Shaping the Future
Financial Report 2004

BASF

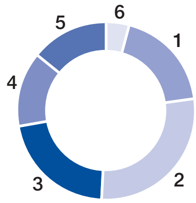
The Chemical Company

Key data BASF Group

Million €	2004	2003	Change in %
Sales	37,537	33,361	12.5
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	7,326	5,110	43.4
Income from operations (EBIT) before special items	4,893	2,993	63.5
Income from operations (EBIT)	4,856	2,658	82.7
Income before taxes and minority interests	4,019	2,168	85.4
Net income	1,883	910	106.9
Earnings per share (€)	3.43	1.62	111.7
Earnings per share in accordance with U.S. GAAP (€)	3.39	2.35	44.3
Dividend per share (€)	1.70	1.40	21.4
Research and development expenses	1,173	1,105	6.2
Number of employees (as of December 31)	81,955	87,159	(6.0)

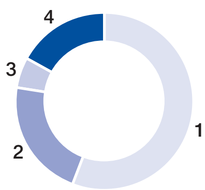
Sales by segment

Million €	2004	%
1 Chemicals	7,020	18.7
2 Plastics	10,532	28.1
3 Performance Products	8,005	21.3
4 Agricultural Products & Nutrition	5,147	13.7
5 Oil & Gas	5,263	14.0
6 Other	1,570	4.2
	37,537	100.0



Sales by region (location of customer)

Million €	2004	%
1 Europe	20,967	55.9
Thereof Germany	7,382	19.7
2 North America (NAFTA)	8,182	21.8
3 South America	2,064	5.5
4 Asia, Pacific Area, Africa	6,324	16.8
	37,537	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 plants, 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 innovations and acquisitions.

Plastics – Focusing on strengths

BASF is a globally leading supplier of plastics – the eco-efficient materials of the future. In standard plastics, we have a portfolio of focused product lines and highly efficient marketing processes. In our business with specialties, we offer a wide range of high-value products, system solutions and processes. In close cooperation with our customers, we constantly extend this range and add new applications.

Performance Products – Close cooperation with customers

Our innovative systems from performance chemistry contribute to the comfort and safety of many everyday items, from cars and textiles to detergents and babies' diapers. We want to be the key contact for our customers. 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 – Increased customer focus – higher competitiveness

Our products ensure healthy plants and improve food. We have strengthened our Agricultural Products & Nutrition segment through active cost and 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, pharmaceutical and cosmetic industries a broad range of high-value fine chemicals. Innovative solutions strengthen our good position. Our research in plant biotechnology focuses on solutions for effective agriculture, healthier nutrition and plants to make products more efficiently.

Oil & Gas – Expertise and regional focus

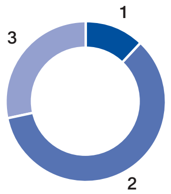
In exploration and production we benefit from our many years of experience and our focus on areas that are rich in oil and gas in Europe, North Africa, South America as well as Russia and the Caspian Sea area.
In natural gas trading, we are making use of the growth opportunities that are arising from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

Segment key data

Sales by division

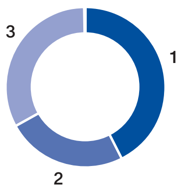
Million €	2004	2003	Change in %
Sales	7,020	5,752	22.0
Income from operations before special items	1,334	500	166.8
Income from operations	1,241	393	215.8

Million €		%
1 Inorganics	844	12.0
2 Petrochemicals	4,189	59.7
3 Intermediates	1,987	28.3
	7,020	100.0



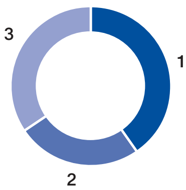
Million €	2004	2003	Change in %
Sales	10,532	8,787	19.9
Income from operations before special items	727	363	100.3
Income from operations	669	296	126.0

Million €		%
1 Styrenics	4,450	42.2
2 Performance Polymers	2,587	24.6
3 Polyurethanes	3,495	33.2
	10,532	100.0



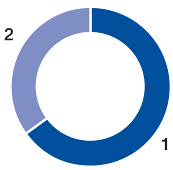
Million €	2004	2003	Change in %
Sales	8,005	7,633	4.9
Income from operations before special items	790	568	39.1
Income from operations	1,068	478	123.4

Million €		%
1 Peformance Chemicals	3,228	40.3
2 Coatings	2,022	25.3
3 Functional Polymers	2,755	34.4
	8,005	100.0



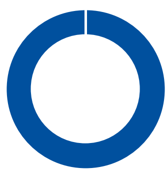
Million €	2004	2003	Change in %
Sales	5,147	5,021	2.5
Income from operations before special items	645	427	51.1
Income from operations	540	359	50.4

Million €		%
1 Agricultural Products	3,354	65.2
2 Fine Chemicals	1,793	34.8
	5,147	100.0



Million €	2004	2003	Change in %
Sales	5,263	4,791	9.9
Income from operations before special items	1,647	1,365	20.7
Income from operations	1,637	1,365	19.9

Million €		%
Oil & Gas	5,263	100.0



Who we are

BASF is the world's leading chemical company: The Chemical Company. Our portfolio ranges from chemicals, plastics, performance products, agricultural products and fine chemicals to crude oil and natural gas. As a reliable partner to virtually all industries, our intelligent solutions and high-value products help our customers to be more successful.

What we aim to achieve

Our goal is to use our products and services to successfully shape the future of our customers, business partners and employees. In doing so, we aim to grow profitably and consistently increase the value of our company.

How we shape the future

We develop new technologies and use them to open up additional market opportunities. We combine economic success with environmental protection and social responsibility. This is our contribution to a better future for us and for coming generations.

Contents

Milestones

January
BASF acquires the plasticizers business of Sunoco, United States, increasing its range of products used to give flexibility to plastics.

To streamline its crop protection activities, BASF sells its business with phenoxy herbicides to Nufarm, Australia.

February
Together with Toray Industries, Japan, BASF establishes a 50-50 joint venture for the production of polybutylene terephthalate (PBT). The joint venture will build a world-scale plant in Kuantan, Malaysia, to supply the Asian growth market. This engineering plastic is primarily used in the automotive, electric and electronics industries.

March
BASF acquires Foam Enterprises, United States, strengthening its polyurethane systems for rigid foam applications. Applications for such systems include roof and wall insulation, walk-in coolers, spas and boat floatation.

In Sighisoara, Romania, BASF subsidiary Wintershall starts producing natural gas together with Romgaz. The production alliance aims to extract 300,000 cubic meters of natural gas per day.

BASF signals its path to the future with a new corporate design.

April
Procter & Gamble launches BASF's Basotect® foam on the European market under the trademark Mr. Clean Magic Eraser™ and honors BASF with an award for outstanding cooperation and innovation.

May
A representative survey conducted by the Allensbach opinion research institute shows that BASF is considered the most environmentally friendly company in Germany's DAX 30 share index.

June
The Chinese Research Academy of Environmental Sciences and BASF announce that they will establish an engine test laboratory in Beijing. The goal is to improve the quality of Chinese gasoline and reduce exhaust emissions.

July
BASF and Shell announce that they will review strategic options regarding their Basell joint venture. The two companies each hold a 50% interest in Basell, which is a global leader in polyolefins. A decision is to be reached by mid-2005.

August
BASF starts operations at its new world-scale plant for citral in Ludwigshafen. This fine chemical intermediate is the starting material for the production of vitamins A and E, carotenoids and a range of aroma chemicals.

Together with Dow Chemical, BASF plans to build a joint world-scale plant to produce propylene oxide (PO) from propylene and hydrogen peroxide (HP) at its Verbund site in Antwerp, Belgium. The two companies jointly developed the new technology.

BASF, Bayer and Hoechst sell their holding in DyStar – the Frankfurt-based manufacturer of textile dyes – to financial investor Platinum Equity, United States.

BASF expands its activities in the area of polyurethane systems and invests in new plants in Pudong near Shanghai, China.

September
BASF announces the sale of its printing systems business to the European private equity company CVC Capital Partners.

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

October
The Board of Executive Directors decides to repurchase shares for an additional €500 million. In the course of 2004, BASF buys back 16.2 million shares for a total of €726 million, or an average price of €44.79 per share.

November
Interim results of the Site Project Ludwigshafen: The measures implemented to date have permanently reduced costs by more than €350 million. The targeted savings of €450 million per year are to be achieved by project completion in mid-2005.

BASF takes part in a European Union-sponsored research project set up to investigate ways of removing and storing CO_2 from combustion gases.

December
BASF announces that it will expand the capacity of its world-scale plant for MDI (diphenylmethane diisocyanate) in Antwerp, Belgium, by 25% to 450,000 metric tons per year.

Mechanical completion of the new Verbund site in Nanjing, China, is achieved and the methyl acrylate plant starts operations.

Letter from the Chairman of the Board of Executive Directors

Dear shareholders and friends of BASF,

2004 was a very successful business year for BASF. We made the most of our opportunities in a favorable global economic environment, and we grew faster than the market – a sign that our market and competitive position have further improved.

Measurable success

Last year, we introduced EBIT after cost of capital as our key performance and management indicator. All our employees are aware of the individual contribution they can make to create value at BASF. I am particularly pleased to report that we reached our goal in 2004 and earned a premium of €1,825 million on our cost of capital. This is a great success on the part of the global BASF team. I would like to thank all our employees for their hard work. In the past year, we have once again demonstrated that we have the right strategy and are working hard to achieve it. We are living up to our claim of being "The Chemical Company."

The Board of Executive Directors will propose to the Annual Meeting that the dividend be increased from €1.40 to €1.70 per share. Since 1994, we have therefore raised the dividend per share in eight out of 10 years. This shows our interest in providing our shareholders with an attractive dividend yield. We aim to increase our dividend further in the future. In 2005, we also plan to continue our share buyback program.

Profitable growth

How do we want to expand our business? We have a balanced portfolio that we will continue to optimize. By concentrating on our chemical businesses, agricultural products and nutrition, as well as on oil and gas, we have become more resilient toward cyclicality and oil price fluctuations. This portfolio mix is one of our strengths, and we will continue to build on it. In our oil and gas business, we are stepping up our activities in Libya, and we are investing in gas production in Siberia together with our Russian partner Gazprom. We have further streamlined our portfolio through the sale of our printing systems business, and have initiated the divestiture of the Basell joint venture. We will continue to manage our portfolio actively in 2005. Initial steps have been the acquisition of Merck's electronic chemicals business and the United Kingdom's largest onshore gas field, Saltfleetby.

We recognized the opportunities provided by growth markets in good time and invested there. We are now active in all important markets worldwide. Demand for chemical products is growing especially rapidly in China. Here, we are well positioned, and BASF is one of the largest foreign investors. We know the market and we are close to our customers. In 2005, we will start commercial production at our new Verbund site in Nanjing, China – the largest single investment in the history of our company. As a result, we will be able to tap into new growth potential in Asia and strengthen our competitiveness.

Strategy for sustainable success

Our success depends on the determined implementation of our strategy BASF 2015 and its four guidelines:

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

But what does that mean for us? In order to earn a premium on our cost of capital, we are continuing with our restructuring measures and efforts to reduce costs and optimize our portfolio. Our thoughts and actions center on our customers, whom we help to grow more successfully with innovative solutions and new business models. Examples include our system partnerships in the automotive industry and our research efforts in the areas of materials science, nanomaterials, energy management technologies and biotechnology. To achieve economic success in the face of tough competition, we need the best team in industry. I am aware that implementing our ambitious goals places heavy demands on all our employees. Our team has repeatedly demonstrated what outstanding results it can achieve.

Our business activities aim to encourage sustainable development. You can read about how we successfully combine the economic, environmental and social aspects of our work in our Corporate Report, which is published concurrently with this Financial Report. Our long-term success depends on a political framework that ensures our competitiveness, and we therefore actively engage in the social dialogue worldwide.

Outlook

What can we expect in 2005? Although it is increasingly difficult to forecast economic developments, I am confident that BASF will remain successful in the future. In the course of 2005, we anticipate slower growth in global chemical production, although the mid-term prospects are favorable. The precondition for this is that political trouble spots do not flare up and that there is no sudden downturn in the economic environment. In 2005, we expect to achieve slightly higher sales and follow on from the high level of income from operations (EBIT) before special items posted in 2004. We therefore again expect to earn a premium on our cost of capital.

We are also confident when we look to 2015 and beyond. With our measures to shape the future, we are on the right track to being the world's leading chemical company in the long term – The Chemical Company. We trust that we can count on your continued support.

Dr. Jürgen Hambrecht
Chairman of the Board of
Executive Directors

Shaping the Future Sustainably

Dr. Jürgen Hambrecht, 58,
Chairman of the Board of Executive Directors.
Chemist, with BASF for 29 years.
Legal, Taxes & Insurance; Strategic Planning & Controlling; Executive Management & Development; Communications BASF Group; Investor Relations.

Eggert Voscherau, 61,
Vice Chairman of the Board of Executive Directors and Industrial Relations Director.
Economist, with BASF for 36 years.
Human Resources; Environment, Safety & Energy; Occupational Medicine & Health Protection; Europe; Ludwigshafen Verbund Site; BASF Schwarzheide GmbH; BASF Antwerpen N. V.

Dr. Andreas Kreimeyer, 49,
biologist, with BASF for 19 years.
Functional Polymers;
Performance Chemicals; Asia.

Klaus Peter Löbbe, 58,
economist, with BASF for 39 years.
Coatings; North America (NAFTA).

Dr. Kurt Bock, 46,
business economist, with BASF for 14 years.
Finance; Global Procurement & Logistics;
Information Services; Corporate Audit;
South America.

Dr. John Feldmann, 55,
chemist, with BASF for 17 years.
Oil & Gas; Styrenics; Performance
Polymers; Polyurethanes; Polymer
Research.

Dr. Stefan Marcinowski, 52,
chemist, with BASF for 26 years.
Research Executive Director.
Inorganics; Petrochemicals;
Intermediates; Chemicals Research &
Engineering; Corporate Engineering;
University Relations & Research Planning;
BASF Future Business GmbH.

Peter Oakley, 52,
economist, with BASF for 28 years.
Agricultural Products; Fine Chemicals;
Specialty Chemicals Research;
BASF Plant Science GmbH.

As of March 1, 2005

Report of the Supervisory Board

Dear Shareholders,

BASF has set itself the goal of remaining the world's leading chemical company and steadily expanding on this position. Shaping the future is therefore the company's key challenge and task. The strategy BASF 2015 has set the course in this direction – with visible success. BASF's outstanding performance in 2004 shows that the company is on the right path. This was due in great part to the enormous efforts of all employees in continuing to implement the four strategic guidelines: Earn a premium on cost of capital, contribute to customers' success, form the best team in industry, and ensure sustainable development – these are the maxims on which the company will continue to base its business success.

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, the company's planning with regard to finances, capital expenditures and human resources at BASF and its major subsidiaries, as well as deviations from business forecasts. 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 five times in 2004. 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.

Where specific transactions and measures proposed by the Board of Executive Directors required decisions by the Supervisory Board as required by law or the Articles of Association, votes were taken at Supervisory Board meetings. The sale of the printing systems business and the acquisition of the electronic chemicals business of Merck KGaA were approved.

In 2004, the Supervisory Board dealt in particular detail with BASF's development in the various regions. Key issues were the exploitation of growth potential in Asia, and in China in particular, and the future positioning of BASF in this region, as well as the status of restructuring projects and future development possibilities in North America (NAFTA). In the past year, the Supervisory Board also discussed the normative conditions for the chemical industry in Germany and in Europe and the resulting competitive disadvantages compared with other regions. The amendment of German law on gene technology, which places a not inconsiderable burden on research and development in this important field, is particularly worthy of mention in this connection.

Corporate governance and compliance statement

In 2004, the Supervisory Board again addressed in detail changes to the financial and corporate legal environment in which the company operates, as well as the issue of corporate governance at BASF.

In its meeting on December 16, 2004, the Supervisory Board approved the new joint Declaration of Conformity by the Supervisory Board and the Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act. BASF follows the recommendations of the German Corporate Governance Codex with a few exceptions: For example, we do not publish individual remuneration details for the members of the Board of Executive Directors and Supervisory Board, and remuneration of the Board of Executive Directors is dealt with in the Supervisory Board's Nomination and Compensation Committee rather than in a plenary session of the Supervisory Board. The complete texts of the Declaration of Conformity is provided on page 137 of the Financial Report and is also permanently available to shareholders on BASF's website.

Committees

The Supervisory Board has established three committees with equal representation from shareholders and employee representatives: the Nomination and Compensation Committee created in accordance with Section 89 (4) of the German Stock Corporation Act *(Personalauschuss)*; the Audit Committee; and the Mediation Committee established in accordance with Section 27 (3) of the German Codetermination Act. The members of the Nomination and Compensation 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, since July 31, 2004, Michael Vassiliadis. Dr. Jürgen Walter was a member of both committees until July 31, 2004. The Personal Affairs Committee met three times in 2003, while the Mediation Committee did not have to be convened.

The Audit Committee met three times in 2004. Its activities primarily included reviewing the Consolidated Financial Statements of BASF Aktiengesellschaft as well as BASF Group; reviewing the Annual Report on Form 20-F prepared in accordance with U.S. accounting standards; advising the Board of Executive Directors on accounting issues; preparing the Supervisory Board's proposal to the Annual Meeting regarding the selection of an auditor; discussing and defining particular features of the audit; regulating busing relations with the company's auditors, including the adoption of a resolution regarding the commissioning and provision of non-audit services by the auditors; agreeing the auditing fees; and monitoring the auditor's independence. In 2004, the Audit Committee comprised Supervisory Board members Max Dietrich Kley, Dr. Karlheinz Messmer, Hans Dieter Pötsch (since April 29, 2004), Michael Vassiliadis (since October 14, 2004), Dr. Jürgen Walter (until July 31, 2004) and Helmut Werner (until February 6, 2004). The chairman of the Audit Committee is Max Dietrich Kley, who like Hans Dieter Pötsch, has been appointed Audit Committee Financial Expert.

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 2004, 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 sent to every member of the Supervisory Board. The auditors attended the accounts review meeting of the Audit Committee on March 3, 2004 as well as the accounts meeting of the Supervisory Board on March 8, 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 review 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 8, 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 €1.70 per share.

Composition of the Supervisory Board and Board of Executive Directors

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

Dr. Jürgen Walter resigned from the Supervisory Board effective July 31, 2004. Michael Vassiliadis replaced him, having been elected to the Supervisory Board by employees.

There were no changes to the Board of Executive Directors in 2004.

Ludwigshafen, March 8, 2005

The Supervisory Board

Dr. Jürgen F. Strube
Chairman of the Supervisory Board

BASF Shares

- **Dividend of €1.70 per share**
- **BASF shares increase in value by 22.8% in 2004**
- **Share buybacks carried out for €726 million**

In 2004, BASF shares again performed very well, increasing in value by 22.8%. As a result, BASF shares performed considerably better than the EURO STOXX℠ 50 index and Germany's DAX 30 index, which rose by 9.4% and 7.3%, respectively. 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 1994 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of the holding to €4,429 after 10 years at the end of 2004. This increase of 342.9% corresponds to an average annual return of 16.0%, and is considerably higher than the corresponding return for the EURO STOXX 50 (10.7%) and DAX 30 (7.3%).

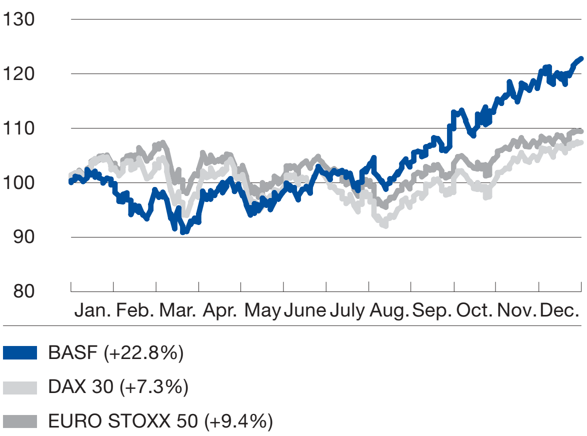
Dividend of €1.70 and further share buybacks to increase shareholder value

The Board of Executive Directors is proposing to increase the dividend from €1.40 to €1.70 per share. As a result, the total amount payable will be €919 million.

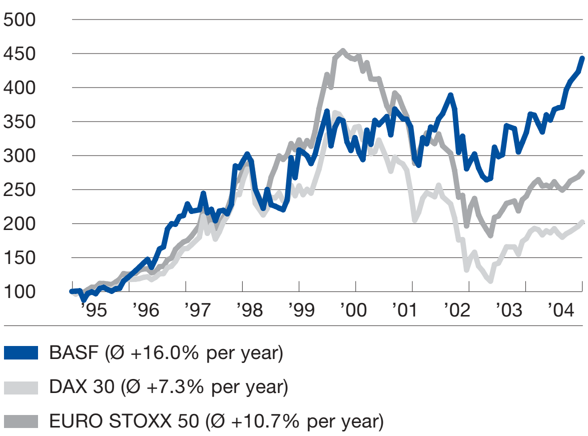
Taking into account the per share dividend and the year-end price, BASF shares provided a dividend yield of 3.21% in 2004. Since 1994, we thus increased our dividend in eight out of 10 years; in two years it remained unchanged. This shows our interest in providing our shareholders with an attractive dividend yield. We aim to increase our dividend further in the future.

In 2004, BASF Aktiengesellschaft bought back 16.2 million shares on the stock exchange for a total of €726 million and an average price of €44.79 per share. Of the repurchased shares, 15.4 million were canceled in 2004. This measure reduced our share capital by 2.9%. BASF Aktiengesellschaft had 541,240,410 shares outstanding as of December 31, 2004. Since the beginning of 1999, we have bought back a total of 97.5 million shares for €3.98 billion. As a result, we have reduced the number of shares by 15.6% in the past six years. The buyback program is aimed at reducing our cost of capital and increasing earnings per share. We will continue our share buyback program in 2005.

Change in value of an investment in BASF shares in 2004 (with dividends reinvested, indexed)



Change in value of an investment in BASF shares in 1995–2004 (with dividends reinvested, indexed)



BASF shares included in important indices

The price of BASF shares forms part of the calculation of German and international indices.

Weighting of BASF shares in important indices as of December 31, 2004	%
DAX 30	6.3
DJ STOXX 50	1.2
DJ EURO STOXX 50	1.9
DJ Chemicals	6.6
MSCI World Index	0.2
S&P Global 100	0.5

In 2004, BASF shares were included in the Dow Jones Sustainability Index for the fourth 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.

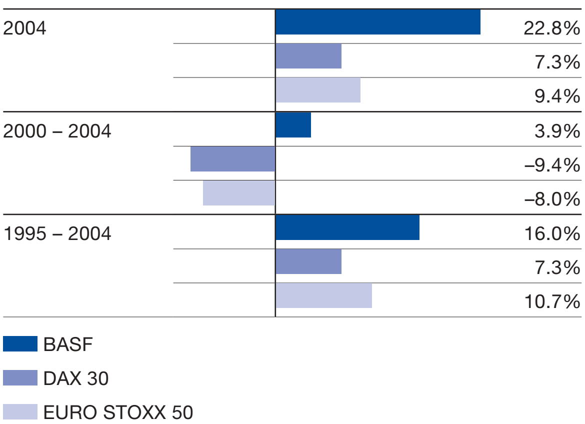
Broad base of international shareholders

Our last shareholder survey carried out at the beginning of 2004 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.

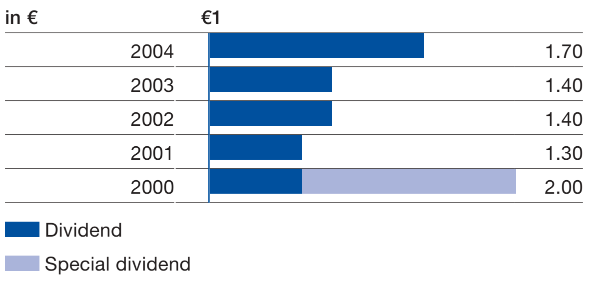
Investor Relations: Close dialogue with the capital markets

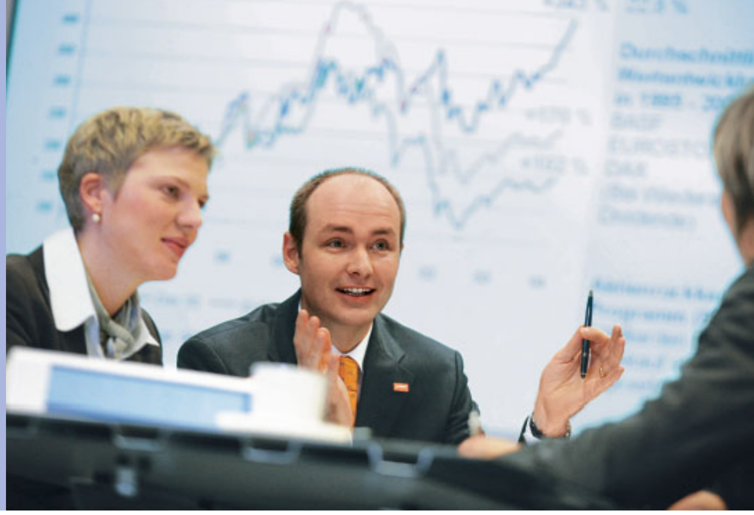
Our corporate strategy aims to create value sustainably. We support this strategy through regular and open communication with all capital market participants. In 2004, we held numerous individual meetings and more than 40 roadshows worldwide to inform institutional investors about the business situation and the further development of our company. We also hold information events to give private investors an insight into the world of BASF. Presentations on the company are available on the Internet at **www.basf.de/share.**

Investment in BASF shares – average annual performance



Dividend





Key BASF share data

	2000	2001	2002	2003	2004
Year-end price (€)	48.17	41.75	36.08	44.58	53.00
Year high (€)	50.68	50.45	49.80	44.58	53.00
Year low (€)	39.40	31.00	32.90	28.41	40.49
Daily trade in shares[1]					
– million €	84.71	108.54	129.67	127.20	121.74
– million shares	1.88	2.48	3.09	3.33	2.71
Number of shares as of December 31 (million shares)	607.40	583.40	570.32	556.64	541.24
Market capitalization as of December 31 (billion €)	29.26	24.36	20.58	24.82	28.69
Earnings per share[2] (€)	2.02	9.72	2.60	1.62	3.43
Dividend per share (€)	2.00[3]	1.30	1.40	1.40	1.70
Dividend yield[4] (%)	4.15	3.11	3.88	3.14	3.21
Key data for BASF ADRs[5]					
Year-end price ($)	44.44	37.91	38.22	55.75	72.02
Year high ($)	44.44	46.73	46.85	55.75	72.02
Year low ($)	34.00	28.80	32.40	32.00	48.42
Daily trade in shares					
– million $	2.37	2.36	3.08	4.54	4.03
– thousand shares	62.10	59.98	78.73	105.32	71.80

[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.

Further information

Stock exchange	Securities code numbers	Ticker symbol
Deutsche Börse	515100	BAS
London Stock Exchange	0083142	BFA
Bourse de Paris	012807	BA
Swiss Exchange	323600	AN
New York Stock Exchange (CUSIP)	055262505	BF (ADR)
ISIN International Stock Identification Number	DE0005151005	

Management's Analysis

Reaching New Heights

Our goal is to grow profitably. Because our strategy aims for long-term success, we achieve a consistently high performance. That means that we are well prepared for the challenges of the future.

BASF Strategy and Value-based Management

Strategies for Value-adding Growth

Chemistry offers enormous opportunities. It is the key to a future that we actively shape. We help our customers to be more successful with a variety of products, applications and intelligent system solutions. Our business activities are governed by innovation and sustainability – to ensure that we will still be the world's leading chemical company in 2015 and beyond.

We are concentrating on and expanding our strengths in our chemical businesses, in agricultural products and nutrition, and in oil and gas. In doing so, we aim to make our portfolio more resilient toward cyclicality and oil price fluctuations.

In addition, we are consistently utilizing technological change to create advantages for BASF. We are using the opportunities afforded by biotechnology, nanomaterials, material sciences and energy-management technologies to offer our customers new or improved properties. In doing so, we open up attractive business opportunities for them and us.

In the area of biotechnology, BASF is, for example, conducting research into plants as "green factories" that can produce specific products. Furthermore, we employ biocatalysis – a technology that utilizes microorganisms or isolated enzymes to produce products from renewable raw materials.

We are also using nanomaterials to tap into new potential. By adding tailor-made nanomaterials to PBT (polybutylene terephthalate) we have significantly improved the flow properties of the plastic during processing. As a result, Ultradur® High Speed reduces the time needed to manufacture components by up to 30% for our customers in the automotive and electronics industries. At the same time, they also save energy because they can use lower processing temperatures and pressures.

Four guidelines for our future

Four strategic guidelines describe BASF's path to the future:

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

Earn a premium on our cost of capital

We earn a premium on our cost of capital to increase the value of BASF. To achieve this goal, we have been expanding on our value-based management strategy since 2003.

EBIT (earnings before interest and taxes) after cost of capital is now the key performance and management indicator for our operating divisions and business units. We measure every business decision and our performance on the basis of how it influences earnings after cost of capital in the short and long term. As a result, all of our employees help us to improve cost structures, use our capital more economically and grow profitably.

We achieve profitable growth through long-term value-adding investments, but above all through innovations. These include successful new products as well as more competitive production processes. They are generated by an efficient innovation process in an environment that supports creativity and entrepreneurship. To obtain the best results from our funds, BASF is concentrating its resources even more closely on those business areas that show the greatest potential for success.

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 aim 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.

Our goal is to increase the benefit of our products and system solutions throughout the value-adding chain. We are therefore looking harder at what our customers, markets and consumers want. In a close dialogue, we also aim to identify requirements that offer us and our customers potential for growth as well as unique selling propositions. The systematic dialogue with our customers plays an important role in this effort: In joint teams, we will look at how we can use our entire knowledge more efficiently to create intelligent solutions that will support our customers' success. To do this, we want to develop innovative business models that are oriented to the needs of our customers and their markets.

Through our Marketing & Sales Academy, we are working to increase the enthusiasm and expertise of its employees worldwide, and thus sharpen customer focus. By supporting this process with networks to enhance knowledge transfer we will also become more attractive for the best management trainees.

Form the best team in industry

Our highly qualified, motivated and committed team of employees are crucial for BASF's success in the global market. Attracting and developing the best talent therefore has a high priority at our company.

We aim to enhance our employees' opportunities for self-learning and learning on the job. In doing so, we utilize novel integrated training concepts as well as new personnel development and qualification systems. To be an attractive employer, we have long used performance-related pay to encourage entrepreneurial thinking and acting. In the future, we will increasingly link pay at all levels to individual performance and the success of the company.

We are taking steps to broaden the international nature of our management team and also develop more women for management positions. By becoming more diverse, we will increase mutual understanding and our ability to tackle problems faster and more creatively. In the area of executive and professional development, we are also paying greater attention to specific leadership skills in addition to technical ability. The Leadership Compass we published in 2004 clearly states what our senior executives undertake to achieve: clarity and a sense of reality, performance and speed, enthusiasm and inspiration, as well as strategic and operational leadership.

Ensure sustainable development

For BASF, sustainable development means combining long-term economic success with environmental protection and social responsibility. This is how we understand our contribution to ensure a better future for us and coming generations. The strategies needed to achieve this are developed and monitored by BASF's Sustainability Council and implemented with the support of regional networks in Asia, the Americas and Europe.

In our view, our social responsibility lies in offering our employees performance-related compensation, investing in their education and life-long learning, and providing flexible, family-oriented arrangements for working hours.

The most important sustainability tools for our customers are our eco-efficiency analysis and our Expert Services Sustainability. The eco-efficiency analysis helps customers to decide which products and processes are best suited to their specific application from both economic and environmental viewpoints. Our Expert Services Sustainability combine our know-how in the fields of Responsible Care and sustainability to provide applications for our customers. Together with marketing and sales, we can thus offer services as well as products. As a result, sustainability pays off in the form of a better market position for our customers and BASF.

Value-based Management at BASF

Our goal is to further increase our corporate value. A key element of our BASF 2015 strategy is therefore to earn a premium on our cost of capital. In order to meet this goal, we have been extending our value-based management concept throughout the BASF Group since the end of 2003.

EBIT after cost of capital

In 2004, we introduced EBIT after cost of capital as the key performance and management indicator for our operating divisions and business units. This allows us to measure business decisions and performance strictly on the basis of cost of capital.

The BASF Group must achieve an EBIT of 10% on its operating assets to satisfy the returns expected by providers of equity and debt, and to cover tax expenses. Based on planned operating assets of €28 billion in 2005, this corresponds to a minimum EBIT of €2.8 billion for the BASF Group.

Calculation of the cost of capital percentage

The cost of capital percentage before interest and taxes of 10 % corresponds to a weighted average cost of capital (WACC) of approximately 6% after taxes. The WACC calculation is an internationally recognized method of determining a company's cost of capital. The return desired by shareholders and interest rates on debt capital are determined and weighted according to their share of total capital. We calculate our cost of equity on the basis of the market value of BASF shares. The cost of capital percentage is reviewed annually.

Implementing value-based management

We also use EBIT after cost of capital as the basis for performance-related compensation. The Board of Executive Directors uses this key performance indicator in its annual planning to set targets for the whole BASF Group, and hence for individual operating divisions and business units. At subsequent levels in the organization, the key performance indicator is broken down into financial and operational value drivers. As a result, value drivers can be agreed as business targets at all levels. Target achievement plays an important role in setting the level of variable compensation.

Training measures are provided globally to ensure that the value-based management concept is implemented throughout the company. These measures aim to provide all employees with the necessary value-based management skills and increase their understanding of business contexts. Key elements include an interactive training program, a business simulation game specially adapted for BASF, and a tailor-made range of seminars on value-based management. In addition, systematic analyses of value drivers show the cause-and-effect relations between operational and financial value drivers and the key performance indicator EBIT after cost of capital and make them easier to understand.

All employees can thus identify their personal contribution to added value and act accordingly. This promotes entrepreneurial thinking and decision-making at all levels throughout BASF.

In 2004, we earned a premium of €1,825 million on our cost of capital.

EBIT after cost of capital is calculated by subtracting income taxes for oil production that are noncompensable with German taxes (€668 million) and the cost of capital (€2,662 million) from the BASF Group's EBIT (€4,856 million). Finally, the EBIT for activities not assigned to the segments (€(299) million) is added, since this is already provided for in the cost of capital percentage. Based on average operating assets of €26.6 billion for the segments in 2004, we achieved an EBIT after cost of capital of €1,825 million and thus created corresponding value for our shareholders.

Economic Environment

- Welcome economic growth due to strong activity in the United States and Asia
- Growth in customer industries stimulates demand for chemicals
- Mid-term growth trend remains solid

1. Trends in the Global Economy and the Chemical Industry in 2004

The recovery that started at the end of 2003 continued during the first half of 2004. Powered by China, Japan and the United States, the global economy expanded suprisingly strongly in the first six months of the year. The rise in oil prices to an average of $38.2/barrel for the year caused growth to level off after the third quarter. The U.S. central bank raised interest rates in the third quarter, after a period of historically low rates. Current leading indicators suggest a slowdown in growth.

Helped by the strong growth in world trade, global **gross domestic product** incresed by an estimated 4.0%, and 2004 may turn out to be one of the strongest years in the last two decades. Europe benefited from this trend as well, due to its export trade.

Global **chemical production** (excluding pharmaceuticals) showed a very positive trend. The striking 5.8% rise in industrial output, especially in Asia and the United States, gave a strong stimulus to chemical demand. In the face of rising oil prices, customer price expectations for chemicals also had a positive effect on demand. Overall, global production rose by 4.4% in 2004.

Gross domestic product
Real change compared with previous year (%)

2003

World	2.8
Western Europe	0.8
United States	2.9
South America	1.5
Asia excl. Japan	6.3
Japan	2.5*

2004 estimate

World	4.0
Western Europe	2.2
United States	4.3
South America	5.5
Asia excl. Japan	6.8
Japan	4.0*

* The values for 2003 and 2004 are corrected in 2005 due to changes in the calculation method by the Japanese Statistics Bureau.

Chemical production (excluding pharmaceuticals)
Real change compared with previous year (%)

2003

World	2.1
Western Europe	(0.2)
United States	0.0*
South America	3.5
Asia excl. Japan	9.1
Japan	1.8

2004 estimate

World	4.4
Western Europe	1.5
United States	4.5*
South America	6.0
Asia excl. Japan	9.7
Japan	2.0

* The values for 2003 and 2004 are corrected in 2005 due to changes in the calculation method by the Federal Reserve Board.

In the **UNITED STATES**, the chemical industry was able to benefit from the recovery despite continuing very high gas prices. Production of both basic and specialty chemicals was especially strong in the first half of the year.

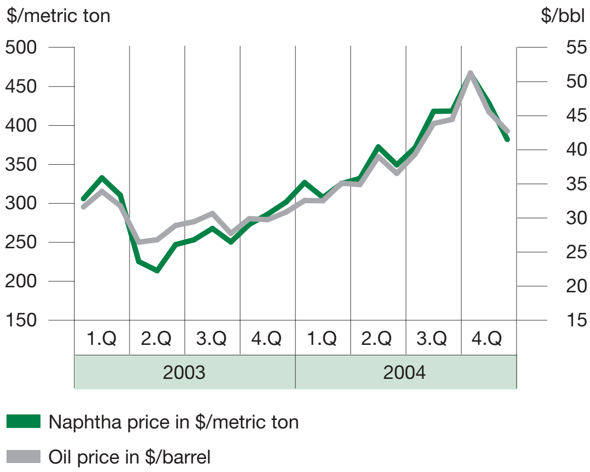
In **WESTERN EUROPE**, chemical production was, as expected, weaker than the global average. Weak domestic demand was offset by strong exports.

Chemical output in **ASIA** continued to expand into the first half of 2004, supported by strong industrial demand. After mid-year, however, there was a slight slowing, in particular in China and India. In some countries, such as China, Malaysia and Singapore, there was a double-digit increase in production rates. With growth of 2.0%, chemical production in Japan, on the other hand, was unable to match the growth rate posted by Japanese industry overall. By contrast, Asia excluding Japan was by far the world's strongest region in 2004 with growth of about 9.7%.

In **SOUTH AMERICA**, chemical production also developed positively after the weak years 2002 and 2003.

CHEMICAL RAW MATERIALS prices rose sharply in the second half of the year, due to the increase in oil prices. Oil peaked at $52/barrel, but prices have dropped sharply since November. The average annual price for crude oil (Brent) rose by 33% to about $38.2/barrel (2003: $28.8/barrel) and for naphtha, our most important raw material, by 38% to $375 per metric ton (2003: $272/metric ton). Due to fierce competition, chemical producer prices have so far not been increased to the full extent necessary.

Price trends for crude oil and naphtha



2. Production Trends in Key Customer Industries in 2004

In 2004, despite sharply rising oil prices in the second half of the year, there was a noticeable acceleration in production, especially for capital goods and high-tech products. Production of consumer goods, on the other hand, was relatively subdued. Industrial output growth has peaked at 5.8% in the current economic cycle at a rate comparable to that of 2000.

- The **AUTOMOTIVE INDUSTRY** profited from the global economic recovery only in Asia, Eastern Europe and South America. The significant rise in oil prices dampened growth in the automotive industry in the United States and Europe.
- The **ELECTRICAL AND ELECTRONICS INDUSTRY** experienced a boom in 2004. The electronics and information technology sectors, in particular, recovered after several years of slow growth. The main driver was renewed investment in the United States and Asia.

- The **TEXTILE INDUSTRY** continued to be a problem sector, with poor prospects in the industrialized countries. While positive economic development slowed the shrinking of the textile industry in Europe and North America, fundamental structural problems persist with regard to competing imports from low-wage countries, most notably Asia.
- The **PAPER INDUSTRY** showed a slight cyclical upturn in 2004, especially in the United States and Europe. Growth was facilitated by the continuing structural transformation in most industrialized countries.
- Stimulus for the **CONSTRUCTION INDUSTRY** in the United States came mainly from residential construction. In Western Europe, however, only a few countries such as Spain and the United Kingdom reported growth in the construction industry. Overall, construction activity continued to improve in the industrialized countries in 2004, despite a declining trend in public spending on construction. In Asia, and in China especially, the construction industry profited from the general economic boom.
- **AGRICULTURE** had above-average growth in 2004. Higher world prices for important agricultural goods had a positive influence on business.

BASF sales by industry
Percentage of sales in 2004

> 15%	Chemicals (not an industry with end users)		
10 – 15%	Automotive Energy Agriculture		
5 – 10%	Construction		
< 5%	Printing Electrical/electronics Health Cosmetics	Leather/shoes Furniture Paper Carpeting	Textiles Packaging Detergents and cleaners

Other industries: approximately 12% in total

Growth in key customer industries
Real change compared with previous year (%)

2004		
Automotive (per-unit basis)	OECD	1.0
	World	4.2
Agriculture	OECD	3.3
	World	3.2
Construction	OECD	3.5
	World	4.0
Electrical/electronics (including IT)	OECD	7.4
	World	10.4
Textiles	OECD	(2.5)
	World	4.4
Paper	OECD	1.4
	World	2.3

3. Outlook

After the strong recovery in 2004, which followed three difficult years of only moderate growth, we continue to see favorable mid-term prospects. The precondition for this is that political trouble spots do not flare up and that there is no sudden downturn in the economic environment.

We have based our business planning for 2005 on the following scenario:

- A decline in oil prices to an average of $35/barrel
- Moderately higher interest rates in 2005 and subsequent years
- An average euro/dollar exchange rate of $1.30 per euro

For the global economy, we expect average gross domestic product to rise 3.2%, with 3.0% per year forecast for the mid term; Europe, however, is likely to continue to show slower growth in spite of its eastward expansion. This is due to offshoring of production, the strong euro compared with the U.S. dollar, and weak consumer spending as a result of structural changes to social security systems.

Outlook for gross domestic product
Real change compared with previous year (%)

2005	
World	3.2
Western Europe	2.0
United States	3.3
South America	3.5
Asia excl. Japan	5.9
Japan	2.3

Trends 2005–2007	
World	3.0
Western Europe	2.1
United States	2.8
South America	3.4
Asia excl. Japan	5.8
Japan	2.2

Outlook for chemical production (excl. pharma)
Real change compared with previous year (%)

2005	
World	3.1
Western Europe	2.0
United States	2.7
South America	4.4
Asia excl. Japan	5.7
Japan	1.5

Trends 2005–2007	
World	2.8
Western Europe	2.0
United States	2.0
South America	3.8
Asia excl. Japan	5.7
Japan	1.3

Trends in the chemical industry

After a very strong year in 2004, growth in the global chemical industry is likely to be slower in the course of 2005 because world trade is losing its momentum and demand from industrial customers is growing more slowly.

In the **UNITED STATES**, the decline in industrial activity is likely to result in slower growth in chemical production.

In contrast to the other regions, the economy in **WESTERN EUROPE** is not expected to peak until 2005. This is due to the continuing increase in industrial demand and a further strong level of exports.

In **JAPAN**, however, chemical production is expected to weaken moderately in 2005.

In **SOUTH AND EAST ASIA**, chemical production is expected to grow much less quickly in 2005. However, we believe that China and India will continue to have very high growth rates.

We anticipate that the strong economic climate in **SOUTH AMERICA** will enable the chemical industry there to post high growth rates in 2005, albeit lower than in 2004.

BASF Group Business Review and Analysis

1. Results of Operations in the BASF Group

- Substantial rise in sales due to volume growth
- Income from operations at record high
- Strongest growth in Chemicals and Plastics segments
- Successful cost-cutting and restructuring measures continued

Overview

Income from operations rose significantly in a positive global economic environment, driven by economic growth in the United States and Asia. We increased production and sales volumes substantially and raised sales prices. In addition, our restructuring measures had a positive effect, enabling us to reduce our fixed costs considerably.

The financial result declined compared with 2003, in particular due to the write-down on our stake in Basell. Net income, however, more than doubled thanks to very strong income from operations compared with 2003.

Sales and earnings

Million €	2004	2003	Change in %
Sales	37,537	33,361	12.5
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	7,326	5,110	43.4
Income from operations (EBIT) before special items	4,893	2,993	63.5
Income from operations (EBIT)	4,856	2,658	82.7
Income from operations (EBIT) as a percentage of sales	12.9	8.0	61.3
Financial result	(837)	(490)	(70.8)
Income before taxes and minority interests	4,019	2,168	85.4
Net income	1,883	910	106.9
Net income as a percentage of sales	5.0	2.7	85.2
Earnings per share (€)	3.43	1.62	111.7
Net income in accordance with U.S. GAAP	1,863	1,320	41.1
Earnings per share in accordance with U.S. GAAP (€)	3.39	2.35	44.3

Sales and earnings by quarter

2004

Million €	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2004
Sales	9,051	9,314	9,314	9,858	37,537
Income from operations (EBIT) before special items	1,138	1,197	1,054	1,504	4,893
Income from operations (EBIT)	1,038	1,181	958	1,679	4,856
Financial result	(60)	(23)	(93)	(661)	(837)
Income before taxes and minority interests	978	1,158	865	1,018	4,019
Net income	515	634	337	397	1,883
Earnings per share (€)	0.93	1.15	0.62	0.73	3.43

2003

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

Sales

Sales in 2004 rose €4,176 million compared with the previous year to €37,537 million. The change in sales was due to the following factors:

	Million €	As % of sales
Volumes	3,147	9.4
Prices	2,197	6.6
Currencies	(1,470)	(4.4)
Acquisitions and additions to the scope of consolidation	549	1.6
Divestitures	(247)	(0.7)
	4,176	**12.5**

Higher sales volumes were achieved mainly in the Chemicals and Plastics segments. Moreover, we were able to pass on higher raw materials costs to the market in the course of the year for many products in our portfolio.

Despite the weakness of the U.S. dollar and currencies in South America and Asia that are tied to the dollar, we increased sales in euros in all regions. In local currency terms, our sales increased by 24.5% in North America (NAFTA) and by 28.0% in Asia.

Acquisitions increased sales by €505 million. This was mainly due to the purchase of the plasticizers business of Sunoco, United States, and the first full-year's sales from the fipronil business from Bayer CropScience and from Honeywell's engineering plastics business, both of which were acquired in 2003. Additions to the scope of consolidation contributed €44 million to sales.

Divestitures reduced comparable sales by €247 million. This was primarily due to the sale of our printing systems business to CVC Capital Partners, the sale of our nylon fibers business to Honeywell in 2003, and to streamlining of the portfolio in the Agricultural Products division.

Income from operations

At €4,856 million, income from operations in 2004 was €2,198 million higher than in the previous year, and as a ratio of sales was 12.9% compared with 8.0% in 2003. This increase was primarily due to higher capacity utilization of our plants as well as fixed cost reductions associated with restructuring measures. The Chemicals, Plastics and Performance Products segments more than doubled their earnings.

Special items

Income from operations in 2004 contained net special charges of €37 million, compared with €335 million in the previous year. The decline was primarily due to the gain from the sale of the printing systems business.

€277 million was incurred for restructuring measures related to steps to increase efficiency as part of the Ludwigshafen Site Project, the further development of our organization in Europe, as well as restructuring in North America (NAFTA). Special items also arose due to portfolio measures and litigation.

The financial result contains a write-down on our 50% stake in Basell.

Special items	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Full year	
Million €	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
– In income from operations	(100)	(2)	(16)	(58)	(96)	(29)	175	(246)	(37)	(335)
– In financial result	(21)	–	(1)	(3)	(16)	(27)	(580)	(133)	(618)	(163)
	(121)	**(2)**	**(17)**	**(61)**	**(112)**	**(56)**	**(405)**	**(379)**	**(655)**	**(498)**

Income before taxes and minority interests

Compared with 2003, income before taxes and minority interests rose by €1,851 million in 2004 to €4,019 million. This increase was due to the substantial improvement in income from operations.

In 2004, the return on assets as a percentage of income before taxes plus interest expenses increased to 12.9%, compared with 7.4% in the previous year.

Net income/earnings per share

Income before taxes and minority interests was €4,019 million and the tax expense was €2,005 million or 50%. After deducting these taxes and minority interests of €131 million, net income was €1,883 million in 2004. In comparison with 2003, net income more than doubled, increasing by €973 million. The tax rate declined by 5 percentage points compared with the previous year. In 2003, a tax refund claim of €124 million had to be written off because of a change in German tax law. In 2004, higher tax-free earnings from the sale of our printing systems business were offset by non-tax-deductible write-downs on participating interests.

Noncompensable foreign income taxes on oil production rose by €163 million to €668 million due to higher oil prices.

Earnings per share in 2004 were €3.43 compared with €1.62 in the previous year. Our income in accordance with U.S. GAAP was €1,863 million or €3.39 per share in 2004, compared with €1,320 million or €2.35 per share in 2003.

Proposed appropriation of profit

BASF Aktiengesellschaft* achieved net income of €1,363 million. The profit carried forward from 2003 is €5 million. After transferring €449 million to other retained earnings, profit retained was €919 million. At the Annual Meeting on April 28, 2005, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €1.70 per qualifying share. If shareholders approve this proposal, the total dividend payable on qualifying shares as of December 31, 2004 will be €919 million. If the number of qualifying shares and the amount of 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

The sales and earnings of the BASF Group are to some extent heavily dependent on the volatility of the U.S. dollar and currencies that are tied to it, and on oil price volatility. In the Agricultural Products and Fine Chemicals divisions and in the Performance Products segment especially, a weaker U.S. dollar may result in negative currency translation effects.

Our planning for 2005 is based on an average euro/dollar exchange rate of $1.30 per euro and an oil price of $35/barrel. We further anticipate that the global economy will not cool off substantially. The precondition for this is that political trouble spots do not flare up and that there is no sudden downturn in the economic environment. We will continue to implement our restructuring, cost reduction and portfolio optimization measures.

These are the prerequisites for business to remain strong. In 2005, we expect to achieve slightly higher sales and follow on from the high level of income from operations (EBIT) before special items posted in 2004. We therefore again expect to earn a premium on our cost of capital.

* The auditors have approved the Consolidated Financial Statements of BASF Aktiengesellschaft free of qualification. The Consolidated Financial Statements are published on the Internet at **www.basf.de/governance_e/reports**. They are also 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 of this report.

2. Balance Sheet Structure

- Total assets almost unchanged despite higher volume of business
- Cash and cash equivalents significantly higher
- €726 million in shares bought back

Assets	2004 Million €	2004 %	2003 %
Intangible assets	3,338	9.9	11.3
Tangible assets	12,444	36.7	38.9
Financial assets	1,912	5.6	7.7
Fixed assets	**17,694**	**52.2**	**57.9**
Inventories	4,626	13.6	12.4
Accounts receivable, trade	5,511	16.3	14.7
Other receivables	2,625	7.7	9.4
Deferred taxes	1,211	3.6	3.7
Liquid funds	2,249	6.6	1.9
Current assets	**16,222**	**47.8**	**42.1**
Total assets	**33,916**	**100.0**	**100.0**

Stockholders' equity and liabilities	2004 Million €	2004 %	2003 %
Paid-in capital	4,406	13.0	13.1
Retained earnings	12,253	36.1	35.9
Currency translation adjustments	(1,225)	(3.6)	(2.9)
Minority interests	331	1.0	1.2
Stockholders' equity	**15,765**	**46.5**	**47.3**
Pension provisions	3,866	11.4	11.5
Long-term provisions	2,343	6.9	7.0
Long-term financial indebtedness	1,851	5.4	8.9
Long-term liabilities	1,045	3.1	3.2
Total long-term liabilities	**9,105**	**26.8**	**30.6**
Short-term financial indebtedness	1,452	4.3	1.5
Accounts payable, trade	2,208	6.5	6.1
Other short-term liabilities and provisions	5,386	15.9	14.5
Total short-term liabilities	**9,046**	**26.7**	**22.1**
Liabilities	**18,151**	**53.5**	**52.7**
Total stockholders' equity and liabilities	**33,916**	**100.0**	**100.0**

BASF's **total assets** rose slightly by €314 million. The reduction in fixed assets almost completely offset higher cash and cash equivalents and increased net working capital requirements due to higher sales.

Fixed assets declined, primarily due to lower financial assets and capital expenditures below the level of depreciation and amortization.

Fixed assets accounted for 52% of total assets and consisted of:

%	2004
• Intangible assets	18.9
• Tangible assets	70.3
• Financial assets	10.8
	100.0

The breakdown of tangible assets, inventories and receivables by region is shown in the following table. The most important **capital expenditures** are explained in Liquidity and Capital Resources on page 30 ff.

	Tangible assets		Inventories		Receivables	
%	2004	2003	2004	2003	2004	2003
Europe	55.3	54.7	52.7	55.9	60.0	60.1
Thereof Germany	38.3	36.8	34.6	33.8	36.8	33.2
North America (NAFTA)	17.9	20.5	28.7	27.4	17.7	17.1
South America	3.3	3.1	5.5	5.0	8.7	8.7
Asia, Pacific Area, Africa	23.5	21.7	13.1	11.7	13.6	14.1
	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Inventories increased by €475 million to €4,626 million as a result of the expansion of business and higher raw materials prices. Their share of total assets was 13.6% compared with 12.4% in 2003. **Trade accounts receivable** rose by 11.2% and their share of assets increased to 16.3% compared with 14.7% in the previous year. The ratio of total current assets to total assets was 47.8%.

Stockholders' equity declined by €113 million. In addition to the payment of dividends, this was due to the continued buy-back of shares as well as negative currency effects. The equity ratio was 46.5% compared with 47.3% in 2003.

The BASF Group's **net debt** fell substantially compared with the previous year as a result of the high cash flow and an inflow of €674 million from divestitures.

Million €	2004	2003
Liquid funds	2,249	628
Financial indebtedness	3,303	3,507
Net debt	1,054	2,879

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

Long-term liabilities declined by €1,180 million to €9,105 million. Their share of total liabilities fell from 30.6% in the previous year to 26.8%. 68.2% of long-term liabilities were in provisions, primarily for pensions. Long-term financial indebtedness declined by €1,144 million to €1,851 million. This was primarily due to the reclassification of BASF Aktiengesellschaft's 5.75% Euro Bond, which matures in 2005, as short-term financial indebtedness.

As a result, **short-term liabilities** rose by 21.6% to €9,046 million. Trade accounts payable also increased to a lesser extent from €2,046 million to €2,208 million.

Key ratios

In 2004, we again improved key ratios, thus laying the foundation for maintaining good credit ratings.

The rating agencies Moody's and Standard & Poor's 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 ratings from Standard & Poor's are A1+ short-term, and AA- long-term.

Horizontal balance sheet ratios

			2004	2003
Fixed asset coverage I (%)	=	Stockholders' equity* / Fixed assets	84	78
Fixed asset coverage II (%)	=	Stockholders' equity* + Long-term liabilities / Fixed assets	135	130
Fixed asset coverage III (%)	=	Stockholders' equity* + Long-term liabilities / Fixed assets + Inventories	107	107

* Less proposed dividend

Liquidity and debt ratios

			2004	2003
Liquidity I (%)	=	Short-term receivables + Liquid funds / Short-term liabilities + Proposed dividend	104	103
Liquidity II (%)	=	Current assets / Short-term liabilities + Proposed dividend	150	154
Dynamic debt level (%)	=	Cash provided by operating activities / Long- and short-term financial indebtedness	137	139
Debt-equity ratio (%)	=	Long- and short-term financial indebtedness / Long- and short-term financial indebtedness + Stockholders' equity	17.3	18.1

Interest coverage

			2004	2003
EBITDA interest coverage	=	Income from operations before interest, taxes, depreciation and amortization / Interest expense	21.1	14.0

3. Liquidity and Capital Resources

- Cash provided by operating activities remains high
- Capital expenditures, dividend payments and share buy-backs financed from cash provided by operating activities
- Cash inflows from portfolio measures
- Capital expenditures again below level of depreciation and amortization in 2004

Statements of cash flows

Million €	2004	2003
Net income	1,883	910
Depreciation and amortization	3,097	2,682
Change in net working capital	(199)	1,118
Miscellaneous items	(270)	168
Cash provided by operating activities	**4,511**	**4,878**
Payments related to tangible and intangible fixed assets	(1,934)	(2,071)
Acquisitions/divestitures, net	570	(1,394)
Financial investment and other items	254	205
Cash used in investing activities	**(1,110)**	**(3,260)**
Capital increases/repayments	(781)	(500)
Changes in financial indebtedness	(203)	(2)
Dividends	(852)	(857)
Cash used in financing activities	**(1,836)**	**(1,359)**
Net changes in cash and cash equivalents	1,565	259
Cash and cash equivalents as of beginning of year and other changes	521	222
Cash and cash equivalents	**2,086**	**481**
Marketable securities	163	147
Liquid funds	**2,249**	**628**

Cash provided by operating activities

In 2004, cash provided by operating activities was again high at €4,511 million. This was due primarily to the increase in earnings. Despite the considerable expansion in business, it was possible to maintain net working capital at a low level. In 2003, substantial funds were released, mainly through inventory reductions and shortened payment terms. "Miscellaneous items" primarily reflects the reclassification of gains from divestitures, which are included as part of cash inflows in cash used in investing activities.

Cash used in investing activities

Cash used in investing activities amounted to €(1,110) million. The significant decline was due primarily to cash inflows from portfolio measures, whereas in the previous year there was a cash outflow for the acquisition of the fipronil business.

We spent €1,934 million on additions to tangible and intangible assets. We again reduced spending compared with the previous year, bringing it significantly below the level of depreciation and amortization.

Expenditures for acquisitions totaled €104 million, and proceeds from divestitures amounted to €674 million. Important transactions included the acquisition of the plasticizer business from Sunoco, United States. Cash inflows from divestitures were mainly related to the sale of the printing systems business.

Changes in financial assets, marketable securities and financial receivables resulted in an outflow of €204 million. The sale and disposal of fixed assets and marketable securities generated proceeds of €458 million.

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

%	2004	2003
Europe	56	66
North America (NAFTA)	13	13
South America	4	2
Asia, Pacific Area, Africa	27	19
	100	**100**

In the **CHEMICALS SEGMENT**, investments and acquisitions in 2004 rose by 5.3% compared with 2003 to €555 million. Major projects included:

- Construction of a Verbund site with our partner SINOPEC in Nanjing, China;
- Construction of a THF/PolyTHF® plant in Caojing, China;
- Startup of a C_4 complex associated with the steam cracker in Port Arthur, Texas;
- Startup of a butanediol plant at the Verbund site in Kuantan, Malaysia; and
- Acquisition of the U.S. plasticizers business of Sunoco, United States, to strengthen our plasticizers business in North America.

In the **PLASTICS SEGMENT** we spent €454 million on capital expenditures and acquisitions in 2004. This was a decline of 15.8% compared with the previous year. Among the important projects were:

- Startup of an ABS plant in Antwerp, Belgium;
- Startup of expanded MDI production capacity in Yeosu, South Korea;
- Transfer of Styropor® production from the United States to Altamira, Mexico;
- Expansion of Ultrason® production in Ludwigshafen, Germany; and
- Acquisition of the polyurethane business of Systemhaus Lagomat, Sweden, and the polyurethane foam producer Foam Enterprises, United States.

In the **PERFORMANCE PRODUCTS SEGMENT**, investments increased by 21.2% in 2004 to €286 million. The most important investment project was the construction of plants for acrylic acid and acrylates at the new Verbund site in Nanjing, China.

In the **AGRICULTURAL PRODUCTS AND NUTRITION SEGMENT**, we spent €232 million on capital expenditures and acquisitions in 2004 compared with €1,273 million in 2003. Acquisitions in 2003 primarily included the purchase of the insecticide fipronil and selected fungicides from Bayer CropScience.

The **Agricultural Products** division invested €95 million, mainly in optimization measures at various sites.

The **Fine Chemicals** division spent €137 million on capital expenditures in 2004. Major projects included:

- Expansion of plants for vitamin E precursors in Ludwigshafen, Germany;
- Startup of a new plant for citral in Ludwigshafen;
- Expansion of capacities for crospovidones and for UV absorbers in Ludwigshafen and for pharmaceutical chemicals in Minden, Germany.

In the **OIL & GAS SEGMENT**, we invested €374 million in 2004 compared with €323 million in 2003. Most capital expenditures were in the exploration and production business sector. Key projects were:

- Developing new natural gas deposits in the Dutch North Sea and in Argentina;
- Expanding and optimizing hydrocarbon production in Libya; and
- Continuing expansion of our Mittelplate offshore oil field in the German North Sea.

Cash used in financing activities

Cash used in financing activities was €1,836 million in 2004. We spent a total of €726 million to buy back 16.2 million shares at an average price of €44.79 per share (see page 11).

We paid out €852 million in dividends and profit transfers in 2004. Of this amount, €774 million or €1.40 per share was for dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2003. €78 million in profits was paid or transferred to shareholders of fully or proportionately consolidated companies.

Financial indebtedness declined compared with 2003 and amounted to €3,303 million. At €1,054 million, net debt was significantly lower because of the increase in liquid assets. Financial indebtedness is discussed in detail in Note 23 to the Consolidated Financial Statements.

Liquid funds

Liquid funds at the end of 2004 increased significantly to €2,249 million. Their proportion of total assets increased to 6.6%.

Commitments for investments

In 2005, we are planning capital expenditures of €1.7 billion. Of this amount, 57% is scheduled to be invested in Europe, 14% in North America (NAFTA), 4% in South America and 25% in the Asia, Pacific Area, Africa region. Major projects are as follows:

CHEMICALS SEGMENT

- Startup of a steam cracker at the new Verbund site under construction in Nanjing, China;
- Startup of plants for oxo alcohols, ethylene oxide and glycol, methylamines, dimethylformamide, formic acid and propionic acid at the Verbund site in Nanjing, China; and
- Startup of 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;
- Construction of a site for producing polyurethane specialties in Pudong, China;
- Expansion of our MDI production plants in Antwerp, Belgium;
- Expansion of the compounding plant for engineering plastics in Pasir Gudang, Malaysia; and
- Construction of a compounding plant for engineering plastics in Pudong, China.

PERFORMANCE PRODUCTS SEGMENT

- Startup of plants for acrylic acid and acrylates at the new Verbund site in Nanjing, China;
- Construction of a plant for raw materials for HDI-based coatings at the site in Caojing, China; and
- Construction of a plant for super absorbers in Freeport, Texas.

AGRICULTURAL PRODUCTS AND NUTRITION SEGMENT

- Construction of a feed enzyme plant in Ludwigshafen;
- Construction of plants for geraniol and linalool in Ludwigshafen;
- Completion of the new plants for UV absorbers in Ludwigshafen and for pharmaceutical chemicals in Minden, Germany.

OIL & GAS SEGMENT

- Pipeline connection to the Mittelplate offshore oil field in Germany;
- Development of new natural gas reserves in the Dutch North Sea and in Argentina;
- Development of new oil fields in Libya and expansion of existing ones;
- Start of development of the Achimov horizon in an area of the Urengoy gas field in Russia; and
- Debottlenecking of the STEGAL natural gas pipeline.

4. Results of Operations by Segment

Segment overview	Sales		Income from operations before interest, taxes, depreciation and amortization (EBITDA)		Income from operations (EBIT) before special items	
Million €	2004	2003	2004	2003	2004	2003
Chemicals	7,020	5,752	1,746	928	1,334	500
Plastics	10,532	8,787	1,150	794	727	363
Performance Products	8,005	7,633	1,442	907	790	568
Agricultural Products & Nutrition	5,147	5,021	1,046	881	645	427
Thereof Agricultural Products	3,354	3,176	860	625	556	294
Fine Chemicals	1,793	1,845	186	256	89	133
Oil & Gas	5,263	4,791	2,075	1,734	1,647	1,365
Other*	1,570	1,377	(133)	(134)	(250)	(230)
Thereof costs of exploratory and biotechnological research	–	–	–	–	(145)	(181)
	37,537	33,361	7,326	5,110	4,893	2,993

Segment overview	Income from operations (EBIT)		Assets		Capital expenditures**	
Million €	2004	2003	2004	2003	2004	2003
Chemicals	1,241	393	5,008	4,720	555	527
Plastics	669	296	6,044	5,598	454	539
Performance Products	1,068	478	4,426	4,656	286	236
Agricultural Products & Nutrition	540	359	6,118	6,826	232	1,273
Thereof Agricultural Products	492	234	4,849	5,523	95	1,133
Fine Chemicals	48	125	1,269	1,303	137	140
Oil & Gas	1,637	1,365	3,876	3,711	374	323
Other*	(299)	(233)	8,444	8,091	139	518
Thereof costs of exploratory and biotechnological research	(145)	(181)	–	–	–	–
	4,856	2,658	33,916	33,602	2,040	3,416

* "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 (€(41) million, previous year €(1) million).

** Capital expenditures in tangible assets (thereof €59 million from acquisitions in 2004) and intangible assets (thereof €33 million from acquisitions in 2004).

Sales	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	2004	2003	2004	2003	2004	2003	2004	2003
Chemicals	1,582	1,519	1,748	1,433	1,811	1,367	1,879	1,433
Plastics	2,307	2,283	2,522	2,177	2,827	2,135	2,876	2,192
Performance Products	1,929	1,907	2,029	1,911	2,068	1,930	1,979	1,885
Agricultural Products & Nutrition	1,441	1,296	1,527	1,505	1,035	1,054	1,144	1,166
Thereof Agricultural Products	983	833	1,071	1,051	591	585	709	707
Fine Chemicals	458	463	456	454	444	469	435	459
Oil & Gas	1,394	1,483	1,090	928	1,163	927	1,616	1,453
Other*	398	344	398	295	410	327	364	411
	9,051	**8,832**	**9,314**	**8,249**	**9,314**	**7,740**	**9,858**	**8,540**

Income from operations (EBIT) before special items	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	2004	2003	2004	2003	2004	2003	2004	2003
Chemicals	245	145	333	134	331	101	425	120
Plastics	150	110	172	76	158	67	247	110
Performance Products	196	142	217	145	192	144	185	137
Agricultural Products & Nutrition	269	237	241	209	(36)	(97)	171	78
Thereof Agricultural Products	227	196	212	171	(44)	(120)	161	47
Fine Chemicals	42	41	29	38	8	23	10	31
Oil & Gas	343	404	339	278	458	271	507	412
Other*	(65)	(94)	(105)	(10)	(49)	(83)	(31)	(43)
	1,138	**944**	**1,197**	**832**	**1,054**	**403**	**1,504**	**814**

Income from operations (EBIT)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	2004	2003	2004	2003	2004	2003	2004	2003
Chemicals	228	144	328	127	302	99	383	23
Plastics	149	109	163	67	147	64	210	56
Performance Products	189	143	214	136	190	135	475	64
Agricultural Products & Nutrition	249	236	236	181	(66)	(114)	121	56
Thereof Agricultural Products	207	192	208	144	(62)	(138)	139	36
Fine Chemicals	42	44	28	37	(4)	24	(18)	20
Oil & Gas	343	404	346	278	458	271	490	412
Other*	(120)	(94)	(106)	(15)	(73)	(81)	0	(43)
	1,038	**942**	**1,181**	**774**	**958**	**374**	**1,679**	**568**

* "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 (€(41) million, previous year €(1) million).

Chemicals

- **Significant increase in sales due to higher volumes and adjustment of sales prices to reflect higher raw materials costs**
- **Good capacity utilization; income from operations more than triples**
- **U.S. plasticizers business strengthened through acquisition**

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

Segment data

Million €	2004	2003	Change in %
Sales to third parties	7,020	5,752	22.0
Thereof Inorganics	844	738	14.4
Petrochemicals	4,189	3,264	28.3
Intermediates	1,987	1,750	13.5
Intersegmental transfers	3,395	2,680	26.7
Sales including intersegmental transfers	10,415	8,432	23.5
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,746	928	88.1
Income from operations (EBIT) before special items	1,334	500	166.8
Income from operations (EBIT)	1,241	393	215.8
Operating margin (%)	17.7	6.8	160.3
Assets	5,008	4,720	6.1
Return on operating assets (%)	25.5	8.1	214.8
Research and development expenses	104	108	(3.7)
Additions to tangible and intangible assets	555	527	5.3

In 2004, we increased sales to third parties by €1,268 million compared with the previous year to €7,020 million, (volumes 13%, portfolio 4%, prices 10%, currencies –5%). All three divisions contributed to higher sales.

All three divisions also contributed to the increase in income from operations, which rose by €848 million to €1,241 million. Strong demand made it possible to pass on higher raw materials prices to customers in many product lines. Together with productivity gains resulting from continued rationalization, this led to an improvement in margins compared with the weak previous year.

At €5,008 million, assets were €288 million higher than in 2003. We strengthened our business with plasticizers in the United States by acquiring the plasticizer activities of Sunoco, United States. In Port Arthur, Texas, we started up a C_4 complex together with our partners Total Petrochemicals, United States, and Shell, United States. This complex will help to supply BASF in North America (NAFTA) with the important raw materials butadiene and propylene, and is closely linked with the cracker that we operate at the same site together with Total Petrochemicals.

The new BASIL™ process results in liquid salts.

In 2004, we also started operations at the new butanediol plant at our site in Kuantan, Malaysia. In the future, it will also supply the new PBT (polybutylene terephthalate) plant we are building at this site with our joint venture partner Toray, Japan.

In the Petrochemicals and Intermediates divisions, investment projects at the new Verbund site in Nanjing, China, and in Caojing, China, are moving ahead as scheduled. In 2005, a number of world-scale plants will start operations at these sites, making a substantial contribution to our production in the high-growth Asian region.

In 2005, we expect sales at the previous year's level. While we anticipate demand to remain strong, we expect a decline in crude oil prices and a weaker U.S. dollar. Startup costs for the new plants in Nanjing and Caojing are likely to negatively impact income from operations. We nevertheless expect to achieve income from operations at the previous year's level.

Inorganics

In 2004, we increased sales to third parties by €106 million to €844 million (volumes 12%, portfolio 3%, prices 1%, currencies –2%).

The sales growth was due primarily to strong volume demand, which was aided by a marked upturn in key customer industries such as electronics and the wood products industries.

As a result of the increase in sales, we significantly improved income from operations, which was negatively impacted by the need to convert part of the chlorine facilities to a membrane technology in 2003. All business units in the division contributed to the improvement in earnings in 2004. The persistent weakness of the U.S. dollar had a negative impact on earnings in 2004.

The integration of the inorganic specialties business in Evans City, Pennsylvania, which was acquired from the Mine Safety Appliances Company, United States, was successfully completed in the second quarter of 2004. With this acquisition, we expanded our portfolio of profitable and fast-growing specialties based on boron and potassium, which are mainly used in the production of pharmaceuticals and herbicides. In addition, there are a number of further applications, for example in the electronics and automotive industries.

Another example of successful implementation of our customer-oriented specialty strategy is our market leadership in carbonyl iron powder, an important product for making diamond tools and electronic components.

In 2005, we expect sales to remain unchanged compared with 2004. We expect income from operations to decline from the strong level posted in 2004 due to narrower margins. We intend to continue to expand profitable business areas in innovative specialties such as catalysts, electronic grade chemicals and powder injection molding technology.

Petrochemicals

In 2004, we significantly increased sales to third parties by €925 million to €4,189 million (volumes 15%, portfolio 5%, prices 14%, currencies –6%). This was mainly due to higher sales of cracker products in Europe and North America (NAFTA) as well as growth in alkylene oxides and glycols. The plasticizers and solvents product lines also posted significantly stronger sales.

Income from operations improved considerably compared with 2003 because of strong business growth and high availability of production capacity. The prices of some raw materials were much higher and very volatile, and prices of crude oil and naphtha reached record levels. We were largely able to pass these changes on to customers in the form of price increases. In addition, high capacity utilization resulted in margin improvements and led to strong earnings growth.

Our investment projects were completed as scheduled. In Port Arthur, Texas, we completed and started up a C_4 complex. This complex consists of a butadiene extraction and inalkylation facility as part of our SABINA joint venture with our partners Shell, United States, and Total Petrochemicals, United States, as well as an OCU (olefins conversion unit; metathesis) as part of our cracker joint venture with Total Petrochemicals.

The acquisition of the plasticizers business of Sunoco, United States, in January 2004 enabled us to substantially improve our market position in this business in North America (NAFTA).

In addition, we are investing together with our partner SINOPEC, China, in the new Verbund site in Nanjing, China, which will start operations in 2005.

In 2005, we expect sales at the same level as in 2004. The effects of lower crude oil prices and the additional business from our new plants in Nanjing, China, will probably offset one another. The startup costs at this new site are likely to negatively impact income from operations. Neverthless, we anticipate margins to improve and earnings to match the very strong level achieved in 2004.

Intermediates
In 2004, we increased net sales to third parties by €237 million to €1,987 million (volumes 10%, portfolio 3%, prices 5%, currencies –4%). We particularly increased sales volumes in Asia. All product areas contributed to global sales growth.

We significantly increased income from operations compared with 2003. Strong demand in Asia reduced import pressures on margins and market share in Europe. In almost all product lines, we increased prices globally to improve our margins. Income from operations also improved due to the reduction of fixed costs, especially in production in Ludwigshafen, and due to a consistent focus on adding value rather than increasing volumes.

Capital expenditures were at the previous year's level, and investments again concentrated on Asia: We are building integrated production plants for tetrahydrofuran (THF) and PolyTHF® in Caojing, China, and plants for methylamine, dimethylformamide and formic acid and propionic acid in Nanjing, China. In early 2004, we started operations at the butanediol plant of BASF PETRONAS Chemicals (BASF share: 60%) in Kuantan, Malaysia.

On a comparable basis, we expect higher sales in 2005, again mainly in Asia. Because of the startup costs for plants in Nanjing and Caojing, China, we do not expect to quite match the 2004 level of income from operations.

Plastics

- Substantial increase in sales from higher volumes and price increases
- Income from operations doubled due to higher volumes and fixed cost reductions
- Massive increases in raw materials prices
- Product and industry-specific business models implemented

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

Segment data

Million €	2004	2003	Change in %
Sales to third parties	10,532	8,787	19.9
Thereof Styrenics	4,450	3,626	22.7
Performance Polymers	2,587	2,239	15.5
Polyurethanes	3,495	2,922	19.6
Intersegmental transfers	677	541	25.1
Sales including intersegmental transfers	11,209	9,328	20.2
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,150	794	44.8
Income from operations (EBIT) before special items	727	363	100.3
Income from operations (EBIT)	669	296	126.0
Operating margin (%)	6.4	3.4	88.2
Assets	6,044	5,598	8.0
Return on operating assets (%)	11.5	5.0	130.0
Research and development expenses	138	142	(2.8)
Additions to tangible and intangible assets	454	539	(15.8)

Sales to third parties rose by €1,745 million to €10,532 million in 2004 (volumes 9%, portfolio 1%, prices 15%, currencies –5%).

Income from operations rose by €373 million to €669 million compared with the weak level in 2003. We improved sales and earnings in all divisions. The segment's income from operations increased mainly due to higher volumes and lower fixed costs as a result of restructuring measures. In the Performance Polymers division in particular, earnings improved significantly compared with the previous year's very weak performance.

We increased prices considerably during the year to pass on the significantly higher costs of raw materials. However, margins remain less than satisfactory because it was not possible to fully offset the increase in raw materials costs.

Earnings were negatively impacted by special charges for restructuring measures, as well as special write-offs.

We reduced capital expenditures in 2004. The segment's assets increased, with inventories and receivables rising substantially because of much higher sales volumes and prices compared with 2003.

In 2004, we continued to reposition our plastics business. Key issues were the implementation of product and industry-specific business models and the long-term optimization of our regional portfolio. We have significantly expanded our position in Asia using new plants. In Europe, we continued to optimize our structures, and in North America (NAFTA) and South America, we further consolidated our production structures.

For 2005, we expect sales to remain at the high level of 2004 and a further improvement in income from operations.

Styrenics

In the Styrenics division, sales to third parties in 2004 rose by €824 million to €4,450 million compared with the previous year (volumes 4%, prices 25%, currencies –6%). The strong rise in raw materials prices since the start of the year could be passed on to customers only after some delay, resulting in significant sales growth in the second half of the year.

Income from operations exceeded the previous year's weak level. The rapid rise in raw materials prices depressed margins significantly, especially in the first half of the year. We reduced fixed costs as part of the reorientation of our business model and – in the second half of the year – passed on higher raw material costs to some extent to our customers. These measures resulted in income from operations that was higher than the previous year in all four quarters, but which is still not satisfactory.

We continued to consolidate activities in 2004. We are producing and marketing standard products to a greater extent using a commodity business model. Standard products are being separated from specialties, and the streamlined product range will be manufactured and sold at lower costs and prices. With the startup of the new ABS plant in Antwerp, Belgium, we are concentrating our ABS offering in Europe on standard products. We want to produce fewer than 10 products at our three world-scale plants. Specialties will be marketed globally in order to achieve additional growth and better earnings with new applications and innovative products.

In 2005, we expect sales to decline slightly. Income from operations is expected to be at the previous year's level due to the continued optimization of our structures.

Performance Polymers

In 2004, sales to third parties rose by €348 million to €2,587 million (volumes 11%, prices 10%, currencies –5%). Sales were higher in all regions.

Income from operations improved significantly despite the substantial rise in raw materials prices. This was due mainly to the further reduction of fixed costs as well as higher sales volumes and the resulting increase in capacity utilization to almost maximum levels.

Polyurethanes for the Chinese growth market – for example for sport shoes.

For intermediate products and extrusion grades in particular, higher raw materials prices were largely passed on to the customer; this was only partially possible for engineering plastics used in injection molding, however. The reduction of fixed costs is primarily due to our successful measures in North America (NAFTA). In this region, we have further improved cost structures by divesting the fibers business, acquiring Honeywell's engineering plastics, and continuing restructuring measures.

The successful integration of the businesses acquired from Honeywell, United States, and Ticona, United States, has strengthened our global market position in engineering plastics. As part of this strategy, we are expanding our production capacities in the Asian growth market. We are building a production plant for PBT in Kuantan, Malaysia, as part of the joint venture with Toray, Japan, that we founded in early 2004. To extend our capacities for compounding engineering plastics, we want to significantly expand our plant in Pasir Gudang, Malaysia, in 2005 and build a new plant in Pudong, China, by 2006.

In 2005, we are expecting moderately higher sales and a slight improvement in income from operations on the basis of continuing strong volume demand and further fixed cost reductions.

Polyurethanes

Sales to third parties in 2004 rose by €573 million to €3,495 million (volumes 15%, portfolio 2%, prices 8%, currencies –5%). Sales volumes grew strongest in Asia, where we expanded production capacity, but also increased in North America (NAFTA) and in Europe. Income from operations increased compared with 2003 despite very high raw materials costs. This was due mainly to significantly higher sales volumes at unchanged fixed costs.

Our capital expenditures were again focused on Asia. At our production site in Yeosu, South Korea, we increased the output of our MDI plant. This expanded facility will enable us to achieve an even greater share of growth in the Asian markets. In Caojing, China, construction of the new production site is progressing. Working with our joint venture partners, we want to complete an additional integrated production facility for MDI and TDI by 2006. This facility will provide the necessary starting materials for the production of specialties in Pudong, China, which is scheduled to start in 2007.

In 2005, we are expecting a slight increase in sales and an improvement in income from operations as a result of strong growth in the global polyurethanes market as well as improved margins resulting from higher raw materials costs being passed on to customers to some extent.

Performance Products

- **Sales increase due to strong demand in key customer industries**
- **Income from operations rises due to higher capacity utilization and a reduction in fixed costs**
- **Special income from the sale of the printing systems business**

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

Segment data

Million €	2004	2003	Change in %
Sales to third parties	8,005	7,633	4.9
Thereof Performance Chemicals	3,228	3,147	2.6
Coatings	2,022	2,015	0.3
Functional Polymers	2,755	2,471	11.5
Intersegmental transfers	291	301	(3.3)
Sales including intersegmental transfers	8,296	7,934	4.6
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,442	907	59.0
Income from operations (EBIT) before special items	790	568	39.1
Income from operations (EBIT)	1,068	478	123.4
Operating margin (%)	13.3	6.3	111.1
Assets	4,426	4,656	(4.9)
Return on operating assets (%)	23.5	9.7	142.3
Research and development expenses	221	240	(7.9)
Additions to tangible and intangible assets	286	236	21.2

Thanks to strong demand for our products, sales to third parties rose by €372 million compared with 2003 to €8,005 million (volumes 8%, prices 1%, currencies –4%). Demand was especially strong for products from the acrylic acid value-adding chain.

Income from operations rose considerably by €590 million to €1,068 million as a result of higher capacity utilization and the reduction of fixed costs in all divisions. Income from operations contains the special income from the sale of the printing systems business.

We significantly reduced the segment's assets from €4,656 million in 2003 to €4,426 million as a result of the divestiture of the printing systems business. Capital expenditures increased by €50 million to €286 million.

In 2005, we anticipate a slight rise in sales and income from operations on a comparable basis.

Performance Chemicals

At €3,228 million, sales to third parties rose by €81 million in 2004 compared with the previous year (volumes 8%, portfolio –1%, prices –1%, currencies –3%).

Innovative fuel additives
cut emissions.

In particular, performance chemicals for detergents and formulators significantly exceeded the previous year's sales.

We improved income from operations in all product groups, in particular by lowering fixed costs. The significant increase in raw materials costs could not be passed on to our customers in the form of price increases, and so margins declined slightly overall.

Special income from the sale of our printing systems business additionally increased earnings.

We again significantly reduced inventories and receivables on average for the year.

In 2005, we expect that the positive sales trend will continue and that we will further improve income from operations on a comparable basis.

Coatings

Sales to third parties in 2004 rose slightly by €7 million to €2,022 million (volumes 4%, portfolio 1%, prices –2%, currencies –3%). Ignoring currency translation effects, all regions contributed to the increase in sales.

We considerably increased income from operations compared with 2003, despite significantly higher raw materials prices and negative currency effects. All product lines contributed to higher earnings; in particular, industrial coatings improved significantly. The restructuring measures in this area have been very successful. As part of these measures, we optimized our portfolio by exchanging our window and exterior door coatings business for the agricultural and construction machinery paints business of Akzo Nobel, the Netherlands.

In automobile coatings, we benefited from our increased market share in the European market. This was aided by our system supplier concept, which we use to optimize the overall costs of coating processes for our customers. The impact of stagnation in the automobile industry was felt in North America (NAFTA).

In refinish coatings, we posted an increase in sales and earnings. In the architectural coatings business in South America, we maintained market leadership with our Suvinil® brand and improved earnings.

In 2005, we intend to further increase sales and income from operations. 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 €2,755 million, sales to third parties in 2004 were up €284 million and were significantly higher than in 2003 (volumes 10%, prices 6%, currencies –4%). We were able to improve sales in all regions due to higher sales volumes. Acrylic monomers were the key growth drivers, but demand was also strong for dispersions for architectural coatings, adhesives, fiber bonding and paper finishing. Our strategy of focusing on key customers with above-average growth potential made a solid contribution to the positive sales trend.

Income from operations was significantly higher than in 2003. All product groups contributed to this growth, operating at high capacity utilization. In addition, the restructuring measures implemented in previous years enabled us to reduce fixed costs significantly. Higher raw materials prices could largely be passed on to customers in the form of price increases in most product groups.

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

As a result of continued good volume demand, we expect sales in 2005 to remain at the previous year's level. Income from operations is likely to decline slightly due to the startup costs for our plants at the site in Nanjing, China.

Agricultural Products & Nutrition

- **Significant increase in income from operations in Agricultural Products; mid-term EBITDA return goal already significantly exceeded in 2004**
- **New agricultural products successfully launched**
- **Fine Chemicals impacted by weak U.S. dollar and overcapacities**
- **Higher sales volumes and continued reduction of fixed costs in Fine Chemicals**

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

Agricultural Products

Operating division data

Million €	2004	2003	Change in %
Sales to third parties	3,354	3,176	5.6
Intersegmental transfers	26	24	8.3
Sales including intersegmental transfers	3,380	3,200	5.6
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	860	625	37.6
Income from operations (EBIT) before special items	556	294	89.1
Income from operations (EBIT)	492	234	110.3
Operating margin (%)	14.7	7.4	98.6
Assets	4,849	5,523	(12.2)
Return on operating assets (%)	9.5	4.4	115.9
Research and development expenses	273	239	14.2
Additions to tangible and intangible assets	95	1,133	(91.6)

Sales in 2004 rose by €178 million to €3,354 million (volumes 9%, portfolio 1%, currencies –4%). The launch of new products, increased prices for a higher-value product range and portfolio measures to focus our activities on attractive markets all contributed to the sales growth. Sales rose as a result of the fipronil insecticide and selected fungicides business acquired from Bayer CropScience in March 2003. Conversely, sales were reduced by the sale of the soil improvement products business to Kanesho Soil Treatment, Belgium, in December 2003 and the sale of our phenoxy herbicide business to Nufarm, Australia, in March 2004. The weak U.S. dollar had a negative effect on sales.

The aroma chemical citral
has a lemony scent.

Higher demand for our products positively affected business in all regions. In Europe, sales by location of company rose by 3% to €1,559 million. In North America (NAFTA), sales increased in local currency terms, but declined by 2% to €869 million as a result of the weaker U.S. dollar. In South America, we increased sales by 36% to €683 million with new products, despite negative currency effects. Our fungicide Opera®, which contains the active ingredient F 500®, has achieved market leadership in South America in only two years. Opera is successfully used to combat Asian soybean rust, a fungal disease that can severely threaten soybean yields, in particular in Brazil. Opera also helps to increase crop yields by improving general plant health. In Asia, sales declined by 12% to €243 million because of portfolio measures and currency effects.

We increased income from operations by €258 million to €492 million. Positive effects on earnings resulting from higher demand – in particular for our high-value, innovative products – outweighed negative currency effects. Special charges were primarily related to expenses for lawsuits in the United States (see Note 25 to the Consolidated Financial Statements) and provisions for restructuring. They were partially offset by the net gain from the sale of phenoxy herbicides to Nufarm, Australia. In 2004, we surpassed our medium-term goal of achieving an EBITDA return on sales before special items of 25% sooner than expected with 27.2%.

We optimized total assets by €674 million to €4,849 million, in particular by further reducing current assets. We deliver to our customers closer to the application period, thereby optimizing our inventory and receivables management.

We increased research and development expenses by €34 million to €273 million. Research into active ingredients for insecticides and fungicides has been intensified. Research spending also increased due to the reclassification of plant biotechnology expenses. As a percentage of sales, research and development expenses amounted to 8.1%, compared with 7.5% in 2003.

Our researchers are currently working to develop six new crop protection active ingredients, on a new herbicide tolerance project and on numerous products to protect seeds with active ingredients that have already been launched. These product innovations will be ready for market in the coming years and have a peak sales potential of €700 million. A further seven crop protection active ingredients with a peak sales potential of €1 billion are currently being introduced to the market. Of these, F 500® and boscalid in particular developed better than expected and in 2004 helped us achieve approximately 60% of the peak sales potential planned with the active ingredients in market launch.

In 2005, we expect sales at the previous year's level based on a normal agricultural season. We anticipate income from operations to improve in a market that continues to be intensely competitive. The growing proportion of high-value, innovative products will likely contribute to this achievement, as will measures to optimize our operational processes.

Fine Chemicals

Operating division data

Million €	2004	2003	Change in %
Sales to third parties	1,793	1,845	(2.8)
Intersegmental transfers	30	20	50.0
Sales including intersegmental transfers	1,823	1,865	(2.3)
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	186	256	(27.3)
Income from operations (EBIT) before special items	89	133	(33.1)
Income from operations (EBIT)	48	125	(61.6)
Operating margin (%)	2.7	6.8	(60.3)
Assets	1,269	1,303	(2.6)
Return on operating assets (%)	3.7	9.3	(60.2)
Research and development expenses	92	70	31.4
Additions to tangible and intangible assets	137	140	(2.1)

Sales to third parties declined by €52 million to €1,793 million in 2004 (volumes 6%, prices –4%, currencies –4%). For many products, we experienced further volume growth as prices declined, in part as a result of currency effects. The human nutrition business was affected by significant declines in sales of water-soluble vitamins, mainly due to a fall in prices for vitamin C and the exit from unprofitable businesses. The pharmaceutical solutions product lines all performed well, as did UV absorbers, aroma chemicals and organic acids. In the animal nutrition business, lysine prices and sales increased on average over the course of the year even though they have declined significantly recently; the prices of most vitamins fell in euro terms.

Income from operations and sales were impacted by the weakness of the U.S. dollar and declining prices, which we were able to offset partially by reducing our fixed costs. Moreover, earnings were affected by the reclassification of certain research costs for plant biotechnology.

Following the dissolution of our long-term cooperation with DSM, the Netherlands, we are pursuing business with the feed enzyme phytase independently. We plan to complete a production plant for this enzyme in Ludwigshafen in 2005.

Compared with 2003, we reduced the assets of the Fine Chemicals division by €34 million in 2004 to €1,269 million. We reduced inventories and receivables as scheduled. Tangible assets grew as the result of capacity expansion for vitamin E and new plants for vitamin B_2 and citral.

In 2005, we expect a slight decline in sales and a moderate increase in income from operations.

Oil & Gas

- Natural gas production increases further; oil production slightly below previous year
- Natural gas sales volumes substantially higher
- Higher oil prices boost sales and income from operations
- Long-term natural gas supply contracts extended ahead of schedule

Segment data

Million €	2004	2003	Change in %
Sales to third parties	5,263	4,791	9.9
Thereof natural gas trading	2,781	2,627	5.9
Intersegmental transfers	546	498	9.6
Sales including intersegmental transfers	5,809	5,289	9.8
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	2,075	1,734	19.7
Income from operations (EBIT) before special items	1,647	1,365	20.7
Income from operations (EBIT)	1,637	1,365	19.9
Thereof natural gas trading	342	311	10.0
Operating margin (%)	31.1	28.5	9.1
Assets	3,876	3,711	4.4
Return on operating assets (%)	43.2	37.1	16.4
Research and development expenses	198	123	61.0
Additions to tangible and intangible assets	374	323	15.8

Sales to third parties in 2004 rose by €472 million to €5,263 million (volumes 7%, prices 6%, currencies –4%). The considerable rise in crude oil prices and the renewed expansion of business activities more than offset the negative effects of the further decline of the U.S. dollar against the euro.

In 2004, sales to third parties in our natural gas trading business sector rose €154 million to €2,781 million as a result of increased volumes. Gas volume sales from all gas trading companies increased 6.1% to 304.1 billion kilowatt-hours. On a consolidated basis, gas sales volumes rose from 189.4 billion kilowatt-hours in 2003 to 210.2 billion kilowatt-hours in 2004. Sales by WINGAS (BASF share: 65%) on the domestic market again grew much faster than the market. We have successfully expanded our foreign business, in particular in Belgium and the United Kingdom.

In the exploration and production business sector, sales to third parties increased by €318 million to €2,482 million. The average price of crude oil (Brent) rose compared with the previous year by $9/barrel to $38/barrel. Because of the weak U.S. dollar, the price of oil on a euro basis rose by only €5/barrel to €31/barrel. Crude oil and natural gas production rose by 4.2% to 109 million barrels of oil equivalent. This was mainly due to the increase in natural gas volumes in the Netherlands and Argentina. Crude oil production remained slightly below the level achieved in 2003.

Gas production plant
near the Jakhira oasis in Libya.

Income from operations climbed €272 million to €1,637 million. Income from operations from natural gas trading, which is included in this amount, rose by €31 million to €342 million due to higher volumes. Earnings were negatively impacted by declining margins.

In the exploration and production business sector, income from operations increased by €241 million to €1,295 million in 2004, mainly as a result of higher prices. Income taxes on oil production in North Africa and the Middle East that are noncompensable with German corporate income tax 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 €165 million to €3,876 million. Additions to tangible assets mainly involved exploration and production for projects in the Netherlands, Libya, Germany and Argentina. The search for new reserves continued intensively. In 2004, 10 of 24 exploratory and expansion holes were successfully completed.

At 68 million metric tons, proved reserves of crude oil at the end of 2004 were 11% below the volumes at the same time in 2003. The reserve-to-production ratio was eight years, compared with nine years in 2003. Proved natural gas reserves increased slightly by 2% to 66 billion cubic meters. Due to higher production, the reserve-to-production ratio declined by one year to 10 years.

The Achimgaz joint venture with Gazprom was founded to produce natural gas and condensate from the Achimov deposit of the Urengoy gas field in western Siberia. In 2004, the foundations were laid for the start of the project in 2005. The goal of this first phase is to confirm the feasibility of developing the natural gas and condensate deposit. The development of the entire field is scheduled to begin in 2008. At the end of 2004, we signed an agreement with Gazexport, a subsidiary of Gazprom, to extend the long-term gas supply agreements until 2030 ahead of schedule. At the same time, WINGAS signed a long-term supply agreement to supply natural gas until 2019 with Eni, Italy. Furthermore, in January 2005, WINGAS acquired the largest onshore natural gas field in the United Kingdom, Saltfleetby, which will be used in the future for natural gas storage.

In 2005, we expect average prices for crude oil to decline compared with 2004, but to remain well above the long-term average. As a result of the planned expansion of crude oil and natural gas production and a further increase in volumes in the natural gas trading business, we anticipate that the Oil & Gas segment will again make an important contribution to BASF Group's sales and income from operations in 2005. Earnings, however, are not expected to reach the high level seen in 2004 due to lower oil prices in euros.

5. Regional Results

- Europe: Substantial rise in sales and income from operations in a recovering market environment
- North America (NAFTA): Welcome improvement in income from operations
- South America: Double-digit sales growth and higher income from operations
- Asia: Strong growth continues unchanged; significant increase in earnings

Region	Sales by location of company			Sales by location of customer			Income from operations (EBIT)		
Million €	2004	2003	Change in %	2004	2003	Change in %	2004	2003	Change in %
Europe	22,482	20,372	10.4	20,967	19,120	9.7	3,961	2,224	78.1
Thereof Germany	15,216	14,070	8.1	7,382	7,073	4.4	2,903	1,642	76.8
North America (NAFTA)	8,165	7,214	13.2	8,182	7,163	14.2	246	10	.
South America	1,733	1,472	17.7	2,064	1,765	16.9	296	206	43.7
Asia, Pacific Area, Africa	5,157	4,303	19.8	6,324	5,313	19.0	353	218	61.9
	37,537	33,361	12.5	37,537	33,361	12.5	4,856	2,658	82.7

Europe

In 2004, companies in Europe increased sales by €2,110 million compared with 2003. Because of the global economic recovery, the European economy also experienced an upturn in 2004. However, the rise in crude oil prices and the decline in the U.S. dollar exchange rate caused slight weakening of the European economy in the fourth quarter.

The Chemicals segment posted significantly higher sales than in 2003. The Plastics segment also increased sales thanks to higher margins and prices. This partially offset massive increases in raw materials prices. Sales in the Performance Products segment exceeded the previous year's level despite weak demand for consumer goods and from the construction industry. The Agricultural Products division significantly improved income from operations, although sales were only slightly higher following streamlining of the product portfolio. Severe price pressure, especially for vitamins, resulted in sales just below the previous year's level in the Fine Chemicals division.

Income from operations posted by companies in Europe also climbed considerably by €1,737 million to €3,961 million. Our measures to reduce fixed costs were very effective. In addition, high demand meant that higher raw materials prices could largely be passed on to customers, thus improving margins.

The Ludwigshafen Site Project continued on schedule in 2004, and measures were implemented that have so far led to permanent savings of €350 million. Savings of €450 million per year are to be achieved by mid-2005. The goal is to further develop the Ludwigshafen site as one of the world's most productive and efficient chemical Verbund sites.

Since 2000, we have been implementing the project "Further Development of European Organization/ Structures" in a series of controlled steps. Its goal is to increase competitiveness continuously in the European home market, improve market penetration and strengthen the basis for sustainable growth. We aim to achieve this by optimizing the area organization, the provision of services, as well as corporate and management structures. We aim to achieve annual savings of up to €90 million from 2006 onward.

North America (NAFTA)

In spite of the declining U.S. dollar, we increased sales by location of company in North America (NAFTA) by 13.2% to €8,165 million. In local currency terms, we increased sales by 24.5%. We increased sales due to higher volumes and higher sales prices. The largest contribution came from the Chemicals segment with the steam cracker in Port Arthur, Texas; the plasticizers business acquired from Sunoco, United States; and the startup of the C_4 complex in Port Arthur with our joint venture partners Total Petrochemicals, United States, and Shell, United States.

At €246 million, income from operations was €236 million higher than in 2003. Stronger demand resulted in higher sales, which improved capacity utilization and margins. In addition, we reduced our fixed costs through restructuring. In the Agricultural Products & Nutrition division, an optimized product portfolio, the launch of new products and sales of the active ingredient fipronil all contributed to the improvement in income from operations.

Income from operations contains expenses of €158 million, for example for litigation and for restructuring measures at BASF Corporation, United States. Through these measures, we aim to optimize the product portfolio and site structure in North America, and expect annual cost savings of more than $250 million by 2006.

South America

Sales by companies in South America were well above the previous year's level, rising by 17.7% to €1,733 million. In local currency terms, the increase was 25.0% and came from the dynamic economic growth in the region. The strongest sales growth was posted by the Agricultural Products division, followed by the Plastics segment. With the exception of the Plastics segment, the increase in sales was due mainly to higher volumes. The Oil & Gas segment was also able to further expand its business.

Income from operations increased by €90 million to €296 million compared with 2003, primarily due to higher sales. The Agricultural Products division posted the strongest earnings growth. The contribution to earnings from our oil and gas business in Argentina again increased, while an expense was recorded for dry holes in Brazil.

Asia, Pacific Area, Africa

In the Asia, Pacific Area, Africa region, we increased sales by 19.8% to €5,157 million – especially in China, Korea, ASEAN and India – in spite of negative currency effects. In local currency terms, sales by location of company rose by 28.0%. This sales growth was due in particular to the Plastics and Chemicals segments and the Functional Polymers division, which posted double-digit growth rates. Sales declined in the Agricultural Products & Nutrition segment due to restructuring in marketing and sales for agricultural products and the challenging competitive environment for fine chemicals.

Income from operations increased significantly by €135 million compared with 2003 to €353 million. The Plastics and Performance Products segments made the greatest contributions to earnings. The Plastics segment improved profitability thanks to higher margins and sales volumes resulting from additional production capacity for TDI and MDI in Korea. Higher earnings in the Performance Products segment were due mainly to an increase in sales and better capacity utilization.

Research and Development

- **Innovation at BASF driven by customers' needs and technical progress**
- **Greater expertise through global research cooperations**
- **Research and development expenditure increases slightly**

Global Know-how Verbund for the innovations of the future
Customers' needs and technological progress offer opportunities for the innovations of the future. BASF relies on its Know-How Verbund to identify ideas from both perspectives. Our operating units are in close contact with the hub of our Know-how Verbund, which consists of the three central technology platforms: Polymer Research, Specialty Chemicals Research, and Chemicals Research & Engineering. In Ludwigshafen alone, 5,000 employees work in research and development, and a further 2,000 researchers and technicians worldwide are based in development units at BASF subsidiaries or at regional R&D centers close to our markets. However, our Know-how Verbund does not stop at the boundaries to BASF's sites. In addition, approximately 1,200 cooperations provide impulses for our research activities. Of these, 65% are with universities and research institutes, and 35% with startup companies and industry partners worldwide.

Efficient innovation processes save time and costs
In industry worldwide, less than 1% of ideas on average give rise to successful innovations. A company that wants to grow profitably on the basis of innovations therefore needs an efficient innovation process as well as a pool of outstanding ideas to meet this demand. In stage one, we identify promising ideas for new products, processes or system solutions, before proceeding to a business evaluation in stage two. In the third stage, we use a project portfolio to prioritize projects that should be taken through to the laboratory phase in stage four. In the fifth and final stage, project management in the pilot phase and during market launch focuses on ensuring high cost and time efficiency.

Innovations for the success of our customers
Our research activities focus closely on the needs of the markets. Our product innovations and system solutions therefore form the basis for profitable growth for BASF and our customers. In addition, we use the potential offered by new technologies to offer our customers products with superior properties.

One example is the new generation of binders for the paint industry. These novel dispersions contain nanocomposites – polymer particles in which inorganic silica particles measuring 10 to 20 nanometers are distributed homogeneously. These nanomaterials significantly improve the dispersion's properties, rendering exterior paints longer lasting and more dirt-resistant. This provides a competitive advantage for our customers as well as increased quality and durability for consumers.

Our customers in the automotive and electronics industry also benefit from the advantages of nanotechnology: We have improved the flow properties of PBT (polybutylene terephthalate) through the addition of nanomaterials. As a result, Ultradur® High Speed reduces the time needed to manufacture components by up to 30% compared with the standard plastic. At the same time, our customers also save energy thanks to lower processing temperatures and pressures.

Innovative technologies and future business areas

Fuel cells are the power and energy sources for the homes of the future. Stationary fuel cells can transform natural gas into heat and power in an efficient and environmentally friendly manner, but the natural gas must first be desulfurized. BASF researchers have succeeded in solving this problem by using newly developed adsorbers. They also improved the catalysts for the subsequent steps in the fuel cell in which hydrogen is produced from natural gas, making them more cost-efficient and more reliable over longer periods.

Effective storage systems will be needed to provide mobile electronic devices with a hydrogen power supply in the future. Together with partners at the University of Michigan we are developing three-dimensional networks of simple organic compounds that are known as metal-organic frameworks. These structures can easily absorb and release large amounts of gases and therefore provide a compact, low-weight means of storing energy sources.

Plant biotechnology: Seizing opportunities

Plant biotechnology is opening up new routes to more productive plants for current and future generations. We can use this technology to develop plants with specific characteristics that would be almost impossible to achieve using traditional breeding techniques. We are working in the following areas:

- More resistant crop varieties that better withstand drought
- Plants with higher contents of vitamins or unsaturated fatty acids
- Plants that act as "green factories" and produce substances that could otherwise only be made using complex chemical processes

In potatoes, for example, we have succeeded in increasing the proportion of one type of starch called amylopectin from 75% to almost 100%. Pure amylopectin is better suited for use in the paper, textile and adhesive industries than the starch mixture from conventional potatoes. A further advantage is that this allows the increased use of a renewable raw material. We expect to introduce the new potato to the market in 2006.

Ensuring competitiveness through process innovations

Removing acids from reaction mixtures is now fast and simple thanks to BASF's BASIL™ (Biphasic Acid Scavenging Utilizing Ionic Liquids) process. Using this unique process, the scavenging of an acid with a base results in a liquid salt instead of solid crystals that can cause problems in large-scale production. The formation of an "ionic liquid" means that time-consuming and expensive filtration is no longer necessary. Ionic liquids can be separated from the desired products like oil from water, and can also be recycled. In addition, the base acts as a catalyst, thus speeding up the reaction considerably. As a result, it is possible to use a narrow, continuously operated mini-reactor instead of a stirring vessel on the cubic meter scale. The mini-reactor is only thumb-sized but is nevertheless able to produce hundreds of tons of product each year. We also make the advantages of this technology available to our customers: In 2004, we started marketing our portfolio of ionic liquids together with our know-how in applying these materials under the name BASIONICS™.

R&D expenses slightly higher than in 2003

In 2004, BASF spent €1,173 million worldwide on research and development. This corresponds to an increase of 6.2% compared with 2003.

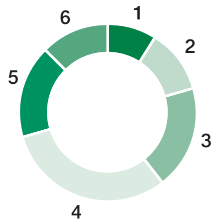
The Agricultural Products & Nutrition segment is our most research-intensive business area, accounting for 31.1% of R&D expenses in 2004. Here, we focus on product innovations, in particular in the attractive market segments of fungicides and insecticides.

Costs for exploratory research and for biotechnological research that is not assigned to the segments is pooled under "Other." We spent approximately 60% of research costs on developing new or improved products, 30% on developing processes or new methods, and 10% on developing new applications (excluding Oil & Gas). Germany remains the regional focus of our research work, accounting for 87% of R&D expenses.

Research and development expenses in 2004 by segment

Million €, %

1 Chemicals	104	8.9%
2 Plastics	138	11.8%
3 Performance Products	221	18.8%
4 Agricultural Products & Nutrition	365	31.1%
5 Oil & Gas	198	16.9%
6 Exploratory and biotechnological research, other	147	12.5%
	1,173	**100.0%**



Procurement, Production and Distribution

- **Our strength: Global and regional procurement through the Procurement Verbund**
- **Regional concentration of purchasing activities**
- **Optimization of logistics and planning processes**

1. Procurement

Procurement Verbund ensures competitive advantages

Worldwide in 2004, BASF procured some 500,000 different raw materials, technical goods, as well as services for plant construction and maintenance worth approximately €15.5 billion. We purchased logistics services to the value of €1.6 billion worldwide to ensure these goods reached our sites and customers on time. 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.

Our logistics procurement unit turns the advantages arising from coordinated purchasing into favorable freight conditions.

Purchasing and research units work closely with one another. Even during the product development phase, we provide research and production with procurement alternatives, since this is where a large part of the cost of future products is determined.

Technical purchasing

Global and regional procurement teams coordinate purchases of technical goods and services such as machines, apparatus, laboratory equipment, erection of scaffolding or installation work. On the one hand, close collaboration with our engineering and maintenance units allows us to combine our requirements quickly and efficiently with regard to suppliers. On the other hand, we can standardize goods and services and thus achieve savings. In addition, we are extensively tapping into the potential of the Asian procurement markets.

Supply chain management

In the course of our realignment, we have restructured our supply chain activities in order to optimize logistics and planning processes. As a result, we can design processes along the value-adding chain more effectively and more efficiently. This provides advantages for our customers and for us.

E-commerce

We utilize e-commerce to continuously improve efficiency of procurement processes. This has a positive impact on process times and process quality. For procuring technical goods and services, we use the electronic marketplace cc-hubwoo, in which BASF owns a stake. With more than 20 million articles, over 8,000 suppliers and more than 1 million completed transactions in 2004, cc-hubwoo is one of the world's busiest marketplaces. We now conduct procurement transactions with more than 170 suppliers via cc-hubwoo.

We have integrated the marketplace Elemica in our purchasing processes for raw materials. This allows electronic data exchange with suppliers. Elemica is used as a trading platform for chemical products by 180 customers and suppliers. We can also reach small and medium sized suppliers of raw materials through the uniform, integrated extranet solution WorldAccount.

2. Products and 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, propylene, butadiene and benzene; 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 methylamine and ethanolamine; polyalcohols such as neopentylglycol and hexanediol; butanediol and its derivatives such as polytetrahydrofuran (PolyTHF®); carboxylic acids, phosgene derivatives, glyoxal and its derivatives, as well as chiral intermediates (ChiPros®).

Plastics

Styrenics
Styrene; styrene-based polymers such as a polystyrene and expandable polystyrene (Styropor®/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 and extrusion grades such as PA 6 (Ultramid® B); materials such as compounded PA 6 and PA 6,6 (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®); 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®, Luganil®, Basyntan®); pigments and special pigment preparations (Heliogen®, Paliogen®); 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., Opera®, Headline®, Allegro®, Jewel®, Opus®, Comet®, Polyram®, Cantus®, Bellis®), insects (insecticides, e.g., fipronil, 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®) 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 190 production sites in 41 countries. BASF's largest site is located in Ludwigshafen, Germany. In addition, BASF operates regional units, 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 further 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, China. The first production plant started operations at the end of 2004. We plan to put all plants into operation by mid-2005.

3. Marketing and Sales

We align 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 for their problems. Our focus is on mutual success. We want to achieve 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:

- In our **Chemicals** segment, we supply standard products to our customers in large volumes with low marketing expenses and usually without intermediaries. We are strengthening and extending our range of inorganic and organic specialties. In order to open up new applications and gain new customers, we are expanding our activities to market innovations and tailor-made solutions.

- 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, we often work together with our customers on new applications at an early stage of development. In 2004, we posted e-commerce sales of more than €2 billion. Depending on the business area, this corresponds to up to 80% of sales.
- 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 high-value product portfolio tailored to the needs of the markets. Innovative products and services, a local presence and quality are the factors for success in partnership with our 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. The local presence of regional business units 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 and Wintershall Erdgas Handelshaus. We also offer customers transport and storage services. We market the majority of our crude oil through our oil trading company in Switzerland.

In 2004, selling expenses, which include distribution, shipping, marketing and advertising costs, were €4,523 million compared with €4,519 million in 2003. Of this amount, about €127 million was spent on sales promotions and product advertising. Corporate advertising costs totaled €19.1 million.

Employees

- **Qualified and committed employees from around the world**
- **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 only if it has qualified and motivated employees around the world. Our management team has members from some 30 different nations. To attract, retain and foster the best talent, we create a working environment in which our employees can perform at their best to make our company successful.

Employees by region	2004	% 2004	% 2003
Europe	57,278	69.9	69.5
Thereof Germany	46,666	56.9	56.2
Thereof BASF Aktiengesellschaft	35,303	43.1	42.5
North America	10,578	12.9	14.3
South America	4,769	5.8	5.7
Asia, Pacific Area, Africa	9,330	11.4	10.5
	81,955	**100.0**	**100.0**

The number of BASF Group employees – including those with limited-term contracts – declined by 5,204, or 6.0%, to 81,995 at the end of 2004.

Due to changes in the scope of consolidation as well as acquisitions and divestitures, the BASF Group's workforce declined by 4,360 through year-end 2004. One important reason for this change was the sale of BASF Printing Systems, which reduced the number of employees worldwide by approximately 2,000: almost 1,900 throughout Europe and, in Germany, around 750 employees of BASF Drucksysteme GmbH, Stuttgart. Following the completion of the sale of our carpet fibers business in 2003 to Honeywell, United States, approximately 1,200 employees transferred to Honeywell in 2004.

The BASF Group also employed 2,610 young people in trainee programs last year.

In November 2004, management and employee representatives signed an agreement that provides clear perspectives for Ludwigshafen, the BASF Group's largest site. Under the terms of the "Stability through Change" agreement, the number of employees of BASF Aktiengesellschaft will be approximately 32,000 by the end of 2007. Although this agreement remains in force until 2010, the target headcount may be adjusted depending on natural fluctuation. Enforced redundancies will be avoided. The precondition for this agreement is that the site is not impacted by economic factors or negative circumstances that endanger BASF Aktiengesellschaft's competitiveness to such an extent that specific structural measures are necessary. The viability of the agreement will be reviewed with employee representatives each year.

We are implementing a two-phase restructuring program in our North American business. In the course of these restructuring measures, the workforce is being reduced by approximately 1,100 positions (Phase I). A further workforce reduction is scheduled in the second phase of restructuring.

Trends in personnel costs

Personnel costs declined by approximately €70 million to €5,819 million in the past year. Costs can be broken down as follows:

	Million €	Change in %
Wages and salaries	4,579	(1.6)
Social security contributions and expenses for pensions and assistance	1,240	0.2
Thereof for pension benefits	431	(0.4)
	5,819	**(1.2)**

In Germany alone, we invested €109 million in continuing education and training in 2004. Of this amount, €31 million was spent on continuing education programs and €78 million on vocational training. At BASF Aktiengesellschaft in Ludwigshafen, we considerably increased efficiency by consolidating training centers and streamlining training processes.

Sharing in the company's success

Since 1999, BASF has been promoting employee investment in the company with the "plus" program. In 2004, some 36% 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 464,480 BASF shares under this program. If the employees keep their shares for a longer period, they receive additional free shares from the company (see Note 26 to the Consolidated Financial Statements). A number of BASF companies in other countries also offered their workers employee shares in 2004.

Since April 1999, senior executives of the BASF Group have been able to participate in the BOP stock option program. The program links a significant proportion of their compensation to the long-term performance of our shares. In 2004, 78% 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 if ambitious price targets are achieved for BASF shares. The options may be exercised following a vesting period of two years (BOP 2001 onward) or three years (BOP 1999 and 2000).

Organization of the BASF Group

- **Twelve operating divisions responsible for business activities and earnings**
- **High standard of corporate governance through "Values and Principles" and Compliance Code**
- **Creation of a system to document information and control systems for financial reporting in accordance with the Sarbanes-Oxley Act (SOX)**

1. Corporate Legal Structure

BASF Aktiengesellschaft in Ludwigshafen, Germany, is the parent company of the BASF Group and its largest operating business. All of its shares are widely held and are traded on stock exchanges such as Frankfurt, London and New York.

BASF's subsidiaries, associated companies, affiliated companies and joint ventures 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 147 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 20% to 50% interest, as well as three joint ventures and 13 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 more than 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 from BASF Aktiengesellschaft.

2. Organizational Structure of the BASF Group

The BASF Group is organized in 12 operating divisions that bear bottom-line responsibility and manage the regional and global business units. The operating divisions use income from operations (EBIT) after cost of capital as their key performance and management indicator. 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).

Business operations are run by 55 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.

BASF's business strategy is planned jointly by the Board of Executive Directors and the operating divisions together with six regional divisions. For reporting purposes, the six 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 (Legal, Taxes & Insurance; Strategic Planning & Controlling; and Finance) as well as four corporate departments (Communications BASF Group, Global HR – Executive Management & Development, Investor Relations and Corporate Audit) support the Board of Executive Directors in the management of the BASF Group. The competence centers (Polymer Research; Chemicals Research & Engineering; Specialty Chemicals Research; Human Resources; Environment, Safety & Energy; Global Procurement & Logistics; Information Services; Corporate Engineering; 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, 2004, there were eight members on the Board of Executive Directors of BASF Aktiengesellschaft.

DR. JÜRGEN HAMBRECHT

Chairman
Responsibilities: Legal, Taxes & Insurance; Strategic Planning & Controlling; Executive Management & Development; Communications BASF Group; 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 Verbund Site; Occupational Medicine & Health Protection; Europe; BASF Schwarzheide GmbH
First appointed: 1996
Term expires: 2006
Memberships:
Supervisory board memberships (excluding internal memberships):
HDI Haftpflichtverband der Deutschen Industrie VVaG (supervisory board member)
Talanx AG (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 Procurement & Logistics; 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)
The Germany Fund Inc. (member of the board of directors)

DR. JOHN FELDMANN

Responsibilities: Styrenics; Performance Polymers; Polyurethanes; Oil & Gas; Polymer Research
First appointed: 2000
Term expires: 2009
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 chairman)

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:
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 Supervisory Board of BASF Aktiengesellschaft comprises 20 members. Ten members are elected by shareholders at the Annual Meeting, and the remaining 10 are elected by employees. With the exception of Hans Dieter Pötsch, the shareholder representatives were elected at the Annual Meeting on May 6, 2003. Hans Dieter Pötsch was appointed by the district court of Ludwigshafen on March 2, 2004 to replace Helmut Werner, who died on February 6, 2004. With the exception of Ralf Sikorski and Michael Vassiliadis, the employee representatives were elected on February 25, 2003 in accordance with the German Codetermination Act.

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. Effective August 1, 2004, Michael Vassiliadis, who had been elected to the Supervisory Board by employees, replaced Dr. Jürgen Walter, who retired effective July 31, 2004. The current term of all members of the Supervisory Board expires at the end of BASF Aktiengesellschaft's Annual Meeting in 2008.

Members of the Supervisory Board

(as of December 31, 2004)

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 AG (supervisory board member)
- Bertelsmann AG (supervisory board deputy chairman)
- 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 of the Supervisory Board of BASF Aktiengesellschaft

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, Zurich

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 Global Investors AG (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)

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)
- Dürr AG (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 OOO (supervisory board chairman)
- Deutsche Bank Luxembourg S.A. (administrative council chairman)
- Deutsche Bank Polska S.A. (supervisory board chairman)
- Deutsche Bank Rt. (supervisory board chairman)
- Deutsche Bank Trust Corp. (supervisory board member)
- DB Trust Company America (supervisory board member)

ARTHUR L. KELLY, Chicago

Chief executive of KEL Enterprises L.P.

Supervisory board memberships (excluding internal memberships):

- Bayerische Motoren Werke AG (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)
- 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)
HeidelbergCement AG (supervisory board member)
Infineon Technologies AG (supervisory board chairman)
Schott AG (supervisory board member)
SGL Carbon AG (supervisory board chairman)

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)
Since January 25, 2005:
Infineon Technologies 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 (IG BCE)
Supervisory board memberships (excluding internal memberships):
Klinikum der Stadt Ludwigshafen gGmbH
(supervisory board deputy chairman)
Saarenergie AG (supervisory board deputy chairman)
Technische Werke Ludwigshafen AG (TWL)
(supervisory board deputy chairman)
Verkehrsbetriebe Ludwigshafen GmbH
(supervisory board member)
Villeroy & Boch AG (supervisory board member)

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

HANS DIETER PÖTSCH, Wolfsburg
Member of the Board of Management of Volkswagen AG
Supervisory board memberships (excluding internal memberships):
Allianz Versicherungs AG (supervisory board member)
Bizerba GmbH (supervisory board member)

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)
Robert Bosch GmbH (supervisory board chairman)
Comparable German and non-German controlling bodies:
Robert Bosch Internationale Beteiligungen AG
(administrative council member)
Robert Bosch Corporation
(member of the board of directors)
Sanofi-Aventis S.A. (administrative council member)

RALF SIKORSKI, Ludwigshafen
Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union (IG BCE)
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)

MICHAEL VASSILIADIS, Hemmingen
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union (IG BCE)
Supervisory board memberships (excluding internal memberships):
Henkel KGaA (supervisory board member)
K+S AG (supervisory board deputy chairman)
K+S Kali GmbH (supervisory board deputy chairman)
mg Technologies AG (supervisory board member)

Retired effective February 6, 2004:
HELMUT WERNER, Stuttgart
(died February 6, 2004)

Retired effective July 31, 2004:
DR. JÜRGEN WALTER, Neustadt am Rübenberge

Compensation of directors and officers

For the year ended December 31, 2004, compensation paid to the members of the Board of Executive Directors totaled €14.0 million; the members of the Supervisory Board received €2.7 million.

Million €	2004	2003
Board of Executive Directors emoluments	14.0	11.9
Thereof:		
fixed payments	4.8	4.6
variable payments	9.2	7.3
Exercise of options rights granted in 1999 and 2000	0.6	2.3
Supervisory Board emoluments	2.7	2.2
Thereof:		
fixed payments	0.5	0.5
variable payments	2.2	1.7
Total emoluments of former members of the Board of Executive Directors and their surviving dependents	6.0	6.7
Exercise of option rights by former members of the Board of Executive Directors and their surviving dependents	1.3	1.3
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	69.9	58.1
Loans to the Board of Executive Directors and the Supervisory Board	–	–
Contingent liability 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 2004, the members of the Board of Executive Directors were granted 120,356 stock options under the BASF stock option program. In 2004, the issue of option rights resulted in personnel costs totaling €3.9 million. Of this amount, €0.9 million was related to option rights issued in 2004 and €3.0 million to option rights issued in 1999 through 2003.

In 2004, the exercising of option rights granted under the BASF stock option program in 1999 and 2000 resulted in cash payments totaling €0.6 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, 2004, this will be €98,000, on the basis of the proposed dividend of €1.70 that will be submitted to the Annual Meeting on April 28, 2005. 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 a 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. Since the German Investor Protection Act *(Anlegerschutzverbesserungsgesetz)* came into force on October 30, 2004, this threshold is €5,000 per year. In 2004, there were a total of seven reportable transactions in which members of the Board of Executive Directors and Supervisory Board purchased or sold BASF shares. The transactions involved between 500 and 3,000 shares with a per-share price of between €42.50 and €50. All reported transactions are published 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 2004 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.**

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 (SOX) of 2002. SOX contains a number of new corporate governance regulations. To ensure that they are observed, the Supervisory Board has, for example, established an Audit Committee and introduced a new approval procedure for procuring non-audit services from auditors. We are currently establishing a system to document the information and control systems for financial reporting within the BASF Group that will be subject to attestation by our auditors in accordance with Section 404 of SOX for the first time in our 2005 Consolidated Financial Statements. Thanks to this system, 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 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.

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 Nomination and Compensation Committee *(Personalausschuss)* and, since 2003, an Audit Committee. The Nomination and Compensation Committee is charged with setting Board members' remuneration and related contractual issues. It comprises Supervisory Board Chairman Dr. Jürgen F. Strube (chairman) as well as Supervisory Board members Robert Oswald, Dr. Tessen von Heydebreck and Michael Vassiliadis.

The Audit 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: It prepares the Supervisory Board's proposal to the Annual Meeting regarding the selection of an auditor, monitors the auditor's independence, defines the key aspects of the audit together with the auditor, agrees the auditing fees, and establishes the conditions for the provision of non-audit services. The Audit Committee comprises Max Dietrich Kley, Dr. Karlheinz Messmer, Hans Dieter Pötsch and Michael Vassiliadis. The chairman of the Audit Committee is Max Dietrich Kley, who like Hans Dieter Pötsch, has been appointed Audit Committee Financial Expert.

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 to 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 of 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 antitrust 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. The 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 also available on the Internet at **www.basf.de/en/corporate/overview/.**

Risk Management System and Risks of Future Development

Risk Management System

Goals of risk management

Risk management has the goal of identifying risks as early as possible, limiting business losses by means of suitable measures, and avoiding risks that pose a threat to the company's existence.

Corresponding action principles are derived from our Values and Principles. We aim to avoid risks as far as possible through high safety standards for plant operation to protect man and the environment, codes of conduct to ensure legal behavior, review committees to verify important business decisions, as well as organizational measures to prevent abuse of authority.

Regular risk analyses at the corporate level are carried out for example by the corporate divisions: Legal, Taxes & Insurance; Human Resources; Finance; Strategic Planning & Controlling; and Global Procurement & Logistics. Specific individual risks to operating divisions and units are registered and monitored centrally. Defined and regular communication tools ensure that risks are reported to the Board of Executive Directors and provide an up-to-date and overall picture of the current and future risks to BASF.

Internal monitoring

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.

Risk controlling

The corporate divisions Strategic Planning & Controlling and Finance handle centralized risk controlling on an ongoing basis. They inform the Board of Executive Directors of significant risks on a continuous basis during the year by means of risk reports that combine decentrally identified risks. The corporate division Strategic 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.

Twelve operating divisions bear the overall responsibility for business operations in the BASF Group. It therefore follows that risk management is 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.

Early warning system
We use key data and indicators to constantly monitor certain risk areas. The monthly risk reports 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.

Characteristics of the risk management system
BASF uses various tools for the early recognition and identification of risks, for example risk identification checklists.

If assessable, risks are quantified in terms of impact on earnings and the likelihood of occurrence. As well as receiving monthly reports from the divisions, the Board of Executive Directors continuously receives aggregated reports on operational risks. These reports also contain analyses of financial and economic risks. The reports are based on computer-supported compilation of risk reports by the responsible decentral and central risk specialists, who are appointed for the various divisions, regions and sites.

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
We do not expect any pronounced risks in 2005. We consider the continued volatility of oil prices and the exchange rate of the U.S. dollar to be possible risks for global economic development. We believe it unlikely that there will be a sharp increase in interest rates, in particular in the United States, that will have a negative impact on the economic situation. We are not expecting a dramatic downturn in growth in China in the form of a "hard landing."

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 currency risk by expanding local production at highly productive sites. On the other hand, the effect of a stronger euro is offset by lower prices for raw materials, which are primarily invoiced in dollars. In addition, depending on expected exchange rate trends, we reduce the currency risk for fixed contracts and planned sales in foreign currencies by using derivative instruments such as forward exchange contracts, currency options and currency swaps.

Industry and regulatory risks

We do not expect any serious business risks for the chemical industry in 2005. Neither do we expect serious changes to market conditions or the competitive environment.

The European Union's new chemicals policy will alter the registration, evaluation and approval of chemical substances. This poses the risk that BASF and its European customers are placed at a disadvantage compared with non-European competitors as a result of cost-intensive testing and registration procedures. The new legislation is not expected to come into force before 2007. It is not yet possible to quantify the associated costs.

In 2004, emission certificates were assigned at the national level as part of the implementation of the Kyoto Protocol. Apart from expenses for administration and for technical adjustments to various plants in the period through 2007, BASF does not expect emissions trading to incur any additional costs. Sufficient provisions have been established for the cost of alterations to those plants for which an official directive already exists.

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 expected sales. 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 forward exchange contracts, currency options, currency swaps, interest rate swaps and combined interest rate/currency swaps entered into to hedge these risks.

There are currently no foreseeable liquidity risks. We recognize possible cash flow fluctuations in good time using our liquidity planning system. We have constant access to sufficient liquid funds in view of our good credit ratings, the ongoing commercial paper program with a volume of $5 billion and committed credit lines from banks.

We limit country-specific risks through internal country ratings, which are continuously adapted to changing economic, political and social circumstances. We use export credit insurance as the main tool to limit specific country-related risks.

We limit credit risks for our investments by engaging in transactions only with banks and business partners with very 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 separate pension assets. Because a portion of these assets has been invested in shares and fixed-interest securities, severe stock exchange and bond market losses could result in the accrued assets being insufficient to finance the pensions. In order to limit this risk, we are increasingly offering employees defined contribution schemes. In 2004, the company retirement program in Germany was adjusted to take account of changing conditions in the capital markets and rising life expectancy. We are limiting financial risks through a new BASF Pensionskasse tariff for employees who join the company.

Supply risks

There are currently no recognizable risks with regard to the availability of raw materials, energy, precursors or intermediates.

However, the oil-price dependent prices of raw materials, energy, precursors and intermediates present a potential risk for BASF. We reduce this risk 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 commodity 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 54, Procurement). 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, the trend toward offshoring in key customer industries 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. We attempt to recognize offshoring moves in good time. We therefore have international investment and restructuring strategies.

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. We reduce this risk through our global Know-how Verbund and our efficient innovation process (see page 51, Research and Development).

Patent risks: Major risks involving patents or licenses are not currently apparent. Sufficient provisions have been established for ongoing, pending patent disputes, which are on a very small scale.

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. 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 with regard to terrorist attacks, for example. 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 Group Consolidated Financial Statements and Notes to the Consolidated Financial Statements

Focusing on Results

Our goal is to further increase the value of our company. With intelligent solutions and high-value products, we prove that we create value for the benefit of all.

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 based on the accounting and valuation principles of the German Commercial Code *(Handelsgesetzbuch),* the German Stock Corporation Act *(Aktiengesetz)* as well as the accounting standards of the German Accounting Standards Committee *(Deutscher Standardisierungsrat)*, collectively German GAAP. International Financial Reporting Standards (IFRS) were implemented as far as possible within the scope offered by the accounting and valuation options available under German commercial law. A reconciliation of net income and stockholders' equity is also provided to show adjustments required by U.S. generally accepted accounting principles (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 the 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, 2004. 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 control 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 a review 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/Main, February 23, 2005

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Künnemann	**Dr. Beine**
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Statements of Income

Consolidated Statements of Income Year ended December 31

Million €	Explanations in Note	2004	2003
Sales		38,072.2	33,865.3
– Natural gas taxes		535.6	504.1
Sales, net of natural gas taxes	(4)	**37,536.6**	**33,361.2**
Cost of sales		25,637.7	23,333.0
Gross profit on sales		**11,898.9**	**10,028.2**
Selling expenses		4,522.6	4,519.1
General and administrative expenses		715.6	706.0
Research and development expenses		1,172.8	1,104.7
Other operating income	(5)	943.8	560.5
Other operating expenses	(6)	1,576.1	1,600.7
Income from operations		**4,855.6**	**2,658.2**
Expense/income from financial assets		62.7	(6.5)
Write-downs of, and losses from, retirement of financial assets as well as securities held as current assets		671.3	260.4
Interest result		(227.9)	(223.3)
Financial result	(7)	**(836.5)**	**(490.2)**
Income before taxes and minority interests*		**4,019.1**	**2,168.0**
Income taxes	(8)	2,005.5	1,191.5
Income before minority interests		**2,013.6**	**976.5**
Minority interests	(9)	130.6	66.3
Net income		**1,883.0**	**910.2**
Earnings per share (€)		**3.43**	**1.62**

* Income from ordinary activities

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

Consolidated Balance Sheets at December 31

ASSETS

Million €	Explanations in Note	2004	2003
Intangible assets	(11)	3,338.1	3,793.2
Property, plant and equipment	(12)	12,444.2	13,069.9
Financial assets	(13)	1,911.9	2,599.6
Fixed assets		**17,694.2**	**19,462.7**
Inventories	(14)	**4,626.4**	**4,151.1**
Accounts receivable, trade		5,511.0	4,954.0
Receivable from affiliated companies		443.9	575.5
Miscellaneous receivables and other assets		2,008.4	2,069.5
Receivables and other assets	(15)	**7,963.3**	**7,599.0**
Marketable securities	(16)	162.8	146.9
Cash and cash equivalents		2,085.9	480.6
Liquid funds		**2,248.7**	**627.5**
Current assets		**14,838.4**	**12,377.6**
Deferred taxes	(8)	**1,210.9**	**1,247.0**
Prepaid expenses	(17)	**172.1**	**514.3**
Total assets		**33,915.6**	**33,601.6**

Stockholders' equity and liabilities

Million €	Explanations in Note	2004	2003
Subscribed capital	(18)	1,383.5	1,425.0
Capital surplus	(18)	3,021.8	2,982.4
Retained earnings	(19)	12,252.7	12,054.8
Currency translation adjustment		(1,224.8)	(971.9)
Minority interests	(20)	331.8	388.1
Stockholders' equity		**15,765.0**	**15,878.4**
Provisions for pensions and similar obligations	(21)	3,866.3	3,862.4
Provisions for taxes		1,303.9	1,078.8
Other provisions	(22)	4,557.7	4,246.2
Provisions		**9,727.9**	**9,187.4**
Bonds and other liabilities to capital market	(23)	2,525.0	2,610.6
Liabilities to credit institutions	(23)	778.3	896.1
Accounts payable, trade		2,220.1	2,056.3
Liabilities to affiliated companies		381.0	400.6
Miscellaneous liabilities	(23)	2,167.4	2,202.4
Liabilities		**8,071.8**	**8,166.0**
Deferred income		**350.9**	**369.8**
Total stockholders' equity and liabilities		**33,915.6**	**33,601.6**

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 1,2004	**556,643,410**	**1,425.0**	**2,982.4**	**12,054.8**	**(971.9)**	**388.1**	**15,878.4**
Share buy-back and cancellation of own shares including own shares intented to be cancelled	(16,203,000)	(41.5)	39.4	(723.6)			(725.7)
Dividends paid				(774.1)		(77.7)*	(851.8)
Net income				1,883.0		130.6	2,013.6
(Decrease)/increase of foreign currency translation adjustments					(153.5)	(14.7)	(168.2)
Capital repayment/contribution				4.1		(59.6)	(55.5)
Change in accounting and valuation methods				(202.5)	(99.4)	(66.4)	(368.3)
Changes in scope of consolidation and other changes				11.0		31.5	42.5
December 31, 2004	**540,440,410**	**1,383.5**	**3,021.8**	**12,252.7**	**(1,224.8)**	**331.8**	**15,765.0**
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**

* Profit and losses transfers to minority interests.

Consolidated Statements of Cash Flows* Year ended December 31

Million €	Explanation in Notes	2004	2003
Net income		1,883.0	910.2
Depreciation and amortization of fixed assets		3,097.3	2,681.7
Changes in inventories		(506.8)	502.0
Changes in receivables		(679.8)	194.7
Changes in other operating liabilities and provisions		987.1	421.7
Changes in pension provisions, prepaid pension assets and other non-cash items		124.0	251.3
Net gains from disposal of fixed assets and marketable securities		(394.0)	(84.0)
Cash provided by operating activities	(10)	**4,510.8**	**4,877.6**
Payments related to tangible and intangible fixed assets		(1,933.8)	(2,071.3)
Payments related to financial assets and securities		(203.8)	(190.9)
Payments related to acquisitions		(103.6)	(1,479.8)
Proceeds from divestitures		674.0	85.8
Proceeds from the disposal of fixed assets and marketable securities		457.4	396.8
Cash used in investing activities		**(1,109.8)**	**(3,259.4)**
Capital increases/(reductions)		(55.5)	–
Share repurchase		(725.7)	(499.8)
Proceeds from the addition of financial indebtedness		706.7	5,624.1
Repayment of financial indebtedness		(909.7)	(5,625.8)
Dividends paid			
to shareholders of BASF Aktiengesellschaft		(774.1)	(788.7)
to minority shareholders		(77.7)	(68.6)
Cash used in financing activities		**(1,836.0)**	**(1,358.8)**
Net change in cash and cash equivalents		**1,565.0**	**259.4**
Effects on cash and cash equivalents			
from foreign exchange rates		(17.3)	(9.9)
from changes in scope of consolidation		57.6	0.5
Cash and cash equivalents as of beginning of year		**480.6**	**230.6**
Cash and cash equivalents as of end of year		**2,085.9**	**480.6**
Marketable securities		162.8	146.9
Liquid funds as shown on the balance sheet		**2,248.7**	**627.5**

* The statements of cash flows are discussed in detail in the Management's Analysis, Liquidity and Capital Resources, on page 30 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. Due to the conversion to International Financial Reporting Standards (IFRS) mandated by the European Union for the 2005 reporting year, the IFRS have been followed in the 2004 reporting year to the greatest extent allowable under German GAAP. Reconciliation of income and equity to U.S. GAAP is additionally 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 Aktiengesellschaft directly or indirectly exercises a majority of the voting rights (collectively, the "Company"). Furthermore, material jointly operated companies are included on a proportional consolidation basis, with the exception of joint ventures such as the Basell group, which are accounted for using the equity method. Such joint ventures largely operate independently and are not included in the planning and approval processes of BASF.

	2004	2003
Consolidated companies as of January 1	154	155
Thereof proportionally consolidated	12	11
First-time consolidations	20	7
Thereof proportionally consolidated	–	1
Deconsolidations	14	8
Thereof proportionally consolidation	–	–
Consolidated as of December 31	**160**	**154**
Thereof proportionally consolidated	12	12

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:

	2004	2003
Affiliated companies	13	21
Joint ventures	3	1
Other associated companies	3	2
	19	**24**

Major changes to the scope of consolidation, other than those relating to corporate structure, are as follows:
2004:
- BASF Performance Polymers GmbH, Rudolstadt, Germany, which produces nylon granules and compounding products ;
- the new acquisition Foam Enterprises Inc., United States, which produces rigid polyurethane foams;
- BASF Pipeline Holdings LLC, United States, which holds a direct stake in a butadiene pipeline in the United States;
- three Wintershall companies in Brazil that explore for oil and gas in that country;
- eight previously unconsolidated European companies and two previously unconsolidated U.S. companies due to restructuring; and
- four previously unconsolidated companies headquartered in China, Japan and Germany due to their increased importance.

Deconsolidations in 2004 included two companies due to their decreasing significance, and five due to corporate restructuring or liquidation. In addition, seven companies were deconsolidated as a result of the sale of the printing systems business to CVC Capital Partners.

2003:
- BASF Chemicals Company Ltd., China, which is constructing production facilities for polytetrahydrofuran (PolyTHF®).
- Sabina Petrochemicals LLC, United States, a jointly operated company with Total Petrochemicals, United States, and Shell, United States, that uses the output produced in the steam cracker jointly operated with Total Petrochemicals, 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 in 2003 comprise:
- Four companies due to their declining significance.
- Four companies due to merger with other affiliates or liquidation.

Acquisitions/divestitures

In 2004, BASF purchased the plasticizer business from Sunoco, United States. The transaction includes production plants for phthalic anhydride and oxo alcohols in Pasadena, Texas, as well as various intangible assets and inventories. Divestitures included primarily the sale of the printing systems business to CVC Capital Partners.

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 acquisition of the engineering plastics business from Honeywell, United States, and the purchase of the Callery Chemical Division from the Mine Safety Appliance Company, United States. Significant divestitures in 2003 involved, in particular, the sale of BASF's nylon fibers business to Honeywell.

Changes in the scope of consolidation, acquisitions and divestitures had the following effects on the sales and the balance sheet of the BASF Group:

	2004 Million €	2004 %	2003 Million €	2003 %
Sales	301.3	0.9	377.8	1.2
Thereof:				
Acquisitions	504.5	1.5	633.3	2.0
Divestitures	(246.7)	(0.7)	(260.8)	(0.8)
Changes in scope of consolidation	43.5	0.1	5.3	.
Fixed assets	(13.2)	(0.1)	1,252.8	6.1
Thereof property, plant and equipment	30.2	0.2	176.0	1.3
Inventories and receivables	(380.1)	(2.8)	239.2	1.7
Liquid funds	628.0	100.1	0.4	0.1
Assets	**234.7**	**0.7**	**1,492.4**	**4.3**
Stockholders’ equity	398.2	2.5	2.8	.
Financial liabilities	3.6	0.1	1,406.1	38.9
Other liabilities	(167.1)	(1.2)	83.5	0.6
Stockholders’ equity and liabilities	**234.7**	**0.7**	**1,492.4**	**4.3**

Announced acquisition/divestiture
In January 2005, BASF agreed to acquire the electronic chemicals business of Merck KGaA, Germany, for €270 million. The transaction includes production and distribution centers for high purity chemicals in Asia and Europe. Merck’s sales in this business amounted to approximately €200 million in 2004. This business will be included in the Inorganics division in the future. The transaction is subject to approval by the relevant antitrust authorities.

We are currently reviewing strategic options with regard to our stake in the Basell N.V. joint venture, the Netherlands. Options considered together with our partner Shell include the sale of the stakes or an equity market transaction.

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 €	2004	2003
Sales	2,258.6	2,035.6
Gross profit	181.2	164.0
Income from operations	119.5	109.9
Income before taxes and minority interests	127.8	115.4
Net income	101.2	84.1

Balance sheet information

Million €	2004	2003
Fixed assets	1,233.7	1,277.3
Thereof property, plant and equipment	1,168.8	1,206.0
Inventories and receivables	503.3	424.8
Liquid funds	24.5	31.9
Total assets	**1,761.5**	**1,734.0**
Stockholders' equity	670.2	644.5
Provisions	147.1	139.2
Financial liabilities	396.9	235.6
Other liabilities	547.3	714.7
Total liabilities and stockholders' equity	**1,761.5**	**1,734.0**

Cash flow information

Million €	2004	2003
Cash provided by operating activities	50.3	135.3
Cash used in investing activities	(238.6)	(322.0)
Cash provided by financing activities	181.6	196.7
Net change in cash and cash equivalents	(6.7)	10.0

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%), and Svalöf Weibull Group (BASF's share: 40%) is as follows:

Income statement

Million €	2004	2003
Sales	8,052.7	6,833.8
Gross profit	1,131.7	796.7
Income from operations	296.4	(60.4)
Income before taxes and minority interests	318.3	(105.1)
Net income	222.6	(62.7)
BASF's share of net income	93.9	(33.0)

Balance sheet information

Million €	2004	2003
Fixed assets	5,258.4	5,427.6
Thereof property, plant and equipment	3,430.0	3,543.1
Inventories and receivable	2,478.4	2,014.1
Liquid funds	8.0	44.3
Total assets	**7,744.8**	**7,486.0**
Stockholders' equity	3,540.3	3,338.9
Provisions	819.3	784.5
Financial liabilities	1,437.4	1,814.7
Other liabilities	1,947.8	1,547.9
Total liabilities and stockholders' equity	**7,744.8**	**7,486.0**
BASF's investment	1,695.8	1,612.6

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, and is available on the Internet at **www.basf.de/governance_e/reports.**

(c) Summary of significant accounting policies

Balance sheet date: The Consolidated Financial Statements are generally prepared using the individual financial statements of the companies forming part of the group (hereinafter referred to as "consolidated companies"). Such financial statements are generally prepared as of the balance sheet date of the Consolidated Financial Statements. In certain cases, interim financial statements or adjusted statements as of the balance sheet date of the Consolidated Financial Statements are prepared and used.

Uniform valuation: Assets and liabilities of consolidated companies are accounted for and valued uniformly in accordance with the principles described herein. Where the accounting and valuation methods applied in the financial statements of the consolidated companies differ from these principles, appropriate adjustments are made to the relevant items. For companies accounted for under the equity method, significant deviations in the valuation methods are adjusted.

Eliminations: Transactions between consolidated companies as well as inter-company profits resulting from sales between consolidated companies are eliminated in full, and those for jointly operated companies on a pro rata basis. Inter-company profits resulting from sales to companies accounted for under the equity method, on customary market conditions are eliminated if they are material.

Capital consolidation: Capital consolidation is based on the purchase method. At the time of acquisition, the acquisition cost of participations is offset against the proportionate share of equity acquired. Differences arising are allocated to the assets or liabilities of the acquired company up to their fair values or capitalized as intangible fixed assets, if they can be reliably identified and measured. Differences not allocated to individual assets are capitalized as goodwill and amortized within the expected useful life, within a period of five to 20 years.

Revenue recognition: Revenues from product sales and the performance of services are recognized upon shipment to customers or performance of services if ownership and risks are transferred to the buyer. Provisions for discounts, sales returns, rebates to customers, estimated future warranty obligations and other claims are provided for in the same period the related sales are recorded.

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 2004 and 2003 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	2–5
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. Financing costs are not capitalized.

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 2004 and 2003:

	2004 Years	2003 Years
Buildings and structural installations	25	24
Industrial plant and machinery	12	12
Long-distance natural gas pipelines	25	25
Working and office equipment and other facilities	8	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 based on the production and estimated available reserves. 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 more significant non-consolidated affiliated or associated companies are accounted for by the equity method. Other shares, participations and securities held as fixed assets are shown at acquisition cost or, where an other-than-temporary impairment of value occurs, at the appropriate lower values. Investments in affiliated and associated companies accounted for using the equity method are carried at cost of acquisition, plus the Company's equity in undistributed earnings. Goodwill associated with such investments is amortized over a period of up to 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 calculated using the lower of the average cost method for acquisition or re-production of raw materials and factory supplies and merchandise, or the expected sales proceeds less costs to be incurred prior to sale.

Production costs include, in addition to direct costs, an appropriate allocation of overhead cost of production using normal utilization rates of the production plants. In addition, starting in 2004, pensions, social services, or voluntary social benefits are included, provided they relate to the production process. Financing costs are not included in production costs.

Construction-in-progress relates mainly to chemical plants under construction for third parties. Profits are recognized at finalization of a 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. Marketable 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. Other than assessed taxes are taken into account appropriately.

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. In addition, 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 and do not result in items being 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. 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 expected severance payments or similar personnel expenses are accrued for restructuring measures that have been decided upon and publicly announced by management.

Provisions for long-service and anniversary bonuses are actuarially calculated, predominantly using an interest rate of 3.75%. For pre-retirement part-time programs, the present value of supplemental (top-up) payments are provided when the employee accepts the offer and the wage and salary payments due during the passive phase of agreements are accrued through installments and discounted at an interest rate of 3.0%. Provisions are recorded for the expected costs of pre-retirement part-time programs that are anticipated to be contracted during the term of the collective bargaining agreements, taking into consideration the ceilings provided in the collective agreements.

The formation of provisions for the BASF stock option program (BOP) and BASF's incentive share program "plus" is described in detail in Note 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 or the U.S. dollar is the functional currency of BASF subsidiaries and jointly operated companies in North America, Japan, Korea, China, Brazil, Malaysia 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. 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. The translation gain or loss is thereby the remaining amount. Expenses and income are converted at monthly 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. Repurchased shares are included in the calculation on the basis of the period of time that they are in circulation. In the 2004 and 2003 reporting periods, there was no dilution effect from the issuance of new stock.

Use of estimates in financial statement preparation: The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the preparation of these Consolidated Financial Statements, estimates and assumptions have been made by management concerning the selection of useful lives of property, plant and equipment and intangible assets, the measurement of provisions, the carrying value of investments, and other similar evaluations of assets and obligations. Given the uncertainty regarding the determination of these factors, actual results could differ from these estimates.

2. Changes in accounting principles

BASF Group must convert its accountancy to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) for the 2005 reporting year due to a mandate by the European Union on July 19, 2002. In order to capture this development in the 2004 reporting year, IFRS has been followed to the greatest extent allowable under German GAAP.

Adjustments to IFRS include the treatment of pension liabilities, personnel obligations and inventory valuation. The effect of these changes as of January 1, 2004 are netted against retained earnings.

The accounting treatment of personnel obligations follows IAS 19 “Employee Benefits” starting from January 1, 2004. This leads to a new valuation whereby the funded status is presented in the balance sheet as the net amount of pension obligations and pension plan assets. The elimination of formerly deferred actuarial gains and losses, considering deferred taxes, has led to a reduction in retained earnings of €290.8 million. Net income is thereby increased by €55.8 million, compared with the prior valuation method. Pension liabilities and pension-fund assets of the BASF Pensionskasse are not contained in the Group figures in accordance with German GAAP, but the company contributions to the BASF Pensionskasse are included under post-retirement expenses. The BASF Pensionskasse will be directly incorporated in the financial statements following the conversion to IFRS on January 1, 2005.

As the LIFO method is not allowed under IFRS, inventory valuation has been changed and converted to the IFRS approved average cost method. The effect, when considering deferred taxes, has led to an increase in retained earnings of €88.3 million as of January 1, 2004. Net income increased by €113.7 million compared with the former valuation method.

For BASF PETRONAS Chemicals Sdn. Bhd., Malaysia, and BASF South East Asia Ltd., Singapore, the currency conversion method was changed from the temporal method to the current rate method, according to the concept of functional currency, due to the increasing business volume from regional production. These businesses will now use the U.S. dollar rather than the euro as their functional currency. Due to this change, currency conversion differences no longer effect income in the income statement, but rather are presented as income-neutral translation adjustments in equity. A €99.4 million reduction in the translation adjustment, and a €66.4 million reduction in minority interests resulted from this methodology change on January 1, 2004.

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	2004	2003
Net income as reported in the Consolidated Financial Statements of income under German GAAP		1,883.0	910.2
Adjustments required to conform with U.S. GAAP			
Capitalization of interest	(a)	(4.5)	(7.3)
Capitalization of software developed for internal use	(b)	(53.5)	(2.8)
Accounting for pensions	(c)	41.0	69.0
Accounting for provisions	(d)	(8.1)	157.6
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates	(e)	194.5	(24.8)
Valuation of securities at market values	(f)	6.8	(6.2)
Valuation adjustments relating to companies accounted for under the equity method	(g)	(161.6)	62.4
Inventory valuation	(h)	(3.4)	(26.3)
Reversal of goodwill amortization and write-offs due to permanent impairment	(i)	148.7	167.3
Other adjustments	(j)	29.8	1.0
Deferred taxes and recognition of tax effects of dividend payments	(k)	(210.4)	8.9
Minority interests	(l)	0.5	10.7
Net income in accordance with U.S. GAAP		**1,862.8**	**1,319.7**

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 and the Supervisory Board in 2002, settlements of stock options from the BASF stock option program (BOP) for senior management will be made in cash, therefore such stock options have no dilutive effect.

The earnings per share from continuing operations based on income from ordinary activities after taxes were not impacted by any dilutive effect in 2004 and 2003, because the impact of potential common shares was anti-dilutive in each year.

Earnings per share

	2004	2003
Net income in accordance with U.S. GAAP (million €)	**1,862.8**	**1,319.7**
Number of shares (thousands)		
Weighted average undiluted number of shares	548,714	561,887
Dilutive effects	–	–
Weighted average diluted number of shares	548,714	561,887
Earnings per share in accordance with U.S. GAAP (€)	**3.39**	**2.35**
Dilutive effects	–	–
Diluted earnings per share in accordance with U.S. GAAP	3.39	2.35

Reconciliation of stockholders' equity to U.S. GAAP

Million €	**Note**	**2004**	**2003**
Stockholders' equity as reported in the Consolidated Balance Sheets under German GAAP		15,765.0	15,878.4
Minority interests		(331.8)	(388.1)
Stockholders' equity excluding minority interests		15,433.2	15,490.3
Adjustments required to conform with U.S. GAAP			
Capitalization of interest	(a)	472.7	493.9
Capitalization of software developed for internal use	(b)	128.3	184.1
Accounting for pensions	(c)	924.3	982.5
Accounting for provisions	(d)	244.4	206.8
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates	(e)	3.2	(138.8)
Valuation of securities at market values	(f)	191.5	89.1
Valuation adjustments relating to companies accounted for under the equity method	(g)	39.0	182.0
Inventory valuation	(h)	18.9	167.6
Reversal of goodwill amortization and write-offs due to permanent impairment	(i)	469.5	337.1
Other adjustments	(j)	58.6	43.4
Deferred taxes and recognition of tax effects of dividend payments	(k)	(810.8)	(698.7)
Minority interests	(l)	(13.7)	(15.3)
Stockholders' equity in accordance with U.S. GAAP		**17,159.1**	**17,324.0**

(a) Capitalization of interest: For U.S. GAAP purposes, the Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. The capitalization of interest relating to capital projects is not permissible under German GAAP. In calculating capitalized interest, the Company has made assumptions with respect to the capitalization rate and the average amount of accumulated expenditures. The Company's subsidiaries generally use the entity-specific weighted-average borrowing rate as the capitalization rate.

(b) Capitalization of software developed for internal use: Certain costs incurred for computer software developed or obtained for the Company's internal use are to be capitalized and amortized over the expected useful life of the software. Such costs have been expensed in these financial statements because the capitalization of self-developed intangible assets is not permissible under German GAAP.

(c) Accounting for pensions: Pension benefits under Company pension schemes are partly funded in a legally independent fund "BASF Pensionskasse VVaG" ("BASF Pensionskasse"). Pension liabilities and plan assets of BASF Pensionskasse are not included in BASF Group's balance sheet. However, contributions to the BASF Pensionskasse are included in expenses for pensions and assistance.

BASF guarantees the commitments of the BASF Pensionskasse. For U.S. GAAP purposes, BASF Pensionskasse would be classified as a defined benefit plan and therefore included in the calculation of net periodic benefit cost as well as the projected benefit obligation and plan assets. The valuation of the pension obligations under the projected unit credit method and of the fund assets of BASF Pensionskasse at market values would result in a prepaid pension asset in accordance with U.S. GAAP that is not recorded in the Consolidated Financial Statements under German GAAP.

Net periodic benefit cost in accordance with U.S. GAAP would be lower than showing the Company's contribution to the BASF Pensionskasse as expense.

Information about the funded status of the BASF Pensionskasse is provided in the following table:

Million €	2004	2003
Plan assets as of December 31	4,034.1	3,781.2
Projected benefit obligation as of December 31	3,871.9	3,569.3
Funded status	162.2	211.9
Unrecognized actuarial losses	667.0	575.0
Prepaid pension assets	829.2	786.9

The accumulated pension benefit obligation (ABO) in 2004 is €3,725.2 million and in 2003 is €3,429.8 million.

The valuation of certain pension plans of foreign subsidiaries, in accordance with SFAS 87 also resulted in prepaid pension assets. After consideration of unrecognized actuarial gains and losses, €95.1 million in 2004, and €195.6 million in 2003 were included in the reconciliation to U.S. GAAP. In addition, the change in treatment of pension liabilities explained in Note 2, and the associated accounting for accrued actuarial gains and losses is to be reversed. According to U.S. GAAP, the formerly used SFAS 87 accounting treatment is to be used. In the case of an additional minimum liability, equity according to U.S. GAAP is reduced.

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

Provisions for part-time programs for employees nearing retirement age: In these financial statements agreed upon top-up payments within the pre-retirement part-time programs are accrued in their full amount, and discounted at a rate of 3.0% (see note 22). 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 a reduction in income under U.S. GAAP of €22.3 million in 2004 and an increase in income of €124.4 million in 2003. Stockholders' equity increases by €154.7 million in 2004 and €140.0 million in 2003.

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 €(8.3) million in 2004 and €(1.7) million in 2003. The amounts in the reconciliation of stockholders' equity were €23.7 million in 2004, and €32.0 million in 2003.

Provisions for restructuring measures: SFAS 146, "Accounting for Costs Associated with Exit and Disposal Activities," requires expected costs associated with the exit or disposal of business activities to be accrued only 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.

Provisions for environmental measures: In the current financial statements, obligations for recultivation obligations due to oil and gas extraction are accrued. 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. 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.

In addition, provisions accrued in 2004 for adaptation obligations in connection with the operation of production plants are not to be taken into consideration according to SOP 96-1, and have therefore been eliminated. Income was thereby increased by €13.9 million in 2004 and €3.8 million in 2003. Equity increased by €25.8 million in 2004 and €11.4 million in 2003.

Discounting of provisions: Provisions and liabilities are to be shown at nominal value according to German GAAP. According to U.S. GAAP, the values may be discounted as soon as the payment stream and time of payment are sufficiently well known. This results in an income effect in 2004 of €38.6 million, which leads to an equity increase in the same amount.

(e) Accounting for derivatives at fair value and valuation of long-term foreign currency items: As required by SFAS 133, and as amended by SFAS 138, derivative contracts are to be accounted for at fair values. Where hedge accounting is not applicable, changes in the fair values of derivative contracts are to be included in net income, together with foreign exchange gains and losses of the underlying transactions.

Under German GAAP, 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 lesser 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 temporary impairments, the change in valuation is immediately recognized in a separate component of stockholders' equity. Realized profits and losses are credited or charged to income, as are other than temporary impairments of value. The major part of securities and other investments are considered to be available-for-sale. Under German GAAP, such securities and other investments are valued at the lower of acquisition cost or market value at the balance sheet date.

(g) Valuation adjustments relating to companies accounted for under the equity method: For purposes of the reconciliation to U.S. GAAP, the earnings of companies accounted for using the equity method have been determined using valuation principles prescribed by U.S. GAAP. The write-down of the interests in Basell N.V., the Netherlands, and Svalöf Weibull, Sweden, affected net income in 2004. This especially applies to the catch-up of scheduled amortization of goodwill of these companies that was eliminated according to SFAS 142 ("Goodwill and other Intangible Assets") in the previous years.

(h) Inventory valuation: In connection with the conversion to IFRS as of January 1, 2005, the current inventory valuation methods are being changed. This specifically affects the LIFO method, which is not allowed under IFRS. This conversion requires an adjustment of the prior year's figures, according to APB 20.27. In the current year there were differences resulting from the deductions required by German GAAP.

(i) Reversal of goodwill amortization and write-offs due to permanent impairment: Goodwill is amortized over its useful life in accordance with German GAAP. However, the U.S. GAAP standard SFAS 142 "Goodwill and other Intangible Assets," requires write-offs only based on annual impairment tests. The recoverability of goodwill is reviewed at the reporting-unit level by comparing the fair value of the reporting unit, determined using discounted future cash flows, to the carrying value. There were no material impairment write-downs required in 2004 or 2003. The goodwill amortization included in these financial statements is reversed and added back to net income.

(j) Other adjustments: This item primarily includes the adjustment of provisions for stock compensation. Following a resolution by the Board of Executive Directors and the Supervisory Board in 2002, stock options are to be settled in cash. Under U.S. GAAP, such obligations are to be accounted for as stock appreciation rights based on the intrinsic value of the options on the balance sheet date. However, options granted in prior years, for which cash settlement was not foreseen, are to be accounted for in accordance with SFAS 123 as equity instruments based upon the fair value on the grant date.

In the present Financial Statements, all obligations resulting from stock options are accounted for based upon the fair value on the balance sheet date. A provision is accrued over the vesting period of the options. The different accounting methods led to an increase in net income in accordance with U.S. GAAP of €16.1 million in 2004 and €17.2 million in 2003.

In the present Financial Statements, obligations resulting from stock options are shown as provisions. In accordance with U.S. GAAP, options for which cash settlement was not originally foreseen are recorded as additions to stockholders' equity.

Overall, the accounting for stock options resulted in a decrease in stockholders' equity of €9.4 million in 2004, and €14.6 million in 2003.

(k) 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:

Deferred taxes		Stockholders' equity		Net income	
Million €	Note	2004	2003	2004	2003
Capitalization of interest	(a)	(158.4)	(171.5)	8.9	11.0
Capitalization of software developed for internal use	(b)	(47.7)	(69.7)	21.0	1.0
Accounting for pensions	(c)	(351.1)	(360.6)	(14.3)	(27.7)
Accounting for provisions	(d)	(82.2)	(78.8)	13.9	(59.1)
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates	(e)	13.4	48.9	(58.9)	6.3
Valuation of securities at market values	(f)	(3.8)	0.1	(4.0)	(17.2)
Valuation adjustments relating to companies accounted for under the equity method	(g)	–	–	–	–
Inventory valuation	(h)	(7.2)	(65.4)	1.3	8.3
Reversal of goodwill amortization and write-offs due to permanent impairment	(i)	(122.0)	(97.0)	(31.2)	(45.9)
Other adjustments	(j)	55.7	95.3	(39.6)	8.0
Recognition of tax effects of dividend payments	(k)	(107.5)	–	(107.5)	124.2
		(810.8)	**(698.7)**	**(210.4)**	**8.9**

The change of the deferred taxes for foreign currency translation adjustments is recognized in other comprehensive income.

In 2004, following a change to the German Corporate Income Tax Act (Section 8b), deferred taxes were, for the first time, accrued for tax effects of dividend payments from BASF Group companies, according to the financial plan.

In 2003, capitalized tax credits related to the distribution of retained earnings previously taxed at higher rates had to be written off in the German GAAP financial statements due to a legal change. 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 resulting burden on income according to U.S. GAAP therefore had to be eliminated in 2003.

(l) 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 2004 and 2003, 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
The standards adopted in 2004 – SFAS 151 "Inventory Costs," SFAS 152 "Accounting for Real Estate Time-Sharing Transactions," SFAS 153 "Exchange of Non-monetary Assets," and EITF 03-1 "The Meaning of Other Than Temporary Impairment and its Application to Certain Investments" – were examined to determine their effect on the BASF Group financial statements.

According to SFAS 151, unusually high expenses for the production of inventories are to be charged against income in the period they occur, rather than being capitalized as production costs. SFAS 152 covers the accounting treatment of timesharing of property and property rights. SFAS 153 states that the exchange of nonmonetary assets are generally to be valued at fair value. According to EITF 03-1, additional disclosures are required in the notes to the financial statements if securities are valued income neutral due to a temporary decline in value. These new standards have no effect on the financial statements 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 €	2004	2003
Net income in accordance with U.S. GAAP (before other comprehensive income)	1,862.8	1,319.7
Change of foreign currency translation adjustments		
Gross	(291.3)	(729.3)
Deferred taxes	17.2	38.0
Changes in unrealized holding gains on securities		
Gross	95.6	(5.2)
Deferred taxes	0.3	17.2
Changes in unrealized losses from cash flow hedges		
Gross	(54.0)	0.5
Deferred taxes	18.7	(0.2)
Additional minimum liability for pensions		
Gross	(514.7)	(18.5)
Deferred taxes	197.0	–
Other comprehensive income (loss), net of tax	**(531.2)**	**(697.5)**
Comprehensive income, net of tax	**1,331.6**	**622.2**

Million €	2004	2003
Stockholders' equity in accordance with U.S. GAAP before accumulated other comprehensive income	18,694.7	18,328.4
Accumulated other comprehensive income		
Translation adjustments		
Gross	(1,369.0)	(1,077.7)
Deferred taxes	69.2	52.0
Unrealized holding gains on securities		
Gross	196.2	100.6
Deferred taxes	(45.4)	(45.7)
Unrealized losses from cash flow hedges		
Gross	(58.1)	(4.1)
Deferred taxes	20.1	1.4
Additional minimum liability for pensions		
Gross	(551.0)	(36.3)
Deferred taxes	202.4	5.4
Accumulated other comprehensive income	**(1,535.6)**	**(1,004.4)**
Total stockholders' equity in accordance with U.S. GAAP including comprehensive income	**17,159.1**	**17,324.0**

Reconciliation of stockholders' equity under U.S. GAAP

Million €	2004	2003
Stockholders' equity in accordance with U.S. GAAP on January 1	17,324.0	18,040.0
Comprehensive income, net of tax	1,331.6	622.2
Share buyback and cancellation, including own shares intended to be cancelled	(725.7)	(499.8)
Dividend paid (excluding minority interests)	(774.1)	(788.7)
BASF stock option program	(9.4)	(14.6)
Change in scope of consolidation and other changes	12.7	(35.1)
Stockholders' equity in accordance with U.S. GAAP on December 31	**17,159.1**	**17,324.0**

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 includes the operating divisions Styrenics, Performance Polymers and Polyurethanes.

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. For the first time in 2004, land valued at €432.4 million was assigned to the segments' assets and investments in infrastructure totaling €367.5 million were assigned to "Additions to tangible and intangible fixed assets". The income from operations recorded as "Other" includes mainly costs of exploratory research and biotechnological research that was not allocated to the segments of €145 million in 2004. In 2004, costs of biotechnological research of €30 million were allocated to the Agricultural Products & Nutrition segment. The income from operations recorded as "Other" in 2003 includes costs of exploratory and biotechnological research of €181 million. "Other" also includes net gains or losses from foreign currency transactions that are related to financial indebtedness as well as from foreign currency positions secured with macro hedges of €(41) million in 2004 and €(1) million in 2003.

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

2004	Chemicals	Plastics	Performance Products	Agricultural Products & Nutrition			Oil & Gas	Other	BASF Group
Million €				Agricultural Products	Fine Chemicals	Total			
Net sales	7,020	10,532	8,005	3,354	1,793	5,147	5,263	1,570	37,537
Change (%)	22.0	19.9	4.9	5.6	(2.8)	2.5	9.9	14.0	12.5
Intersegmental transfers	3,395	677	291	26	30	52	546	462	5,423
Sales including transfers	10,415	11,209	8,296	3,380	1,823	5,199	5,809	2,032	42,960
Income from operations	1,241	669	1,068	492	48	540	1,637	(299)	4,856
Change (%)	215.8	126.0	123.4	110.3	(61.6)	50.4	19.9	(28.3)	82.7
Assets	5,008	6,044	4,426	4,849	1,269	6,118	3,876	8,444	33,916
Return on operating assets (%)	25.5	11.5	23.5	9.5	3.7	8.3	43.2	.	18.0
Research and development expenses	104	138	221	273	92	365	198	147	1,173
Additions to tangible and intangible fixed assets	555	454	286	95	137	232	374	139	2,040
Depreciation of tangible and intangible fixed assets	505	481	374	368	138	506	438	166	2,470

2003	Chemicals	Plastics	Performance Products	Agricultural Products & Nutrition			Oil & Gas	Other	BASF Group
Million €				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 operating 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

Regions

2004 Million €	Europe	Thereof Germany	North America (NAFTA)	South America	Asia, Pacific Area, Africa	BASF Group
Location of customers						
Sales	20,967	7,382	8,182	2,064	6,324	37,537
Change (%)	9.7	4.4	14.2	16.9	19.0	12.5
Share (%)	55.9	19.7	21.8	5.5	16.8	100.0
Location of companies						
Sales	22,482	15,216	8,165	1,733	5,157	37,537
Sales including transfers	25,562	17,775	8,655	1,808	5,456	41,481
Income from operations	3,961	2,903	246	296	353	4,856
Assets	20,618	13,528	7,026	1,395	4,877	33,916
Additions to tangible and intangible fixed assets	1,138	780	258	81	563	2,040
Depreciation of tangible and intangible assets	1,472	882	630	111	257	2,470

2003 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 assets	2,255	961	429	65	667	3,416
Depreciation of tangible and intangible assets	1,477	866	630	107	238	2,452

5. Other operating income

Million €	2004	2003
Release and adjustment of provisions	156.3	170.4
Income from miscellaneous revenue-generating activities	71.7	56.6
Gains from foreign currency transactions	38.5	48.3
Gains from foreign currency conversion	12.1	80.6
Gains from disposal of assets and divestitures	448.7	23.2
Other	216.5	181.4
	943.8	**560.5**

Release and adjustment 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 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 and divestitures in 2004 are primarily related to the sale of the printing systems business in the Performance Products division. Gains in 2003 are primarily related to the sale of the soil conditioner business in the Agricultural Products & Nutrition segment.

Other includes dissolution of valuation allowances on receivables, miscellaneous sales and various other sundry items.

6. Other operating expenses

Million €	2004	2003
Integration, shutdown and restructuring measures	542.8	460.9
Environmental protection and safety measures, costs of demolition of fixed assets and costs related to the preparation of capital expenditure projects	167.7	179.7
Amortization of intangible assets and depreciation of tangible fixed assets	300.8	311.1
Costs from miscellaneous revenue-generating activities	69.7	56.8
Losses from foreign currency transactions	25.3	45.5
Losses from foreign currency conversion	44.1	114.9
Losses from disposal of assets	12.2	23.6
Other	413.5	408.2
	1,576.1	**1,600.7**

Integration, shutdown and restructuring measures concern efficiency improvement measures related to the Ludwigshafen Site Project and restructuring measures in the NAFTA region, as in the previous year.

Measures in 2003 additionally included integration costs for the acquired fipronil crop protection business.

Environmental protection measures of €26.0 million in 2004 and €9.6 million in 2003 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 expenses includes in 2004 as in the previous year, primarily valuation adjustments in accounts receivable, provisions for litigation, the write-off of no longer usable inventories, and many other items.

7. Financial result

Million €	2004	2003
Income from participating interests and similar income	49.8	126.3
Thereof from affiliated companies	11.7	21.4
Income from profit transfer agreements	2.3	2.7
Losses from loss transfer agreements	15.3	12.7
Income (losses) from companies accounted for under the equity method	25.9	(122.8)
Net income (loss) from financial assets	**62.7**	**(6.5)**
Write-down of, and losses from, retirement of financial assets as well as securities held as current assets	**671.3**	**260.4**
Income from other securities and financial assets	7.8	9.9
Thereof from affiliated companies	0.9	2.9
Other interest, income from sales of marketable securities and similar income	111.8	131.3
Thereof from affiliated companies	5.3	6.5
Interest and similar expenses	347.5	364.5
Thereof to affiliated companies	10.5	12.5
Interest result	**(227.9)**	**(223.3)**
Financial result	**(836.5)**	**(490.2)**

Income from participating interests and similar income included disbursements from unconsolidated group companies, as well as dividends from participating interests. Shares in participating interests were sold in 2003 resulting in income from participating interests and similar income of €41.7 million.

Amortization of goodwill of companies accounted for under the equity method totaled €50.6 million in 2004. Amortization amounted to €74.3 million in 2003.

Write-down of, and losses from, retirement of financial assets as well as securities held as current assets in 2004 relate primarily to Basell N.V., the Netherlands, and Svalöf Weibull AB, Sweden, and in 2003 to a write-down for the participation in DyStar Textilfarben GmbH & Co. Deutschland KG and DyStar Textilfarben GmbH.

The interest result in 2004 contains an expense of €35.0 million for an interest rate hedge for refinancing financial debts. Expenses from the disposal of DAX-LIBOR swaps of €5.6 million in 2004 is also included in the interest result. In 2003, valuation of DAX-LIBOR swaps at their fair values produced income of €28.0 million.

8. Income taxes

Million €	2004	2003
German corporate income tax	539.7	378.5
German trade income tax	236.6	131.7
Foreign income tax	484.9	293.2
Income taxes on oil-producing operations non-compensable with German corporate income tax	667.7	504.8
Taxes for prior years	(16.1)	(10.3)
Current taxes	1,912.8	1,297.9
Deferred taxes	92.7	(106.4)
Income taxes	**2,005.5**	**1,191.5**
Other taxes	150.4	151.8
Tax expense	**2,155.9**	**1,343.3**

“Other taxes” includes real estate taxes and other comparable taxes; they are shown under the appropriate functional costs of the statement of income. Income before taxes and minority interests is broken out as follows between regions.

Million €	2004	2003
Germany	2,175.5	1,332.1
Foreign	1,843.6	835.9
	4,019.1	**2,168.0**

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 in which the company is located. After accounting for trade income tax, which is a deductible operating expense, BASF has a weighted average trade income tax rate of 15.3%. Because German trade income tax is deductible, it also reduces the assessment basis for corporate income tax.

Income from foreign sources is taxed at the income tax rates applicable in the respective countries of domicile.

For German companies, deferred taxes are calculated using a tax rate of 38%. For foreign companies, deferred taxes are calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 29% in 2004 and 33% in 2003.

Income from dividends 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

	2004 Million €	%	2003 Million €	%
German corporate income tax	1,004.8	25.0	542.0	25.0
Additional corporate tax due to the German Flood Victim Solidarity Act	–	–	18.6	0.9
Solidarity surchage	28.3	0.7	18.1	0.8
Credit for dividend distribution	–	–	124.2	5.7
German trade income tax net of corporate income tax	177.5	4.4	98.8	4.6
Foreign tax-rate differential	66.2	1.6	64.2	3.0
Non-taxable income	(209.2)	(5.1)	(82.5)	(3.8)
Non-deductible expenses, including amortization of goodwill	329.8	8.3	139.4	6.4
Loss from companies accounted for under the equity method	(6.4)	(0.2)	30.7	1.4
Taxes for previous years	(16.1)	(0.4)	(134.5)	(6.2)
Income taxes on oil-producing operations non-compensable with German corporate income tax	667.7	16.6	504.8	23.3
Other	(37.1)	(1.0)	(132.3)	(6.1)
Income taxes/effective tax rate	**2,005.5**	**49.9**	**1,191.5**	**55.0**

Deferred taxes result from the following temporary differences between tax and book valuation methodologies:

Deferred tax assets

Million €	2004	2003
Intangible assets	(10.9)	5.4
Property, plant and equipment	(407.3)	(424.6)
Financial assets	(10.2)	37.4
Inventories and accounts receivable	(56.0)	77.5
Provisions for pensions and similar obligations	255.8	112.2
Other provisions and liabilities	508.6	567.4
Tax loss carryforwards	816.7	794.6
Securities and others	231.8	248.9
Valuation allowances	(117.6)	(171.8)
Thereof for loss carryforwards	(41.6)	(72.8)
Total	**1,210.9**	**1,247.0**
Thereof short-term	280.7	428.6

Deferred tax liabilities

Deferred tax liabilities are included in “provisions for taxes” in the Consolidated Balance Sheets.

Million €	2004	2003
Intangible assets	99.6	119.7
Property, plant and equipment	287.6	325.0
Other	65.9	39.2
Total	**453.1**	**483.9**
Thereof short-term	76.3	67.0

The regional distribution of tax loss carryforwards is as follows:

Million €	2004	2003
Germany subsidiaries	26.3	37.5
Foreign subsidiaries	2,142.4	2,087.9
	2,168.7	**2,125.4**

German tax losses may be carried forward indefinitely. Foreign loss carryforwards exist primarily in North America (NAFTA). These expire after 2020.

9. Minority interests

Million €	2004	2003
Minority interests in profits	147.2	106.2
Minority interests in losses	16.6	39.9
	130.6	**66.3**

Minority interests in profits relate primarily to the Group companies engaged in trading and distribution of natural gas, and to the operating company for the steam cracker in Port Arthur, Texas.

Minority interests in losses in 2003 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 generated from operating activities was derived after net interest payments of €226.6 million in 2004 and €276.3 million in 2003. Income taxes paid totaled €1,543.0 million in 2004 and €1,013.1 million in 2003.

Personnel costs

Million €	2004	2003
Wages and salaries	4,579.1	4,653.5
Social security contributions and expenses for pensions and assistance	1,239.4	1,237.1
Thereof for pensions	430.9	432.7
	5,818.5	**5,890.6**

German Group companies incurred costs for employee representatives to comply with statutory regulations of €11.2 million in 2004 and €10.5 million in 2003.

Average number of employees

	Fully consolidated companies		Proportionally consolidated companies	
	2004	2003	2004	2003
Europe	59,521	60,954	252	251
Thereof Germany	47,830	49,339	14	15
North America (NAFTA)	11,002	12,657	488	613
South America	4,848	5,053	–	–
Asia, Pacific Area, Africa	8,325	8,480	1,912	1,182
BASF Group	**83,696**	**87,144**	**2,652**	**2,046**
Thereof with trainee contracts	2,549	2,669	2	2
Thereof with limited-term contracts	1,738	1,750	233	390

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 85,022 in 2004 and 88,167 in 2003.

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 the fibers business. In 2004, 1,214 additional BASF employees transferred to Honeywell.

As a result of the printing systems sale, the number of employees was reduced by 2,029 in 2004.

Compensation for the Board of Executive Directors and Supervisory Board

Million €	2004	2003
Board of Executive Directors emoluments	14.0	11.9
Thereof fixed payments	4.8	4.6
Thereof performance-related payments	9.2	7.3
Exercise of option rights granted in 1999 and 2000	0.6	2.3
Supervisory Board emoluments	2.7	2.2
Thereof fixed payments	0.5	0.5
Thereof performance-related payments	2.2	1.7
Total emoluments of former members of the Board of Executive Directors and their surviving dependents	6.0	6.7
Exercise of option rights by former members of the Board of Executive Directors and their surviving dependents	1.3	1.3
Pension provisions for former members of the Board of Executive Directors and their surviving dependents	69.9	58.1
Loans to the Board of Executive Directors and the Supervisory Board	–	–
Contingent liabilities for the benefit of the Board of Executive Directors and the Supervisory Board	–	–

The criterion used to determine the size of performance-related bonuses is the return on assets, which corresponds to income from ordinary activities plus interest expenses as a percentage of average assets.

In 2004, the members of the Board of Executive Directors were also granted 120,356 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 548,194 options. In 2004, the issue of options resulted in additional personnel costs totaling €3.9 million. Of this amount, €0.9 million was related to options issued in 2004, and €3.0 million to options issued in 1999 through 2003.

In 2004, the exercising of options granted in 1999 and 2000 resulted in cash payments totaling €0.6 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. For further information, see page 137.

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 2004 Million €	Concessions, trademarks, and similar rights and values*	Goodwill	Advance payments	Total
Acquisition costs				
Balance as of January 1, 2004	3,030.5	2,704.6	1.6	5,736.7
Change in scope of consolidation	43.1	2.9	–	46.0
Additions	77.9	16.6	15.7	110.2
Disposals	127.4	198.5	0.1	326.0
Transfers**	(24.4)	(93.2)	(0.5)	(118.1)
Balance as of December 31, 2004	2,999.7	2,432.4	16.7	5,448.8
Amortization				
Balance as of January 1, 2004	1,276.1	666.2	1.2	1,943.5
Change in scope of consolidation	2.7	1.7	–	4.4
Additions	359.7	150.9	0.1	510.7
Disposals	122.2	190.2	–	312.4
Transfers**	(10.7)	(24.8)	–	(35.5)
Balance as of December 31, 2004	1,505.6	603.8	1.3	2,110.7
Net book value as of December 31, 2004	**1,494.1**	**1,828.6**	**15.4**	**3,338.1**

* Including licences in such rights and values

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

Additions in 2004 primarily relate to the acquisition of the polyurethane foams business from Foam Enterprises, United States.

Developments 2003 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.

12. Property, plant and equipment

Developments 2004 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, 2004	6,314.2	28,458.5	2,699.5	2,099.9	39,572.1
Change in scope of consolidation	26.3	92.7	11.2	22.8	153.0
Additions	51.9	446.9	84.9	1,345.6	1,929.3
Disposals	225.6	663.2	194.3	30.4	1,113.5
Transfers*	54.7	559.1	(52.7)	(1,390.9)	(829.8)
Balance as of December 31, 2004	6,221.5	28,894.0	2,548.6	2,047.0	39,711.1
Depreciation					
Balance as of January 1, 2004	3,744.6	20,544.6	2,205.7	7.3	26,502.2
Change in scope of consolidation	8.6	77.9	9.2	–	95.7
Additions	247.4	1,533.2	163.6	15.2	1,959.4
Disposals	170.5	555.5	174.3	0.3	900.6
Transfers*	(40.6)	(285.7)	(61.0)	(2.5)	(389.8)
Balance as of December 31, 2004	3,789.5	21,314.5	2,143.2	19.7	27,266.9
Net book values as of December 31, 2004	**2,432.0**	**7,579.5**	**405.4**	**2,027.3**	**12,444.2**

Impairment losses in 2004 in the amount of €111.9 million relate to European sites in the Chemicals segment, as well restructuring measures in North America (NAFTA).

Developments 2003 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	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 values 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 various production plants.

13. Financial assets

Developments 2004
Participations and securities held as fixed assets

Million €	Shares in affiliated companies	Shares in associated companies	Share in participating interests	Securities held as fixed assets	Participations and securities held as fixed assets (subtotal)
Acquisition costs					
Balance as of January 1, 2004	512.1	1,554.6	261.1	14.4	2,342.2
Change in scope of consolidation	(56.9)	5.4	7.8	–	(43.7)
Additions	7.7	28.7	2.7	1.2	40.3
Disposals	80.6	(0.6)	0.2	3.4	83.6
Transfers, including exchange rate changes*	12.9	19.4	4.8	–	37.1
Balance as of December 31, 2004	395.2	1,608.7	276.2	12.2	2,292.3
Accumulated depreciation					
Balance as of January 1, 2004	89.7	19.0	0.1	1.7	110.5
Change in scope of consolidation	0.2	–	.	.	0.2
Additions	28.5	565.8	20.2	–	614.5
Disposals	10.7	–	–	–	10.7
Transfers*	(7.8)	–	–	–	(7.8)
Balance as of December 31, 2004	99.9	584.8	20.3	1.7	706.7
Net book values as of December 31, 2004	**295.3**	**1,023.9**	**255.9**	**10.5**	**1,585.6**

Developments 2004
Loans and other investments

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	94.5	248.8	77.4	420.7	2,762.9
Change in scope of consolidation	(8.3)	–	.	(8.3)	(52.0)
Additions	78.6	14.0	13.9	106.5	146.8
Disposals	4.6	50.9	18.1	73.6	157.2
Transfers, including exchange rate changes*	(6.7)	(6.5)	1.3	(11.9)	25.2
Balance as of December 31, 2003	153.5	205.4	74.5	433.4	2,725.7
Accumulated depreciation					
Balance as of January 1, 2003	18.3	29.2	5.3	52.8	163.3
Change in scope of consolidation	42.8	–	–	42.8	43.0
Additions	4.6	7.3	0.8	12.7	627.2
Disposals	–	0.3	0.7	1.0	11.7
Transfers*	–	–	(0.2)	(0.2)	(8.0)
Balance as of December 31, 2003	65.7	36.2	5.2	107.1	813.8
Net book values as of December 31, 2003	**87.8**	**169.2**	**69.3**	**326.3**	**1,911.9**

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

Within “shares in associated companies,” write-downs primarily concern Basell N.V., the Netherlands, and Svalöf Weibull AB, Sweden.

Developments 2003
Participations and securities held as fixed assets

Million €	Shares in affiliated companies	Shares in associated companies	Share 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, including exchange rate changes*	(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 values as of December 31, 2003	**422.4**	**1,535.6**	**261.0**	**12.7**	**2,231.7**

Developments 2003
Loans and other investments

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, including exchange rate changes*	(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 values 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 of "Shares in associated companies" include the participation in the DyStar group, which was accounted for according to the equity method until September 2003. The holdings of the DyStar Textilfarben GmbH & Co. Deutschland KG and DyStar Textilfarben GmbH were accounted for as other assets, due to the intent to dispose of the assets.

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:

	2004			2003		
Million €	Book values	Market values	Unrealized gains	Book values	Market values	Unrealized gains
Fixed-term interest-bearing securities	–	–	–	1.4	1.4	–
Mutual funds	9.7	9.8	0.1	8.6	8.4	(0.2)
Other shareholdings and securities	256.7	406.3	149.6	263.7	337.9	74.2
	266.4	**416.1**	**149.7**	**273.7**	**347.7**	**74.0**

The disposal of available-for-sale securities generated a gain of less than €0.1 million in 2004 and a gain of €41.7 million in 2003.

14. Inventories

Million €	2004	2003
Raw materials and factory supplies	1,018.1	910.5
Work-in-process, finished goods and merchandise	3,541.5	3,154.2
Construction in progress	61.4	71.8
Advance payments	5.4	14.6
	4,626.4	**4,151.1**

"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 and finished goods were first valued at average cost in 2004.

15. Receivables and other assets

	2004		2003	
Million €		Thereof non-current		Thereof non-current
Accounts receivable, trade	5,511.0	2.1	4,954.0	13.2
Receivable from affiliated companies	443.9	–	575.5	–
Miscellaneous receivables and other assets	2,008.4	301.1	2,069.5	248.9
Thereof:				
Receivables from associated companies and other participating interests	231.9	0.1	190.6	–
Other assets	1,776.5	301.0	1,878.9	248.9
	7,963.3	**303.2**	**7.599.0**	**262.1**

Composition of other assets

Million €	2004	2003
Tax refund claims	244.1	274.6
Loans and interest receivables	187.6	230.2
Deferrals from financial derivatives	896.0	833.6
Receivables from the sale of non-trade assets	38.6	80.8
Employee receivables	36.6	32.2
Rents and deposits	44.7	66.5
Insurance claims	2.9	21.2
Receivables with consortium partners	36.3	41.2
Other	289.7	298.6
	1,776.5	**1,878.9**

Prepaid expenses amounted to €5.2 million in 2004, and €8.2 million in 2003.

Valuation allowances for doubtful accounts

Million €	Balance as of January 1, 2004	Additions affecting income	Releases affecting income	Additions not affecting income	Releases not affecting income	Balance as of December 31, 2004
Accounts receivable, trade	333.0	81.3	55.8	12.7	34.9	336.3
Miscellaneous receivables and other assets	40.4	16.4	8.7	0.2	15.3	33.0
	373.4	**97.7**	**64.5**	**12.9**	**50.2**	**369.3**

Million €	Balance as of January 1, 2003	Additions affecting income	Releases affecting income	Additions not affecting income	Releases not affecting income	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**

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 €	2004 Book values	Market values	Unrealized gains	2003 Book values	Market values	Unrealized gains
Fixed-term interest bearing securities	12.5	12.9	0.4	12.1	12.4	0.3
Shares	150.1	191.5	41.4	134.8	149.5	14.7
Other securities	0.2	0.2	–	–	–	–
	162.8	**204.6**	**41.8**	**146.9**	**161.9**	**15.0**

There was no significant disposal of available-for-sale securities in 2004 or in 2003.

Maturities of fixed-term securities

Million €	2004 Book values	Market values	2003 Book values	Market values
Less than 1 year	–	–	–	–
Between 1 and 5 years	12.5	12.9	12.1	12.4
	12.5	**12.9**	**12.1**	**12.4**

17. Prepaid expenses

Million €	2004	Thereof non-current	2003	Thereof non-current
Discounts	7.4	5.3	10.3	7.4
Prepaid pension assets	14.7	14.0	399.1	399.0
Miscellaneous	150.0	18.5	104.9	10.3
	172.1	**37.8**	**514.3**	**416.7**

The discounts from the issuance of the 5.75% Euro Bond 2000/2005 and the 3.5% Euro Benchmark Bond 2003/2010 of BASF Aktiengesellschaft are capitalized and amortized as interest expense over the term of the underlying obligations.

Prepaid benefit assets in 2003 resulted primarily from contributions to pension funds in North America (NAFTA). In connection with the changeover of pension accounting treatment to IAS 19 in 2004, these items were written off.

Other prepaid expenses are related to prepayments of operating costs of €29.3 million in 2004 and €23.5 million in 2003, as well as prepaid insurance premiums of €23.2 million in 2004, and €11.8 million in 2003.

18. Capital and reserves

	Conditional capital		Authorized capital	
Million €	**2004**	**2003**	**2004**	**2003**
January 1	425.3	429.2	500.0	500.0
Conditional capital for the stock option program BOP 1999/2000				
Reduction resulting from exercise or expiration of option rights	(1.3)	(3.9)		
Reduction due to cancellation of the prior authorization valid until May 1, 2004 to obtain authorized capital at the annual meeting on April 29, 2004			(500.0)	
Increase due to authorization to obtain authorized capital at the annual meeting on April 29, 2004			500.0	
December 31	**424.0**	**425.3**	**500.0**	**500.0**

Subscribed capital

Million €	Outstanding shares	Subscribed capital	Capital reserves
Outstanding shares as of December 31, 2004	541,240,410	1,385.6	3,021.8
Repurchased shares intended to be cancelled	(800,000)	(2.1)	–
Outstanding shares as disclosed in the financial statements	**540,440,410**	**1,383.5**	3,021.8

A total of 16,203,000 shares were repurchased in 2004, of which 15,403,000 shares were cancelled as of December 31, 2004, and the subscribed capital was reduced by the resulting attributable amount of €39.4 million. The remaining 800,000 shares were repurchased with the intent to cancel, therefore the subscribed capital is shown net of these shares.

Share repurchase

The Board of Executive Directors received approval at the Annual Meeting on April 29, 2004, to repurchase BASF's shares to a maximum amount of 10% of subscribed capital by October 28, 2005. 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.

In addition, the Board of Executive Directors has been authorized at the Annual Meeting on April 29, 2004 to purchase shares through the use of put and call options. The price paid for options purchased may not exceed the theoretical value calculated with recognized financial models using the same assumptions, such as strike price, as the options themselves, while the price received for options sold may not fall beneath this value.

In 2004, a total of 16,203,000 shares, or 2.9% of the issued shares were acquired. The average purchase price was €44.79 per share. Of these shares, a total of 15,403,000 shares were cancelled by December 31, 2004. The remaining 800,000 shares of BASF Aktiengesellschaft were acquired for the purpose of cancellation. Therefore, these shares were not capitalized, but rather the subscribed capital is shown net of these shares at December 31, 2004. During 2003, BASF purchased a total of 13,673,000 shares, or 2.4% of issued shares, at an average price of €36.55 per share. These were cancelled in 2003 and 2004.

Aside from the repurchase of shares on the open market, BASF wrote 2,300,000 put options. These options expired out-of-the-money in 2004. The option premiums reduced the expense for repurchased shares by €4.1 million.

Conditional capital

Of the conditioned capital, €384.0 million serves to fulfill the exercising of warrants related to option bonds. The Board of Executive Directors was authorized at the Annual Meeting on April 26, 2001, to do so up until April 1, 2006. An additional €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 €1.6 million is reserved to fulfill stock options from the Stock Option Program 1999/2000.

Authorized capital

At the Annual Meeting of April 29, 2004, 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, 2009. 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 €	2004	2003
Legal reserves	258.6	243.2
Other retained earnings and profit retained	11,994.1	11,811.6
	12,252.7	**12,054.8**

The changes in scope of consolidation reduced the legal reserves by €0.1 million in 2004, and increased them by €0.1 million in 2003. Transfers from "Other retained earnings and profit retained" increased legal reserves by €15.5 million in 2004 and €18.5 million in 2003.

20. Minority interests

Company	Partner	2004 Equity stake (%)	2004 Million €	2003 Equity stake (%)	2003 Million €
WINGAS GmbH, Kassel, Germany	Gazprom Group, Moscow, Russia	35.0	80.6	35.0	70.5
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochemical Corp. Ltd., Nanjing, China	40.0	50.3	40.0	50.9
BASF India Ltd., Mumbai, India	Publicly traded shares	47.3	23.7	47.3	22.6
BASF PETRONAS Chemicals Sdn. Bhd., Petaling Jaya, Malaysia	PETRONAS (Petroliam Nasional Bhd.), Kuala Lumpur, Malaysia	40.0	89.6	40.0	157.0
BASF SONATRACH PropanChem S.A., Tarragona, Spain	SONATRACH, Algiers, Algeria	49.0	21.3	49.0	20.1
BASF FINA Petrochemicals Ltd., Port Arthur, Texas	Total Petrochemicals Inc., Houston, Texas	40.0	34.6	40.0	61.5
Shanghai BASF Polyurethane Comp., Shanghai, China	Sinopec Shanghai Gao Qiao Petroc. Co., Shanghai/China Shanghai Hua Yi (Group) Comp., Shanghai, China	30.0	20.4	–	–
Other			11.3		5.5
			331.8		**388.1**

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 defined benefit obligation (weighted average)	Germany		Foreign	
	2004	2003	2004	2003
Interest rate	5.25%	5.75%	5.58%	5.93%
Projected increase of wages and salaries	2.50%	2.50%	3.80%	3.88%
Projected pension increase	1.50%	1.50%	0.51%	0.60%

Assumptions used to determine defined benefit cost (weighted average)	Germany		Foreign	
	2004	2003	2004	2003
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%
Expected return on plan assets	6.25%	6.50%	8.39%	8.45%

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 5.75%.

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 (%)	Percentage of plan assets (%)	
	2005	2004	2003
Equities	45	45	44
Debt securities	44	48	47
Real estate	9	5	6
Other	2	2	3
Total	**100**	**100**	**100**

The target asset allocation has been defined with asset liability studies 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 defined benefit obligation

Million €	2004	2003
Defined benefit obligation as of January 1	5,612.5	5,959.9
Service cost	136.2	121.8
Interest cost	327.5	335.0
Benefits paid	(442.2)	(403.7)
Participants' contributions	1.3	1.9
Change in actuarial assumptions	327.1	129.8
Settlements and other changes	66.9	(106.8)
Exchange rate changes	(124.0)	(425.4)
Defined benefit obligation as of December 31	**5,905.3**	**5,612.5**

Development of the plan assets

Million €	2004	2003
Plan assets as of January 1	2,147.3	2,210.7
Actual return on plan assets	263.9	402.8
Employer contributions	20.2	39.5
Participants' contributions	1.3	1.9
Benefits paid	(197.6)	(179.3)
Exchange rate changes	(111.1)	(317.3)
Other changes	9.9	(11.0)
Plan assets as of December 31	**2,133.9**	**2,147.3**
Non-capitalized pre-financing of foreign pension plans	(188.3)	(191.6)
Plan assets as of December 31	**1,945.6**	**1,955.7**

The valuation of the pension fund assets of foreign pension produced the pre-financing shown above.

In 2004, the pension funds including BASF Pensionskasse, held securities that were issued by BASF Group companies, whose total market value amounted to €8.6 million on December 31, 2004 (2003: €7.7 million). No material transactions took place between the pension funds and BASF Group companies, or related companies in 2004.

The funded status, excluding pre-financing, is as follows:

Million €	2004	2003
Defined benefit obligation as of December 31	5,905.3	5,612.5
Less pension fund assets as of December 31, excluding non-capitalized pre-financing	1,945.6	1,955.7
Funded status	**3,959.7**	**3,656.8**
Unrecognized amounts	(408.3)	(495.6)
Capitalized defined benefit asset	14.7	399.1
Provisions for pensions	**3,566.1**	**3,560.3**
Provisions for similar obligations	300.2	302.1
Provisions for pensions and similar obligations	**3,866.3**	**3,862.4**

Unrecognized amounts refer in particular to actuarial gains or losses, and expenses due to prior service costs, which are amortized over the average remaining period of service of the pension recipients and the average vesting period, respectively.

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 predominantly to pension plans in Germany that are covered by provisions.

	2004		2003	
Million €	ABO	Plan assets	ABO	Plan assets
Unfunded pension plans	3,563.1	–	3,423.6	–
Partially funded pension plans	1,727.5	1,686.3	84.1	68.3
Total of pension plans that are not fully funded	**5,290.6**	**1,686.3**	**3,507.7**	**68.3**
Fully funded pension plans	372.2	447.6	1,927.2	2,079.0
	5,662.8	**2,133.9**	**5,434.9**	**2,147.3**

Due to rising ABOs, the pension liabilities exceeded plan assets for the first time in 2004 for some pension plans, leading to their inclusion in the partially funded plan category.

Payments for pension liabilities as of December 31, 2004 have the following maturities:

	Million €
2005	384.5
2006	389.0
2007	400.5
2008	410.2
2009	418.8
2010 through 2014	2,208.3
	4,211.3

Composition of the defined benefit cost

Million €	2004	2003
Service cost	136.2	121.8
Interest cost	327.5	335.0
Expected return on plan assets	(172.0)	(206.3)
Amortization of prior service cost	6.1	13.4
Other amortization amounts	10.5	12.1
Settlement (gains)/losses	(17.6)	3.7
Expenses for defined benefit plans	**290.7**	**279.7**
Expenses for defined contribution plans	124.4	126.0
Expenses for similar obligations	15.8	27.0
Defined benefit cost	**430.9**	**432.7**

The estimated contribution payments for defined benefit plans including BASF Pensionskasse for 2005 are €97.5 million.

22. Other provisions

Million €	2004	Thereof current	2003	Thereof current
Oil and gas production	435.6	–	448.8	–
Environmental protection and remediation costs	256.7	45.7	248.2	28.5
Personnel costs	1,582.2	928.2	1,333.9	770.0
Sales and purchase risks	750.4	748.7	745.4	739.3
Integration, shutdown and restructuring costs	305.9	297.8	339.2	307.2
Legal, damage claims, guarantees and related commitments	615.9	152.9	637.6	150.3
Maintenance and repair costs	147.6	50.1	143.7	58.0
Outstanding billings from suppliers	105.9	105.9	78.9	78.9
Other	357.5	262.6	270.5	188.2
	4,557.7	**2,591.9**	**4,246.2**	**2,320.4**

Oil and gas production: Accrued costs for filling of wells and the removal of production equipment after the end of production are accumulated individually using the unit of production method according to the amount of cumulative production.

Environmental protection and remediation costs: Expected costs for rehabilitating contaminated sites, water protection, recultivating landfills, removal of environmental contamination at existing production or storage sites 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:

2004 Million €	Amount accrued as of January 1, 2004	Amount paid in 2004	Other changes 2004	Amount accrued as of December 31, 2004
Severance	248.2	116.9	128.4	259.7
Plant closure and demolition	72.4	16.1	(20.6)	35.7
Other	18.6	18.7	10.6	10.5
	339.2	**151.7**	**118.4**	**305.9**

2003 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**

Additions in 2004 consisted primarily of personnel measures at the Ludwigshafen site, as well as further restructuring measures in Europe.

Additions in 2003 consisted primarily of personnel measures at the Ludwigshafen site, as well as restructuring measures for corporate services in North America (NAFTA).

Amounts paid in 2004 and 2003 are related to the realization of restructuring measures initiated in the prior year.

Guarantees, damage claims, legal 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 antitrust proceedings. The significant proceedings are described in Note 25.

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 overhauls were as follows:

2004 Million €	Amount accrued as of January 1, 2004	Amount paid in 2004	Other changes 2004	Amount accrued as of December 31, 2004
Plant inspections required by regulatory authorities	111.9	26.9	36.4	121.4

2003 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

23. Liabilities

Financial liabilities

Million €	2004	2003
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	1,000.0
Other bonds	275.0	306.6
Commercial paper	–	54.0
Bonds and other liabilities to the capital market	**2,525.0**	**2,610.6**
Liabilities to credit institutions	778.3	896.1
	3,303.3	**3,506.7**

Financial liabilities are denominated predominantly in the following currencies.

Million €	2004	2003
Euros	2,368.5	2,453.0
U.S. dollars	540.4	677.0
Malaysian ringgit	17.7	98.8
Korean won	16.8	38.4
Chinese renminbi	276.3	138.6
Other	83.6	100.9
	3,303.3	**3,506.7**

The weighted average interest rate on short-term borrowings was 4.2% on December 31, 2004 (2003: 4.4%).

Financial liabilities have the following maturities as of December 31, 2004:

	Million €
2005	1,452.2
2006	20.1
2007	14.6
2008	31.3
2009	28.1
2010 and thereafter	1,757.0
	3,303.3

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 1.5% in 2004 and 1.4% in 2003.

"Commercial paper" comprises BASF Aktiengesellschaft's commercial paper program.

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 with variable interest rates of €3,460.9 million (thereof €2,062.4 million at BASF Aktiengesellschaft) as of December 31, 2004, and €3,529.0 million (thereof €2,107.0 million at BASF Aktiengesellschaft) as of December 31, 2003.

Miscellaneous liabilities

Million €	2004	2004 Thereof current	2003	2003 Thereof current
Advances received on account of orders	102.7	102.7	65.6	65.6
Liabilities on bills	51.5	51.5	36.4	5.2
Liabilities to companies in which participations are held	158.6	158.2	177.2	154.7
Tax liabilities	335.3	335.3	320.2	320.2
Liabilities relating to social security	155.0	155.0	138.8	138.8
Non-trade liabilities of joint ventures to partners	567.9	128.9	487.6	104.8
Other miscellaneous liabilities	796.4	543.3	976.6	606.5
Total	**2,167.4**	**1,474.9**	**2,202.4**	**1,395.8**
Deferred income	350.9	114.3	369.8	145.2
Total miscellaneous liabilities and deferred income	**2,518.3**	**1,589.2**	**2,572.2**	**1,541.0**

Liabilities to companies in which participations are held include the portion of liabilities, which are not eliminated, to jointly owned companies accounted for using the proportional consolidation method of €144.8 million as of December 31, 2004, and €140.1 million as of December 31, 2003. Further liabilities relating to associated companies accounted for under the equity or costs method were €13.8 million as of December 31, 2004, and €37.1 million as of December 31, 2003.

Maturities of liabilities	2004		2003	
Million €	Current	Over 5 years	Current	Over 5 years
Bonds and other liabilities to the capital market	1,257.6	1,264.9	63.6	1,289.2
Liabilities to credit institutions	194.6	492.1	448.2	59.1
Accounts payable, trade	2,208.1	–	2,046.0	–
Liabilities to affiliated companies	277.9	36.0	356.7	–
Advances received on account of orders	102.7	–	65.6	–
Liabilities on bills	51.5	–	5.2	–
Liabilities to companies in which participations are held	158.2	–	154.7	–
Other miscellaneous liabilities	1,162.5	457.8	1,170.4	503.5
	5,413.1	**2,250.8**	**4,310.4**	**1,851.8**

Secured liabilities		
Million €	2004	2003
Liabilities to credit institutions	4.3	10.4
Miscellaneous liabilities	7.3	4.6
	11.6	**15.0**

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 €	2004	2003
Bills of exchange	10.3	19.6
Thereof to affiliated companies	0.2	0.3
Guarantees	248.2	138.7
Warranties	69.6	44.7
Granting collateral on behalf of third-party liabilities	13.0	11.8
	341.1	**214.8**

Other financial obligations

Million €	2004	2003
Remaining cost of construction in progress	1,700.7	1,853.3
Thereof purchase commitment	378.6	505.2
Commitments from long-term rental and leasing contracts	812.4	936.7
Capital contribution and loan commitments	15.9	9.1
Repurchase commitments	–	247.5
	2,529.0	**3,046.6**

BASF had payment commitments as of December 31, 2004 to the non-consolidated BASF Huntsman Shanghai Isocyanate Investment B.V., the Netherlands. BASF had payment commitments in 2003 to Shanghai BASF Polyurethane Company, China.

Obligations from long-term rental and lease contracts are due as follows:

	Million €
2005	171.0
2006	131.2
2007	94.2
2008	77.6
2009	64.7
2010 and thereafter	273.7
	812.4

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, 2004, are as follows:

	Million €
2005	7,447
2006	4,234
2007	3,062
2008	2,740
2009	2,549
2010 and thereafter	29,292
	49,324

The increase in purchase commitments compared with the previous year primarily reflects the premature extensions of the long-term supply contracts with Gazexport, a subsidiary of Gazprom, until 2030.

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. On December 9, 2004, the European Commission imposed an additional fine of €35 million for violations of certain antitrust laws relating to the sale of vitamin B_4 (choline chloride) in the mid nineties. BASF intends to appeal against this decision.

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 approximately 28 U.S. states. In October 2000, class actions in 24 of these states, as well as related claims by various state government entities, were settled. Certain of indirect purchasers plaintiffs who did not wish to participate in these settlements or were not eligible to do so have filed suits. Nearly all of those suits have been settled. Further claims for damages are pending in France and Australia. For these proceedings the company has established provisions for the costs that it anticipates to be sufficient.

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. BASF Aktiengesellschaft and the other defendants petitioned for a writ of certiorari to the United States Supreme Court. The Supreme Court granted the petition, and on June 14, 2004, vacated the Court of Appeals' ruling and remanded the case to the Court of Appeals by a 8-0 decision, which now will decide an issue that the Supreme Court did not address: whether the nature of the alleged link between foreign injury and domestic effects is legally sufficient to trigger application of the FTAIA's domestic-injury exception. The Court of Appeals issued a briefing schedule for the appeal on remand, with oral argument scheduled for April 20, 2005.

If the Court of Appeals affirms the District Court's dismissal of the action, the proceedings would be terminated and the case dismissed. If, on the other hand, the Court of Appeals does not affirm the dismissal of the action, then BASF Aktiengesellschaft will vigorously defend the case at each stage of the proceedings, including but not limited to personal jurisdiction, venue, attempted certification of a world wide class, a 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 in two cases 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 the drug for KPC by way of toll manufacture. Beyond this, BASF Corporation has no relationship with the product. The mere fact that BASF Corporation held the interest in KPC does not provide a sufficient basis for compensation claims. The overall material risk for BASF can be considered as rather low.

Additional proceedings

The Supreme Court of Minnesota in its decision dated February 19, 2004 upheld the verdict of the appellate court against BASF Corporation regarding payment of damages in an amount of $52 million. The court held that the sale of the plant protection products Poast® and Poast Plus® at different sales prices violated consumer protection laws. BASF believes that different sales prices are justified because the products are based on different patents and product registrations. BASF has filed a petition for a writ of certiorari seeking review by the United States Supreme Court. That petition is currently pending before the Court.

In 2001, class action lawsuits against BASF Aktiengesellschaft and some of its affiliates had been filed at United States courts. It was alleged that sales of automotive refinish coatings had violated antitrust laws. The vast majority of these claims have been settled on favorable terms.

26. Stock-based compensation

BASF stock option program (BOP)

In 2004, 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 €42.73 on April 30, 2004 (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. Shares of the individual investments must be held for at least two years from the options grant date.

The options were granted on July 1, 2004 and can be exercised between July 1, 2006 and June 30, 2012. 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 2003 were structured in a similar way to the BOP 2004 program. The options may be exercised following a vesting period of two years (BOP 2001 – 2003) 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℠ Total Return Index (EURO STOXX℠). For BOP 2001, it was replaced by the DJ Chemicals Index, which is considered a more meaningful benchmark as a worldwide index for the chemical sector.

Details on the fair value and the number of options issued as of December 31, 2004 are described below.

Fair value and parameters used as of December 31, 2004*	Program years BASF stock option program	
	2004	2003
Fair value	€28.07	€25.49
Dividend yield of BASF shares	2.64%	2.64%
Risk free interest rate	3.51%	3.37%
Volatility of BASF shares	27.57%	27.32%
Volatility of DJ Chemicals	17.97%	18.59%
Correlation BASF quotation: DJ Chemicals	72.09%	72.92%

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

The fair value at the option grant date was €22.69 (BOP 2004) and €16.82 (BOP 2003).

Options outstanding	2004		2003	
	Weighted average base price (€)	Options (Number)	Weighted average base price (€)	Options (Number)
Options outstanding as of January 1	43.99	3,833,959	46.67	3,252,444
Options granted	42.73	1,115,964	38.94	1,413,816
Options lapsed*	43.15	64,464	45.60	78,480
Options exercised	45.02	241,994	45.92	753,821
Options outstanding as of December 31	**43.64**	**4,643,465**	**43.99**	**3,833,959**
Thereof exercisable options	45.46	312,181	45.26	557,739

* Option rights lapse if the option holders no longer work for BASF or have sold part of their individual investment before the two-year holding period. They remain valid in the case of retirement.

The weighted average maturity of the outstanding options was 5.70 years on December 31, 2004 and 5.92 years on December 31, 2003. The base prices are within a range of €38.94 to €47.87.

In accordance with a resolution by the Board of Executive Directors and the Supervisory Board in 2002, stock options will be settled in cash instead of delivering shares. Options outstanding as of December 31, 2004 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 €36.4 million was charged to income in 2004, and €28.1 million in 2003.

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 program	2004	2003
Number of shares held as individual investment as of January 1	2,091,400	1,624,460
Number of shares added to the individual investment	468,320	584,490
Number of subscription rights lapsed	154,490	117,550
Number of shares held as individual investment as of December 31	**2,405,230**	**2,091,400**

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 €13.5 million was recorded in 2004 and €10.8 million in 2003.

27. Financial instruments and derivative instruments

Derivative instruments: The Company is exposed to foreign currency, interest rate and commodity 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/currency 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 nonperformance of their counterparts. The credit risk is minimized by exclusively trading contracts with major creditworthy financial institutions and partners.

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 South African rand, the British pound, the Brazilian real, the Japanese yen, the Mexican peso, and the Korean won. Foreign exchange contracts, or combined interest/currency derivatives were entered into 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:

	December 31, 2004		December 31, 2003	
Million €	Book values	Fair values	Book values	Fair values
Assets				
Financial assets (details, see Note 13)	1,911.9	2,061.6	2,599.6	2,673.6
Accounts receivable, trade and other assets	7,963.3	7,996.5	7,599.0	7,602.6
Marketable securities (details, see Note 16)	162.8	204.6	146.9	161.9
Cash and cash equivalents	2,085.9	2,085.9	480.6	480.6
Liabilities				
Financial liabilities*	3,303.3	3,334.2	3,506.7	3,535.0
Accounts payable, trade and other liabilities	4,768.5	4,748.6	4,659.3	4,657.2

* For the first time, the fair values were calculated without considering accrued interest. The previous year's figures were restated.

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.

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 €54.4 million. The book value of the payment liabilities in 2003 was €56.7 million. In 2004, the DAX-LIBOR swaps were sold.

Breakdown of derivative financial instruments

	Book values December 31		Fair values December 31	
Million €	**2004**	**2003**	**2004**	**2003**
Forward exchange contracts	5,265.3	5,068.7	541.1	366.8
Currency options	2,122.1	410.0	66.9	1.8
Foreign currency derivatives	**7,387.4**	**5,478.7**	**608.0**	**368.6**
Interest rate swaps	908.9	105.3	(43.8)	(8.2)
Interest rate/cross currency swaps	2,108.0	2,596.5	308.9	292.2
Interest rate derivatives	**3,016.9**	**2,701.8**	**265.1**	**284.0**
Commodity derivatives and other derivatives	355.5	633.4	(21.8)	7.9

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 €42.1 million in 2004 and €2.2 million in 2003. 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 material prices, e. g., for naphtha.

28. Services provided by the annual auditor

BASF Group companies have used the following services of Deloitte & Touche:

Million €	2004	2003
Annual audit	11.7	11.7
Audit-related services	1.8	0.8
Tax consultation services	1.6	2.2
Other services	0.5	1.2
	15.6	15.9

The annual audit concerned the audit of the annual financial statements of the BASF Group as well as the legally required audit of the financial statements of BASF Aktiengesellschaft and the consolidated subsidiary companies, and joint ventures.

Audit-related services concerned billed services for due diligence, confirmation of the conformance to certain contractual obligations as well as audits relating to documentation of the internal control systems required by the Sarbanes-Oxley Act.

Tax consultation services primarily concerned tax consultation services in connection with planned or existing transactions, transfer price analysis, as well as consultation with employees on foreign delegation assignments.

Other services concern amounts billed in connection with insurance damage claims as well as numerous other services.

Declaration of Conformity in Accordance with the German Corporate Governance Code

Compliance Statement 2004 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 2004 and will be complied with in the year 2005 subject to the measures outlined below.

2. Deviations

a) 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 we comply with this recommendation in addition to granting an attendance fee for the committee meetings.
   The membership in the other committees is solely 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.

b) 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.
   The respective chairmen of the Supervisory Board Committees report regularly to the Supervisory Board on the work of the Committees. This includes the work of the Nomination and Compensation Committee *(Personalausschuss).* Beyond that we do not comply with the above-mentioned recommendations, especially not with the recommendation to report on the individualized compensation of the Executive Board and the Supervisory Board.

c) Compliance Statement
   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. This includes the explanation of possible deviations from the recommendations of the Code. By § 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 Statement of Principles made in No. 1 above, there may be deviations from the recommendations of the Code. We will check the deviations mentioned in No. 2 above 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, December 16, 2004

The Supervisory Board
of BASF Aktiengesellschaft

The Board
of Executive Directors
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.

automotive (OEM) coatings
Coating systems for vehicle bodies that protect the vehicle from corrosion (cathodic dip) and gravel and chippings (primer), provide color (basecoat) and offer protection from environmental factors (topcoat).

automotive refinish coatings
Coating systems for the repair of vehicles under the trademarks Glasurit® und R-M®.

biotechnology
This term covers all processes and products that use living organisms, for example bacteria and yeasts, or their cellular constituents. BASF is using plant biotechnology to develop plants that enable a healthier diet through improved constituents, as well as crops with better cultivation characteristics. In addition, BASF is concentrating on the biocatalytic production of vitamins, amino acids, enzymes and chiral intermediates.

C_4 complex
Part of the production complex in Port Arthur, Texas. Here, three successive chemical processes are used to obtain butadiene, alkylate gasoline and propylene from a C_4 stream (a mixture of various hydrocarbons each containing four carbon atoms) from the steam cracker.

Coatings
The Coatings division develops, produces and markets automotive OEM and refinish coatings, industrial coatings and decorative paints.

corporate governance
Corporate governance refers to the entire system of managing and overseeing a company. This includes the organization of a company, its principles and guidelines as well as all internal and external regulatory and monitoring mechanisms.

decorative paints
Coatings for the interior and exterior of buildings.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

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.

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

energy management
The development of new materials and technologies to convert and store energy. Energy management also refers to the responsible use of fossil fuels, for example through the development of energy-saving products and materials such as insulating materials. Energy management at BASF also involves the exploration for and production of crude oil and natural gas in selected regions by our subsidiary Wintershall AG.

exploration
To investigate and explore an area 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 processes at sea or on land rather than by means of expensive drilling.

extrusion
Production of films from plastic granules using pressure and heat.

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.

industrial coatings
Coating materials for industrial goods with the exception of vehicles.

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 basic material 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.

nanotechnology
The term nanotechnology applies to materials, structures and technologies with one thing in common: the creation or presence of at least one spatial dimension smaller than a few hundred nanometers. This includes the production of nanoparticles and the creation of nanostructures, which in turn make it possible to produce products with new or improved properties. Examples include starting materials for textiles that absorb UV radiation, water-repellant surface coatings for the textile and automotive industries and coatings that are more scratch resistant.

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 its subsidiaries 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 facilities.

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

PBT
Polybutylene terephthalate (plastic)

Performance Chemicals
The Performance Chemicals division includes the business areas Coatings, Plastics & Specialties; Automotive & Oil Industry; Textiles; Leather; and Detergents & Formulators. In all five 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.

Glossary and Index

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 BASF's 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.

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 assets
This describes the returns we make on the average assets employed during the year. It is calculated as income from ordinary activities plus interest expenses as a percentage of average assets.

return on equity after tax
This describes the returns we make on the average equity used during a fiscal year. It is calculated as income before minority interests as a percentage of average equity.

return on operating assets
The return on operating assets describes the return made by an individual segment or the BASF Group on its allocated assets. It is calculated as income from operations as a percentage of average operating assets.

return on sales
The return on sales describes the returns we make from our operations as a percentage of sales. It is calculated as income from operations as a percentage of sales.

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 basic material 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.

Ten-year Summary

Balance Sheet

Million €	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Intangible assets	884	1,297	1,497	1,965	2,147	4,538	3,943	3,464	3,793	3,338
Tangible assets	7,873	8,217	9,076	10,755	12,416	13,641	14,190	13,745	13,070	12,444
Financial assets	1,338	2,093	2,132	1,826	1,507	3,590	3,360	3,249	2,600	1,912
Fixed assets	**10,095**	**11,607**	**12,705**	**14,546**	**16,070**	**21,769**	**21,493**	**20,458**	**19,463**	**17,694**
Inventories	3,439	3,665	3,876	3,703	4,028	5,211	5,007	4,798	4,151	4,626
Accounts receivable, trade	3,356	3,714	4,299	4,017	4,967	6,068	5,875	5,316	4,954	5,511
Other receivables	1,375	1,341	1,765	1,856	2,211	3,369	2,384	2,947	3,159	2,625
Deferred taxes	61	69	45	1,077	1,225	1,270	1,373	1,204	1,247	1,211
Liquid funds	3,166	1,957	1,846	1,503	1,508	870	743	363	628	2,249
Current assets	**11,397**	**10,746**	**11,831**	**12,156**	**13,939**	**16,788**	**15,382**	**14,628**	**14,139**	**16,222**
Total assets	**21,492**	**22,353**	**24,536**	**26,702**	**30,009**	**38,557**	**36,875**	**35,086**	**33,602**	**33,916**

Subscribed capital	1,559	1,580	1,590	1,595	1,590	1,555	1,494	1,460	1,425	1,384
Capital surplus	2,405	2,515	2,567	2,590	2,675	2,746	2,914	2,948	2,983	3,022
Paid-in capital	3,964	4,095	4,157	4,185	4,265	4,301	4,408	4,408	4,408	4,406
Retained earnings	5,275	6,262	7,418	8,695	9,002	8,851	12,222	12,468	12,055	12,253
Currency translation adjustment	(254)	(129)	201	39	549	662	532	(330)	(972)	(1,225)
Minority interests	181	248	255	331	329	481	360	396	388	331
Stockholders' equity	**9,166**	**10,476**	**12,031**	**13,250**	**14,145**	**14,295**	**17,522**	**16,942**	**15,879**	**15,765**
Pensions and other long-term provisions	4,998	5,052	4,824	5,561	5,812	6,209	6,809	6,233	6,205	6,209
Tax and other short-term provisions	2,393	2,391	2,463	2,185	2,826	3,334	3,332	2,764	2,982	3,519
Provisions	**7,391**	**7,443**	**7,287**	**7,746**	**8,638**	**9,543**	**10,141**	**8,997**	**9,187**	**9,728**
Financial indebtedness	1,448	1,042	1,126	1,316	1,294	7,892	2,835	3,610	3,507	3,303
Accounts payable, trade	1,417	1,628	1,972	1,871	2,316	2,848	2,467	2,344	2,056	2,220
Other liabilities	2,070	1,764	2,120	2,519	3,616	3,979	3,910	3,193	2,973	2,900
Liabilities	**4,935**	**4,434**	**5,218**	**5,706**	**7,226**	**14,719**	**9,212**	**9,147**	**8,536**	**8,423**
Stockholders' equity and liabilities	**12,326**	**11,877**	**12,505**	**13,452**	**15,864**	**24,262**	**19,353**	**18,144**	**17,723**	**18,151**
Thereof long-term liabilities	6,614	6,223	6,094	6,898	7,529	9,059	9,955	9,211	10,285	9,105
Total stockholders' equity and liabilities	**21,492**	**22,353**	**24,536**	**26,702**	**30,009**	**38,557**	**36,875**	**35,086**	**33,602**	**33,916**

Ten-year Summary

Sales and Earnings

Million €	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Sales	23,637	24,939	28,520	27,643	29,473	35,946	32,500	32,216	33,361	37,537
Income from operations (EBIT)	2,057	2,195	2,731	2,624	2,009	3,070	1,217	2,641	2,658	4,856
Income from ordinary activities	2,111	2,257	2,726	2,771	2,606	2,827	609	2,641	2,168	4,019
Extraordinary income	–	–	–	–	–	–	6,121	–	–	–
Income before taxes and minority interests	2,111	2,257	2,726	2,771	2,606	2,827	6,730	2,641	2,168	4,019
Income before minority interests	1,239	1,452	1,639	1,664	1,245	1,282	5,826	1,599	976	2,014
Net income	1,263	1,427	1,654	1,699	1,237	1,240	5,858	1,504	910	1,883
Capital expenditures and depreciation										
Additions to fixed assets	2,742	3,510	2,964	4,131	3,800	8,637	4,053	3,289	3,541	2,186
Thereof tangible assets	1,546	1,861	2,229	2,899	2,764	3,631	3,037	2,677	2,293	1,930
Depreciation of fixed assets	1,885	1,874	2,048	2,280	2,681	2,921	2,945	2,501	2,682	3,097
Thereof tangible assets	1,707	1,606	1,732	1,843	2,018	2,245	2,307	2,012	1,951	1,959
Number of employees										
At year-end	106,565	105,589	104,979	105,945	104,628	103,273	92,545	89,389	87,159	81,955
Annual average	107,320	108,266	105,885	106,928	107,163	105,784	94,744	90,899	88,167	85,022
Personnel costs	5,531	5,637	5,790	6,010	6,180	6,596	6,028	5,975	5,891	5,819
Key data										
Earnings per share (€)	2.07	2.32	2.67	2.73	2.00	2.02	9.72[1]	2.60	1.62	3.43
Earnings per share in accordance with U.S. GAAP (€)				2.84	2.14	2.45[2]	9.38[2]	2.96[2]	2.35[2]	3.39
Cash provided by operating activities	3,256	3,476	3,291	3,744	3,255	2,992	2,319	2,313	4,878	4,511
Return on sales (%)	8.7	8.8	9.6	9.5	6.8	8.5	3.7	8.2	8.0	12.9
Return on assets (%)	11.2	11.4	12.6	11.9	10.2	9.9	3.1	8.4	7.4	12.9
Return on equity after taxes (%)	14.3	14.8	14.6	13.2	9.1	9.0	36.6[1]	9.3	6.0	12.7
Appropriation of profits										
Net income of BASF AG	692	870	943	1,074	1,007	1,265	5,904	1,045	1,103	1,363
Transfer to retained earnings	256	332	307	381	304	50	5,153	247	334	449
Dividend	437	537	636	693	695	1,214	758	789	774	919[3]
Dividend per share (€)	0.72	0.87	1.02	1.12	1.13	1.30	1.30	1.40	1.40	1.70
						+0.70[4]				
Number of shares as of December 31 (in thousands)	609,766	618,052	622,063	623,794	620,985	607,399	583,401	570,316	556,643	541,240

[1] Including extraordinary income

[2] Restated due to a change in inventory valuation in 2004; see also pages 91 and 96 of the Notes to the Consolidated Financial Statements.

[3] With regard to the number of qualifiying shares as of December 31, 2004

[4] Special dividend of stockholders' equity charged with 45% corporate income tax

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Key data BASF Group 2004

Sales (million €)	
BASF Group sales	37,537
Sales by segment	
Chemicals	7,020
Plastics	10,532
Performance Products	8,005
Agricultural Products & Nutrition	5,147
Oil & Gas	5,263
Other	1,570
Sales by region (location of customer)	
Europe	20,967
Thereof Germany	7,382
North America (NAFTA)	8,182
South America	2,064
Asia, Pacific Area, Africa	6,324

Earnings (million €)	
Income from operations (EBIT)	4,856
Income before taxes and minority interests	4,019
Net income	1,883
Net income in accordance with U.S. GAAP	1,863

Other key data	
Equity ratio (%)	46.5
Return on assets (%)	12.9
Research and development expenses (million €)	1,173
Additions to fixed assets (million €)	2,186
Number of employees (December 31, 2004)	81,955

Key BASF share data (€)	
Year-end price	53.00
High	53.00
Low	40.49
Per-share information:	
Dividend	1.70
Earnings per share	3.43

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In 2004, BASF shares were included for the fourth year in succession in the Dow Jones Sustainability Index World.

Member of Dow Jones Sustainability Indexes 05

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Important dates

- March 9, 2005
  Financial Results 2004
- April 28, 2005
  Interim Report First Quarter 2005
- August 3, 2005
  Interim Report Second Quarter 2005
- November 2, 2005
  Interim Report Third Quarter 2005

Annual Meetings

- April 28, 2005, Mannheim
- May 4, 2006, Mannheim

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