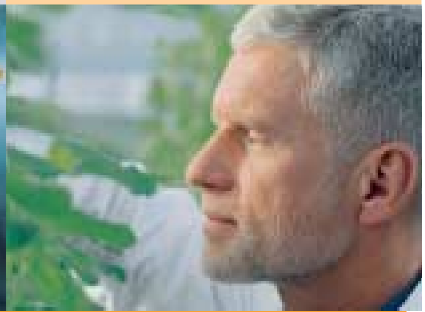
BASF
The Chemical Company

# Financial Report 2003

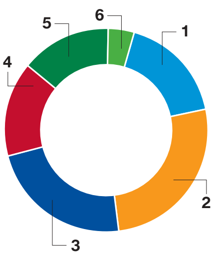
# Segments



## Key data BASF Group

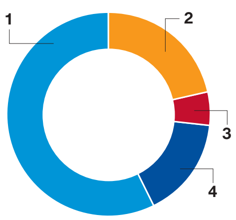
| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 33,361 | 32,216 | 3.6 |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 5,110 | 5,105 | 0.1 |
| Income from operations (EBIT) before special items | 2,993 | 2,881 | 3.9 |
| Income from operations (EBIT) | 2,658 | 2,641 | 0.6 |
| Income before taxes and minority interests | 2,168 | 2,641 | (17.9) |
| Net income | 910 | 1,504 | (39.5) |
| | | | |
| Earnings per share (€) | 1.62 | 2.60 | (37.7) |
| Earnings per share in accordance with U.S. GAAP (€) | 2.38 | 2.96 | (19.6) |
| Dividend per share (€) | 1.40 | 1.40 | 0.00 |
| | | | |
| Research and development expenses | 1,105 | 1,135 | (2.6) |
| Number of employees (as of December 31, 2003) | 87,159 | 89,389 | (2.5) |

**Sales by segment**
Million €




| | | | |
|---|---|---|---|
| 1 | Chemicals | 5,752 | 17.2% |
| 2 | Plastics | 8,787 | 26.3% |
| 3 | Performance Products | 7,633 | 22.9% |
| 4 | Agricultural Products & Nutrition | 5,021 | 15.1% |
| 5 | Oil & Gas | 4,791 | 14.4% |
| 6 | Other | 1,377 | 4.1% |
| | | 33,361 | 100.0% |

**Sales by region (location of customer)**
Million €




| | | | |
|---|---|---|---|
| 1 | Europe | 19,120 | 57.3% |
| | Thereof Germany | 7,073 | 21.2% |
| 2 | North America (NAFTA) | 7,163 | 21.5% |
| 3 | South America | 1,765 | 5.3% |
| 4 | Asia, Pacific Area, Africa | 5,313 | 15.9% |
| | | 33,361 | 100.0% |

# BASF's Segments

### Chemicals – The heart of our Verbund

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

### Plastics – Focusing on strengths

BASF is a leading supplier of plastics. For standard plastics, we strive to achieve a portfolio with focused product lines, concentrate our production at a few sites and develop effective marketing processes. In our business with specialties, we offer a wide range of products and services. In close cooperation with our customers, we constantly extend this range and add new applications.

### Performance Products – Close cooperation with customers

In the Performance Products segment, we concentrate our activities on innovative business areas and products toward the ends of our value-adding chains. Our success is based on new products, system solutions and applications that we develop in close cooperation with our customers. Our keys to success are our powerful research and development organization and our ability to solve our partners' problems quickly, flexibly and in line with their needs.

### Agricultural Products & Nutrition – Strengthening our competitiveness

We have strengthened the competitiveness of our Agricultural Products & Nutrition segment through active portfolio management. We are expanding our position utilizing new active ingredients and our presence in the major agricultural markets. We offer our customers in the nutrition, pharmaceuticals and cosmetics industries a broad range of high-value fine chemicals. Innovative solutions strengthen our good position. Our research activities in plant biotechnology focus on solutions for effective agriculture, healthier nutrition and plants to make products more efficiently.

### Oil & Gas – Expertise and regional focus

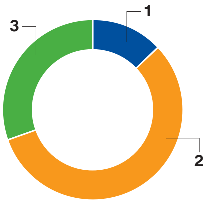
In exploration and production, we benefit from our many years of experience and our focus on areas that are rich in oil and gas in Europe, North Africa, South America as well as Russia and the Caspian region. In natural gas trading, we are making use of the growth opportunities that are arising from the liberalization of the European gas markets. The earnings contributions from our oil and gas business act as a bridge over the economic troughs.

## Key data

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 5,752 | 5,317 | 8.2 |
| Income from operations before special items | 500 | 676 | (26.0) |
| Income from operations | 393 | 635 | (38.1) |

## Sales by division

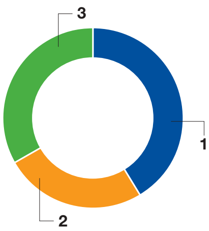
Million €




| | | | | |
|---|---|---|---|---|
| 1 | Inorganics | 738 | 12.8 % |
| 2 | Petrochemicals | 3,264 | 56.8 % |
| 3 | Intermediates | 1,750 | 30.4 % |
| | | 5,752 | 100.0 % |

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 8,787 | 8,477 | 3.7 |
| Income from operations before special items | 363 | 593 | (38.8) |
| Income from operations | 296 | 582 | (49.1) |

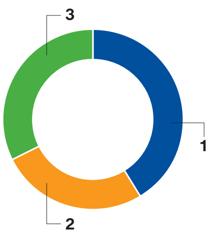
Million €




| | | | |
|---|---|---|---|
| 1 | Styrenics | 3,626 | 41.3 % |
| 2 | Performance Polymers | 2,239 | 25.5 % |
| 3 | Polyurethanes | 2,922 | 33.2 % |
| | | 8,787 | 100.0 % |

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 7,633 | 8,014 | (4.8) |
| Income from operations before special items | 568 | 653 | (13.0) |
| Income from operations | 478 | 646 | (26.0) |

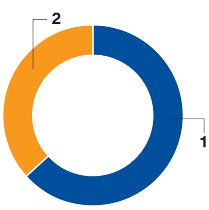
Million €




| | | | |
|---|---|---|---|
| 1 | Performance Chemicals | 3,147 | 41.2 % |
| 2 | Coatings | 2,015 | 26.4 % |
| 3 | Functional Polymers | 2,471 | 32.4 % |
| | | 7,633 | 100.0 % |

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 5,021 | 4,924 | 2.0 |
| Income from operations before special items | 427 | 217 | 96.8 |
| Income from operations | 359 | 55 | 552.7 |

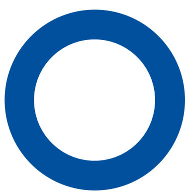
Million €




| | | | |
|---|---|---|---|
| 1 | Agricultural Products | 3,176 | 63.3 % |
| 2 | Fine Chemicals | 1,845 | 36.7 % |
| | | 5,021 | 100.0 % |

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 4,791 | 4,199 | 14.1 |
| Income from operations before special items | 1,365 | 1,210 | 12.8 |
| Income from operations | 1,365 | 1,210 | 12.8 |

Million €



| | | | |
|---|---|---|---|
| 1 | Oil & Gas | 4,791 | 100.0 % |

BASF is the world's leading chemical company. Our goal is to grow profitably and further increase the value of our company. We help our customers to be more successful through intelligent system solutions and high-quality products. Our portfolio ranges from chemicals, plastics, performance products, agricultural products and fine chemicals to crude oil and natural gas. Through new technologies we can tap into additional market opportunities. We conduct our business in accordance with the principles of sustainable development.

# Contents




# Milestones 2003


**July 2003:
Cornerstone laying ceremony
in Caojing, China.**

Q1 Q2 Q3 Q4

01.2003 02.2003 03.2003 04.2003 05.2003 06.2003 07.2003 08.2003 09.2003 10.2003 11.2003 12.2003

**January**

‣ A new logistics center starts operations at the Ludwigshafen site. As the largest chemicals terminal for the optimized shipping of packaged products in Europe, it replaces about 50 smaller warehouses and spares the region 25,000 truck journeys every year.

‣ BASF is one of the first companies in Germany to appoint a Chief Compliance Officer. He is responsible for coordinating and developing BASF's Compliance Program worldwide, which obliges all employees to behave in an upright, legally abiding manner.

**February**

‣ BASF is the world's most admired chemical company: In a poll by the U.S. business magazine *Fortune*, more than 10,000 executives and managers from 345 companies vote BASF Number One.

**March**

‣ BASF strengthens its portfolio by purchasing a range of crop protection products from Bayer CropScience. The acquisition includes the insecticide fipronil as well as selected seed treatment fungicides.

**April**

‣ A systematic benchmarking method is introduced at the 19 largest production sites in the BASF Group. It aims to identify reliably the sites' strengths and weaknesses and improve their competitiveness.

**May**

‣ Dr. Jürgen Hambrecht becomes the new Chairman of the Board of Executive Directors of BASF Aktiengesellschaft. After 13 years as Chairman, his predecessor, Dr. Jürgen F. Strube, becomes Chairman of BASF's Supervisory Board.

‣ BASF acquires the engineering plastics business of Honeywell, United States. In turn, BASF sells its nylon fibers business to Honeywell.

**June**

‣ BASF issues a Euro Benchmark Bond with a volume of €1 billion. The bond has a term of seven years and offers an annual interest rate of 3.5%. As a result, we have secured financing at favorable rates.

**July**

‣ Gazprom, Russian Federation – the world's largest producer of natural gas – and BASF subsidiary Wintershall establish the Achimgaz joint venture to develop gas deposits in the Urengoy field in western Siberia.

‣ For the first time, BASF announces long-term, globally valid goals for environmental protection and safety and reports on goal attainment.

‣ In Caojing, China, BASF lays the cornerstone for the world's largest integrated production facility for PolyTHF®. The technology developed by BASF is scheduled to come on stream in 2005.

**August**

‣ A new world-scale plant for the production of high-purity methanesulfonic acid starts operations at the Ludwigshafen site. The product, which is primarily used in the electronics industry, is manufactured using a novel process developed by BASF that produces almost no emissions.

**September**

‣ BASF joins Transparency International, underlining its commitment to high ethical standards and a business policy that does not tolerate corruption in any form.

‣ BASF acquires Callery Chemical from the Mine Safety Appliances Company, United States. Callery produces important inorganic specialties for the pharmaceutical industry.

‣ Groundbreaking ceremony for new combined heat and power plant (CHP): The plant will supply the Ludwigshafen site from the end of 2005 and help reduce $CO_2$ emissions by 500,000 metric tons per year from 2006 onward.

‣ BASF shares are included in the Dow Jones Sustainability Index World (DJSI World) for the third year in succession.

**October**

‣ BASF announces its decision to continue restructuring its Styrenics division by further streamlining the product range. In Ludwigshafen, the company plans to stop producing polystyrene compounds and mothball a Styrolux® plant by mid-2004.

**November**

‣ Positive interim results for the Ludwigshafen Site Project. Savings of €100 million are achieved in the first year alone. The goal is to permanently reduce costs at the Ludwigshafen site by €450 million by 2005.

**December**

‣ Chairman of the Board of Executive Directors, Dr. Jürgen Hambrecht, presents the company's renewed strategy BASF 2015. Together with a new logo, BASF underlines its position as the world's leading chemical company – The Chemical Company.

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

Dear shareholders and friends of BASF,

In the past year, BASF has shown once again that a company that pursues the right strategy and acts decisively can be successful even in a difficult business environment. In 2003, we increased the sales volumes of our products worldwide, and sales climbed 3.6% to €33.4 billion. Ignoring currency translation effects, the increase was even higher at 10.9%. With regard to income from operations before special items, we exceeded the forecast we made in November 2003: EBIT before special items increased slightly by 3.9% to €3.0 billion. This was due mainly to the success of our cost-saving and restructuring programs and to our measures to optimize current assets. The level of income we have achieved allows us to propose a dividend of €1.40 per share.

Our business in 2003 performed well in an economic environment that was more difficult than expected. In addition to the war in Iraq, high raw materials costs, an increasingly weak U.S. dollar and stagnating chemical markets in the United States and parts of Europe made heavy demands on us.

Our sales and earnings in 2003 and our record cash flow once again confirmed that a long-term strategy pays off. Over the past years, BASF has demonstrated this more persuasively than most other companies. Today, we can justly call ourselves the world's leading chemical company, and we have become a benchmark for our competitors.

We are somewhat more confident when we look forward to the rest of 2004. The probability of synchronized global growth in all major regions has improved, and there are many indicators that the chemical industry may also experience moderate growth this year. However, certain risks remain – high and volatile raw material costs, the strong euro, and, if necessary structural reforms are not achieved, weak growth in Europe. We will therefore continue to work to optimize our business structures and costs.

As we look to the more distant future, we are preparing ourselves for the increasingly challenging conditions that lie ahead. Our markets are changing: New customers for chemical products are increasingly located in the emerging economies, in particular in China. Here, improvements in the standard of living mean that the number of consumers is expected to rise nearly tenfold by 2015. In addition, regional events are increasingly affecting the global economy, making it harder to predict economic developments.

Against this backdrop, BASF's management team looked hard at how we want to position ourselves in the future and made a detailed review of our strategy to date. Our appraisal showed that we have set the right basic course. For us, this means: We are a chemical company, and we want to concentrate on chemicals, agricultural products and nutrition and oil and gas. When the opportunity was right, we invested in growth markets and are now active in all of the world's important markets. The advantages offered by our Verbund help us to operate cost effectively and compete with strength in tough markets. We have managed our portfolio to make us less susceptible to cyclicality and oil price fluctuations. To this end, we expanded our agricultural products business by acquiring the insecticide fipronil and selected seed treatment fungicides. Furthermore, we sold our fibers business to the U.S. company Honeywell in 2003 and purchased its engineering plastics business. We also strengthened our portfolio with inorganic specialties through the acquisition of Callery Chemical in the United States.

On our path to the future, we are adding new dimensions to this proven strategy to ensure that we remain the leader in the chemical industry. We have set ourselves four strategic guidelines:

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

These guidelines describe what we want to achieve and how we intend to achieve it. We will concentrate on profitable growth. We will allocate resources more strictly to attractive business areas in which we perform well.

We will focus even more closely on our customers and potential customers when thinking and acting. We will develop market-driven innovations and new business models to help them become more successful – making us more successful. And we will explore exciting fields of knowledge that hold great promise for us and our customers. These include materials science, nanotechnology, energy management technologies, and, in particular, biotechnology. We will seize technological change as an opportunity and help to shape it.

To do this we will rely on the best team in the industry, because only the best team can create business success in the face of tough competition. I would therefore like to take this opportunity to thank our employees for their commitment, without which BASF's success would not be possible. We will continue to develop creative and qualified employees who approach their tasks confidently and with an entrepreneurial mindset.

In addition, we always see the basis for our business success in the context of our responsibility for the environment and for society. This is why the principles of sustainable development are deeply integrated into our values and activities. Examples include our eco-efficiency analysis and our global environmental goals, which set standards for the entire industry. Our fourth guideline reaffirms our commitment to sustainable development, which is and will remain the basis for our activities. You can read about how we balance the various aspects of sustainability in our Corporate Report, which this year combines our sustainability reporting in a single publication for the first time.

Almost all innovations have their roots in chemistry – therein lies both a challenge and an opportunity for our company. We face the future with confidence and are convinced that we will be successful. Even so, we need a regulatory framework that supports competition. To achieve this, we therefore enter into dialogue with society.

BASF is "The Chemical Company." We are committed to chemistry and to remaining the leader in our industry. I hope you will accompany us on this journey.

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

**BASF 2015 – Paths to Value-adding Growth**

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

## Board of Executive Directors

Dr. Jürgen Hambrecht

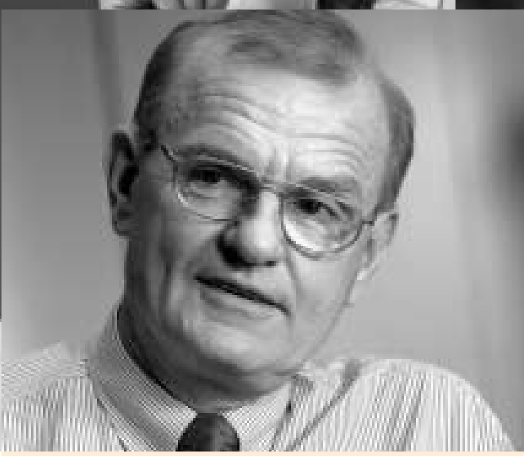
Eggert Voscherau

Dr. Andreas Kreimeyer

Klaus Peter Löbbe

Dr. Kurt Bock

Dr. John Feldmann



Dr. Stefan Marcinowski

Peter Oakley

**Dr. Jürgen Hambrecht**, 57,
Chairman of the Board of Executive Directors since May 6, 2003.
Chemist, with BASF for 28 years.
Legal, Taxes & Insurance; Planning & Controlling; Executive Management & Development; Communications; Investor Relations.

**Eggert Voscherau**, 60,
Vice Chairman of the Board of Executive Directors since May 6, 2003 and Industrial Relations Director.
Economist, with BASF for 35 years.
Human Resources; Environment, Safety & Energy; Occupational Medicine & Health Protection; Europe; Ludwigshafen Verbund Site; BASF Schwarzheide GmbH; BASF Antwerpen N.V.

**Dr. Kurt Bock**, 45,
business economist, with BASF for 13 years.
Finance; Global Supply Chain; Information Services; Global Purchasing; Corporate Audit; South America.

**Dr. John Feldmann**, 54,
chemist, with BASF for 16 years.
Oil & Gas; Styrenics; Performance Polymers; Polyurethanes; Polymer Research.

**Dr. Andreas Kreimeyer**, 48,
biologist, with BASF for 18 years.
Functional Polymers; Performance Chemicals; Asia.

**Klaus Peter Löbbe**, 57,
economist, with BASF for 38 years.
Coatings; North America (NAFTA).

**Dr. Stefan Marcinowski**, 51,
chemist, with BASF for 25 years.
Research Executive Director. Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering; Corporate Engineering; University Relations & Research Planning; BASF Future Business GmbH.

**Peter Oakley**, 51,
economist, with BASF for 27 years.
Agricultural Protection; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science GmbH.

As of March 1, 2004

**Dr. Jürgen F. Strube**
Chairman of the Supervisory Board

# Report of the Supervisory Board

Dear shareholders,

Like the previous year, 2003 was a year of change for BASF. In addition to the continued reorganization of the company, management changes are worthy of mention: Since May 2003, Dr. Jürgen Hambrecht and Eggert Voscherau have assumed leadership of BASF as the Chairman and Vice Chairman of the Board of Executive Directors. Along with the sense of continuity associated with these changes comes critical review and further development. A visible expression of this is the strategy BASF 2015, through which the Board of Executive Directors has further developed and supplemented BASF's successful strategy to date. Strategy BASF 2015 enjoys the full support of the Supervisory Board. It is an important foundation for expanding BASF's position as the world's leading chemical company.

The Supervisory Board carefully and regularly monitored company management during the year and provided advice on the company's strategic development and important individual measures. To this end, the Supervisory Board requested detailed information from the Board of Executive Directors at meetings, as well as in written and verbal reports. Topics included the business situation and business trends and policies, profitability as well as the company's planning with regard to finances, capital expenditures and human resources at BASF and its major subsidiaries. The Chairman of the Supervisory Board also regularly requested information from the Board of Executive Directors with regard to current business developments and important events outside of Supervisory Board meetings. The Supervisory Board was involved at an early stage in decisions of major importance.

## Meetings

The Supervisory Board met six times in 2003. At these meetings, the Supervisory Board discussed reports from the Board of Executive Directors. The Supervisory Board also discussed the company's prospects as a whole and its individual businesses with the Board of Executive Directors.

In 2003, the Supervisory Board dealt in particular detail with the development of the business areas agricultural products and biotechnology as well as with the political framework for the business activities of companies in the chemical industry. In Europe especially, the political framework is characterized by a rising tide of regulations that are having a considerable impact on competitiveness in the chemical industry. The Supervisory Board also provided further guidance on the organizational development of the BASF Group, with special attention being paid to the analysis of central corporate functions, the structure of the European organization and business in North America (NAFTA).

### Corporate governance and compliance statement

In 2003, the issue of corporate governance has again concerned us. Key topics were the effects of the new version of the German Corporate Governance Code of July 2003 as well as the ongoing implementation of the provisions of the Sarbanes-Oxley Act, which apply to BASF as a company listed on the New York Stock Exchange.

In its meeting on July 17, 2003, the Supervisory Board established an Audit Committee, which did not previously exist within BASF's Supervisory Board. The Audit Committee thus takes account of increasingly strict requirements involving checks and guidance in questions related to accounting, the monitoring of the Board of Executives' risk management system and business relations with the company's auditors. In 2003, the Audit Committee comprised Supervisory Board members Max Dietrich Kley, Dr. Karlheinz Messmer, Dr. Jürgen Walter and Helmut Werner, who to our great sadness died on February 6, 2004. The Chairman of the Audit Committee is Max Dietrich Kley, who has also been appointed Audit Committee Financial Expert.

In its meeting on December 1, 2003, the Supervisory Board approved the new joint Compliance Statement by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act. Following the establishment of an Audit Committee and the introduction of a separate remuneration system for the members and chairman of the Audit Committee, the company complies with virtually all recommendations of the German Corporate Governance Code that was valid until July 2003. The company deviates from the recommendations newly introduced in July 2003: We do not publish individual remuneration details for the members of the Board of Executive Directors and the Supervisory Board, and remuneration of the Board of Executive Directors is dealt with in the Supervisory Board's Personal Affairs Committee rather than in a plenary session of the Supervisory Board. The complete text of the Declaration of Conformity is provided on page 134 of the Financial Report.

### Committees

The Supervisory Board has established three committees with equal representation from shareholders and employee representatives: the Committee for the Personal Affairs of the Board of Executive Directors and the Granting of Credits created in accordance with Section 89 (4) of the German Stock Corporation Act (Personal Affairs Committee); the Audit Committee; and the Mediation Committee established in accordance with Section 27 (3) of the German Codetermination Act. The members of the Personal Affairs Committee and the Mediation Committee are as follows: Supervisory Board Chairman Dr. Jürgen F. Strube (Chairman), Supervisory Board Deputy Chairman Robert Oswald (Deputy Chairman), Dr. Tessen von Heydebreck and Dr. Jürgen Walter. The Personal Affairs Committee met once in 2003, while the Mediation Committee did not have to be convened.

Following its creation in July 2003, the Audit Committee met twice in the reporting period. Its activities primarily included the discussion and definition of particular features of the audit and the regulation of business relations with the company's auditors, including the adoption of a resolution regarding the commissioning and provision of non-audit services by the auditors.

### Financial Statements of the BASF Group and BASF Aktiengesellschaft

On the basis of the preliminary review by the Audit Committee, on which the Chairman of the Audit Committee reported to the Supervisory Board, we have examined the Financial Statements of BASF Aktiengesellschaft for 2003, the proposal by the Board of Executive Directors for the appropriation of profit, the BASF Group Consolidated Financial Statements and Management's Analysis for BASF Aktiengesellschaft and the BASF Group. Deloitte & Touche GmbH, the auditors elected by the Annual Meeting, have examined the Financial Statements of BASF Aktiengesellschaft and the BASF Group Consolidated Financial Statements, including the bookkeeping and Management's Analysis, and have approved them free of qualification. The auditors also noted that the Board of Executive Directors, in accordance with Section 91 (2) of the German Stock Corporation Act, had instituted a suitable information and monitoring system which met the needs of the company and appeared suitable, both in design and the way in which it had been applied, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditors' reports were given to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on March 4, 2004 as well as the accounts meeting of the Supervisory Board on March 9, 2004 and reported on the main findings of their audit. The auditors also provided detailed explanations of their reports on the day before the accounts meeting.
We have approved the auditors' reports. The results of the preliminary review by the Audit Committee and the results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objections.

At the Supervisory Board's accounts meeting on March 9, 2004, we approved the Financial Statements of BASF Aktiengesellschaft drawn up by the Board of Executive Directors and the Consolidated Financial Statements of the BASF Group, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €1.40 per share.

### Composition of the Supervisory Board and Board of Executive Directors

The electoral period for Supervisory Board members elected at the Annual Meeting in 1998 expired following the Annual Meeting on May 6, 2003. Four of the shareholder representatives – Etienne Graf Davignon, Dr. Wolfgang Jentzsch, Professor Dr. Berthold Leibinger and Dr. Henning Schulte-Noelle – were no longer available for re-election. Of the employee representatives, Volker Obenauer retired from the Supervisory Board. The remaining Supervisory Board members were re-elected by the Annual Meeting or by the employees' electoral committee. Professor Dr. Renate Köcher, Michael Diekmann, Max Dietrich Kley and Dr. Jürgen F. Strube were newly elected to the Supervisory Board by the Annual Meeting; Ralf Bastian was newly elected as an employee representative. The electoral period of the new Supervisory Board members runs until the ordinary Annual Meeting in 2008.

In the constituting meeting of the Supervisory Board on May 6, 2003, Dr. Jürgen F. Strube was elected chairman and Robert Oswald was elected deputy chairman. The former Chairman of the Supervisory Board, Professor Dr. Berthold Leibinger, was appointed Honorary Chairman.

Gerhard Zibell resigned from the Supervisory Board with effect from July 31, 2003. Effective August 7, 2003, Ralf Sikorski was appointed by the district court of Ludwigshafen to replace him.

Dr. Jürgen Strube and Max Dietrich Kley retired from the Board of Executive Directors on May 6, 2003. From this date, Dr. Jürgen Hambrecht assumed responsibility as Chairman of the Board of Executive Directors and Eggert Voscherau responsibility as Vice Chairman.

On February 6, 2004, Helmut Werner died at the age of 67. He had been a member of the Supervisory Board since 1993. With his death, BASF has lost an enduring friend and a valuable advisor. We mourn the death of a major figure in German industry. On March 2, 2004, the district court of Ludwigshafen appointed Hans Dieter Pötsch, member of the board of directors of Volkswagen AG, to replace Helmut Werner on the Supervisory Board.

Ludwigshafen, March 9, 2004

The Supervisory Board

Dr. Jürgen F. Strube
Chairman of the Supervisory Board

# BASF Shares

- 28.1% increase in value of BASF shares in 2003
- Dividend of €1.40 per share
- Share buybacks carried out for €500 million

BASF shares performed very well in 2003, increasing in value by 28.1%. BASF shares also performed considerably better than the EURO STOXX[SM] 50 index, which rose by 18.4%, but did not perform as well as Germany's DAX index, which climbed 37.1%.

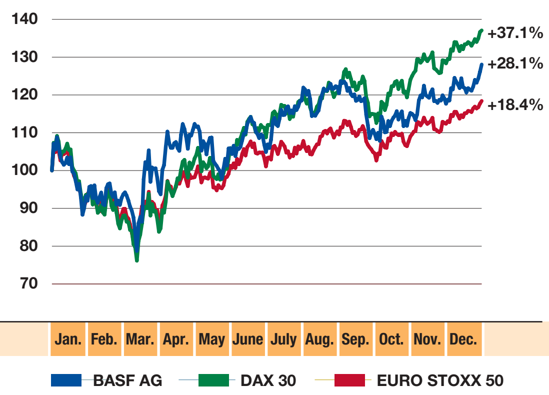
In recent years, long-term investors have profited from the good performance of BASF shares. Shareholders who invested €1,000 in BASF shares at the end of 1993 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of the holding to €3,877 after 10 years at the end of 2003. This increase of 287.7% corresponds to an average annual return of 14.5%, and is considerably higher than the corresponding return for the DAX 30 (5.7%) and the EURO STOXX 50 (9.1%).

### Dividend of €1.40 and further share buybacks to increase shareholder value

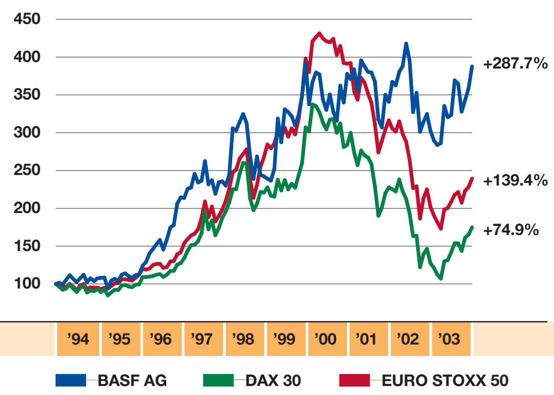
We aim to offer our shareholders an appropriate share in the success of the company in the form of a dividend. We therefore base the level of the dividend on our income from operations in the previous year. In view of the only slight increase in income from operations compared with 2002, the Board of Executive Directors is proposing to maintain the dividend at €1.40. As a result, the total amount payable will be €779 million. Taking into account the per share dividend and the year-end price, BASF shares provided a dividend yield of 3.14% in 2003.

In 2003, BASF Aktiengesellschaft bought back 13.67 million shares for a total of €500 million on the stock exchange for an average price of €36.55 per share. This measure reduced our share capital by 2.4%. The buy-back program is aimed at reducing our cost of capital and increasing earnings per share. BASF plans to buy back shares for €500 million in 2004.

**Change in value of an investment in BASF shares in 2003**
(with dividends reinvested, indexed)




**Change in value of an investment in BASF shares in 1994–2003**
(with dividends reinvested, indexed)



## Key BASF share data

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Year-end share price (€) | 51.90 | 48.17 | 41.75 | 36.08 | 44.58 |
| Year high (€) | 52.20 | 50.68 | 50.45 | 49.80 | 44.58 |
| Year low (€) | 30.19 | 39.40 | 31.00 | 32.90 | 28.41 |
| Daily trade in shares[1] | | | | | |
| – million € | 67.07 | 84.71 | 108.54 | 129.67 | 127.20 |
| – million shares | 1.68 | 1.88 | 2.48 | 3.09 | 3.33 |
| Number of shares as of December 31 (million shares) | 620.99 | 607.40 | 583.40 | 570.32 | 556.64 |
| Market capitalization as of December 31 (billion €) | 32.23 | 29.26 | 24.36 | 20.58 | 24.82 |
| Earnings per share[2] (€) | 2.00 | 2.02 | 9.72 | 2.60 | 1.62 |
| Dividend per share (€) | 1.13 | 2.00[3] | 1.30 | 1.40 | 1.40 |
| Dividend yield[4] % | 2.18 | 4.15 | 3.11 | 3.88 | 3.14 |
| **Key data for BASF ADRs[5]** | | | | | |
| Year-end share price ($) | – | 44.44 | 37.91 | 38.22 | 55.75 |
| Year high ($) | – | 44.44 | 46.73 | 46.85 | 55.75 |
| Year low ($) | – | 34.00 | 28.80 | 32.40 | 32.00 |
| Daily trade in shares | | | | | |
| – million $ | – | 2.37 | 2.36 | 3.08 | 4.54 |
| – thousand shares | – | 62.10 | 59.98 | 78.73 | 105.32 |

[1] Average, Xetra trading
[2] Based on the weighted number of shares
[3] Thereof special dividend of €0.70
[4] Based on year-end share price
[5] BASF shares are traded on the New York Stock Exchange in the form of ADRs (American Depository Receipts). Each BASF ADR is equivalent to one BASF share.

### Shareholder base further broadened

At the beginning of 2004, we carried out a shareholder survey that indicated the strong interest of international investors in BASF shares. Non-German investors hold 52% of BASF's share capital. U.K. and U.S. investors are particularly well represented, accounting for 15% and 14% of the share capital, respectively. Institutional investors – for example banks and investment companies – hold 72% of the share capital; 28% is held by private investors.

Many of our employees and executives own BASF shares, and we offer share purchase programs in many countries to encourage them to become shareholders and thus co-owners of BASF (see page 59 for further information). BASF Aktiengesellschaft's entire share capital is listed on the stock market. As of December 31, 2003, all of the 556.6 million no par shares were widely held.

## Further information

| Securities code numbers | |
|---|---|
| Germany | 515100 |
| United Kingdom | 0083142 |
| France | 012807 |
| Switzerland | 323600 |
| USA (CUSIP) | 055262505 |
| ISIN International Stock Identification Number | DE0005151005 |

| Ticker symbol | |
|---|---|
| Deutsche Börse | BAS |
| London Stock Exchange | BFA |
| Bourse de Paris | BA |
| Swiss Exchange | AN |
| New York Stock Exchange (ADR) | BF |

### BASF shares included in important indices

BASF shares are included in a number of internationally important indices* with the following weightings: DAX 30: 6.0%, STOXX 50: 1.1%, EURO STOXX 50: 1.8%, MSCI World Index: 0.2%, S&P Global 100: 0.5%. In 2003, BASF shares were included in the Dow Jones Sustainability Index for the third year in succession and remained a member of the FTSE 4 Good Index. Our membership in sustainability indices shows that BASF is recognized internationally as a company that conducts its business in accordance with the principles of sustainable development.

### Investor relations: Close dialogue with the capital markets

Our corporate strategy aims to create value sustainably. We support this strategy through regular and open communication with all capital market participants. For institutional investors, we hold individual meetings and numerous roadshows worldwide to help them interpret the business situation and the company's future development. All this information is also available on our Investor Relations homepage together with presentations on the company. We also hold information events to give private investors an insight into the world of BASF.

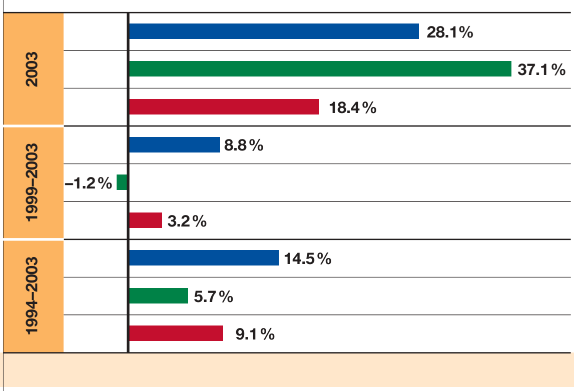
* Weighting as of December 31, 2003

**INVESTOR RELATIONS ON THE INTERNET**

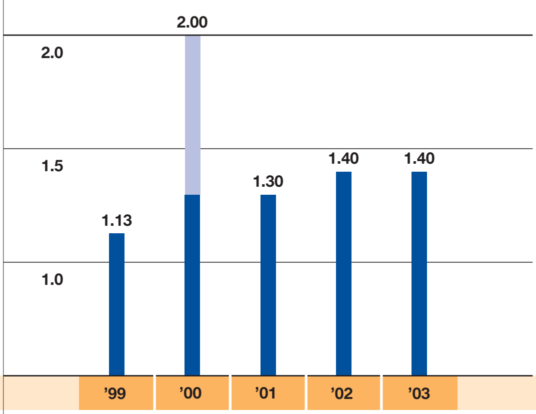
**You can find BASF's Investor Relations homepage on the Internet at www.basf.de/share.**

**If you are interested in receiving further information on BASF by e-mail, you can subscribe to our newsletter there.**

**Investment in BASF shares – average annual change**




**Dividend**
(without tax credit)
€

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# Management's Analysis

## BASF Strategy and Value-based Management

### Strategy

**We want to strengthen BASF's position as the world's leading chemical company. The analysis of our strategy shows that we have set the right course in recent years. But our business environment is changing. We want to seize this change as an opportunity to add new elements to our strategy. Our path to the future has a name: BASF 2015.**

We have analyzed the prognoses for growth in the world chemical industry and the development of future markets and reviewed our strategy in detail against this background. The results show that we have made the right strategic decisions in recent years. This is why the basic elements of our strategy remain valid.

The core ideas of our strategy have proven themselves and we will continue to implement them. We will concentrate on activities associated with chemistry and on expanding our strengths: our chemical businesses – our Verbund of chemicals, plastics and performance products –, agricultural products and nutrition, as well as oil and gas. In the future, we will focus on a portfolio that is more resilient toward cyclicality and oil price fluctuations.

We have always set great store in trusting partnerships with our customers, employees, investors, neighbors and society. In the future, we want to serve them even better as a reliable partner for intelligent solutions.

Our goal is to remain the world's leading chemical company. With our renewed strategy BASF 2015, we will achieve this goal by successfully combining new and proven ideas.

We are aligning our activities using four strategic guidelines:
- Earn a premium on our cost of capital
- Help our customers to be more successful
- Form the best team in the industry
- Ensure sustainable development

#### Earn a premium on our cost of capital

Only profitable growth will give us an edge in the international competition for capital. In the future, we will therefore concentrate our funds on those business areas that are attractive and in which we perform well. In doing so, we will continue to use the advantages of our Verbund to work cost efficiently. In all areas we want to earn our cost of capital – and a premium on it too: in other words an appropriate return on the capital we employ. This is why we are introducing EBIT (earnings before interest and taxes) after cost of capital as a key performance indicator from 2004 onward. This parameter supports us in our efforts to improve our cost structures, to grow profitably, and to use our capital more sparingly and economically. In this way, we aim to increase the value of our company.

### Help our customers to be more successful

We are there wherever our customers are. We invested in good time in growth markets and are now active in all important markets worldwide. In order to grow profitably, we want to focus even more closely on our customers' needs in the future and develop and apply the best business models for our customers and for us.

We want to tailor our innovations more closely to impulses from the markets. We are increasingly developing new products and services in close collaboration with key customers. We enter into research and development partnerships with such customers to find tailor-made solutions that ensure mutual success.

In the area of specialties, we look at the individual needs of our customers and develop the appropriate solution. We combine new products and services to yield system solutions that offer our customers a competitive advantage and create profit potential for both them and us. With standard products, we concentrate on quality, reliable delivery and an appropriate price-to-performance ratio.

New areas of knowledge open up new market opportunities for us. Biotechnology and nanotechnology, materials science and energy management technologies offer us and our customers attractive business opportunities. We are exploiting this technological change and helping to shape it. We are particularly focusing on the advantages of biotechnology in order to tap into new potential through innovative solutions for the food industry, animal nutrition and agriculture.

### Form the best team in the industry

We have committed and qualified employees and an excellent management team. Together, they create BASF's success. We value their diverse opinions, experience and intercultural competence as important pre-conditions for success in the global market.

We therefore want to further broaden the international nature of our management team and also increase the number of women in management. We want to enhance our employees' opportunities for self-learning and learning on the job. To be an attractive employer, we have long used performance-related pay to encourage entrepreneurial thinking: In the future, we want to increasingly link pay at all levels to individual performance and the success of the company.

### Ensure sustainable development

We base our activities on the principles of sustainable development. For us, sustainable enterprise means combining economic success with environmental protection and social responsibility, thus contributing to a future worth living for coming generations.

With our management systems and tools for sustainability, we create value for BASF and our partners in business and society. At the same time, our measures help ensure that we better fulfill the needs of customers and consumers. We see this as a long-term competitive advantage. For example, our eco-efficiency analysis can show our customers which products and processes are superior for their specific applications from both economic and environmental viewpoints. This is increasingly valued by our customers as a feature of our system solutions.

The Chemical Company

**BASF's new corporate design is the visible expression of our path to the future. We have added a symbol to the basis of our logo – the four letters BASF: The two squares stand for mutual success in partnership with our customers, employees, investors, neighbors and society. A further addition to our logo reflects our claim to be the world's leading chemical company: BASF – The Chemical Company.**

## BASF Value-based Management

Our primary goal is to increase and sustain our corporate value. We therefore measure business decisions and performance against the returns expected by our investors, in other words against the cost of capital. Our aim is to achieve a premium on our cost of capital.

As of 2004, we have therefore introduced EBIT (income from operations before interest and taxes) after cost of capital as the key performance and management indicator for our operating divisions and business units. The divisions must achieve a minimum EBIT of 10% on operational assets to satisfy the returns expected by both internal and external providers of equity and debt capital, and to cover the required taxes. Based on planned operational assets of €28 billion in 2004, this corresponds to a minimum EBIT of €2.8 billion for the BASF Group.

This cost of capital percentage before interest and taxes of 10% corresponds to a weighted average cost of capital (WACC) of approximately 6% after interest and taxes. Our target is therefore an ambitious one. The WACC calculation is an internationally recognized method of determining a company's cost of capital. It is used to determine and to evaluate shareholders' return expectations and interest rates on debt capital. We calculate our cost of equity on the basis of the market value of BASF shares.

We can earn a premium on our cost of capital both by improving EBIT and by making optimal use of capital employed. The key performance indicator thus supports us in our efforts to improve cost structures, achieve profitable growth and exercise even greater capital discipline.

### Incorporating value management in target agreements

As a result, we also employ EBIT after cost of capital as the value-creation indicator on which we base the performance-related compensation of our executives. The Board of Executive Directors uses this key performance indicator in its operational planning to set targets for the whole BASF Group, and hence for the individual divisions and business units. Target achievement plays an important role in setting the level of variable compensation.

In areas such as production, marketing, sales and supply chain management, we have also created a system of key financial ratios that enables our employees to identify their personal contribution to added value and helps them act accordingly. Improved value-based management promotes entrepreneurial thinking at all levels of BASF.

# Economic Environment

- Global economy manages slight growth
- Strong increase in prices for oil and chemical raw materials
- Level of orders in the chemical industry remains unsatisfactory in the first three quarters
- Weak improvement in production in key customer industries

## 1. Global Economic Trends and Trends in the Chemical Industry in 2003

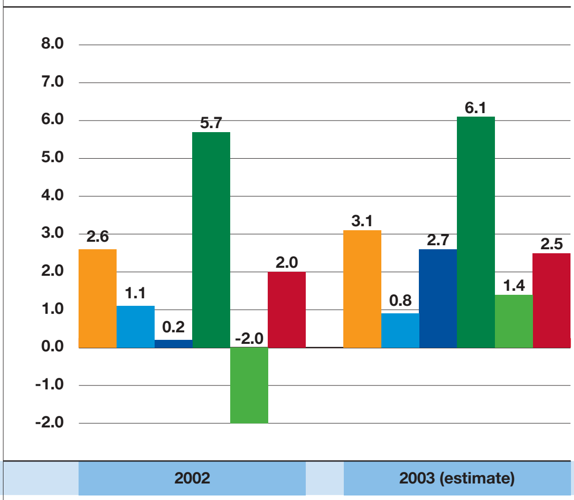
In 2003, growth in the **global economy** was generally weak and varied greatly from region to region. The weakest growth was seen in Europe. The bottom of the downturn was reached in the third quarter of 2003. The most recent early indicators also suggest that the global economy is now recovering.

In 2003, the **chemical industry** worldwide grew at its slowest rate in the past 10 years. The first quarter was shaped by global stockpiling of many chemical products by manufacturers who were expecting price increases as a result of the Iraq war. Since sales opportunities of industry customers did not improve as the year progressed, order levels were unsatisfactory in the first three quarters. By the end of 2003, the chemical industry had stabilized.

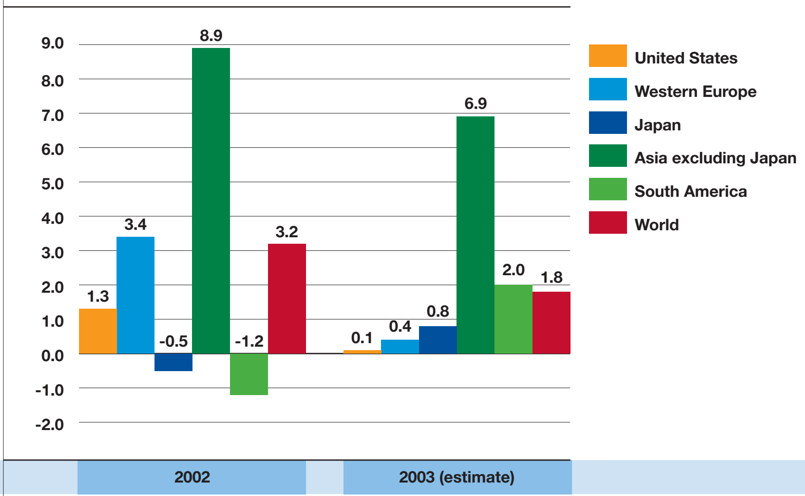
The **United States** has experienced extensive stagnation with regard to chemical production since 1999. In addition to a weak domestic economy, high natural gas prices in the United States slowed petrochemicals in particular, which represent around 40% of its chemical industry. There was a gradual improvement in production since the third quarter although there was no increase in average annual growth.

The chemical industry was also less productive than expected in **Western Europe.** The main reason for this was once again weak domestic demand. In addition, a strong euro negatively influenced exports. With the exception of Germany, the production rate has been rising slightly since the third quarter.

**Global economic growth**
Real changes compared with previous year (%)




**Chemical production**
Real changes compared with previous year (%)



In the **Asian countries,** the chemical industry gained momentum following a dip in the first six months. China and Malaysia posted the strongest growth. Moderate growth was achieved in Japan thanks to support from exports. Domestic demand, however, remained moderate.

In **South America,** the chemical industry showed virtually no growth. A slight upturn was perceptible in Chile and Argentina.

**Chemical raw materials prices** increased substantially. The price of crude oil (Brent) rose at times to $32 per barrel and has since decreased only gradually. Average oil prices rose by 16% and naphtha prices by 22%. This corresponds to average annual prices of $29 per barrel for crude oil (Brent) and $272 per metric ton for naphtha. In the United States, natural gas prices surged 60%.

## 2. Production Trends in Key Customer Industries in 2003

In 2003, economic development in key customer industries of the chemical industry was particularly subdued in the OECD countries.

In the OECD countries, production in the **automotive industry** declined although production in the previous year had been maintained at a high level as a result of discounts and attractive lending rates in the United States. The increase in global automobile production can be attributed to growth in Asia and Eastern Europe.

Production in the **agricultural industry** stagnated in the industrialized countries. The drought of 2003 hurt harvests in Europe. Agricultural production rose primarily in South America and Asia.

The **construction industry** was weak except in the United States, Great Britain and China. In Western Europe, construction stagnated, primarily due to cyclical decreases in domestic and commercial building. Public building construction was down in Europe because of government budget problems. In the United States, however, the construction industry again enjoyed strong growth, thus helping the economy.

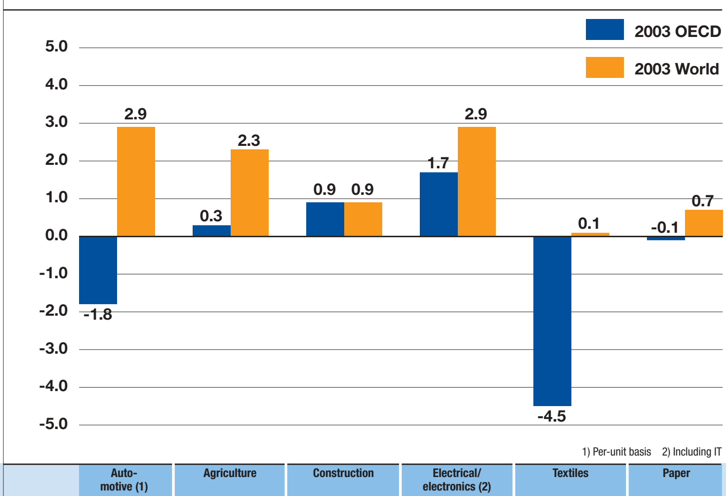
**BASF sales by industry**

Percentage of sales in 2003

| | | | |
|---|---|---|---|
| **> 15%** | Chemicals (not for consumer goods) | | |
| **10–15%** | Automotive<br>Energy<br>Agriculture | | |
| **5–10%** | Construction | | |
| **< 5%** | Printing<br>Electrical/electronics<br>Health<br>Cosmetics | Leather/shoes<br>Furniture<br>Paper<br>Carpets | Textiles<br>Packaging<br>Detergents and cleansers |

**Other industries: approximately 12% in total**

**Growth in key customer industries**
Real changes compared with 2002 (%)



In the **electrical and electronics industry,** production recovered after substantial declines in previous years. Growth was again up significantly, above all in the IT sector. However, the levels of previous years have still not been achieved.

In the **textile industry** in OECD countries, the downward trend intensified in 2003. In the United States and Western Europe, textile production decreased due to weaker demand for clothing and domestic textiles. Production decreased considerably in the United States as a result of strong imports from Asia.

In the **paper industry,** global production stabilized during 2003. Paper production declined in the United States due to weak domestic demand and import pressures. By contrast, there was a slight increase in production in Western Europe.

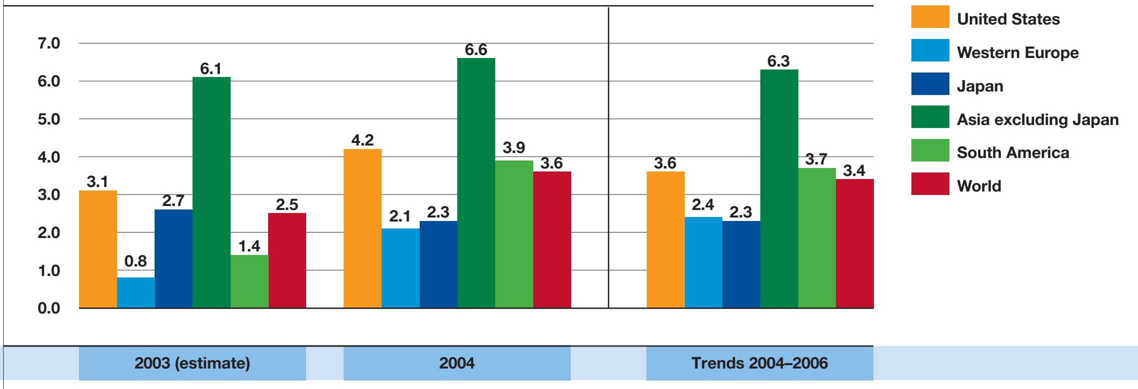
## 3. Outlook for 2004

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 scenarios:

- 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 the global recovery process.

**Gross domestic product forecast**
Real changes compared with previous year (%)



## Trends in the chemical industry

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 **United States,** we anticipate growth in chemical production for the first time in a number of years as a result of rising demand from industrial customers and increasing exports.

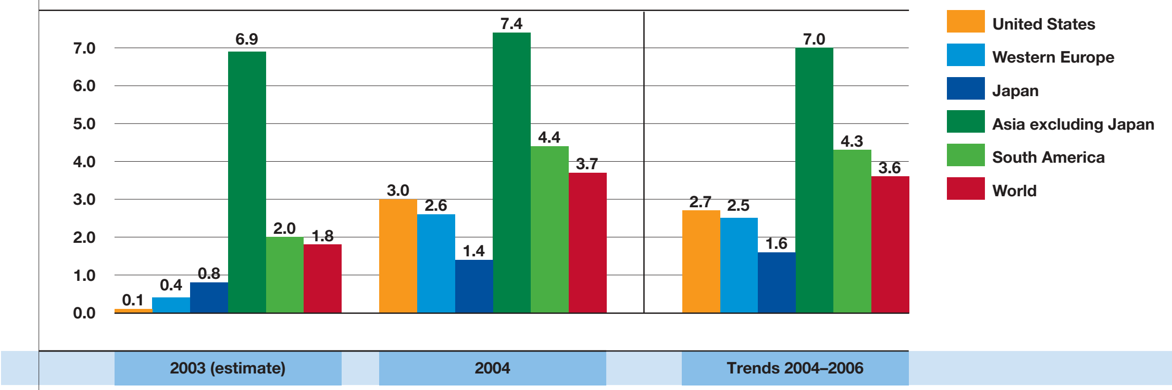
We expect chemical production in **Western Europe** to be boosted by increased industrial demand. Exports are likely to make only a moderate contribution to the increase in demand as a result of the strong euro. We anticipate that trade will develop positively within the European Union as well as with its new members from Eastern Europe.

In **Japan,** we forecast that chemical production in 2004 will remain on a weak growth course, driven by a slight increase in industrial demand.

In **South and East Asia,** growth in chemical production is expected to remain strong. We believe that China and India, especially, will continue to enjoy substantial growth. The other main manufacturing countries will likewise benefit from the economic upturn.

In **South America,** the chemical industry is expected to achieve stronger growth in 2004 as a result of the improved economic climate.

**Chemical production forecast**
Real changes compared with previous year (%)



# BASF Group Business Review and Analysis

## 1. Results of Operations in the BASF Group

- **Sales increase despite negative currency effects**
- **Income from operations slightly higher than in the previous year**
- **Substantial improvement in income from operations in Agricultural Products & Nutrition and Oil & Gas**
- **Successful cost-reduction and restructuring measures**
- **High raw materials costs and unsatisfactory margins in chemicals businesses**

### Overview

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.

**Sales and earnings**

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 33,361 | 32,216 | 3.6 |
| Gross profit | 10,028 | 10,400 | (3.6) |
| Gross profit as a percentage of sales | 30.1 | 32.3 | (6.8) |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 5,110 | 5,105 | 0.1 |
| Income from operations (EBIT) before special items | 2,993 | 2,881 | 3.9 |
| Income from operations (EBIT) | 2,658 | 2,641 | 0.6 |
| Income from operations (EBIT) as a percentage of sales | 8.0 | 8.2 | (2.4) |
| Financial result | (490) | 0 | . |
| Income before taxes and minority interests | 2,168 | 2,641 | (17.9) |
| Net income | 910 | 1,504 | (39.5) |
| Net income as a percentage of sales | 2.7 | 4.7 | (42.6) |
| Earnings per share (€) | 1.62 | 2.60 | (37.7) |
| Net income in accordance with U.S. GAAP | 1,338 | 1,717 | (22.1) |
| Earnings per share in accordance with U.S. GAAP (€) | 2.38 | 2.96 | (19.6) |

## Sales and earnings by quarter

| 2003<br>Million € | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | 2003 |
|---|---|---|---|---|---|
| Sales | 8,832 | 8,249 | 7,740 | 8,540 | 33,361 |
| Income from operations (EBIT) before special items | 944 | 832 | 403 | 814 | 2,993 |
| Income from operations (EBIT) | 942 | 774 | 374 | 568 | 2,658 |
| Financial result | (103) | (88) | (108) | (191) | (490) |
| Income before taxes and minority interests | 839 | 686 | 266 | 377 | 2,168 |
| Net income | 442 | 195 | 120 | 153 | 910 |
| Earnings per share (€) | 0.78 | 0.35 | 0.21 | 0.27 | 1.62 |

| 2002<br>Million € | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | 2002 |
|---|---|---|---|---|---|
| Sales | 8,239 | 8,379 | 7,581 | 8,017 | 32,216 |
| Income from operations before special items | 818 | 822 | 591 | 650 | 2,881 |
| Income from operations (EBIT) | 814 | 817 | 467 | 543 | 2,641 |
| Financial result | 24 | 8 | (12) | (20) | 0 |
| Income before taxes and minority interests | 838 | 825 | 455 | 523 | 2,641 |
| Net income | 556 | 502 | 247 | 199 | 1,504 |
| Earnings per share (€) | 0.95 | 0.86 | 0.43 | 0.35 | 2.60 |

### Sales

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:

| Million € | 2003 | As % of sales |
|---|---|---|
| Volumes | 2,421 | 7.6 |
| Prices | 692 | 2.1 |
| Currencies | (2,345) | (7.3) |
| Acquisitions and additions to the scope of consolidation | 638 | 2.0 |
| Divestitures and deconsolidations | (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, our 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, Performance Products and Plastics. 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.

### Special items

Income from operations in 2003 contains special charges of €335 million, compared with €240 million in the previous year. 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) (see Regional Results, pages 49 to 50).

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.

| | 1st Quarter | | 2nd Quarter | | 3rd Quarter | | 4th Quarter | | Year | |
|---|---|---|---|---|---|---|---|---|---|---|
| Million € | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Special items | | | | | | | | | | |
| In income from operations | (2) | (4) | (58) | (5) | (29) | (124) | (246) | (107) | (335) | (240) |
| In financial result | – | 114 | (3) | – | (27) | 130 | (133) | 57 | (163) | 301 |
| | **(2)** | **110** | **(61)** | **(5)** | **(56)** | **6** | **(379)** | **(50)** | **(498)** | **61** |

### 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 7 to the Consolidated Financial Statements).

The return on assets as a percentage of income before taxes plus interest expenses was 7.4% in 2003 compared with 8.4% in the previous year.

### 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 as a 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. In addition, foreign income taxes on oil production rose, primarily due to the production of higher volumes of oil.

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.

### Proposed appropriation of profit

BASF Aktiengesellschaft* achieved net income of €1,103 million. Profit carried forward from the year 2002 was €10 million. After transferring €334 million to other retained earnings, profit retained was €779 million. At the Annual Meeting on April 29, 2004, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €1.40 per qualifying share. If shareholders approve this proposal, the total dividend payable on qualifying shares as of December 31, 2003 will be €779 million. If the number of qualifying shares and the dividend payable decline by the date of the Annual Meeting due to share buy-backs, it is further proposed that the remaining profit retained be carried forward.

### 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.

* The auditors have approved the Consolidated Financial Statements of BASF Aktiengesellschaft free of qualification. The Consolidated Financial Statements are published in the Federal Gazette and filed in the Commercial Register of Ludwigshafen (Rhine) HRB 3000. A reprint may be obtained by contacting the address shown on the back cover.

## 2. Balance Sheet Structure

- Total assets reduced by 4.2%
- Current assets reduced significantly
- Share buy-back program continued for €500 million
- Low interest rates used to refinance debt

### Assets

| | 2003 Million € | 2003 % | 2002 % |
|---|---|---|---|
| Intangible assets | 3,793 | 11.3 | 9.9 |
| Tangible assets | 13,070 | 38.9 | 39.2 |
| Financial assets | 2,600 | 7.7 | 9.2 |
| **Fixed assets** | **19,463** | **57.9** | **58.3** |
| Inventories | 4,151 | 12.4 | 13.7 |
| Accounts receivable, trade | 4,954 | 14.7 | 15.2 |
| Other receivables | 3,159 | 9.4 | 8.4 |
| Deferred taxes | 1,247 | 3.7 | 3.4 |
| Liquid funds | 628 | 1.9 | 1.0 |
| **Current assets** | **14,139** | **42.1** | **41.7** |
| **Total assets** | **33,602** | **100.0** | **100.0** |

### Stockholders' equity and liabilities

| | 2003 Million € | 2003 % | 2002 % |
|---|---|---|---|
| Paid-in capital | 4,408 | 13.1 | 12.6 |
| Retained earnings | 12,055 | 35.9 | 35.5 |
| Currency translation adjustments | (972) | (2.9) | (0.9) |
| Minority interests | 388 | 1.2 | 1.1 |
| **Stockholders' equity** | **15,879** | **47.3** | **48.3** |
| Pension provisions | 3,862 | 11.5 | 11.1 |
| Long-term provisions | 2,343 | 7.0 | 6.6 |
| Long-term financial indebtedness | 2,995 | 8.9 | 5.1 |
| Other long-term liabilities | 1,085 | 3.2 | 3.4 |
| **Total long-term liabilities** | **10,285** | **30.6** | **26.2** |
| Short-term financial indebtedness | 512 | 1.5 | 5.2 |
| Accounts payable, trade | 2,046 | 6.1 | 6.6 |
| Other short-term liabilities and provisions | 4,880 | 14.5 | 13.7 |
| **Total short-term liabilities** | **7,438** | **22.1** | **25.5** |
| **Stockholders' equity and liabilities** | **17,723** | **52.7** | **51.7** |
| **Total stockholders' equity and liabilities** | **33,602** | **100.0** | **100.0** |

BASF's **total assets** decreased by €1.5 billion or 4.2% in 2003 as a result of a currency-related decline in assets in North America (NAFTA) and the reduction of inventories.

**Fixed assets** declined €995 million or 4.9%, primarily due to currency translation effects. Intangible assets increased due to additions resulting from acquisitions. Fixed assets as a percentage of total assets remained unchanged at 58%. Fixed assets consist of

| | |
|---|---|
| • Intangible assets | 19.5% |
| • Tangible assets | 67.2% |
| • Financial assets | 13.3% |
| | 100.0% |

The breakdown of tangible assets by region is shown in the following table. The most important **capital expenditures** are explained in Liquidity and Capital Resources on page 31 ff.

| % | Tangible assets 2003 | 2002 | Inventories 2003 | 2002 | Receivables 2003 | 2002 |
|---|---|---|---|---|---|---|
| Europe | 54.7 | 51.9 | 55.9 | 52.0 | 60.1 | 58.4 |
| Thereof Germany | 36.8 | 34.8 | 33.8 | 33.5 | 33.2 | 35.2 |
| North America (NAFTA) | 20.5 | 25.3 | 27.4 | 32.1 | 17.1 | 18.5 |
| South America | 3.1 | 2.9 | 5.0 | 4.3 | 8.7 | 8.5 |
| Asia, Pacific Area, Africa | 21.7 | 19.9 | 11.7 | 11.6 | 14.1 | 14.6 |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

**Inventories** were reduced by €647 million to €4,151 million. Their share of total assets was 12.4% compared with 13.7% in 2002. **Trade accounts receivable** were reduced by 6.8%, and their share of total assets declined to 14.7% compared with 15.2% in the previous year. The ratio of total current assets to total assets remained unchanged at 42%.

The BASF Group's **net debt** declined €368 million compared with 2002, primarily due to currency translation effects:

| Million € | 2003 | 2002 |
|---|---|---|
| Liquid funds | 628 | 363 |
| Financial indebtedness | 3,507 | 3,610 |
| Net debt | 2,879 | 3,247 |

The types, terms, average interest rate and currencies of the financial indebtedness and lines of credit are explained in Note 23 to the Consolidated Financial Statements.

**Stockholders' equity** decreased by €1,063 million. This was due to the further buy-back and cancellation of shares as well as to currency translation effects. As a result, the equity ratio declined slightly to 47.3% compared with 48.3% in 2002.

**Long-term liabilities** rose by €1,074 million to €10,285 million. Their share of stockholders' equity and liabilities rose to 30.6% from 26.2% in the previous year. Approximately 60% of long-term liabilities are in provisions, primarily pension provisions. Long-term financial indebtedness rose by €1,199 million to €2,995 million due in particular to the issue of a €1 billion Euro Benchmark Bond with a maturity of seven years.

**Short-term liabilities** declined considerably by 16.7% to €7,438 million. Short-term financial indebtedness was reduced through restructuring from €1,814 million to €512 million. Trade accounts receivable also declined from €2,330 million to €2,046 million.

## Key ratios

In 2003, we improved key ratios, thus laying the basis for maintaining our good credit ratings in the future.

### Horizontal balance sheet ratios

| | | | 2003 | 2002 |
|---|---|---|---|---|
| Fixed asset coverage I (%) | = | Stockholders' equity* / Fixed assets | 78 | 79 |
| Fixed asset coverage II (%) | = | Stockholders' equity* + long-term liabilities / Fixed assets | 130 | 124 |
| Asset coverage (%) | = | Stockholders' equity* + long-term liabilities / Fixed assets + Inventories | 107 | 100 |

* Less proposed dividend

### Liquidity and debt ratios

| | | | 2003 | 2002 |
|---|---|---|---|---|
| Liquidity I (%) | = | Short-term receivables + liquid funds / Short-term liabilities + proposed dividend | 103 | 86 |
| Liquidity II (%) | = | Current assets / Short-term liabilities + proposed dividend | 154 | 135 |
| Dynamic debt level (%) | = | Cash provided by operating activities / Long and short-term financial indebtedness | 139 | 64 |
| Debt-equity ratio (%) | = | Long and short-term financial indebtedness / Long and short-term financial indebtedness + stockholders' equity | 18.1 | 17.6 |

### Interest coverage

| | | | 2003 | 2002 |
|---|---|---|---|---|
| EBITDA interest coverage | = | Income before taxes + interest expense + amortization and depreciation / Interest expense | 14.0 | 13.3 |

# 3. Liquidity and Capital Resources

- Cash provided by operating activities at record level
- Capital expenditures, acquisitions, dividend payments and share buybacks financed from cash provided by operating activities
- Substantial cash released as a result of lower net current assets
- Lower capital expenditures

## Statements of cash flows

| Million € | 2003 | 2002 |
|---|---|---|
| Net income | 910 | 1,504 |
| Depreciation of fixed assets | 2,682 | 2,502 |
| Changes in net current assets | 1,118 | (1,033) |
| Miscellaneous items | 168 | (660) |
| **Cash provided by operating activities** | **4,878** | **2,313** |
| | | |
| Payments for tangible and intangible fixed assets | (2,071) | (2,410) |
| Aquisitions/divestitures, net | (1,394) | (262) |
| Financial investments and other items | 205 | 508 |
| **Cash used in investing activities** | **(3,260)** | **(2,164)** |
| | | |
| Share repurchase | (500) | (462) |
| Changes in financial indebtedness | (2) | 1,040 |
| Dividends | (857) | (843) |
| **Cash used in financing activities** | **(1,359)** | **(265)** |
| | | |
| Net changes in cash and cash equivalents | 259 | (116) |
| Initial cash and cash equivalents and other changes | 222 | 347 |
| **Cash and cash equivalents** | **481** | **231** |
| | | |
| Marketable securities | 147 | 132 |
| **Liquid funds** | **628** | **363** |

### 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.

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 |
| | 100 | 100 |

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 $C_4$ 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:
- 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; 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. Mayor 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 $B_2$ 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

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 (see page 13).

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 23 to the Consolidated Financial Statements.

The rating agencies Moody's and Standard & Poor's both continue to give BASF their best ratings for short-term debt and very good ratings for long-term debt. Moody's has assigned us a short-term debt rating of P-1 and a long-term rating of Aa3; our short and long-term ratings at Standard & Poor's are A1+ and AA-, respectively. We want to maintain our good credit ratings.

### 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, i.e., 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 gycol, 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, South 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
- Expansion of production capacity for crospovidones (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

# 4. Results of Operations by Segment

## Segment overview

| Million € | Sales 2003 | Sales 2002 | Income from operations before interest, taxes, depreciation and amortization (EBITDA) 2003 | EBITDA 2002 | Income from operations (EBIT) before special items 2003 | EBIT before special items 2002 |
|---|---|---|---|---|---|---|
| Chemicals | 5,752 | 5,317 | 928 | 1,142 | 500 | 676 |
| Plastics | 8,787 | 8,477 | 794 | 1,114 | 363 | 593 |
| Performance Products | 7,633 | 8,014 | 907 | 1,134 | 568 | 653 |
| Agricultural Products & Nutrition | 5,021 | 4,924 | 881 | 593 | 427 | 217 |
| Thereof Agricultural Products | 3,176 | 2,954 | 625 | 456 | 294 | 99 |
| Fine Chemicals | 1,845 | 1,970 | 256 | 137 | 133 | 118 |
| Oil & Gas | 4,791 | 4,199 | 1,734 | 1,504 | 1,365 | 1,210 |
| Other* | 1,377 | 1,285 | (134) | (382) | (230) | (468) |
| Thereof costs of exploratory and biotechnological research | – | – | – | – | (181) | (197) |
| | 33,361 | 32,216 | 5,110 | 5,105 | 2,993 | 2,881 |

| Million € | Income from operations (EBIT) 2003 | EBIT 2002 | Assets 2003 | Assets 2002 | Capital expenditures** 2003 | Capital expenditures** 2002 |
|---|---|---|---|---|---|---|
| Chemicals | 393 | 635 | 4,720 | 4,997 | 527 | 495 |
| Plastics | 296 | 582 | 5,598 | 6,174 | 539 | 636 |
| Performance Products | 478 | 646 | 4,656 | 5,218 | 236 | 288 |
| Agricultural Products & Nutrition | 359 | 55 | 6,826 | 6,484 | 1,273 | 245 |
| Thereof Agricultural Products | 234 | 61 | 5,523 | 5,092 | 1,133 | 88 |
| Fine Chemicals | 125 | (6) | 1,303 | 1,392 | 140 | 157 |
| Oil & Gas | 1,365 | 1,210 | 3,711 | 3,648 | 323 | 920 |
| Other* | (233) | (487) | 8,091 | 8,565 | 518 | 471 |
| Thereof costs of exploratory and biotechnological research | (181) | (197) | – | – | – | – |
| | 2,658 | 2,641 | 33,602 | 35,086 | 3,416 | 3,055 |

* "Other" includes the fertilizers business and other businesses as well as expenses, income and assets not allocated to the segments. This item also includes foreign currency results from financial indebtedness that are not allocated to the segments as well as from currency positions that are macro-hedged (€(1) million, previous year €(143) million).

** Capital expenditures in tangible assets (thereof €203 million from acquisitions in 2003) and intangible assets (thereof €1,103 million from acquisitions in 2003).

## Sales

| Million € | 1st Quarter 2003 | 1st Quarter 2002 | 2nd Quarter 2003 | 2nd Quarter 2002 | 3rd Quarter 2003 | 3rd Quarter 2002 | 4th Quarter 2003 | 4th Quarter 2002 |
|---|---|---|---|---|---|---|---|---|
| Chemicals | 1,519 | 1,203 | 1,433 | 1,398 | 1,367 | 1,352 | 1,433 | 1,364 |
| Plastics | 2,283 | 1,975 | 2,177 | 2,243 | 2,135 | 2,159 | 2,192 | 2,100 |
| Performance Products | 1,907 | 1,983 | 1,911 | 2,077 | 1,930 | 2,027 | 1,885 | 1,927 |
| Agricultural Products & Nutrition | 1,296 | 1,542 | 1,505 | 1,495 | 1,054 | 902 | 1,166 | 985 |
| Thereof Agricultural Products | 833 | 1,038 | 1,051 | 1,003 | 585 | 411 | 707 | 502 |
| Fine Chemicals | 463 | 504 | 454 | 492 | 469 | 491 | 459 | 483 |
| Oil & Gas | 1,483 | 1,226 | 928 | 879 | 927 | 809 | 1,453 | 1,285 |
| Other* | 344 | 310 | 295 | 287 | 327 | 332 | 411 | 356 |
| | 8,832 | 8,239 | 8,249 | 8,379 | 7,740 | 7,581 | 8,540 | 8,017 |

## Income from operations (EBIT) before special items

| Million € | 1st Quarter 2003 | 1st Quarter 2002 | 2nd Quarter 2003 | 2nd Quarter 2002 | 3rd Quarter 2003 | 3rd Quarter 2002 | 4th Quarter 2003 | 4th Quarter 2002 |
|---|---|---|---|---|---|---|---|---|
| Chemicals | 145 | 111 | 134 | 161 | 101 | 195 | 120 | 209 |
| Plastics | 110 | 98 | 76 | 211 | 67 | 182 | 110 | 102 |
| Performance Products | 142 | 115 | 145 | 210 | 144 | 204 | 137 | 124 |
| Agricultural Products & Nutrition | 237 | 234 | 209 | 130 | (97) | (152) | 78 | 5 |
| Thereof Agricultural Products | 196 | 213 | 171 | 108 | (120) | (187) | 47 | (35) |
| Fine Chemicals | 41 | 21 | 38 | 22 | 23 | 35 | 31 | 40 |
| Oil & Gas | 404 | 284 | 278 | 292 | 271 | 298 | 412 | 336 |
| Other* | (94) | (24) | (10) | (182) | (83) | (136) | (43) | (126) |
| | 944 | 818 | 832 | 822 | 403 | 591 | 814 | 650 |

## Income from operations (EBIT)

| Million € | 1st Quarter 2003 | 1st Quarter 2002 | 2nd Quarter 2003 | 2nd Quarter 2002 | 3rd Quarter 2003 | 3rd Quarter 2002 | 4th Quarter 2003 | 4th Quarter 2002 |
|---|---|---|---|---|---|---|---|---|
| Chemicals | 144 | 109 | 127 | 161 | 99 | 177 | 23 | 188 |
| Plastics | 109 | 95 | 67 | 211 | 64 | 182 | 56 | 94 |
| Performance Products | 143 | 119 | 136 | 210 | 135 | 204 | 64 | 113 |
| Agricultural Products & Nutrition | 236 | 231 | 181 | 127 | (114) | (254) | 56 | (49) |
| Thereof Agricultural Products | 192 | 213 | 144 | 108 | (138) | (188) | 36 | (72) |
| Fine Chemicals | 44 | 18 | 37 | 19 | 24 | (66) | 20 | 23 |
| Oil & Gas | 404 | 284 | 278 | 292 | 271 | 298 | 412 | 336 |
| Other* | (94) | (24) | (15) | (184) | (81) | (140) | (43) | (139) |
| | 942 | 814 | 774 | 817 | 374 | 467 | 568 | 543 |

* "Other" includes the fertilizers business and other businesses as well as expenses, income and assets not allocated to the segments. This item also includes foreign currency results from financial indebtedness that are not allocated to the segments as well as from currency positions that are macro-hedged (€(1) million, previous year €(143) million).

# Chemicals

- **Sales above previous year's level due to higher volumes and higher prices**
- **Lower income from operations due to higher raw materials costs and price pressure**
- **Inorganic specialties business strengthened through an acquisition**

The Chemicals segment comprises the Inorganics, Petrochemicals and Intermediates divisions.

**Segment data**

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 5,752 | 5,317 | 8.2 |
| Thereof Inorganics | 738 | 695 | 6.2 |
| Petrochemicals | 3,264 | 2,902 | 12.5 |
| Intermediates | 1,750 | 1,720 | 1.7 |
| Intersegmental transfers | 2,680 | 2,598 | 3.2 |
| Sales including intersegmental transfers | 8,432 | 7,915 | 6.5 |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 928 | 1,142 | (18.7) |
| Income from operations (EBIT) before special items | 500 | 676 | (26.0) |
| Income from operations (EBIT) | 393 | 635 | (38.1) |
| Operating margin (%) | 6.8 | 11.9 | (42.9) |
| Assets | 4,720 | 4,997 | (5.5) |
| Return on operational assets (%) | 8.1 | 12.9 | (37.2) |
| Research and development expenses | 108 | 98 | 10.2 |
| Additions to tangible and intangible assets | 527 | 495 | 6.5 |

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 $C_4$ 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 higher sales in 2004. We aim to improve income from operations by raising prices.

## 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, 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. 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.

Capital expenditures increased slightly compared with the previous year. In Port Arthur, Texas, together with our partners Atofina and Shell, we built a $C_4$ 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 startup costs for investment projects in Asia as well as impairment charges for production plants.

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.

# Plastics

- **Increased sales from higher volumes and prices**
- **Income from operations significantly below previous year's level due to higher raw materials costs**
- **Restructuring continued**
- **Successful integration of Honeywell's engineering plastics**

The Plastics segment comprises the Styrenics, Performance Polymers and Polyurethanes divisions.

## Segment data

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 8,787 | 8,477 | 3.7 |
| Thereof Styrenics | 3,626 | 3,387 | 7.1 |
| Performance Polymers | 2,239 | 2,270 | (1.4) |
| Polyurethanes | 2,922 | 2,820 | 3.6 |
| Intersegmental transfers | 541 | 436 | 24.1 |
| Sales including intersegmental transfers | 9,328 | 8,913 | 4.7 |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 794 | 1,114 | (28.7) |
| Income from operations (EBIT) before special items | 363 | 593 | (38.8) |
| Income from operations (EBIT) | 296 | 582 | (49.1) |
| Operating margin (%) | 3.4 | 6.9 | (50.7) |
| Assets | 5,598 | 6,174 | (9.3) |
| Return on operational assets (%) | 5.0 | 9.3 | (46.2) |
| Research and development expenses | 142 | 138 | 2.9 |
| Additions to tangible and intangible assets | 539 | 636 | (15.3) |

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.

### 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. 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 the 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 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.

# Performance Products

- **Sales decline due to weak U.S. dollar and difficult business environment in some customer industries**
- **Earnings reduced due to currency effects and higher raw materials costs**
- **Restructuring measures continued**
- **Cooperation with customers expanded**

The Performance Products segment comprises the Performance Chemicals, Coatings and Functional Polymers divisions.

## Segment data

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales | 7,633 | 8,014 | (4.8) |
| Thereof Performance Chemicals | 3,147 | 3,343 | (5.9) |
| Coatings | 2,015 | 2,137 | (5.7) |
| Functional Polymers | 2,471 | 2,534 | (2.5) |
| Intersegmental transfers | 301 | 326 | (7.7) |
| Sales including intersegmental transfers | 7,934 | 8,340 | (4.9) |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 907 | 1,134 | (20.0) |
| Income from operations (EBIT) before special items | 568 | 653 | (13.0) |
| Income from operations (EBIT) | 478 | 646 | (26.0) |
| Operating margin (%) | 6.3 | 8.1 | (22.2) |
| Assets | 4,656 | 5,218 | (10.8) |
| Return on operational assets (%) | 9.7 | 11.5 | (15.7) |
| Research and development expenses | 240 | 222 | 8.1 |
| Additions to tangible and intangible assets | 236 | 288 | (18.1) |

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.

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, Texas. 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.

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, North America (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 Suvinil® 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.

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.

# Agricultural Products & Nutrition

- **Sales boosted by Agricultural Products**
- **Sales volumes increase due to acquisition of fipronil and selected fungicides**
- **Higher income from operations in Agricultural Products and Fine Chemicals**
- **Cost reductions and portfolio measures successful**

The Agricultural Products & Nutrition segment consists of the Agricultural Products and Fine Chemicals divisions.

## Agricultural Products

### Segment data

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales to third parties | 3,176 | 2,954 | 7.5 |
| Intersegmental transfers | 24 | 21 | 14.3 |
| Sales including intersegmental transfers | 3,200 | 2,975 | 7.6 |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 625 | 456 | 37.1 |
| Income from operations (EBIT) befor special items | 294 | 99 | 197.0 |
| Income from operations (EBIT) | 234 | 61 | 283.6 |
| Operating margin (%) | 7.4 | 2.1 | 252.4 |
| Assets | 5,523 | 5,092 | 8.5 |
| Return on operational assets (%) | 4.4 | 1.1 | 300.0 |
| Research and development expenses | 239 | 285 | (16.1) |
| Additions to tangible and intangible assets | 1,133 | 88 | . |

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.

Business varied from region to region. 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, 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 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.

## Fine Chemicals

### Segment data

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales to third parties | 1,845 | 1,970 | (6.3) |
| Intersegmental transfers | 20 | 36 | (44.4) |
| Sales including intersegmental transfers | 1,865 | 2,006 | (7.0) |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 256 | 137 | 86.9 |
| Income from operations (EBIT) before special items | 133 | 118 | 12.7 |
| Income from operations (EBIT) | 125 | (6) | . |
| Operating margin (%) | 6.8 | * | . |
| Assets | 1,303 | 1,392 | (6.4) |
| Return on operational assets (%) | 9.3 | * | . |
| Research and development expenses | 70 | 82 | (14.6) |
| Additions to tangible and intangible assets | 140 | 157 | (10.8) |

* negative

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 North American business also had a positive effect on income from operations.

Following the dissolution of our long-term cooperation with DSM, 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 $B_2$ and citral.

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

# Oil & Gas

- **Significantly higher production of crude oil and natural gas**
- **Natural gas sales volumes substantially higher**
- **Sales up despite a persistently weak dollar**
- **Income from operations exceeds previous year's high level**

## Segment data

| Million € | 2003 | 2002 | Change in % |
|---|---|---|---|
| Sales to third parties | 4,791 | 4,199 | 14.1 |
| Thereof natural gas trading | 2,627 | 2,173 | 20.9 |
| Intersegmental transfers | 498 | 363 | 37.2 |
| Sales including intersegmental transfers | 5,289 | 4,562 | 15.9 |
| Income from operations before interest, taxes, depreciation and amortization (EBITDA) | 1,734 | 1,504 | 15.3 |
| Income from operations (EBIT) before special items | 1,365 | 1,210 | 12.8 |
| Income from operations (EBIT) | 1,365 | 1,210 | 12.8 |
| Thereof natural gas trading | 311 | 301 | 3.3 |
| Operating margin (%) | 28.5 | 28.8 | (1.0) |
| Assets | 3,711 | 3,648 | 1.7 |
| Return on operational assets (%) | 37.1 | 35.6 | 4.2 |
| Research and development expenses | 123 | 113 | 8.8 |
| Additions to tangible and intangible assets | 323 | 920 | (64.9) |

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 weak 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 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 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, 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., which we acquired in November 2002 and which was included for the full year for the first time in 2003. Without these portfolio changes, production would have increased by 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 Megatron, 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 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 in 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 8 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.

## 5. Regional Results

- **Europe: Higher sales in a difficult market environment**
- **NAFTA region: Higher sales in U.S.-dollar terms**
- **South America: Substantial improvement in income from operations**
- **Asia: Continues on growth path**

| Region | Sales by location of customer | | | Sales by location of company | | | Income from operations (EBIT) | | |
|---|---|---|---|---|---|---|---|---|---|
| Million € | 2003 | 2002 | Change in % | 2003 | 2002 | Change in % | 2003 | 2002 | Change in % |
| Europe | 19,120 | 17,697 | 8.0 | 20,372 | 18,987 | 7.3 | 2,224 | 2,357 | (5.6) |
| Thereof Germany | 7,073 | 6,944 | 1.9 | 14,070 | 13,315 | 5.7 | 1,642 | 1,690 | (2.8) |
| North America (NAFTA) | 7,163 | 7,808 | (8.3) | 7,214 | 7,932 | (9.1) | 10 | 23 | (56.5) |
| South America | 1,765 | 1,660 | 6.3 | 1,472 | 1,347 | 9.3 | 206 | 58 | 255.2 |
| Asia, Pacific Area, Africa | 5,313 | 5,051 | 5.2 | 4,303 | 3,950 | 8.9 | 218 | 203 | 7.4 |
| | **33,361** | **32,216** | **3.6** | **33,361** | **32,216** | **3.6** | **2,658** | **2,641** | **0.6** |

### Europe

In 2003, sales in Europe rose by €1,423 million compared with 2002. The Chemicals segment, particularly the Petrochemicals division, increased its sales, as did the Plastics segment. In the Performance Products segment, sales were at the previous year's level despite a weak business environment in important customer industries. Sales increased in the Agricultural Products & Nutrition segment. While the Agricultural Products division increased sales by acquiring business from Bayer CropScience, the Fine Chemicals division did not post the same level of sales as in 2002 because of severe price pressure. The Oil & Gas segment again made a substantial contribution to higher sales in Europe in 2003.

Income from operations fell €133 million compared with the previous year. This was due primarily to declining margins caused by higher raw materials prices that could not be fully passed on to customers.

Income from operations includes charges of €156 million from the Ludwigshafen Site Project, particularly for personnel measures. The goal is to further develop the Ludwigshafen site as one of the world's most productive and efficient chemical Verbund sites. In 2003, we already achieved savings of €100 million. By 2005, we aim to save €450 million.

### North America (NAFTA)

Sales in North America (NAFTA) declined €645 million in 2003 because of the weak U.S. dollar. In U.S. dollars, sales of the Group companies in this region rose 10%. In the Chemicals segment, we increased sales in the Petrochemicals division, primarily due to the steam cracker in Port Arthur, Texas. The Plastics, Performance Products and Agricultural Products & Nutrition segments posted substantially lower sales in euros because of the weak U.S. dollar.

Income from operations declined €13 million compared with the previous year. High raw materials costs resulted in lower margins. We were only partially able to implement price increases, since excess capacities remain for some products in the North American market. The Agricultural Products division posted significantly higher income from operations.

Income from operations includes expenses of €36 million for the first phase of restructuring at BASF Corporation in the United States. We want to improve the efficiency of our functional and service units by the end of 2004, and, in the second phase, optimize our product portfolio and site structures in North America by 2006. We aim to achieve total annual cost savings of at least $250 million by 2006.

### South America

Compared with 2002, sales rose €105 million, despite a high negative currency effect resulting from the strong euro. In local currency terms, sales of the Group companies climbed 13%. While sales declined in the Chemicals segment, the Plastics segment posted higher sales. The Performance Products segment's business focuses on decorative paints. Here, the strong euro exchange rate also resulted in lower sales in this business. Agricultural Products increased its sales by 55%. Sales in the Oil & Gas segment remained at the same level as in 2002.

Income from operations improved by €148 million compared with the previous year, due particularly to restructuring measures implemented in the last few years and to strong business in the Agricultural Products division. Foreign currency indebtedness improved because the previous year had been affected by high currency losses, due especially to the devaluation of the Argentine peso. We derived stable income from operations from our oil and natural gas business in Argentina.

### Asia, Pacific Area, Africa

In the Asia, Pacific Area and Africa region, we increased our sales by €262 million despite severe negative currency effects resulting from the strong euro. In local currency terms, sales of the Group companies in this region grew by 25%. This was due in particular to higher sales in China and ASEAN. The Chemicals and Performance Products segments maintained sales at the previous year's levels. The Plastics segment posted significantly higher sales, primarily as a result of the startup in mid-2002 of the propylene oxide/styrene production facility that we operate in Singapore with Shell under the ELLBA Eastern (Pte.) Ltd. joint venture. Sales in the Agricultural Products & Nutrition segment declined.

Income from operations increased €15 million compared with the previous year. The Agricultural Products & Nutrition segment posted strong income. Startup costs for our new facilities in South Korea (vitamin $B_2$ and TDI) and Malaysia (butanediol) reduced income from operations.

# Research and Development

- Successful innovations in partnership with our customers
- Greater expertise through global research cooperations
- High innovation potential from plant biotechnology, biocatalysis and nanotechnology

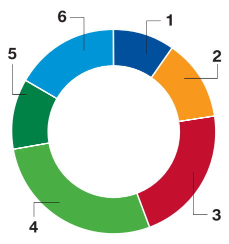
### Innovation in BASF's Research Verbund

Our central technology platforms in Ludwigshafen combine BASF's know-how. Together with the research facilities in our business units and Group companies worldwide and R&D subsidiaries such as BASF Plant Science GmbH, they form the core of our Research Verbund. Worldwide, approximately 7,500 employees work in research and development at BASF. In addition, we are currently involved in about 1,100 cooperations, which provide our research activities around the world with impulses on market needs and technology trends. Approximately 50 percent of our cooperation partners are located outside of Germany. The industry and startup companies account for about 30 percent of our partners, while 70 percent involve universities and research institutes.

### Research and development expenses slightly lower than in 2002

In 2003, BASF spent €1,105 million worldwide on research and development (R&D). This corresponds to a decline of 2.6% compared with 2002. The Agricultural Products & Nutrition segment is our most research-intensive business area, accounting for 28.0% of R&D expenses in 2003. The market for agricultural products is characterized by high demand for product innovations, in particular in the areas of fungicides and insecticides. We are therefore focusing our research activities on these two attractive market segments. The segment "Other" consists mainly of costs for exploratory and biotechnology research. The goal of our research efforts is to develop new and improved products, processes and methods. Approximately 60% of research costs was for new or improved products, 40% for processes or new methods (excluding Oil & Gas). Germany remains the regional focus of our research work, accounting for 88% of R&D expenses.

**Research and development expenses in 2003 by segment**
Million €




| | | | |
|---|---|---|---|
| 1 | Chemicals | 108 | 9.8 % |
| 2 | Plastics | 142 | 12.8 % |
| 3 | Performance Products | 240 | 21.7 % |
| 4 | Agricultural Products & Nutrition | 309 | 28.0 % |
| 5 | Oil & Gas | 123 | 11.1 % |
| 6 | Other | 183 | 16.6 % |
| | | 1,105 | 100.0 % |

### Innovations for successful customers

Through out product innovations and system solutions, we create the basis for profitable growth for BASF and its customers. For example, we have developed tailor-made pigment preparations for wood composites that make it possible to through color fiberboard rather than just stain the surface. Our new products turn fiberboard into a versatile and innovative material for furniture designers. The specific properties of wood made it necessary to develop new pigments with a high affinity for wood fibers. BASF is the world's only producer of pigments and glues that can guarantee the compatibility of both components and offer customers the optimum level of support.

### Innovative technologies and future business areas

The example of biocatalysis shows how we use scientific knowledge and the opportunities of technological change and how we include environmental aspects at an early stage. Biocatalysis is a process in which microorganisms or isolated enzymes are used to manufacture products on the basis of renewable raw materials such as soybean oil. It offers an energy and resource-saving alternative to multi-step chemical syntheses. We use this technology, for example, to produce our ChiPros® product range: These molecules occur in two forms that are non-superimposable mirror images of one another, of which only one form has the desired effect in the final product. Thanks to our innovative biocatalytical processes, we are able to supply our customers in the pharmaceuticals industry with only the active form.

Plant biotechnology is another focus of research at BASF. We are looking at the opportunities offered by plant biotechnology in order to be able to provide farmers in the future with plants with a high resistance to drought, disease or pests or that have an improved nutrient composition. Take the example of drought resistance: Researchers at BASF Plant Science GmbH analyze the mechanisms of drought-resistant plants in nature and attempt to transfer them to crops. Using the model plant *Arabidopsis* (thale cress), we have succeeded in identifying those genes that allow the plant to withstand periods of extreme drought. In a second step, this drought resistance will now be transferred to crops such as corn (maize), soybeans, or wheat.

### Tapping into new business areas

Our subsidiary BASF Future Business GmbH concentrates on recognizing chemistry-based solutions in areas that lie outside the scope of BASF's existing operations and turning them into attractive businesses. We utilize the potential offered by nanotechnology, for example, with mincor™, a new product that makes surfaces water repellent. By creating nanostructures, mincor™ makes surfaces self-cleaning and allows them to stay cleaner for longer. We are currently launching this product in the construction, textile and automotive industries. BASF Future Business GmbH is also developing high-performance components for new energy systems such as fuel cells as well as long-lasting, brilliant pigments for use in the next generation of displays.

### Ensuring competitiveness through process innovations

We use innovative methods to improve our production processes, making them more efficient and reducing costs. In July 2003, for example, we therefore signed an agreement with Dow for the joint development of an innovative manufacturing process for propylene oxide (PO). For the first time, we want to produce this key precursor for polyurethanes, solvents and surfactants on the basis of propylene and hydrogen peroxide (HP). Unlike current technologies, the only by-product is water. The first world-scale plant using the HPPO process is scheduled to start operations in 2007 at the earliest.

# Procurement, Production and Distribution

- **Our strength: worldwide coordination of procurement**
- **Regional concentration of purchasing activities**
- **Tailor-made solutions for customers through marketing strategies**

## 1. Procurement

### Procurement Verbund ensures competitive advantages

Worldwide in 2003, BASF procured some 500,000 different raw materials, technical goods, as well as services for plant construction and maintenance worth approximately €13 billion. Our goal is to achieve lasting competitive advantages for BASF through our purchasing strength. To this end, we have intensified our worldwide Procurement Verbund. Global and regional procurement teams pool our needs so we can have more impact on the market, obtain price advantages and better ensure our supplies.

### Raw materials purchasing

The most important materials used in production at our Verbund sites are petrochemical feedstocks, such as naphtha and LPG (liquefied petroleum gas). They serve as feedstocks for the steam crackers we operate in Ludwigshafen, Germany; Antwerp, Belgium; and Port Arthur, Texas. We also purchase a large number of other raw materials as diverse as ammonia, precious metals and sugar. We coordinate purchasing of key raw materials centrally by means of global or regional product teams. We continue to use decentralized purchasing for raw materials for which demand is concentrated at only one site. Purchasing and research activities are closely networked. Even during the product development phase, we provide research and production with procurement alternatives, since this is where a large part of future production costs is determined.

### Technical purchasing and e-commerce

Global and regional procurement teams coordinate purchases of technical goods and services, such as machines, tools, mechanical work and the erection of scaffolding.

We utilize e-commerce to make the procurement process as efficient at possible. We can also reach small and medium sized suppliers through the uniform, integrated Internet platform World-Account.

We have largely integrated the electronic marketplaces in which we participate into our internal EDP systems. This has a positive impact on process times and process quality. The Elemica marketplace focuses on system-integrated data exchange. Merchandise management systems at customers' and suppliers' sites are linked with one another. Elemica is used as a trading platform for chemical products by 145 companies.

BASF uses cc-chemplorer for procuring technical goods and services. With more than 10 million products, some 1,000 suppliers and more than 800,000 completed transactions in 2003, cc-chemplorer is one of the busiest marketplaces.

## 2. Products and Verbund Sites

We have assigned our activities to the individual operating divisions so that we can optimally use BASF's value-adding chains. Accordingly, our products are assigned to our divisions as follows:

### Chemicals

**Inorganics**

Basic chemicals such as ammonia and chlorine; inorganic specialties such as alcoholates, electronic grade chemicals and for powder injection molding (Catamold®); catalysts for hydrogenation (Selop®), for oxychlorination (Oxystar®) and styrene production (Styrostar®); glues and resins such as Kaurit® and Kauramin®.

**Petrochemicals**

Petrochemical feedstocks such as ethylene; technical gases; plasticizers (Palatinol®, Palamoll®, Hexamoll®) and plasticizer raw materials; solvents such as butanol and glycol ethers (Solvenon®); alkylene oxides and glycols.

**Intermediates**

Amines such as ethanolamine; diols and polyalcohols such as butanediol and hexanediol as well as polytetrahydrofuran (PolyTHF®); carboxylic acids, phosgene derivatives, glyoxal and chiral intermediates (ChiPros®).

### Plastics

**Styrenics**

Styrene; styrene-based polymers such as a polystyrene and expandable polystyrene (Styropor® C/Neopor®); styrene copolymers such as ABS (Terluran®) and ASA (Luran® S); specialty foams such as XPS (Styrodur®) and MF (Basotect®).

**Performance Polymers**

Polyamide precursors such as caprolactam; fiber intermediates such as PA 6 (Ultramid® B); materials such as compounded PA 6,6 and PA 6 (Ultramid® A and B), PBT (Ultradur®), POM (Ultraform®), and PES and PSU (Ultrason® E and S).

**Polyurethanes**

Basic polyurethane products such as isocyanates (Lupranat®) and polyols (Lupranol® and Lupraphen®); systems, for example for flexible foams (Elastoflex®); specialty elastomers such as TPU (Elastollan®).

### Performance Products

**Performance Chemicals**

Raw materials for detergents and cleansers (Lutensol®, Sokalan®, Trilon®); textile chemicals (Helizarin®, Kieralon®, Fixapret®) and leather chemicals (Relugan®, Luaganil®, Basyntan®); pigments and special pigment preparations (Heliogen®, Paliogen®); printing inks and printing plates for the graphics industry (Nyloflex®, Webking®, Newsking®, BASF Alkali Blue®); lubricant and fuel additives (Keropur®, Oppanol®, Keroflux®) as well as raw materials for coatings (Laromer®).

**Coatings**

Automotive OEM and refinish coatings; industrial coatings (Glasurit®, R-M®, Salcomix®); Suvinil® decorative paints (South America).

**Functional Polymers**

Acrylic acid and acrylates; acrylate and styrene/butadiene dispersions (Acronal®, Styronal®, Styrofan®, Butofan®, Butonal®); chemicals for paper production and finishing (Afranil®, Basazol®, Basofloc®, Basonal®, Basoplast®, Fastusol®, Polymin®); superabsorbents (ASAP®, HySorb®, Luquasorb®).

## Agricultural Products & Nutrition

**Agricultural Products**

Primarily crop protection products to protect crops from fungi (fungicides, e.g., Opus®, Allegro®, Jewel®, Opera®, Headline®, Comet®, Polyram®, Cantus®, Bellis®), insects (insecticides, e.g., Fastac®, Phantom®, Mythic®, Termidor®, Counter®) and weeds (herbicides, e.g., Basagran®, Banvel®, Outlook®, Pursuit®, Lightning®, Stomp®, Prowl®, Pico®), seed-treatment agents (e.g., Jockey®), growth regulators (e.g., Cycocel®, Medax Top®).

**Fine Chemicals**

Products for animal and human nutrition as well as for the pharmaceuticals and cosmetics industries: Lutavit® (feed) vitamins, Lucantin® (feed) and Lucarotin® (food) carotenoids, pharmaceutical active ingredients (no trade names), Kollidon® (binder) and Kollicoat® (coating) polymers, flavors and fragrances (e.g., Lysmeral®), UV absorbers (Uvinul®), amino acids (Sewon-L-lysine), enzymes (Natuphos®), organic acids (Formi®, non-antibiotic substitute) and Luprosil® (propionic acid preservative) and other fine chemicals.

**Oil & Gas**

Exploration and production of crude oil and natural gas as well as crude oil and natural gas trading.

## BASF's sites

We own and operate 194 production sites in 41 countries. BASF's largest site is located in Ludwigshafen, Germany. In addition, BASF operates regional units and functional divisions, distribution centers and research and development facilities worldwide. The Verbund is one of BASF's greatest strengths. We establish profitable value-adding chains by linking production plants. By-products from one plant can be used as raw materials in another plant. Linking production plants also saves energy and resources (Energy Verbund). This principle was first applied in Ludwigshafen and has meanwhile been further developed and extended to the following sites around the world:

| Verbund sites | Production plants |
|---|---|
| Ludwigshafen | 250 |
| Antwerp, Belgium | 54 |
| Geismar, Louisiana | 20 |
| Freeport, Texas | 12 |
| Kuantan, Malaysia | 12 |

We are currently building a second Verbund site in Asia in Nanjing, China, together with our partner SINOPEC. Production is scheduled to start in 2005.

## 3. Marketing and Sales

We orient BASF's business models to the needs of our customers. Standard products have to be supplied in a defined quality, reliably and at an appropriate price. With specialties, we offer customers tailor-made solutions to their problems. Our focus is on mutual success. We want to ensure this not only by cooperating with customers at an early phase of development, but also by working with them to constantly improve existing products, applications and processes.

We organize our marketing and sales activities according to the various products in our segments:

- The **Chemicals** segment generally manufactures products that we supply directly to customers in large volumes, usually without intermediaries. This makes the segment's marketing expenses low in comparison with those of our other segments.
- BASF's **Plastics** segment offers standard products, specialties and products tailored to specific customers. Standard products are usually distributed in large quantities and are associated with low marketing expenses. For specialty and customized products, marketing costs are higher because we often work together with our customers on new applications at an early stage of development.
- The **Performance Products** segment produces a large number of products, formulations and systems. What matters to customers are a product's technical features and its performance. This increases both costs for customer service by our sales staff at the customer's site, as well as marketing expenses. We maintain technical application facilities close to our customers in the most important regions.
- The **Agricultural Products** division offers a product portfolio tailored to the needs of high-value markets. Innovative products and services, a local presence and quality are the factors for success in partnership with customers: with wholesalers as direct purchasers, with farmers as the users of our products, with processors, and with the food trade as the farmer's contractual partner.
- Our **Fine Chemicals** division supplies specialties through a global marketing and sales system. Operational responsibility, however, lies with the regions. This ensures customer orientation and competency in our key markets animal and human nutrition, cosmetics and pharmaceuticals.
- In the **Oil & Gas** segment, we sell natural gas primarily to wholesalers through our subsidiaries WINGAS GmbH and Wintershall Erdgas Handelshaus GmbH. We also offer customers transport and storage services. Our customers normally receive crude oil at the port of loading.

Trade fairs and exhibitions are an important means of generating interest in BASF and ensuring customer loyalty. In 2003, we took part in more than 100 trade fairs and exhibitions worldwide.

Compared with 2002, selling expenses, which include distribution, shipping, marketing and advertising costs, declined €245 million to €4,519 million in 2003, representing a decrease of 5%. Of this amount, about €127 million was spent on sales promotions and product advertising. Corporate advertising costs totaled €18.6 million.

## Marketing and sales

| | Selling expenses in 2003 | | Sales promotion and product advertising costs in 2003 | |
|---|---|---|---|---|
| | Million € | % | Million € | % |
| Chemicals | 607 | 13.4 | 2 | 1.6 |
| Plastics | 1,088 | 24.1 | 12 | 9.4 |
| Performance Products | 1,638 | 36.2 | 38 | 29.9 |
| Agricultural Products & Nutrition | 1,009 | 22.3 | 70 | 55.1 |
| Thereof Agricultural Products | 754 | 16.7 | 62 | 48.8 |
| Thereof Fine Chemicals | 255 | 5.6 | 8 | 6.3 |
| Oil & Gas | 115 | 2.6 | 2 | 1.6 |
| Other | 62 | 1.4 | 3 | 2.4 |
| | **4,519** | **100.0** | **127** | **100.0** |

# Employees

- Qualified and committed employees from around the world
- Attractive jobs with international opportunities and diverse challenges
- Employees have a stake in earnings and in the company

The BASF Group will be successful in the long run if it has qualified and motivated employees around the world. Our management team has members from some 30 different nations. To attract, foster and retain the best talent, we create a working environment in which our employees can perform at their best to make our company successful.

### Number of employees

**Employees by region**

| | 2003 | % in 2003 | % in 2002 |
|---|---|---|---|
| Europe | 60,541 | 69.5 | 69.5 |
| Thereof Germany | 48,997 | 56.2 | 56.3 |
| Thereof BASF Aktiengesellschaft | 37,054 | 42.5 | 42.9 |
| North America | 12,494 | 14.3 | 14.9 |
| South America | 4,976 | 5.7 | 5.7 |
| Asia, Pacific Area, Africa | 9,148 | 10.5 | 9.9 |
| | **87,159** | **100.0** | **100.0** |

The number of BASF Group employees – including those with limited-term contracts – declined by 2,230, or 2.5%, to 87,159 at the end of 2003. Due to changes in the scope of consolidation as well as acquisitions and divestitures, the BASF Group's workforce rose by 472 through year-end 2003. In 2004, approximately 1,200 employees will transfer to Honeywell. The BASF Group also employed 2,983 young people in trainee programs last year.

Management and employee representatives have resolved to continue the agreement relating to employment at the Ludwigshafen site that was signed in September 2002. This agreement enables the necessary structural changes to be made successfully. Management and employee representatives review and adjust the agreement as necessary on a yearly basis. We promote partial retirement and measures such as part-time employment, training, leaves of absence for study and continuing education and to encourage a more flexible internal workforce. We offer employees an appropriate settlement if their position is eliminated and if they cannot be transferred internally. In this way, we balance the number of employees in Ludwigshafen with our requirements – without having to resort to enforced redundancies.

We are implementing a two-phase restructuring program in our North American business. In the first phase of restructuring, the workforce is to be reduced by approximately 1,000 positions by the end of 2004. In phase two of the program, we will focus on further optimizing our product and site portfolio.

### Trends in personnel costs

Personnel costs declined by €84 million to €5,891 million in the past year. Costs can be broken down as follows:

**Personnel costs**

| Million € | 2003 | Change in % |
|---|---|---|
| Wages and salaries | 4,654 | (2.0) |
| Social security contributions and expenses for pensions and assistance | 1,237 | 1.1 |
| Thereof for pension benefits | 433 | 2.1 |
| | **5,891** | **(1.4)** |

In Germany alone, we invested €113 million in continuing education and training in 2003. This corresponds to an increase of 7.2% compared with 2002. Of this amount, €32.5 million was spent on continuing education programs and €80.5 million on vocational training.

### Sharing in the company's success

Since 1999, BASF has been promoting employee investment in the company with the "plus" program. In 2003, some 38% of employees of BASF Aktiengesellschaft and BASF companies in Germany took advantage of the opportunity to invest part of their annual bonus in BASF shares. Last year, employees bought a total of 579,980 BASF shares under this program. If the employees keep their shares for 10 years, the company will award up to five additional free shares for every 10 shares held. Another feature was added in 2002: For the first group of 10 shares acquired each year, employees receive up to 10 additional free shares from the company over a period of 10 years. A number of BASF companies in other countries also offered their workers employee shares in 2003. Employees at BASF Aktiengesellschaft and some Group employees also benefit from the company's success through the company's voluntary bonus program. The bonus is determined by the Board of Executive Directors or by corporate management.

Since April 1999, senior executives of the BASF Group have been able to participate in a stock option program. The program links a significant proportion of their compensation to the long-term performance of our shares. In 2003, 80% of some 1,000 senior executives eligible to participate took part worldwide and invested up to 30% of their variable compensation in BASF shares. For each share purchased, BASF grants stock option rights whose value is paid out in cash if ambitious price targets are achieved for BASF shares (see Note 26 to the Consolidated Financial Statements).

# Organization of the BASF Group

- **Operating divisions and business units responsible for business activities**
- **Higher standard of corporate governance through "Values and Principles" and Compliance Code**
- **Audit Committee established**

## 1. Corporate Legal Structure

BASF Aktiengesellschaft in Ludwigshafen, Germany, occupies the central position within the BASF Group as the largest operating business. At the same time, it acts as a holding company for participations belonging to the BASF Group.

The operations of the BASF Group are conducted by BASF Aktiengesellschaft and its legally independent subsidiaries, associated companies, affiliated companies and joint ventures, which are headquartered in almost every country that is important to the global chemical market. The majority of the companies cover activities from a number of operating divisions; other companies concentrate on specific areas, such as coatings or polyurethanes. Oil and gas operations are conducted by Wintershall AG and its affiliated companies.

The BASF Group Consolidated Financial Statements include BASF Aktiengesellschaft, and 141 fully consolidated subsidiaries. We consolidate 12 joint ventures conducted with partners on a proportional basis. In addition, three major associated companies, in which we have a 25% to 50% interest, as well as 21 affiliated companies are reported in the financial result using the equity method (see Note 1 to the Consolidated Financial Statements for further information on the scope of consolidation). In this way, we account for 98% of BASF's sales and earnings.

In addition to the participations accounted for in the Consolidated Financial Statements, we have a stake in more than 100 additional small companies that are not material to BASF's operations, either individually or in the aggregate. The List of Shares Held contains all of the companies in which BASF has a participation and is published on the Internet at **www.basf.de/governance_e/reports;** it can also be obtained as a separate report from BASF Aktiengesellschaft.

The most important wholly owned companies in the BASF Group include the following:

| | Stockholders' equity Million € | Net income Million € | Employees |
|---|---|---|---|
| BASF Coatings AG, Münster-Hiltrup, Germany | 239.6 | ** 3.8 | 2,499 |
| BASF Schwarzheide GmbH, Schwarzheide, Germany | 209.1 | ** 43.4 | 2,169 |
| Elastogran GmbH*, Lemförde, Germany | 42.4 | ** 47.0 | 1,313 |
| Wintershall AG, Kassel, Germany | 2,065.7 | ** 330.6 | 1,270 |
| BASF Antwerpen N.V., Antwerp, Belgium | 1,239.9 | 261.0 | 3,632 |
| BASF Española S.A., Tarragona, Spain | 216.3 | 19.5 | 885 |
| BASF Corporation*, Mount Olive, New Jersey | 2,313.4 | (64.7) | 12,097 |
| BASF S.A.*, São Bernardo do Campo, Brazil | 272.1 | 10.9 | 3,654 |
| BASF Company Ltd., Seoul, South Korea | 265.4 | (15.2) | 1,248 |

* Including consolidated participations
** Profit and loss transfer agreement

## 2. Organizational Structure of the BASF Group

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.

The business units are managed by 12 operating divisions that bear bottom line responsibility. EBIT after cost of capital serves as the target and management tool for the operating divisions. Each operating division reports its EBIT after cost of capital every month. For financial communications, the operating divisions are combined in the segments Chemicals, Plastics, Performance Products, Agricultural Products & Nutrition, and Oil & Gas (see Note 4 to the Consolidated Financial Statements).

BASF's business strategy is planned jointly by the Board of Executive Directors and the operating divisions together with seven regional divisions. For reporting purposes, the seven regional divisions are combined in four regions – Europe; North America (NAFTA); South America; and Asia, Pacific Area, Africa (see Note 4 to the Consolidated Financial Statements).

In addition, three corporate divisions – Finance, Planning & Controlling, and Legal, Taxes & Insurance – as well as four corporate departments – Communications, Investor Relations, Executive Management & Development, and Corporate Audit – support the Board of Executive Directors in the management of the BASF Group. The competence centers – Chemicals Research & Engineering; Corporate Engineering; Polymer Research; Specialty Chemicals Research; Global Supply Chain; Information Services; Human Resources; Global Purchasing; Environment, Safety & Energy; Occupational Medicine & Health Protection; and University Relations & Research Planning – also assume Group-wide coordination activities.

## 3. Management and Supervisory Boards

### Board of Executive Directors

As of December 31, 2003, there were eight members on the Board of Executive Directors. The former Chairman, Dr. Jürgen F. Strube, and the Vice Chairman, Max Dietrich Kley, retired from the Board of Executive Directors following the Annual Meeting on May 6, 2003. The Supervisory Board of BASF Aktiengesellschaft appointed Dr. Jürgen Hambrecht as the new Chairman of the Board of Executive Directors and Eggert Voscherau as its Vice Chairman.

### Members of the Board of Executive Directors (as of December 31, 2003):

**Dr. Jürgen Hambrecht, Chairman**
**Responsibilities:**
Legal, Taxes & Insurance; Planning & Controlling; Executive Management & Development; Communications; Investor Relations
**First appointed:** 1997 (Chairman since 2003)
**Term expires:** 2007
**Memberships:**
- Supervisory board memberships (excluding internal memberships):
  Bilfinger Berger AG (supervisory board member)

**Eggert Voscherau, Vice Chairman**
**Responsibilities:**
Industrial Relations Director; Human Resources; Environment, Safety & Energy; Ludwigshafen Verbund Site; Antwerp site; Occupational Medicine & Health Protection; Europe; BASF Schwarzheide GmbH
**First appointed:** 1996
**Term expires:** 2006
**Memberships:**
- Supervisory board memberships (excluding internal memberships):
  Dresdner Bank Lateinamerika AG (supervisory board member)
  HDI Haftpflichtverband der Deutschen Industrie VVaG (supervisory board member)
- Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
  BASF Schwarzheide GmbH (supervisory board chairman)
- Comparable German and non-German controlling bodies:
  Basell N.V. (supervisory board member)
  BASF Antwerpen N.V. (administrative council member)

**Dr. Kurt Bock**
**Responsibilities:**
Finance; Global Supply Chain; Global Purchasing; Information Services; Corporate Audit;
South America
**First appointed:** 2003
**Term expires:** 2007
**Memberships:**
– Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
  Wintershall AG (supervisory board member)
– Comparable German and non-German controlling bodies:
  Basell N.V. (supervisory board member)

**Dr. John Feldmann**
**Responsibilities:**
Styrenics; Performance Polymers; Polyurethanes; Oil & Gas; Polymer Research
**First appointed:** 2000
**Term expires:** 2004
**Memberships:**
– Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
  Wintershall AG (supervisory board chairman)
– Comparable German and non-German controlling bodies:
  Basell N.V. (supervisory board member)

**Dr. Andreas Kreimeyer**
**Responsibilities:**
Functional Polymers; Performance Chemicals; Asia
**First appointed:** 2003
**Term expires:** 2007
**Memberships:**
– Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
  BASF Coatings AG (supervisory board member)

**Klaus Peter Löbbe**
**Responsibilities:**
Coatings; North America (NAFTA)
**First appointed:** 2002
**Term expires:** 2006
**Memberships:**
– Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
  BASF Coatings AG (supervisory board chairman)

**Dr. Stefan Marcinowski**
**Responsibilities:**
Research Executive Director; Inorganics; Petrochemicals; Intermediates; Chemicals Research & Engineering;
Corporate Engineering; University Relations & Research Planning;
BASF Future Business GmbH
**First appointed:** 1997
**Term expires:** 2007
**Memberships:**
– Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
  BASF Coatings AG (supervisory board member)
  Wintershall AG (supervisory board member)

**Peter Oakley**
**Responsibilities:**
Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science GmbH
**First appointed:** 1998
**Term expires:** 2008

## Supervisory Board

The shareholder representatives on the Supervisory Board were elected by shareholders at BASF Aktiengesellschaft's Annual Meeting on May 6, 2003. Professor Dr. Renate Köcher, Michael Diekmann, Max Dietrich Kley and Dr. Jürgen F. Strube were elected to the Supervisory Board for the first time. They replace Professor Dr. Berthold Leibinger, Etienne Graf Davignon, Dr. Wolfgang Jentzsch and Dr. Henning Schulte-Noelle, who were no longer available for re-election. With the exception of Ralf Sikorski, the employee representatives were elected on February 25, 2003 in accordance with the German Codetermination Act. Ralf Bastian was elected to the Supervisory Board for the first time. Volker Obenauer was no longer available for re-election. Effective August 7, 2003, Ralf Sikorski was appointed by the district court of Ludwigshafen to replace Gerhard Zibell, who resigned from the Supervisory Board with effect from July 31, 2003. The current term of all members of the Supervisory Board expires at the end of BASF Aktiengesellschaft's Annual Meeting in 2008. At its constitutory meeting on May 6, 2003, the Supervisory Board elected Dr. Jürgen F. Strube as its chairman and Robert Oswald as its deputy chairman.

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

## **Members of the Supervisory Board** (as of December 31, 2003):

**Dr. Jürgen F. Strube,** Mannheim
Chairman of the Supervisory Board of BASF Aktiengesellschaft
Former Chairman of the Board of Executive Directors of BASF Aktiengesellschaft
**Supervisory board memberships (excluding internal memberships):**
- Allianz Lebensversicherungs-AG (supervisory board member)
- Bayerische Motoren Werke Aktiengesellschaft (supervisory board member)
- Bertelsmann AG (supervisory board member)
- Commerzbank AG (supervisory board member)
- Fuchs Petrolub AG (supervisory board chairman)
- Hapag-Lloyd AG (supervisory board member)
- Linde AG (supervisory board member)

**Robert Oswald,** Altrip
Deputy Chairman
Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft and chairman of the joint works council of the BASF Group

**Ralf Bastian,** Neuhofen
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

**Wolfgang Daniel,** Limburgerhof
Deputy chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

**Professor Dr. François N. Diederich,** Zürich
Professor at Zurich Technical University

**Michael Diekmann,** Munich
Chairman of the Board of Management of Allianz AG
**Supervisory board memberships (excluding internal memberships):**
- Linde AG (supervisory board deputy chairman)
- Lufthansa AG (supervisory board member)

**Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:**
- Allianz Dresdner Asset Management GmbH (supervisory board chairman)
- Allianz Lebensversicherungs-AG (supervisory board chairman)
- Allianz Versicherungs-AG (supervisory board chairman)
- Dresdner Bank AG (supervisory board chairman)

**Comparable German and non-German controlling bodies:**
- Assurances Générales de France (administrative council member)
- Riunione Adriatica di Sicurtà S.p.A. (administrative council member)
- Allianz of America, Inc. (member of the board of directors)

**Dr. Tessen von Heydebreck,** Frankfurt (Main)
Member of the Board of Managing Directors of Deutsche Bank AG
**Supervisory board memberships (excluding internal memberships):**
- BVV Versicherungsverein des Bankgewerbes a.G. (supervisory board member)
- Deutsche Euroshop AG (supervisory board member)
- Dürr AG (supervisory board member)
- Gruner + Jahr AG & Co. (supervisory board member)

**Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:**
- Deutsche Bank Privat- und Geschäftskunden AG (supervisory board member)
- DWS Investment GmbH (supervisory board member)

**Comparable German and non-German controlling bodies:**
- Deutsche Bank 000, Moscow (supervisory board chairman)
- Deutsche Bank Luxembourg S.A. (administrative council chairman)
- Deutsche Bank Polska S.A. (supervisory board chairman)
- Deutsche Bank Rt., Hungary (supervisory board chairman)
- Deutsche Bank Trust Corp. (supervisory board member)
- DB Trust Company America (supervisory board member)
- EFG Eurobank S.A., Athens (supervisory board member)

**Arthur L. Kelly,** Chicago
Chief executive of KEL Enterprises L.P.
**Supervisory board memberships (excluding internal memberships):**
- Bayerische Motoren Werke Aktiengesellschaft (supervisory board member)

**Comparable German and non-German controlling bodies:**
- Data Card Corporation (member of the board of directors)
- Deere & Company (member of the board of directors)
- HSBC Trinkaus & Burkhardt KGaA (administrative council member)
- Northern Trust Corporation (member of the board of directors)
- Snap-on Incorporated (member of the board of directors)

**Rolf Kleffmann,** Wehrbleck
Chairman of the works council of Wintershall AG's Barnstorf oil plant

**Max Dietrich Kley,** Heidelberg
Lawyer
Former Vice Chairman of the Board of Executive Directors of BASF Aktiengesellschaft
**Supervisory board memberships (excluding internal memberships):**
- Bayerische HypoVereinsbank AG (supervisory board member)
- Infineon Technologies AG (supervisory board chairman)

**Comparable German and non-German controlling bodies:**
- Cazenove Group plc (non-executive director)
- Landesbank Rheinland-Pfalz (administrative council member)
- Schott Glas AG (member of the company council)

**Professor Dr. Renate Köcher,** Allensbach
Managing Director of the Institut für Demoskopie Allensbach, Gesellschaft zum Studium der öffentlichen Meinung mbH
**Supervisory board memberships (excluding internal memberships):**
- Allianz AG (supervisory board member)
- MAN AG (supervisory board member)

**Eva Kraut,** Ludwigshafen
Chairman of the works council of BASF IT Services GmbH, Ludwigshafen

**Ulrich Küppers,** Ludwigshafen
Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union (IGBCE)
**Supervisory board memberships (excluding internal memberships):**
- RAG Saarberg AG (supervisory board deputy chairman)
- Technische Werke Ludwigshafen AG (TWL) (supervisory board member)
- Verkehrsbetriebe Ludwigshafen GmbH (supervisory board member)
- Villeroy & Boch AG (supervisory board member)

**Comparable German and non-German controlling bodies:**
- Saarenergie GmbH (advisory committee deputy chairman)

**Konrad Manteuffel,** Bensheim
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft
**Supervisory board memberships (excluding internal memberships):**
- BASF Pensionskasse VVaG (supervisory board deputy chairman)
- LUWOGE Wohnungsunternehmen der BASF GmbH (supervisory board member)

**Dr. Karlheinz Messmer,** Weisenheim am Berg
Plant manager at the Ludwigshafen site of BASF Aktiengesellschaft

**Dr. Hermann Scholl,** Stuttgart
Chairman of the Supervisory Council of Robert Bosch GmbH and Managing Director of Robert Bosch Industrietreuhand KG
**Supervisory board memberships (excluding internal memberships):**
- Allianz AG (supervisory board member)

**Comparable German and non-German controlling bodies:**
- Robert Bosch Internationale Beteiligungen AG (administrative council member)
- Robert Bosch Corporation (member of the board of directors)

**Ralf Sikorski,** Kelkheim
Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union (IGBCE)
**Supervisory board memberships (excluding internal memberships):**
- Pirelli Deutschland AG (supervisory board member)

**Robert Studer,** Zurich
Former Chairman of the Supervisory Board of the Union Bank of Switzerland
**Comparable German and non-German controlling bodies:**
- Espirito Santo Financial Group S.A. (administrative council member)
- Renault S.A. (administrative council member)
- Schindler Holding AG (administrative council member)

**Dr. Jürgen Walter,** Neustadt am Rübenberge
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union (IGBCE)
**Supervisory board memberships (excluding internal memberships):**
- BASF Schwarzheide GmbH (supervisory board deputy chairman)
- Henkel KGaA (supervisory board member)
- Ruhrfestspiele GmbH (supervisory board member)
- RWE-Umwelt AG (supervisory board member)

**Helmut Werner,** Stuttgart
(died February 6, 2004)
Managing Director of Helmut Werner GmbH
**Supervisory board memberships (excluding internal memberships):**
- Ernst & Young AG Wirtschaftsprüfungsgesellschaft (supervisory board deputy chairman)
- Gerling-Konzern Versicherungsbeteiligungs AG (supervisory board member)

**Comparable German and non-German controlling bodies:**
- Aktiebolaget SKF (supervisory board member)
- Penske Corporation (member of the board of directors)

Retired effective May 6, 2003:
**Etienne Graf Davignon,** Brussels
Deputy Chairman of the Administrative Council of Société Générale de Belgique
**Comparable German and non-German controlling bodies:**
- ACCOR S.A. (administrative council deputy chairman)
- CMB N.V. (administrative council chairman)
- COMPAGNIE INTERNATIONALE DES WAGONS-LITS ET DU TOURISME S.A. (administrative council chairman)
- FORTIS (administrative council deputy chairman)
- SIBEKA S.A. (supervisory board member)
- Suez S.A. (supervisory board member)
- Suez-Tractebel S.A. (administrative council deputy chairman)
- UMICORE S.A. (administrative council deputy chairman)
- SN Airholding (administrative council chairman)
- SN Brussels Airlines (administrative council member)
- Recticel S.A. (administrative council deputy chairman)

**Dr. Wolfgang Jentzsch,** Mannheim
Former Vice Chairman of the Board of Executive Directors of BASF

**Professor Dr. Berthold Leibinger,** Ditzingen
Managing Director of Trumpf GmbH & Co. KG
**Comparable German and non-German controlling bodies:**
- HSBC Trinkaus & Burkhardt KGaA (administrative council member)

**Volker Obenauer,** Ludwigshafen
Former Chairman of the Group Works Council of BASF Aktiengesellschaft

**Dr. Henning Schulte-Noelle,** Munich
Chairman of the Supervisory Board of Allianz AG
**Supervisory board memberships (excluding internal memberships):**
- E.ON AG (supervisory board member)
- Siemens AG (supervisory board member)
- ThyssenKrupp AG (supervisory board member)

Retired effective July 31, 2003:
**Gerhard Zibell,** Gau-Odernheim
Member of the Board of Directors of RAG Saarberg AG

### Compensation of directors and officers

For the year ended December 31, 2003, compensation paid to the members of the Board of Executive Directors totaled €11.9 million; the members of the Supervisory Board received €2.2 million.

**Compensation for the Board of Executive Directors and Supervisory Board**

| Million € | 2003 | 2002 |
|---|---|---|
| Board of Executive Directors emoluments | 11.9 | 13.6 |
| Thereof fixed payments | 4.6 | 4.4 |
| Thereof performance-related payments | 7.3 | 9.2 |
| Exercise of option rights granted in 1999 and 2000 | 2.3 | 1.7 |
| Supervisory Board emoluments | 2.2 | 2.2 |
| Thereof fixed payments | 0.5 | 0.5 |
| Thereof performance-related payments | 1.7 | 1.7 |
| Total emoluments of former members of the Board of Executive Directors and their surviving dependents | 6.7 | 5.0 |
| 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 |
| 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 return on assets is used as the criterion to determine the size of variable performance-related bonuses. In 2003, we granted the members of the Board of Executive Directors 116,612 stock options under the BASF stock option program. In 2003, the issue of option rights resulted in personnel costs totaling €3.9 million. Of this amount, €0.6 million was related to option rights issued in 2003 and €3.3 million to option rights issued in 1999 through 2002. These option rights are accrued as personnel costs over the vesting period.

In 2003, the exercising of option rights granted under the BASF stock option program 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 payment does not influence personnel costs associated with the issuing of option rights.

The compensation of the Supervisory Board is defined in the Articles of Association of BASF Aktiengesellschaft. Pursuant thereto, each member of the Supervisory Board is reimbursed for the past year for out-of-pocket expenses and for value-added tax to be paid with regard to the Board membership. In addition, he or she receives a fixed annual payment of €25,000 and a variable performance-related bonus amounting to €3,500 for each €0.05 by which the dividend paid to shareholders in a given year exceeds €0.30. For the year ended December 31, 2003, this will be €77,000, on the basis of the proposed dividend of €1.40 that will be submitted to the Annual Meeting on April 29, 2004. The chairman of the Supervisory Board receives a payment of twice and the deputy chairman a payment of 1.5 times this amount. In addition, the company grants members of the Supervisory Board a fee of €500 for attending a meeting of the Supervisory Board or one of its committees. Each member of the Audit Committee of the Supervisory Board receives an additional payment of €25,000. The chairman of this committee receives a payment of twice and the deputy chairman a payment of 1.5 times this additional amount.

### Directors and officers liability insurance (D&O insurance)

BASF has taken out liability insurance that covers the activities of members of the Board of Executive Directors and the Supervisory Board (D&O insurance). The policy provides for a suitable level of deductibles.

### 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 owns shares in BASF Aktiengesellschaft and related options or other derivatives that account for 1% or more of the share capital. Furthermore, the entire holdings by members of the Board of Executive Directors and the Supervisory Board account for less than 1% of the shares issued by the company.

Since July 1, 2002, in accordance with Section 15a of the German Securities Trading Act, all members of the Board of Executive Directors and the Supervisory Board, as well as certain of their relatives, are required to disclose the purchase or sale of BASF shares and other related rights to the German Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)* and to the company if transactions within 30 days exceed the threshold of €25,000. The company publishes all reported transactions on the Internet at **www.basf.de/governance_e.**

## 4. Corporate Governance

Corporate governance refers to the entire system of managing and overseeing a company as well as all internal and external regulatory and monitoring mechanisms. Effective and transparent corporate governance guarantees that BASF is managed and monitored in a responsible and value-driven manner. This fosters the confidence of our domestic and international investors, the financial markets, our business partners, employees and the public in the management and supervision of the company.

The German Corporate Governance Code was published in 2002. It represents a major step forward in the capital market-driven development of statutory provisions and practical implementation of corporate governance. We welcome the Code and the objectives it sets out. We follow the recommendations of the German Corporate Governance Code in its revised version of May 2003 with a few exceptions. You can find the joint Declaration of Conformity by the Board of Executive Directors and the Supervisory Board at the end of the Financial Report. The Declaration of Conformity and the German Corporate Governance Code are available on our website at **www.basf.de/governance_e/reports.**

Because BASF's shares are listed on the New York Stock Exchange (NYSE), BASF is also subject to U.S. capital market legislation including the Sarbanes-Oxley Act (SOA) of 2002. The SOA contains a number of new corporate governance regulations. To ensure that they are observed, our Supervisory Board has, for example, established a separate Audit Committee and introduced a new approval procedure for procuring non-audit services from auditors. We are currently implementing an intranet-based system to document the information and control systems for financial reporting within the BASF Group. As a result, we will be better able to evaluate and confirm the completeness and accuracy of our reporting and the effectiveness of the internal control system. In the future, this documentation will be reviewed by our internal audit unit and by our auditors. In general, the new U.S. regulations considerably increase documentation and review requirements as well as the associated expenses.

### Corporate management and control by the Board of Executive Directors and Supervisory Board

In contrast to the situation in many other countries, two separate bodies work together at German stock corporations: a Board of Executive Directors and a Supervisory Board. Appointments to the two bodies are strictly separate. A member of the Supervisory Board cannot simultaneously be a member of the Board of Executive Directors.

BASF's Board of Executive Directors is responsible for the management of the company and represents BASF Aktiengesellschaft in all business undertakings with third parties. Its activities and decisions are geared to the company's interests and it is dedicated to the goal of increasing the company's value in the long term. The decisions made by the Board of Executive Directors are always based on a simple majority. In the case of a tied vote, the casting vote is given by the Chairman of the Board.

In accordance with statutory regulations, the Board of Executive Directors reports to the Supervisory Board regularly, comprehensively and in a timely manner on all material matters concerning the company with regard to strategic planning, business development, risk issues and risk management. Furthermore, it agrees corporate strategy with the Supervisory Board. Where required by the Articles of Association of BASF Aktiengesellschaft, the Board of Executive Directors must have the approval of the Supervisory Board for certain transactions before they are concluded. Such cases include the purchase of corporate shareholdings in excess of €100 million, and the commencement of new or the termination of existing business activities.

The Supervisory Board of BASF Aktiengesellschaft appoints members of the Board of Executive Directors and monitors and advises the Board of Executive Directors on management issues. The Supervisory Board of BASF Aktiengesellschaft comprises 20 members and in accordance with the German Codetermination Act consists in equal parts of shareholder representatives – elected by shareholders at the Annual Meeting – and employee representatives. Supervisory Board resolutions require a simple majority. In the case of a tied vote, a second vote is held and the Chairman of the Supervisory Board may cast a deciding vote.

Alongside the Mediation Committee, the Supervisory Board has established a Committee for the Personal Affairs of the Board of Executive Directors and the Granting of Credits *(Personalausschuss),* which is also charged with setting Board members' remuneration and related contractual issues. The Committee comprises Supervisory Board Chairman Dr. Jürgen F. Strube (chairman) as well as Supervisory Board members Robert Oswald, Dr. Tessen von Heydebreck and Dr. Jürgen Walter.

BASF established an Audit Committee in July 2003. This Committee makes preparations for the negotiations and resolutions of the Supervisory Board for the approval of the Consolidated Financial Statements of BASF Aktiengesellschaft as well as BASF Group, reviews the Annual Report on Form 20-F that has to be submitted to the U.S. Securities and Exchange Commission and deals with risk monitoring and internal accounting controls. The Audit Committee is also responsible for business relations with the company's auditors. The Audit Committee comprises Max Dietrich Kley (chairman) as well as Dr. Karlheinz Messmer, Dr. Jürgen Walter and Helmut Werner, who to our great sadness died on February 6, 2004. All members of the Audit Committee satisfy the criterion of "independence" as prescribed by the Securities and Exchange Commission, the U.S. stock market regulator.

The members of the Board of Executive Directors and the Supervisory Board are listed together with remuneration details on pages 61 to 66.

### Shareholders' rights

At Annual Meetings, shareholders have rights of participation and supervision. Each BASF share represents one vote. Shareholders may exercise their voting rights at Annual Meetings either personally or through a representative of their choice or through a company-appointed proxy authorized by shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has fully implemented the principle of "one share one vote." All shareholders are entitled to participate in Annual Meetings, to speak and request information from the Board relating to items on the agenda to the extent necessary to make an informed judgment of the company's affairs.

**Values and Principles of the BASF Group/Code of Conduct**

In order to guarantee a high standard of corporate governance, we have published the Values and Principles of BASF Group, and the Code of Conduct/Compliance Program. These lay down our business principles and guidelines for the conduct for all activities within the BASF Group. The Code of Conduct describes in detail the conduct we expect from BASF employees – based on the principle of integrity. Key areas include observing all relevant legislation, in particular, anti-trust and competition legislation, sanctions and export controls – including those on chemical weapons –, labor laws and legislation relating to plant safety. Other issues are bans on insider dealing and providing or receiving bribes from business partners or state officials, and the need to treat BASF's assets responsibly. Our Corporate Audit department together with BASF's Chief Compliance Officer monitor compliance on a regular basis. The Values and Principles of the BASF Group and the Code of Conduct are available on the Internet at **www.basf.de/en/corporate/overview/.**

# Risk Management System and Risks of Future Development

- Systematic identification, monitoring and limiting of risks
- Protection from potential dangers through our early warning system
- No threats to the company's existence

## Risk management system

BASF's risk management system consists of three interrelated processes that we continually update to adapt to changing conditions:

**1. Internal monitoring system:** BASF's Corporate Audit department – which acts on behalf of the Board of Executive Directors – operates throughout BASF Aktiengesellschaft and the BASF Group. The department checks:
- adherence to directives, guidelines, approval limits and fair trade regulations;
- asset security and the attainment of an appropriate rate of return on invested capital;
- organization and processes for their efficiency, effectiveness and propriety;
- the functionality and reliability of the risk management system; and
- the reliability of reporting under it.

Internal monitoring also takes place in special committees that meet regularly. At the highest management level, they analyze our businesses, expected outcomes and their associated risks, developing trends, and structural developments. For example, this is how hedging strategies for interest rate and currency risks are established. Set approval and controlling procedures must be observed for certain levels of capital expenditure. Basic elements of internal monitoring involve general principles of risk avoidance such as separation of duties and the "four eyes principle" for important transactions, as well as guidelines such as those for rate hedging, investments or the use of derivative financial instruments.

**2. Centralized and decentralized risk controlling**
Centralized risk controlling:
The corporate divisions Planning & Controlling and Finance handle centralized risk controlling on an ongoing basis. They inform the Board of Executive Directors on a continuous basis during the year by means of risk reports that combine decentrally identified risks, or on an ad hoc basis in the event of significant risks. The corporate division Planning & Controlling communicates on risk management and ensures that continued development of risk management takes place in all operating units, corporate divisions, competence centers and regional divisions worldwide. In addition, the division coordinates identification of all risks significant to BASF throughout the company and systematically evaluates them according to uniform standards. Responsibilities of the corporate division Finance include managing the equity and debt structure of BASF Group companies and ensuring adequate financing capacity in the Group. In addition, the division provides financial analyses to support the Board of Executive Directors and the operating divisions in decisions related to acquisitions and divestitures.

Decentralized risk controlling:

Twelve operating divisions bear the overall responsibility for business operations in the BASF Group. It therefore follows that risk management must be based in these decentralized units. We have also established decentralized risk controlling in the competence centers and regional divisions. Decentralized risk controlling works together with the centralized units to reduce global risks that could have cumulative or interdivisional effects.

Risks are quantified and categorized according to the probability of their occurrence and the level of loss to be expected. The individual operating units estimate the loss potential of the risks identified in terms of the effect on sales and income from operations of a given division. Risk management and reduction measures are identified and updated continuously.

**3. Early warning system:** We use key data and indicators to constantly monitor certain risk areas. The monthly risk reports or ad hoc warnings in the event that a defined risk threshold is reached ensure that risks are recognized in good time and immediately reported to the responsible decision-makers.

## Risks of Future Development

### Overall risk

At the present time and in the foreseeable future there are no individual risks that pose a threat to the company's existence. Nor do the aggregate risks threaten the ongoing existence of the BASF Group. Annually as well as continuously, our independent auditors and Corporate Audit department examine the functioning and effectiveness of our risk management system, as well as its development and integration into business processes.

### Economic risk

A lack of impulses for growth in Europe and an uncertain economic environment in the United States could impair business and have a negative impact on sales and earnings due to lower capacity utilization and pressure on selling prices. These developments would especially affect business with basic inorganic chemicals, petrochemicals, intermediates and plastics. Regional diversification, in particular the expansion of our production base in Asia, offsets the risk to a certain extent. In the short-term, economic developments have few effects with regard to our products for the agricultural, nutrition and cosmetics industries and in natural gas trading.

### Currency risk

A rise in the euro exchange rate makes our products more expensive when exported to customers outside Europe. This may cause a decline in sales volumes or price reductions resulting in lower margins. We address this risk by expanding local production at highly productive sites.

### Industry and regulatory risks

The new direction of the E.U.'s chemicals policy carries a risk in that it would place BASF and its European customers at a considerable disadvantage compared with non-European competitors. The E.U. directive on emission trading could pose another risk – particularly to our further growth opportunities in Europe. The directive provides for plant-related upper limits for $CO_2$ emissions. These limits are intended to help achieve the national goals for limiting $CO_2$ as defined under the terms of the Kyoto Protocol, e.g., a 21% reduction for Germany and a 7.5% reduction for Belgium.

### Financial risks

Our business is exposed to foreign currency, interest rate and commodity price risks. These are hedged in accordance with a strategy that is determined centrally and uses derivative instruments such as forward exchange contracts, currency options, interest rate and currency swaps or combined instruments. Hedging is used only to offset already existing underlying transactions arising from the product business, cash investments and financing as well as sales expected with a high level of probability. We deliberately do not use the leverage effect that can be achieved with derivatives. Details regarding the book values and fair values of financial instruments are provided in Note 27 to the Consolidated Financial Statements.

Financial risks are monitored and hedged against in the Treasury unit of the Corporate Center. This enables risks to be spread across the various companies of the Group. In addition, the principle of separation of functions can be effectively implemented in a centralized manner. We constantly monitor the risks arising from changes in exchange rates and interest rates and the derivative transactions entered into to hedge these risks.

We limit credit risks for our investments by engaging in transactions only with banks and business partners with good credit ratings and by adhering to fixed limits. Monetary transactions are also conducted through such banks. We reduce the risk of default on receivables by constantly monitoring the creditworthiness and payment behavior of customers and setting appropriate credit limits. Risks are also ruled out by means of credit insurance and bank guarantees.

We partially finance company pension schemes through pension funds. Because a portion of these assets has been invested in shares, severe stock exchange losses could result in the accrued assets being insufficient to finance the pensions. In order to limit this risk, employees will increasingly be offered defined contribution pension plans in the future.

### Supply risks

The availability and prices of raw materials, energy, precursors and intermediates presents a potential risk for BASF. We reduce these price and supply risks through our global purchasing activities, long-term supply contracts, as well as optimized procedures for the purchase of additional quantities of raw materials on the spot market. We also use derivatives in the form of options, swaps and futures. Purchase agreements for the most strategically important raw materials are negotiated and concluded centrally for the BASF Group (see page 53, Procurement, Production and Distribution). If, despite these measures, raw material costs rise, it is not always possible to pass on the higher costs in full in the form of higher prices for our products in the short term. In the field of research and development, we are working on new technologies that will address risks relating to the availability and price of basic raw materials.

## Market risks

Cyclical fluctuations in demand in key customer segments, such as the automotive, construction, electrical and electronics as well as the textile industries, intense competition in our sales markets and temporary surplus capacity due to new production plants going on stream all present operating risks in our Chemicals, Performance Products and Plastics segments. We address these risks by constantly expanding cyclically resilient businesses, such as agrochemicals, active ingredients and active ingredient precursors for pharmaceuticals and nutritional products, and natural gas. In cyclical businesses, we seek to maintain cost leadership and enter into close cooperations with customers that will allow us to tap into new applications and markets quickly. Furthermore, we are expanding business activities in high-growth regions in particular.

In response to product substitutions and the declining use of certain products in the Performance Products and Plastics segments, we actively offer customer-specific system solutions that can be employed over a longer period and develop and market products with improved or entirely new properties.

In the Northern Hemisphere, sales volumes of crop protection products are affected by the seasonal nature of the market – with sales being concentrated in the first half of the year – and by the weather. Demand for crop protection products is further influenced by the agricultural policies of governments and multinational organizations. The typical periods allowed for payment in this industry can lead to losses from receivables during local or regional economic crises. The increased marketing and sale of products in combination with genetically modified seeds could have an adverse effect on the development of our business with agricultural products. Furthermore, the effectiveness of products may decline for biological reasons. Prices for crop protection products may also become a more significant competitive factor in periods when prices for agricultural produce are declining. We are responding with innovative products and solutions that create value for our customers.

## Risks arising from acquisitions and investment decisions

The implementation of decisions related to acquisitions and investments is associated with complex risks due to the high level of capital involved and the long-term capital commitment. The preparation, implementation and follow-up for such decisions are based on specified responsibilities and approval processes.

## Exploration risk

In the Oil & Gas segment, future growth in exploration and production is largely based on the success of exploration activities. When searching for new reserves of crude oil and natural gas there are geological risks with regard to the presence, quantity and quality of hydrocarbons. We handle these risks diligently by spreading the risk through a balanced exploration portfolio.

## IT risks

To control potential risks in the IT area, we use the latest hardware and software. Group-wide, we have integrated, standardized IT infrastructures, backup systems, replicated databases, virus and access protection, encoding systems and a high degree of internal networking.

### Other risks

Research and development: Because of the high degree of complexity and uncertainty involved in chemical and biological research, there is a risk that projects might not be continued or that developed products will not receive approval for marketing.

Prospective candidates for technical and management positions: Our employees' performance is essential to the growth and development of the BASF Group. We are increasingly competing with other companies for highly qualified technical and management personnel. We want to further broaden the international nature of our management team and significantly increase the number of women in managerial positions. In this way, we ensure the potential of our management candidates. To maintain and increase motivation, we promote entrepreneurship within the organization. To do this we offer employees attractive assignments, a variety of international development perspectives, a broad spectrum of advanced training and continuing education opportunities, progressive benefits and performance-based compensation. Part of this compensation is a broad-based program that allows employees to share in the company's assets. We have also put in place a sophisticated stock option plan for senior executives in the BASF Group.

Corporate security: Assessing security risks on a global basis and determining their potential impact on BASF has become an extremely difficult undertaking in the face of terrorist attacks. Through its Group-wide network, BASF's Corporate Security works in close cooperation with local authorities, and constantly updates security measures to protect the company and its employees.

Legal risks: For information regarding litigation risks, see Note 25 to the Consolidated Financial Statements.


BASF

# Consolidated Financial Statements

## Statement by the Board of Executive Directors

The Board of Executive Directors of BASF Aktiengesellschaft is responsible for preparing the Consolidated Financial Statements and Management's Analysis of BASF Group. The Consolidated Financial Statements were prepared in accordance with the principles of generally accepted accounting as outlined in the provisions of the German Commercial Code *(Handelsgesetzbuch)* and the Stock Corporations Act. We have implemented U.S. generally accepted accounting principles (U.S. GAAP) as far as possible within the scope offered by the accounting and valuation options available under German commercial law; this was done on the basis of accounting standards established by the German Accounting Standards Board. A reconciliation of net income and stockholders' equity is provided to show adjustments required by U.S. GAAP but not permitted under German commercial law. We have established effective internal reporting and accounting statements to ensure that the Consolidated Financial Statements and Management's Analysis adhere to applicable accounting rules and company reporting systems.

The Corporate Auditing department works to ensure that our businesses worldwide comply with BASF's effective and reliable uniform accounting and reporting. Our risk management system complies with the requirements of the German Act on Verification and Transparency in the Corporate Sector (Section (91) 2, Stock Corporations Act). The system identifies substantial risks in a timely manner so that the Board of Executive Directors can take any appropriate action required.

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft has examined BASF's Consolidated Financial Statements and Management's Analysis and approved them free of qualification. The Consolidated Financial Statements and Management's Analysis and the auditors' report were examined at length by Audit Committee of the Supervisory Board in the presence of the auditors and were discussed in detail at a Supervisory Board meeting at which the auditors were also present. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

**Dr. Jürgen Hambrecht**
Chairman of the Board of
Executive Directors of
BASF Aktiengesellschaft

**Dr. Kurt Bock**
Chief Financial Officer of
BASF Aktiengesellschaft

## Report of Independent Auditors

We have audited the Consolidated Financial Statements prepared by BASF Aktiengesellschaft as well as the Management's Analysis of BASF Aktiengesellschaft and BASF Group for the business year from January 1 to December 31, 2003. The Board of Executive Directors of BASF Aktiengesellschaft is responsible for preparing the Consolidated Financial Statements and Management's Analysis in accordance with German commercial law. It is our task, on the basis of the audit we have carried out, to give an assessment of the Consolidated Financial Statements and Management's Analysis.

Pursuant to Section 317 of the German Commercial Code, we have audited the Consolidated Financial Statements of BASF Group in accordance with the generally accepted standard of auditing laid down by the German Institute of Auditors. According to these principles, the audit is to be planned and carried out in such a way that inaccuracies and violations are recognized with reasonable certainty that could have a major effect on the view of the net assets, financial position and results of operations conveyed by the Consolidated Financial Statements – taking into consideration generally accepted accounting principles – and Management's Analysis. The determination of the action for this audit takes into account knowledge of the business and BASF's economic and legal environment as well as expectations of possible errors. In the audit, the effectiveness of the internal checking system and proof of the details provided in the Consolidated Financial Statements and Management's Analysis are assessed predominantly on the basis of spot checks. The audit encompasses an assessment of the financial statements of the companies in the Consolidated Financial Statements, a definition of the scope of consolidation, a review of the accounting and consolidation principles employed, the main judgments made by the Board of Executive Directors, and an appreciation of the overall presentation of the Consolidated Financial Statements and Management's Analysis. In our opinion, we believe that our audit provides a reasonable basis for our assessment.

Our audit has not given rise to any reservations. It is our opinion that these Consolidated Financial Statements, taking into consideration generally accepted accounting principles, convey a true and fair view of the net assets, financial position and results of operations of BASF Group. Management's Analysis of BASF Aktiengesellschaft and BASF Group conveys in all an accurate presentation of the situation of BASF and accurately shows the risks to future development.

Frankfurt, March 2, 2004

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| **Dr. Künnemann** | **Dr. Beine** |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

## BASF Group Consolidated Financial Statements and Notes

### Consolidated Statements of Income Year ended December 31

| Million € | Explanations in Note | 2003 | 2002 |
|---|---|---|---|
| Sales | | 33,865.3 | 32,519.0 |
| Natural gas taxes | | 504.1 | 303.5 |
| **Sales, net of natural gas taxes** | (4) | **33,361.2** | **32,215.5** |
| | | | |
| Cost of sales | | 23,333.0 | 21,815.5 |
| **Gross profit on sales** | | **10,028.2** | **10,400.0** |
| | | | |
| Selling expenses | | 4,519.1 | 4,763.9 |
| General and administrative expenses | | 706.0 | 700.4 |
| Research and development expenses | | 1,104.7 | 1,135.3 |
| Other operating income | (5) | 560.5 | 716.0 |
| Other operating expenses | (6) | 1,600.7 | 1,875.7 |
| **Income from operations** | | **2,658.2** | **2,640.7** |
| | | | |
| Expense/income from financial assets | | (6.5) | 123.8 |
| Write-downs of, and losses from, retirement of financial assets as well as securities held as current assets | | 260.4 | 31.2 |
| Interest result | | (223.3) | (92.4) |
| **Financial result** | (7) | **(490.2)** | **0.2** |
| **Income before taxes and minority interests*** | | **2,168.0** | **2,640.9** |
| | | | |
| Income taxes | (8) | 1,191.5 | 1,042.2 |
| **Income before minority interests** | | **976.5** | **1,598.7** |
| | | | |
| Minority interests | (9) | 66.3 | 94.3 |
| **Net income** | | **910.2** | **1,504.4** |
| **Earnings per share (€)** | | **1.62** | **2.60** |

* Income from ordinary activities

*Reporting by segment is included in Note 4 to the Consolidated Financial Statements*

## Consolidated Balance Sheets at December 31

| Assets<br>Million € | Explanations in Note | 2003 | 2002 |
|---|---|---|---|
| Intangible assets | (11) | 3,793.2 | 3,464.6 |
| Property, plant and equipment | (12) | 13,069.9 | 13,744.7 |
| Financial assets | (13) | 2,599.6 | 3,248.9 |
| **Fixed assets** | | **19,462.7** | **20,458.2** |
| | | | |
| Inventories | (14) | 4,151.1 | 4,798.4 |
| | | | |
| Accounts receivable, trade | | 4,954.0 | 5,316.0 |
| Receivables from affiliated companies | | 575.5 | 544.4 |
| Miscellaneous receivables and other assets | | 2,069.5 | 1,786.9 |
| **Receivables and other assets** | (15) | **7,599.0** | **7,647.3** |
| | | | |
| Marketable securities | (16) | 146.9 | 131.8 |
| Cash and cash equivalents | | 480.6 | 230.6 |
| **Liquid funds** | | **627.5** | **362.4** |
| **Current assets** | | **12,377.6** | **12,808.1** |
| | | | |
| **Deferred taxes** | (8) | **1,247.0** | **1,204.2** |
| | | | |
| **Prepaid expenses** | (17) | **514.3** | **615.3** |
| **Total assets** | | **33,601.6** | **35,085.8** |

| Stockholders' equity and liabilities<br>Million € | Explanations in Note | 2003 | 2002 |
|---|---|---|---|
| Subscribed capital | (18) | 1,425.0 | 1,460.0 |
| Capital surplus | (18) | 2,982.4 | 2,947.4 |
| Retained earnings | (19) | 12,054.8 | 12,468.2 |
| Currency translation adjustment | | (971.9) | (329.7) |
| Minority interests | (20) | 388.1 | 396.3 |
| **Stockholders' equity** | | **15,878.4** | **16,942.2** |
| | | | |
| Provisions for pensions and similar obligations | (21) | 3,862.4 | 3,910.0 |
| Provisions for taxes | | 1,078.8 | 976.0 |
| Other provisions | (22) | 4,246.2 | 4,111.3 |
| **Provisions** | | **9,187.4** | **8,997.3** |
| | | | |
| Bonds and other liabilities to capital market | (23) | 2,610.6 | 2,181.7 |
| Liabilities to credit institutions | (23) | 896.1 | 1,428.7 |
| Accounts payable, trade | | 2,056.3 | 2,344.0 |
| Liabilities to affiliated companies | | 400.6 | 547.8 |
| Miscellaneous liabilities | (23) | 2,202.4 | 2,274.3 |
| **Liabilities** | | **8,166.0** | **8,776.5** |
| | | | |
| **Deferred income** | | **369.8** | **369.8** |
| **Total stockholders' equity and liabilities** | | **33,601.6** | **35,085.8** |

## Consolidated Statements of Stockholders' Equity Year ended December 31

| Million € | 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** |
| **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) |
| Capital inflow from exercise of swap rights by former Wintershall shareholders | 40 | | | | | | |
| 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 | | | | (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 losses transfers to minority interests.

## Consolidated Statements of Cash Flows* Year ended December 31

| Million € | Explanation in Notes | 2003 | 2002 |
|---|---|---|---|
| Net income | | 910.2 | 1,504.4 |
| Depreciation and amortization of fixed assets | | 2,681.7 | 2,501.6 |
| Changes in inventories | | 502.0 | (207.4) |
| Changes in receivables | | 194.7 | (10.8) |
| Changes in other operating liabilities and provisions | | 421.7 | (814.6) |
| Changes in pension provisions, prepaid pension assets and other non-cash items | | 251.3 | (334.0) |
| Net gains from disposal of fixed assets and marketable securities | | (84.0) | (326.2) |
| **Cash provided by operating activities** | (10) | **4,877.6** | **2,313.0** |
| | | | |
| Payments related to tangible and intangible fixed assets | | (2,071.3) | (2,410.4) |
| Payments related to financial assets and securities | | (190.9) | (391.5) |
| Payments related to acquisitions | | (1,479.8) | (267.2) |
| Proceeds from divestitures | | 85.8 | 5.4 |
| Proceeds from the disposal of fixed assets and marketable securities | | 396.8 | 899.8 |
| **Cash provided by (used in) investing activities** | | **(3,259.4)** | **(2,163.9)** |
| | | | |
| Proceeds from capital increases | | – | 38.3 |
| Share repurchase | | (499.8) | (499.8) |
| Proceeds from the addition of financial indebtedness | | 5,624.1 | 3,127.8 |
| Repayment of financial indebtedness | | (5,625.8) | (2,088.0) |
| Dividends paid | | | |
| to shareholders of BASF Aktiengesellschaft | | (788.7) | (758.4) |
| to minority shareholders | | (68.6) | (85.0) |
| **Cash provided by (used in) financing activities** | | **(1,358.8)** | **(265.1)** |
| **Net change in cash and cash equivalents** | | **259.4** | **(116.0)** |
| | | | |
| Effects on cash and cash equivalents | | | |
| from foreign exchange rates | | (9.9) | (13.6) |
| from changes in scope of consolidation | | 0.5 | 0.3 |
| **Cash and cash equivalents as of beginning of year** | | **230.6** | **359.9** |
| **Cash and cash equivalents as of end of year** | | **480.6** | **230.6** |
| Marketable securities | | 146.9 | 131.8 |
| **Liquid funds as shown on the balance sheet** | | **627.5** | **362.4** |

* The statements of cash flows are discussed in detail in the Management's Analysis, Liquidity and Capital Resources, on page 31 ff.

For other information regarding Consolidated Statements of Cash Flows, see explanations in Note 10.

## 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 3 to these Consolidated Financial Statements.

### (b) Scope of consolidation

The Consolidated Financial Statements include BASF Aktiengesellschaft, the parent company, and all material subsidiaries in which BASF 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.

| | 2003 | 2002 |
|---|---|---|
| Consolidated companies as of January 1 | 155 | 154 |
| Thereof proportional consolidation | 11 | 11 |
| First-time consolidations | 7 | 7 |
| Thereof proportional consolidation | 1 | – |
| Deconsolidations | 8 | 6 |
| Thereof proportional consolidation | – | – |
| Consolidated as of December 31 | 154 | 155 |
| Thereof proportional consolidation | 12 | 11 |

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:

| | 2003 | 2002 |
|---|---|---|
| Affiliated companies | 21 | 21 |
| Joint ventures | 1 | 1 |
| Other associated companies | 2 | 4 |
| | 24 | 26 |

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 decreased importance.
• Four companies due to merger with other affiliates or liquidation.

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.

Changes in the scope of consolidation, acquisitions and divestitures had the following effects on the changes in the Consolidated Financial Statements:

| | 2003 Million € | % | 2002 Million € | % |
|---|---|---|---|---|
| Sales | 377.8 | 1.2 | (209.5) | (0.6) |
| Thereof: | | | | |
| Acquisitions | 633.3 | 2.0 | 118.3 | 0.4 |
| Divestitures | (260.8) | (0.8) | (404.1) | (1.2) |
| Changes in scope of consolidation | 5.3 | . | 76.3 | 0.2 |
| | | | | |
| Fixed assets | 1,252.8 | 6.1 | 705.3 | 3.3 |
| Thereof property, plant and equipment | 176.0 | 1.3 | 414.5 | 2.9 |
| Inventories and receivables | 239.2 | 1.7 | 49.2 | 0.3 |
| Liquid funds | 0.4 | 0.1 | 24.1 | 3.2 |
| **Assets** | **1,492.4** | **4.3** | **778.6** | **2.1** |
| Stockholders' equity | 2.8 | . | (19.5) | (0.1) |
| Financial liabilities | 1,406.1 | 38.9 | 285.7 | 10.1 |
| Other liabilities | 83.5 | 0.6 | 512.4 | 3.1 |
| **Stockholders' equity and liabilities** | **1,492.4** | **4.3** | **778.6** | **2.1** |

In 2003, BASF purchased a package of crop protection products, including the insecticide fipronil and certain seed treatment fungicides, from Bayer CropScience, Germany. In addition, acquisitions in 2003 included the purchase of the engineering plastics business from Honeywell, United States, and the purchase of the Callery Chemical Division from the Mine Safety Appliances Company, United States. Significant divestitures in 2003 involved the sale of BASF's nylon fibers business to Honeywell.

### 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 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 sales in this business amounted to approximately $150 million in 2002.

### Proportional consolidation

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

| Million € | 2003 | 2002 |
|---|---|---|
| Sales | 2,035.6 | 1,719.5 |
| Gross profit | 164.0 | 169.0 |
| Income from operations | 109.9 | 92.3 |
| Income before taxes and minority interests | 115.4 | 108.6 |
| Net income | 84.1 | 87.6 |

#### Balance sheet information

| Million € | 2003 | 2002 |
|---|---|---|
| Fixed assets | 1,277.3 | 950.5 |
| Thereof property, plant and equipment | 1,206.0 | 857.5 |
| Inventories and receivables | 424.8 | 451.6 |
| Liquid funds | 31.9 | 26.4 |
| **Total assets** | **1,734.0** | **1,428.5** |
| Stockholders' equity | 644.5 | 508.6 |
| Provisions | 139.2 | 139.1 |
| Financial liabilities | 235.6 | 59.8 |
| Other liabilities | 714.7 | 721.0 |
| **Total liabilities and stockholders' equity** | **1,734.0** | **1,428.5** |

#### Cash flow information

| Million € | 2003 | 2002 |
|---|---|---|
| Cash provided by operating activities | 135.3 | 125.6 |
| Cash used in investing activities | (322.0) | (155.0) |
| Cash used in (provided by) financing activities | 196.7 | 2.8 |
| Net change in cash and cash equivalents | 10.0 | (26.6) |

### 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%), the Solvin Group (BASF's share: 25%), Svalöf Weibull Group (BASF's share: 40%) and, in 2002, DyStar Group (BASF's share: 30%), is as follows:

**Income statement**

| Million € | 2003 | 2002 |
|---|---|---|
| Sales | 6,833.8 | 7,944.9 |
| Gross profit | 796.7 | 1,283.8 |
| Income from operations | (60.4) | 197.7 |
| Income before taxes and minority interests | (105.1) | 96.8 |
| Net income | (62.7) | 67.6 |
| BASF's share of net income | (33.0) | 19.8 |

**Balance sheet information**

| Million € | 2003 | 2002 |
|---|---|---|
| Fixed assets | 5,427.6 | 5,812.3 |
| Thereof property, plant and equipment | 3,543.1 | 3,843.5 |
| Inventories and receivables | 2,014.1 | 2,506.3 |
| Liquid funds | 44.3 | 251.2 |
| **Total assets** | **7,486.0** | **8,569.8** |
| 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 |
| **Total liabilities and stockholders' equity** | **7,486.0** | **8,569.8** |
| 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 (Rhine), Germany, as required by the German Commercial Code, 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 not eliminated because the amounts are insignificant.

**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 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.

**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:

| | Years |
|---|---|
| Goodwill | 5–20 |
| Product rights and licenses | 3–10 |
| Marketing, supply and similar rights | 4–20 |
| Know-how and patents | 3–15 |
| Concessions, explorations rights and similar rights | 3–25 |
| Software | 1–5 |
| Other rights and values | 5–30 |

The Company evaluates 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 costs, 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:

| | 2003 Years | 2002 Years |
|---|---|---|
| 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 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 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.

**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.

**Cash and cash equivalents:** Cash and cash equivalents comprise marketable securities, cash at banks, cash on hand and checks in transit. Securities are valued at cost. They are valued at quoted or market values if lower than cost.

**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. 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.

Provisions are established for environmental protection measures and risks if the measures are necessary to comply with legal or regulatory obligations or if conditions are likely to imposed due to technological developments 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 partial retirement programs, the present value of promised top-up payments are set aside in full 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 partial retirement 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 26.

**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 27.

**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 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 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 outside the eurozone. 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. Change in accounting principles

Following the termination of a production site in oil and gas operations there are obligations to remove equipment and fill in wells. In prior years we accrued these obligations on a straight-line basis for our German oil and gas companies. From 2003 onward, these obligations are accrued uniformly within the BASF Group according to the unit of production method. In doing this, on each balance sheet date, the already produced quantity as well as an estimate of the available remaining reserves is taken into account. A change in the valuation in 2003 led to an improvement in income after tax of €24.7 million, and an increase in earnings per share of €0.04.

## 3. 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.

### Reconciliation of net income to U.S. GAAP

| Million € | Note | 2003 | 2002 |
|---|---|---|---|
| Net income as reported in the Consolidated Financial Statements of income under German GAAP | | 910.2 | 1,504.4 |
| **Adjustments required to conform with U.S. GAAP** | | | |
| Capitalization of interest | (a) | (7.3) | (6.4) |
| Capitalization of software developed for internal use | (b) | (2.8) | 30.5 |
| Accounting for pensions | (c) | 69.0 | 71.2 |
| Accounting for provisions | (d) | 157.6 | 12.4 |
| Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates | (e) | (24.8) | (143.9) |
| Valuation of securities at market values | (f) | (6.2) | . |
| Valuation adjustments relating to companies accounted for under the equity method | (g) | 62.4 | 12.9 |
| Reversal of goodwill amortization and write-offs due to permanent impairment | (h) | 167.3 | 211.0 |
| Other adjustments | (i) | 1.0 | (12.9) |
| Deferred taxes and recognition of tax credit for dividend payments | (j) | 0.6 | 48.1 |
| Minority interests | (k) | 10.7 | (10.4) |
| **Net income in accordance with U.S. GAAP** | | **1,337.7** | **1,716.9** |

### 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 computation of diluted earnings per share. Due to a resolution by the Board of Executive Directors in 2002, the settlement 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 and 2002, because the impact of potential common shares was antidilutive in each year.

## Earnings per share

| | 2003 | 2002 |
|---|---|---|
| **Net income in accordance with U.S. GAAP (million €)** | **1,337.7** | **1,716.9** |
| | | |
| **Number of shares (thousands)** | | |
| Weighted average undiluted number of shares | 561,887 | 579,118 |
| Dilutive effects | – | – |
| Weighted average diluted number of shares | 561,887 | 579,118 |
| | | |
| **Earnings per share in accordance with U.S. GAAP (€)** | **2.38** | **2.96** |
| Dilutive effects | – | – |
| Diluted earnings per share in accordance with U.S. GAAP | 2.38 | 2.96 |

## Reconciliation of stockholders' equity to U.S. GAAP

| Million € | Note | 2003 | 2002 |
|---|---|---|---|
| Stockholders' equity as reported in the Consolidated Balance Sheets under German GAAP | | 15,878.4 | 16,942.2 |
| Minority interests | | (388.1) | (396.3) |
| Stockholders' equity excluding minority interests | | 15,490.3 | 16,545.9 |
| **Adjustments required to conform with U.S. GAAP** | | | |
| Capitalization of interest | (a) | 493.9 | 542.8 |
| Capitalization of software developed for internal use | (b) | 184.1 | 192.8 |
| Accounting for pensions | (c) | 982.5 | 914.0 |
| Accounting for provisions | (d) | 206.8 | 49.4 |
| Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates | (e) | (138.8) | (115.1) |
| Valuation of securities at market values | (f) | 89.1 | 100.6 |
| Valuation adjustments relating to companies accounted for under the equity method | (g) | 182.0 | 138.3 |
| Reversal of goodwill amortization and write-offs due to permanent impairment | (h) | 337.1 | 207.4 |
| Other adjustments | (i) | 43.4 | 58.5 |
| Deferred taxes and recognition of tax credit for dividend payments | (j) | (633.3) | (688.8) |
| Minority interests | (k) | (15.3) | (26.0) |
| **Stockholders' equity in accordance with U.S. GAAP** | | **17,221.8** | **17,919.8** |

**(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 pension 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 pension 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:

| Million € | 2003 | 2002 |
|---|---|---|
| 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 |
| Funded status | 211.9 | 114.8 |
| Unrecognized actuarial losses | 575.0 | 593.3 |
| Prepaid pension assets | 786.9 | 708.1 |

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 21), 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.

**(d) Accounting for provisions:** The reconciliation item contains the following deviations:

**Provisions for partial retirement 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 partial retirement 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 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 and €6.0 million in 2002. Stockholders' equity increased 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, and €6.4 million in 2002. 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," has to be adopted for the first time in 2003. Under this standard, expected costs associated with the exit or disposal of business activities can only be accrued when a liability against a third party exists. This includes severance payments for employees, the cancellation of contracts, the shutdown of production facilities, and the relocation of employees. Since the requirements for accruing of provisions for restructuring measures in accordance with German GAAP deviate from this standard, 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 has to be adopted in the fiscal year 2003 for the first time. 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 built up over their expected service lives. The initial application of SFAS 143 had no material effect on net income. The cumulated net effect on stockholders' equity as of January 1, 2003 was €5.2 million.

**(e) Accounting for derivatives at fair value and valuation of long-term foreign currency items:** As required by SFAS 133 and 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, 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.

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 lower extent than applied in these financial statements.

**(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 non-permanent 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, only requires write-offs in case of expected permanent impairment of value. The recoverability of the company value will be examined on the business-unit level, by comparing the market value determined using discounted future cash flows, to the continuing book value. There were no write-downs due to permanent impairment of value in 2003 or 2002. The goodwill amortizations included in these financial statements have to be reversed and added back to net income.

**(i) Other adjustments:** This item primarily includes the reversal of provisions for stock compensation. 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. Under U.S. GAAP, 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.

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 still recorded as additions to stockholders' equity.

Overall, the accounting stock options resulted in a change in stockholders' equity of €(14.6) million in 2003, and €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:

| | | Stockholders' equity | | Net income | |
|---|---|---|---|---|---|
| Million € | Note | 2003 | 2002 | 2003 | 2002 |
| Capitalization of interest | (a) | (171.5) | (196.6) | 11.0 | 7.3 |
| Capitalization of software developed for internal use | (b) | (69.7) | (73.0) | 1.0 | (10.4) |
| Accounting for pensions | (c) | (360.6) | (333.0) | (27.7) | (22.2) |
| Accounting for provisions | (d) | (78.8) | (19.7) | (59.1) | (5.8) |
| 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 |
| Valuation of securities at market values | (f) | 0.1 | . | (17.2) | 62.2 |
| Valuation adjustments relating to companies accounted for under the equity method | (g) | – | – | – | 45.7 |
| 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) |
| Recognition of tax credit for dividend payments | (j) | – | (124.2) | 124.2 | 2.2 |
| | | **(633.3)** | **(688.8)** | **0.6** | **48.1** |

The change in 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, the tax credit for dividend payments was booked in the 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 and 2002, 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.

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

FIN 46, "Consolidation of Variable Interest Entities," which was issued in January 2003, requires consolidation of variable interest entities by the primary beneficiary, even in the absence of a majority of the voting rights. The application of FIN 46 within the BASF Group was examined, and it was determined that it would not affect 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.

| Million € | 2003 | 2002 |
|---|---|---|
| Net income in accordance with U.S. GAAP (before other comprehensive income) | 1,337.7 | 1,716.9 |
| Change of foreign currency translation adjustments | | |
| Gross | (729.3) | (908.6) |
| Deferred taxes | 38.0 | 24.3 |
| Changes in unrealized holding gains on securities | | |
| Gross | (5.2) | (262.8) |
| Deferred taxes | 17.2 | 71.8 |
| 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)** |
| **Comprehensive income, net of tax** | **640.2** | **626.2** |

| Million € | 2003 | 2002 |
|---|---|---|
| Stockholders' equity in accordance with U.S. GAAP before accumulated other comprehensive income | 18,226.2 | 18,226.7 |
| 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** |

## Reconciliation of stockholders' equity under U.S. GAAP

| Million € | 2003 | 2002 |
|---|---|---|
| Stockholders' equity in accordance with U.S. GAAP on January 1 | 17,919.8 | 18,538.2 |
| Comprehensive income, net of tax | 640.2 | 626.2 |
| Share buyback and cancellation, including own shares intended to be cancelled | (499.8) | (499.8) |
| Dividend paid (excluding minority interests) | (788.7) | (758.4) |
| BASF stock option program | (14.6) | 11.2 |
| Change in scope of consolidation and other changes | (35.1) | 2.4 |
| **Stockholders' equity in accordance with U.S. GAAP on December 31** | **17,221.8** | **17,919.8** |

## 4. 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, 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.

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.

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). “Other” also includes net losses from foreign currency transactions of €(1) million in 2003, and €(143) million in 2002, which are related to financial indebtedness and macrohedges, and are not allocatable 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.

## Segments

| 2003 Million € | Chemicals | Plastics | Performance Products | Agricultural Products & Nutrition | | | Oil & Gas | Other | BASF Group |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Agricultural Products | Fine Chemicals | 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 expenses | 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 |

| 2002 Million € | Chemicals | Plastics | Performance Products | Agricultural Products & Nutrition | | | Oil & Gas | Other | BASF Group |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Agricultural Products | Fine Chemicals | 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 expenses | 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 |

## Regions

| 2003<br>Million € | Europe | Thereof Germany | North America (NAFTA) | South America | Asia, Pacific Area, Africa | BASF Group |
|---|---|---|---|---|---|---|
| **Location of customers** | | | | | | |
| 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 |
| **Location of companies** | | | | | | |
| 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 fixed assets | 2,255 | 961 | 429 | 65 | 667 | 3,416 |
| Depreciation of tangible and intangible assets | 1,477 | 866 | 630 | 107 | 238 | 2,452 |

| 2002<br>Million € | Europe | Thereof Germany | North America (NAFTA) | South America | Asia, Pacific Area, Africa | BASF Group |
|---|---|---|---|---|---|---|
| **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 fixed assets | 1,997 | 1,008 | 373 | 88 | 597 | 3,055 |
| Depreciation of tangible and intangible assets | 1,317 | 855 | 812 | 80 | 255 | 2,464 |

## 5. Other operating income

| Million € | 2003 | 2002 |
|---|---|---|
| Release and adjustment of provisions | 170.4 | 107.2 |
| Income from miscellaneous revenue-generating activities | 56.6 | 114.5 |
| Gains from foreign currency transactions | 48.3 | 41.8 |
| Gains from foreign currency conversion | 80.6 | 152.6 |
| Gains from disposal of assets | 23.2 | 22.6 |
| Other | 181.4 | 277.3 |
| | **560.5** | **716.0** |

**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.

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 treatment business in the Agricultural Products and Nutrition segment. Gains in 2002 were related to the ordinary course of business.

**Other** includes write-offs of valuation allowances on receivables, miscellaneous sales and various other sundry items.

## 6. Other operating expenses

| Million € | 2003 | 2002 |
|---|---|---|
| Integration measures, restructuring and shutdowns | 460.9 | 276.6 |
| 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 |
| Goodwill amortization | 167.3 | 211.8 |
| Costs from miscellaneous revenue-generating activities | 56.8 | 112.1 |
| Losses from foreign currency transactions | 45.5 | 258.7 |
| Losses from foreign currency conversion | 114.9 | 68.2 |
| Losses from disposal of assets | 23.6 | 25.7 |
| Other | 552.0 | 653.5 |
| | **1,600.7** | **1,875.7** |

**Integration measures, restructuring and shutdowns** in 2003 primarily contain efficiency improvements related to the Ludwigshafen site project, as well as expenses related to the integration of the fipronil crop protection business. Additionally, there were 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.

**Environmental protection measures** of €9.6 million in 2003 and €10.3 million in 2002 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 5.

**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.

## 7. Financial result

| Million € | 2003 | 2002 |
|---|---|---|
| Income from participating interests and similar income | 126.3 | 131.8 |
| Thereof from affiliated companies | 21.4 | 18.1 |
| Income from profit transfer agreements | 2.7 | 10.3 |
| Losses from loss transfer agreements | 12.7 | 8.1 |
| Income (losses) from companies accounted for under the equity method | (122.8) | (10.2) |
| **Net income (loss) from financial assets** | **(6.5)** | **123.8** |
| **Write-down of, and losses from, retirement of financial assets as well as securities held as current assets** | **260.4** | **31.2** |
| Income from other securities and financial assets | 9.9 | 17.2 |
| Thereof from affiliated companies | 2.9 | 3.7 |
| Other interest, income from sale of marketable securities and similar income | 131.3 | 274.0 |
| Thereof from affiliated companies | 6.5 | 11.2 |
| Interest and similar expenses | 364.5 | 383.6 |
| Thereof to affiliated companies | 12.5 | 21.0 |
| **Interest result** | **(223.3)** | **(92.4)** |
| **Financial result** | **(490.2)** | **0.2** |

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 includes 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) are included in income (losses) from companies accounted for under the equity method.

In 2003, write-down of, and losses from, retirement of financial assets as well as securities held as current assets include in particular a write-down for the participation in DyStar Textilfarben GmbH & Co. Deutschland KG and DyStar Textilfarben GmbH.

The valuation of DAX-LIBOR swaps is included within interest income. In 2003 the valuation of DAX-LIBOR swaps produced income of €28 million, following a loss of €48 million in 2002. According to the conditions prevailing on the balance sheet dates in 2002 and 2003, the present value of the future interest payments based on LIBOR was higher than the fair value of the DAX call option rights.

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.

## 8. Income taxes

| Million € | 2003 | 2002 |
|---|---|---|
| German corporate income tax | 378.5 | 389.8 |
| German trade income tax | 131.7 | 65.9 |
| Foreign income tax | 293.2 | 261.5 |
| Income taxes on oil-producing operations non-compensable with German corporate income tax | 504.8 | 427.1 |
| Taxes for prior years | (10.3) | (53.8) |
| **Current taxes** | **1,297.9** | **1,090.5** |
| Deferred taxes | (106.4) | (48.3) |
| **Income taxes** | **1,191.5** | **1,042.2** |
| Other taxes | 151.8 | 168.4 |
| **Tax expense** | **1,343.3** | **1,210.6** |

"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 million in 2003.

The regional breakdown of income before taxes from ordinary activities was as follows:

| Million € | 2003 | 2002 |
|---|---|---|
| Germany | 1,332.1 | 1,858.2 |
| Foreign | 835.9 | 782.7 |
| | **2,168.0** | **2,640.9** |

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%.

In addition to corporate income tax, earnings generated in Germany are subject to a trade income tax that varies depending on the municipality where 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.

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 Million € | 2003 % | 2002 Million € | 2002 % |
|---|---|---|---|---|
| German corporate income tax | 542.0 | 25.0 | 660.2 | 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 |
| Credit for dividend distribution | 124.2 | 5.7 | (124.2) | (4.7) |
| German trade income tax net of corporate income tax | 98.8 | 4.6 | 49.5 | 1.9 |
| Foreign tax-rate differential | 64.2 | 3.0 | 37.1 | 1.4 |
| Non-taxable income | (82.5) | (3.8) | (190.8) | (7.2) |
| Non-deductible expenses, including amortization of goodwill | 139.4 | 6.4 | 130.6 | 4.9 |
| Loss from companies accounted for under the equity method | 30.7 | 1.4 | 2.6 | 0.1 |
| Taxes for previous years | (134.5) | (6.2) | (53.8) | (2.0) |
| Income taxes on oil-producing operations non-compensable with German corporate income tax | 504.8 | 23.3 | 427.1 | 16.2 |
| Other | (132.3) | (6.1) | 83.4 | 3.1 |
| **Income taxes/effective tax rate** | **1,191.5** | **55.0** | **1,042.2** | **39.5** |

Deferred tax assets or liabilities relate to the following items:

## Deferred tax assets

| Million € | 2003 | 2002 |
|---|---|---|
| Intangible assets | (102.0) | (29.1) |
| 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) |
| Thereof for loss carryforwards | (72.8) | (97.8) |
| **Total** | **1,247.0** | **1,204.2** |
| Thereof short-term | 428.6 | 493.2 |

## Deferred tax liabilities

| Million € | 2003 | 2002 |
|---|---|---|
| Intangible assets | 119.7 | 73.7 |
| Property, plant and equipment | 325.0 | 323.7 |
| Other | 39.2 | 40.0 |
| **Total** | **483.9** | **437.4** |
| Thereof short-term | 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:

| Million € | 2003 | 2002 |
|---|---|---|
| German subsidiaries | 37.5 | 5.5 |
| Foreign subsidiaries | 2,087.9 | 2,085.4 |
| | **2,125.4** | **2,090.9** |

German tax losses may be carried forward indefinitely.

Foreign loss carryforwards exist primarily in North America (NAFTA). These expire starting in 2020.

## 9. Minority interests

| Million € | 2003 | 2002 |
|---|---|---|
| Minority interests in profits | 106.2 | 125.0 |
| Minority interests in losses | 39.9 | 30.7 |
| | **66.3** | **94.3** |

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.

Minority interests in losses in 2003 and 2002 are mainly related to BASF SONATRACH PropanChem S.A., Spain.

See Note 20 for a detailed analysis of consolidated subsidiaries with minority shareholdings.

## 10. Other information

### Additional information on statements of cash flows

Cash provided by operating activities was derived after interest payments of €276.3 million in 2003 and €281.8 million in 2002. Income taxes paid totaled €1,013.1 million in 2003 and €1,021.2 million in 2002.

### Personnel costs

| Million € | 2003 | 2002 |
|---|---|---|
| Wages and salaries | 4,653.5 | 4,751.3 |
| Social security contributions and expenses for pensions and assistance | 1,237.1 | 1,223.6 |
| Thereof for pensions | 432.7 | 424.2 |
| | **5,890.6** | **5,974.9** |

German Group companies incurred costs for employee representatives to comply with statutory regulations of €10.5 million in 2003 and €11.3 million in 2002.

## Average number of employees

| | Fully consolidated companies 2003 | 2002 | Proportionally consolidated companies 2003 | 2002 |
|---|---|---|---|---|
| Europe | 60,954 | 62,461 | 251 | 254 |
| Thereof Germany | 49,339 | 50,504 | 15 | 16 |
| North America (NAFTA) | 12,657 | 13,661 | 613 | 724 |
| South America | 5,053 | 5,391 | – | – |
| Asia, Pacific Area, Africa | 8,480 | 8,389 | 1,182 | 1,016 |
| **BASF Group** | **87,144** | **89,902** | **2,046** | **1,994** |
| Thereof with trainee contracts | 2,669 | 2,752 | 2 | 6 |
| Thereof with limited-term contracts | 1,750 | 1,838 | 390 | 164 |

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 and 90,899 in 2002.

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.

## Compensation for the Board of Executive Directors and Supervisory Board

| Million € | 2003 | 2002 |
|---|---|---|
| Board of Executive Directors emoluments | 11.9 | 13.6 |
| Thereof fixed payments | 4.6 | 4.4 |
| Thereof performance-related payments | 7.3 | 9.2 |
| Exercise of option rights granted in 1999 and 2000 | 2.3 | 1.7 |
| Supervisory Board emoluments | 2.2 | 2.2 |
| Thereof fixed payments | 0.5 | 0.5 |
| Thereof performance-related payments | 1.7 | 1.7 |
| Total emoluments of former members of the Board of Executive Directors and their surviving dependents | 6.7 | 5.0 |
| 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 |
| 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 variable 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 26 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. Please see page 132 for further details.

The members of the Board of Executive Directors and the Supervisory Board as well as their memberships on other supervisory boards are shown on pages 61 to 64.

### Information about affiliated companies

German affiliated companies in the legal form of public limited company or private limited company make use of the possibility of exemption according to Section 264 (3) and Section 264b of the German Commercial Code. These companies are listed in the List of Shares Held.

## 11. Intangible assets

| Developments 2003<br>Million € | Concessions, trademarks, and similar rights and values* | Goodwill | Advance payments | Total |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Balance as of January 1, 2003 | 2,458.8 | 2,949.7 | 13.8 | 5,422.3 |
| 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) |
| Balance as of December 31, 2003 | 3,030.5 | 2,704.6 | 1.6 | 5,736.7 |
| **Amortization** | | | | |
| 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) |
| Balance as of December 31, 2003 | 1,276.1 | 666.2 | 1.2 | 1,943.5 |
| **Net book value as of December 31, 2003** | **1,754.4** | **2,038.4** | **0.4** | **3,793.2** |

* Including licenses in such rights and values
** Transfers including foreign currency translation adjustments in those cases where conversion took place at balance sheet rates

Additions in 2003 primarily relate to the acquisition of the fipronil crop protection business from Bayer CropScience and the purchase of the worldwide engineering plastics business from Honeywell, United States.

| Developments 2002<br>Million € | Concessions, trademarks, and similar rights and values* | Goodwill | Advance payments | Total |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| 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) |
| Balance as of December 31, 2002 | 2,458.8 | 2,949.7 | 13.8 | 5,422.3 |
| **Amortization** | | | | |
| 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) |
| Balance as of December 31, 2002 | 1,079.9 | 876.6 | 1.2 | 1,957.7 |
| **Net book value as of December 31, 2002** | **1,378.9** | **2,073.1** | **12.6** | **3,464.6** |

* Including licenses in such rights and values
** Transfers including foreign currency translation adjustments in those cases where conversion took place at balance sheet rates

Additions in 2002 primarily include concessions for oil and gas production in the Dutch North Sea from the acquisition of Clyde Netherlands B.V. and Clyde Petroleum Exploratie B.V., the Netherlands.

## 12. Property, plant and equipment

| Developments 2003<br>Million € | Land, land rights and buildings incl. buildings on land owned by others | Machinery and technical equipment | Miscellaneous equipment and fixtures | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| 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 |
| **Depreciation** | | | | | |
| 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 |
| **Net book value as of December 31, 2003** | **2,569.6** | **7,913.9** | **493.8** | **2,092.6** | **13,069.9** |

* Transfers including foreign currency translation adjustments in those cases where the conversion took place at balance sheet rates

Impairment losses in 2003 in the amount of €81.8 million relate to probable permanent impairment of value, in particular for production plants.

| Developments 2002<br>Million € | Land, land rights and buildings incl. buildings on land owned by others | Machinery and technical equipment | Miscellaneous equipment and fixtures | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| 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 |
| **Depreciation** | | | | | |
| 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 |
| **Net book value as of December 31, 2002** | **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 balance sheet rates

Impairment losses in 2002 in the amount of €51.4 million were primarily due to dry holes at Wintershall AG.

## 13. Financial assets

| Developments in 2003<br>Participations and securities held as fixed assets<br>Million € | Shares in affiliated companies | Shares in associated companies | Shares in participating interests | Securities held as fixed assets | Participations and securities held as fixed assets (subtotal) |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| Balance as of January 1, 2003 | 684.0 | 1,848.8 | 279.2 | 13.1 | 2,825.1 |
| Change in scope of 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) |
| Balance as of December 31, 2003 | 512.1 | 1,554.6 | 261.1 | 14.4 | 2,342.2 |
| **Accumulated depreciation** | | | | | |
| 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) |
| Balance as of December 31, 2003 | 89.7 | 19.0 | 0.1 | 1.7 | 110.5 |
| **Net book value as of December 31, 2003** | **422.4** | **1,535.6** | **261.0** | **12.7** | **2,231.7** |

| Developments 2003<br>Loans and other investments<br>Million € | Loans to affiliated companies | Loans to associated companies and participating interests | Other loans and investments | Loans and other investments (subtotal | Total financial assets |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| 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) |
| Balance as of December 31, 2003 | 94.5 | 248.8 | 77.4 | 420.7 | 2,762.9 |
| **Accumulated depreciation** | | | | | |
| 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) |
| Balance as of December 31, 2003 | 18.3 | 29.2 | 5.3 | 52.8 | 163.3 |
| **Net book value as of December 31, 2003** | **76.2** | **219.6** | **72.1** | **367.9** | **2,599.6** |

* Transfers including foreign currency translation adjustments in those cases where the conversion took place at balance sheet rates

In 2003, disposals of “Shares in affiliated companies” primarily concerned a capital reduction for BASF Future Business GmbH of €175.0 million. Transfers in “Shares in associated companies” include the participation in the DyStar group, which was accounted for according to the equity method until September 2003. Since 2003, 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.

| Developments in 2002<br>Participations and securities held as fixed assets<br>Million € | Shares in affiliated companies | Shares in associated companies | Shares in participating interests | Securities held as fixed assets | Participations and securities held as fixed assets (subtotal) |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| 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) |
| Balance as of December 31, 2002 | 684.0 | 1,848.8 | 279.2 | 13.1 | 2,825.1 |
| **Accumulated depreciation** | | | | | |
| 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 |
| **Net book value as of December 31, 2002** | **636.1** | **1,847.8** | **279.1** | **11.4** | **2,774.4** |

| Developments 2002<br>Loans and other investments<br>Million € | Loans to affiliated companies | Loans to associated companies and participating interests | Other loans and investments | Loans and other investments (subtotal | Total financial assets |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| 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 |
| **Accumulated depreciation** | | | | | |
| 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 |
| **Net book value as of December 31, 2002** | **111.4** | **287.0** | **76.1** | **474.5** | **3,248.9** |

* Transfers including foreign currency translation adjustments in those cases where the conversion took place at balance sheet rates

Additions to “Shares in affiliated companies” primarily 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

The book and market values of available-for-sale “Securities held as fixed assets” and “Shares in participating interests” is summarized below:

| Million € | 2003 Book values | Market values | Unrealized gains | 2002 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 |
| | **273.7** | **347.7** | **74.0** | **290.5** | **379.8** | **89.3** |

The disposal of available-for-sale securities generated a gain of €41.7 million in 2003. Available-for-scale securities were not disposed of in 2002.

## 14. Inventories

| Million € | 2003 | 2002 |
|---|---|---|
| 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 |
| | **4,151.1** | **4,798.4** |

“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 (LIFO reserve) was €62 million in 2003 and €65 million in 2002.

## 15. Receivables and other assets

| Million € | 2003 | Thereof non-current | 2002 | Thereof non-current |
|---|---|---|---|---|
| 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 |
| 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 |
| | **7,599.0** | **262.1** | **7,647.3** | **293.7** |

## Composition of other assets

| Million € | 2003 | 2002 |
|---|---|---|
| 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 |
| | **1,878.9** | **1,509.8** |

Prepaid expenses accounted for €8.2 million in 2003, and €131.3 million in 2002.

## Valuation allowances for doubtful accounts

| Million € | Balance as of January 1, 2003 | Affecting income Additions | Affecting income Releases | Not affecting income Additions | Not affecting income Releases | Balance as of December 31, 2003 |
|---|---|---|---|---|---|---|
| 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 |
| | **456.5** | **94.6** | **82.5** | **6.6** | **101.8** | **373.4** |

| Million € | Balance as of January 1, 2002 | Affecting income Additions | Affecting income Releases | Not affecting income Additions | Not affecting income Releases | Balance as of December 31, 2002 |
|---|---|---|---|---|---|---|
| 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 |
| | **559.3** | **186.8** | **154.1** | **31.2** | **166.7** | **456.5** |

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.

## 16. Marketable securities

| Million € | 2003 Book values | Market values | Unrealized gains | 2002 Book values | 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 | – |
| | **146.9** | **161.9** | **15.0** | **131.8** | **150.2** | **18.4** |

There was no significant disposal of available-for-sale securities in 2003. The disposal of available-for-sale securities in 2002 generated a tax-free gain of €243 million.

### Maturities of fixed-term securities

| Million € | 2003 Book values | Market values | 2002 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 |
| | **12.1** | **12.4** | **12.8** | **13.2** |

## 17. Prepaid expenses

| Million € | 2003 | Thereof non-current | 2002 | Thereof non-current |
|---|---|---|---|---|
| Discounts | 10.3 | 7.4 | 4.4 | 2.7 |
| Prepaid pension assets | 399.1 | 399.0 | 479.5 | 456.4 |
| Miscellaneous | 104.9 | 10.3 | 131.4 | 15.3 |
| | **514.3** | **416.7** | **615.3** | **474.4** |

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 pension assets 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.

## 18. Capital and reserves

| Million € | Conditional capital 2003 | 2002 | Authorized capital 2003 | 2002 |
|---|---|---|---|---|
| January 1 | 429.2 | 432.4 | 500.0 | 500.0 |
| Conditional capital for the stock option program BOP 1999/2000 | | | | |
| Reduction resulting from exercise or expiration of option rights | (3.9) | (3.2) | | |
| Issuance of new stock as conditional capital through the exercise of conversion rights of former Wintershall stockholders, below €0.1 million in 2002 | – | . | | |
| December 31 | 425.3 | 429.2 | 500.0 | 500.0 |

### Subscribed capital

| Million € | Outstanding shares | Subscribed capital | Capital reserves |
|---|---|---|---|
| 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 |
| Outstanding shares as disclosed in the financial statements | 556,643,410 | 1,425.0 | 2,982.4 |

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 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.

### 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.

## 19. Retained earnings

| Million € | 2003 | 2002 |
|---|---|---|
| Legal reserves | 243.2 | 224.6 |
| Other retained earnings and profit retained | 11,811.6 | 12,243.6 |
| **Total** | **12,054.8** | **12,468.2** |

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. Transfers from "Other retained earnings and profit retained" increased legal reserves by €18.5 million in 2003, and €18.0 million in 2002.

## 20. Minority interests

| Company | Partner | 2003 Equity stake % | 2003 Million € | 2002 Equity stake % | 2002 Million € |
|---|---|---|---|---|---|
| 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 (Petroliam 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 | Total S.A., Paris, France | 40.0 | 61.5 | 40.0 | 56.0 |
| Others | | | 5.5 | | 13.1 |
| | | | **388.1** | | **396.3** |

## 21. 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 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 2003 | Germany 2002 | Foreign 2003 | Foreign 2002 |
|---|---|---|---|---|
| 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 2003 | 2002 | Foreign 2003 | 2002 |
|---|---|---|---|---|
| Interest rate | 5.75 % | 6.00 % | 6.58 % | 7.09 % |
| Projected increase of wages and salaries | 2.50 % | 2.75 % | 3.82 % | 3.87 % |
| Projected pension increase | 1.50 % | 1.75 % | 0.36 % | 0.41 % |
| Expected return on plan assets | 6.50 % | 6.50 % | 8.45 % | 8.47 % |

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 3c) is as follows:

| Asset class | Average target allocation (%) 2004 | Percentage of plan assets 2003 | 2002 |
|---|---|---|---|
| Equities | 46 | 44 | 37 |
| Debt securities | 42 | 47 | 47 |
| Real estate | 9 | 6 | 6 |
| Other | 3 | 3 | 10 |
| **Total** | **100** | **100** | **100** |

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

| Million € | 2003 | 2002 |
|---|---|---|
| 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) |
| **Projected benefit obligation as of December 31** | **5,612.5** | **5,959.9** |

## Development of the plan assets

| Million € | 2003 | 2002 |
|---|---|---|
| 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 plan 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.

Pension provisions are as follows:

| Million € | 2003 | 2002 |
|---|---|---|
| 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) |
| Capitalized prepaid benefit cost | 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** |

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 on fund assets and the effective change in value are generally distributed over a period of five years.

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.

| Million € | 2003 Plan assets | 2003 ABO | 2002 Plan assets | 2002 ABO |
|---|---|---|---|---|
| Unfunded pension plans | – | 3,423.6 | – | 3,416.5 |
| Partially funded pension plans | 68.3 | 84.1 | 73.5 | 89.6 |
| **Total of pension plans that are not fully funded** | **68.3** | **3,507.7** | **73.5** | **3,506.1** |
| Fully funded pension plans | 2,079.0 | 1,927.2 | 2,137.2 | 2,044.8 |
| | **2,147.3** | **5,434.9** | **2,210.7** | **5,550.9** |

## Composition of the net benefit cost

| Million € | 2003 | 2002 |
|---|---|---|
| Service cost | 121.8 | 144.8 |
| Interest cost | 335.0 | 376.3 |
| Expected return on plan assets | (206.3) | (223.2) |
| Amortization of prior service cost | 13.4 | 17.5 |
| Other amortization amounts | 12.1 | 10.1 |
| Settlement gains | 3.7 | (24.5) |
| **Expenses for defined benefit plans** | **279.7** | **301.0** |
| Expenses for defined contribution plans | 126.0 | 89.7 |
| Expenses for similar obligations | 27.0 | 33.5 |
| **Net periodic benefit cost** | **432.7** | **424.2** |

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.

## 22. Other provisions

| Million € | 2003 | Thereof current | 2002 | Thereof current |
|---|---|---|---|---|
| Oil and gas production | 448.8 | – | 478.8 | – |
| Environmental protection and remediation costs | 248.2 | 28.5 | 264.0 | 30.2 |
| Personnel costs | 1,333.9 | 770.0 | 1,284.2 | 818.9 |
| Sales and purchase risks | 745.4 | 739.3 | 651.3 | 647.8 |
| Integration, shutdown and restructuring costs | 339.2 | 307.2 | 245.3 | 210.3 |
| Legal, damage claims, guarantees and related commitments | 637.6 | 150.3 | 679.4 | 115.2 |
| Maintenance and repair costs | 143.7 | 58.0 | 148.8 | 93.4 |
| Outstanding billings from suppliers | 78.9 | 78.9 | 76.4 | 76.4 |
| Other | 270.5 | 188.2 | 283.1 | 204.3 |
| | **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, re-cultivating 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.

The movement in shutdown and restructuring provisions is as follows:

| 2003<br>Million € | Amount accrued as of January 1, 2003 | Amount paid in 2003 | Other changes 2003 | 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 |
| | **245.3** | **125.9** | **219.8** | **339.2** |

| 2002<br>Million € | Amount accrued as of January 1, 2002 | Amount paid in 2002 | Other changes 2002 | Amount accrued as of December 31, 2002 |
|---|---|---|---|---|
| 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 |
| | **421.4** | **188.0** | **11.9** | **245.3** |

Additions in 2003 consisted mainly 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 previous year.

**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 warrantees for trust proceedings. The significant proceedings are described in Note 25.

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 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.

**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 within prescribed intervals, required by official agencies.

Maintenance and repair provisions for inspections required by regulatory authorities were as follows:

| 2003<br>Million € | Amount accrued as of January 1, 2003 | Amount paid in 2003 | Other changes 2003 | Amount accrued as of December 31, 2003 |
|---|---|---|---|---|
| Plant inspections required by regulatory authorities | 115.2 | 48.6 | 45.3 | 111.9 |

| 2002<br>Million € | Amount accrued as of January 1, 2002 | Amount paid in 2002 | Other changes 2002 | Amount accrued as of December 31, 2002 |
|---|---|---|---|---|
| Plant inspections required by regulatory authorities | 89.2 | 26.5 | 52.5 | 115.2 |

## 23. Liabilities

**Financial liabilities**

| Million € | 2003 | 2002 |
|---|---|---|
| 5.75% Euro Bond 2000/2005 of BASF Aktiengesellschaft | 1,250.0 | 1,250.0 |
| 3.5% Euro Benchmark Bond 2003/2010 of BASF Aktiengesellschaft | 1,000.0 | – |
| Other bonds | 306.6 | 349.7 |
| Commercial paper | 54.0 | 582.0 |
| **Bonds and other liabilities to the capital market** | **2,610.6** | **2,181.7** |
| Liabilities to credit institutions | 896.1 | 1,428.7 |
| **Financial liabilities** | **3,506.7** | **3,610.4** |

Financial liabilities are denominated predominantly in the following currencies:

| Million € | 2003 | 2002 |
|---|---|---|
| U.S. dollars | 677.0 | 1,285.5 |
| Euros | 2,453.0 | 1,909.9 |
| Malaysian ringgit | 98.8 | 154.8 |
| Korean won | 38.4 | 90.2 |
| Chinese renminbi | 138.6 | 52.0 |
| Other | 100.9 | 118.0 |
| | **3,506.7** | **3,610.4** |

Financial liabilities have the following maturities as of December 31, 2003:

| | Million € |
|---|---|
| 2004 | 511.8 |
| 2005 | 1,580.8 |
| 2006 | 22.5 |
| 2007 | 22.0 |
| 2008 | 21.3 |
| 2009 and thereafter | 1,348.3 |
| | **3,506.7** |

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 and 2.1% in 2002.

"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. 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 of €1,980 million with variable interest rates as of December 31, 2003 and €2,380 million as of December 31, 2002. In addition, the Company had €127 million credit lines as of December 31, 2003, as well as €323 million as of December 31, 2002, which are without commitment frees.

## Miscellaneous liabilities

| Million € | 2003 | Thereof current | 2002 | Thereof 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 |
| **Total** | **2,202.4** | **1,395.8** | **2,274.3** | **1,414.3** |
| Deferred income | 369.8 | 145.2 | 369.8 | 113.8 |
| **Total miscellaneous liabilities and deferred income** | **2,572.2** | **1,541.0** | **2,644.1** | **1,528.1** |

Liabilities to companies in which participations are held include liabilities 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

| Million € | 2003 Current | Over 5 years | 2002 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 |
| | **4,310.4** | **1,851.8** | **6,055.0** | **951.3** |

## Secured liabilities

| Million € | 2003 | 2002 |
|---|---|---|
| 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.

## 24. Contingent liabilities and other financial obligations

The contingent liabilities listed below are stated at nominal value.

## Contingent liabilities

| Million € | 2003 | 2002 |
|---|---|---|
| Bills of exchange | 19.6 | 27.0 |
| Thereof to affiliated companies | 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 |
| | **214.8** | **219.0** |

## Other financial obligations

| Million € | 2003 | 2002 |
|---|---|---|
| Remaining cost of construction in progress | 1,853.3 | 2,987.0 |
| Thereof purchase commitment | 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 | – |
| | **3,046.6** | **4,019.9** |

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:

| | Million € |
|---|---|
| 2004 | 184.5 |
| 2005 | 135.6 |
| 2006 | 101.3 |
| 2007 | 81.3 |
| 2008 | 73.0 |
| 2009 and thereafter | 361.0 |
| | **936.7** |

### Purchase commitments for raw materials and natural gas from long-term contracts

The Company has entered into long-term purchase contracts for natural gas, the vast majority of which are coupled with long-term supply contracts to customers. In addition, the Company purchases raw materials globally, both on the basis of long-term contracts and in spot markets. In general, such commitments are at prices that are regularly adjusted to market conditions. The fixed and determinable portions of long-term purchase contracts with a remaining term of more than one year as of December 31, 2003, are as follows:

| | Million € |
|---|---|
| 2004 | 5,840 |
| 2005 | 3,457 |
| 2006 | 2,701 |
| 2007 | 1,863 |
| 2008 | 1,622 |
| 2009 and thereafter | 9,855 |
| | **25,338** |

## 25. Litigation and claims

### 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 against this decision. Further proceedings are still pending in Brazil, 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.

State court class actions on behalf of indirect purchasers have been filed separately in 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.

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 worldwide 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 is considered rather low.

### Additional Proceedings

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.

In a ruling of February 19, 2004, the Supreme Court of Minnesota confirmed the decision of an appeals court in which BASF Corporation was ordered to pay damages totaling $52 million. The appeals court considered the sale of the crop protection products Poast® and Poast Plus® at different prices to be in contravention of consumer protection regulations. BASF regards different prices to be justified because they are based on different patents and approvals for the products and is reviewing whether to file a Writ of Certiorari to with the U.S. Supreme Court.

## 26. Stock-based compensation

### BASF stock option program (BOP)

In 2003, BASF continued the BASF stock option program (BOP) for senior executives of the company worldwide. This program has existed since 1999. Approximately 1,000 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program.

To participate in the stock option program, each participant must hold as a personal investment BASF shares in the amount of 10% to 30% of his or her individual variable compensation. The number of shares is determined by the amount of variable compensation designated by the participant and the weighted average market price quotation for BASF shares on the first business day after the annual meeting, which was €38.94 on May 7, 2003 (base price).

For each BASF share of the individual investment, a participant receives four options. Each option consists of two parts, right A and right B, which may be exercised if defined thresholds have been met: The threshold of right A is met if the price of the BASF share has increased by more than 30% in comparison to the base price (absolute threshold). The value of right A will be the difference between the market price of BASF shares at the exercise date and the base price; it is limited to 100% of the base price. Right B may be exercised if the cumulative percentage performance of BASF shares exceeds the percentage performance of the Dow Jones Global Chemicals Total Return Index (DJ Chemicals). The value of right B will be the base price of the option multiplied by twice the percentage outperformance of BASF shares compared to the DJ Chemicals index on the exercise date; the value of right B is limited to the closing price on the date of exercise, minus the calculated nominal value of the BASF share.

The options were granted on July 1, 2003 and can be exercised between July 1, 2005 and June 30, 2011. During the exercise period it is not possible to exercise options during certain periods (closed periods). Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right expires. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment and will be principally settled in cash.

The stock option programs BOP 1999 to BOP 2002 were structured in a similar way to the BOP 2003 program. To participate in the BOP program, each participant must hold BASF shares in the amount of 10% to 30% of his or her individual variable compensation (BOP 2002 and 2001) or must make an individual investment in BASF shares in the amount of 10% to 30% of his or her individual variable compensation that is used to purchase BASF shares at the market price on the first business day after the Annual Meeting (BOP 1999 and 2000). The options may be exercised following a vesting period of two years (BOP 2002 and 2001) or three years (BOP 1999 and 2000).

The benchmark index used to determine the value of right B for BOP 1999 and 2000 is the Dow Jones EURO STOXX$^{SM}$ Total Return Index (EURO STOXX$^{SM}$). For BOP 2001 it was replaced by the DJ Chemicals Index, which is considered an even more meaningful benchmark as a worldwide index for the chemical sector.

Details on the fair value and the number of options issued are described below:

| Fair value and parameters used as of Dec. 31, 2003* | BASF stock option program 2003 | 2002 |
|---|---|---|
| Fair value | 21.64 € | 16.45 € |
| Dividend yield of BASF shares | 3.14 % | 3.14 % |
| Risk free interest rate | 4.14 % | 3.96 % |
| Volatility of BASF shares | 28.78 % | 29.44 % |
| Volatility of Index: DJ Chemicals | 17.86 % | 18.76 % |
| Correlation BASF quotation: DJ Chemicals | 71.30 % | 73.08 % |

* It is assumed that the options will be exercised based upon potential gains

The fair value at the option grant date was €16.82 (BOP 2003) and €30.30 (BOP 2002).

| Options outstanding | 2003 Weighted average base price | Number | 2002 Weighted average base price | Number |
|---|---|---|---|---|
| Options outstanding as of January 1 | 46.67 | 3,252,444 | 45.64 | 3,092,732 |
| Options granted | 38.94 | 1,413,816 | 46.70 | 837,280 |
| Options lapsed* | 45.60 | 78,480 | 45.86 | 67,700 |
| Options exercised | 45.92 | 753,821 | 41.60 | 609,868 |
| Options outstanding as of December 31 | 43.99 | 3,833,959 | 46.67 | 3,252,444 |
| Thereof exercisable options | 45.26 | 557,739 | 41.60 | 459,356 |

* Option rights lapse if the option holders no longer work for BASF or have sold part of their BOP shares

The weighted average maturity of the outstanding options was 5.92 years on December 31, 2003 and 5.33 years on December 31, 2002. The base prices were within a range of €38.94 to €47.87 in 2003 and €41.60 to €47.87 in 2002.

In accordance with a resolution by the Board of Executive Directors in 2002 stock options will be settled in cash instead of delivering shares. Options outstanding as of December 31, 2003 are valued with the fair value as of the balance sheet date. This amount is accrued as a provision over the respective vesting period. An amount of €28.1 million was charged to income in 2003, and €16.7 million in 2002.

### BASF "plus" incentive share program

In 1999, BASF started an incentive share program called "plus" for all eligible employees except the senior executives entitled to participate in the BOP. Currently, employees of German and of various European and Mexican subsidiaries are entitled to participate in the program. Each participant must make an individual investment in BASF shares from his or her variable compensation. For each 10 BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and 10 years of holding the BASF shares. The right to receive free BASF shares expires if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement.

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.

Details on the incentive share program are described below:

| Number of shares held under the programm | 2003 | 2002 |
|---|---|---|
| Number of shares held as individual investment as of January 1 | 1,624,460 | 1,130,680 |
| Number of shares added to the individual investment | 584,490 | 535,500 |
| Number of subscription rights lapsed | 117,550 | 41,720 |
| Number of shares held as individual investment as of December 31 | 2,091,400 | 1,624,460 |

The Company provides for the value of the free shares over the period until the shares are to be issued based on the year-end price of BASF shares.

Compensation cost of €10.8 million was recorded in 2003 and €5.7 million in 2002.

In addition, all new employees with permanent contracts were offered five free BASF shares that must be held for 10 years. In 2003, 10,955 BASF shares were provided free of charge, resulting in expenses of €0.4 million.

In 2002, all employees with permanent contracts were provided the same offer. A total of 174,130 BASF shares were provided free of charge. The resulting expenses of €8.0 million were already accrued as a provision in 2001.

## 27. Financial instruments and derivative instruments

### Derivative instruments

The Company is exposed to foreign currency, interest rate and price risks during the normal course of business. In cases where the Company intends to hedge against these risks, derivatives are used, including forward exchange contracts, currency options, interest rate/cur-rency swaps or combined instruments, or commodity derivatives. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities. Derivative instruments are only used if they have a corresponding underlying position or planned transaction 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 the Company are not held for the purpose of trading.

Where derivatives have a positive market value, the Company is exposed to credit risks in the event of non-performance of their counterparts. The credit risk is minimized by exclusively trading contracts with major creditworthy financial institutions.

To ensure efficient risk management, market risks are centralized at BASF Aktiengesellschaft, except when certain subsidiaries have been authorized to close derivative contracts under the principles mentioned above. The Company has developed and implemented internal guidelines based on the principles of separation of functions for completion and execution of 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 secure them are monitored constantly. The same is true of the derivative instruments, which are used to replace transactions in original financial instruments. 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.

### Foreign exchange and interest rate risk management

Foreign currency derivatives are primarily aimed at hedging the exchange rate risk against the U.S. dollar, the Canadian dollar, the Australian dollar, the British pound, the Brazilian real, the Japanese yen, the Mexican peso, and the Singapore dollar. Foreign exchange contracts and combined interest/currency derivatives were concluded to hedge loans granted to group companies.

### Fair value of financial instruments

The fair value of a financial instrument is the price at which the instrument could be exchanged between willing parties. Fair value amounts are estimated by the Company management based on available market information and appropriate valuation techniques. These estimates do not necessarily reflect the amount that could be realized or would be paid in the current market.

Book and estimated fair values of financial instruments, for which it is practicable to estimate the fair value, were as follows:

| Million € | 31.12.2003 Book values | Fair values | 31.12.2002 Book values | Fair values |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets (details, see Note 13) | 2,599.6 | 2,673.6 | 3,248.9 | 3,338.2 |
| Accounts receivable, trade and other assets | 7,599.0 | 7,602.6 | 7,647.3 | 7,633.6 |
| Marketable securities (details, see Note 16) | 146.9 | 161.9 | 131.8 | 150.2 |
| Cash and cash equivalents | 480.6 | 480.6 | 230.6 | 230.6 |
| | | | | |
| **Liabilities** | | | | |
| Financial liabilities | 3,506.7 | 3,584.0 | 3,610.4 | 3,716.7 |
| Accounts payable, trade and other liabilities | 4,659.3 | 4,657.2 | 5,166.1 | 5,175.4 |

Accounts receivable and other assets, accounts payable and other liabilities: For trade accounts receivable, liquid funds and other assets, trade accounts payable and other liabilities, the book value approximates the fair value. For non-current amounts, the difference between book value and fair value represents primarily unrecognized gains from foreign currency balances in 2003 and unrecognized losses in 2002.

The fair value of financial assets and marketable securities represents market values from securities exchanges at the balance sheet date. The market value of financial liabilities represents a valuation of bonds at inter-bank rates.

Other assets in 2003 contained the book value of the DAX-LIBOR swaps in the amount of €54.4 million (2002; €33.5 million). The book value of the payment liabilities in 2003 was €56.7 million in 2003 and €77.5 million in 2002.

## Breakdown of derivative financial instruments

| Million € | Nominal amounts December 31 2003 | 2002 | Nominal amounts December 31 2003 | 2002 |
|---|---|---|---|---|
| Forward exchange contracts | 5,068.7 | 5,926.7 | 366.8 | 179.9 |
| Currency options | 410.0 | – | 1.8 | – |
| **Foreign currency derivatives** | **5,478.7** | **5,926.7** | **368.6** | **179.9** |
| Interest rate swaps | 105.3 | 90.3 | (8.2) | (8.9) |
| Interest rate/cross currency swaps | 2,596.5 | 3,058.2 | 292.2 | (116.1) |
| **Interest rate derivatives** | **2,701.8** | **3,148.5** | **284.0** | **(125.0)** |
| Commodity derivatives and other derivatives | 633.4 | 820.4 | 7.9 | (25.4) |

Forward exchange contracts generally mature within one year.

The nominal values are the totals of the purchases and sales of the particular derivatives on a gross basis. The fair market values correspond to the difference between the cost and resale value, which is determined from market quotations or by the use of option pricing models or, in the case of unlisted contracts, the termination amount in the event of premature cancellation. Offsetting changes in the valuation of the underlying transactions are not taken into account.

Provisions for probable losses from fluctuations of foreign exchange rates, interest rates or prices amounted to €2.2 million in 2003 and €2.7 million in 2002. The changes of the fair value of financial instruments and derivative contracts had been recognized as required by U.S. GAAP and the impact on net income and stockholders' equity in accordance to U.S. GAAP is disclosed in Note 3.

Commodity derivatives are used to hedge raw materials prices, e.g., naphtha.

# Declaration of Conformity 2003 of the Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft

1. Statement of Principles pursuant to § 161 AktG [Stock Corporation Act]
We declare that the recommendations by the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been complied with in the year 2003 and will be complied with in the year 2004 by the measures outlined below.
2. Deviations

a) Audit Committee
Pursuant to Section 5.3.2 of the Code, the Supervisory Board shall set up an Audit Committee. The Supervisory Board of the Company established such a committee by resolution of July 17, 2003. So far the Company did not have such a committee.

b) Compensation of Chair and Membership in Supervisory Board Committees
As set forth in Section 5.4.5 of the Code, compensation shall take into account the chair position and the membership in Supervisory Board committees. In respect to the Audit Committee, a provision has been included in the Articles of Association, as resolved by the Annual Meeting on May 6, 2003. The membership in the other committees is specifically reimbursed by granting an attendance fee for the committee meetings. A supplementary compensation for the chair is not provided for, since this function has to-date been exercised by the Chairman of the Supervisory Board.

c) Dealing with the structure of the Executive Board compensation system by the full Supervisory Board; assessment of the appropriateness of the compensation of the members of the Executive Board by also applying performance-related criteria; individualized publication of the compensation of the members of the Executive Board and the Supervisory Board.
We are not complying with these recommendations, included in the Code only in 2003.

d) Declaration of Conformity
Pursuant to Section 3.10 of the Code, the Board of Executive Directors and the Supervisory Board shall report each year in the Company's Annual Report on the Company's corporate governance. By the new § 161 AktG this reporting obligation is regulated with, in part, different content. The Board of Executive Directors and the Supervisory Board resolved to exclusively report as required by law.

3. We consider the recommendations of the Corporate Governance Code to be a general basis for our entrepreneurial activities. Nevertheless situations may arise in the course of business where these standards, in a specific event, prove to be too inflexible in time or bearing, or unnecessarily restrict established Company practices. In such events, contrary to the above-made Statement of Principles, there may be deviations from the recommendations of the Code. Vice versa, we will check the above-mentioned deviations for their continuous adequacy and, if appropriate, revise them. We will each year report such deviations or revisions respectively in the annual Compliance Statement and explain them, when not being self-explanatory.

Ludwigshafen, November 25, 2003
The Board of Executive Directors of BASF Aktiengesellschaft

Ludwigshafen, December 1, 2003
The Supervisory Board of BASF Aktiengesellschaft

## Glossary

**ABS** ▸ Plastics based on acrylonitrile-butadiene-styrene copolymers.

**Agricultural Products** ▸ The Agricultural Products division develops, produces and markets products to protect crops from fungal attack, insect pests and weeds.

**biotechnology** ▸ The specific use of microorganisms, plants, cell cultures or isolated enzymes to produce chemical, agricultural or pharmaceutical products.

**Coatings** ▸ Automotive OEM and refinish coatings, industrial coatings and decorative paints.

**EBIT** ▸ Earnings before interest and taxes.

**EBIT after cost of capital** ▸ We use this key performance and management indicator for our operating divisions and business units to ensure that we satisfy the returns expected by providers of equity and debt on the assets employed.

**EBITDA** ▸ Earnings before interest, taxes, depreciation and amortization.

**economies of scale** ▸ Cost advantages derived from modern world-scale plants (see also: world-scale plants).

**exploration** ▸ To investigate and explore a site in the search for mineral resources such as crude oil or natural gas. For successful exploration it is important to discover oil and gas-bearing structures (deposits, fields) using suitable geophysical and chemical processes at sea or on land rather than by means of expensive drilling.

**Fine Chemicals** ▸ In the Fine Chemicals division we develop, produce and market high-value products for human and animal nutrition and for the cosmetics and pharmaceutical industries. Our primary products are vitamins, pharmaceutical active ingredients, polymers for pharmaceuticals and cosmetics, carotenoids, flavors and fragrances, UV filters, the amino acid lysine, as well as enzymes for animal nutrition.

**Functional Polymers** ▸ The Functional Polymers division is the global market leader in acrylic acid and superabsorbents and is a leading supplier of functional polymers for the adhesives, construction, carpeting and paper industries. The division operates production facilities in all important regions of the world, consistently capitalizing on the BASF Verbund and expanding its global presence.

**fungicide** ▸ An active ingredient that kills fungi or inhibits their growth (for example in crops).

**futures** ▸ A binding agreement between two partners to buy or sell a specific amount of an exactly defined commodity or financial instrument at a particular price on a stipulated future date.

**herbicide** ▸ An active ingredient used to destroy weeds.

**Inorganics** ▸ Raw materials such as ammonia, sulfuric acid and nitric acid and the electrolysis products chlorine and sodium hydroxide. The operating division also produces innovative specialties such as electronic grade chemicals, heterogeneous catalysts, impregnating resins and powder injection molding technologies.

**insecticide** ▸ An active ingredient used to destroy harmful insects.

**Intermediates** ▸ The Intermediates division produces and sells amines, diols and polyalcohols, as well as carboxylic acids and specialties such as phosgene derivatives, glyoxal and derivatives, and chiral intermediates for a variety of chemical syntheses; 25% of the division's volumes are for captive use within BASF.

**liquefied petroleum gas (LPG)** ▸ Liquefied natural gases, e.g., propane, butane and propane-butane blends, are used in the heating market, as an alternative feedstock for cracker operations and for other chemical processes.

**MDI** ▸ Diphenylmethane diisocyanate (a precursor for polyurethanes).

**NAFTA region** ▸ Free trade zone between the United States, Canada and Mexico; established in the North American Free Trade Agreement. This economic region is one of BASF's four business regions.

**naphtha** ▸ Liquid petroleum that is obtained as a by-product of oil refining. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.

**Oil & Gas** ▸ Our oil and gas operations are conducted by Wintershall AG and include exploration and production of crude oil and natural gas, crude oil and natural gas trading, and the leasing of natural gas storage and transport capacities.

**oil equivalent** ▸ International standard for comparing the thermal energy of different fuels.

**PBT** ▸ Polybutylene terephthalate

**Performance Chemicals** ▸ The Performance Chemicals division includes the business areas Coatings, Plastics & Specialties; Printing Industry; Automotive & Oil Industry; Textiles; Leather; and Detergents & Formulators. In all six business areas, we supply high-performance specialties worldwide that add value for our customers directly without further chemical processing.

**Performance Polymers** ▸ The Performance Polymers division produces engineering plastics for use in the automotive and electronics industries, for example, as well as fiber intermediates.

**Petrochemicals** ▸ The Petrochemicals division operates world-scale facilities to supply the Verbund sites with petrochemical feedstocks such as ethylene and propylene, as well as with technical gases such as hydrogen and oxygen. In later processing stages, products in the BASF plasticizers and solvents value-adding chains are produced, as are alkylene oxides and glycols. Typical examples are butanol, phthalic anhydride and ethylene oxide, which are processed primarily within the BASF Verbund.

**plant biotechnology** ▸ A method of optimizing traditional cultivation using methods from molecular biology and biochemistry. For example, plants can be developed that contain constituents that allow a healthier diet, that grow under adverse conditions, or that form substances that would otherwise have to be produced using complicated chemical processes.

**polystyrene compounds** ▸ Grades of polystyrene that are colored and/or designed for special applications.

**PolyTHF®** ▸ Polytetrahydrofuran

**Polyurethanes** ▸ The Polyurethanes division is one of the world's leading producers of polyurethanes. Our product range includes the entire spectrum of basic polyurethane products, tailor-made polyurethane systems and polyurethane specialties. Polyurethanes are used, for example, as rigid or flexible foams for domestic appliances and mattresses, and as specialty plastics for the automobile and footwear industries.

**return on capital employed** ▸ This describes the returns we make on the average assets employed during the year:

$$\frac{\text{Income from ordinary activities} + \text{Interest expenses}}{\text{Average assets*}} \times 100$$

$$\text{* } \frac{(\text{Balance sheet total start of year} + \text{Year-end total})}{2}$$

**return on operational assets** ▸ The return on operational assets describes the returns made by an individual segment on its allocated assets:

$$\frac{\text{Income from operations of a segment}}{\text{Average operational assets*}} \times 100$$

$$\text{* } \frac{(\text{Start of year total} + \text{End of year total})}{2}$$

**return on sales** ▸ The return on sales describes the returns we make from our operations as a percentage of sales:

$$\frac{\text{Income from operations}}{\text{Sales}} \times 100$$

**special items** ▸ One-time costs or one-time payments that significantly affect the earnings of a segment or the BASF Group. Special items include payments arising from restructuring measures or severance payments.

**steam cracker** ▸ A large plant in which steam is used to "crack" naphtha (petroleum). The resulting petrochemicals – above all, ethylene and propylene – are the starting materials used to manufacture most of BASF's products.

**Styrenics** ▸ This operating division produces and distributes styrene and styrenics worldwide. The production of the primary product styrene is primarily for captive use (backward integration). Styrenics are used in many fields, including the construction, packaging, automotive, electric and leisure industries.

**swap** ▸ An agreement between two companies to exchange payment flows in the future. In an interest swap, a fixed interest rate is exchanged for a floating one for an agreed nominal amount.

**TDI** ▸ Toluene diisocyanate (a precursor for polyurethanes).

**THF** ▸ Tetrahydrofuran

**value-adding chain** ▸ Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

**Verbund** ▸ The Verbund is one of BASF's greatest strengths: At our major sites, we link our production plants in a sophisticated system along our value-adding chains: Even by-products or waste from one plant can often be used as raw materials in a neighboring plant. We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly.

**world-scale plants** ▸ Large production plants in which products can be manufactured on a world scale. The more a plant produces, the lower the fixed costs per metric ton of product (see also: economies of scale). BASF is therefore committed to cost-effective large-scale plants of this kind in all major economic regions.

## Index

# Ten-year Summary

## Balance Sheet

| Million € | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | 262 | 884 | 1,297 | 1,497 | 1,965 | 2,147 | 4,538 | 3,943 | 3,464 | 3,793 |
| Tangible assets | 8,177 | 7,873 | 8,217 | 9,076 | 10,755 | 12,416 | 13,641 | 14,190 | 13,745 | 13,070 |
| Financial assets | 1,057 | 1,338 | 2,093 | 2,132 | 1,826 | 1,507 | 3,590 | 3,360 | 3,249 | 2,600 |
| **Fixed assets** | **9,496** | **10,095** | **11,607** | **12,705** | **14,546** | **16,070** | **21,769** | **21,493** | **20,458** | **19,463** |
| Inventories | 3,202 | 3,439 | 3,665 | 3,876 | 3,703 | 4,028 | 5,211 | 5,007 | 4,798 | 4,151 |
| Accounts, receivable, trade | 3,315 | 3,356 | 3,714 | 4,299 | 4,017 | 4,967 | 6,068 | 5,875 | 5,316 | 4,954 |
| Other receivable, trade | 1,259 | 1,375 | 1,341 | 1,765 | 1,856 | 2,211 | 3,369 | 2,384 | 2,947 | 3,159 |
| Deferred taxes | 66 | 61 | 69 | 45 | 1,077 | 1,225 | 1,270 | 1,373 | 1,204 | 1,247 |
| Liquid funds | 3,042 | 3,166 | 1,957 | 1,846 | 1,503 | 1,508 | 870 | 743 | 363 | 628 |
| **Current assets** | **10,884** | **11,397** | **10,746** | **11,831** | **12,156** | **13,939** | **16,788** | **15,382** | **14,628** | **14,139** |
| **Assets** | **20,380** | **21,492** | **22,353** | **24,536** | **26,702** | **30,009** | **38,557** | **36,875** | **35,086** | **33,602** |
| Subscribed capital | 1,559 | 1,559 | 1,580 | 1,590 | 1,595 | 1,590 | 1,555 | 1,494 | 1,460 | 1,425 |
| Capital surplus | 2,405 | 2,405 | 2,515 | 2,567 | 2,590 | 2,675 | 2,746 | 2,914 | 2,948 | 2,983 |
| Paid-in-capital | 3,964 | 3,964 | 4,095 | 4,157 | 4,185 | 4,265 | 4,301 | 4,408 | 4,408 | 4,408 |
| Retained earnings | 4,316 | 5,275 | 6,262 | 7,418 | 8,695 | 9,002 | 8,851 | 12,222 | 12,468 | 12,055 |
| Currency translation adjustments | (232) | (254) | (129) | 201 | 39 | 549 | 662 | 532 | (330) | (972) |
| Minority interests | 92 | 181 | 248 | 255 | 331 | 329 | 481 | 360 | 396 | 388 |
| **Stockholders' equity** | **8,140** | **9,166** | **10,476** | **12,031** | **13,250** | **14,145** | **14,295** | **17,522** | **16,942** | **15,879** |
| Pensions and other long-term provisions | 5,040 | 4,998 | 5,052 | 4,824 | 5,561 | 5,812 | 6,209 | 6,809 | 6,233 | 6,205 |
| Tax and other short-term provisions | 2,120 | 2,393 | 2,391 | 2,463 | 2,185 | 2,826 | 3,334 | 3,332 | 2,764 | 2,982 |
| **Provisions** | **7,160** | **7,391** | **7,443** | **7,287** | **7,746** | **8,638** | **9,543** | **10,141** | **8,997** | **9,187** |
| Financial indebtedness | 1,857 | 1,448 | 1,042 | 1,126 | 1,316 | 1,294 | 7,892 | 2,835 | 3,610 | 3,507 |
| Accounts payable, trade | 1,531 | 1,417 | 1,628 | 1,972 | 1,871 | 2,316 | 2,848 | 2,467 | 2,344 | 2,056 |
| Other liabilities | 1,692 | 2,070 | 1,764 | 2,120 | 2,519 | 3,616 | 3,979 | 3,910 | 3,193 | 2,973 |
| **Liabilities** | **5,080** | **4,935** | **4,434** | **5,218** | **5,706** | **7,226** | **14,719** | **9,212** | **9,147** | **8,536** |
| **Total liabilities** | **12,240** | **12,326** | **11,877** | **12,505** | **13,452** | **15,864** | **24,262** | **19,353** | **18,144** | **17,723** |
| Thereof long-term | 6,235 | 6,614 | 6,223 | 6,094 | 6,898 | 7,529 | 9,059 | 9,955 | 9,211 | 10,285 |
| **Stockholders' equity and liabilities** | **20,380** | **21,492** | **22,353** | **24,536** | **26,702** | **30,009** | **38,557** | **36,875** | **35,086** | **33,602** |

## Sales and earnings

| Million € | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 22,330 | 23,637 | 24,939 | 28,520 | 27,643 | 29,473 | 35,946 | 32,500 | 32,216 | 33,361 |
| Income from operations (EBIT) | 1,099 | 2,057 | 2,195 | 2,731 | 2,624 | 2,009 | 3,070 | 1,217 | 2,641 | 2,658 |
| Income from ordinary activities | 1,079 | 2,111 | 2,257 | 2,726 | 2,771 | 2,606 | 2,827 | 609 | 2,641 | 2,168 |
| Extraordinary income | – | – | – | – | – | – | – | 6,121 | – | – |
| Income before taxes and minority interests | 1,079 | 2,111 | 2,257 | 2,726 | 2,771 | 2,606 | 2,827 | 6,730 | 2,641 | 2,168 |
| Income before minority interests | 598 | 1,239 | 1,452 | 1,639 | 1,664 | 1,245 | 1,282 | 5,826 | 1,599 | 976 |
| Net income | 656 | 1,263 | 1,427 | 1,654 | 1,699 | 1,237 | 1,240 | 5,858 | 1,504 | 910 |
| **Capital expenditures and depreciation** | | | | | | | | | | |
| Additions to fixed assets | 1,674 | 2,742 | 3,510 | 2,964 | 4,131 | 3,800 | 8,637 | 4,053 | 3,289 | 3,541 |
| Thereof tangible assets | 1,384 | 1,546 | 1,861 | 2,229 | 2,899 | 2,764 | 3,631 | 3,037 | 2,677 | 2,293 |
| Depreciation of fixed assets | 2,239 | 1,885 | 1,874 | 2,048 | 2,280 | 2,681 | 2,921 | 2,945 | 2,501 | 2,682 |
| Thereof tangible assets | 2,059 | 1,707 | 1,606 | 1,732 | 1,843 | 2,018 | 2,245 | 2,307 | 2,012 | 1,951 |
| **Number of employees** | | | | | | | | | | |
| At year-end | 106,266 | 106,565 | 105,589 | 104,979 | 105,945 | 104,628 | 103,273 | 92,545 | 89,389 | 87,159 |
| Annual average | 107,716 | 107,320 | 108,266 | 105,885 | 106,928 | 107,163 | 105,784 | 94,744 | 90,899 | 88,167 |
| **Personnel costs** | 5,313 | 5,531 | 5,637 | 5,790 | 6,010 | 6,180 | 6,596 | 6,028 | 5,975 | 5,891 |
| **Key data** | | | | | | | | | | |
| Earnings per share (€) | 1.10 | 2.07 | 2.32 | 2.67 | 2.73 | 2.00 | 2.02 | 9.72[1] | 2.60 | 1.62 |
| Earnings per share in accordance with U.S. GAAP (€) | | | | | 2.84 | 2.14 | 2.37 | 9.45 | 2.96 | 2.38 |
| Cash provided by operating activities | 2,845 | 3,256 | 3,476 | 3,291 | 3,744 | 3,255 | 2,992 | 2,319 | 2,313 | 4,878 |
| Return on sales (%) | 4.9 | 8.7 | 8.8 | 9.6 | 9.5 | 6.8 | 8.5 | 3.7 | 8.2 | 8.0 |
| Return on assets (%) | 6.5 | 11.2 | 11.4 | 12.6 | 11.9 | 10.2 | 9.9 | 3.1 | 8.4 | 7.4 |
| Return on equity after taxes (%) | 7.6 | 14.3 | 14.8 | 14.6 | 13.2 | 9.1 | 9.0 | 36.6[1] | 9.3 | 6.0 |
| **Appropriation of profit** | | | | | | | | | | |
| Net income of BASF AG | 465 | 692 | 870 | 943 | 1,074 | 1,007 | 1,265 | 5,904 | 1,045 | 1,103 |
| Transfer to retained earnings | 153 | 256 | 332 | 307 | 381 | 304 | 50 | 5,153 | 247 | 334 |
| Dividend | 312 | 437 | 537 | 636 | 693 | 695 | 1,214 | 758 | 798 | 779[2] |
| Dividend per share (€) | 0.51 | 0.72 | 0.87 | 1.02 | 1.12 | 1.13 | 1.30 | 1.30 | 1.40 | 1.40 |
| | | | | | | | +0.70[3] | | | |
| **Number of shares as of Dec. 31, 2003 (in thousands)** | 609,766 | 609,766 | 618,052 | 622,063 | 623,794 | 620,985 | 607,399 | 583,401 | 570,316 | 556,643 |

1 Including extraordinary income
2 With regard to the number of qualifying shares as of December 31, 2003
3 Special dividend of stockholders' equity charged with 45% corporate income tax

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## Key data BASF Group 2003

| **Sales** (million €) | |
|---|---|
| BASF Group sales | 33,361 |
| Sales by segment | |
| Chemicals | 5,752 |
| Plastics | 8,787 |
| Performance Products | 7,633 |
| Agricultural Products & Nutrition | 5,021 |
| Oil & Gas | 4,791 |
| Other | 1,377 |
| Sales by region (location of customer) | |
| Europe | 19,120 |
| Thereof Germany | 7,073 |
| North America (NAFTA) | 7,163 |
| South America | 1,765 |
| Asia, Pacific Area, Africa | 5,313 |

| **Income** (million €) | |
|---|---|
| Income from operations (EBIT) | 2,658 |
| Income before taxes and minority interests | 2,168 |
| Net income | 910 |
| Net income in accordance with U.S. GAAP | 1,338 |

| **Other key data** | |
|---|---|
| Equity ratio (%) | 47 |
| Return on assets (%) | 7.4 |
| Research and development expenses (million €) | 1,105 |
| Additions to fixed assets (million €) | 3,541 |
| Number of employees (Dec. 31, 2003) | 87,159 |

| **Key BASF share data (€)** | |
|---|---|
| Year-end share price | 44.58 |
| High | 44.58 |
| Low | 28.41 |
| Per share information: | |
| Dividend | 1.40 |
| Earnings per share | 1.62 |


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# 2003



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## Important dates

- March 17, 2004
  Financial Results 2003
- April 29, 2004
  Annual Meeting, Mannheim
  Interim Report First Quarter 2004
- August 4, 2004
  Interim Report Second Quarter 2004
- November 11, 2004
  Interim Report Third Quarter 2004
- March 9, 2005
  Financial Results 2004
- April 28, 2005
  Annual Meeting, Mannheim
  Interim Report First Quarter 2005

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