of the Board of Executive Directors of BASF Aktiengesellschaft	2003
DR. RENATE KÖCHER	51	Managing Director of the Institut für Demoskopie Allensbach, Gesellschaft zum Studium der öffentlichen Meinung mbH 200	2003
EVA KRAUT <sup>(1)</sup>	47	Chairwoman of the works council of BASF IT Services GmbH	2002
ULRICH KÜPPERS <sup>(1)</sup>	48	Regional Manager of the Mining, Chemical and Energy Industries Union ( <i>Industriegewerkschaft, Bergbau, Chemie, Energie</i> ) Rhineland Palatinate/Saar region	1994
KONRAD MANTEUFFEL <sup>(1)</sup>	51	Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft	1999
DR. KARLHEINZ MESSMER <sup>(1)</sup>	59	Plant Manager at the Ludwigshafen site of BASF Aktiengesellschaft	1993
DR. HERMANN SCHOLL	68	Chairman of Supervisory Board of Robert Bosch GmbH	1998
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RALF SIKORSKI <sup>(1)</sup>	42	Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union ( <i>Industriegewerkschaft Bergbau, Chemie, Energie</i> )	2003
ROBERT STUDER	65	Retired Chairman of Union Bank of Switzerland	1993
DR. JÜRGEN WALTER <sup>(1)</sup>	58	Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union ( <i>Industriegewerkschaft Bergbau, Chemie, Energie</i> )	1988
HELMUT WERNER (Passed away on February 6, 2004)	67	Retired Chairman of the Board of Executive Directors of Mercedes-Benz AG	1993

(1) Employee representative.

The Supervisory Board has established three committees: the committee for the personal affairs of the members of the Board of Directors (*Personalausschuss*), the Audit Committee (*Prüfungsausschuss*) and the Mediation Committee.

The "Personalausschuss" performs the tasks of a nominating and compensation committee. The committee determines the terms and conditions of employment of the members of the Board of Executive Directors including the level and structure of their remuneration. In addition, the committee makes proposals regarding the appointment of members of the Board of Executive Directors. As of December 31, 2003 the members of this committee are Dr. Jürgen F. Strube, Robert Oswald, Dr. Tessen von Heydebreck and Dr. Jürgen Walter.

The Audit Committee was established by a resolution of the Supervisory Board in July 2003. The Audit Committee oversees the Company's accounting processes. Based on the independent auditor's report it reviews the Company's annual financial statements and reports to

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the Supervisory Board for an informed decision of the Supervisory Board whether or not to approve the annual financial statements. The Audit Committee is responsible for dealing with the independent auditors of the Company. In particular, it awards the audit contract to the independent auditor elected at the Annual Shareholders' Meeting, determines the focal points of the audit, as well as the auditors compensation, and approves non-audit services rendered by the independent auditor. As of December 31, 2003 the members of the Audit Committee were Max Dietrich Kley, Dr. Karlheinz Messmer, Dr. Jürgen Walter and Helmut Werner, who passed away on February 6, 2004. All members of the Audit Committee fulfill the independence requirements of the Sarbanes-Oxley Act of 2002 as implemented by the SEC's regulations.

The Mediation Committee, comprising two members of the Supervisory Board elected by the Shareholders' Meeting and two members of the Supervisory Board elected by the employees. In the event the Supervisory Board cannot reach the two-third majority required to appoint a member of the Board of Executive Directors, the Mediation Committee submits a proposal for the appointment to the Supervisory Board.

### **Compensation of Directors and Officers**

The aggregate amount of compensation BASF Aktiengesellschaft and its subsidiaries paid during the year ended December 31, 2003, to all members of the Board of Executive Directors and the Supervisory Board, as a group, was €14.1 million. Of this amount, members of the Board of Executive Directors received €11.9 million and members of the Supervisory Board received €2.2 million. The

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amount of compensation of the Board of Executive Directors includes accrued performance-related bonuses for 2003 of €7.3 million. Additionally, the pro rata value of stock options granted to the members of the Board of Executive Directors in 2003 amounted to €3.9 million.

The total compensation BASF Aktiengesellschaft and its subsidiaries paid during the year ended December 31, 2003, to former members of the Board of Executive Directors and their beneficiaries was €6.7 million. As of December 31, provision of pensions and similar benefits to former members of the Board of Executive Directors and their beneficiaries totaled €58.1 million. No loans were extended to the members of the Supervisory Board or the Board of Executive Directors.

Pursuant to its Articles of Association, BASF Aktiengesellschaft grants each Supervisory Board member a fixed annual payment of €25,000 and additional compensation based on dividends paid to BASF Aktiengesellschaft shareholders. This latter amount is €3,500 for each €0.05 by which the dividend paid to the shareholders by BASF Aktiengesellschaft exceeds €0.30. For the year ended December 31, 2003 the additional compensation based on the dividends amount is €77,000. The chairman of the Supervisory Board receives a payment of twice and a deputy chairman receives a payment of 1.5 times these amounts. BASF Aktiengesellschaft further grants the members of the Supervisory Board a fee of €500 for attending a meeting of the Supervisory Board or one of its committees to which they belong and reimburses each Supervisory Board member for applicable out-of-pocket expenses and value added tax. Each member of the Audit Committee further receives a fixed annual payment of €25,000 for such membership. The chairman of the Audit Committee receives twice and a deputy chairman receives 1.5 times this further amount.

Pursuant to BASF's stock option program, each member of the Board of Executive Directors is entitled to receive options on BASF Shares corresponding to 10 to 30% of the Board member's individual performance-related bonus. See "Item 6. Directors, Senior Management and Employees - BASF Stock Option Program (BOP)" for further details on the number of options granted and on the terms and conditions of the options' rights.

Directors' service contracts with BASF or with any of its subsidiaries do not include benefits which are provided upon termination of employment.

### **Share Ownership by Members of the Board of Executive Directors and the Supervisory Board**

No member of the Board of Executive Directors or the Supervisory Board beneficially owns 1% or more of the outstanding BASF Shares.

### EMPLOYEES

As of December 31, 2003, BASF employed a workforce of 87,159 worldwide, which represents a decline of approximately 2.5% from the end of 2002, largely related to the implementation of our restructuring program. About 56.2% of the workforce is based in Germany. Expenditures for salaries and wages totaled €4,654 million in 2003, down from €4,751 million in 2002. For further information, see Note 12 to the Consolidated Financial Statements included in Item 18.

The following table details BASF's workforce on a regional basis as of December 31, 2003, 2002 and 2001.

	2003	2002	2001
Europe	60,541	62,103	63,339
<i>Thereof Germany</i>	48,997	50,320	50,939
North America	12,494	13,331	14,531
South America	4,976	5,097	5,749
Asia, Pacific Area, Africa	9,148	8,858	8,926
<b>Total</b>	<b>87,159</b>	<b>89,389</b>	<b>92,545</b>

As of December 31, 2003, BASF Aktiengesellschaft employed 37,054 people mainly at its headquarters in Ludwigshafen, Germany, compared with 38,361 people as of December 31, 2002.

Many of BASF's employees who are not considered management in Germany are members of labor unions. The main part of these union members belong to the Mining, Chemical and Energy Industries Union (*Industriegewerkschaft Bergbau, Chemie, Energie*). None of BASF's sites in Germany is operated on a "closed shop" basis, meaning that employees are not required to join a union. In Germany, collective bargaining agreements for employees below management level are generally negotiated between the association of employers within a particular industry and the respective unions.

In addition, under German law, employees elect a works council (*Betriebsrat*) that participates in determining company site policy, especially with regard to certain voluntary compensation matters and benefits.

The most recent collective bargaining agreement for employees in Germany represented by labor unions, which covers most of BASF's employees in Germany, was signed in May 2003 with a term of 13 months.

BASF considers its labor relations to be positive and anticipates reaching future agreements with its labor unions on terms satisfactory to all parties. There can be no assurances, however, that new agreements will be reached without a work stoppage or strike or on terms satisfactory to BASF. A prolonged work stoppage or strike at any of BASF's major manufacturing sites could have a material adverse effect on the company's results of operations. BASF has not experienced any material strikes during the last 10 years.

#### **Agreements at the Ludwigshafen site and restructuring at BASF Corporation**

In September 2003, BASF management and employee representatives of BASF's Ludwigshafen site reached an agreement calling for continued workforce reductions that will be achieved through socially responsible measures. Similar agreements have been in place since 1997. A number of measures – voluntary severance offers to employees whose jobs have become redundant, voluntary retirement incentives such as part-time contracts for those approaching retirement (2,020 contracts signed within the year 2003), increased internal job-market flexibility – will help reduce the workforce without enforced redundancies while at the same time allowing younger employees to be hired. In 2003, provisions of €146 million were made to cover severance payments.

We are applying a two-phase restructuring program to our North American business with the aim of reducing annual costs by at least \$250 million by 2006. Phase one of the program focuses on improving the efficiency and effectiveness of our service and functional units. Functions such as Information Technology, Communications, Human Resources, Finance, Legal and Taxes have already been restructured; the optimization of the remaining service units is proceeding according to plan and is scheduled for completion in 2004. The first phase of restructuring involves a workforce reduction of

approximately 1,000 positions. In phase two of the program, we will focus on further optimizing our business and site portfolio.

#### **BASF Stock Option Program (BOP)**

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The BASF Stock Option Program (BOP) is offered to the Board of Executive Directors and currently approximately 1,000 of BASF's senior executives. Approximately 80% of the eligible senior executives opted to participate in the program. The program became effective on April 30, 1999, after BASF's shareholders approved a conditional capital increase for the program at the Annual Meeting on April 29, 1999. At the Annual Meeting on April 26, 2001 the shareholders approved a new conditional capital increase to incorporate certain changes to the BOP effective as of 2001.

An executive participating in the BOP receives four option rights for each BASF Share held by such executive for the purpose of taking part in the BOP (the "BOP Shares"). The number of BOP Shares eligible for the BOP is determined by an amount representing 10 to 30% of the executive's annual variable compensation and by the relevant "market price" of BASF Shares, which is the volume weighted average of the prices quoted in the Xetra® electronic trading system of Deutsche Börse AG on the day after the Annual Meeting (the "BOP Share Price"). In 2003, the BOP Share Price was €38.94 (2002: €46.70, 2001: €47.87). Annual variable compensation for a member of the Board of Executive Directors is determined by the Supervisory Board pursuant to the terms of the executive director's employment agreement with BASF. Annual variable compensation for any other senior executive is determined by such senior executive's superiors pursuant to rules established by the Board of Executive Directors, and is based on BASF's performance and individual's target agreement.

Option rights granted in 1999 and 2000 may not be exercised prior to three years after the grant date. They expire 15 days after the sixth Annual Meeting of BASF Aktiengesellschaft following the grant date. Option rights granted since 2001 may not be exercised prior to July 1 two years after the granting. Option rights granted in 2001 expire 15 days after the eighth Annual Meeting of BASF Aktiengesellschaft following the grant date. Option rights granted in 2003 (2002) expire on June 30, 2011 (2010).

Each option right entitles the holder to two subscription rights. The first subscription right permits participants to a cash settlement, based on the difference between the BASF Share price on the exercise date and the BOP Share price, provided that the market price of BASF Shares on the exercise date is more than 30% higher than the BOP Share Price. The second subscription right permits participants to a cash settlement, provided that the BASF Share outperforms the benchmark index. For options granted in 1999 and 2000 the benchmark index is the DOW Jones EURO STOXX<sup>SM</sup> Total Return Index and for options granted since 2001 the benchmark index is the Dow Jones Global Chemicals Total Return Index. The cash settlement amount is equal to the relevant BOP Share Price multiplied by twice the percentage by which BASF Shares have outperformed the benchmark index since the date of issue of the relevant right.

An option right may be exercised if the exercise criteria for one or both of the underlying subscription rights have been satisfied. If an option right is exercised based on the exercisability of only one subscription right, then the other unexercisable subscription right terminates. The monetary benefit resulting from the exercise of option rights being granted for one BOP Share may not exceed 10 times the BOP Share Price.

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For details about the number of stock options granted see the table below:

	2003	2002	2001
Stock options outstanding as of January 1	3,252,444	3,092,732	2,057,003
Stock options granted	1,413,816	837,280	1,133,204
<i>    Thereof to members of the Board of Executive Directors</i>	<i>116,612</i>	<i>107,980</i>	<i>137,060</i>
Option rights lapsed <sup>(1)</sup>	78,480	67,700	97,475
Option rights exercised	753,821	609,868	
Stock options outstanding as of December 31	3,833,959	3,252,444	3,092,732



- (1) Option rights lapse if the option holders no longer work for BASF (for reasons other than retirement) or have sold part of their BOP Shares.

### Employee Stock Purchase Program

In 1999, BASF Aktiengesellschaft and several other German subsidiaries of BASF launched a stock purchase program for their employees not being entitled to participate in BOP. At present, various European and Mexican subsidiaries participate in the program. The program allows an employee to purchase BASF Shares at market prices by using all or part of the annual variable salary that the employee receives from the employing company. For every block of 10 BASF Shares so purchased, the employee will be granted one additional BASF Share after one, three, five, seven and 10 years without further payment, provided that the BASF Shares purchased under the program are still held by the employee.

In 2002 most companies improved the employee share purchase program. The first block of 10 shares purchased in any year now attracts one free incentive share in each of the following 10 years. In addition, all employees with permanent contracts were offered five free shares (which must be held for ten years). As a result, 82% of the eligible employees currently hold shares in the company.

	2003	2002	2001
Number of BASF Shares held under the program as of January 1	1,624,460	1,130,680	745,840
Number of BASF Shares purchased under the program	584,490	535,500	434,800
Maximum amount of free shares granted	391,065	380,775	217,400
Shares expired	117,550	41,720	49,960
Number of BASF Shares held under the program as of December 31	2,091,400	1,624,460	1,130,680

In mid-2000, BASF Corporation implemented an Employee Stock Purchase Program (ESPP) for employees that are not eligible to participate in the BASF Stock Option Program. The program allows an employee to purchase units in a common fund, which is invested primarily in BASF American Depository Receipts that are traded on the New York Stock Exchange. Units in the ESPP fund are purchased each pay day through voluntary payroll deductions. For every block of 10 BASF Share equivalents so purchased the employee is granted a proportionate number of Company Discount units, which vest on December 1 of the second calendar year following the purchase year. In addition, BASF grants Company Bonus units on December 1 of the second, fifth, and eighth years following the purchase year, provided that the ESPP units purchased under the program are still held by the employee.

### Item 7. Major Shareholders and Related Party Transactions

#### MAJOR SHAREHOLDERS

The capital stock of BASF Aktiengesellschaft consists of ordinary shares with no par value (*Stückaktien*) that are issued only in bearer form ("BASF Shares"). As of December 31, 2003, BASF Aktiengesellschaft had an aggregate of 558,861,410 ordinary shares outstanding. Thereof 2,218,000 are repurchased shares intended to be cancelled. The outstanding number of shares as disclosed in the financial statements is 556,643,410. Because the holders of BASF Shares are not registered with BASF Aktiengesellschaft or any other organization, BASF Aktiengesellschaft generally cannot determine who its shareholders are or how many shares a particular shareholder owns. Notwithstanding the foregoing, based on its most recent survey, BASF Aktiengesellschaft believes that, as of January 09, 2004, approximately 13.8% of the BASF Shares were held by shareholders in the United States.

Allianz Aktiengesellschaft has notified BASF that on August 12, 2003 the share of the BASF Shares directly or indirectly held by Allianz Aktiengesellschaft has fallen below the limit of 5% and at December 31, 2003 amounted to 2.7% of the BASF Shares.

To its knowledge, BASF Aktiengesellschaft is not owned or controlled directly or indirectly by any corporation, foreign government or any person, jointly or severally.

## RELATED PARTY TRANSACTIONS

The existing loans between BASF and affiliated and associated companies and participating interests as of December 31, 2003 are shown in Note 15 to the Consolidated Financial Statements included in Item 18. There are no loans outstanding to members of the Supervisory Board or the Board of Executive Directors.

Certain members of the Supervisory Board and the Board of Executive Directors are members of supervisory or executive boards of financial institutions with which BASF engages in certain transactions in the ordinary course of business. These transactions are executed at prevailing market rates and terms at the time of the transaction.

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## Item 8. Financial Information

## CONSOLIDATED FINANCIAL STATEMENTS

See "Item 18. Financial Statements."

## EXPORT SALES

BASF manufactures products mainly in Europe (primarily Germany), North America, and to an increasing extent in Asia. BASF's products are then sold in markets worldwide. Therefore, a large share of BASF's products are manufactured in Germany and exported for sale in Asia and to a lesser extent in South America. The following table sets forth BASF's primary exports:

Region	Regional Sales	Produced in Region (euros in millions)	Regional Exports (Imports)
Europe	19,120	20,372	1,252
<i>Thereof Germany</i>	<i>7,073</i>	<i>14,070</i>	<i>6,997</i>
North America	7,163	7,214	51
South America	1,765	1,472	(293)
Asia, Pacific Area, Africa	5,313	4,303	(1,010)
<b>Total</b>	<b>33,361</b>	<b>33,361</b>	<b>0</b>

## LEGAL PROCEEDINGS

**Antitrust Claims Relating to Vitamins**

In 1999 and in 2000, BASF Aktiengesellschaft as well as BASF Australia Ltd. entered into agreements with the United States Department of Justice, the Canadian Competition Bureau and the Australian Department of Justice by which BASF Aktiengesellschaft and BASF Australia Ltd. agreed to plead guilty to certain violations of antitrust laws relating to the sale of vitamin products in respective countries. The relevant courts accepted the guilty pleas. On November 21, 2001, the European Commission imposed a fine of €296.2 million against BASF Aktiengesellschaft. BASF has appealed this decision. Further proceedings are still pending in Brazil, Korea and Australia.

All lawsuits in the U.S. in connection with said antitrust law violations filed by direct customers that purchased vitamins in the U.S. have been settled.

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State court class actions on behalf of indirect purchasers have been filed separately in approximately 28 states. In October 2000, class actions in 24 of these states, as well as related claims by various state government entities, were settled with terms calling for the vitamin manufacturers to pay, after a reduction to reflect nonparticipation of certain claimants of approximately \$340 million. BASF Aktiengesellschaft will be obligated to pay approximately \$83 million of the total amount. The settlements have been finally approved by the respective state courts and partially fulfilled. Certain of indirect purchasers plaintiffs who did not wish to participate in these settlement or were not eligible to do so have filed suits. Certain of those suits have been settled. Certain other suits by indirect purchasers are still pending. Further claims for damages have been filed in Canada, Germany, France and Australia.

For these antitrust proceedings the company has established provisions for the costs that it can currently anticipate in excess of the amounts agreed upon and paid. BASF does not believe, that additional charges relating to these proceedings will have a substantial impact on the profitability of the company.

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BASF Aktiengesellschaft has been named as a defendant in *Empagran S.A. v. F. Hoffman-LaRoche, Ltd., et al.*, a federal class action filed in the U.S. District Court for the District of Columbia purportedly on behalf of all persons who purchased vitamins from the defendants outside the United States between January 1, 1988 and February 1999. The *Empagran* complaint alleges that the plaintiffs were overcharged on their vitamins purchases as the result of a worldwide conspiracy among the defendants to fix vitamin prices. By decision dated June 7, 2001, the District Court for the District of Columbia dismissed the *Empagran* complaint for lack of subject matter jurisdiction. On January 17, 2003, a divided panel of the United States Court of Appeals for the District of Columbia Circuit reversed the District Court's ruling. The Court of Appeals held that the United States antitrust laws permit the assertion of federal subject matter jurisdiction over claims by foreign purchasers based on purchases made and purported damages felt outside the United States. The defendants named in *Empagran*, including BASF Aktiengesellschaft, filed a timely petition for rehearing by the full Court of Appeals, but that Court (by a 4-3 vote, with two judges abstaining) declined on September 11, 2003, to rehear the panel's decision. As a result, the named defendants (including BASF Aktiengesellschaft) filed a petition for certiorari seeking review of the Court of Appeals' decision, which the United States Supreme Court granted on December 15, 2003. The Supreme Court will likely argue the case in spring 2004. A decision is anticipated by June 30, 2004.

If the Supreme Court reverses the Court of Appeals' decision and remands the case for dismissal on subject matter jurisdiction grounds, the proceedings would be terminated and the case dismissed. If, on the other hand, the Supreme Court upholds the Court of Appeals' decision, then BASF Aktiengesellschaft will vigorously defend the case at each stage of the proceedings, including personal jurisdiction, venue, attempted certification of a world wide class, number of liability issues and purported damages in various countries. An ultimate finding against BASF Aktiengesellschaft could cause considerable financial charges.

### **Synthroid®-Related Claims**

This proceeding concerned class action lawsuits against Knoll Pharmaceutical Company (KPC) of BASF's Pharmaceutical business, discontinued in 2001. The lawsuits challenged Knoll's delaying the publication of a study comparing Synthroid® to certain branded and generic products. Final approval of a proposed settlement of 1997 was not granted. KPC subsequently negotiated a new proposed settlement with consumers and third-party payors providing for a payment of \$25.5 million in addition to the \$98 million paid into escrow in late 1997 (plus the accrued interest thereon). The United States District Court of Chicago granted final approval of the new proposed settlement on August 4, 2000. A number of appeals have been filed. On August 31, 2001, the United States Court of Appeals granted final confirmation of the settlement. The only issue outstanding before payment can be made is the possible appeal of consumer class counsels' litigation costs and expenses.

### **Meridia Class Actions against BASF Corporation and BASF Aktiengesellschaft**

In various class actions in the U.S., KPC and BASF Corporation (and partly BASF Aktiengesellschaft) as well as Abbott Laboratories, Inc. and Glaxo Wellcome are being sued for an unknown amount of damages as well as for the reimbursement of costs for preventive medical check-ups. The claims are based on the possible hazardousness, alleged insufficient trials, and failures during the admission procedure of Meridia® (trade name of the obesity drug sibutramine). The legal proceedings are still at a very early stage. Both actions against BASF Aktiengesellschaft have been dropped or dismissed. BASF Corporation processed and still processes the drug for KPC by way of toll manufacture. Beyond this BASF Corporation has no relationship with the product. The mere fact, that BASF Corporation held the interest in KPC, does not provide a sufficient basis for compensation claims. The overall material risk for BASF can be considered as rather low.

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## Additional Proceedings

The Supreme Court of Minnesota in its decision dated February 19, 2004 upheld the verdict of the appellate court against BASF Corporation regarding payment of damages in an amount of \$52 million. The court held that the sale of the plant protection products Poast® and Poast Plus® at different sales prices violated consumer protection laws. BASF believes that different sales prices are justified because the products are based on different patents and product registrations. BASF examines a petition seeking review of the decision by the U.S. Supreme Court.

In 2001, class action lawsuits against BASF Aktiengesellschaft and some of its affiliates were filed at United States courts. It was alleged that sales of automotive refinish coatings had violated antitrust laws. BASF considers these allegations to be unfounded and consequently filed for dismissal of the lawsuits.

## DIVIDEND POLICY

The Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft propose dividends based on BASF Aktiengesellschaft's year-end unconsolidated financial statements. The proposal is then voted on at BASF's Annual Meeting. The Annual Meeting is usually convened during the second quarter of each year.

Since all BASF Shares are in bearer form, dividends are either remitted to the custodian bank on behalf of the stockholder, generally within two days following the Annual Meeting, or, in the case of stockholders personally possessing certificates, available immediately following the Annual Meeting upon submission of the dividend coupon therefor at the offices of BASF Aktiengesellschaft in Ludwigshafen, Germany, or the offices of BASF Aktiengesellschaft's appointed paying agents. Record holders of BASF's American Depositary Receipts (ADRs) on the dividend record date will be entitled to receive payment of the dividend less withholding tax of 15% in respect of the year for which it is declared. See "Item 10. Additional Information" for further information. Cash dividends payable to ADR holders will be paid to the Bank of New York, as depository, in euros and, subject to certain exceptions, will be converted by the depository into U.S. dollars. The amount of dividends received by holders of ADRs may be affected by fluctuations in exchange rates. See "Item 3 Exchange Rate Information" for further information.

BASF Aktiengesellschaft expects to continue to pay dividends, although there can be no assurance as to the particular amounts that would be paid from year to year. The payment of future dividends will depend on BASF's financial condition. See "Item 5. Operating and Financial Review and Prospects."

## SIGNIFICANT CHANGES

Except as otherwise disclosed in this Annual Report, there has been no material change in the financial position of BASF Aktiengesellschaft since December 31, 2003.

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## Item 9. The Offer and Listing

### LISTING DETAILS

#### Principal Market for BASF Shares

The principal trading market for BASF Shares is the Frankfurt Stock Exchange. BASF Shares are also traded on the other German stock exchanges, namely Berlin, Bremen, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart. In addition, BASF Shares are traded on the London, Paris and Swiss stock exchanges.

Since June 7, 2000, American Depositary Receipts (ADRs), each representing one BASF Share, have been traded on the New York Stock Exchange (NYSE) under the trade symbol "BF."

Options on BASF Shares are traded on Eurex, the German-Swiss derivatives market jointly owned and operated by Deutsche Börse AG and the Swiss Stock Exchange.

## Share Price History

The table below shows for the periods indicated the high and low official daily quotation for BASF Shares on the Frankfurt Stock Exchange as reported by Deutsche Börse AG and also the high and low of the DAX. See "Item 3. Key Information" for information on exchange rates between the U.S. dollar and the euro during the periods in this table.

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	Price per BASF Share		DAX	
	High	Low	High	Low
<b>Quarterly highs and lows</b>				
<b>1999</b>				
First Quarter	€34.35	€30.19	5,443.62	4,678.72
Second Quarter	€42.60	€34.50	5,492.36	4,845.45
Third Quarter	€45.00	€39.70	5,655.30	4,999.24
Fourth Quarter	€52.20	€39.50	6,958.14	5,156.28
<b>2000</b>				
First Quarter	€51.80	€42.15	8,064.97	6,474.92
Second Quarter	€49.75	€40.01	7,555.92	6,834.88
Third Quarter	€45.55	€39.55	7,480.14	6,682.92
Fourth Quarter	€48.45	€40.15	7,136.30	6,200.71
<b>2001</b>				
First Quarter	€50.45	€42.80	6,795.14	5,388.02
Second Quarter	€49.83	€43.60	6,278.90	5,553.46
Third Quarter	€47.70	€31.00	6,109.50	3,787.23
Fourth Quarter	€44.10	€37.21	5,271.29	4,239.97
<b>2002</b>				
First Quarter	€47.56	€40.75	5,462.55	4,745.58
Second Quarter	€49.80	€44.05	5,343.88	4,099.05
Third Quarter	€47.70	€35.90	4,483.03	2,769.03
Fourth Quarter	€40.79	€32.90	3,380.20	2,597.88
<b>2003</b>				
First Quarter	€39.25	€28.41	3,157.25	2,202.96
Second Quarter	€40.53	€33.81	3,304.15	2,450.19
Third Quarter	€43.05	€36.52	3,668.67	3,146.55
Fourth Quarter	€44.58	€37.55	3,965.16	3,276.64
<b>Monthly highs and lows of the last six months<sup>(1)</sup></b>				
<b>2003</b>				
September		€43.05		€37.70
October		€40.28		€37.55
November		€42.63		€39.98
December		€44.58		€42.00
<b>2004</b>				
January		€45.63		€44.39
February		€44.48		€41.61

(1)

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Effective January 2, 2001 the Frankfurt Stock Exchange no longer determines official daily quotes for odd-lot trades (*Kassakurse*). As of this date the stock price information provided above is based on Xetra, the integrated computerized trading system through which the Frankfurt Stock Exchange conducts trading in equity securities.

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### Trading on the New York Stock Exchange

The following table sets forth, for the period indicated, the high and low sales price per BASF ADR, as reported on the New York Stock Exchange Composite Tape:

	High		Low	
<b>2003</b>				
September	USD	47.00	USD	43.40
October	USD	47.14	USD	44.24
November	USD	49.80	USD	46.00
December	USD	55.75	USD	50.99
<b>2004</b>				
January	USD	58.15	USD	55.60
February	USD	55.63	USD	52.19

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### Item 10. Additional Information

#### ARTICLES OF ASSOCIATION

BASF incorporates herein all information regarding its Articles of Association by reference to its Registration Statement on Form 20-F (File No. 1-15909), as filed with the Securities and Exchange Commission on May 25, 2000.

#### Acquisition of BASF Shares by BASF Aktiengesellschaft

Under the German Stock Corporation Act, a stock corporation may acquire its own shares in a limited number of exceptional cases, including if so authorized by a shareholder resolution adopted at a General Shareholders' Meeting. At the Annual Meetings of BASF Aktiengesellschaft held on April 30, 2002 and May 6, 2003 the shareholders authorized the Board of Executive Directors to buy back BASF Shares representing up to 10% of BASF Aktiengesellschaft's outstanding share capital. The Board of Executive Directors may either cancel the repurchased shares, reducing the company's outstanding share capital, reissue the shares subject to a further resolution adopted at an Annual Meeting, use the shares to service option rights granted to participants of the BASF Stock Option Program, or with the approval of the Supervisory Board, use the shares for the acquisition of companies, parts of companies or holdings in companies in return for the transfer of BASF shares. In 2003, BASF Aktiengesellschaft had bought 13,673,000 BASF Shares, or approximately 2.4% of the then outstanding BASF Shares. The Board of Executive Directors has cancelled 11,455,000 of these repurchased BASF Shares, reducing the company's outstanding share capital. On December 16, 2003, the Board of Executive Directors also decided to cancel the remaining 2,218,000 repurchased BASF Shares.

#### EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are, except in limited embargo circumstances pursuant to resolutions adopted by the United Nations or the European Union, no legal restrictions in Germany on international capital movements and foreign exchange transactions.

For statistical purposes only, every individual or corporation residing in Germany (a "Resident") must report to the German Central Bank (*Deutsche Bundesbank*), subject only to certain immaterial exceptions, any payment received from or made to or on account of an individual or corporation residing outside Germany (a "Nonresident") if such payment exceeds €12,500 or the equivalent in a foreign currency. In addition, Residents must report any claims against or any liabilities payable to Nonresidents if such claims or liabilities in the aggregate exceed €5,000,000

or the equivalent in a foreign currency during any one month.

Neither German Law nor the Articles of Association (*Satzung*) of BASF Aktiengesellschaft impose any limitations on the rights of Nonresident or foreign owners to hold or vote BASF Shares, including those represented by American Depositary Receipts (ADRs).

## TAXATION

The following is a summary of material U.S. federal income and German tax considerations relating to the ownership of American Depositary Shares (ADSs) or BASF Shares by an Eligible U.S. Holder (as defined below).

The discussion is based on tax laws of the United States and Germany as in effect on the date of this Annual Report, including the Convention between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and to Certain Other Taxes (the "Income Tax Treaty"), and the

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Convention between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation with respect to Taxes on Estates, Inheritances, and Gifts (the "Estate Tax Treaty"). All such laws are subject to change, possibly with retroactive effect, and are subject to different interpretations. The discussion is also based in part upon the representations of the Depository and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

The discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to the ownership of ADSs or BASF Shares. In particular, it does not address any aspect of U.S. federal tax law other than income taxation, or any aspect of German tax law other than income, gift, inheritance and wealth taxation, and it does not cover the tax laws of any state or municipality, or any jurisdiction outside the United States and Germany. Moreover, the discussion does not consider any specific facts or circumstances that may apply to a particular Eligible U.S. Holder, and does not take into account any special tax rules to which certain holders (including, without limitation, tax-exempt organizations, persons subject to the alternative minimum tax, securities broker-dealers, financial institutions, persons holding ADSs or BASF Shares in a hedging transaction or as part of a straddle or conversion transaction, persons having a functional currency other than the U.S. dollar, persons that own, or that are treated as owning, 10% or more of the voting power of our stock and persons that received ADSs or BASF Shares pursuant to the exercise of employee stock options or otherwise as compensation) may be subject.

Owners of ADSs or BASF Shares are urged to consult their tax advisers regarding the U.S. federal, state, local, German and other tax consequences of owning and disposing of ADSs or BASF Shares. In particular, owners of ADSs or BASF Shares are urged to consult their tax advisers to confirm their status as Eligible U.S. Holders and the consequence to them if they do not so qualify.

For purposes of the discussion that follows, an "Eligible U.S. Holder" is any beneficial owner of ADSs or BASF Shares who or which (i) is a resident of the United States for the purposes of the Income Tax Treaty, such as a U.S. citizen or U.S. corporation, (ii) is not also a resident of the Federal Republic of Germany for the purposes of the Income Tax Treaty, (iii) owns the ADSs or BASF Shares as capital assets, (iv) does not hold ADSs or BASF Shares as part of the business property of a permanent establishment located in Germany or as part of a fixed base of an individual located in Germany and used for the performance of independent personal services, (v) is entitled to benefits under the Income Tax Treaty with respect to income and gain derived in connection with the ADSs or BASF Shares, and (vi) if not an individual, is not subject to the limitation on benefits restrictions in the Income Tax Treaty.

In general, for U.S. federal income tax purposes, holders of ADRs (as defined below) evidencing ADSs will be treated as the owners of the BASF Shares represented by those ADSs.

### Taxation of Dividends

Under U.S. federal income tax law, Eligible U.S. Holders are generally required to include in their gross income, as dividend income from a qualified foreign corporation, the gross amount of any distribution paid from the current or accumulated earnings and profits of BASF (as determined under U.S. federal income tax principles). The amount of dividend income for U.S. federal income tax purposes is not reduced by German taxes withheld from a dividend distribution in respect of the ADSs or BASF Shares. Beginning in 2003, Eligible U.S. holders are entitled to treat the income from such distributions as "qualified dividend income" that would increase their net capital gain. Eligible U.S. Holders that are corporations will not be entitled to the dividends-received deduction with respect to such distributions.

As a German corporation, BASF is required to withhold taxes on dividends paid to German resident and nonresident stockholders. The required withholding rate applicable to BASF dividends is 20% plus

a solidarity surcharge of 5.5% thereon, equal to 1.1% of the gross dividend (i.e., 5.5% of the 20% tax). Accordingly, a total German withholding tax of 21.1% of the gross dividend is required.

An Eligible U.S. Holder is entitled to a refund of a portion of the withholding tax, reducing the net German tax rate to that permitted under the Income Tax Treaty, i.e., 15% of the gross dividend.

The portion of the German income tax withheld that cannot be refunded under the Income Tax Treaty may be claimed either as a foreign tax credit against the U.S. federal income tax liability of an Eligible U.S. Holder or as a deduction in computing taxable income. For U.S. foreign tax credit purposes, dividends received in respect of the ADSs or BASF Shares generally will be treated as passive income (or, in some circumstances, financial services income) derived from sources outside the United States. The rules and limitations relating to foreign tax credits are complex, and Eligible U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits and the application of the foreign tax credit limitations to their particular situations. Beginning in 2003, adjustments to these calculations may be required in the case of dividend income treated as "qualified dividend income."

To illustrate the foregoing, for each \$100 gross amount of dividend paid by BASF in 2003 to an Eligible U.S. Holder, \$21.10 of German tax would be withheld, of which \$6.10 would be refundable. For U.S. federal income tax purposes, the U.S. Holder would report dividend income of \$100 (to the extent paid out of current and accumulated earnings and profits) and foreign taxes paid of \$15, for purposes of calculating the Foreign Tax Credit or the deduction for taxes paid.

For U.S. federal income tax purposes, dividends paid by BASF in euros are included in the gross income of an Eligible U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date the dividends (including the deemed refund of German corporate tax) are received by such Eligible U.S. Holder or, in the case of ADSs, by the Depository. If a dividend paid in euros is converted into U.S. dollars on the date received, Eligible U.S. Holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend.

#### **General Refund Procedures Regarding German Withholding Tax**

Pursuant to administrative procedures, claims for refunds under the Income Tax Treaty generally must be submitted to the German Federal Tax Authority (*Bundesamt für Finanzen*) either individually by an Eligible U.S. Holder, or collectively (introduced on a trial basis) by the Depository (or a custodian as its designated agent) on behalf of all Eligible U.S. Holders owning ADSs. Claims must be filed within four years of the end of the calendar year in which the dividend was received.

The collective refund procedure may not be available for Eligible U.S. Holders entitled to refunds in excess of €150 for the calendar year. In such event, those holders must file separate claims or may qualify for the simplified refund procedure described below. Details of the collective refund procedure will be available from the Depository.

Individual claims for refund have to be made on a special German claim form that must be filed with the German Federal Tax Authority at Bundesamt für Finanzen, Friedhofstrasse 1, 53221 Bonn, Germany. The German claim-for-refund form may be obtained from the German Federal Tax Authority at the same address where applications are filed, or from the Embassy of the Federal Republic of Germany at 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998. Forms can also be obtained from the Office of the Assistant Commissioner (International), Internal Revenue Service, 950 L'Enfant Plaza South, SW, Washington, D.C. 20024, Attention: Taxpayer Service Division.

As part of the individual refund claim, an Eligible U.S. Holder must submit to the German Federal Tax Authority the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification on IRS Form 6166 of such Eligible U.S. Holder's last filed U.S. federal income tax return. IRS Form 6166 may be obtained by sending a request



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to the Internal Revenue Service Center, Foreign Certification Request, P.O. Box 16347, Philadelphia, P.A. 19114-0447. Requests for certification are to be made in writing and must include the Eligible U.S. Holder's name, mailing address and social security or employer identification number, the form number for the relevant U.S. federal income tax return and the tax period for which the certification is requested.

The Internal Revenue Service will send the certification directly to the German Federal Tax Authority if requested by the Eligible U.S. Holder. If no such request is made, the Internal Revenue Service will send a certificate on IRS Form 6166 to the Eligible U.S. Holder, which then must submit the certification with the Eligible U.S. Holder's claim for refund. The Internal Revenue Service certification is valid for three years and need only be resubmitted in a fourth year in the event of a subsequent application for refund.

### **Simplified Refund Procedure regarding German Withholding Tax in respect of ADSs or BASF Shares Deposited with The Depository Trust Company in New York**

As of May 7, 1999, Eligible U.S. Holders may make applications for refunds payable under the Income Tax Treaty by using a simplified refund procedure instead of the general refund procedures described above. Eligible U.S. Holders may use the simplified refund procedure only with respect to taxes withheld on dividends in respect of ADSs or BASF Shares deposited with The Depository Trust Company in New York. Under the simplified refund procedure, refund applications will be filed in a special (simplified) collective procedure with the aid of the "Elective Dividend Service" (the "EDS") installed at The Depository Trust Company.

In the EDS system, the participants maintaining accounts at The Depository Trust Company report the positions held by them at the relevant cutoff date that qualify for share dividends subject to withholding tax at the appropriate rates under the Income Tax Treaty. The reports of the individual participants will be compiled by The Depository Trust Company into a collective application and submitted to the German Federal Tax Authority for conditional refund. After initially checking only arithmetical correctness, the German Federal Tax Authority will make a refund as required to The Depository Trust Company. The refund will be made at the earliest on the due date of the withholding tax pursuant to German tax law.

The Depository Trust Company will distribute the refund amounts in accordance with EDS data to the participants to be passed on to the beneficial owners.

### **Taxation of Capital Gains**

Upon a sale or other taxable disposition of ADSs or BASF Shares, an Eligible U.S. Holder will recognize a gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized from the sale or other disposition, and the Eligible U.S. Holder's tax basis in the ADSs or BASF Shares. Such gain or loss generally will be treated as a capital gain or loss derived from U.S. sources, and will be a long-term capital gain or loss if the Eligible U.S. Holder's holding period for the ADSs or BASF Shares exceeds one year. In the case of certain Eligible U.S. Holders (including individuals), long-term capital gains are taxable at preferential U.S. federal income tax rates. The deduction of capital losses is subject to certain limitations under U.S. federal income tax law.

Deposits and withdrawals of BASF Shares in exchange for ADSs generally will not be considered a taxable event for U.S. federal income tax purposes.

Under the Income Tax Treaty, an Eligible U.S. Holder will not be liable for German tax on capital gains realized or accrued on the sale or other disposition of ADSs or BASF Shares.

### **Gift and Inheritance Taxes German Taxation**

An Eligible U.S. Holder who is an individual and whose domicile is determined to be in the United States for purposes of the Estate Tax Treaty will not be subject to German inheritance and gift tax (the equivalent of the U.S. federal estate and gift tax) upon the individual's death or upon the making of a gift unless the ADSs or BASF Shares (i) are part of the business property of a permanent establishment located in Germany or (ii) are part of the assets of a fixed base of an individual located in Germany and used for the performance of independent personal services. An individual's domicile in the United States, however, does not prevent imposition of German inheritance and gift tax with respect to an heir, donee, or other beneficiary who is domiciled in Germany at the time the individual died or the gift was made.

The Estate Tax Treaty also provides a credit against U.S. federal estate and gift tax liability for the amount of inheritance and gift tax paid to Germany, subject to certain limitations, in a case where the ADSs or BASF Shares are subject to German inheritance or gift tax and U.S. federal estate or gift tax.

## Other German Taxes

There are no German transfer, stamp or other similar taxes that would apply to Eligible U.S. Holders that purchase or sell ADSs or BASF Shares. The wealth tax is no longer levied in respect of any taxation periods that start on or after January 1, 1997. For collection periods from 1998 on, the trade capital tax has been abrogated.

## INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends on ADSs or BASF Shares, and payments of the proceeds of a sale of ADSs or BASF Shares, paid within the United States or through certain U.S.-related intermediaries are subject to Internal Revenue Service information reporting, and may be subject to backup withholding at a 31% rate unless the holder (i) is a corporation or other exempt recipient or (ii) provides a correct taxpayer identification number, certifies that no loss of exemption from backup withholding has occurred and otherwise complies with the backup withholding requirements.

## DOCUMENTS ON DISPLAY

BASF is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, BASF files reports and other information with the Securities and Exchange Commission. These materials, including this Annual Report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and 233 Broad Street, New York, N.Y. 10279. Copies of the materials may be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. BASF's Annual Report and some of the other information submitted by BASF to the Commission may be accessed through this web site. In addition, material filed by BASF can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, N.Y. 10005.

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### Item 11. Quantitative and Qualitative Disclosures About Market Risk

BASF is exposed to foreign currency, interest rate and price risks in the normal course of business. In cases where BASF intends to hedge against these risks, derivatives are used, including forward exchange contracts, currency options, interest rate/currency swaps, combined instruments or commodity derivatives. In addition, financial derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-income securities.

Exclusive use is made of commonly used instruments with sufficient market liquidity. Derivative instruments are only used if they have corresponding underlying positions arising from the operating business, cash investments and financing. The leverage effect that can be achieved with derivatives is deliberately not used. The derivative instruments held by BASF are solely held for purposes other than trading.

Where derivatives have a positive market value, BASF is exposed to credit risks in the event of non-performance by their counterparties. The credit risk is minimized by exclusively trading contracts with major credit worthy counterparties.

To ensure efficient risk management, market risks are centralized at BASF Aktiengesellschaft and BASF Group companies designated for this purpose. BASF has developed and implemented internal guidelines based on the principles of separation of the placement function from the settlement function for derivative instruments.

The risks arising from changes in exchange rates, interest rates and prices as a result of the underlying transactions and the derivative transactions concluded to hedge them are monitored constantly. For this purpose, market quotations or computer or mathematical models are used to determine the current market values not only of the underlying transactions but also of the derivative transactions and these are compared with each other. Where derivative instruments were entered into as replacement for original financial instruments, market trends are also monitored constantly.

## INTEREST RATE RISK MANAGEMENT

BASF employs interest rate sensitive financial instruments to manage the liquidity and cash needs of its operations. Financial liabilities consist of bank loans (26% of financial liabilities), which BASF group companies worldwide took from numerous local banks in their various home currencies. Additionally, BASF has two fixed rate euro bonds outstanding (64% of financial liabilities), as well as a number of variable and fixed-rate U.S. dollar-bonds denominated infrastructure and environmental bonds with a preferred tax status in the United States (8% of financial liabilities). The remaining debt consists of a number of other bonds or commercial paper (2% of financial liabilities).

In addition to the interest rate risk exposure resulting from financial liabilities described above, BASF entered into a number of interest derivatives, combined interest/currency derivatives or combined interest/equity derivatives with banks. In most cases BASF is obliged to pay a fixed rate in a foreign currency and receives a variable rate in euros. Such swaps were concluded to optimize the internal financing of group companies worldwide and to offer the internal parties the desired credit terms and cash flows. BASF also entered into swap contracts for which BASF pays a quarterly variable rate and receives a positive equity index performance. That instrument is described in greater detail under "Other Derivatives" and "Marketable Securities" below.

The following information on debt is presented in euro equivalents, which is BASF's reporting currency:

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**Principal (Notional) Amount Interest Rate December 31, 2002**

	Expected Maturity Date (euros in millions)					There- after	Total	Fair Value December 31, 2002
	2003	2004	2005	2006	2007			
<b>Debt, including current portion</b>								
<b>U.S. dollar (USD)</b>								
Fixed rate	784.7	13.3				50.5	848.5	848.5
Weighted avg. interest rate (fixed)	3.7%	9.0%				3.1%		
Variable rate	119.9	31.4	10.5			275.2	437.0	437.0
Interest rate (variable)	2.6%	2.9%	2.9%			1.3%		
<b>Subtotal</b>							<b>1,285.5</b>	<b>1,285.5</b>
<b>Euro (EUR)</b>								
Fixed rate	501.2	0.9	1,250.7	0.8	0.8	13.5	1,767.9	1,874.2
Weighted avg. interest rate (fixed)	3.5%	3.1%	5.7%	2.3%	2.3%	3.6%		
Variable rate	45.8	14.6	14.6	14.0	14.0	39.0	142.0	142.0
Interest rate (variable)	4.8%	4.9%	4.9%	5.0%	5.0%	5.0%		
<b>Subtotal</b>							<b>1,909.9</b>	<b>2,016.2</b>
<b>Chinese renminbi (CNY)</b>								
Fixed rate	52.0						52.0	52.0
Weighted avg. interest rate (fixed)	4.6%							
Variable rate								
Interest rate (variable)								
<b>Subtotal</b>							<b>52.0</b>	<b>52.0</b>
<b>Other currencies</b>								
Fixed rate	81.9	20.2	9.0	22.7	0.4		134.2	134.2
Weighted avg. interest rate (fixed)	10.8%	10.8%	8.5%	5.3%	3.6%			

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Variable rate	228.3	0.5	228.8	228.8
Interest rate (variable)	4.2%	2.1%	363.0	363.0
<b>Subtotal</b>				
<b>Total</b>			3,610.4	3,716.7

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*Principal (Notional) Amount Interest Rate December 31, 2003*

	Expected Maturity Date (euros in millions)						There- after	Total	Fair Value December 31, 2003
	2004	2005	2006	2007	2008				
<b>Debt, including current portion</b>									
<b>U.S. dollar (USD)</b>									
Fixed rate	92.8	23.8				13.4	130.0	132.2	
Weighted avg. interest rate (fixed)	5.59%	3.33%				6.56%			
Variable rate	145.4	125.8				275.8	547.1	547.1	
Interest rate (variable)	1.41%	1.92%				1.29%			
<b>Subtotal</b>	238.2	149.6				289.2	677.0	679.2	
<b>Euro (EUR)</b>									
Fixed rate	20.0	1,251.6	0.7	0.7	0.7	1,010.1	2,283.8	2,358.9	
Weighted avg. interest rate (fixed)	5.46%	5.75%	4.08%	4.07%	4.06%	3.50%			
Variable rate	28.5	40.0	19.0	18.7	14.0	49.0	169.2	169.2	
Interest rate (variable)	2.34%	2.94%	2.87%	2.87%	3.00%	3.00%			
<b>Subtotal</b>	48.5	1,291.6	19.7	19.4	14.7	1,059.1	2,453.0	2,528.1	
<b>Chinese renminbi (CNY)</b>									
Fixed rate	20.3						20.3	20.3	
Weighted avg. interest rate (fixed)	3.67%								
Variable rate		118.3					118.3	118.3	
Interest rate (variable)		5.18%							
<b>Subtotal</b>	20.3	118.3					138.6	138.6	
<b>Other currencies</b>									
Fixed rate	74.5	21.4	2.8	2.6	6.5		107.8	107.8	
Weighted avg. interest rate (fixed)	9.25%	5.73%	8.67%	8.51%	4.32%				
Variable rate	130.3						130.3	130.3	
Interest rate (variable)	4.36%								
<b>Subtotal</b>	204.8	21.4	2.8	2.6	6.5		238.1	238.1	
<b>Total</b>							3,506.7	3,584.0	

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The following information on derivatives is presented in euro equivalents, which is BASF's reporting currency. The instruments' actual cash flows are denominated in the currencies noted parenthetically.

*Interest Rate Swaps December 31, 2002*

	Expected Maturity Date (notional amount, euros in millions)					There- after	Total amount	Fair Value December 31, 2002
	2003	2004	2005	2006	2007			
<b>Euro (EUR)</b>								
Payer swap						90	90	(8.99)
Weighted to average pay rate (fixed)						5.9%		
Weighted average receive rate (variable)						4.2%		

*Interest Rate Swaps December 31, 2003*

	Expected Maturity Date (notional amount, euros in millions)					There- after	Total	Fair Value December 31, 2003
	2004	2005	2006	2007	2008			
<b>Euro (EUR)</b>								
Payer swap						83	83	(8.09)
Weighted to average pay rate (fixed)						5.9%		
Weighted average receive rate (variable)						2.2%		

**U.S. dollar (USD)**

Payer swap		22					22	(0.11)
Weighted to average pay rate (fixed)		2.2%						
Weighted average receive rate (variable)		1.2%						

The total volume of interest rate swaps increased from €90 million in 2002 to €105 million in 2003 due to an additional transaction. The total fair value of the interest rate swaps increased from €(8.99) million to €(8.20) million.

*Combined Interest Rate and Cross Currency Swaps December 31, 2002*

	Expected Maturity Date (notional amounts, euros in millions)					There- after	Total amount	Fair Value December 31, 2002
	2003	2004	2005	2006	2007			
<b>U.S. dollar (USD)/euro (EUR)</b>								
Amount payable on maturity (USD)	96		143		86		325	
Amount receivable on maturity (EUR)	117		150		99		366	42.78
Weighted average pay rate (variable, USD)	2.4%		1.6%		3.9%			
Weighted average receive rate (variable, EUR)	3.7%		3.1%		4.4%			
Amount payable on maturity (USD)	524	381	342	343	381	191	2,162	

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Amount receivable on maturity (EUR)	532	407	338 <sup>(2)</sup>	345	419	210	2,251	(141.55)
Weighted average pay rate (fixed, USD)	6.3%	6.7%	8.1%	7.0%	7.6%	7.8%		
Weighted average receive rate (variable, EUR)	3.6%	3.7%	3.7%	4.1%	3.5%	3.6%		
Amount payable on maturity (USD)						35	35	
Amount receivable on maturity (EUR)						38	38	(3.81)
Weighted average pay rate (fixed, USD)						n.a. <sup>(1)</sup>		
Weighted average receive rate (fixed, EUR)						n.a. <sup>(1)</sup>		

**Japanese yen (JPY)/euro (EUR)**

Amount payable on maturity (JPY)	26	4					30	
Amount receivable on maturity (EUR)	34	4					38	8.32
Weighted average pay rate (fixed, JPY)	1.3%	0.7%						
Weighted average receive rate (variable, EUR)	4.1%	3.6%						

**U.S. dollar (USD)/Korean won (KRW)**

Amount payable on maturity (KRW)	114	100	93				307	(16.65)
Amount receivable on maturity (USD)	96	86	86				268	
Weighted average pay rate (fixed, KRW)	8.1%	6.0%	6.0%					
Weighted average receive rate (variable USD)	1.5%	2.4%	3.5%					

**U.S. dollar (USD)/Korean won (KRW)**

Amount payable on maturity (KRW)					58		58	(5.19)
Amount receivable on maturity (USD)					48		48	
Weighted average pay rate (fixed, KRW)					6.9% <sup>(3)</sup>			
Weighted average receive rate (fixed USD)					5.4% <sup>(3)</sup>			

- (1) Amounts stated under USD/EUR-fixed/fixed in the column "Thereafter" represent two swaps with predefined cashflows. Respective interest rates have not been agreed upon by the parties.
- (2) Total Amount of USD/EUR-fixed/variable includes a swap of \$58 million with an ascending interest rate from 2% to 19.5% per annum.
- (3) Interest on this swap is paid in a net amount equal to 1.54% of the USD amount.

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**Combined Interest Rate and Cross Currency Swaps December 31, 2003**

	Expected Maturity Date					There- after	Total amount	Fair Value December 31, 2003
	2004	2005	2006	2007	2008			
<b>U.S. dollar (USD)/euro (EUR)</b>								
Amount payable on maturity (USD)		119	40	71	21		251	
Amount receivable on maturity (EUR)		150	47	99	24		320	72.26
Weighted average pay rate (variable, USD)		1.9%	2.1%	4.0%	4.4%			
		3.1%	3.3%	4.2%	4.4%			

Weighted average receive rate (variable, EUR)							
Amount payable on maturity (USD)	317	256	285	317	158	1,333	
Amount receivable on maturity (EUR)	407	307 <sup>(2)</sup>	345	419	210	1,688	230.65
Weighted average pay rate (fixed, USD)	6.7%	7.3%	7.0%	7.6%	7.8%		
Weighted average receive rate (variable, EUR)	2.4%	2.3%	2.9%	2.3%	2.4%		

**Japanese yen (JPY)/euro (EUR)**

Amount payable on maturity (JPY)	0 <sup>(1)</sup>					0	
Amount receivable on maturity (EUR)	0 <sup>(1)</sup>					0	0.01
Weighted average pay rate (fixed, JPY)	0.7%						
Weighted average receive rate (variable, EUR)	2.1%						
Amount payable on maturity (JPY)				24	21	45	
Amount receivable on maturity (EUR)				25	20	45	1.91
Weighted average pay rate (fixed, JPY)				1.0%	0.5%		
Weighted average receive rate (fixed EUR)				3.4%	3.5%		

**U.S. dollar (USD)/Korean won (KRW)**

Amount payable on maturity (KRW)	122	234	47	82		485	(8.08)
Amount receivable on maturity (USD)	91	190	40	79		400	
Weighted average pay rate (fixed, KRW)	5.7%	5.3%	4.6%	5.5%			
Weighted average receive rate (variable USD)	1.4%	2.8%	3.4%	5.1%			
Amount payable on maturity (KRW)				58		58	(4.55)
Amount receivable on maturity (USD)				40		40	
Weighted average pay rate (fixed, KRW)				6.9% <sup>(3)</sup>			
Weighted average receive rate (fixed USD)				5.4% <sup>(3)</sup>			

- (1) The notional amount of this contract is less than €0.5 million.
- (2) Total Amount of USD/EUR-fixed/variable includes a swap of \$24 million with an ascending interest rate from 2% to 19.5% per annum.
- (3) Interest on this swap is paid in a net amount equal to 1.54% of the USD amount.

The total volume of the combined interest rate and cross currency swaps decreased from €3,058 million in 2002 to €2,596 million as of December 31, 2003 due to expiring transactions. The total fair value of the swaps changed from €(116) million in 2002 to €292 million as of December 31, 2003 mainly due to the decline in the exchange rate of the USD dollar and the expiration of transactions with negative market values.

**Other Derivatives December 31, 2002**

	Expected Maturity Date (notional amounts, euros in millions)					There- after	Total amount	Fair Value December 31, 2002
	2003	2004	2005	2006	2007			
Equity index swaps <sup>(1)</sup>					500		500	(44.00)
Weighted average pay rate (variable)					3.6%			
Weighted average receive rate (variable)					n.a.			

(1) Represents index swaps to create synthetic share investments with a guarantee of the capital invested.

**Other Derivatives December 31, 2003**

	Expected Maturity Date (notional amounts, euros in millions)					There- after	Total	Fair Value December 31, 2003
	2004	2005	2006	2007	2008			
Equity index swaps <sup>(1)</sup>				500			500	(2.28)
Weighted average pay rate (variable)				3.3%				
Weighted average receive rate (variable)				n.a.				

(1) Represents index swaps to create synthetic share investments with a guarantee of the capital invested.

**Foreign Exchange Risk Management**

The principal derivative financial instruments used by BASF to hedge foreign currency exposures resulting from trade receivables, trade payables and commercial paper denominated in foreign currency are forward foreign exchange contracts and currency options. In 2003, transactions in these hedging instruments were primarily aimed at hedging the exchange rate risk arising from the U.S. dollar, the Canadian dollar, the Australian dollar, the British pound, the Mexican peso, the Japanese yen, the Singapore dollar and the Brazilian real.

Intercompany loans within the BASF Group must frequently be denominated in a currency which is foreign to the intercompany borrower or the intercompany lender or both. The foreign currency risks inherent in such loans are hedged by forward foreign exchange contracts or foreign currency borrowings from third parties in such cases where the loan has a short term or a variable maturity. Longer term intercompany loans with fixed maturity schedules are hedged primarily with forward foreign exchange contracts and cross currency swaps.

The tables below provide information about significant derivative financial instruments which are sensitive to changes in foreign currency exchange rates.

**Foreign Currency Forward Contracts December 31, 2002<sup>(1)</sup>**

Contract Amount (euros in	Weighted Average Forward Exchange Rate	Fair Value December 31, 2002
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	millions)		(euros in millions)
<b>Euro (EUR)</b>			
Sale Australian dollar (AUD)	40.4	1.80	1.27
Sale Danish krone (DKK)	20.5	7.43	(0.00) <sup>(2)</sup>
Sale British pound (GBP)	343.1	0.64	6.30
Sale Japanese yen (JPY)	223.0	117.66	10.69
Sale New Zealand dollar (NZD)	4.1	2.01	(0.00) <sup>(2)</sup>
Sale Swedish krona (SEK)	2.0	9.24	(0.01)
Sale Polish zlotys (PLN)	8.9	4.09	(0.06)
Sale Singapore dollar (SGD)	55.9	2.01	(6.82)
Sale Malaysian ringgit (MYR)	2.4	3.81	0.11
Sale Thai baht (THB)	0.7	43.12	0.04
Sale U.S. dollar (USD)	3,769.5	0.99	174.35
Sale South African rand (ZAR)	29.6	9.18	(0.35)
Sale Indian rupee (INR)	0.5	48.50	0.02
Sale Slovak koruna (SKK)	0.8	41.91	(0.01)
Sale Hungarian Forint (HUF)	19.8	237.17	0.02
Sale Czech koruna (CZK)	7.8	31.13	0.11
Purchase U.S. dollar (USD)	896.5	0.99	(42.31)
Purchase Swiss francs (CHF)	16.0	1.46	0.06
Purchase Canadian dollar (CAD)	30.1	1.59	(1.13)
Purchase Turkish lira (TRL)	2.0	1,827,500.00	(0.08)
Purchase Norwegian krone (NOK)	7.1	7.38	0.06
Purchase Japanese yen (JPY)	4.0	124.14	(0.00) <sup>(2)</sup>
Purchase Hungarian Forint (HUF)	0.7	236.45	(0.00) <sup>(2)</sup>
<b>U.S. dollar (USD)</b>			
Sale Mexican peso (MXP)	95.0	10.33	3.82
Sale South African rand (ZAR)	1.4	10.27	(0.23)
Sale Brazilian real (BRL)	303.2	3.25	34.89
Sale Taiwan dollar (TWD)	13.7	34.76	(0.14)
Sale Thai baht (THB)	5.9	43.41	0.03
Sale Indian rupee (INR)	12.8	52.84	(0.56)
Sale Nuevo Sol (PEN)	3.0	3.61	(0.06)
Purchase Malaysian ringgit (MYR)	1.7	3.80	0.00 <sup>(2)</sup>
Purchase Philippine peso (Php)	3.3	53.95	0.01
<b>Singapore dollar (SGD)</b>			
Sale Malaysian ringgit (MYR)	0.0	2.15	0.00 <sup>(2)</sup>
<b>Malaysian ringgit (MYR)</b>			
Sale Japanese yen (JPY)	1.2	0.03	(0.03)

(1) All maturing in 2003 except for €199.9 million in 2004, €1,090.2 million in 2005, €71.2 million in 2006, €33.0 million in 2007 and €5.9 million thereafter.

(2) The Fair Value of this contract is less than €0.01 million.

**Foreign Currency Forward Contracts December 31, 2003<sup>(1)</sup>**

Contract Amount (euros in	Weighted Average Forward Exchange Rate	Fair Value December 31, 2003
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	millions)		(euros in millions)
<b>Euro (EUR)</b>			
Sale Australian dollar (AUD)	46.5	1.70	(0.34)
Sale Danish krone (DKK)	20.4	7.43	0.04
Sale British pound (GBP)	295.1	0.70	1.83
Sale Japanese yen (JPY)	143.5	131.28	3.24
Sale New Zealand dollar (NZD)	4.1	1.93	0.00 <sup>(2)</sup>
Sale Swedish krona (SEK)	2.0	9.23	(0.03)
Sale Polish zlotys (PLN)	29.5	4.66	0.33
Sale Singapore dollar (SGD)	55.9	2.01	2.98
Sale Malaysian ringgit (MYR)	1.2	4.63	0.03
Sale Thai baht (THB)	4.1	48.75	0.10
Sale U.S. dollar (USD)	3,479.3	1.09	420.81
Sale South African rand (ZAR)	15.8	8.27	0.18
Sale Hong Kong dollar (HKD)	12.2	9.65	0.18
Sale Slovak koruna (SKK)	4.9	41.39	(0.01)
Sale Hungarian Forint (HUF)	19.9	271.16	(0.50)
Sale Czech koruna (CZK)	17.5	32.22	0.10
Sale Kroatien kuna (HRK)	0.3	7.69	(0.00) <sup>(2)</sup>
Sale Pakistan rupee (PKR)	0.2	67.78	0.01
Purchase Australian dollar (AUD)	11.2	1.62	(0.39)
Purchase U.S. dollar (USD)	329.0	1.06	(49.34)
Purchase Swiss francs (CHF)	31.3	1.55	(0.10)
Purchase South African rand (ZAR)	0.2	8.30	(0.00) <sup>(2)</sup>
Purchase Canadian dollar (CAD)	85.2	1.64	1.01
Purchase Hong Kong dollar (HKD)	23.8	9.67	(0.30)
Purchase Norwegian krone (NOK)	6.2	8.17	(0.18)
Purchase Polish zlotys (PLN)	8.8	4.70	(0.01)
Purchase Hungarian Forint (HUF)	0.5	265.25	0.00 <sup>(2)</sup>
<b>U.S. dollar (USD)</b>			
Sale Malaysian ringgit (MYR)	2.3	3.80	(0.00) <sup>(2)</sup>
Sale Mexican peso (MXP)	52.0	11.45	(0.22)
Sale South African rand (ZAR)	1.8	6.93	(0.05)
Sale Brazilian real (BRL)	276.8	3.13	(13.87)
Sale Taiwan dollar (TWD)	13.9	34.00	0.03
Sale Thai baht (THB)	4.5	40.02	(0.03)
Sale Indian rupee (INR)	14.0	49.39	(0.02)
Sale Pakistan rupee (PKR)	1.0	57.42	(0.00) <sup>(2)</sup>
Sale Japanese yen (JPY)	0.1	113.28	(0.00) <sup>(2)</sup>
Sale Philippine peso (Php)	1.8	56.28	(0.00) <sup>(2)</sup>
Purchase Singapore dollar (SGD)	42.0	1.77	1.45
Purchase South African rand (ZAR)	1.0	7.16	0.06
Purchase Malaysian ringgit (MYR)	6.1	3.80	0.00 <sup>(2)</sup>
<b>Malaysian ringgit (MYR)</b>			
Sale Japanese yen (JPY)	0.6	0.04	(0.00) <sup>(2)</sup>
Sale Australian dollar (AUD)	2.1	2.66	(0.11)
Purchase Australian dollar (AUD)	0.0	2.81	0.00 <sup>(2)</sup>
Purchase Singapore dollar (SGD)	0.1	2.23	0.00 <sup>(2)</sup>

(1) All maturing in 2004 except for €1,192.0 million in 2005, €721.0 million in 2006, €154.1 million in 2007, €2.3 million in 2008 and €3.5 million thereafter.

(2) The Fair Value of this contract is less than €0.01 million.

The total volume of forward currency contracts decreased from €5,927 million in 2002 to €5,069 million as of December 31, 2003 due mainly to the expiration of hedges of commercial paper denominated in USD and of accounts denominated in foreign currencies. The total fair value of the outstanding forward contracts improved from €180 million at December 31, 2002 to €367 million as of December 31, 2003 mainly due to the decline in the exchange rate for the US dollar.

**Foreign Currency Options December 31, 2002**

Not applicable

**Foreign Currency Options December 31, 2003 (All maturing in 2004)**

	Contract Amount (euros in millions)	Weighted Average Option Strike Price <sup>(1)</sup>	Fair Value December 31, 2003 (euros in millions)
U.S. dollar (USD) put (short)	205	1.23	(1.28)
U.S. dollar (USD) call (long)	205	1.26	3.09

(1) USD/EUR

The total volume of foreign currency options increased from zero on December 31, 2002 to €410 million on December 31, 2003 due to new hedges of accounts denominated in USD. The total fair value of foreign currency options was €2 million.

**Cross Currency Swaps December 31, 2002**

	Expected Maturity Date (notional amounts, euros in millions)					There- after	Total	Fair Value December 31, 2002
	2003	2004	2005	2006	2007			
<b>Payment of U.S. dollar (USD)</b>								
Notional amount	649	407	488	345	518	248	2,655	(102.58)
Average contract rate U.S. dollar (USD) per euro (EUR)	1.00	0.98	1.04	1.04	0.95	0.95		
<b>Payment of Japanese yen (JPY)</b>								
Notional amount	34	4					38	8.32
Average contract rate Japanese yen per euro (EUR)	94.60	129.30						
<b>Payment of Korean won (KRW)</b>								
Notional amount	114	100	93		58		365	(21.84)
Average contract rate Korean won per U.S. dollar (USD)	1,201.00	1,289.78	1,220.00		1,332.50			

## Cross Currency Swaps December 31, 2003

	Expected Maturity Date (notional amounts, euros in millions)						There- after	Total	Fair Value December 31, 2003
	2004	2005	2006	2007	2008				
<b>Payment of U.S. dollar (USD)</b>									
Notional amount	407	457	392	518	24	210	2,008	302.91	
Average contract rate									
U.S. dollar (USD) per euro (EUR)	0.98	1.04	1.05	0.95	1.07	0.95			
<b>Payment of Japanese yen (JPY)</b>									
Notional amount	0 <sup>(1)</sup>			25	20		45	1.92	
Average contract rate									
Japanese yen per euro (EUR)	129.53			129.00	144.18				
<b>Payment of Korean won (KRW)</b>									
Notional amount	122	234	47	140			543	(12.63)	
Average contract rate									
Korean won per U.S. dollar (USD)	1,267.43	1,192.19	1,207.00	1,229.50					

(1)

The notional amount of this contract is less than €0.5 million.

The total volume of cross currency swaps decreased from €3,058 million in 2002 to €2,596 million as of December 31, 2003 due to expiring transactions. The total fair value of the swaps changed from €(116) million in 2002 to €292 million as of December 31, 2003 mainly due to the decline in the exchange rate of the USD dollar and the expiration of transactions with negative market values.

## MARKETABLE SECURITIES

As of December 31, 2003, BASF owned debt and equity securities which are exposed to price changes. These financial instruments are used as profitable investments of BASF's cash surplus and are not held for trading purposes. All securities are quoted on stock exchanges, and the funds have readily determinable market prices. The securities are reflected in the U.S. GAAP reconciliation at their fair value of €161.9 million, which includes unrealized gains of €15.0 million. See Note 18 to the Consolidated Financial Statements in Item 18 for further information. BASF carefully monitors developments in the financial markets.

In addition, BASF entered into swap contracts for which BASF pays a quarterly variable rate and receives a positive equity index performance (for details see the "Other Derivatives" table above in "Interest Rate Risk Management"). Such swaps were concluded to synthetically create an equity investment using the variable interest payments from liquid funds. While BASF is obliged to pay on a quarterly basis a variable interest rate, the payments by the counterparties are dependent on the change in the DAX-Index during the stipulated term. However, a special provision insures that negative DAX-Index performance is not required to be reimbursed. Therefore the maximum equity exposure is a

zero payment from the counterparties. The fair value of the DAX-Libor-Swaps was €(2) million as of December 31, 2003.

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A 10% change in overall equity prices would not materially impact BASF's operations, financial position or cash flows.

### COMMODITY PRICE RISKS

Certain BASF divisions are exposed to fluctuations in prices for raw materials and commodities. BASF operates in markets where the prices of raw materials and products are commonly affected by cyclical movements of the economy.

In order to secure the supply of raw materials, BASF has signed long-term supply contracts and is buying additional quantities on spot markets. Some of the most important raw materials involved are naphtha, propylene, benzene, titanium dioxide, cyclohexane, methanol and ammonia.

The following measures are taken to avoid and manage risks in the purchase of raw materials:

/\*/

BASF avoids supply problems by entering into long-term contracts with at least two suppliers for each significant raw material. The quantities contracted are divided by the suppliers based on their ability to ensure supply security. BASF enters into long-term contracts only after a strict evaluation of the supplier's financial condition and technical capabilities as well as its environmental safety record, so that supply problems and quality problems are reduced to a minimum.

/\*/

Price risks are managed through several measures. Purchasing raw materials both through long-term contracts and on spot markets allows BASF to obtain favorable prices for a portion of its raw materials, if for example excess quantities on the spot markets lead to a short-term price reduction. In our long-term contracts, price conditions are usually based on published raw material price quotations and lead to the permanent adjustment of prices (price gliding clauses) or are adjusted at least on a quarterly basis.

/\*/

Additionally, some commodity hedging derivatives are entered into to manage the volatility associated with inventory and related forecasted purchases. The company had futures contracts, options and swaps to buy, sell or exchange commodities. These hedging instruments are used for the purchases of oil and oil products to counteract the high volatility in oil prices.

The following information related to all material contracts as of December 31, 2003:

Kind of Contract	Contract volumes (Notional amounts)		Maturity	(euros in millions)	
				Nominal Value	Fair Value December 31, 2003
<b>Oil and Oil products</b>					
Call Options (Buy)	105,000	MT*	2004	23.0	5.13
Call Options (Sell)	15,000	MT	2004	3.4	(0.31)
Put Options (Sell)	210,000	MT	2004	40.1	(0.05)
Swaps	1,201,500	bbl**	2004	29.7	1.29
<b>Natural Gas</b>					
Call Options (Buy)	4,004,000	MMBtu***	2004	21.8	0.64
Swaps	3,913,000	MMBtu	2004	15.0	3.53

\*  
MT: Metric Ton.

\*\*  
bbl: barrel.

\*\*\*  
MMBtu: Million British thermal unit.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

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Item 15. Controls and Procedures

Within 90 days prior to the date of this report, BASF performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in Form 20-F and filed with the Securities and Exchange Commission is recorded, processed, summarized and reported timely. The evaluation was performed under the supervision of BASF's Chairman of the Board of Executive Directors, Dr. Jürgen Hambrecht, and BASF's Chief Financial Officer, Dr. Kurt Bock. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute assurance of achieving the desired control objectives. Managerial judgement was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Based on the foregoing, the Chairman of the Board of Executive Directors and the Chief Financial Officer concluded that BASF's disclosure controls and procedures as of December 31, 2003 were effective. In 2003 there have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation. Therefore, no corrective actions were taken.

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Item 16A. Audit Committee Financial Expert

Our Supervisory Board has determined that the Company's Audit Committee currently includes one Audit Committee financial expert: Max Dietrich Kley.

Item 16B. Code of Ethics

The Company has adopted a code of ethics for financial matters that applies to the Board of Executive Directors, including the Chief Executive Officer, the Chief Financial Officer, and the senior management of financial reporting and controlling, as well as to all of the Company's employees performing similar functions in and outside Germany and to all other senior financial personnel. The code of ethics for financial matters is available on the Company's website at [www.basf.de/corporate\\_governance](http://www.basf.de/corporate_governance).

Fees billed to the Company for professional services by its principal accountant, Deloitte & Touche, during the fiscal years 2002 and 2003 were as follows:

Item 16C. Principal Accountant Fees and Services

For fiscal year ended  
December 31,

## Type of Fees

	2003	2002
	(€ in millions)	
Audit Fees	11.7	11.4
Audit Related Fees	0.8	0.3
Tax Fees	2.2	3.0
Other Fees	1.2	0.7
	<hr/>	<hr/>
<b>Total</b>	<b>15.9</b>	<b>15.7</b>
	<hr/>	<hr/>

In the above table, "audit fees" are the aggregate fees billed by Deloitte & Touche for professional services in connection with the audit of the Company's consolidated annual financial statements as well as audits of statutory financial statements of BASF AG and its affiliates. Also included in "audit fees" are amounts billed for attestation services in relation to regulatory filings and other compliance requirements. "Audit-related fees" are fees billed by Deloitte & Touche for due diligence engagements related to acquisitions or divestments as well as audit-related attestation regarding compliance with certain agreements and regulatory requirements. "Tax fees" include primarily fees for tax advice on actual or contemplated transactions, expatriate employee tax services and transfer pricing studies. "Other fees" include a variety of other services, for example insurance compliance services.

In accordance with German law, BASF's independent auditors are appointed by the Annual Shareholders' Meeting based on a recommendation of our Supervisory Board. The Audit Committee of the Supervisory Board prepares the board's recommendation on the selection of the independent auditors. Subsequent to the auditors' appointment, the Audit Committee awards the contract and in its sole authority approves the terms and scope of the audit and all audit engagement fees as well as monitors the auditors' independence. On May 6, 2003, the Annual Shareholders' Meeting appointed Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, to serve as the Company's independent auditors for the 2003 fiscal year.

In order to assure the integrity of independent audits, in March 2003, BASF's Supervisory Board adopted pre-approval policies and procedures pursuant to which certain types of services to be performed by BASF's independent auditors in 2003. Under the policies, the Company's independent auditors are not allowed to perform any non-audit services which may impair the auditors' independence under the rules of the U.S. Securities and Exchange Commission. Furthermore, the

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Supervisory Board has limited the aggregate amount of non-audit fees payable to Deloitte & Touche during 2003 to a maximum of €0.5 million for services rendered for BASF Aktiengesellschaft and €4 million for services for all other companies of the BASF Group.

Services not included in one of the types of pre-approved services covered by the pre-approval policies and procedures require specific authorization of the Audit Committee. An approval may not be granted if the service falls into a category of services not permitted by current law or if it is inconsistent with maintaining auditor independence.

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## PART III

## Item 17. Financial Statements

Not applicable.

## Item 18. Financial Statements

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The following Consolidated Financial Statements, together with the report of Deloitte & Touche GmbH thereon, are filed as part of this Annual Report.

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Report of Independent Accountants	F-2
Consolidated Financial Statements	
Consolidated Statements of Income for the years ended December 31, 2003, 2002 and 2001	F-3
Consolidated Balance Sheets at December 31, 2003 and 2002	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001	F-6
Notes to the Consolidated Financial Statements	F-8
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### REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying consolidated balance sheets of BASF Aktiengesellschaft and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Germany and in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the financial position of BASF Aktiengesellschaft and its subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in Germany.

As discussed in Note 2 to the Consolidated Financial Statements, the Company changed its method of accounting for tax loss carryforwards in 2001.

Application of accounting principles generally accepted in the United States of America would have affected stockholders' equity as of December 31, 2003 and 2002 and net income for each of the three years in the period ended December 31, 2003 to the extent summarized by the company in Note 4 to the Consolidated Financial Statements.

Frankfurt am Main,

March 2, 2004

Deloitte & Touche GmbH  
Wirtschaftsprüfungsgesellschaft

Dr. Künnemann  
Wirtschaftsprüfer

Dr. Beine  
Wirtschaftsprüfer  
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## BASF GROUP

CONSOLIDATED STATEMENTS OF INCOME  
(euros and dollars in millions except per share amounts)

	Note	2003	2003	2002	2001
		\$	€	€	€
Sales		42,660.1	33,865.3	32,519.0	32,768.0
Natural gas taxes		(635.0)	(504.1)	(303.5)	(268.4)
<b>Sales, net of natural gas taxes</b>	5	42,025.1	33,361.2	32,215.5	32,499.6
Cost of sales		(29,392.6)	(23,333.0)	(21,815.5)	(22,187.8)
<b>Gross profit on sales</b>		12,632.5	10,028.2	10,400.0	10,311.8
Selling expenses		(5,692.7)	(4,519.1)	(4,763.9)	(5,143.6)
General and administrative expenses		(889.3)	(706.0)	(700.4)	(659.3)
Research and development expenses		(1,391.6)	(1,104.7)	(1,135.3)	(1,247.1)
Other operating income	6	706.1	560.5	716.0	881.5
Other operating expenses	7	(2,016.4)	(1,600.7)	(1,875.7)	(2,926.4)
<b>Income from operations</b>		3,348.6	2,658.2	2,640.7	1,216.9
Expense/income from financial assets		(8.2)	(6.5)	123.8	(209.3)
Write-downs of, and losses from, retirement of financial assets as well as securities held as current assets		(328.0)	(260.4)	(31.2)	(22.7)
Interest result		(281.3)	(223.3)	(92.4)	(376.2)
<b>Financial result</b>	8	(617.5)	(490.2)	0.2	(608.2)
<b>Income from ordinary activities</b>		2,731.1	2,168.0	2,640.9	608.7
Extraordinary income	9				6,120.8
<b>Income before taxes and minority interests</b>		2,731.1	2,168.0	2,640.9	6,729.5
Effect of the change in accounting principles for deferred taxes	2				50.6
Income taxes	10	(1,500.9)	(1,191.5)	(1,042.2)	(954.5)
<b>Income before minority interests</b>		1,230.2	976.5	1,598.7	5,825.6
Minority interests	11	83.5	66.3	94.3	(32.6)
<b>Net income</b>		\$ 1,146.7	€ 910.2	€ 1,504.4	€ 5,858.2
<b>Earnings per share</b>		\$ 2.04	€ 1.62	€ 2.60	€ 9.72

Solely for the convenience of the reader, the 2003 financial information has been translated into U.S. dollars using the December 31, 2003 noon buying rate of the Federal Reserve Bank of New York of \$1.2597 = €1.00.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

## BASF GROUP

CONSOLIDATED BALANCE SHEETS  
(euros and dollars in millions)

	Note	2003	2003	2002
<b>Assets</b>				
Intangible assets	13	\$ 4,778.3	€ 3,793.2	€ 3,464.6
Property, plant and equipment	14	16,464.2	13,069.9	13,744.7
Financial assets	15	3,274.7	2,599.6	3,248.9
		<u>24,517.2</u>	<u>19,462.7</u>	<u>20,458.2</u>
<b>Fixed assets</b>				
Inventories	16	5,229.1	4,151.1	4,798.4
Accounts receivable, trade		6,240.6	4,954.0	5,316.0
Receivables from affiliated companies		725.0	575.5	544.4
Miscellaneous receivables and other assets		2,606.9	2,069.5	1,786.9
		<u>9,572.5</u>	<u>7,599.0</u>	<u>7,647.3</u>
Receivables and other assets	17	9,572.5	7,599.0	7,647.3
Marketable securities	18	185.0	146.9	131.8
Cash and cash equivalents		605.4	480.6	230.6
		<u>790.4</u>	<u>627.5</u>	<u>362.4</u>
Liquid funds		790.4	627.5	362.4
<b>Current assets</b>				
		<u>15,592.0</u>	<u>12,377.6</u>	<u>12,808.1</u>
Deferred taxes	10	1,570.8	1,247.0	1,204.2
Prepaid expenses	19	647.9	514.3	615.3
		<u>42,327.9</u>	<u>33,601.6</u>	<u>35,085.8</u>
<b>Total assets</b>				
<b>Stockholders' equity and liabilities</b>				
Subscribed capital	20	1,795.1	1,425.0	1,460.0
Capital surplus	20	3,756.9	2,982.4	2,947.4
Retained earnings	21	15,185.4	12,054.8	12,468.2
Currency translation adjustment		(1,224.3)	(971.9)	(329.7)
Minority interests	22	488.9	388.1	396.3
		<u>20,002.0</u>	<u>15,878.4</u>	<u>16,942.2</u>
<b>Stockholders' equity</b>				
Provisions for pensions and similar obligations	23	4,865.5	3,862.4	3,910.0
Provisions for taxes		1,359.0	1,078.8	976.0
Other provisions	24	5,348.9	4,246.2	4,111.3
		<u>11,573.4</u>	<u>9,187.4</u>	<u>8,997.3</u>
<b>Provisions</b>				
Bonds and other liabilities to capital market	25	3,288.6	2,610.6	2,181.7
Liabilities to credit institutions	25	1,128.8	896.1	1,428.7
Accounts payable, trade		2,590.3	2,056.3	2,344.0
Liabilities to affiliated companies		504.6	400.6	547.8
Miscellaneous liabilities	25	2,774.4	2,202.4	2,274.3
		<u>2,774.4</u>	<u>2,202.4</u>	<u>2,274.3</u>

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<b>Liabilities</b>		10,286.7	8,166.0	8,776.5
<b>Deferred income</b>		465.8	369.8	369.8
<b>Total stockholders' equity and liabilities</b>	\$	42,327.9	€ 33,601.6	€ 35,085.8

Solely for the convenience of the reader, the 2003 financial information has been translated into U.S. dollars using the December 31, 2003 noon buying rate of the Federal Reserve Bank of New York of \$1.2597 = €1.00.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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BASF GROUP  
CONSOLIDATED STATEMENTS OF CASH FLOWS\*  
(euros and dollars in millions)

	2003	2003	2002	2001
Net income (excluding extraordinary income)	\$ 1,146.6	€ 910.2	€ 1,504.4	€ (117.6)
Depreciation and amortization of fixed assets	3,378.1	2,681.7	2,501.6	2,933.1
Changes in inventories	632.4	502.0	(207.4)	100.3
Changes in receivables	245.3	194.7	(10.8)	(216.8)
Changes in other operating liabilities and provisions	531.2	421.7	(814.6)	(566.4)
Changes in pension provisions/prepaid pension assets and other items	316.6	251.3	(334.0)	260.1
Net gains from disposal of fixed assets and marketable securities	(105.8)	(84.0)	(326.2)	(74.0)
<b>Cash provided by operating activities</b>	<b>6,144.4</b>	<b>4,877.6</b>	<b>2,313.0</b>	<b>2,318.7</b>
Payments related to tangible and intangible fixed assets	(2,609.2)	(2,071.3)	(2,410.4)	(2,810.6)
Payments related to financial assets and securities	(240.5)	(190.9)	(391.5)	(740.5)
Payments related to acquisitions	(1,864.1)	(1,479.8)	(267.2)	(461.3)
Proceeds from divestitures	108.1	85.8	5.4	7,503.4
Proceeds from the disposal of fixed assets and securities	499.8	396.8	899.8	628.6
<b>Cash used in investing activities</b>	<b>(4,105.9)</b>	<b>(3,259.4)</b>	<b>(2,163.9)</b>	<b>4,119.6</b>
Proceeds from capital increases	0.0		38.3	175.5
Share repurchase	(629.6)	(499.8)	(499.8)	(1,299.4)
Proceeds from the addition of financial indebtedness	7,084.7	5,624.1	3,127.8	1,779.5
Repayment of financial indebtedness	(7,086.8)	(5,625.8)	(2,088.0)	(6,071.9)
Dividends paid				
to shareholders of BASF Aktiengesellschaft	(993.5)	(788.7)	(758.4)	(1,214.1)
to minority shareholders	(86.4)	(68.6)	(85.0)	(52.2)
<b>Cash used in financing activities</b>	<b>(1,711.6)</b>	<b>(1,358.8)</b>	<b>(265.1)</b>	<b>(6,682.6)</b>
<b>Net change in cash and cash equivalents</b>	<b>326.9</b>	<b>259.4</b>	<b>(116.0)</b>	<b>(244.3)</b>

Effects on cash and cash equivalents				
from foreign exchange rates	(12.5)	(9.9)	(13.6)	3.7
from changes in scope of consolidation	0.6	0.5	0.3	95.0
Cash and cash equivalents as of beginning of year	290.5	230.6	359.9	505.5
<b>Cash and cash equivalents as of end of year</b>	<b>605.5</b>	<b>480.6</b>	<b>230.6</b>	<b>359.9</b>
Marketable securities	185.0	146.9	131.8	382.9
<b>Liquid funds as shown on the balance sheet</b>	<b>\$ 790.5</b>	<b>€ 627.5</b>	<b>€ 362.4</b>	<b>€ 742.8</b>

\*  
For other information regarding Consolidated Statements of Cash Flows, see explanations in Note 12.

Solely for the convenience of the reader, the 2003 financial information has been translated into U.S. dollars using the December 31, 2003 noon buying rate of the Federal Reserve Bank of New York of \$1.2597 = €1.00.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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BASF GROUP

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(euros in millions)

2003	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Currency translation adjustment	Minority interests	Total stockholders' equity
January 1, 2003	570,316,410	€ 1,460.0	€ 2,947.4	€ 12,468.2	€ (329.7)	€ 396.3	€ 16,942.2
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(13,673,000)	(35.0)	35.0	(499.8)			(499.8)
Dividends paid				(788.7)		(68.6)*	(857.3)
Net income				910.2		66.3	976.5
(Decrease)/increase of foreign currency translation adjustments					(642.2)	(8.7)	(650.9)
Changes in scope of consolidation and other changes				(35.1)		2.8	(32.3)
December 31, 2003	556,643,410	€ 1,425.0	€ 2,982.4	€ 12,054.8	€ (971.9)	€ 388.1	€ 15,878.4
2002	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Currency translation adjustment	Minority interests	Total stockholders' equity

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January 1, 2002	583,401,370 €	1,493.5 €	2,913.9 €	12,222.4 €	532.3 €	359.7 €	17,521.8
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(13,085,000)	(33.5)	33.5	(499.8)			(499.8)
Dividends paid				(758.4)		(85.0)*	(843.4)
Net income				1,504.4		94.3	1,598.7
(Decrease)/increase of foreign currency translation adjustments					(862.0)	(10.6)	(872.6)
Capital injection by minority interests						38.3	38.3
Changes in scope of consolidation and other changes	40			(0.4)		(0.4)	(0.8)
December 31, 2002	570,316,410 €	1,460.0 €	2,947.4 €	12,468.2 €	(329.7) €	396.3 €	16,942.2

\* Profit and loss transfers to minority interests.

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2001	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Currency translation adjustment	Minority interests	Total stockholders' equity
January 1, 2001	607,399,370 €	1,554.9 €	2,745.7 €	8,851.1 €	661.8 €	481.3 €	14,294.8
Issuance of new shares from conditional capital through the exercise of warrants attached to the 1986/2001 3% U.S. Dollar Option Bond of BASF Finance Europe N.V.	6,777,000	17.4	89.4				106.8
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(30,775,000)	(78.8)	78.8	(1,299.5)			(1,299.5)
Dividends paid				(1,214.1)		(52.2)*	(1,266.3)
Net income				5,858.2		(32.6)	5,825.6
(Decrease)/increase of foreign currency translation adjustments					(129.5)		(129.5)
Capital injection by minority interests						68.8	68.8
Changes in scope of consolidation and other changes				26.7		(105.6)	(78.9)
December 31, 2001	583,401,370 €	1,493.5 €	2,913.9 €	12,222.4 €	532.3 €	359.7 €	17,521.8

\* Profit and loss transfers to minority interests.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

## BASF GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Summary of accounting policies

## (a) Basis of presentation

The Consolidated Financial Statements of BASF Aktiengesellschaft ("BASF" or "BASF Aktiengesellschaft") are based on the accounting and valuation principles of the German Commercial Code (*Handelsgesetzbuch*) and the German Stock Corporation Act (*Aktiengesetz*) as well as the accounting standards of the German Accounting Standards Committee (*Deutscher Standardisierungsrat*), collectively German GAAP. The accounting principles conform to generally accepted accounting principles in the United States (U.S. GAAP) to the extent permissible under the German Commercial Code. The reconciliation of remaining significant deviations to U.S. GAAP is described in Note 4 to these Consolidated Financial Statements.

The translation of euros into U.S. dollars (\$) has been made solely for the convenience of the reader at the noon buying rate of the Federal Reserve Bank of New York on December 31, 2003, which was \$1.2597 = €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.

## (b) Scope of consolidation

The Consolidated Financial Statements include BASF Aktiengesellschaft, the parent company, and all material subsidiaries in which BASF Aktiengesellschaft directly or indirectly exercises a majority of the voting rights (collectively, the "Company"). Furthermore, material jointly operated companies are included on a proportional consolidation basis, with the exception of the joint venture Basell group, which is accounted for using the equity method. Basell group largely operates independently and is not included in the planning and approval processes of BASF.

Consolidated companies and changes to the scope of consolidation:

	2003	2002	2001
Consolidated companies as of January 1	155	154	170
<i>Thereof proportional consolidation</i>	<i>11</i>	<i>11</i>	<i>6</i>
First-time consolidations	7	7	27
<i>Thereof proportional consolidation</i>	<i>1</i>		<i>5</i>
Deconsolidations	8	6	43
<i>Thereof proportional consolidation</i>			
	-----	-----	-----
Consolidated as of December 31	154	155	154
<i>Thereof proportional consolidation</i>	<i>12</i>	<i>11</i>	<i>11</i>

Subsidiaries and joint ventures whose impact on the net worth, financial position and results of the Company is individually and in the aggregate immaterial, are excluded from the scope of consolidation.

Generally, affiliated companies not consolidated due to immateriality, non-proportionally consolidated jointly owned companies and associated companies are accounted for using the equity method. Associated companies represent those entities where the Company has a participation of at

least 20% and exercises a significant influence over the operating and financial policies. Overall, this applies to:

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	2003	2002	2001
Affiliated companies	21	21	24
Joint ventures	1	1	1
Other associated companies	2	4	3
	<u>24</u>	<u>26</u>	<u>28</u>

Major changes to the scope of consolidation, other than those relating to corporate structure, are as follows:

**2003:**

First-time consolidations comprise:

- /*\**/* BASF Chemicals Company Ltd., China, which is constructing production facilities for polytetrahydrofuran (PolyTHF®).
- /*\**/* Sabina Petrochemicals LLC, United States, a jointly operated company with ATOFINA, United States and Shell, United States, that uses the output produced in the steam cracker jointly operated with ATOFINA, in Port Arthur, Texas.
- /*\**/* Wintershall BM-C-10 Ltda., Brazil, a company exploring for oil and gas in Brazil.
- /*\**/* Four additional previously unconsolidated companies located in Germany, Canada, the Netherlands and Pakistan due to their increased importance.

Deconsolidations comprise:

- /*\**/* Four companies due to their declining significance.
- /*\**/* Four companies due to merger with other affiliates.

**2002:**

First-time consolidations comprise:

- /*\**/* Frank Wright Ltd., United Kingdom, which operates production plants for animal feed precursors, due to increased significance.
- /*\**/* Clyde Netherlands B.V. and Clyde Petroleum Exploratie B.V. of the Netherlands, which were acquired in 2002 and are included in the Oil & Gas segment.
- /*\**/* Another four companies in Germany, the Netherlands and Mexico, previously not consolidated because of minor significance.

Deconsolidations comprise:

- /*\**/* Six companies due to merger with other affiliates, liquidation, or due to declining significance.

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2001:

First-time consolidations comprise:

/\*/

BASF SONATRACH PropanChem S.A., Tarragona, Spain, which constructs plants for propylene production that are expected to start production in the first quarter of 2003.

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/\*/

ELLBA Eastern (Pte.) Ltd., Singapore, our joint venture with Shell, has constructed plants for styrene and propylene oxide. Production started in the second half of 2002.

/\*/

BASF-YPC Company Ltd., Nanjing, China, our joint venture with SINOPEC to set up a petrochemical Verbund site in Nanjing, China.

/\*/

BASF NOF Coatings Company Ltd., Tokyo, Japan, our joint venture with NOF, Tokyo, Japan, for the production and marketing of coatings, especially for the Japanese market.

/\*/

Another 22 subsidiaries, previously not consolidated, because of increased significance. They are located in Turkey, Japan, China, Russia, Poland, Norway, Finland and other countries.

Deconsolidations comprise:

/\*/

32 companies in the course of the sale of the pharmaceuticals and generics business.

/\*/

11 companies due to merger with other affiliates, liquidation or declining significance.

Changes in the scope of consolidation, acquisitions and divestitures had the following effects on the changes in the Consolidated Financial Statements:

	2003		2002		2001				
	(euros in millions)								
Sales	€	377.8	1.2%	€	(209.5)	(0.6)%	€(2,649.0)	(7.4)%	
<i>Thereof:</i>									
<i>Acquisitions</i>		633.3	2.0		118.3	0.4		1,486.0	4.1
<i>Divestitures</i>		(260.8)	(0.8)		(404.1)	(1.2)		(4,452.0)	(12.4)
<i>Changes in scope of consolidation</i>		5.3			76.3	0.2		317.0	0.9
Fixed assets		1,252.8	6.1		705.3	3.3		(522.6)	(2.4)
<i>Thereof property, plant and equipment</i>		176.0	1.3		414.5	2.9		155.4	1.1
Inventories and receivables		239.2	1.7		49.2	0.3		(1,105.4)	(6.9)
Liquid funds		0.4	0.1		24.1	3.2		(261.0)	(30.0)
Assets	€	1,492.4	4.3%	€	778.6	2.1%	€	(1,889.0)	(4.9)%
Stockholders' equity		2.8			(19.5)	(0.1)		5,690.6	39.8
Financial liabilities		1,406.1	38.9		285.7	10.1		(5,654.2)	(71.6)
Other liabilities		83.5	0.6		512.4	3.1		(1,925.4)	(11.8)



Stockholders' equity and liabilities	€	1,492.4	4.3%	€	778.6	2.1%	€	(1,889.0)	(4.9)%
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### Significant acquisitions

In 2003, BASF purchased a package of crop protection products, including the insecticide fipronil and certain seed treatment fungicides, from Bayer CropScience, Germany for the consideration of approximately €1.2 billion. In addition, acquisitions in 2003 included the acquisition of the engineering plastics business from Honeywell, United States for \$250 million, and the purchase of the Callery Chemical Division from the Mine Safety Appliance Company, United States for approximately \$65 million. Significant divestitures in 2003 involved, in particular the sale of BASF's nylon fibers business to Honeywell for \$160 million.

### Announced acquisitions

In January 2004, BASF and Sunoco, United States, agreed on the sales price of \$91 million for the purchase of the plasticizer business including inventories of \$29 million. In addition, Sunoco's Neville

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Island, Pennsylvania, site will manufacture plasticizers for BASF under a tolling agreement. The transaction also includes production plants for phthalic anhydride and oxo alcohols in Pasadena, Texas, as well as registrations, trademarks, patents, customer lists and tolling rights. Sunoco's annual sales in this business amounted to approximately \$150 million.

### Proportional consolidation

The Company accounts for its investments in 12 jointly operated companies (2002: 11, 2001: 11) using the proportional consolidation method, as permitted under German GAAP. Under U.S. GAAP, all investments in jointly operated companies must be accounted for using the equity method. The differences in accounting treatment between proportional consolidation and the equity method of accounting have no impact on reported stockholders' equity or net income. Rather, they relate solely to matters of classification and display. The United States Securities and Exchange Commission (SEC) permits the omission of such differences in classification and display in the reconciliation to U.S. GAAP appearing in Note 4.

Condensed financial information relating to the Company's pro rata interest in jointly operated companies accounted for using the proportional consolidation method is as follows:

### Income statement information

	Year ended December 31,		
	2003	2002	2001
	(euros in millions)		
Sales	€ 2,035.6	€ 1,719.5	€ 1,809.4
Gross profit	164.0	169.0	165.4
Income from operations	109.9	92.3	82.9
Income before taxes and minority interests	115.4	108.6	101.7
Net income	84.1	87.6	81.5

### Balance sheet information

	As of December 31,	
	2003	2002
	(euros in millions)	
Fixed assets	€ 1,227.3	€ 950.5
<i>Thereof property, plants, and equipment</i>	1,206.0	857.5

Inventories and receivables	424.8	451.6
Liquid funds	31.9	26.4
<b>Total assets</b>	<b>€ 1,734.0</b>	<b>€ 1,428.5</b>
Stockholders' equity	€ 644.5	€ 508.6
Provisions	139.2	139.1
Financial liabilities	235.6	59.8
Other liabilities	714.7	721.0
<b>Total liabilities and stockholders' equity</b>	<b>€ 1,734.0</b>	<b>€ 1,428.5</b>

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**Cash flow information**

	Year ended December 31,		
	2003	2002	2001
	(euros in millions)		
Cash provided by operating activities	€ 135.3	€ 125.6	€ 180.9
Cash used in investing activities	(322.0)	(155.0)	(382.5)
Cash used in (provided by) financing activities	196.7	2.8	168.0
Net change in cash and cash equivalents	€ 10.0	€ (26.6)	€ (33.6)

**Summarized financial information for significant associated companies accounted for using the equity method**

Condensed financial information of the significant companies accounted for using the equity method, including the Basell Group (BASF's share: 50%), from 2002, the Solvin Group (BASF's share: 25%), Svalöf Weibull Group (BASF's share: 40%) and, until September 2003, DyStar Group (BASF's share: 30%), is as follows:

**Income Statement**

	Year Ended December 31		
	2003	2002	2001
	(euros in millions)		
Sales	€ 6,833.8	€ 7,944.9	€ 7,708.0
Gross profit	796.7	1,283.8	688.7
Income from operations	(60.4)	197.7	(222.7)
Income before taxes and minority interests	(105.1)	96.8	(315.9)
Net income	(62.7)	67.6	(218.1)
BASF's share of net income	(33.0)	19.8	(108.2)

**Balance sheet information**

	As of December 31	
	2003	2002
	(euros in millions)	
Fixed assets	€5,427.6	€5,812.3
<i>Thereof property, plant, and equipment</i>	3,543.1	3,843.5
Inventories and receivables	2,014.1	2,506.3
Liquid funds	44.3	251.2
<b>Total assets</b>	<b>€7,486.0</b>	<b>€8,569.8</b>
Stockholders' equity	€3,338.9	€3,933.8
Provisions	784.5	956.6
Financial liabilities	1,814.7	2,088.2
Other liabilities	1,547.9	1,591.2
<b>Total liabilities and stockholders' equity</b>	<b>€7,486.0</b>	<b>€8,569.8</b>
BASF's investment	€1,612.6	€1,816.7

**List of shares held:** A list of companies included in the Consolidated Financial Statements as well as a list of all companies in which BASF has a participation, has been deposited in the Commercial Register HRB 3000 in Ludwigshafen (Rhein), Germany, as required by the German Commercial Code,

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Section 313 (2). The List of Shares Held can be obtained as a separate report from BASF Aktiengesellschaft.

**(c) Summary of significant accounting policies**

**Balance sheet date:** The Consolidated Financial Statements are generally prepared using the individual financial statements of the companies forming part of the group (hereinafter referred to as "consolidated companies"). Such financial statements are generally prepared as of the balance sheet date of the Consolidated Financial Statements. In certain cases, interim financial statements or adjusted statements as of the balance sheet date of the Consolidated Financial Statements are prepared and used.

**Uniform valuation:** Assets and liabilities of consolidated companies are accounted for and valued uniformly in accordance with the principles described herein. Where the accounting and valuation methods applied in the financial statements of the consolidated companies differ from these principles, appropriate adjustments are made to the relevant items. For companies accounted for under the equity method, significant deviations in the valuation methods are adjusted.

**Eliminations:** Transactions between consolidated companies as well as inter-company profits resulting from sales between consolidated companies are eliminated in full, and those for jointly operated companies on a pro rata basis. Inter-company profits resulting from sales to companies accounted for under the equity method, on customary market conditions are eliminated if they are material.

**Capital consolidation:** Capital consolidation is based on a method equivalent to the purchase method required under U.S. GAAP. At the time of acquisition, the acquisition cost of participations is offset against the proportionate share of equity acquired. Differences arising are allocated to the assets or liabilities of the acquired company up to their fair values or capitalized as intangible fixed assets, if they can be reliably identified and measured. Differences not allocated to individual assets are capitalized as goodwill and amortized within the expected useful life, within a period of five to 20 years.

**Revenue recognition:** Revenues from product sales and the performance of services are recognized upon shipment to customers or performance of services if ownership and risks are transferred to the buyer. Provisions for discounts, sales returns, rebates to customers, estimated future warranty obligations and other claims are provided for in the same period the related sales are recorded.

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**Intangible assets:** Intangible assets are valued at acquisition cost less scheduled straight-line amortization. The weighted average amortization period for the intangible assets is 11 years for 2003 and 12 years for 2002 based on the following expected useful lives:

	Estimated lives (years)	
	2003	2002
Goodwill	5 20	5 20
Trademarks, product rights, and licenses	3 15	3 10
Marketing, supply and similar rights	4 20	4 20
Know-how and patents	3 15	3 15
Concessions, explorations rights and similar rights	3 25	3 25
Software	1 5	1 5
Other rights and values	5 30	5 30

Goodwill is assigned to reporting units and tested annually for impairment in accordance with U.S. GAAP. There are two steps to the goodwill impairment test. The first step, used to identify potential impairment, compares the fair value of a reporting unit with its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit

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goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. In computing fair value, the Company utilizes discounted future cash flows, based on long-term earnings forecasts for the reporting units taking into account macroeconomic and business conditions (see also Note 4h).

The Company evaluates the other intangible assets whenever significant events or changes in circumstances occur which might impair recovery of recorded asset costs.

**Property, plant and equipment:** Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation over their estimated useful lives. Low-value assets are fully depreciated in the year of acquisition and are shown as retirements.

The cost of self-constructed plants includes direct costs and an appropriate proportion of the overhead cost of units involved in the construction, but excludes financing costs, pension funds, or voluntary social benefits for the period of construction. Fixed assets, including long-distance natural gas pipelines, are depreciated using the straight-line method. Movable fixed assets put into operation before the end of 2000 are mostly depreciated by the declining balance method, with a change to straight-line depreciation when this results in higher depreciation amounts.

The weighted average periods of depreciation are as follows for 2003 and 2002:

	Estimated lives (years)	
	2003	2002
Buildings and structural installations	24	22
Industrial plant and machinery	12	11
Long-distance natural gas pipelines	25	25
Working and office equipment and other facilities	7	7

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of an impairment loss for long-lived assets that the Company expects to hold and use is based on the fair value of the asset, which is usually based on the discounted expected future cash flows from the use of the asset and its eventual disposition.

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method, costs of successful and uncompleted oil and gas drilling operations are capitalized as tangible assets. Successful drillings are depreciated under the unit-of-production basis. Successful drillings of German operations that were completed before the end of 2000 are depreciated under the declining balance method

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over the estimated useful lives of eight years (for drilling in old fields) and 15 years. Geophysical expenditures, including exploratory and dry-hole costs, are charged against income.

**Financial assets:** Shares in more significant non-consolidated affiliated or associated companies are accounted for by the equity method. Other shares, participations and securities held as fixed assets are shown at acquisition cost or, where an other-than-temporary impairment of value occurs, at the appropriate lower values. Investments in affiliated and associated companies accounted for using the equity method are carried at cost of acquisition, plus the Company's equity in undistributed earnings. Goodwill associated with such investments is amortized over a period of between four and 10 years.

Interest-bearing loans are stated at cost; non-interest-bearing loans or loans at below market interest rates are stated at their present value. Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due. In such circumstances, the Company recognizes an impairment loss based on the estimated fair value of the loan.

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**Inventories:** Inventories are carried at acquisition costs or production costs. They are valued at market values if lower than cost. These lower values are the replacement costs for raw materials and factory supplies and merchandise and, in the case of work in process and finished products, the expected sales proceeds less costs to be incurred prior to sale or lower reproduction cost.

Production costs include, in addition to direct costs, an appropriate allocation of overhead cost of production using normal utilization rates of the production plants. Financing costs, pensions, or voluntary social benefits are not included in production costs.

Construction-in-progress relates mainly to chemical plants under construction for third parties. Profits are recognized at finalization and billing of a project or part of a project. Expected losses are recognized by write-downs to the lower attributable values.

**Receivables and other assets:** Receivables are generally carried at their nominal value. Notes receivable and loans generating no or a low-interest income are discounted to their present values. Lower attributable values due to risks of collectibility and transferability are covered by appropriate valuation allowances.

**Marketable Securities:** Securities are valued at cost. They are valued at quoted or market values if lower than cost.

**Cash and cash equivalents:** Cash and cash equivalents comprise mainly cash at banks, cash on hand and checks in transit.

**Deferred tax assets:** Deferred tax assets are recorded for taxable temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated companies and the carrying amounts for tax purposes. In addition, deferred taxes are recorded for tax loss carryforwards. For companies located in Germany a 38% tax rate is applied; for other companies the tax rates applicable in the individual countries are used. Appropriate valuation allowances are made if expected future earnings of a company make it seem more likely than not that the tax benefits will not be realized.

**Provisions:** Provisions for pensions are based on actuarial computations made predominantly according to the projected unit credit method. Similar obligations, especially those arising from commitments made by North American Group companies to pay the healthcare costs and life insurance premiums of retired staff and their dependents, are included in pension provisions.

Tax provisions are recognized for German trade income tax and German corporate income tax and similar income taxes in the amount necessary to meet the expected payment obligations, less any prepayments that have been made.

Provisions for deferred taxes are recognized for a net liability from taxable temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated companies and the carrying amounts for tax purposes, using the tax rates applicable in the individual countries.

Other provisions are recorded for the expected amounts of contingent liabilities and probable losses from pending transactions. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements.

Maintenance provisions are established to cover omitted maintenance procedures as of the end of the year, and are expected to be incurred within the first three months of the following year. The amount provided is based on reasonable commercial judgment.

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Provisions are established for environmental protection measures and risks if the measures are necessary to comply with legal or regulatory obligations and do not result in items to be capitalized as production costs. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected. Provisions for required re-cultivation associated with oil and gas operations, especially the filling of wells and clearance of oilfields, or the operation of landfill sites are built up over their expected service lives.

In addition, provisions are accrued for regular shutdowns within prescribed intervals of certain large-scale plants as required by technical surveillance authorities. Provisions are accrued in installments until the next scheduled shutdown based upon the expected costs to carry out these measures. Provisions are not recorded for the costs to temporarily shut down the facilities or for forgone earnings.

Provisions for restructuring measures are recorded when a commitment from management exists and a detailed plan has been established. Such provisions include severance payments and other personnel-related costs, as well as specific site restructuring costs such as the costs for demolition and closure.

Provisions for long-service and anniversary bonuses are actuarially calculated, predominantly using an interest rate of 5.5%. For pre-retirement part-time programs, the present value of supplemental (top-up) payments are provided when the employee accepts the offer and the wage and salary payments due during the passive phase of agreements are accrued through installments and discounted at an interest rate of 5.5%. Provisions are recorded for the expected costs of pre-retirement part-time programs that are anticipated to be contracted during the term of the collective bargaining agreements, taking into consideration the ceilings provided in the collective agreements.

The formation of provisions for the BASF stock option program (BOP) and BASF's incentive share program "plus" is described in detail in Note 28.

**Conversion of foreign currency items:** The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at current rates on transaction dates. Short-term foreign currency receivables and liabilities are valued at the rate on the balance sheet date. Long-term foreign currency receivables are recorded at the rate prevailing on the acquisition date or at the lower rate on the balance sheet date. Long-term foreign currency liabilities are recorded at the rate prevailing on the acquisition date or at the higher rate on the balance sheet date. Foreign-currency receivables or liabilities that are hedged individually are carried at hedge rates.

**Derivative financial instruments:** Derivative financial instruments are treated as pending transactions and are not recorded as assets or liabilities. Underlying transactions and hedging measures are combined and valued together, when applicable. Profits from hedging transactions that cannot be allocated to a particular underlying transaction are recorded in income upon maturity. Unrealized losses from hedging transactions, which cannot be allocated to a particular underlying transaction are recognized currently in earnings and included in provisions.

The use of derivative financial instruments to hedge against foreign currency, interest rate, and price risks is described in detail in Note 29.

**Translation of foreign currency financial statements:** The translation of foreign currency financial statements conforms with Statement of Financial Accounting Standard (SFAS) 52. The local currency or the U.S. dollar, is the functional currency of BASF subsidiaries and jointly operated companies in North America, Japan, Korea, China, Brazil, and Singapore. Translation therefore takes place using the current rate method. Balance sheet items are translated to euros at year-end rates except equity accounts at historical rates. Expenses and income are translated at monthly average rates

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and accumulated for the year. The effects of rate changes are shown under "currency translation adjustment" as a separate component of equity and are treated as income or expense only when a company is disposed of.

The euro is the functional currency for the remaining companies. Remeasurement therefore takes place using the temporal method: fixed assets except loans, and paid in capital are translated using historical rates. The other assets, liabilities, and provisions are translated using the

year-end rates. Expenses and income are converted at quarterly average rates cumulated to year-end figures, except for those items derived from balance sheet items converted at historical rates, which are also translated at historical rates. Foreign exchange gains or losses resulting from the remeasurement process are included in other operating expenses or income.

**Earnings per share:** The calculation of earnings per share is based on the average number of common shares outstanding during the applicable period and the net income of the period.

**Use of estimates in financial statement preparation:** The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the preparation of these Consolidated Financial Statements, estimates and assumptions have been made by management concerning the selection of useful lives of property, plant and equipment and intangible assets, the measurement of provisions, the carrying value of investments, and other similar evaluations of assets and obligations. Given the uncertainty regarding the determination of these factors, actual results could differ from these estimates.

## 2. Changes in accounting principles

The company changed the method of estimating the provision for obligations to remove equipment and fill in wells. Such provisions were accrued by German oil and gas companies on straight-line basis. From 2003 onward such provisions are accrued uniformly based upon the units already produced in comparison to the estimate of available remaining reserves. The change in the method of estimation resulted in an increase in 2003 in net income of €24.7 million, and an increase in earnings per share of €0.04.

Additions of movable assets to property, plant and equipment after January 1, 2001 are depreciated using the straight-line method, which is considered to better reflect the development of values of the Company's plants. Movable assets of property, plant and equipment already in use before the end of 2000 continue to be depreciated by the declining balance method with a change to straight-line depreciation when this results in higher depreciation amounts. Successful drillings in the oil and gas operations added in 2001 are depreciated under the unit-of-production method. Successful drillings of German operations that began production prior to 2001 continue to be depreciated under the declining balance method.

In 2001, the effect of the change in depreciation methods in 2001 was to reduce depreciation expense by €171.9 million and to increase net income by €110.2 million, or €0.18 per share.

Beginning in 2001, deferred tax assets for tax loss carryforwards are recorded if the expected future earnings of a company make it seem more likely than not that the tax benefit will be realized. This accounting treatment, mandatory under U.S. GAAP, is allowed in Germany based on the recently issued Standard No. 10 of the German Accounting Standards Board.

Deferred tax assets for tax loss carryforwards arising in 2001 reduced income tax expenses and correspondingly increased net income by €219.7 million, or €0.37 per share.

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Deferred tax assets recorded retroactively for tax loss carryforwards prior to 2001 resulted in an increase in net income of €50.6 million, or €0.08 per share, which is disclosed separately in the Consolidated Statements of Income as "Effect of the change in accounting principles for deferred taxes."

The changes in accounting principles in 2001 increased earnings per share in 2001 by €0.63.

## 3. Discontinued operations

On March 2, 2001, BASF's pharmaceuticals business was sold on the basis of an agreement dated December 14, 2000 to Abbott Laboratories Inc., Abbott Park, Illinois. Net sales and income of the pharmaceuticals business are shown separately and included in the financial statements of the BASF Group as well as in the data of the former business segment Health & Nutrition (now called Agricultural Products & Nutrition) for 2000 and for the period ended March 1, 2001.

The pharmaceuticals business is considered a discontinued operation under U.S. GAAP and would therefore not be included in the results from continuing operations for the years 2000 and 2001. The effect on the Consolidated Financial Statements would be as follows:

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**Income statement:**

	2003	2002 (euros in millions)	2001
Sales			€364
Income from operations			30
Income before taxes			31
Net income/income from discontinued operations			19

Net income from discontinued operations has been determined using a 40% income tax rate.

The gain on the disposal of the pharmaceuticals business was separately disclosed as extraordinary income in 2001 (Note 9). In accordance with U.S. GAAP, this gain would be adjusted for U.S. GAAP valuation differences and reported as part of income from discontinued operations.

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**4. Reconciliation to U.S. GAAP**

The Consolidated Financial Statements comply with U.S. GAAP as far as permissible under German GAAP. The remaining differences between German and U.S. GAAP relate to valuation methods that are required under U.S. GAAP but which are not permissible under German GAAP.

The following is a summary of the significant adjustments to net income and stockholders' equity that would be required if U.S. GAAP had been fully applied rather than German GAAP.

	Note	Year ended December 31,			
		2003	2003	2002	2001
		(euros and dollars in millions except per share amounts)			
<b>Reconciliation of net income to U.S. GAAP</b>					
Net income as reported in the Consolidated Financial Statements of income under German GAAP		\$ 1,146.6	€ 910.2	€ 1,504.4	€ 5,858.2
<b>Adjustments required to conform with U.S. GAAP</b>					
Capitalization of interest	(a)	(9.2)	(7.3)	(6.4)	50.7
Capitalization of software developed for internal use	(b)	(3.5)	(2.8)	30.5	64.1
Accounting for pensions	(c)	86.9	69.0	71.2	81.7
Accounting for provisions	(d)	198.5	157.6	12.4	4.0
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates	(e)	(31.2)	(24.8)	(143.9)	(74.3)
Valuation of securities at market values	(f)	(7.8)	(6.2)		(4.5)
Valuation adjustments relating to companies accounted for under the equity method	(g)	78.6	62.4	12.9	(30.3)
Reversal of goodwill amortization and write-offs due to permanent impairment	(h)	210.7	167.3	211.0	
Other adjustments	(i)	1.3	1.0	(12.9)	(10.8)
Deferred taxes and recognition of tax credit for dividend payments	(j)	0.8	0.6	48.1	(252.0)
Minority interests	(k)	13.5	10.7	(10.4)	5.6



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<b>Net income in accordance with U.S. GAAP</b>	\$ 1,685.2	€ 1,337.7	€ 1,716.9	€ 5,692.4
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	Year ended December 31,			
	2003	2003	2002	2001
	(euros and dollars in millions)			
<b>Net income in accordance with U.S. GAAP</b>	\$ 1,685.1	€ 1,337.7	€ 1,716.9	€ 5,692.4

Thereof:

<i>Income (loss) from continuing operations</i>	1,685.1	1,337.7	1,716.9	(238.2)
<i>Income from discontinued operations including gain from disposal</i>				5,892.6
Cumulative effect of implementing SFAS 133 as of January 1, 2001				38.0

**Earnings per share**

The calculation of earnings per common share is based on the weighted-average number of common shares outstanding during the applicable period. The calculation of diluted earnings per common share reflects the effect of all dilutive potential common shares that were outstanding during the respective period. The BASF employee participation program "plus" has been included in the

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computation of diluted earnings per share. Due to a resolution by the Board of Executive Directors in 2002, settlements of stock options from the BASF stock option program (BOP) for senior management will be made in cash, therefore such stock options have no dilutive effect.

The earnings per share from continuing operations based on income from ordinary activities after taxes were not impacted by any dilutive effect in 2003, 2002 and 2001, because the impact of potential common shares was anti-dilutive in each year.

	Year ended December 31,			
	2003	2003	2002	2001
	(euros and dollars in millions except per share amounts)			
<b>Net income in accordance with U.S. GAAP</b>	\$ 1,685.1	€ 1,337.7	€ 1,716.9	€ 5,692.4
Number of shares (1,000)				
Weighted average undiluted number of shares		561,887	579,118	602,586
Dilution effect				
Weighted average diluted number of shares		561,887	579,118	602,586
Basic earnings per share in accordance with U.S. GAAP	\$ 3.00	€ 2.38	€ 2.96	€ 9.45
Dilution effect				
Diluted earnings per share in accordance with U.S. GAAP	\$ 3.00	€ 2.38	€ 2.96	€ 9.45
Earnings per share in accordance with U.S. GAAP				
From continuing operations	\$ 3.00	€ 2.38	€ 2.96	€ (0.39)
From discontinued operations				€ 9.78
Cumulative effect of implementing SFAS 133 as of January 1, 2001				€ 0.06
Diluted earnings per share from continuing operations in accordance with U.S. GAAP	\$ 3.00	€ 2.38	€ 2.96	€ (0.39)

Year ended December 31,

Note	2003	2003 (euros and dollars in millions)	2002
<b>Reconciliation of stockholders' equity to U.S. GAAP</b>			
Stockholders' equity as reported in the Consolidated Balance Sheets under German GAAP	\$ 20,002.0	€15,878.4	€16,942.2
Minority interests	(488.9)	(388.1)	(396.3)
Stockholders' equity excluding minority interests	19,513.1	15,490.3	16,545.9
Adjustments required to conform with U.S. GAAP			
Capitalization of interest (a)	622.2	493.9	542.8
Capitalization of software developed for internal use (b)	231.9	184.1	192.8
Accounting for pensions (c)	1,237.7	982.5	914.0
Accounting for provisions (d)	260.5	206.8	49.4
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates (e)	(174.8)	(138.8)	(115.1)
Valuation of securities at market values (f)	112.2	89.1	100.6
Valuation adjustments relating to companies accounted for under the equity method (g)	229.3	182.0	138.3
Reversal of goodwill amortization and write-offs due to permanent impairment (h)	424.6	337.1	207.4
Other adjustments (i)	54.7	43.4	58.5
Deferred taxes and recognition of tax credit for dividend payments (j)	(797.8)	(633.3)	(688.8)
Minority interests (k)	(19.3)	(15.3)	(26.0)
<b>Stockholders' equity in accordance with U.S. GAAP</b>	<b>\$ 21,694.3</b>	<b>€17,221.8</b>	<b>€17,919.8</b>

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**(a) Capitalization of interest**

For U.S. GAAP purposes, the Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. The capitalization of interest relating to capital projects is not permissible under German GAAP. In calculating capitalized interest, the Company has made assumptions with respect to the capitalization rate and the average amount of accumulated expenditures. The Company's subsidiaries generally use the

entity-specific weighted-average borrowing rate as the capitalization rate.

**(b) Capitalization of software developed for internal use**

Certain costs incurred for computer software developed or obtained for the Company's internal use are to be capitalized and amortized over the expected useful life of the software. Such costs have been expensed in these financial statements because the capitalization of self-developed intangible assets is not permissible under German GAAP.

**(c) Accounting for pensions**

Pension benefits under Company pension schemes are partly funded in a legally independent fund "BASF Pensionskasse VVaG" ("BASF Pensionskasse"). Pension liabilities and plan assets of BASF Pensionskasse are not included in BASF Group's balance sheet. However, contributions to the BASF Pensionskasse are included in expenses for pensions and assistance.

BASF guarantees the commitments of the BASF Pensionskasse. For U.S. GAAP purposes, BASF Pensionskasse would be classified as a defined benefit plan and therefore included in the calculation of net periodic benefit cost as well as the projected benefit obligation and plan assets. The valuation of the pension obligations under the projected unit credit method and of the fund assets of BASF Pensionskasse at market values would result in a prepaid pension asset in accordance with U.S. GAAP that is not recorded in the Consolidated Financial Statements under German GAAP.

Net periodic benefit cost in accordance with U.S. GAAP would be lower than showing the Company's contribution to the BASF Pensionskasse as expense.

Information about the funded status of the BASF Pensionskasse is provided in the following table:

	2003	2002
	(euros in millions)	
Plan assets as of December 31	€3,781.2	€3,527.9
Projected benefit obligation as of December 31	3,569.3	3,413.1
	<u>          </u>	<u>          </u>
Funded status	211.9	114.8
Unrecognized actuarial losses	575.0	593.3
	<u>          </u>	<u>          </u>
Prepaid pension asset	€786.9	€708.1
	<u>          </u>	<u>          </u>

The accumulated pension benefit obligation (ABO) in 2003 is €3,429.8 million and in 2002 is €3,285.4 million.

The valuation of certain pension plans of foreign subsidiaries, in accordance with SFAS 87 also resulted in prepaid pension assets (Note 23), included in the reconciliation to U.S. GAAP. After consideration of unrecognized actuarial gains and losses, €195.6 million in 2003, and €205.9 million in 2002 were included in the reconciliation to U.S. GAAP.

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**(d) Accounting for provisions**

The reconciliation item contains the following deviations:

*Provisions for part-time programs for employees nearing retirement age:*

Under German GAAP, the company records a provision for the present value of all agreed upon supplemental (top-up) payments, when the employee nearing retirement age accepts the offer of the pre-retirement part-time program. A provision is also recorded for the expected costs for agreements that are anticipated to be concluded during the term of the collective bargaining agreements, taking into consideration the ceilings on the number of employee participants provided in such collective bargaining agreements. In accordance with U.S. GAAP, provisions

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may only be recorded for employees who have accepted an offer, and the supplemental payments are accrued over the employee's remaining service period. This results in an increase in income under U.S. GAAP of €124.4 million in 2003, €6.0 million in 2002, and €9.6 million in 2001. Stockholders' equity increases by €140.0 million in 2003 and €15.6 million in 2002.

### *Provisions for omitted maintenance procedures:*

German GAAP requires companies to accrue provisions as of the end of the year for expected costs of omitted maintenance procedures expected to take place in the first three months of the following year. Such costs would be expensed as incurred under U.S. GAAP. The amounts included in the reconciliation of net income related to maintenance provisions were €(1.7) million in 2003, €6.4 million in 2002, and €(5.6) million in 2001. The amounts in the reconciliation of stockholders' equity were €32.0 million in 2003, and €33.7 million in 2002.

### *Provisions for restructuring measures:*

SFAS 146, "Accounting for Costs Associated with Exit and Disposal Activities" was applied for U.S. GAAP purposes in 2003. Under this standard, expected costs associated with the exit or disposal of business activities can only be accrued when a liability exists. This includes severance payments for employees, the cancellation of contracts, the shutdown of production facilities, and the relocation of employees.

Since the accruals for restructuring measures under German GAAP are recorded based upon management decisions, the adoption of SFAS 146 for the first time in 2003, increased net income in accordance with U.S. GAAP by €23.5 million, and stockholders' equity by €23.3 million.

### *Provisions for asset retirement obligations:*

SFAS 143, "Accounting for Asset Retirement Obligations" addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets and was adopted in the fiscal year 2003. The expected obligations and costs associated with the demolition of plants and removal of potential damage to the environment have to be accrued as of the start of the production as additional cost for the related plants and are depreciated over the useful life. This also includes the change of these potential liabilities due to adjustments to the conditions as of the balance sheet date.

According to German GAAP, provisions required for re-cultivation associated with oil and gas operations, especially the filling of wells and clearance of oilfields, or the operation of landfill sites are accrued over their expected service lives. The initial application of SFAS 143 did not have a material effect on net income or stockholders' equity in 2003.

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### **(e) Accounting for derivatives at fair value and valuation of long-term foreign currency items**

As required by SFAS 133, as amended by SFAS 138, derivative contracts are to be accounted for at fair values. Where hedge accounting is not applicable, changes in the fair values of derivative contracts are to be included in net income, together with foreign exchange gains and losses of the underlying transactions.

Under German GAAP, unrealized gains on swaps and other forward contracts are deferred until settlement or termination while unrealized expected losses from firm commitments are recognized as of each period end. Under U.S. GAAP, these contracts are marked to market.

Furthermore, hedge accounting by a combined valuation of underlying transaction and derivatives is allowed by SFAS 133 to a lesser extent than applied in these financial statements.

Under German GAAP, long-term receivables and liabilities denominated in a foreign currency are converted into euros at the exchange rates of the date when the transactions took place or the lower exchange rates at the end of the year for receivables and the higher exchange rates for liabilities. U.S. GAAP requires conversion at the exchange rate at the end of the year.

### **(f) Valuation of securities**

Under U.S. GAAP, available-for-sale securities are recorded at market values on the balance sheet date. If the effect comes from unrealized profits or temporary impairments, the change in valuation is immediately recognized in a separate component of stockholders' equity. Realized profits and losses are credited or charged to income, as are other than temporary impairments of value. The major part of securities and other

investments are considered to be available-for-sale. Under German GAAP, such securities and other investments are valued at the lower of acquisition cost or market value at the balance sheet date.

**(g) Valuation adjustments relating to companies accounted for under the equity method**

For purposes of the reconciliation to U.S. GAAP, the earnings of companies accounted for using the equity method have been determined using valuation principles prescribed by U.S. GAAP.

**(h) Reversal of goodwill amortization and write-offs due to permanent impairment**

Goodwill is amortized over its useful life in accordance with German GAAP. The U.S. GAAP standard SFAS 142 "Goodwill and other Intangible Assets," which had to be applied for the first time in 2002, requires write-offs only based on annual impairment tests. The recoverability of goodwill is reviewed at the reporting-unit level by comparing the fair value of the reporting unit determined using discounted future cash flows, to the carrying value. There were no impairment write-downs required in 2003 or 2002. The goodwill amortization included in these financial statements is reversed and added back to net income.

In 2001, the retroactive application of SFAS 142 would have resulted in an increase of earnings in accordance with U.S. GAAP of €243.3 million after deduction of €75.0 million of income taxes. Earnings per share would have increased by €0.40 in 2001.

**(i) Other adjustments**

This item primarily includes the adjustment of provisions for stock compensation.

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Following a resolution by the Board of Executive Directors in 2002, stock options are to be settled in cash. Under U.S. GAAP, such obligations are to be accounted for as stock appreciation rights based on the intrinsic value of the options on the balance sheet date. However, options granted in prior years, for which cash settlement was not foreseen, are to be accounted for in accordance with SFAS 123 as equity instruments based upon the fair value on the grant date.

In the present Financial Statements, all obligations resulting from stock options are accounted for based upon the fair value on the balance sheet date. A provision is accrued over the vesting period of the options. The different accounting methods led to an increase in net income in accordance with U.S. GAAP of €17.2 million in 2003, and a decrease of €10.7 million in 2002 and €8.3 million in 2001.

In the present Financial Statements, obligations resulting from stock options are shown as provisions. In accordance with U.S. GAAP, options for which cash settlement was not originally foreseen are recorded as additions to stockholders' equity.

Overall, the accounting for stock options resulted in a decrease in stockholders' equity of €14.6 million in 2003, and an increase of €11.2 million in 2002.

**(j) Deferred taxes**

The adjustments required to conform with U.S. GAAP would result in taxable temporary differences between the valuation of assets and liabilities in the Consolidated Financial Statements and the carrying amount for tax purposes. Resulting adjustments for deferred taxes primarily relate to the following:

	Note	Stockholders' equity		Net income		
		2003	2002	2003 (euros in millions)	2002	2001
Capitalization of interest	(a)	€ (171.5)	€ (196.6)	€ 11.0	€ 7.3	€ (17.4)
Capitalization of software developed for internal use	(b)	(69.7)	(73.0)	1.0	(10.4)	(23.1)
Accounting for pensions	(c)	(360.6)	(333.0)	(27.7)	(22.2)	(30.2)

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Accounting for provisions	(d)	(78.8)	(19.7)	(59.1)	(5.8)	(2.1)
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates	(e)	48.9	30.1	6.3	35.3	28.1
Valuation of securities at market values	(f)	0.1		(17.2)	62.2	0.7
Valuation adjustments relating to companies accounted for under the equity method	(g)				45.7	(0.5)
Reversal of goodwill amortization and write-offs due to permanent impairment	(h)	(97.0)	(59.7)	(45.9)	(60.7)	
Other adjustments	(i)	95.3	87.3	8.0	(5.5)	(81.1)
Recognition of tax credit for dividend payments	(j)		(124.2)	124.2	2.2	(126.4)
		€ (633.3)	€ (688.8)	€ 0.6	€ 48.1	€ (252.0)

Other adjustments include in 2001 expenses from the elimination of deferred taxes on tax loss carryforwards, which are recorded in the financial statements since 2001.

The change of the deferred taxes for foreign currency translation adjustments is recognized in other comprehensive income.

Following a change in German tax law in 2003, the tax credit related to the distribution of retained earnings previously taxed at higher rates can only be used to reduce corporate income taxes in installments starting in 2006. In 2002 and 2001, the tax credit for dividend payments was booked in the

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financial year for which the dividend was recommended, in accordance with the tax-law situation that was valid in those years.

In accordance with U.S. GAAP, such tax credits are to be recognized as a reduction of income tax expenses in the period in which the tax credits will be recognized for tax purposes. The previous difference in the treatment of tax credits has been discontinued. The previous adjustments in income and stockholders' equity according to U.S. GAAP were eliminated in 2003.

**(k) Minority interests**

The share of minority shareholders in the aforementioned reconciliation items to U.S. GAAP of net income and stockholders' equity are reported separately.

**Consolidation of majority-owned subsidiaries:** U.S. GAAP requires the consolidation of all controlled subsidiaries. Under German GAAP, the Company does not consolidate certain subsidiaries if their individual or their combined effect on financial position, results of operations and cash flows is not material. The effect of non-consolidated subsidiaries for 2003, 2002 and 2001, on total assets, total liabilities, stockholders' equity, net sales and net income was less than 2%.

Additionally, under German GAAP, the Company accounts on a prospective basis for previous unconsolidated subsidiaries that are added to the scope of consolidation. U.S. GAAP requires consolidation for all periods that a subsidiary is controlled. The effects of adding previously unconsolidated companies to the scope of consolidation on net sales, net income, assets and liabilities was immaterial.

**Balance Sheet presentation:** The classification of the balance sheet is as required by German GAAP. Noncurrent portions of receivables and prepaid expenses are disclosed in Notes 17 and 19. Current portions of provisions and liabilities are disclosed in Notes 24 and 25.

**New U.S. GAAP accounting standards not yet adopted**

FIN 46, "Consolidation of Variable Interest Entities," which was issued in January 2003 and revised in December 2003, requires consolidation of variable interest entities by the primary beneficiary, even in the absence of a majority of the voting rights. FIN 46 is to be applied for interests in special purpose entities for periods ending after December 15, 2003 and for interests in all other entities for periods ending after March 15, 2004. The application of FIN 46 within the BASF group was analyzed, and it was determined that it would not have a significant impact on the assets, profitability, or financial situation of the BASF Group.

**Reporting of comprehensive income**

Comprehensive income in accordance with SFAS 130, "Reporting Comprehensive Income," includes the impact of expenses and earnings that are not included in net income under U.S. GAAP.

	Year ended December 31,		
	2003	2002	2001
	(euros in millions)		
<b>Comprehensive income</b>			
Net income in accordance with U.S. GAAP (before other comprehensive income)	€ 1,337.7	€ 1,716.9	€ 5,692.4
Change of foreign currency translation adjustments			
/*/ Gross	(729.3)	(908.6)	(116.0)
/*/ Deferred taxes	38.0	24.3	0.7
Changes in unrealized holding gains on securities			
/*/ Gross	(5.2)	(262.8)	113.5
/*/ Deferred taxes	17.2	71.8	(38.2)
Changes in unrealized losses from cash flow hedges			
/*/ Gross	0.5	(4.6)	
/*/ Deferred taxes	(0.2)	1.6	
Additional minimum liability for pensions			
/*/ Gross	(18.5)	(17.8)	
/*/ Deferred taxes		5.4	
Other comprehensive income (loss), net of tax	(697.5)	(1,090.7)	(40.0)
Comprehensive income, net of tax	€ 640.2	€ 626.2	€ 5,652.4

	Year ended December 31,	
	2003	2002
	(euros in millions)	
<b>Statement of stockholders' equity</b>		
Stockholders' equity in accordance with U.S. GAAP before accumulated other comprehensive income	€18,226.2	€18,226.7
Accumulated other comprehensive income:		
Translation adjustments		
/*/ Gross	(1,077.7)	(348.4)
/*/ Deferred taxes	52.0	14.0
Unrealized holding gains on securities		
/*/ Gross	100.6	105.8
/*/ Deferred taxes	(45.7)	(62.9)
Unrealized losses from cash flow hedges		
/*/ Gross	(4.1)	(4.6)
/*/ Deferred taxes	1.4	1.6
Additional minimum liability for pensions		
/*/ Gross	(36.3)	(17.8)
/*/ Deferred taxes	5.4	5.4

Accumulated other comprehensive income:	(1,004.4)	(306.9)
Total stockholders' equity in accordance with U.S. GAAP including comprehensive income	€17,221.8	€17,919.8

## 5. Reporting by segment and region

The Company is a worldwide manufacturer and supplier of more than 8,000 products. The Company offers a wide range of products, including chemicals, plastics, dyes and pigments,

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dispersions, automotive and industrial coatings, agricultural products, fine chemicals, crude oil and natural gas.

The Company conducts its worldwide operations through 12 operating divisions, which have been aggregated into five business segments based on the nature of the products and production processes, the type of customers, the channels of distribution and the nature of the regulatory environment. Certain business units and operating divisions were transferred within the segments Chemicals, Plastics & Fibers and Performance Products and Other in 2001.

The business segment Chemicals contains the operating divisions Inorganics, Petrochemicals and Intermediates.

The business segment Plastics (known as "Plastics & Fibers" until April 30, 2003) includes the operating divisions Styrenics, Performance Polymers and Polyurethanes. The segment was renamed following the divestiture of the nylon fiber business to Honeywell, United States.

The business segment Performance Products contains the operating divisions Performance Chemicals, Coatings and Functional Polymers.

The business segment Agricultural Products & Nutrition includes two reportable segments, Agricultural Products and Fine Chemicals. Figures for the divested pharmaceuticals business formerly a third reportable segment are included in the segment's figures through February 2001.

The Oil & Gas segment consists of the operating division Oil & Gas, which conducts oil and gas exploration and production, and trades in natural gas.

Business activities not allocated to any operating division are shown as "Other" and comprise the sale of feedstock, remaining fertilizers activities, engineering and other services as well as rental income. The income from operations recorded as "Other" includes mainly costs of exploratory and biotechnological research of €181 million in 2003 (€197 million in 2002, €202 million in 2001). "Other" also includes net losses from foreign currency transactions of €(1) million in 2003, €(143) million in 2002, and €(35) million in 2001, which are related to financial indebtedness and foreign currency derivatives, and are not allocated to the segments.

Transfers between the reportable segments are generally valued at market-based prices, and the revenues generated by these transfers are shown in the table below as "Intersegmental transfers."

The allocation of assets and depreciation to the segments is based on economic ownership. Assets used by more than one segment are allocated based on the percentage of usage.

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## Segment Data 2003



**Agricultural Products & Nutrition**  
*Thereof*

	Chemicals	Plastics*	Performance Products	Agricultural Products (euros in millions)	Fine Chemicals	Total	Oil & Gas	Other	Total
Net sales	€ 5,752	€ 8,787	€ 7,633	€ 3,176	€ 1,845	€ 5,021	€ 4,791	€ 1,377	€ 33,361
Change (%)	8.2	3.7	(4.8)	7.5	(6.3)	2.0	14.1	7.2	3.6
Intersegmental transfers	2,680	541	301	24	20	42	498	618	4,680
Sales including transfers	8,432	9,328	7,934	3,200	1,865	5,063	5,289	1,995	38,041
Income from operations	393	296	478	234	125	359	1,365	(233)	2,658
Change (%)	(38.1)	(49.1)	(26.0)	283.6		552.7	12.8	52.2	0.6
Assets	4,720	5,598	4,656	5,523	1,303	6,826	3,711	8,091	33,602
Return on operational assets (%)	8.1	5.0	9.7	4.4	9.3	5.4	37.1		9.5
Research and development expense	108	142	240	239	70	309	123	183	1,105
Additions to tangible and intangible fixed assets	527	539	236	1,133	140	1,273	323	518	3,416
Depreciation of tangible and intangible fixed assets	535	498	429	391	131	522	369	99	2,452

\*

Segment was previously "Plastics & Fibers" until April 30, 2003.

**Segment Data 2002**

**Agricultural Products & Nutrition**  
*Thereof*

	Chemicals	Plastics & Fibers	Performance Products	Agricultural Products	Fine Chemicals	Total	Oil & Gas	Other	Total
Net sales	€ 5,317	€ 8,477	€ 8,014	€ 2,954	€ 1,970	€ 4,924	€ 4,199	€ 1,285	€ 32,216
Change (%)	18.3	3.6	(1.7)	(15.1)	(0.7)	(15.5)	(7.0)	(3.0)	(0.9)
Intersegmental transfers	2,598	436	326	21	36	44	363	564	4,331
Sales including transfers	7,915	8,913	8,340	2,975	2,006	4,968	4,562	1,849	36,547
Income from operations	635	582	646	61	(6)	55	1,210	(487)	2,641
Change (%)	75.4			238.9	97.1		(7.5)	(25.5)	117.0
Assets	4,997	6,174	5,218	5,092	1,392	6,484	3,648	8,565	35,086
Return on operational assets (%)	12.9	9.3	11.5	1.1		0.8	35.6		8.9
Research and development expense	98	138	222	285	82	367	113	197	1,135
Additions to tangible and intangible fixed assets	495	636	288	88	157	245	920	471	3,055
Depreciation of tangible and intangible fixed assets	507	532	488	395	143	538	294	105	2,464

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**Segment Data 2001**

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Agricultural Products & Nutrition

Thereof

	Chemicals	Plastics & Fibers	Performance Products	Agricultural Products	Fine Chemicals	Pharmaceuticals*	Total	Oil & Gas	Other	Total
Net sales	€ 4,494	€ 8,185	€ 8,154	€ 3,478	€ 1,984	€ 364	€ 5,826	€ 4,516	€ 1,325	€ 32,500
Change (%)	(0.2)	(25.8)	(3.1)	43.2	14.1	(85.6)	(13.0)	14.1	(1.4)	(9.6)
Intersegmental transfers	2,452	406	322	30	29	5	62	413	477	4,132
Sales including transfers	6,946	8,591	8,476	3,508	2,013	369	5,888	4,929	1,802	36,632
Income from operations	362	(2)	99	18	(210)	30	(162)	1,308	(388)	1,217
Change (%)	(43.4)		(83.1)			(87.7)	21.0	(0.2)	(138.0)	(60.4)
Assets	4,847	6,344	6,048	6,377	1,488		7,865	3,149	8,622	36,875
Return on operational assets (%)	8.0		1.6	0.3				39.1		3.9
Research and development expenses	109	146	197	345	78	74	497	95	203	1,247
Additions to tangible and intangible fixed assets	929	891	418	130	199	20	349	229	497	3,313
Depreciation of tangible and intangible fixed assets	457	679	661	496	191	28	715	302	111	2,925

\* until the end of February 2001

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Geographical segment data

	Europe	Thereof Germany	North America (NAFTA)	South America	Asia, Pacific Area, Africa	Total
<b>2003</b>						
<b>Location of customers</b>						
Sales	€ 19,120	€ 7,073	€ 7,163	€ 1,765	€ 5,313	€ 33,361
Change (%)	8.0	1.9	(8.3)	6.3	5.2	3.6
Share (%)	57.3	21.2	21.5	5.3	15.9	100.0
<b>Location of companies</b>						
Sales	20,372	14,070	7,214	1,472	4,303	33,361
Sales including transfers	22,879	16,278	7,778	1,537	4,572	36,766
Income from operations	2,224	1,642	10	206	218	2,658
Assets	20,370	12,365	7,215	1,327	4,690	33,602
Additions to tangible and intangible fixed assets	2,255	961	429	65	667	3,416

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Depreciation of tangible and intangible assets	1,477	866	630	107	238	2,452
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**2002**

**Location of customers**

Sales	€	17,697	€	6,944	€	7,808	€	1,660	€	5,051	€	32,216
Change (%)		(1.6)		(3.7)		2.0		(24.1)		8.1		(0.9)
Share (%)		54.9		21.6		24.2		5.2		15.7		100.0

**Location of companies**

Sales	18,987	13,315	7,932	1,347	3,950	32,216
Sales including transfers	21,471	15,588	8,465	1,449	4,241	35,626
Income from operations	2,357	1,690	23	58	203	2,641
Assets	19,665	13,438	9,299	1,316	4,806	35,086
Additions to tangible and intangible fixed assets	1,997	1,008	373	88	597	3,055
Depreciation of tangible and intangible fixed assets	1,317	855	812	80	255	2,464

**2001**

**Location of customers**

Sales	€	17,984	€	7,212	€	7,654	€	2,188	€	4,674	€	32,500
Change (%)		(10.5)		(8.7)		(9.1)		(12.5)		(5.1)		(9.6)
Share (%)		55.3		22.2		23.6		6.7		14.4		100.0

**Location of companies**

Sales	19,399	13,417	7,772	1,842	3,487	32,500
Sales including transfers	21,652	15,512	8,440	1,927	3,770	35,789
Income from operations	1,926	1,347	(678)	(3)	(28)	1,217
Assets	19,296	13,318	10,616	2,201	4,762	36,875
Additions to tangible and intangible fixed assets	1,539	933	759	144	871	3,313
Depreciation of tangible and intangible fixed assets	1,445	935	1,149	85	246	2,925

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**6. Other operating income**

	2003	2002	2001
	(euros in millions)		
Release and adjustment of provisions	€170.4	€107.2	€164.4
Income from miscellaneous revenue-generating activities	56.6	114.5	115.9
Gains from foreign currency transactions	48.3	41.8	173.7
Gains from foreign currency conversion	80.6	152.6	78.9
Gains from disposal of assets	23.2	22.6	91.7
Other	181.4	277.3	256.9
	€560.5	€716.0	€881.5

*Release and adjustments of provisions* relate principally to sales and purchase provisions, personnel cost provisions, maintenance provisions and various other items in the normal course of business.

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Provision releases and adjustments arise because present circumstances indicate that they are no longer probable and estimable or that the probable amount has been reduced.

*Income from miscellaneous revenue-generating activities* primarily represents revenues from energy sales, sales of raw materials, as well as income from rentals and logistics services.

*Gains from foreign currency transactions* include realized gains from foreign currency derivatives and the conversion of short-term receivables and liabilities in foreign currency at year-end rates when these rates are higher in case of receivables or lower in case of liabilities compared to the rate at first measurement.

*Gains from foreign currency conversion* includes gains from currency exposures of financial statements in foreign currency, which are converted into euros under the temporal method. They are related to a higher net asset exposure or lower net liability exposure after conversion into euros than at the previous balance sheet date.

*Gains from the disposal of assets* in 2003 are primarily related to the sale of the soil conditioner business in the Agricultural Products and Nutrition segment. Gains in 2002 were related to the ordinary course of business. Gains in 2001 were especially related to the sale of the generics business of the Pharmaceuticals operating division to Novartis.

*Other* includes dissolution of valuation allowances on receivables, miscellaneous sales and various other sundry items.

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### 7. Other operating expenses

	2003	2002	2001
	(euros in millions)		
Integration measures, restructuring and shutdowns	€ 460.9	€ 276.6	€ 1,006.6
Environmental protection and safety measures, costs of demolition of fixed assets and costs related to the preparation of capital expenditure projects	179.7	269.1	260.8
Goodwill amortization	167.3	211.8	252.0
Costs from miscellaneous revenue-generating activities	56.8	112.1	122.5
Losses from foreign currency transactions	45.5	258.7	282.2
Losses from foreign currency conversion	114.9	68.2	33.0
Losses from disposal of assets	23.6	25.7	30.8
Other	552.0	653.5	938.5
<b>Total</b>	<b>€1,600.7</b>	<b>€1,875.7</b>	<b>€2,926.4</b>

*Integration measures, restructuring and shutdowns* in 2003 primarily contain efficiency improvements related to the Ludwigshafen site project, as well as expenses related to the corporate services restructuring in North America (NAFTA).

Measures in 2002 were mainly related to the closure of the ethylene oxide and glycol plants in North America (NAFTA), several measures in the Agricultural Products & Nutrition Segment, as well as expenses associated with restructuring at the Ludwigshafen site.

In 2001, charges arose primarily for the planned shutdown of sites and plants in North America (NAFTA), South America, the United Kingdom, the Netherlands, Germany, Australia and other countries. Additionally, restructuring measures were necessary at European companies

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due to reorganization of marketing and sales structures. These charges amounted to €747.4 million in total.

*Environmental protection measures* of €9.6 million in 2003, €10.3 million in 2002, and €20.7 million in 2001 were accrued. Further expenses are related to the cost of demolition of fixed assets as well as the preparation of capital expenditure projects if these costs did not fulfill the requirements for capitalization.

*Costs from miscellaneous revenue-generating activities* represents costs related to other miscellaneous revenue-generating activities as shown in Note 6.

*Other* includes in 2003, valuation adjustments in accounts receivable, the write-off of no longer usable inventories, and many other items.

In 2002, provisions of €100 million for damage claims associated with antitrust violations in the vitamins business were accrued. Further charges relate in particular to amortization of intangible assets as well as various other items.

In 2001, additional provisions of €200 million were accrued for the fine imposed by the E.U. Commission related to the antitrust proceedings against several vitamins producers. Further charges related to provisions for expected losses on accounts receivables in Argentina, waiving the peg of the Argentine peso to the U.S. dollar, as well as scrapping of inventories.

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### 8. Financial result

	Year ended December 31		
	2003	2002 (euros in millions)	2001
Income from participating interests and similar income	€ 126.3	€ 131.8	€ 49.3
<i>Thereof from affiliated companies</i>	21.4	18.1	14.3
Income from profit transfer agreements	2.7	10.3	4.2
Losses from loss transfer agreements	(12.7)	(8.1)	(11.0)
Income (losses) from companies accounted for under the equity method	(122.8)	(10.2)	(251.8)
Net income (loss) from financial assets	(6.5)	123.8	(209.3)
Write-down of, and losses from, retirement of financial assets as well as securities held as current assets	(260.4)	(31.2)	(22.7)
Income from other securities and financial assets	9.9	17.2	13.7
<i>Thereof from affiliated companies</i>	2.9	3.7	1.3

Other interest, income from sale of marketable securities and similar income	131.3	274.0	157.0
<i>Thereof from affiliated companies</i>	6.5	11.2	18.7
Interest and similar expenses	(364.5)	(383.6)	(546.9)
<i>Thereof to affiliated companies</i>	(12.5)	(21.0)	(12.8)
Interest result	(223.3)	(92.4)	(376.2)
Financial result	€ (490.2)	€ 0.2	€ (608.2)

Shares in participating interests were sold in 2003 resulting in income from participating interests and similar income of €41.7 million.

In 2002, income from participating interests and similar income included special income of €85.5 million from the sale of BASF Waren- und Anlagenvetriebs- und -leasing Gesellschaft mbH.

Amortization of goodwill of companies accounted for under the equity method totaling €74.3 million in 2003 (2002: €87.7 million, 2001: €67.6 million) as well as income from the release of negative goodwill of €2.0 million in 2001 are included in income (losses) from companies accounted for under the equity method.

The income (losses) from companies accounted for under the equity method included in 2001 charges at Basell Group for closures of its sites in Wilton, United Kingdom, and Tarragona, Spain, as well as restructuring charges for sites in the United States.

Write-down of, and losses from, retirement of financial assets as well as securities held as current assets relate in particular to a write-down for the participation in DyStar Textilfarben GmbH & Co. Deutschland KG and DyStar Textilfarben GmbH in 2003.

The valuation of DAX-LIBOR swaps is included within interest income. In 2003 the valuation of DAX-LIBOR swaps at their fair values produced income of €28 million, following a loss of €48 million in 2002.

Other interest, income from the sale of marketable securities and similar income included gains from the sale of securities and swaps of €243 million in 2002 and €0 in 2003 and 2001.

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## 9. Extraordinary income

	2001 (euros in millions)
Extraordinary revenues	€8,793.9
Extraordinary expenses	2,673.1
Extraordinary income	€6,120.8

Extraordinary revenues were generated in 2001 from the sale of the pharmaceuticals business including compensation for the surrendered liquid funds net of assumed financial debt as well as the payment for excess net assets compared to reference net assets at the date of the contract.

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Extraordinary expenses in 2001 included the book values of the pharmaceuticals business and the liquid funds. Further included are provisions for warranties or risks retained in connection with the sale of the pharmaceuticals business.

### 10. Income taxes

	2003		2002		2001
	(euros in millions)				
German corporate income tax	€ 378.5	€	389.8	€	449.1
German trade income tax	131.7		65.9		104.9
Foreign income tax	293.2		261.5		242.7
Income taxes on oil-producing operations non-compensable with German corporate income tax	504.8		427.1		487.1
Taxes for prior years	(10.3)		(53.8)		(32.7)
	<u>1,297.9</u>		<u>1,090.5</u>		<u>1,251.1</u>
Current taxes	1,297.9		1,090.5		1,251.1
Deferred taxes	(106.4)		(48.3)		(296.6)
	<u>1,191.5</u>	€	<u>1,042.2</u>	€	<u>954.5</u>
Income taxes	€ 1,191.5	€	1,042.2	€	954.5
Other taxes	151.8		168.4		174.6
	<u>1,343.3</u>	€	<u>1,210.6</u>	€	<u>1,129.1</u>
Tax expense	€ 1,343.3	€	1,210.6	€	1,129.1
<i>Thereof income taxes on extraordinary income</i>					<i>145.0</i>

"Other taxes" includes real estate taxes and other comparable taxes; they are shown under the appropriate functional costs of the statement of income.

Following a change in German tax law in 2003, corporate income tax reductions for dividend payments that were taxed at a higher rate in prior years can only be claimed in installments starting from 2006. In 2002, a refund claim was presented as a tax receivable and reduction of tax expenses in accordance with the tax-law situation that was valid at the time. The reversal of this receivable led to a charge of €124.2 we have appealed the first as assessment relating to this change in the law in 2003.

The regional breakdown of income before taxes from ordinary activities was as follows:

	2003		2002		2001
	(euros in millions)				
Germany	€ 1,332.1	€	1,858.2	€	970.1
Foreign	835.9		782.7		(361.4)
	<u>2,168.0</u>	€	<u>2,640.9</u>	€	<u>608.7</u>
	€ 2,168.0	€	2,640.9	€	608.7

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A federal German corporate income tax of 25% plus a 5.5% solidarity surcharge is levied on corporate income. As a result of the German Flood Victim Solidarity Act, the corporate tax was raised on a one-time basis in 2003 from 25% to 26.5%.

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In addition to corporate income tax, earnings generated in Germany are subject to a trade income tax that varies depending on the municipality in which the company is located. After accounting for trade income tax, which is a deductible operating expense, BASF has a weighted average trade income tax rate of 15.3%. Because German trade income tax is deductible, it also reduces the assessment basis for corporate income tax.

Income from foreign sources is taxed at the income tax rates applicable in the respective countries of domicile.

For German companies, deferred taxes are calculated using a tax rate of 38%. For foreign companies, deferred taxes are calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 33% in 2003, 30% in 2002, and 34% in 2001.

Income from foreign sources that are distributed in the form of a dividend to the parent company is up to 95% exempt from additional German corporate income tax. Income taxes on oil-producing operations in certain regions, which can amount to up to 85%, may be compensated up to the level of the German corporate income tax on this foreign taxable income. The non-compensable amount is shown separately in the reconciliation from the statutory tax rate in Germany to the effective tax rate.

### Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2003		2002		2001	
	Amount	%	Amount	%	Amount	%
German corporate income tax (excluding extraordinary income in 2001)	€ 542.0	25.0	€ 660.2	25.0%	€ 152.2	25.0%
Additional corporate tax due to the German Flood Victim Solidarity Act	18.6	0.9				
Solidarity surcharge	18.1	0.8	20.5	0.8	26.2	4.3
Credit for dividend distribution	124.2	5.7	(124.2)	(4.7)	(126.4)	(20.7)
German trade income tax net of corporate income tax	98.8	4.6	49.5	1.9	78.7	13.0
Foreign tax-rate differential	64.2	3.0	37.1	1.4	34.3	5.6
Non-taxable income	(82.5)	(3.8)	(190.8)	(7.2)	(72.9)	(12.0)
Non-deductible expenses, including amortization of goodwill	139.4	6.4	130.6	4.9	242.0	39.8
Loss from companies accounted for under the equity method	30.7	1.4	2.6	0.1	63.0	10.3
Taxes for previous years	(134.5)	(6.2)	(53.8)	(2.0)	(32.7)	(5.4)
Income taxes on oil-producing operations non-compensable with German corporate income tax	504.8	23.3	427.1	16.2	487.2	80.0
Other	(132.3)	(6.1)	83.4	3.1	(42.0)	(6.9)
<b>Income taxes/effective tax rate</b>	<b>€1,191.5</b>	<b>55.0%</b>	<b>€1,042.2</b>	<b>39.5%</b>	<b>€ 809.6</b>	<b>133.0%</b>

Deferred taxes are recorded in conformity with U.S. GAAP. Beginning in 2001, deferred tax assets on tax loss carryforwards including those for prior years are recorded. If expected future earnings of a company make it more likely than not that the future tax benefits will not be realized, adequate valuation allowances are established.

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Deferred tax assets or liabilities relate to the following items:

	2003	2002
	(euros in millions)	
Intangible assets	€ (102.0)	€ (29.1)



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Property, plant and equipment	(412.6)	(311.3)
Financial assets	37.4	(20.1)
Inventories and accounts receivable	77.5	52.7
Provisions for pensions and similar obligations	91.2	78.7
Other provisions and liabilities	563.0	581.4
Loss carryforwards	794.6	744.9
Securities and others	369.7	245.5
Valuation allowances	(171.8)	(138.5)
<i>Thereof for loss carryforwards</i>	(72.8)	(97.8)
<b>Total</b>	<b>€ 1,247.0</b>	<b>€ 1,204.2</b>
<i>Thereof short-term</i>	428.6	493.2
<b>Deferred tax liabilities</b>		
Property, plant and equipment	325.0	323.7
Intangible assets	119.7	73.7
Other	39.2	40.0
<b>Total</b>	<b>€ 483.9</b>	<b>€ 437.4</b>
<i>Thereof short-term</i>	67.0	29.4

Deferred tax liabilities are included in "provisions for taxes" in the Consolidated Balance Sheets. The regional distribution of tax loss carryforwards is as follows:

	2003	2002
	(euros in millions)	
Tax loss carryforwards		
German subsidiaries	€ 37.5	€ 5.5
Foreign subsidiaries	2,087.9	2,085.4
<b>Total</b>	<b>€ 2,125.4</b>	<b>€ 2,090.9</b>

German tax losses may be carried forward indefinitely. Foreign loss carryforwards exist primarily in North America (NAFTA). These expire starting in 2020.

#### 11. Minority interests

	2003	2002	2001
	(euros in millions)		
Minority interests in profits	€ 106.2	€ 125.0	€ 91.7
Minority interests in losses	39.9	30.7	124.3
	€ 66.3	€ 94.3	€ (32.6)

Minority interests in profits relate primarily to the Group companies engaged in trading and distribution of natural gas, and, in 2003 as well to the operating company for the steam cracker in Port Arthur, Texas.

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Minority interests in losses in 2003 and 2002 are mainly related to BASF SONATRACH PropanChem S.A., Spain. Minority interests in losses in 2001 relate mainly to BASF PETRONAS Chemicals Sdn. Bhd., Malaysia and BASF FINA Petrochemicals Ltd., United States.

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See Note 22 for a detailed analysis of consolidated subsidiaries with minority shareholdings.

### 12. Other information

#### Additional information on statements of cash flows

Cash generated from operating activities was derived after interest payments of €276.3 million in 2003, €281.8 million in 2002, and €428.9 million in 2001. Income taxes paid totaled €1,013.1 million in 2003, €1,021.2 million in 2002, and €1,214.9 million in 2001.

#### Personnel costs

	2003	2002	2001
	(euros in millions)		
Wages and salaries	€ 4,653.5	€ 4,751.3	€ 4,857.8
Social security contributions and expenses for pensions and assistance	1,237.1	1,223.6	1,170.2
<i>Thereof for pensions</i>	432.7	424.2	372.2
<b>Total</b>	<b>€ 5,890.6</b>	<b>€ 5,974.9</b>	<b>€ 6,028.0</b>

German Group companies incurred costs for employee representatives to comply with statutory regulations of €10.5 million in 2003, €11.3 million in 2002 and €9.9 million in 2001.

#### Average number of employees

	Fully consolidated companies			Proportionally consolidated companies		
	2003	2002	2001	2003	2002	2001
Europe	60,954	62,461	64,068	251	254	258
<i>Thereof Germany</i>	49,339	50,504	51,368	15	16	20
North America (NAFTA)	12,657	13,661	15,007	613	724	684
South America	5,053	5,391	6,088			
Asia, Pacific Area, Africa	8,480	8,389	8,660	1,182	1,016	900
<b>BASF Group</b>	<b>87,144</b>	<b>89,902</b>	<b>93,823</b>	<b>2,046</b>	<b>1,994</b>	<b>1,842</b>
<i>Thereof with trainee contracts</i>	2,669	2,752	2,868	2	6	7
<i>Thereof with limited-term contracts</i>	1,750	1,838	2,320	390	164	85

The number of employees of proportionally consolidated companies is shown above in full. If they are taken into account at 50%, the average number of personnel for the Company was 88,167 in 2003, 90,899 in 2002, and 94,744 in 2001.

As a result of the acquisition of Honeywell's business with engineering plastics in 2003, 263 employees transferred to BASF. At the same time, 140 BASF employees transferred to Honeywell as part of the sale of our fibers business. In 2004, about 1,200 additional BASF employees will transfer to Honeywell.

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

	2003	2002	2001
	(euros in million)		
Board of Executive Directors emoluments	€ 11.9	€ 13.6	€ 9.3
<i>Thereof fixed payments</i>	4.6	4.4	3.9
<i>Thereof performance-related payments</i>	7.3	9.2	5.4
Exercise of option rights by the Board of Executive Directors	2.3	1.7	
Supervisory Board emoluments	2.2	2.2	2.0
<i>Thereof fixed payments</i>	0.5	0.5	0.1
<i>Thereof performance-related payments</i>	1.7	1.7	1.9
Total emoluments of former members of the Board of Executive Directors and their surviving dependents	6.7	5.0	4.8
Exercise of option rights by former members of the Board of Executive Directors and their surviving dependents	1.3	1.1	
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	58.1	55.7	57.3
Loans to the Board of Executive Directors and the Supervisory Board			
Contingent liabilities for the benefit of the Board of Executive Directors and the Supervisory Board			

The criterion used to determine the size of performance-related bonuses is the return on assets, which corresponds to income from ordinary activities plus interest expenses as a percentage of average assets.

In 2003, the members of the Board of Executive Directors were also granted 116,612 options under the BASF stock option program. Together with the options granted in previous years, and the options already exercised, current and former members of the Board of Executive Directors hold 477,006 options. In 2003, the issue of options resulted in additional personnel costs totaling €3.9 million. Of this amount, €0.6 million was related to options issued in 2003, and €3.3 million to options issued in 1999 through 2002, which result in personnel costs over the vesting period.

In 2003, the exercising of options granted in 1999 and 2000 resulted in cash payments totaling €2.3 million to members of the Board of Executive Directors and €1.3 million to previous members or their surviving dependants. The cash payments do not influence personnel costs associated with the issuing of options, as the payments were charged against provisions established for this purpose in previous years. See Note 28 for further details.

The Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft issued a compliance statement with regard to the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporations Act.

The members of the Board of Executive Directors and the Supervisory Board as well as their memberships on other supervisory boards are shown in "Item 6."

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**13. Intangible assets**

	Concessions, trademarks and similar rights and values	Goodwill	Advance payments	Total
	(euros in millions)			
<b>Acquisition costs</b>				
Balance as of January 1, 2003	€ 2,458.8	€ 2,949.7	€ 13.8	€ 5,422.3

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Change in scope of consolidation	44.5	(12.8)		31.7
Additions	761.7	360.4	0.2	1,122.3
Disposals	139.0	319.6		458.6
Transfers*	(95.5)	(273.1)	(12.4)	(381.0)
	<u>3,030.5</u>	<u>2,704.6</u>	<u>1.6</u>	<u>5,736.7</u>
<b>Balance as of December 31, 2003</b>				
<b>Amortization</b>				
Balance as of January 1, 2003	1,079.9	876.6	1.2	1,957.7
Change in scope of consolidation		(2.1)		(2.1)
Additions	333.4	167.3		500.7
Disposals	106.6	305.3		411.9
Transfers*	(30.6)	(70.3)		(100.9)
	<u>1,276.1</u>	<u>666.2</u>	<u>1.2</u>	<u>1,943.5</u>
<b>Balance as of December 31, 2003</b>				
<b>Net book value as of December 31, 2003</b>	€ 1,754.4	€ 2,038.4	€ 0.4	€ 3,793.2
<b>Acquisition costs</b>				
Balance as of January 1, 2002	€ 2,403.3	€ 3,269.0	€ 8.1	€ 5,680.4
Change in scope of consolidation		0.3		0.3
Additions	288.3	83.8	5.5	377.6
Disposals	91.2	8.4		99.6
Transfers*	(141.6)	(395.0)	0.2	(536.4)
	<u>2,458.8</u>	<u>2,949.7</u>	<u>13.8</u>	<u>5,422.3</u>
<b>Balance as of December 31, 2002</b>				
<b>Amortization</b>				
Balance as of January 1, 2002	971.7	764.8	1.2	1,737.7
Change in scope of consolidation		0.2		0.2
Additions	240.6	211.8		452.4
Disposals	87.0	4.8		91.8
Transfers*	(45.4)	(95.4)		(140.8)
	<u>1,079.9</u>	<u>876.6</u>	<u>1.2</u>	<u>1,957.7</u>
<b>Balance as of December 31, 2002</b>				
<b>Net book value as of December 31, 2002</b>	€ 1,378.9	€ 2,073.1	€ 12.6	€ 3,464.6

\*

Transfers including foreign currency translation adjustments in those cases where the conversion took place at current exchange rates.

Additions in 2003 primarily relate to the acquisition of the fipronil crop protection business from Bayer CropScience (goodwill of €302 million in the Agricultural Products segment) and the purchase of the worldwide engineering plastics business from Honeywell, United States (goodwill of €58 million in the Plastics segment). Net disposals of goodwill of €14 million in 2003 relates to the sale of the soil improvements products business in the Agricultural Products segment. Additions in 2002 primarily include concessions for oil and gas production in the Dutch North Sea and goodwill of €66 million from the acquisition of Clyde Netherlands B.V. and Clyde Petroleum Exploratie B.V., the Netherlands in the Oil & Gas segment.

On December 31, 2003, the carrying value of goodwill is allocated primarily to the following reportable segments: Plastics, €118 million (2002: €93 million); Performance Products; €253 million (2002: €331 million); Agricultural Products, €1,567 million (2002: €1,545 million); and Oil & Gas, €64 million (2002: €66 million).

## 14. Property, plant and equipment

	Land, land rights and buildings including buildings on land owned by others	Machinery and technical equipment	Miscellaneous equipment and fixtures (euros in millions)	Advance payments and construction in progress	Total
<b>Acquisition costs</b>					
Balance as of January 1, 2003	€ 6,488.3	€ 29,231.7	€ 2,780.0	€ 2,099.5	€ 40,599.5
Change in scope of consolidation	(4.5)	0.3	(0.8)	45.9	40.9
Additions	85.8	642.1	136.9	1,428.3	2,293.1
Disposals	171.5	1,127.9	147.8	25.4	1,472.6
Transfers*	(83.9)	(287.7)	(68.8)	(1,448.4)	(1,888.8)
Balance as of December 31, 2003	6,314.2	28,458.5	2,699.5	2,099.9	39,572.1
<b>Depreciation</b>					
Balance as of January 1, 2003	3,814.2	20,782.7	2,251.3	6.6	26,854.8
Change in scope of consolidation	(3.8)		(0.9)		(4.7)
Additions	174.8	1,568.8	194.3	13.4	1,951.3
Disposals	129.0	1,043.0	134.0	12.7	1,318.7
Transfers*	(111.6)	(763.9)	(105.0)		(980.5)
Balance as of December 31, 2003	3,744.6	20,544.6	2,205.7	7.3	26,502.2
<b>Net book value as of December 31, 2003</b>	€ 2,569.6	€ 7,913.9	€ 493.8	€ 2,092.6	€ 13,069.9
<b>Acquisition costs</b>					
Balance as of January 1, 2002	€ 6,706.0	€ 28,568.1	€ 2,922.5	€ 2,881.4	€ 41,078.0
Change in scope of consolidation	21.4	13.8	2.6		37.8
Additions	96.5	780.3	144.8	1,655.4	2,677.0
Disposals	109.9	500.3	244.3	27.9	882.4
Transfers*	(225.7)	369.8	(45.6)	(2,409.4)	(2,310.9)
Balance as of December 31, 2002	6,488.3	29,231.7	2,780.0	2,099.5	40,599.5
<b>Depreciation</b>					
Balance as of January 1, 2002	3,848.9	20,692.7	2,343.2	3.4	26,888.2
Change in scope of consolidation	0.6	8.1	1.7		10.4
Additions	210.1	1,587.2	211.2	3.4	2,011.9
Disposals	75.7	477.4	229.1	0.2	782.4
Transfers*	(169.7)	(1,027.9)	(75.7)		(1,273.3)

Balance as of December 31, 2002		3,814.2	20,782.7	2,251.3	6.6	26,854.8
<b>Net book value as of December 31, 2002</b>	€	2,674.1	€ 8,449.0	€ 528.7	€ 2,092.9	€ 13,744.7

\*

Transfers including foreign currency translation adjustments in those cases where the conversion took place at current exchange rates.

Impairment losses in 2003 in the amount of €81.1 million relate to various production sites. Impairment losses in 2002 in the amount of €51.4 million were primarily necessary due to dry holes at Wintershall AG.

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**15. Financial assets**

Developments in 2003 Participations and securities held as fixed assets	Shares in affiliated companies	Shares in associated companies	Shares in participating interests (euros in millions)	Securities held as in fixed assets	Participations and securities held as fixed assets (subtotal)
<b>Acquisition costs</b>					
Balance as of January 1, 2003	€ 684.0	€ 1,848.8	€ 279.2	€ 13.1	€ 2,825.1
Change in scope in consolidation	16.5	(9.5)			7.0
Additions	52.7	4.3	5.7	1.9	64.6
Disposals	235.7	6.5	23.8	0.1	266.1
Transfers*	(5.4)	(282.5)		(0.5)	(288.4)
<b>Balance as of December 31, 2003</b>	<b>512.1</b>	<b>1,554.6</b>	<b>261.1</b>	<b>14.4</b>	<b>2,342.2</b>
<b>Accumulated depreciation</b>					
Balance as of January 1, 2003	47.9	1.0	0.1	1.7	50.7
Change in scope of consolidation	4.9				4.9
Additions	37.6	163.8			201.4
Disposals	0.2	0.2			0.4
Transfers*	(0.5)	(145.6)			(146.1)
<b>Balance as of December 31, 2003</b>	<b>89.7</b>	<b>19.0</b>	<b>0.1</b>	<b>1.7</b>	<b>110.5</b>
<b>Net book value as of December 31, 2003</b>	<b>€ 422.4</b>	<b>€ 1,535.6</b>	<b>€ 261.0</b>	<b>€ 12.7</b>	<b>€ 2,231.7</b>

Developments in 2003 Participations and securities held as fixed assets	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Loans and other investments (subtotal)	Total financial assets
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(euros in millions)

<b>Acquisition costs</b>										
Balance as of January 1, 2003	€	125.6	€	301.7	€	79.2	€	506.5	€	3,331.6
Change in scope of consolidation		(52.0)						(52.0)		(45.0)
Additions		29.4		1.3		30.0		60.7		125.3
Disposals		2.9		33.2		24.2		60.3		326.4
Transfers*		(5.6)		(21.0)		(7.6)		(34.2)		(322.6)
<b>Balance as of December 31, 2003</b>		<b>94.5</b>		<b>248.8</b>		<b>77.4</b>		<b>420.7</b>		<b>2,762.9</b>
<b>Accumulated depreciation</b>										
Balance as of January 1, 2003		14.2		14.7		3.1		32.0		82.7
Change in scope of consolidation		(7.2)						(7.2)		(2.3)
Additions		11.3		14.7		2.3		28.3		229.7
Disposals				0.2		0.2		0.4		0.8
Transfers*						0.1		0.1		(146.0)
<b>Balance as of December 31, 2003</b>		<b>18.3</b>		<b>29.2</b>		<b>5.3</b>		<b>52.8</b>		<b>163.3</b>
<b>Net book value as of December 31, 2003</b>										
	€	76.2	€	219.6	€	72.1	€	367.9	€	2,599.6

In 2003, disposals of "Shares in affiliated companies" primarily concerned a capital reduction for BASF Future Business GmbH of €175.0 million. Transfers of "Shares in associated companies" include the participation in the DyStar group, which was accounted for according to the equity method until

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September 2003. Since then, the holdings of the DyStar Textilfarben GmbH & Co. Deutschland KG and DyStar Textilfarben GmbH are accounted for as other assets, due to the intent to dispose of the assets.

<b>Developments in 2002</b>										
<b>Participations and securities held as fixed assets</b>	<b>Shares in affiliated companies</b>	<b>Shares in associated companies</b>	<b>Shares in participating interests (euros in millions)</b>	<b>Securities held as in fixed assets</b>	<b>Participations and securities held as fixed assets (subtotal)</b>					
<b>Acquisition costs</b>										
Balance as of January 1, 2002	€	605.1	€	1,870.7	€	232.7	€	27.2	€	2,735.7
Change in scope of consolidation		12.2								12.2
Additions		80.0		23.4		39.0		1.3		143.7
Disposals		29.3		1.8		1.7		0.4		33.2
Transfers*		16.0		(43.5)		9.2		(15.0)		(33.3)
<b>Balance as of December 31, 2002</b>		<b>684.0</b>		<b>1,848.8</b>		<b>279.2</b>		<b>13.1</b>		<b>2,825.1</b>
<b>Accumulated depreciation</b>										
Balance as of January 1, 2002		31.8		1.0		1.4		1.7		35.9
Change in scope of consolidation		6.8								6.8
Additions		8.0				0.1		0.5		8.6
Disposals						1.4				1.4

Transfers*	1.3			(0.5)	0.8
Balance as of December 31, 2002	47.9	1.0	0.1	1.7	50.7
<b>Net book value as of December 31, 2002</b>	<b>€ 636.1</b>	<b>€ 1,847.8</b>	<b>€ 279.1</b>	<b>€ 11.4</b>	<b>€ 2,774.4</b>
<b>Developments in 2002</b>					
<b>Participations and securities held as fixed assets</b>	<b>Loans to affiliated companies</b>	<b>Loans to associated companies and participating interests</b>	<b>Other loans and investments (euros in millions)</b>	<b>Loans and other investments (subtotal)</b>	<b>Total financial assets</b>
<b>Acquisition costs</b>					
Balance as of January 1, 2002	€ 119.7	€ 359.1	€ 186.4	€ 665.2	€ 3,400.9
Change in scope of consolidation					12.2
Additions	17.4	37.0	36.2	90.6	234.3
Disposals	8.3	71.4	16.1	95.8	129.0
Transfers*	(3.2)	(23.0)	(127.3)	(153.5)	(186.8)
Balance as of December 31, 2002	125.6	301.7	79.2	506.5	3,331.6
<b>Accumulated depreciation</b>					
Balance as of January 1, 2002	0.2	0.8	3.3	4.3	40.2
Change in scope of consolidation					6.8
Additions	14.0	13.9	0.8	28.7	37.3
Disposals			1.1	1.1	2.5
Transfers*			0.1	0.1	0.9
Balance as of December 31, 2002	14.2	14.7	3.1	32.0	82.7
<b>Net book value as of December 31, 2002</b>	<b>€ 111.4</b>	<b>€ 287.0</b>	<b>€ 76.1</b>	<b>€ 474.5</b>	<b>€ 3,248.9</b>

\*

Transfers including foreign currency translation adjustments in those cases where the conversion took place at current exchange rates.

Additions to "Shares in affiliated companies" include a capital increase of €16.3 million at BASF Chemicals Company Ltd., China. Retirements were related to the merger of the non-consolidated BASF Polyurethanes Elastomers Ltd. and BASF Japan Ltd. Additions to "Shares in participating interests"

primarily include the acquisition of shares in Aethylen Rohrleitungsgesellschaft mbH & Co. KG, Germany.

#### Other financial assets



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The book and market values of available-for-sale "Securities held as fixed assets" and "Shares in participating interests" is summarized below:

	2003			2002		
	Book values	Market value	Unrealized gains (euros in millions)	Book values	Market values	Unrealized gains
Fixed-term interest bearing securities	€ 1.4	€ 1.4		€ 1.2	€ 1.2	
Mutual funds	8.6	8.4	(0.2)	6.9	6.3	(0.6)
Other shareholdings and securities	263.7	337.9	74.2	282.4	372.3	89.9
<b>Total</b>	<b>€ 273.7</b>	<b>€ 347.7</b>	<b>€ 74.0</b>	<b>€ 290.5</b>	<b>€ 379.8</b>	<b>€ 89.3</b>

The disposal of available-for-sale securities generated proceeds of €62 million a gain of €42 million in 2003, and neither proceeds nor gains in 2002 and 2001.

### 16. Inventories

	2003		2002	
	(euros in millions)			
Raw materials and factory supplies	€	910.5	€	992.5
Work-in-process, finished goods and merchandise		3,154.2		3,706.0
Construction in progress		71.8		87.6
Advance payments		14.6		12.3
<b>Total</b>	<b>€</b>	<b>4,151.1</b>	<b>€</b>	<b>4,798.4</b>

"Work-in-process" and "Finished goods and merchandise" are combined into one item due to the production conditions in the chemical industry.

The acquisition or production cost of raw materials, work-in-process, finished goods and merchandise is mainly determined by the last-in-first-out (LIFO) method. Factory supplies are carried at average cost. Inventories of €2,535.4 million or 61% of total inventories in 2003, and €3,036.9 million or 63% of total inventories in 2002 were valued according to the LIFO method. The difference between the carrying value determined according to the LIFO method and higher average cost or lower market values was €62 million in 2003 and €65 million in 2002.

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### 17. Receivables and other assets

	2003		2002		
	<i>Thereof non-current</i>		<i>Thereof non-current</i>		
(euros in millions)					
Accounts receivable, trade	€	4,954.0	13.2	€ 5,316.0	€ 18.2
Receivables from affiliated companies		575.5		544.4	
Miscellaneous receivables and other assets		2,069.5	248.9	1,786.9	275.5

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Thereof:

Receivables from associated companies and other participating interests	190.6		277.1	
Other assets	1,878.9	248.9	1,509.8	275.5
<b>Total</b>	<b>€ 7,599.0</b>	<b>€ 262.1</b>	<b>€ 7,647.3</b>	<b>€ 293.7</b>

**Composition of other assets**

	2003		2002	
	(euros in millions)			
Tax refund claims	€	274.6	€	463.4
Loans and interest receivables		230.2		281.3
Deferrals from financial derivatives		833.6		313.7
Receivables from the sale of non-trade assets		80.8		59.0
Employee receivables		32.2		31.6
Rents and deposits		66.5		39.2
Insurance claims		21.2		12.8
Receivables with consortium partners		41.2		14.7
Other		298.6		294.1
<b>Total</b>		<b>€1,878.9</b>		<b>€1,509.8</b>

**Valuation allowances for doubtful accounts**

	Balance as of January 1, 2003	Affecting income		Not affecting income		Balance as of December 31, 2003
		Additions	Releases (euros in millions)	Additions	Releases	
Accounts receivable, trade	€ 389.3	€ 81.8	€ 72.4	€ 6.5	€ 72.2	€ 333.0
Miscellaneous receivables and other assets	67.2	12.8	10.1	0.1	29.6	€ 40.4
<b>Total</b>	<b>€ 456.5</b>	<b>€ 94.6</b>	<b>€ 82.5</b>	<b>€ 6.6</b>	<b>€ 101.8</b>	<b>€ 373.4</b>

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	Balance as of January 1, 2002	Affecting income		Not affecting income		Balance as of December 31, 2002
		Additions	Releases (euros in millions)	Additions	Releases	
Accounts receivable, trade	€ 491.9	€ 173.7	€ 152.1	€ 22.4	€ 146.6	€ 389.3
Miscellaneous receivables and other assets	67.4	13.1	2.0	8.8	20.1	€ 67.2
<b>Total</b>	<b>€ 559.3</b>	<b>€ 186.8</b>	<b>€ 154.1</b>	<b>€ 31.2</b>	<b>€ 166.7</b>	<b>€ 456.5</b>

	Balance as of January 1, 2001		Affecting income		Not affecting income		Balance as of December 31, 2001					
			Additions	Releases (euros in millions)	Additions	Releases						
Accounts receivable, trade	€	404.1	€	228.7	€	108.4	€	78.1	€	110.6	€	491.9
Miscellaneous receivables and other assets		81.6		9.7		20.7		2.5		5.7	€	67.4
<b>Total</b>		<b>€485.7</b>		<b>€238.4</b>		<b>€129.1</b>		<b>€80.6</b>		<b>€116.3</b>		<b>€559.3</b>

Additions and releases not affecting income related primarily to changes in scope of consolidation, to translation adjustments and write-offs of receivables previously written down.

### 18. Marketable securities

	Book values		2003 Market values		Unrealized gains (euros in millions)		Book values		2002 Market values		Unrealized gains	
Fixed-term interest bearing securities	€	12.1	€	12.4	€	0.3	€	12.8	€	13.2	€	0.4
Shares		134.8		149.5		14.7		117.6		135.6		18.0
Mutual funds								0.4		0.4		
Other securities								1.0		1.0		
<b>Total</b>	€	<b>146.9</b>	€	<b>161.9</b>	€	<b>15.0</b>	€	<b>131.8</b>	€	<b>150.2</b>	€	<b>18.4</b>

There was no significant disposal of available-for-sale securities in 2003. The disposal of available-for-sale securities in 2002 generated proceeds of €492.3 million and a tax-free gain of €243 million. There was no disposal of available-for-sale securities in 2001.

Maturities of fixed-term securities	2003		2002					
	Book values	Market values (euros in millions)	Book values	Market values				
Less than 1 year			€	7.6	€	7.7		
Between 1 and 5 years		12.1		12.4		5.2	5.5	
<b>Total</b>	€	<b>12.1</b>	€	<b>12.4</b>	€	<b>12.8</b>	€	<b>13.2</b>

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### 19. Prepaid expenses

	2003		2002	
	Total		Thereof non-current	
	(euros in millions)			
Discounts	€ 10.3	€ 7.4	€ 4.4	€ 2.7
Prepaid benefit cost	399.1	399.0	479.5	456.4
Miscellaneous	104.9	10.3	131.4	15.3
<b>Total</b>	<b>€ 514.3</b>	<b>€ 416.7</b>	<b>€ 615.3</b>	<b>€ 474.4</b>

The discounts from the issuance of the 5.75% Euro Bond 2000/2005 and the 3.5% Euro Benchmark Bond 2003/2010 of BASF Aktiengesellschaft are capitalized and amortized as interest expense over the term of the underlying obligations.

Prepaid benefit cost resulted primarily from contributions to pension funds in North America (NAFTA).

The pension plan assets as assessed in accordance with German GAAP exceed the minimum pension liability in accordance with German GAAP. The contributions to the pension fund are therefore expenses for future periods and accounted for as prepaid expenses.

Other prepaid expenses are related to prepayments of operating costs of €23.5 million in 2003 and €32.3 million in 2002, as well as prepaid insurance premiums of €11.8 million in 2003, and €10.4 million in 2002.

## 20. Capital and reserves

	Conditional capital			
	2003		2002	
	(euros in millions)			
January 1	€	429.2	€	432.4
	€		€	158.3
Cancellation of option rights for option bonds to be issued until April 1, 2001				(102.4)
Authorization through the Annual Meeting on April 26, 2001, for the issuance of new shares to fulfill the exercising of warrants related to option bonds, which may be issued until April 1, 2006				384.0
Authorization through the Annual Meeting on April 26, 2001, for the issuance of new shares under the BASF Stock Option Program BOP 2001/2005 and BOP 1999/2000				38.4
Limitation of the issuance of new shares to be issued under the BASF Stock Option Program BOP 1999/2000 to the				(28.4)

3,923,344 options issued until April 25, 2001, according to the resolution at the Annual Meeting on April 26, 2001			
Reduction resulting from exercise or expiration of option rights	(3.9)	(3.2)	
Issuance of new shares from the conditional capital through the exercise of warrants attached to the 1996/2001 3% U.S. Dollar Option Bond of BASF Finance Europe N.V.			(17.4)
Cancellation of warrants from the Option Bond 1996/2001			(0.1)
Issuance of new stock as conditional capital through the exercise of conversion rights of former Wintershall stockholders, below €0.1 million in 2002			
<b>December 31</b>	€ 425.3	€ 429.2	€ 432.4

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	Authorized Capital		
	2003	2002	2001
	(euros in millions)		
<b>January 1/December 31</b>	€ 500.0	€ 500.0	€ 500.0

	Subscribed capital		
	Outstanding shares	Subscribed capital	Capital reserve
Outstanding shares as of December 31, 2003	558,861,410	1,430.7	2,976.7
Repurchased shares intended to be cancelled	2,218,000	(5.7)	5.7
<b>Outstanding shares as disclosed in the financial statements</b>	<b>556,643,410</b>	<b>1,425.0</b>	<b>2,982.4</b>

A total of 13,673,000 shares were repurchased in 2003, of which 11,455,000 shares were cancelled as of December 31, 2003, and the cancellation was entered into the commercial register. The Board of Executive Directors decided in 2003 to cancel the remaining 2,218,000 shares; the cancellation has not yet been entered into the commercial register. The subscribed capital is shown net of these shares.

#### Share repurchase

The Board of Executive Directors received approval at the Annual Meeting on May 6, 2003, to repurchase BASF's shares to a maximum amount of 10% of subscribed capital by November 1, 2004. The shares shall be purchased on the stock exchange or through a public purchase offer addressed to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the

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highest market price on the buying day and it may not be lower than 25% of that market price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 25% higher than the highest market price on the third trading day prior to the publishing of the public purchase offer. This authorization supersedes the validity of the prior authorizations to repurchase BASF shares.

The Board of Executive Directors is authorized to cancel repurchased shares without further shareholder approval. A sale of repurchased BASF shares requires the respective authorization through the Annual Meeting unless the shares are utilized to serve options from the BASF Stock Option Program BOP 1999/2000 and BOP 2001/2005, or with the authorization of the Supervisory Board, to acquire companies, parts of companies or holding in companies in return for the transfer of shares.

Based on the respective authorizations, a total of 13,673,000 shares, or 2.4% of the issued shares have been acquired in 2003. The average purchase price was €36.55 per share. Of these shares a total of 11,455,000 shares were cancelled by December 31, 2003. The remaining 2,218,000 shares of BASF Aktiengesellschaft were acquired for the purpose of cancellation. Therefore, the subscribed capital is shown net of these shares at December 31, 2003. During 2002, BASF purchased and cancelled a total of 13,085,000 shares, or 2.2% of issued shares, at an average price of €38.20 per share.

### Conditional capital

The Annual Meeting on April 26, 2001, authorized the Board of Executive Directors to make an additional conditional increase in the subscribed capital of up to €384.0 million to fulfill the exercising of warrants related to option bonds which may be issued until April 1, 2006. Additional conditional capital of €38.4 million is reserved to fulfill stock options granted under the BASF Stock Option Program (BOP) 2001/2005 to the members of the Board of Executive Directors and other senior executives of BASF and its subsidiaries; up to €2.9 million conditional capital is reserved to fulfill stock options from the Stock Option Program 1999/2000. An amount of less than €0.1 million is reserved to meet compensation claims of former shareholders of Wintershall.

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### Authorized capital

At the Annual Meeting of April 29, 1999, shareholders authorized the Board of Executive Directors, with the approval of the Supervisory Board, to increase subscribed capital by issuing new shares in an amount of up to €500.0 million against cash or contribution in kind through May 1, 2004. The Board of Executive Directors is empowered to decide on the exclusion of shareholders' subscription rights, for these new shares.

### Capital surplus

Capital surplus includes premiums from the issuance of shares, the fair value of warrants attached to option bonds and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for issue of BASF shares at par value.

## 21. Retained earnings

	2003	2002	2001
	(euros in millions, excluding per share information)		
Legal reserves	€ 243.2	€ 224.6	€ 206.6
Other retained earnings and profit retained	11,811.6	12,243.6	12,015.8
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>€ 12,054.8</b>	<b>€ 12,468.2</b>	<b>€ 12,222.4</b>
	<hr/>	<hr/>	<hr/>

The changes in scope of consolidation increased the legal reserves by €0.1 million in 2003, and reduced them by less than €0.1 million in 2002, and by €49.9 million in 2001. Transfers from "Other retained earnings and profit retained" increased legal reserves by €18.5 million in 2003, €18.0 million in 2002, and by €16.3 million in 2001.

**22. Minority interests**

Company	Partner	%	Minority interest amount		2002
			2003	%	
WINGAS GmbH, Kassel, Germany	Gazprom, Moscow, Russia	35.0	€70.5	35.0	€83.1
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochem. Corp. Ltd., Nanjing, China	40.0	50.9	40.0	56.1
BASF India Ltd., Mumbai, India	Publicly traded shares	47.3	22.6	47.3	19.9
BASF PETRONAS Chemicals Sdn. Bhd., Petaling Jaya, Malaysia	PETRONAS (Petroleum Nasional Bhd.), Kuala Lumpur, Malaysia	40.0	157.0	40.0	136.5
BASF SONATRACH Propanchem S.A., Tarragona, Spain	SONATRACH, Algiers, Algeria	49.0	20.1	49.0	31.6
BASF FINA Petrochemicals Ltd., Port Arthur, Texas, USA	Total S.A., Paris, France	40.0	61.5	40.0	56.0
Others			5.5		13.1
			€388.1		€396.3

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**23. Provisions for pensions and similar obligations**

In addition to governmental pension schemes, most employees are entitled to Company pension benefits from defined contribution and defined benefit plans. Benefits generally depend on years of service, contribution or compensation and consider the legal, fiscal and economic conditions of the countries where companies are located. For BASF Aktiengesellschaft and other German subsidiaries, a basic level of benefits is provided by the legally independent funded plan, BASF Pensionskasse VVaG, which is financed by equal contributions of employees and the Company and the returns on its assets.

For German Group subsidiaries, additional Company pension commitments are financed primarily by pension provisions. In the case of non-German subsidiaries, pension entitlements are covered in some cases by pension provisions, but mainly by external insurance companies or pension funds.

The measurement date for most of the pension plans is December 31 of the reporting period.

**Assumptions used to determine the projected benefit obligation (weighted average)**

Germany		Foreign	
2003	2002	2003	2002

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Interest rate	5.75%	5.75%	5.93%	6.58%
Projected increase of wages and salaries	2.50	2.50	3.88	3.82
Projected pension increase	1.50	1.50	0.60	0.36

**Assumptions used to determine net periodic benefit cost (weighted average)**

	Germany			Foreign		
	2003	2002	2001	2003	2002	2001
Interest rate	5.75%	6.00%	6.25%	6.58%	7.09%	6.86%
Projected increase of wages and salaries	2.50%	2.75%	3.00%	3.82%	3.87%	4.17%
Projected pension increase	1.50%	1.75%	2.00%	0.36%	0.41%	0.5%
Expected return on plan assets	6.50%	6.50%	6.50%	8.45%	8.47%	8.92%

Similar obligations refer to commitments by BASF's North American Group companies to provide for the costs of medical and life insurance benefits for employees and eligible dependents after retirement. They are based upon an actuarial valuation, considering the future cost trend and a discount rate of 6.0%.

The assumptions regarding the overall expected long-term rate of return are based on forecasts of expected individual asset class returns and the desired portfolio structure. The forecasts are based on long-term historical average returns and take the current yield level and the inflation trend into consideration.

The portfolio structure of the pension plan assets including the plan assets of BASF Pensionskasse (see Note 4c) is as follows:

	Avg. Target Allocation (%)		
	Percentage of plan assets		
	2004	2003	2002
Equities	46	44	37
Debt securities	42	47	47
Real estate	9	6	6
Other	3	3	10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

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The Target Asset Allocation has been defined with an Asset Liability Study and is reviewed regularly. This ensures that plan assets are aligned with plan liabilities, and that investment risk and legal requirements are taken into consideration. The current portfolio structure is generally oriented towards the Target Asset Allocation. In addition, current market views are taken into consideration. In order to mitigate investment risks and to benefit from a large number of return sources individual investments are broadly globally diversified.

**Development of the projected benefit obligation:**

	2003	2002
	(euros in millions)	
Projected benefit obligation as of January 1	€5,959.9	€5,979.9
Service cost	121.8	144.8
Interest cost	335.0	376.3
Benefits paid	(403.7)	(394.2)
Participants' contributions	1.9	2.2
Change in actuarial assumptions	129.8	146.8
Settlements and other changes	(106.8)	71.9
Exchange rate changes	(425.4)	(367.8)



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Projected benefit obligation as of December 31	€5,612.5	€5,959.9
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**Development of the plan assets:**

	2003	2002
	(euros in millions)	
Plan assets as of January 1	€2,210.7	€2,443.2
Actual return on plan assets	402.8	(244.2)
Employer contributions	39.5	487.8
Participants' contributions	1.9	2.2
Benefits paid	(179.3)	(170.8)
Exchange rate changes	(317.3)	(305.5)
Other changes	(11.0)	(2.0)
Plan assets as of December 31	2,147.3	2,210.7
Non-capitalized pre-financing of foreign pension plans	(191.6)	(196.1)
Plan assets as of December 31 excluding pre-financing	€1,955.7	€2,014.6

The valuation of the pension fund assets of foreign pension funds under SFAS 87 showed the pre-financing shown above.

In 2003 the pension funds held securities that were issued by BASF Group companies, whose total market value amounted to €7.7 million. No material transactions took place between the pension funds and BASF group companies, or related companies in 2003.

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The funded status, excluding pre-financing, is as follows:

	2003	2002
	(euros in millions)	
Projected benefit obligation as of December 31	€5,612.5	€5,959.9
Less pension fund assets as of December 31, excluding non-capitalized pre-financing	1,955.7	2,014.6
Funded status	3,656.8	3,945.3
Unrecognized amounts	(495.6)	(874.8)
Prepaid pension assets	399.1	479.5
Provisions for pensions	3,560.3	3,550.0
Provisions for similar obligations	302.1	360.0
Provisions for pensions and similar obligations	€3,862.4	€3,910.0

The benefit obligation based on current compensation levels (accumulated benefit obligation "ABO") was €5,434.9 million on December 31, 2003 and €5,550.9 million on December 31, 2002.

Unrecognized amounts refer in particular to actuarial gains or losses as well as expenses due to prior service costs, which are amortized over the average remaining period of service of the pension recipients in the current Financial Statements. Deviations between the expected return from fund assets and the effective change in value are generally distributed over a period of five years.

**Plans with accumulated benefit obligations in excess of plan assets:**

The aggregate accumulated benefit obligation and aggregate fair value of plan assets for plans with an accumulated benefit obligation (ABO) in excess of plan assets is shown below. Pension liabilities without asset funding relate predominately to pension plans in Germany that are covered by provisions.

	2003		2002	
	Plan assets	ABO	Plan assets	ABO
(euros in millions)				
Unfunded pension plans		3,423.6		3,416.5
Partially funded pension plans	68.3	84.1	73.5	89.6
<b>Total of pension plans that are not fully funded</b>	<b>68.3</b>	<b>3,507.7</b>	<b>73.5</b>	<b>3,506.1</b>
Fully funded pension plans	2,079.0	1,927.2	2,137.2	2,044.8
<b>Total</b>	<b>2,147.3</b>	<b>5,434.9</b>	<b>2,210.7</b>	<b>5,550.9</b>

Composition of the net periodic benefit cost:

	2003	2002	2001
(euros in millions)			
Service cost	€121.8	€144.8	€133.3
Interest cost	335.0	376.3	379.3
Expected return on plan assets	(206.3)	(223.2)	(233.5)
Amortization of prior service cost	13.4	17.5	10.0
Other amortization amounts	12.1	10.1	(0.1)
Settlement gains	3.7	(24.5)	(32.1)
<b>Expenses for defined benefit plans</b>	<b>279.7</b>	<b>301.0</b>	<b>256.9</b>
Expenses for defined contribution plans	126.0	89.7	81.9
Expenses for similar obligations	27.0	33.5	33.4
<b>Net periodic benefit cost</b>	<b>€432.7</b>	<b>€424.2</b>	<b>€372.2</b>

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Expenses for defined contribution plans include increases in employer's contributions to BASF Pensionskasse in 2003.

The estimated contribution payments including BASF Pensionskasse for 2004 are €99.8 million.

**24. Other provisions**

	2003		2002	
	Total	Thereof current	Total	Thereof current

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(euros in millions)

Oil and gas production	€	448.8	€	478.8
Environmental protection and remediation costs		248.2	28.5	264.0
Personnel costs		1,333.9	770.0	1,284.2
Sales and purchase risks		745.4	739.3	651.3
Integration, shutdown and restructuring costs		339.2	307.2	245.3
Legal, damage claims, guarantees and related commitments		637.6	150.3	679.4
Maintenance and repair costs		143.7	58.0	148.8
Outstanding billings from suppliers		78.9	78.9	76.4
Other		270.5	188.2	283.1
		€4,246.2	€2,320.4	€4,111.3
				€2,196.5

**Oil and gas production:** Accrued costs for filling of wells and the removal of production equipment after the end of production are accumulated individually using the unit of production method according to the amount of cumulative production.

**Environmental protection and remediation costs:** Expected costs for rehabilitating contaminated sites, water protection, recultivating landfills, removal of environmental contamination at existing production or warehouse equipment and other measures.

**Personnel costs:** The personnel cost provision includes obligations to grant long-time service bonuses and anniversary payments, vacation pay, variable compensation including related social security contributions and other accruals as well as provisions for early retirement and short- working programs for employees nearing retirement. Most German BASF companies have various programs that entitle employees who are at least 55 years old to reduce their working hours to 50% for up to six years. Under such arrangements, employees generally work full time during the first half of the transition period and leave the Company at the start of the second period. Employees receive a minimum 85% of their net salary throughout the transition period.

**Sales and purchase risks:** The sales and purchase risks provision includes warranties, product liability, customer rebates, payment discounts and other price reductions, sales commissions and provisions for expected losses on committed purchases or similar obligations.

**Integration, shutdown and restructuring costs:** Such provisions include severance payments to employees as well as specific site shutdown or restructuring costs, including the costs for demolition and similar measures.

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The movement in shutdown and restructuring provisions is as follows:

	Amount accrued as of January 1, 2003	Amount paid in 2003	Other changes 2003 (euros in millions)	Amount accrued as of December 31, 2003
Severance	€ 160.4	€ (92.6)	€ 180.4	€ 248.2
Plant closure and demolition	77.6	(28.2)	23.0	72.4
Other	7.3	(5.1)	16.4	18.6
<b>Total</b>	€ 245.3	€ (125.9)	€ 219.8	€ 339.2

  

	Amount accrued as of January 1, 2002	Amount paid in 2002	Other changes 2002	Amount accrued as of December 31, 2002

(euros in millions)

Severance	€	237.3	€	(105.4)	€	28.5	€	160.4
Plant closure and demolition		121.0		(58.6)		15.2		77.6
Other		63.1		(24.0)		(31.8)		7.3
<b>Total</b>	€	421.4	€	(188.0)	€	11.9	€	245.3

		Amount accrued as of January 1, 2001	Amount paid in 2001	Other changes 2001 (euros in millions)	Amount accrued as of December 31, 2001			
Severance	€	193.3	€	(49.6)	€	93.6	€	237.3
Plant closure and demolition		61.3		(50.4)		110.1		121.0
Other		30.4		(9.6)		42.3		63.1
<b>Total</b>	€	285.0	€	(109.6)	€	246.0	€	421.4

Additions in 2003 consisted, in particular, of personnel measures at the Ludwigshafen site, as well as restructuring measures for corporate services in North America (NAFTA).

Additions in 2002 consisted of personnel measures at the Ludwigshafen site, as well as restructuring measures in the Agricultural Products division.

Amounts paid in 2003 and 2002 are related to the realization of restructuring measures initiated in the prior year.

In 2001, provisions for severance payments had to be set up for the planned shutdown of numerous plants and production sites located predominantly in North America (NAFTA), South America, the United Kingdom, the Netherlands and Italy. Further charges arose from the restructuring of the Company's sales and marketing organization.

**Legal, damage claims, guarantees and related commitments:** Provisions are recorded for the expected cost of outstanding litigation and claims of third parties, including regulatory authorities, other guarantees and warranties for trust proceedings. The significant proceedings are described in Note 27.

Payments were made in 2002 for compensation claims of vitamin customers in the United States after finalization of a settlement and for fines of €296.2 million. An additional €100 million was added to

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the provision for the settlement of vitamin litigation in 2002 due to the ongoing settlement of indirect vitamin customers' claims in the United States and the unsettled litigation in some countries.

Additions in 2001 relate to guarantees granted and risks retained in connection with the sale of the pharmaceuticals business. An additional €200 million resulted from the fine imposed by the European Commission for violations of antitrust laws relating to the sale of vitamin products. The provisions set up hitherto were insufficient due to the unexpectedly high fine. In addition, claims for damages by customers for vitamins from a class action lawsuit settled in 2000 that were previously reported as liabilities have been switched to provisions because numerous large customers have elected to opt out of the settlement.

**Maintenance and repair costs:** Provisions for maintenance and repair costs cover maintenance procedures as of the end of the year that are expected to be incurred within the first three months of the following year and certain provisions for the overhauling of large-scale plants

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within prescribed intervals required by official agencies.

Maintenance and repair provisions for overhauls required by regulatory authorities were as follows:

	Amount accrued as of January 1, 2003	Amount paid in 2003	Other changes 2003 (euros in millions)	Amount accrued as of December 31, 2003
Overhauls required by regulatory authorities	115.2	(48.6)	45.3	111.9

	Amount accrued as of January 1, 2003	Amount paid in 2003	Other changes 2003 (euros in millions)	Amount accrued as of December 31, 2003
Overhauls required by regulatory authorities	89.2	(26.5)	52.5	115.2

**25. Liabilities**

**Financial liabilities**

	2003 (euros in millions)	2002 (euros in millions)
5.75% Euro Bond 2000/2005 of BASF Aktiengesellschaft	€ 1,250.0	€ 1,250.0
3.50% Euro Benchmark Bond 2003/2010 of BASF Aktiengesellschaft	1,000.0	
Other bonds	306.6	349.7
Commercial paper	54.0	582.0
	<u>2,610.6</u>	<u>2,181.7</u>
Bonds and other liabilities to the capital market	2,610.6	2,181.7
Liabilities to credit institutions	896.1	1,428.7
	<u>3,506.7</u>	<u>3,610.4</u>
<b>Financial liabilities</b>	€ 3,506.7	€ 3,610.4

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Financial liabilities are denominated predominantly in the following currencies:

	2003 (euros in millions)	2002 (euros in millions)
U.S. dollars	€ 677.0	€ 1,285.5
Euros	2,453.0	1,909.9
Chinese renminbi	138.6	52.0
Malaysian ringgit	98.8	154.8
Korean won	38.4	90.2
Other	100.9	118.0
	<u>3,506.7</u>	<u>3,610.4</u>
<b>Total</b>	€ 3,506.7	€ 3,610.4

Of the U.S. dollar liabilities, €54.7 million exist at BASF Aktiengesellschaft which also has U.S. dollar accounts receivable, and forward exchange contracts to reduce foreign exchange risk.

Financial liabilities have the following maturities as of December 31, 2003:

	(euros in millions)	
2004	€	511.8
2005		1,580.8
2006		22.5
2007		22.0
2008		21.3
Thereafter		1,348.3
<b>Total</b>	<b>€</b>	<b>3,506.7</b>

The 3.5% Euro Benchmark Bond 2003/2010 of BASF Aktiengesellschaft was issued in July 2003 in the amount of €1,000 million. The 5.75% Euro Bond 2000/2005 of BASF Aktiengesellschaft was issued in July 2000 in the amount of €1,250 million.

"Other bonds" consist primarily of industrial revenue and pollution control bonds that are used to finance investments in the United States. The weighted average interest rate of these bonds was 1.4% in 2003, 2.1% in 2002, and 2.3% in 2001.

"Commercial paper" comprises BASF Aktiengesellschaft's commercial paper program and in 2002 corresponding borrowings of our subsidiaries in India.

#### Liabilities to credit institutions

Liabilities to credit institutions relate to a large number of different credit institutions in various countries. The weighted average interest rate on short-term borrowings was 4.4% on December 31, 2003 (2002: 5.1%). Liabilities to credit institutions denominated in ringgit, won und renminbi result from the local financing of investments in Malaysia, Korea, and China.

The Company had committed and unused credit lines with variable interest rates of €1,980 million as of December 31, 2003, and €2,380 million as of December 31, 2002. In addition, the Company had €127 million additional credit lines as of December 31, 2003, as well as €323 million as of December 31, 2002, which are without commitment fees.

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#### Miscellaneous liabilities

	2003		2002	
	Total	<i>Thereof</i> current (euros in millions)	Total	<i>Thereof</i> current
Advances received on account of orders	€ 65.6	€ 65.6	€ 30.8	€ 30.8
Liabilities on bills	36.4	5.2	31.7	31.7
Liabilities to companies in which participations are held	177.2	154.7	181.8	165.9
Tax liabilities	320.2	320.2	287.3	287.3
Liabilities relating to social security	138.8	138.8	134.7	134.6
Non-trade liabilities of joint venture to partners	487.6	104.8	415.8	4.0
Other miscellaneous liabilities	976.6	606.5	1,192.2	760.0

<b>Total</b>	2,202.4	1,395.8	2,274.3	1,414.3
Deferred income	369.8	145.2	369.8	113.8
<b>Total miscellaneous liabilities and deferred income</b>	€ 2,572.2	€ 1,541.0	€ 2,644.1	€ 1,528.1

Liabilities to companies in which participations are held include liabilities, which are not eliminated, to jointly owned companies accounted for using the proportional consolidation method of €140.1 million as of December 31, 2003, and €129.4 million as of December 31, 2002. Further liabilities relating to associated companies accounted for under the equity or costs method were €37.1 million as of December 31, 2003, and €52.4 million as of December 31, 2002.

#### Maturities of liabilities

	2003		2002	
	Current	Over 5 years (euros in millions)	Current	Over 5 years
Bonds and other liabilities to the capital market	€ 63.6	€ 1,289.2	€ 582.0	€ 325.8
Liabilities to credit institutions	448.2	59.1	1,231.7	52.4
Accounts payable, trade	2,046.0		2,330.2	
Liabilities to affiliated companies	356.7		496.8	
Advances received on account of orders	65.6		30.8	
Liabilities on bills	5.2		31.7	
Liabilities to companies in which participations are held	154.7		165.9	
Other miscellaneous liabilities	1,170.4	503.5	1,185.9	573.1
<b>Total</b>	€ 4,310.4	€ 1,851.8	€ 6,055.0	€ 951.3

#### Secured liabilities

	2003 (euros in millions)		2002 (euros in millions)	
Liabilities to credit institutions	€ 10.4	€ 21.6		
Miscellaneous liabilities	4.6	2.5		
	€ 15.0	€ 24.1		

The above liabilities are collateralized by mortgages or securities. In addition, BASF Aktiengesellschaft has given covenants in favor of BASF Pensionskasse VVaG with regard to adhering to certain balance sheet ratios and to forgo encumbering property as security for creditors.

## 26. Contingent liabilities and other financial obligations

The contingent liabilities listed below, are stated at nominal value.

#### Contingent liabilities

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	2003	2002
	(euros in millions)	
Bills of exchange	€ 19.6	€ 27.0
<i>Thereof to affiliated companies</i>	0.3	0.2
Guarantees	138.7	122.2
Warranties	44.7	58.8
Granting collateral on behalf of third-party liabilities	11.8	11.0
	<u>€214.8</u>	<u>€ 219.0</u>

**Other financial obligations**

	2003	2002
	(euros in millions)	
Remaining cost of construction in progress	€ 1,853.3	€ 2,987.0
<i>Thereof purchase commitment</i>	505.2	644.3
Commitments from long-term rental and leasing contracts	936.7	862.6
Capital contribution and loan commitments	9.1	170.3
Repurchase commitments	247.5	
<b>Total</b>	<u>€ 3,046.6</u>	<u>€ 4,019.9</u>

BASF had payment commitments in 2003 to Shanghai BASF Polyurethane Company, China, which is not yet included in the scope of consolidation. The company is constructing a plant for the production of TDI/MDI in Shanghai, China. In 2002 BASF had payment commitments to BASF Chemicals Company Ltd., China. Repurchase commitments in 2003 related to accounts receivable.

Obligations from long-term rental and lease contracts are due as follows:

	(euros in millions)	
2004	€	184.5
2005		135.6
2006		101.3
2007		81.3
2008		