BASF

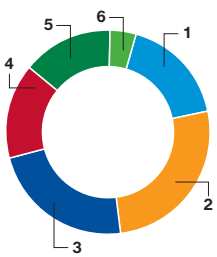
The Chemical Company

Corporate Report 2003

Key data BASF Group

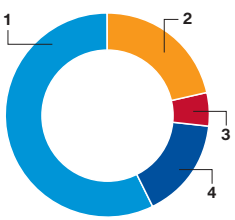
Million €	2003	2002	Change in %
Sales	33,361	32,216	3.6
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	5,110	5,105	0.1
Income from operations (EBIT) before special items	2,993	2,881	3.9
Income from operations (EBIT)	2,658	2,641	0.6
Income before taxes and minority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

Sales by segment
Million €



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

Sales by region (location of customer)
Million €



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

About this Report

We have further developed BASF's reporting: This Corporate Report combines our sustainability reporting in a single publication. The new report provides information on all three dimensions of sustainable development and thus replaces the three individual reports we have published to date. You can find additional information and data on the Internet.
We are orienting our reporting to the recommendations of the Global Reporting Initiative (GRI), and we are actively involved in the discussions to further develop the initiative.

Our data and calculations are also based on international standards. In some areas, direct comparison of individual data is made difficult due to portfolio changes, new plant startups and improvements to our data collection method. This is stated in the text where this is the case.

Data on economic performance

The economic data in this report are based on the Consolidated Financial Statements of the BASF Group and the Management's Analysis published in BASF's Financial Report. The Consolidated Financial Statements were prepared using the accounting principles of the German Commercial Code (HGB) and the German Stock Corporation Act. The accounting principles conform to generally accepted accounting principles in the United States (U.S. GAAP) to the extent permissible under the German Commercial Code. Remaining differences related to net income and stockholders' equity are reconciled with U.S. GAAP.

Environmental and safety data

Our environmental and safety data are based closely on the recommendations of the European Chemical Industry Council (CEFIC). In the area of emissions and energy, we cover approximately 98 percent of all emissions from our production sites worldwide. Emissions from joint ventures are reported according to the stake held by BASF. Since 2002, we also include emissions resulting from exploration for crude oil and natural gas. Data on occupational accidents are collected worldwide, not only at production sites but also at non-production sites such as sales offices and administrative headquarters. The number of accidents at sites operated by joint ventures are recorded and reported in full.

Data on social responsibility

Our data on social responsibility are based on the Global Reporting Initiative. Unless otherwise stated, the data provided relate to all consolidated Group companies included in the Financial Report. As of December 31, 2003, the data cover 99.6 percent of BASF Group employees (2002: 99.9 percent).

BASF's segments

Million €	2003	2002	Change in %
Chemicals			
Sales	5,752	5,317	8.2
Income from operations before special items	500	676	(26.0)
Income from operations	393	635	(38.1)
Sales by division			In %
Inorganics	738	695	12.8
Petrochemicals	3,264	2,902	56.8
Intermediates	1,750	1,720	30.4

The heart of our Verbund

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

Plastics			
Sales	8,787	8,477	3.7
Income from operations before special items	363	593	(38.8)
Income from operations	296	582	(49.1)
Sales by division			In %
Styrenics	3,626	3,387	41.3
Performance Polymers	2,239	2,270	25.5
Polyurethanes	2,922	2,820	33.2

Focusing on strengths

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

Performance Products			
Sales	7,633	8,014	(4.8)
Income from operations before special items	568	653	(13.0)
Income from operations	478	646	(26.0)
Sales by division			In %
Performance Chemicals	3,147	3,343	41.2
Coatings	2,015	2,137	26.4
Functional Polymers	2,471	2,534	32.4

Close cooperation with customers

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

Agricultural Products & Nutrition			
Sales	5,021	4,924	2.0
Income from operations before special items	427	217	96.8
Income from operations	359	55	552.7
Sales by division			In %
Agricultural Products	3,176	2,954	63.3
Fine Chemicals	1,845	1,970	36.7

Strengthening our competitiveness

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

Oil & Gas			
Sales	4,791	4,199	14.1
Income from operations before special items	1,365	1,210	12.8
Income from operations	1,365	1,210	12.8

Expertise and regional focus

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

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

Milestones 2003

July 2003:
Cornerstone laying ceremony in Caojing, China.

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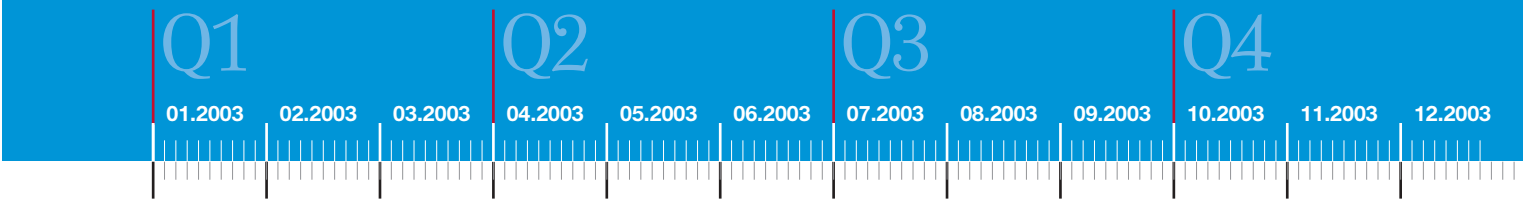


January

- A new logistics center starts operations at the Ludwigshafen site. As the largest chemicals terminal for the optimized shipping of packaged products in Europe, it replaces about 50 smaller warehouses and spares the region 25,000 truck journeys every year.
- BASF is one of the first companies in Germany to appoint a Chief Compliance Officer. He is responsible for coordinating and developing BASF's Compliance Program worldwide, which obliges all employees to behave in an upright, legally abiding manner.

February

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

March

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

April

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

May

- Dr. Jürgen Hambrecht becomes the new Chairman of the Board of Executive Directors of BASF Aktiengesellschaft. After 13 years as Chairman, his predecessor, Dr. Jürgen F. Strube, becomes Chairman of BASF's Supervisory Board.
- BASF acquires the engineering plastics business of Honeywell, United States. In turn, BASF sells its nylon fibers business to Honeywell.

June

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

July

- Gazprom, Russian Federation – the world's largest producer of natural gas – and BASF subsidiary Wintershall establish the Achimgaz joint venture to develop gas deposits in the Urengoy field in western Siberia.
- For the first time, BASF announces long-term, globally valid goals for environmental protection and safety and reports on goal attainment.
- In Caojing, China, BASF lays the cornerstone for the world's largest integrated production facility for PolyTHF®. The technology developed by BASF is scheduled to come on stream in 2005.

August

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

September

- BASF joins Transparency International, underlining its commitment to high ethical standards and a business policy that does not tolerate corruption in any form.
- BASF acquires Callery Chemical from the Mine Safety Appliances Company, United States. Callery produces important inorganic specialties for the pharmaceutical industry.
- Groundbreaking ceremony for new combined heat and power plant (CHP): The plant will supply the Ludwigshafen site from the end of 2005 and help reduce CO_2 emissions by 500,000 metric tons per year from 2006 onward.
- BASF shares are included in the Dow Jones Sustainability Index World (DJSI World) for the third year in succession.

October

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

November

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

December

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

Dr. Jürgen Hambrecht
Chairman of the Board
of Executive Directors

Dear readers,

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

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

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

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

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

Against this backdrop, BASF's management team looked hard at how we want to position ourselves in the future and made a detailed review of our strategy to date. Our appraisal showed that we have set the right basic course. For us, this means: We are a chemical company, and we want to concentrate on chemicals, agricultural products and nutrition and oil and gas. When the opportunity was right, we invested in growth markets and are now active in all of the world's important markets. The advantages offered by our Verbund help us to operate cost effectively and

compete with strength in tough markets. We have managed our portfolio to make us less susceptible to cyclicality and oil price fluctuations. To this end, we expanded our agricultural products business by acquiring the insecticide fipronil and selected seed treatment fungicides. Furthermore, we sold our fibers business to the U.S. company Honeywell in 2003 and purchased its engineering plastics business. We also strengthened our portfolio with inorganic specialties through the acquisition of Callery Chemical in the United States.

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

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

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

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

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

In addition, we always see the basis for our business success in the context of our responsibility for the environment and for society. This is why the principles of sustainable development are deeply integrated into our values and activities. Examples include our eco-efficiency analysis and our global environmental goals, which set standards for the entire industry. Our fourth guideline reaffirms our commitment to sustainable development, which is and will remain the basis for our activities. Our new Corporate Report, which you are now holding, explains how we balance the various aspects of sustainability.

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

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

Dr. Jürgen Hambrecht
Chairman of the Board of Executive Directors

BASF 2015 – Paths to Value-adding Growth

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

Board of Executive Directors

Dr. Jürgen Hambrecht

Eggert Voscherau

Dr. Andreas Kreimeyer

Klaus Peter Löbbe

Dr. Kurt Bock

Dr. John Feldmann

Dr. Stefan Marcinowski

Peter Oakley

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

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

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

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

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

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

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

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

As of March 1, 2004

Strategies for Value-adding Growth

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

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

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

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

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

We are aligning our activities using four strategic guidelines:

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

BASF

The Chemical Company

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

Earn a premium on our cost of capital

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

Help our customers to be more successful

We are there wherever our customers are. We invested in good time in growth markets and are now active in all important markets worldwide. In order to grow profitably, we want to focus even more closely on our customers' needs in the future and develop and apply the best business models for our customers and for us. We want to tailor our innovations more closely to impulses from the markets. We are increasingly developing new products and services in close collaboration with key customers. We enter into research and development partnerships with such customers to find tailor-made solutions that ensure mutual success.

In the area of specialties, we look at the individual needs of our customers and develop the appropriate solution. We combine new products and services to yield system solutions that offer our customers a competitive advantage and create profit potential for both them and us. With standard products, we concentrate on quality, reliable delivery and an appropriate price-to-performance ratio. You can find examples of how we collaborate with customers on pages 22 to 37.

New areas of knowledge open up new market opportunities for us. Biotechnology and nanotechnology, materials science and energy management technologies offer us and our customers attractive business opportunities. We are exploiting this technological change and helping to shape it. We are particularly focusing on the advantages of biotechnology in order to tap into new potential through innovative solutions for the food industry, animal nutrition and agriculture (see pages 29 and 32).

Form the best team in the industry

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

We therefore want to further broaden the international nature of our management team and also increase the number of women in management. We want to enhance our employees' opportunities for self-learning and learning on the job. To be an attractive employer, we have long used performance-related pay to encourage entrepreneurial thinking: In the future, we want to increasingly link pay at all levels to individual performance and the success of the company (see also pages 58 to 61).

Ensure sustainable development

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

With our management systems and tools for sustainability, we create value for BASF and our partners in business and society. At the same time, our measures help ensure that we better fulfill the needs of customers and consumers. We see this as a long-term competitive advantage. For example, our eco-efficiency analysis can show our customers which products and processes are superior for their specific applications from both economic and environmental viewpoints. This is increasingly valued by our customers as a feature of our system solutions. More details on our eco-efficiency analysis are provided on pages 38 and 39.



Finding team-based solutions: Michael Schreiber, Dr. Jun Gao and Dr. Chrys Fechtenkötter (from left to right) conduct research into improved reactors for manufacturing polymers.

Goals

Earnings

We want to earn a premium on our cost of capital. To ensure this, our operating divisions must achieve an EBIT (earnings before income and taxes) of at least 10 percent on operational assets. Based on planned operational assets of €28.0 billion in 2004, this would correspond to an EBIT of at least €2.8 billion for the BASF Group.

Environment, safety and product stewardship

Emissions: By 2012, we plan to reduce emissions of greenhouse gases from our worldwide chemicals business by 10 percent per metric ton of sales product and aim to emit 40 percent less air pollutants compared with 2002. In addition, we want to reduce emissions to water by 60 percent for organic substances, by 60 percent for nitrogen and by 30 percent for heavy metals.

Occupational and distribution safety: We also aim to improve our safety record significantly by 2012. Our goals: 80 percent fewer lost time accidents compared with 2002 and 70 percent fewer transportation accidents compared with 2003.

Product stewardship: By 2008, we intend to extend our data even further to include all relevant information on all chemical substances handled in volumes exceeding one metric ton per year.

Social responsibility

Employees: We want to increase the proportion of non-German senior executives from a current figure of 30 percent to 35 percent by 2005. In addition, we aim to significantly increase the number of female senior executives from the current level of approximately 5 percent.

Delegation: In 2004, we want to further develop our globally valid Transfer Policy. Our goal is to ensure that employees are deployed according to the same rules, irrespective of the country they come from or the country in which they are assigned to work.

Personnel systems and remuneration: Also in 2004, we want to harmonize our systems for assessing functions, performance reviews and remuneration in the regions.

Social performance assessment: We want to make the establishment of and adherance to internationally recognized labor and social standards transparent and reviewable at all our sites. In the course of 2004, we plan to establish a monitoring system to measure our sites according to these standards.

Corporate Governance

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

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

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

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

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

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

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

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

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

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

The members of the Board of Executive Directors and the Supervisory Board are listed together with remuneration details on pages 61 to 66 of our Financial Report 2003.

Shareholders' rights

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

Clear Principles for our Activities

Sustainable business success needs both strategic goals and clear principles on how to achieve these goals. This is why we have a system of values for all our activities by which we can be measured: the Values and Principles of the BASF Group, and our Code of Conduct/Compliance Program.

Six values describe our philosophy and the way in which we want to achieve our goals:

– Sustainable profitable performance
– Innovation for the success of our customers
– Safety, health and environmental protection
– Personal and professional competence
– Mutual respect and open dialogue
– Integrity

Our values are explained by principles that can be found on the Internet at **www.basf.de/values**.

Living our values worldwide

Our values are conveyed within the company through the exemplary role of managers and employees and on the basis of respect for all cultures. The target agreement process helps management establish the principles for our activities in the BASF Group in a binding manner. The Values and Principles are a permanent feature of the personal target agreements of BASF Group executives. Through the subsequent target agreements that executives then make with their employees, the Values and Principles are binding for all individuals. The relevant units make their expertise available to help implement the Values and Principles. Our environmental, health and safety activities, for example, are organized within a worldwide network managed by the competence center Environment, Safety & Energy.

Integrity protects us against risks

Employees who act with integrity are essential for BASF's success: Violating laws and competition regulations considerably damages the reputation of a company and the confidence of its partners. This is why we view integrity not only as a value and as a guiding principle for our behavior, but also as an important aspect of risk management. We therefore introduced Codes of Conduct based on our Values and Principles in 2000. These take into account legislation at the national level as well as the functions and cultural environment of each Group company. Codes of Conduct now apply for approximately 97 percent of all our employees.

Chief Compliance Officer responsible for further development

The Codes of Conduct lie at the heart of BASF's comprehensive Compliance Program. The aim of the Compliance Program is to integrate the Codes in the everyday activities and consciousness of all employees through a combination of information and training. BASF was one of the first German companies to appoint a Chief

Compliance Officer, who has been responsible for managing and developing the program Group-wide since January 2003. The Compliance Program includes systematic introduction and training sessions for employees according to their particular duties. All employees can seek advice via telephone hotlines and other points of contact. Backup communication on the subject of compliance and regular monitoring by the Corporate Audit department provide the Program with further support.

Regular training enhances knowledge

For BASF, regular training is the most important way of firmly establishing the concept of compliance within the company. This is why we carried out more than 200 antitrust training seminars in 2003 for groups of employees in marketing and sales.

In January 2004, BASF Aktiengesellschaft in Ludwigshafen launched a broad based information and training campaign to inform and continuously update employees about the Compliance Program. The campaign provides all employees with information on important regulations for their respective work area. In the future, we want to organize detailed information events for new employees on a regular basis. The training materials used in Ludwigshafen will also be supplied to all Group companies in Europe.

In the United States, BASF installed a Legal Compliance and Education Center (LCEC) on the company's intranet as far back as 1997. Employees with the relevant responsibilities are familiarized with the Compliance Program by means of a web-based training program. Executives and employees in marketing and sales additionally work on more advanced training modules. More than 7,000 employees in the United States, Canada, Mexico and South America had registered with the LCEC by the end of 2003.

Group companies in other countries also carry out regular training measures. BASF Japan has held compliance seminars for employees since 2001. Last year, they were supplemented by written information and a handbook on our value "integrity."

In 2003, training on our Code of Conduct formed an important aspect of day-to-day activities at BASF. Additionally, many Group companies informed their employees in writing, at events or via the company intranet about a variety of compliance-related issues.

Dedicated to fighting corruption

Our commitment to high standards and to a business policy that does not tolerate corruption was strengthened by a further step last year: In September 2003, BASF became a member of Transparency International, a Berlin-based NGO that has set global standards in the fight against corruption. We also play an active role: In India, for example, BASF's PAC (People Against Corruption) initiative, founded in 2002, contributes to the fight against corruption. Together with the Indian government's Central Vigilance Commission, BASF also published a handbook on fighting corruption in 2002.

Profitable growth is our strategic goal. We have reinforced this with our strategy BASF 2015. Our strong team works together with our customers to find the best solutions for mutual success. In doing so, we conduct our business in accordance with the principles of sustainable development to ensure a future worth living for coming generations.

In the following chapters, we describe what we have done in the past year to achieve a balance between business success, environmental protection and social responsibility. You can find additional information and data at the Internet addresses provided at the end of each section.

Investment in the future:
In Nanjing, China, BASF is building a new integrated petrochemicals site together with its partner SINOPEC.

Economic Results and Perspectives

BASF Shares

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

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

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

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

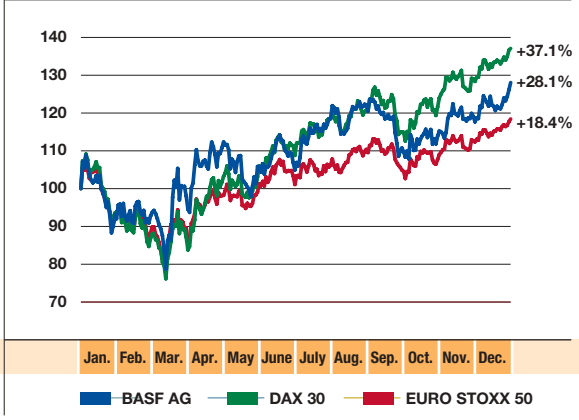
In 2003, BASF Aktiengesellschaft bought back 13.67 million shares for a total of €500 million on the stock exchange for an average price of €36.55 per share. This measure reduced our share capital by 2.4 percent. The buy-back program is aimed at reducing our cost of capital and increasing earnings per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

BASF shares included in important indices

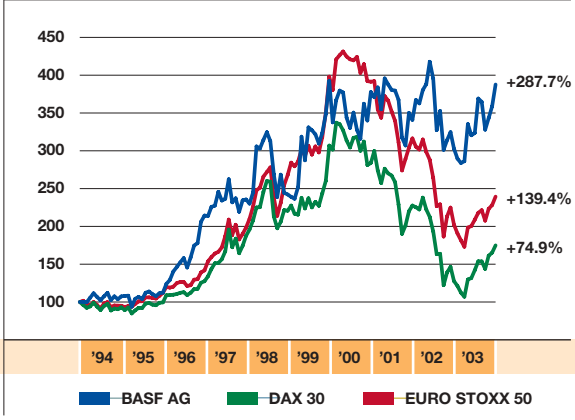
BASF shares are included in a number of internationally important indices* with the following weightings: DAX 30: 6.0 percent, STOXX 50: 1.1 percent, EURO STOXX 50: 1.8 percent, MSCI World Index: 0.2 percent, S&P Global 100: 0.5

*Weighting as of December 31, 2003

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



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



percent. In 2003, BASF shares were included in the Dow Jones Sustainability Index for the third year in succession and remained a member of the FTSE 4 Good Index. Our membership in sustainability indices shows that BASF is recognized internationally as a company that conducts its business in accordance with the principles of sustainable development.

Shareholder base further broadened

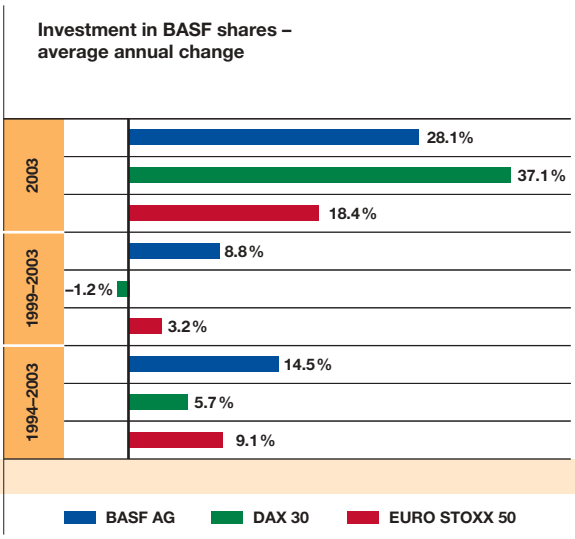
At the beginning of 2004, we carried out a shareholder survey that indicated the strong interest of international investors in BASF shares. Non-German investors hold 52 percent of BASF's share capital. U.K. and U.S. investors are particularly well represented, accounting for 15 percent and 14 percent of the share capital, respectively. Institutional investors – for example banks and investment companies – hold 72 percent of the share capital; 28 percent 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 coowners of BASF. BASF Aktiengesellschaft's entire share capital is listed on the stock market. As of December 31, 2003, all of the 556.6 million no par shares were widely held.

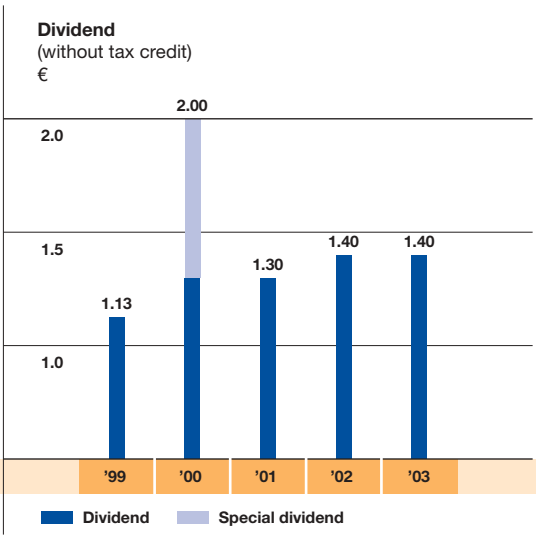
Investor relations: Close dialogue with the capital markets

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

INVESTOR RELATIONS ON THE INTERNET

You can find BASF's Investor Relations homepage on the Internet at www.basf.de/share. If you are interested in receiving further information on BASF by e-mail, you can subscribe to our newsletter there.





Finance

Sales and earnings

Million €	2003	2002	Change in %
Sales	33,361	32,216	3.6
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	5,110	5,105	0.1
Income from operations (EBIT) before special items	2,993	2,881	3.9
Income from operations (EBIT)	2,658	2,641	0.6
Financial result	(490)	0	.
Income before taxes and minority interests	2,168	2,641	(17.9)
Net income	910	1,504	(39.5)
Earnings per share (€)	1.62	2.60	(37.7)
Net income in accordance with U.S. GAAP	1,338	1,717	(22.1)
Dividend per share in accordance with U.S. GAAP (€)	2.38	2.96	(19.6)

Sales

The BASF Group's sales in 2003 rose €1,145 million compared with the previous year to €33,361 million (volumes 7.6 percent, prices 2.1 percent, currency –7.3 percent, acquisitions/divestitures 1.2 percent). The weakness of the U.S. dollar caused sales to decline considerably in euro terms in North America (NAFTA), South America and Asia. In local currency terms, however, our sales rose by 10 percent in North America, by 13 percent in South America and by 25 percent in Asia.

Income from operations

At €2,658 million, income from operations increased slightly compared with the previous year. Improvements in the Agricultural Products & Nutrition, Oil & Gas and Other segments offset the decline in Chemicals, Performance Products and Plastics. Income from operations in 2003 contained special charges of €335 million, compared with €240 million in the previous year. This amount includes €305 million for restructuring measures taken to increase efficiency as part of the Ludwigshafen Site Project and to reorganize our service divisions in North America (NAFTA).

Income before taxes

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

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

Net income/earnings per share

Income before taxes and minority interests was €2,168 million and the tax expense was €1,192 million or 55 percent. After deducting these taxes and minority interests of €66 million, net income in 2003 was €910 million, or €594 million lower than in 2002. This decline was due to lower income before taxes and minority interests as well as tax expenses that were €150 million higher than in the previous year (more details on page 27 of the Financial Report).

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

Proposed appropriation of profit

BASF Aktiengesellschaft achieved net income of €1,103 million. Profit carried forward from the year 2002 was €10 million. After transferring €334 million to other retained earnings, profit retained was €779 million. At the Annual

Meeting on April 29, 2004, the Board of Executive Directors and the Supervisory Board will propose a dividend payment of €1.40 per qualifying share. If shareholders approve this proposal, the total dividend payable on qualifying shares as of December 31, 2003 will be €779 million.

Statements of cash flow

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

Statements of cash flows

Million €	2003	2002
Cash provided by operating activities	4,878	2,313
Cash used in investing activities	(3,260)	(2,164)
Cash used in financing activities	(1,359)	(265)

Cash used in investing activities amounted to €3,260 million. We spent €2,071 million on additions to tangible and intangible assets. As planned, we reduced them compared with 2002, bringing them significantly below the level of amortization and depreciation on tangible and intangible fixed assets. Expenditures for acquisitions totaled €1,480 million. Proceeds from divestures amounted to €86 million. In particular, acquisitions involved the acquisition of the fipronil business from Bayer CropScience and the purchase of Honeywell's engineering plastics business. We spent €191 million on financial assets, marketable securities and financial receivables. The sale and disposal of fixed assets and securities of current assets generated proceeds of €396 million.

Cash used in financing activities in 2003 was €1,359 million. We bought back 13.7 million shares for €500 million at an average price of €36.55 per share. We paid out a total of €857 million in dividends and profit transfers in 2003. Dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2002 totaled €789 million or €1.40 per share. €68 million in profits was paid or transferred to shareholders in fully or proportionally consolidated companies. Financial indebtedness decreased to €3,507 million due to currency translation effects. We issued a €1 billion Euro Benchmark Bond maturing in 2010, taking advantage of the favorable capital market situation to refinance a portion of our short-term debt.

Balance sheet structure

BASF's **total assets** declined by €1.5 billion to €33,602 billion as a result of a currency-related decline in assets in North America (NAFTA) and the reduction of inventories. Fixed assets accounted for 57.9 percent of total assets, current assets for 42.1 percent. **Stockholders' equity** decreased by €1,063 million to €15,879 billion. This was due to the further buy-back and cancellation of shares as well as to currency translation effects. As a result, the equity ratio declined slightly to 47.3 percent compared with 48.3 percent in 2002. Long-term **liabilities** rose by €1,074 million to €10,285 million. Short-term liabilities declined considerably by 16.7 percent to €7,438 million. Long-term financial indebtedness rose by €1,199 million to €2,995 million due in particular to the issue of a €1 billion Euro Benchmark Bond with a maturity of seven years. Short-term financial indebtedness was reduced through restructuring from €1,814 million to €512 million.

Chemicals

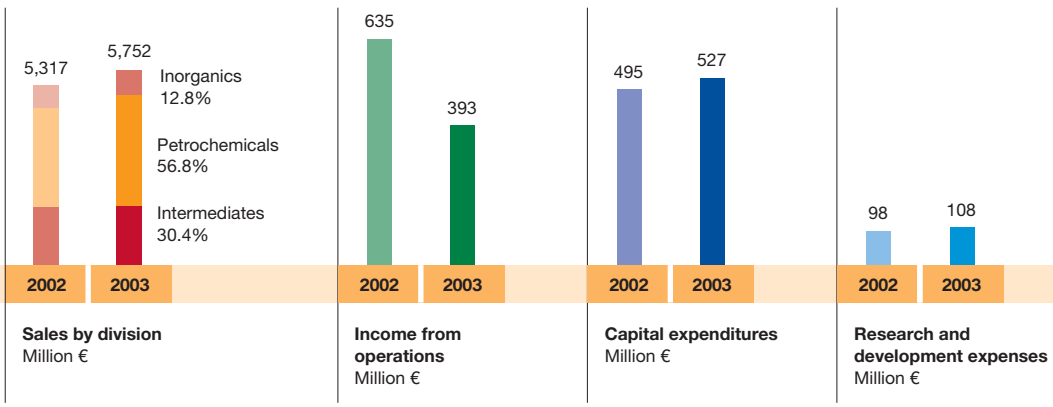
Inorganics, petrochemicals and intermediates form the foundation of our Production Verbund and are part of BASF's portfolio of approximately 8,000 sales products. In 2003, we posted higher sales in the Chemicals segment. Compared with the previous year, however, income from operations declined due to higher raw materials prices, persistent competitive pressure and costs for modernization projects. An important highlight in 2003: We strengthened our portfolio of inorganic specialties through an acquisition.

Starting from a few raw materials such as crude oil, natural gas, rock salt, air and sulfur, we produce basic chemicals and intermediates that are turned into higher-value chemicals along our value-adding chains. This is how a huge range of products is created – from plastics or crop protection products to fuel additives or vitamins. Our Production Verbund conserves resources and therefore costs because the products and by-products from one plant are processed further in other production units, while infrastructure and service facilities are shared.

We therefore expand our Verbund wherever this offers us advantages. And we continuously optimize Verbund structures. In 2003, we converted part of our chloralkali plant in Ludwigshafen to the more energy-efficient membrane process that consumes less electricity and thus avoids CO_2 emissions. This project is only one of numerous ways in which the Chemicals segment helps provide BASF with key basic chemicals and intermediates – reliably and cost-effectively.

Exploiting opportunities for growth

We are opening up the growing Asian market for BASF with a series of capital expenditures: In summer 2003, we laid the cornerstone for integrated production plants for tetrahydrofuran (THF) and polytetrahydrofuran (PolyTHF®) in Caojing, China, which are scheduled to start operations in 2005. With PolyTHF®, a starting material for spandex fibers, we want to become the preferred supplier to China's rapidly growing textile industry. The plant will be the first to use a new technology developed by BASF that eliminates synthesis steps, thus saving both costs and energy. Our capital expenditure project in Nanjing, China, is also making good progress:



Experts ensure outstanding quality: Andreas Scheffel checks the purity of a sample.

A perfect addition to our value-adding chains

Boron and potassium: Two simple chemical elements at first glance. But experts can turn them into high-demand products, such as those used to create complex active ingredient molecules for the pharmaceuticals industry. This is why we acquired Callery Chemical from the U.S.-based Mine Safety Appliances Company in 2003: Alkali metal derivatives, higher alcoholates and boron specialties are a perfect addition to BASF's global portfolio of inorganic specialties. These products help our customers improve the yields of their syntheses of active ingredients and at the same time suppress side reactions. As well as our customers in the pharmaceuticals industry, there are numerous other customers – from the wood and glue industries to the electronics and metalworking industries – who rely on the "specialists" from BASF.

In 2005, we plan to start operations at a new Verbund site from which we will supply the Asian market with important basic products such as organic acids, amines and solvents.

In addition, we strengthened our global portfolio of inorganic specialties through our acquisition of Callery Chemical from the Mine Safety Appliances Company, United States, in 2003.

Close cooperation with our customers

Our goal is to recognize our customers' needs and supply the ideal solutions. We have developed a new business model for our customers in the Asian plastic and artificial leather industries – a cross-divisional team deals with the product range of intermediates, polyurethanes and petrochemicals. Both our customers and BASF benefit from this approach: The customer has fewer contacts to deal with and BASF is able to develop the market more efficiently thanks to the combined product portfolio.

In 2003, we developed a new logistics concept for our business with glues and impregnating resins. Selected major customers with sufficiently high requirements are now supplied by rail in complete trainloads. This is both cheaper and easier on the environment than road deliveries. We supply "just in time," which helps our customers manage their stocks efficiently. Both partners profit from the lower cost of rail freight. Measures like these have helped ensure that our business with glues and impregnating resins grew faster than the market in 2003.

Further information and data at www.reports.basf.de/chemicals

Plastics

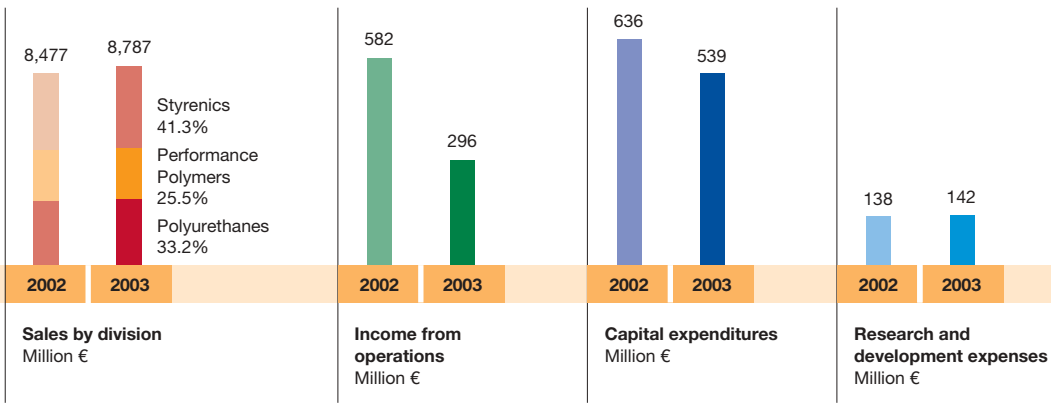
We are one of the world's leading suppliers of plastics and we want to grow profitably in the long term. To achieve this goal, we are implementing numerous measures to realign our business: We are strengthening our core areas, tapping into new fields of business and operating modern plants – either independently or together with partners. In 2003, we have already benefited from this strategy and were able to increase sales volumes by 9.2 percent in a difficult business environment. Sales were up 3.7 percent. Higher sales prices were unable to compensate fully for higher raw materials prices and unfavorable currency effects, and income from operations therefore declined significantly.

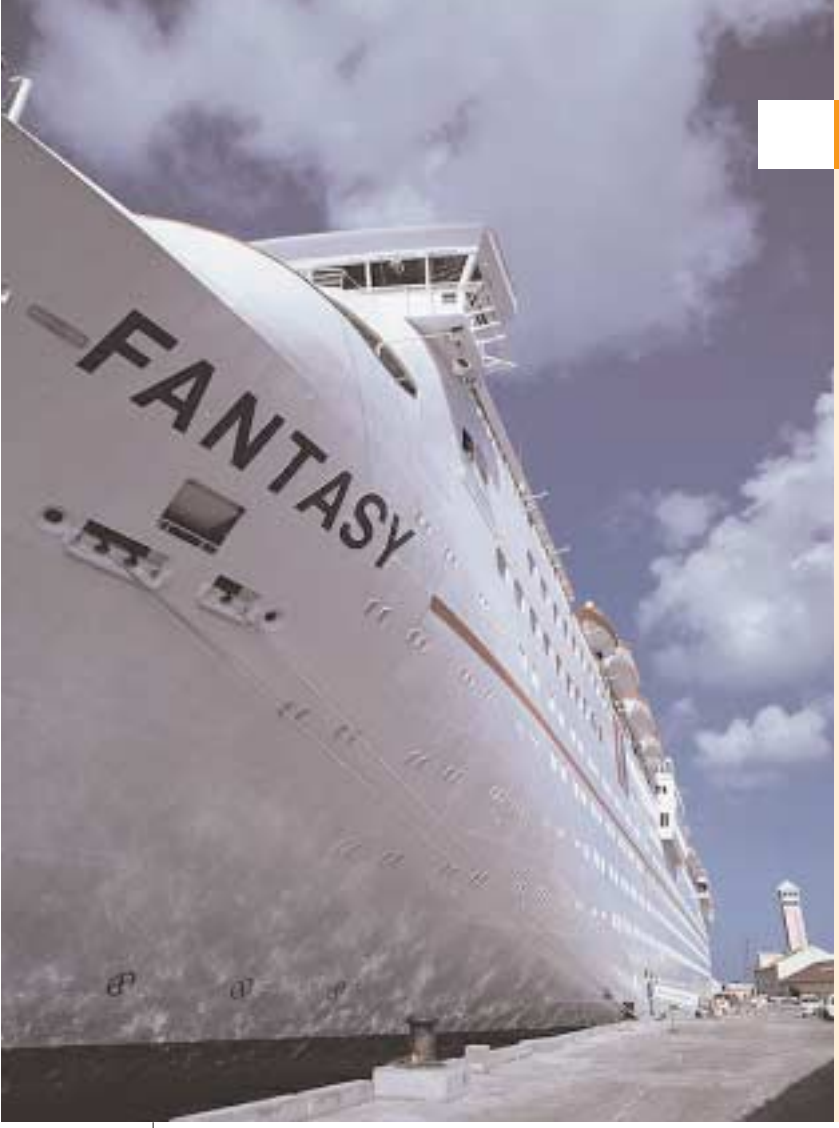
On May 1, 2003, we completed the sale of our fibers business to Honeywell, United States, and in turn acquired its engineering plastics business. We subsequently renamed our segment "Plastics." The segment still consists of the Styrenics, Performance Polymers and Polyurethanes divisions.

Concentrating on our strengths

Through the acquisition of Honeywell's engineering plastics, we have become one of the world's leading suppliers in this area. We have successfully integrated all the 500 former Honeywell employees as well as customers and production sites.

In order to grow profitably, we differentiate between our standard polymers business – where efficient processes are the main success factor – and our specialties business, where we cooperate with our customers to employ products and knowledge to our mutual success. In production, our strategy is to operate efficient world-scale plants in key markets, in some cases together with partners. In 2003, for example, we started constructing a production site for isocyanates in Caojing, China, which we will operate with Chinese partners and the U.S. company Huntsman. We intend to supply other companies including Bayer from these plants. In Kuantan, Malaysia, we plan to construct a plant for polybutylene terephthalate (PBT) together with Toray Industries, Japan. We have also entered into a partnership with Dow: Here, we are planning to build a world-scale plant for propylene oxide, a precursor for the manufacture of polyurethanes. The plant is scheduled to start operations in 2007 at the earliest and will utilize a new, cost-efficient process that generates only water as a by-product. In 2003, we ceased producing ABS in Geleen, the Netherlands, because we were no longer sufficiently competitive. In Ludwigshafen, we will also close plants for polystyrene compounds and mothball a Styrolux® plant by mid-2004.





SPS can reduce repair times for ships by up to 50 percent.

Plastic keeps ships and bridges in shape

Ships at sea are exposed to extreme conditions, and material damaged by corrosion or stress can harm man and the environment. In order to reduce these risks, BASF's subsidiary Elastogran has developed the Sandwich Plate System™ (SPS) together with the British company Intelligent Engineering. Here, conventional steel structures are replaced by a composite steel-polyurethane-steel system. SPS dampens vibrations and results in lighter, stronger structures. It also prolongs the life of the ship's segments and significantly reduces repair times. Since 2001, SPS has been used to repair the decks and holds of more than 20 ships with an area totaling 25,000 square meters (30,000 square yards). In addition, many new ship segments have been built using SPS. The system also offers an intelligent solution for land-based applications. For example, 2003 saw the inauguration of the first SPS road bridge in Quebec, Canada. Thanks to the composite material it is 40 percent lighter than a conventional construction. In the future, we plan to expand on new building activities like these.

We offer our customers advantages

One of our strengths lies in giving engineering plastics exactly those properties requested by our customers. Our construction material Ultramid® can be used for many engine and gear components – it is extremely impact resistant and retains its shape at extreme temperatures. This is why it was chosen as the material for oil sumps fitted to the new range of Mercedes-Benz Actros trucks built by DaimlerChrysler. Our Ultratect® foam, on the other hand, is light and extremely stable and has found a place in the driver's compartment: It was used for the first time in the production of the rear seat backrest for BMW's M3 CLS car and reduces weight by 50 percent compared with conventional steel components.

We develop the right solutions together with our customers: For example, through 24 system houses for polyurethanes worldwide, we offer more than 8,000 formulations, most of which can be supplied within 48 hours. But BASF also offers a comprehensive service for standard plastics: Together with four partners, we started offering the highly efficient Colorflexx® system for self-coloring polystyrene and styrene copolymers in 2003. This system saves costs, reduces delivery times and allows customers to produce faster and more flexibly.

Using e-commerce, our customers around the world can reach us day and night. In 2003, we achieved sales of more than €1 billion through activities such as PlasticsPortal, and in some business areas e-commerce already accounts for more than 50 percent of sales.

Further information and data at www.reports.basf.de/plastics

Performance Products

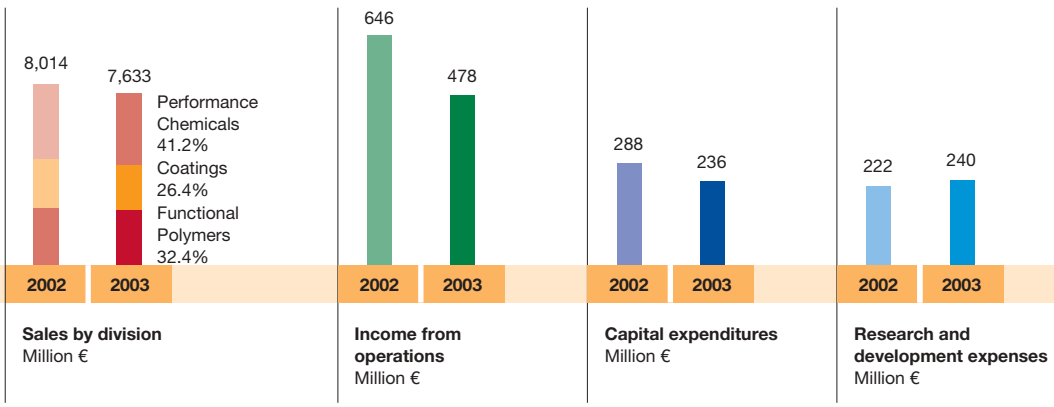
Performance chemicals, coatings and functional polymers improve our customers' products: They enhance the quality and properties of many everyday items. In 2003, sales in this segment declined in particular due to the weak U.S. dollar as well as a difficult business environment in some customer industries. High raw materials prices additionally impaired income from operations. The difficult year 2003 showed that sustainable profitability cannot be achieved without the rigorous implementation of past restructuring measures and continuous efforts to reduce costs.

We want to understand how our customers think and what they need. Joint development projects make us a strategic partner for our customers and show us what the market needs. We offer innovative problem solutions and customer-specific systems. Important factors for our success are powerful research and development, lean structures, competitive production and a global presence.

Intelligent, environmentally friendly solutions

Which adhesive raw materials are best suited to certain applications? To find this out, we invest in coatings technology as well as in polymer research and applications technology. Together with our customers, we test the interaction between coating conditions, carrier materials and pressure-sensitive adhesives at our new coating plant in Ludwigshafen. In this way, we can provide the most suitable products and at the same time help our customers improve their production processes. The Robot Application Center (RACE), which was opened at our site in Münster, Germany, in 2003, has the same goal: Here, BASF Coatings has invested approximately €3 million in the coatings test facility, which allows its customers in the automotive industry to simulate coating of original-size body panels.

Working across disciplines is an important pre-condition for finding solutions that fit our customers' systems. Together, applications specialists for leather chemicals, developers of detergents and cleansers and university researchers developed the new and versatile leather degreasing agent Eusapon® OD for the leather and wool-processing textile industry. Compared with conventional agents, this product cleans leather more thoroughly, preserves wool's natural sheen, and is more economical and more easily biodegraded.



Checking the printed product: Herbert Woodtli (left), head of central purchasing at Axel Springer AG, and Dieter Meck, manager technical services for paper at BASF, examine the new paper quality.

Thanks to our competence in chemical syntheses and production processes, we can develop new products that rapidly find market acceptance. One example is our high-purity methanesulfonic acid, which offers the best available quality. This product offers the advantage that it can be used without cost-intensive pretreatment, for example in the electroplating industry. Because methanesulfonic acid is biodegradable and has favorable toxicological characteristics, it is replacing products that have a greater impact on the environment. In 2003, we started operations at a new production plant for high-purity methanesulfonic acid in Ludwigshafen that is integrated into our Production Verbund and produces virtually no emissions.

Global strategies, local solutions

We want to serve customers according to their needs, wherever they are located. We are the only global player in the automotive coatings industry with its own production capacities in Japan. Our customer-oriented business models, for example for General Motors, demonstrate how our regional solutions and global strategies are optimally interlinked: Irrespective of whether they need automotive coatings and brake fluid in Asia or plastic components in the United States, General Motors has just a single contact at BASF who coordinates all orders and queries worldwide with the help of four colleagues. This approach has not only helped boost sales but has also been commended: General Motors honored us with its 2002 Supplier of the Year Award.

Further information and data at
www.reports.basf.de/performance_products

Cooperation from paper fibers to printed products

Numerous production steps and partners are needed to turn fibers, paper chemicals and printing ink into a newspaper. To identify ways of improving quality and reducing costs in the entire process chain, we initiated a cooperative project with Axel Springer AG, a leading producer of print media; Omya, a pigment manufacturer; and Voith Paper, a supplier of paper machines. Each of the partners contributes special expertise to find joint solutions for paper and print technology. The individual steps in the process are optimally adjusted with one another from paper production and finishing through to the final printed product. BASF is able to supply a wide range of expertise thanks to close cooperation between developers and users in the areas of paper and printing inks. For example, with Axel Springer AG we have developed the use of a completely new paper quality known as coated coldset. Here, an inexpensive base paper receives a thin pigment coating, making it whiter and easier to print on. It can then be used to produce high-quality weekend supplements or even magazines using the cost-effective offset printing process. The new quality can be both seen and felt: The printing is particularly sharp and the supplements are pleasant to the touch.

Agricultural Products & Nutrition

In our Agricultural Products division, we increased sales despite a difficult market environment and despite the weakness of the U.S. dollar compared with the euro. Both of these effects also negatively impacted sales in the Fine Chemicals division. We strengthened our portfolio through acquisitions, by launching innovative products and by divesting a number of non-strategic products. We significantly increased income from operations before special items. Our cost-reduction measures are proceeding according to plan and are already paying off.

Fine Chemicals: Innovations for our customers

Whether it's a matter of beta-carotene in multivitamin drinks or polymers in hairstyling products, fine chemicals from BASF are responsible for the functionality of many everyday products.

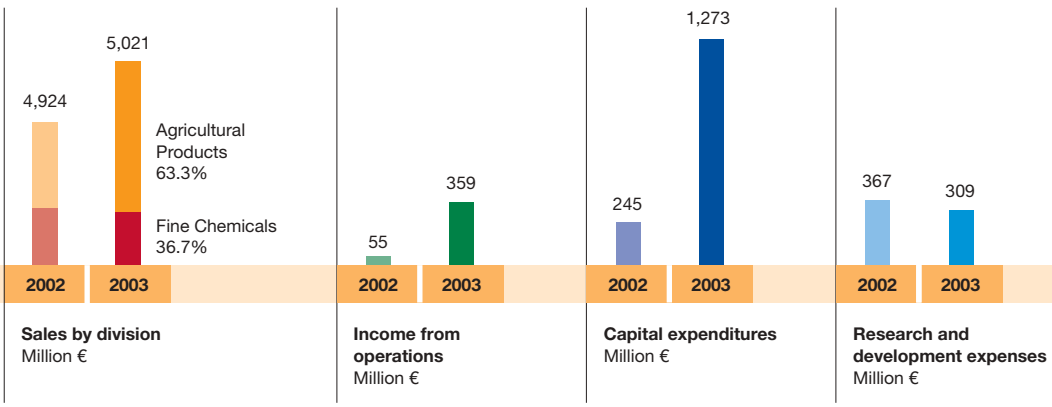
We develop creative and tailor-made solutions for our customers. In the field of hair styling, for example, we have set new standards for fixative polymers: Luviset® Clear produces crystal clear hair gels used to create hairstyles that stand up to wind and weather. Innovation in skin care: With Uvinul® A Plus, we are launching a completely new UV filter that is photostable and thus offers longer lasting sun protection.

We strengthen our long-term competitiveness by combining our technology with the advantages provided by our Verbund. In 2003, we began operating a new world-scale plant for vitamin B_2 in Gunsan, Korea. The facility's biotechnological process combines both economic and environmental benefits. We have almost completed restructuring and expanding large parts of our Production Verbund for vitamins: In the first half of 2004, our new 40,000 metric ton plant for citral in Ludwigshafen will make this aroma chemical the key component in the production of vitamins A and E as well as carotenoids. We are also strengthening our position for numerous aroma chemicals.

We have expanded our business as planned in the challenging area of contract manufacturing. We successfully combine our good relations with selected partners in the pharmaceuticals industry with a broad range of chemical technologies and efficient research management. By 2010, we plan to be a leading supplier in this attractive growth segment.

Agricultural Products: Focusing on customers' needs

Modern crop protection products need to combat fungal diseases and harmful insects reliably and protect crops from weeds. At the same time, they must not harm humans or the environ-



ment. We offer a range of high-performance fungicides, insecticides and herbicides that guarantee our customers optimal crop yields. In the coming years, we plan to develop for market seven crop protection active ingredients with a total sales potential of €700 million; we are currently preparing to launch six active ingredients.

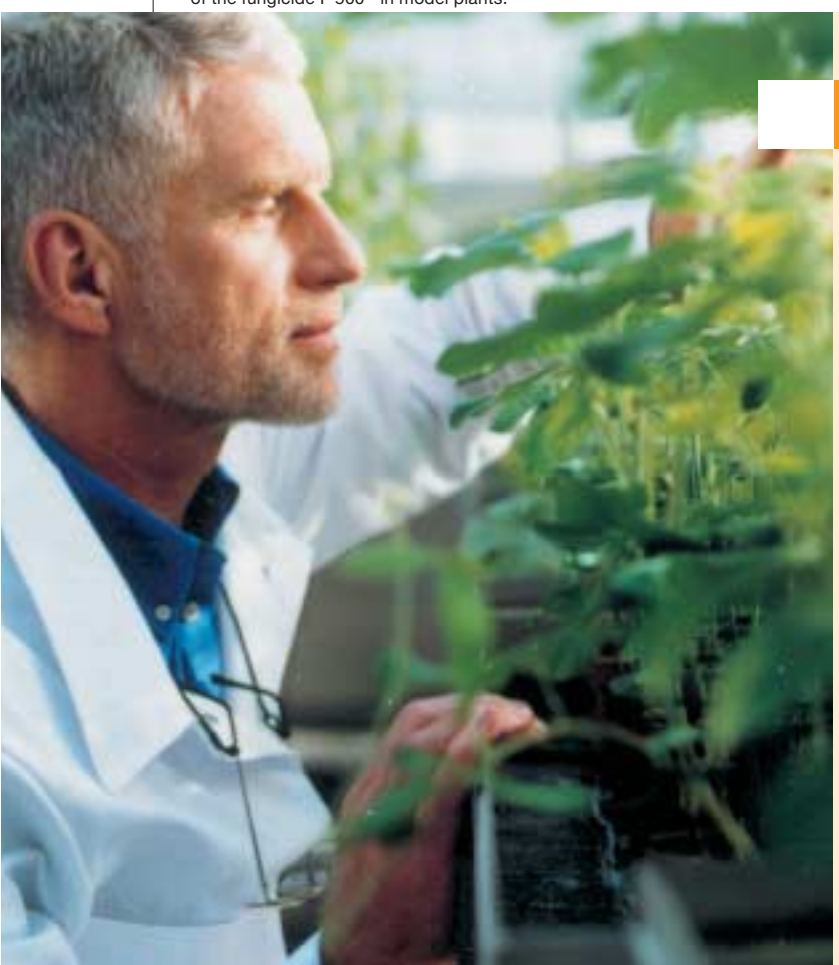
In March 2003, we extended our portfolio by purchasing the insecticide fipronil together with selected seed treatment fungicides from Bayer CropScience. Fipronil will be particularly important in strengthening our insecticide business in growing specialty markets. We are optimizing our portfolio to ensure our long-term success: By targeting active ingredients and formulations to the changing needs of our customers, we can also reduce complexity and improve earnings. Here, a contribution has been made by divesting our soil improvement products business to Kanesho Soil Treatment, Belgium.

Plant biotechnology: New solutions discovered

In the area of plant biotechnology we are developing solutions for more effective agriculture and healthier nutrition as well as conducting research into plants to make products more efficiently. One of our aims is to improve the cultivation characteristics of crops: In 2003, we succeeded in identifying genes that allow the model plant *Arabidopsis thaliana* to withstand periods of drought. In a second step, this drought resistance will now be transferred to crops such as corn (maize), soybeans or wheat.

Further information and data at
www.reports.basf.de/agro
www.reports.basf.de/nutrition

Convincing results: Dr. John-Bryan Speakman, crop protection researcher at BASF, checks the efficacy of the fungicide F 500® in model plants.



Help for South American soybean farmers

The success story of F 500®, our innovative active ingredient to combat fungal diseases in plants, is now continuing in South America: We have further developed the active ingredient – which was previously used in cereals – for use in soybeans. Only two years after launching the product in South America, we have shown customers the benefits of this strobilurin and its potential use in soybeans. The breakthrough came in the 2003/04 growing season when a devastating disease known as soybean rust spread from Paraguay right down to Brazil. With Comet® and Opera® we had the right solutions at the right time in the right place. Working under great pressure, our fungicide team successfully used their expertise in launching the new products. F 500® lived up to its name as a broad-spectrum fungicide that helped increase yields of soybeans significantly. With our excellent knowledge of crops and markets, we succeeded in entering into a new business area.

Oil & Gas

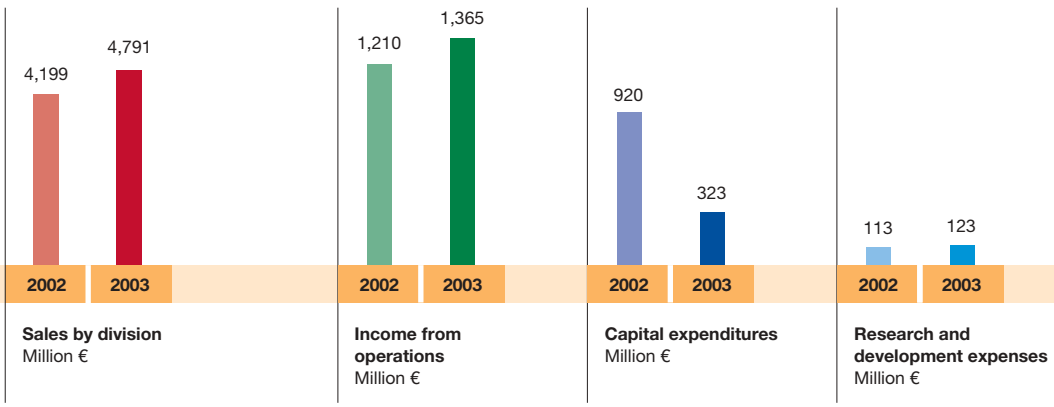
In 2003, Oil & Gas was again our highest-earning segment, with income from operations exceeding the strong level of 2002. In order to ensure our long-term growth objectives, we continued to invest in 2003 to increase our production and ensure our reserves. Our recipe for success is to focus our activities on promising core regions in Europe, North Africa, South America and Russia, as well as the Caspian region in the future. At 20.1 percent, sales volumes in our natural gas trading business grew significantly faster than the market.

BASF's oil and gas business is conducted through Wintershall. This wholly owned subsidiary has more than 70 years' experience in the exploration and production of oil and gas. Wintershall is the largest German producer of crude oil and natural gas and is active in promising regions worldwide. In 1990, we joined forces with the Russian enterprise Gazprom – a strong partner with the world's largest gas reserves. Since founding WINGAS, we have expanded trading of natural gas in Germany. Today, we are extending our activities under the motto "Gas for Europe," and are cooperating to produce natural gas in Russia.

Exploration and production: Position strengthened

In exploring for and producing oil and gas, we rely on new technologies and strong partnerships. This approach also paid off in 2003: Last year, we produced a total of 13.7 million metric tons of oil equivalent, or 12 percent more than in 2002. As a result, our exploration and production activities make the largest contribution to the segment's income from operations. Our success here was due to the development of new deposits in North Africa and the Dutch North Sea; the integration of Clyde Netherlands, which we acquired in 2002; as well as increased production in existing fields.

To ensure our success in the long term, we are constantly exploring for new deposits in our core regions. In addition, we are always interested in acquiring promising new concession areas in which we can explore for and produce oil and gas. In 2003, for example, we were awarded a promising exploration block in the Dutch North Sea as well as five blocks off the coast of the United Kingdom. In Argentina, acquisitions include a 27 percent stake in a concession off the coast of Tierra del Fuego as well as two concessions in Patagonia. In addition, we plan to explore for oil in the Russian sector of the Caspian Sea in 2004.



Natural gas trading: On course for further growth

In 2003, we significantly increased sales volumes in our natural gas trading business to 286.5 billion kilowatt hours, or 20.1 percent more than in 2002. This area has grown to become a stable pillar for the segment and offers considerable potential for further growth. WINGAS, a joint venture between Wintershall (65 percent) and the Russian company Gazprom (35 percent), is already one of the leading German gas companies. We have our own pipeline network spanning more than 2,000 kilometers and own Western Europe's largest underground natural gas storage facility in Rehden, Germany. To expand our business further – even beyond Germany – we want to optimize this network, which has been designed as a focal point for the European natural gas markets.

We are using the liberalization of the European natural gas market as the basis for growth. For example, since the beginning of 2003, WINGAS started marketing natural gas in Belgium and has meanwhile secured a market share of 6 percent for 2005. We have established WINGAS Belgium, headquartered in Brussels, with the aim of intensifying these marketing efforts. We have also expanded our activities in the United Kingdom in 2003 and have therefore decided to create the HydroWingas gas marketing joint venture together with Norsk Hydro, Norway. With a 25 percent stake in North West European Hub Service Company (HubCo) we also have acquired an opportunity to participate in establishing an efficient hub for natural gas. HubCo is located in Bunde, Germany – a region where strategically important gas pipelines come together.

Icy cold and permafrost: In Siberia, employees of Wintershall and Gazprom work under extreme conditions.

Producing gas together in the Arctic Circle

Success connects across national borders. This is why BASF subsidiary Wintershall and the Russian gas producer Gazprom are further extending cooperation, which has been successful since its inception 14 years ago. In 2003, they established the Achimgaz joint venture to produce natural gas and condensate in the Urengoy field in western Siberia. The joint venture is one of the largest projects ever undertaken by a German company in the Russian Federation. The two partners each bring their own strengths to the planned development of deposits deep under the permafrost: Gazprom has extensive experience in producing gas in Arctic areas. Wintershall brings in many years of experience in technically difficult deposits, especially those involving horizontal drilling under challenging geological conditions. A peak of up to 8 billion cubic meters of natural gas and up to 3 million metric tons of condensate are expected to be produced annually over a period of 40 years.

Further information and data at www.reports.basf.de/oil+gas

Innovations for Profitable Growth

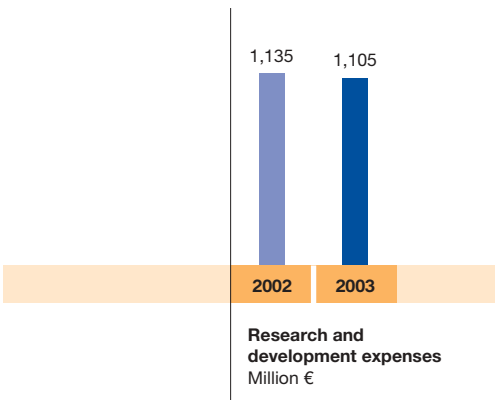
We want to offer our customers economically successful solutions and products. Our research and development activities therefore aim to implement market trends and scientific ideas quickly. We use our strong network of creative employees and productive cooperations between our research units, operating divisions and external partners from science and industry to the advantage of our customers. In parallel, we increase our competitiveness by continuously developing our production processes.

Our central technology platforms in Ludwigshafen combine BASF's know-how. They form the core of our Research Verbund together with our global research facilities and our subsidiaries. Worldwide, approximately 7,500 employees work in research and development at BASF. In addition, we are currently involved in about 1,100 cooperations worldwide, which provide our research activities around the world with impulses on market needs and technology trends.

Innovations for successful customers

We want to provide product innovations and system solutions that contribute to our customers' success and to profitable growth for BASF. Automotive manufacturers are very interested in an innovative concept for the thermal encapsulation of car engines from our subsidiary Elastogran. Cooling of the engine can be delayed by surrounding it with a polyurethane foam. It therefore remains warm and ready for the next start for trips around town and other short journeys. The potential: a reduction in fuel consumption of up to 9 percent. We are currently working with a well-known automotive manufacturer on preparations for the construction of a prototype.

The example of biocatalysis shows how we use scientific knowledge and the opportunities of technological change and how we include environmental aspects at an early stage. Biocatalysis is a process in which microorganisms or isolated enzymes are used to manufacture products on the basis of renewable raw materials such as soybean oil. It offers an energy and resource-saving alternative to multistep chemical syntheses. We use this technology, for example, to produce our ChiPros® product range: These molecules occur in two forms that are non-superimposable mirror images of one another, of which only one form has the desired effect in the final product. Thanks to our innovative biocatalytical processes, we are able to supply our customers in the pharmaceuticals industry with only the active form. Plant biotechnology is another focus of research at BASF and you can read more about this topic on page 29.



Research and development expenses
Million €

Through-colored fiberboard can be processed like solid wood.

Tapping into new business areas

Our subsidiary BASF Future Business concentrates on recognizing chemistry-based solutions in areas that lie outside the scope of BASF's existing operations and turning them into attractive businesses. The construction, textile and automotive industries, for example, have long dreamed of self-cleaning surfaces that stay cleaner for longer. By utilizing the potential offered by nanotechnology we are now launching a product that grants this wish in the form of mincor™. The new product creates nanostructures on surfaces, making them water and dirt repellant. BASF Future Business is also developing high-performance components for new energy systems such as fuel cells as well as long-lasting, brilliant pigments for use in the next generation of displays.

Ensuring competitiveness through process innovations

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

Seeing the market through our customers' eyes

Until now audio furniture has never really been a single color: Cut edges, drill holes and scratches always revealed the original light color of the fiberboard. Together with manufacturers of wood composites, BASF experts have developed an innovative solution that will mean that people will be able to enjoy the appearance of their furniture for years to come. Our new pigment preparations can be used to through-color medium density fiberboard (MDF) in black, blue, green or red. The wood fibers are still clearly visible and give the boards a natural appearance. And like solid wood, the boards can be refurbished again and again. Our customers in the wood products industry benefit from our unique expertise in the area of colorants and glues and from our Know-how Verbund: Only the pigment preparations developed by BASF meet customer requirements because they are easy to mix with glues and penetrate wood fibers well.

Mobility Thanks to Solutions from the Chemical Industry

Experts for all shades of automotive coatings: Renate Weber (left) and Michaela Finkenzeller, color designers at BASF Coatings AG.

BASF and the automotive industry

Every new car sold today contains chemical products – coatings, plastics and additives – worth approximately €750. Products for the automotive industry accounted for more than 10 percent of BASF's sales in 2003. Automotive industry suppliers currently make up one-third of growth in the automotive industry, and this figure is rising.

Mobility thanks to solutions from the chemical industry

The conveyor belt inches its way forward as freshly painted car bodies pass by one by one along the assembly line. Assembly workers fit doors, and robots install the cockpit a little further down the line. The appearance of the finished car is specified in the assembly instructions attached to the underside of the open hood. Whether it's pale leather seats, a global positioning system or a sporty steering wheel – major manufacturers offer their customers a choice of more than one million different permutations. And customers are fussy, too. They want a car that's safe and comfortable, looks good, requires little maintenance and has good mileage. That's not surprising because owners spend such a great deal of time in their cars. Statistically, every German drives approximately 11,000 kilometers (6,820 miles) a year, and the number for the United States is even higher at almost 15,000 kilometers (9,300 miles). To ensure that car owners get what they want, teams at BASF develop innovative and environmentally friendly solutions in cooperation with partners from the automotive industry.

Identifying customers' needs

"Through projects with major customers, we get to know their needs down to the last detail," says Raimar Jahn, head of BASF's Performance Polymers division and chairman of the Automotive Steering Committee – a platform at BASF that combines activities involving the automotive industry. "Our goal is to team up with customers to cut costs, accelerate development and production times, and at the same time improve the quality of the product and create something completely new." This integrated approach applies not only to day-to-day business but also to the development of system solutions. For example, the U.S. automaker General Motors has a central contact at BASF for all of its questions.

Comfort, safety and looks

Virtually all makes of cars produced today contain BASF products. In the interior, polymers give dashboards and steering wheels that sporty or elegant touch and help make driving a pleasurable experience. The things that make a big difference are not necessarily noticeable at a first glance. Take polyurethane-based Cellasto damping systems for example. They deserve credit for minimizing unpleasant vibration and noise. That's why nine out of 10 automobile manufacturers opt for this system, which allows a precision fit between chassis and body. BASF's high performance polymers can do a lot more. They can easily tolerate heat, cold and mechanical pressure in engines or gearboxes. "Ultramid® can withstand lubrication oil at temperatures as high as 140 C (284 F), that's why we used this material for the gearbox of a newly developed transmission control module installed in models such as the BMW 7 series and S-type Jaguars," says Thomas Laux, head of Bosch's Transmission Control department. Solutions from the chemical

The use of innovative materials in car bodies is one of the most important technological changes. Studies indicate that by 2010 cars will have a plastic content of 19 to 20 percent compared with 13 to 15 percent today.

industry also help to enhance road safety. Brake fluids, airbags and highly complex steering electronics would be unthinkable without them.

But even when there are no further questions regarding technology and performance, buying a car is still a matter of individual taste in one respect: the color of the paintwork and interior fittings. BASF designers keep their fingers on the pulse by scouting out trends and developing colors for the upcoming seasons in close consultation with automotive industry experts from Europe, Asia and North America.

Chemistry delivers sustainable solutions

"For us, developing sustainable solutions for the automotive industry also means adding value on a lasting basis for manufacturers and motorists," says Raimar Jahn. "Our innovative products and efficient processes focus on the most logical approach, namely reducing fuel consumption and emissions." Analysis of a vehicle's energy consumption throughout its lifetime shows that 87 percent of energy is used while on the road; most of the remainder is accounted for by the production of materials and the vehicle itself.

Smooth driving, lower emissions

Fuel additives from BASF combine cost effectiveness with environmental protection. They protect engine parts that are exposed to heat and keep them clean, prolonging their lifetimes and minimizing maintenance. At the same time, fuel consumption is reduced. Emissions of volatile hydrocarbons, carbon monoxide and nitric oxides are also reduced by 20 percent. This was demonstrated in a fleet test performed in cooperation with a global customer. The advantages of fuel additives were also confirmed by a BASF ecoefficiency analysis. "These are important aspects particularly in the growing Asian market, where most of the fuel currently sold contains no additives," says Dr. Ulrich Kanne, head of marketing and product development for performance chemicals for the automotive and oil industry. In Beijing, BASF plans to establish an engine test facility together with the Chinese Research Academy of Environmental Sciences (CRAES) to analyze and improve gasoline grades in China.

Lightweight construction saves resources

Customized fuels are not the only way of reducing consumption: The vehicle's weight is another crucial factor. According to a rule of thumb, reducing a vehicle's weight by 100 kilograms (220 pounds) cuts fuel consumption by 0.35 liters (0.1 gallon) per 100 kilometers (62 miles). Using plastics in automobile construction therefore also makes sense from an environmental point of view because they are much lighter than steel components. According to calculations by experts, the use of approximately 14 percent plastic in cars saves more than 400 million liters (104 million gallons) of fuel in Germany every year.

Half the weight, all of the safety

"Materials like Ultratect® with a lightweight core and stable outer layers enable us to build lighter cars while maintaining a high safety standard," says Dr. Dietrich Scherzer, from BASF's polymer research unit. This principle has already gone into serial production in the shape of the BMW M3 CSL sports car. BASF polymer experts teamed up with AC.S from Wilhelmsdorf near Nuremberg to design the central portion of the rear seat backrest as a sandwich construction.

The new component weighs just half as much as conventional steel structures, yet performs equally well in crash tests. "Thanks to the Ultratect® foam core, the rear seat rest absorbs more energy on impact," says Dr. Herbert Börger, managing director of AC.S, explaining why he chose this polymer. And there's an additional benefit: BASF has developed an environmentally friendly and cost-effective manufacturing process for the production of larger quantities of Ultratect®.

Car body parts made of plastic

The aim of paintless film molding (PFM®) process is to produce entire car body parts out of plastic that do not require subsequent coating. Coated or dyed polymer films ensure that the plastic exterior car bodies are indistinguishable from their steel counterparts. Films of special BASF plastics are molded exactly to the shape required by the customer, and specially developed plastics are then injection-molded on to the back. Take the example of the MCC Smart: Its roof is the first large exterior body part in which areas of glass and plastic components appear to be made in one piece. The plastic roof also helps to reduce weight because it is half the weight of a comparable steel component. PFM® brings automobile manufacturers a step closer to their goal of achieving a high quality plastic car body that is suitable for mass production. For this achievement, BASF and its partners were awarded the Plastics Innovation Prize by the German Association of Engineers (VDI) in 2004.

Efficient coating processes benefit manufacturers and the environment

Optimized processes are also helping to revolutionize automotive coatings because they combine economy and ecology. "As a system supplier, we do more than simply providing manufacturers with the coating materials they need. In fact, our objective is to be the 'zero headaches' solution provider. For example, we also perform tasks ranging from materials planning and quality assurance to lab work," says Rainer Blair, head of Automotive Coatings North America. "In collaboration with manufacturers, this gives us the best possible control of quality and cost."

Another characteristic of system partnerships is a cost-per-unit invoicing system whereby customers pay for each perfectly coated auto body, rather than for the amount of product they use. Suppliers and customers have a common goal – to save materials and thus costs through integrated coating processes that are constantly being improved. Our newest development makes it possible to eliminate one of the primer layers while maintaining quality and without having to alter the paint shop.

The environment also stands to benefit, as the system cuts the amount of product used by 20 percent, thus helping to reduce coating waste and residues. The coatings themselves have also become gentler on the environment in recent years. For example, BASF has developed solvent-free and heavy metal-free products. BASF's waterborne coatings now have only 15 percent the solvent content of conventional coatings, while its zero-emission coatings are almost entirely solvent-free.

BASF is now the leading system supplier for automotive coatings. Twenty production plants operated by eight automotive manufacturers in Europe, the Americas and Japan work with BASF according to this principle, the latest example being VW's facility in Puebla, Mexico.

BASF's Eco-efficiency Analysis

Our eco-efficiency analysis helps us develop economical solutions that at the same time burden the environment as little as possible – this is good for our customers and ourselves, which is why we are increasingly being commissioned by customers to conduct eco-efficiency analyses for them as well as developing software to enable this complex tool to be deployed in everyday working situations.

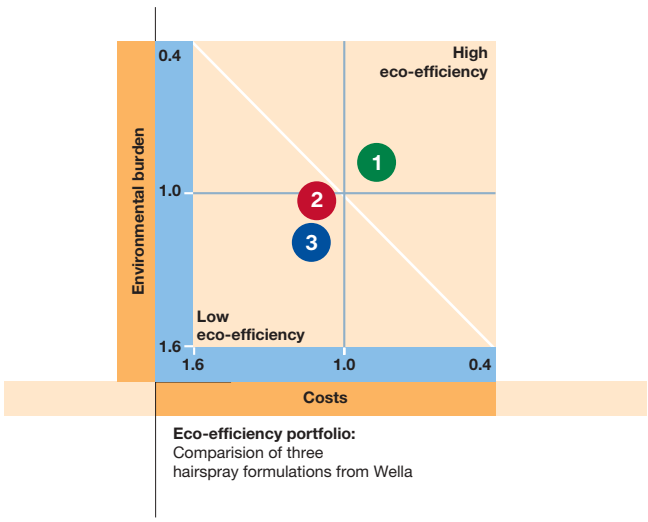
BASF's eco-efficiency analysis looks at a product's entire lifecycle – from raw material extraction to recycling or disposal. It focuses on the customer's point of view and compares applications that offer the same benefit. The eco-efficiency analysis determines a product's environmental profile by investigating the following categories: consumption of resources and energy, emissions to air, water and soil as well as any risk potential. In addition to environmental data, we also identify the overall costs of alternative products over their entire lifecycle. The data are then plotted on a graph known as an eco-efficiency portfolio that shows at a glance which of the solutions is best in terms of both costs and environmental burden.

Clear basis for assessment for our customers and ourselves

The results help us to improve products and processes by showing us what points need to be optimized to achieve a particularly good result for the environment and what commercial consequences these involve. If a product turns out to be neither eco-efficient nor improvable, we look for alternatives.

We also deploy the analysis to back up strategic decision-making. When R&D targets need to be drawn up and reviewed, it helps us to understand the different ways of enhancing a product or process. And we also utilize the tool when investing in new plants and making site decisions. The analysis can also be used to evaluate complex environmental policy strategies such as the German deposit system on disposable packaging or the liberalization of waste management.

The eco-efficiency analysis means that our customers can understand the implications at a glance. The results enable them to see the environmental and commercial advantages of our products and processes, which is why we are increasingly using this tool on behalf of our customers. Of the 200 eco-efficiency analyses carried out by BASF experts since 1996, more than 100 have been collaborative ventures with customers or partners of associations and institutions.



Eco-efficiency portfolio:
Comparision of three
hairspray formulations from Wella

A growing network of experts

A growing number of experts deploy and fine-tune our eco-efficiency analysis tool, both inside and outside BASF. This is why training by BASF's eco-efficiency specialists and exchanging experience within this network is so important. Institutions now using this method include the Institute for Applied Ecology in Freiburg, Germany; the University of Karlsruhe, Germany; the Netherlands Organization for Applied Scientific Research (TNO); and the United Nations Industrial Development Organization (UNIDO).

Eco-efficiency analysis at the click of a mouse

In 2002, we developed an "eco-efficiency manager" known as Ecologistix together with representatives from industry, politics and science. This is a software program for a specific field of application that can answer customer queries swiftly and economically. As a result, small and medium-sized companies can now also easily incorporate the eco-efficiency analysis into their everyday operations.

BASF's logistics staff use Ecologistix to calculate the best transport system for goods. Using a simple data input screen, detailed environmental data are combined with all relevant customer-specific information on shipment. Ecologistix then determines the best transportation route for the customer. It also calculates carbon dioxide emissions and shows how choosing an alternative route can reduce greenhouse gas emissions. As a result, we can help our customers achieve their environmental targets. Several Ecologistix programs are being used today by BASF, by customers and by partners.

Giving hair body and shine – the eco-efficiency way

Whether curly or straight – Wella's hair care product developers create hair dye and perm products as well as care and styling products for every type of hair. In order to find out which hairspray formulation is both particularly economical and environmentally friendly, Wella conducted a BASF eco-efficiency analysis that looked at three alternatives with differing active ingredients, amounts and types of propellant. This enabled Wella to identify the formulation that was significantly more economical and environmentally sound. The eco-efficiency analysis is a key tool for Wella – aiding decision-making and promoting product stewardship. In the future, Wella plans to use BASF's method for selected products and integrate it into product development.

Comparing the use of hairspray formulations.

Acting responsibly and reducing risks – that's also the motto of Massimo Assenza (left) and Frank Roth.

Environmental Protection and Safety

Continuous Improvement is our Goal

BASF's environment, health and safety projects are as varied as our sites. But they all share the same intention – continuously improving BASF's performance in the field of Responsible Care®. Last year, we published global, long-term goals for the first time that show clearly and transparently what path we plan to take in the future.

In all areas of Responsible Care®, we want to achieve concrete improvements against which we can be measured. For the first time in 2003, we published ambitious goals for environmental protection, product stewardship, occupational safety and distribution safety that we want to achieve by 2012. This report describes what projects we carried out or started in 2003 with the aim of coming a step closer toward achieving these targets. Our goals are long term, and portfolio measures such as acquisitions have to be taken into account. This means that we cannot report identical developments every year.

Global management system

Our environmental and safety goals comply with the principles of Responsible Care® – a voluntary global initiative of the chemical industry that BASF has committed itself to since 1992. Responsible Care® aims to achieve continuous improvements in the areas of environmental protection, safety and product stewardship as well as occupational safety, occupational health and dialogue. A global network of experts manage our activities in all these fields (see also **www.basf.de/competence-center-rc**). This combines two important success factors: it allows freedom for regional diversity and makes it possible to implement global standards. The network extends to the regional level so that appropriate account can be taken of specific local needs. At the same time, we can work together on long-term global standards. We have already achieved this with regard to both the planning and construction of new plants and the transportation and storage of chemicals.

We are actively involved in all political discussions within the European Union. Topics we are currently addressing are:

European chemicals policy (REACH)
The goal of the future E.U. chemical legislation is to increase protection of people and the environment while simultaneously improving the competitiveness of the chemical industry in Europe. We support this goal wholeheartedly. We are, however, very concerned by the draft legislation passed in October 2003 because it does not take sufficient account of effects on the industry. Implementation of this draft will permanently impair the industry's competitiveness in Europe. You can read more detailed information on our position at **www.basf.de/chemicals_policy.**

Emissions trading
The Kyoto Protocol was the first international treaty to define goals to reduce emissions of CO_2 for the signatory states. BASF is committed to the project-related flexible mechanisms envisaged under the Protocol (clean development mechanisms, joint implementation) to achieve the targeted reductions and supports emissions trading at the state level. However, we continue to take a critical view of locally limited emissions trading at the company level as proposed by the E.U. directive. Emissions trading in the E.U. will start in 2005 and we will have to adapt accordingly. Further information is available at **www.basf.de/emissions_trading**.

Integrated Product Policy (IPP)
The key objective of the green paper on Integrated Product Policy of the European Commission of February 2001 is to improve the environmental impact of a broad range of products throughout their lifecycles. We fundamentally support the IPP goals, although the industry needs flexibility if it is to implement them successfully.

SCALE
SCALE is an initiative of the European Commission to raise awareness for children's health and the environmental factors that endanger health. The initiative aims to reduce these factors. Experts from throughout Europe are developing an action plan that is to be presented at the Ministerial Conference on Environment and Health in June 2004. BASF is also involved in various working groups.

Checks ensure safety. Michael Hauck (left) and Frank Herrmann inspect a pipe in the isophytol plant in Ludwigshafen.

We check where we can make improvements

We perform regular audits at all our sites. They are an important tool in our efforts to make our sites and plants even safer, and they help make us a trustworthy partner for employees, neighbors, customers and public authorities.

On behalf of the Board of Executive Directors, experts for safety, environment and occupational medicine monitor all our sites and plants. Using clearly defined criteria they track how our standards are implemented locally. Environmental and safety audits and occupational medicine audits are conducted separately. The results are then combined to give a comprehensive profile for every site. Measures taken range from immediate improvements through to long-term projects and are subject to follow-up audits.

During the 2003 reporting period, 61 environmental and safety audits were carried out at 39 BASF sites. Occupational medicine and health protection audits were also conducted at 34 sites.

In 2003, we submitted our internal audit system to a detailed review by experts from Deloitte & Touche. The goal of this voluntary measure is to achieve even more transparency in our dialogue with the public. In their report, the reviewers stated that our system is fully functional and effectively recognizes and reduces risks. We have taken up some of the suggestions from their report and implemented them effective January 1, 2004 (see **www.basf.de/audits_e**).

Externally certified sites

Our internal auditing system meets the standards and criteria of today's generally accepted external auditing procedures. Nevertheless, we also carry out external certification at the request of our customers. For example, all of BASF's North American sites that produce automotive coatings have been certified according to environmental standard ISO 14001 since January 2001. In summer 2003, two production plants for automotive chemicals at our Ludwigshafen site were awarded ISO 14001 certification, allowing them to cite the environmental standard in their advertising. And in 2002, BASF Corporation became the first chemical company to be awarded RC 14001 certification, a new environmental standard combining Responsible Care® and ISO 14001.

A list of sites certified according to ISO 14001 or EMAS can be found at **www.basf.reports.de/certified**.

Efficient Processes for Companies and the Environment

When developing and manufacturing our products, we rely on efficient processes. This pays off for the company and the environment. We contribute to the success of the company by achieving higher product yields in our plants. That's also easier on the environment: We use fewer resources and reduce both emissions and waste.

BASF has achieved a lot in recent decades with end-of-pipe environmental technologies. Examples include filters to reduce emissions and the more than 50 wastewater treatment plants we operate worldwide. Many of our environmental protection measures, however, are at a much earlier stage of the production process during the development of products and processes.

Innovation-integrated environmental protection

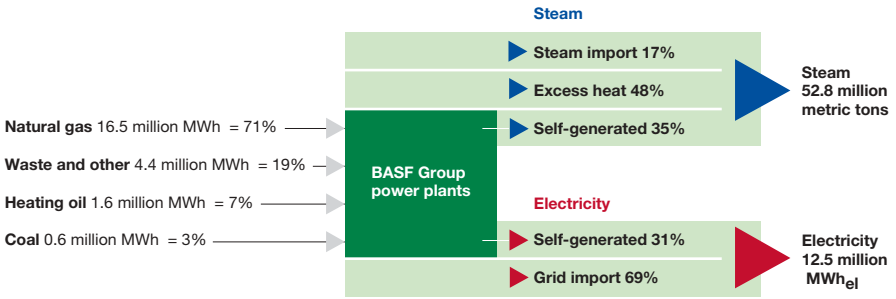
Environmental protection plays a central role when BASF researchers develop new products: A high-quality product must be environmentally compatible if it is to be accepted by our customers. Economic efficiency and environmental protection are therefore closely interlinked when we develop innovative processes.

Our knowledge means that BASF's specialists are valued as partners in promoting environmentally friendly technologies in emerging economies. In the summer of 2003, the Chinese Research Academy of Environmental Sciences (CRAES) – which is part of China's State Environmental Protection Administration – and BASF signed an agreement in Beijing for constructing and operating a joint engine test facility. This facility will investigate the quality of Chinese gasoline and take concrete measures to improve its quality. A key goal of the collaboration is to achieve a permanent reduction in traffic-related air pollution.

Production-integrated environmental protection

Along with the desired end products, chemical processes usually also generate by-products. It pays to reduce or recycle these. Right from the plant planning stage we therefore pay special attention to ensuring that any by-products are avoided or optimally recycled. Wherever we can, we also improve existing processes, and not only our own but those of our customers, too. For example, we developed an optimized recycling procedure for N-dimethylacetamide (DMAC), which our customers use as a solvent in the production of spandex fibers. The new procedure makes it possible to recover DMAC in a high quality and at the same time minimizes solvent losses. The first plants to use this principle are now operating in Italy and we are planning others for our Asian customers.

Energy balance, BASF Group 2003



In 2003, 23.1 million MWh of fossil fuels and residual waste was used in central power plants to generate steam and electricity in the BASF Group.

As a result, 3.8 million MWh_{el} of electrical power was generated, primarily by means of cogeneration technology. This corresponded to 31 percent of the BASF Group's total electricity needs of 12.5 million MWh_{el} in 2003. The remaining electricity was purchased from public networks.

In 2003, a total of 52.8 million metric tons of process steam was provided via steam networks within the BASF Group. Worldwide, 48 percent of this amount was generated by using excess heat from chemical reactions and by thermal recycling of waste.

Using resources efficiently in our Verbund network

At our Verbund sites we recycle resources and by-products particularly efficiently: Here, we network production plants, energy and waste flows, logistics and infrastructure with one another. The system conserves resources by guaranteeing low-energy and high-yield chemical processes. Along with our Ludwigshafen site, we operate another four Verbund sites worldwide. A fifth, in Nanjing, China, is under construction and is expected to start operations in 2005.

Thanks to our Energy Verbund, we have succeeded in cutting the volume of fossil fuels used to generate steam at our Ludwigshafen site by 49 percent since the mid-1970s, while increasing production by 45 percent in the same period. Similar results have been achieved at our Verbund site in Antwerp. Today, BASF produces 426 percent more in Antwerp than it did in the mid-1970s when the site was still under development. While electricity consumption has risen by 259 percent, the amount of fossil fuels used to generate steam has fallen by 76 percent.

2012 goal

Reduction of emissions to air
Reduction of greenhouse gases per metric ton of sales product: –10 %

BASF is committed to the aims of the 1997 Kyoto Protocol of reducing relevant greenhouse gas emissions. In recent years, we have already made a substantial contribution by introducing far-reaching measures: Between 1990 and 2002, we reduced greenhouse gas emissions per metric ton of sales product by 61 percent. By 2012, we have the long-term goal of reducing our specific greenhouse gas emissions per metric ton of sales product by a further 10 percent compared with 2002, while further expanding our global production capacities. To achieve this, we are carrying out specific long-term projects that will take effect in the next few years.

Initial successes are already visible: In 2003, we reduced greenhouse gas emissions per metric ton of sales product by 7.2 percent compared with 2002. The coming years will show to what extent these projects can also confirm this positive development in the long term. Emissions of greenhouse gases from BASF's global chemicals operations totaled 23.8 million metric tons (2002: 24.7 million metric tons). Each of the various gases has a different impact on the greenhouse effect and so emissions are calculated in terms of CO_2 equivalent to allow a comparison.

Global partnership in the World Bank's climate fund

Reducing emissions, gaining experience in greenhouse gas trading and improving living conditions in poorer parts of the world – these were the reasons why BASF became the first German company to take part in the World Bank's Community Development Carbon Fund (CDCF). Using funds provided by governments and companies, the CDCF will finance small and medium-sized projects to reduce greenhouse gas emissions, in particular in poorer developing countries. Only projects that also improve the quality of life of the population will be eligible for funding. The intention is for the projects to be recognized as "clean development mechanisms" (CDMs) under the provisions of the Kyoto Protocol. In return, participants in the fund will eventually receive certified emission rights for greenhouse gases. The CDFC was launched with a starting capital of $35 million to be spread over a period of 15 to 17 years. BASF has agreed to provide a total of $2.5 million in this period.

Emissions of greenhouse gases

(Thousand metric tons of CO_2 equivalent/year)

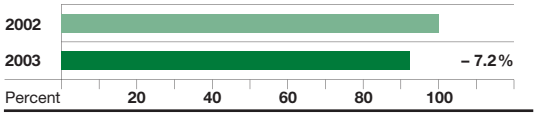
	GWP factor*	2002	2003
CO_2	1	18,236	18,960
N_2O	310	6,407	4,788
CH_4	21	10	10
HFC**	140 – 11,700	61	36
PFC**	6,500 – 9,200	0	0
SF_6	23,900	0	0.6
Total		24,714	23,795

* GWP factor: global warming potential of the individual gases compared with CO_2

** Calculated using the GWP factors of the individual components (IPCC 1995)

Reduction of greenhouse gas emissions

Per metric ton of sales product



We are relying on energy-efficient processes and state-of-the-art technologies in order to meet our long-term goal. One example is the construction of a second combined heat and power (CHP) plant in Ludwigshafen, which we started in fall 2003. The plant's turbines will generate 3.5 times more power per metric ton of steam than a conventional power plant. This means the plant will be able to achieve an energy efficiency of close to 90 percent, which will conserve resources and lower CO_2 emissions by 500,000 metric tons per year by 2006. A CHP plant recently started supplying our site in Tarragona, Spain, and similar plants are planned for BASF's Verbund sites in Nanjing, China, and Antwerp, Belgium. Once these projects have been completed, we will be operating modern CHP plants at all sites where this is feasible, either independently or with partners.

Since 1997, we have reduced nitrous oxide emissions from adipic and nitric acid production at a number of sites using a specially developed catalyst. This makes it possible to reduce nitrous oxide emissions from nitric acid production by about 70 to 80 percent and from adipic acid production by about 95 percent. And we are making further progress – a second, enhanced catalyst recently went on trial at our Antwerp site.

Even small measures help us to achieve our global target. In spring 2003, we switched steam generation from heating oil to natural gas at our site in Yokkaichi, Japan. This reduced CO_2 emissions by around 1,400 metric tons compared with the previous year. The new fuel can also be used more efficiently, which reduces energy costs.

Emissions to air from oil and gas production

Emissions from oil and gas exploration are not included in our targets because the development of new oil and gas fields makes them hard to predict. We nevertheless include these emissions in our reporting to ensure transparency.

Emissions of greenhouse gases from oil and gas production totaled 2.1 million metric tons in 2003 (2002: 1.9 million metric tons). They are reported in terms of CO_2 equivalent. Emissions of air pollutants amounted to 13,700 metric tons (2002: 9,200 metric tons). As a result, oil and gas production is responsible for 14 percent of the BASF Group's emissions.

A new cogeneration power plant is to start operations at our Verbund site in Antwerp in mid-2005.

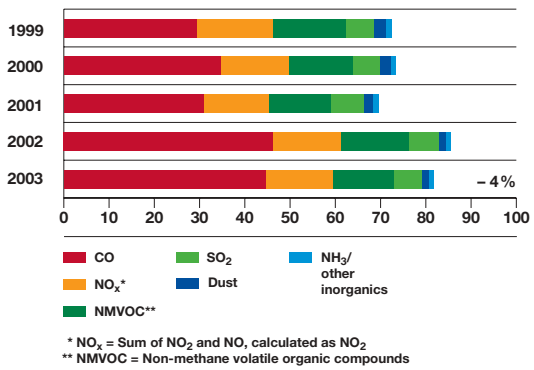
2012 goal

Reduction of emissions of air pollutants: **–40 %**

By 2012, we want to reduce the volume of air pollutants from our chemical plants by 40 percent compared with 2002. Air pollutants include inorganic gases such as carbon monoxide, sulfur dioxide, nitrogen oxides, NH_3 and other inorganic compounds, dust, heavy metals and volatile organic compounds (NMVOC). In 2003, emissions of air pollutants from BASF's chemicals operations totaled 81,800 metric tons (2002: 85,600 metric tons) worldwide. Emissions of heavy metals totaled 5 metric tons (2002: 5 metric tons), while ozone-depleting substances as defined by the Montreal Protocol amounted to 180 metric tons (2002: 229 metric tons).

In 2003, we were able to register initial successes in this area too: We reduced emissions of air pollutants by 4 percent compared with 2002.

Emissions to air
Air pollutants, thousand metric tons per year



* NO_x = Sum of NO_2 and NO, calculated as NO_2
** NMVOC = Non-methane volatile organic compounds

To meet our long-term targets in this field, we are currently working on a variety of projects, for example thermal treatment of flue gas.

2012 goal

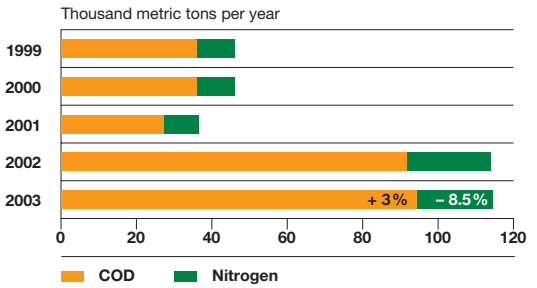
Reduction of emissions to water
Nitrogen: **–60 %**
Organic substances: **–60 %**
Heavy metals: **–30 %**

By 2012, we want to reduce emissions of both nitrogen and organic substances to water by 60 percent and heavy metal emissions by 30 percent compared with 2002.

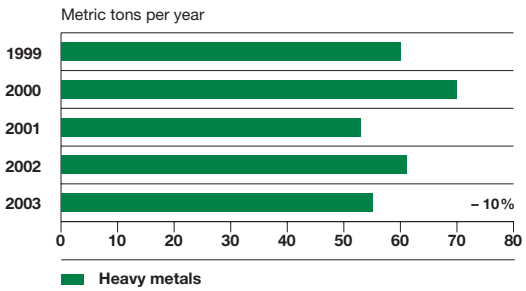
In 2003, BASF discharged 175 million cubic meters of wastewater worldwide. Direct emissions of organic substances – calculated as chemical oxygen demand (COD) – amounted to 94,200 metric tons (2002: 91,500 metric tons). Emissions of nitrogen (N total) and phosphorus were 20,400 metric tons (2002: 22,300 metric tons) and 490 metric tons (2002: 500 metric tons), respectively. Fifty-five metric tons of heavy metals (2002: 61 metric tons) were emitted in wastewater. In addition, 7.8 million cubic meters of wastewater with a COD content of 6,500 metric tons were piped to external wastewater treatment facilities.

We have also come a step closer toward achieving our goals for heavy metal and nitrogen emissions: Compared with 2002, heavy metal emissions declined by 10 percent and nitrogen emissions by 8.5 percent. Emissions of organic substances (COD) increased by 3 percent. This was due to an increase in production at our site in Gunsan, South Korea, and a corresponding rise in the amount of fermentation residues emitted.

Emissions to water



In 2002, we included a former acquisition in Gunsan, South Korea, in our reporting for the first time. This explains the increase in emissions for 2002 and 2003.



We plan to contribute to our goals using far-reaching measures. Last year, for example, we tested a process for reducing emissions at the Gunsan site. We plan to extend the process to the entire plant in 2004 with the aim of reducing nitrogen emissions at the site by 40 percent and the COD content of wastewater by 30 percent by 2005.

A new process known as nitrification, which has been used at our Ludwigshafen wastewater plant since September 2001, is also making an important contribution to reducing nitrogen emissions. By using microorganisms that break down nitrogen compounds in water, we have been able to more than halve our annual nitrogen emissions to the Rhine River. In 2003, nitrogen emissions amounted to 1,250 metric tons of ammonia nitrogen, whereas in 2001 they were as high as 3,500 metric tons. This demonstrates that we are successfully meeting the voluntary commitment we made in 1995 (when emissions stood at 4,500 metric tons) to lower our ammonia nitrogen emissions to the Rhine River by 50 percent.

At our site in Freeport, Texas, we have been concentrating dilute nitric acid generated as a by-product to yield a marketable product since June 2003. As a result, we reduced nitrogen emissions to the Brazos River by 50 percent to 850 metric tons in 2003 and reduced our annual costs by more than $1 million. BASF has invested $8.5 million in this voluntary recovery program.

BASF's water requirements worldwide totaled 1,880 million cubic meters in 2003 (2002: 1,890 million cubic meters). Information on individual substances emitted to air or water can be found at **www.basf.de/emissions_lists**.

Waste management

Worldwide, BASF produced approximately 1.5 million metric tons of waste in 2003 (2002: 1.61 million metric tons). Oil and gas exploration accounted for 45,500 metric tons. Building rubble now accounts for the large majority of waste at BASF; the remainder consists of production waste, industrial waste resembling household waste and sewage sludge. Around 32 percent of our waste was recycled or subjected to thermal recovery. The remainder was disposed of by incineration (71 percent), landfilling (19 percent) or underground storage (10 percent). In line with the customary international categories, 330,000 metric tons of the waste we disposed of was classified as "hazardous" and 690,000 metric tons as "non-hazardous."

Environmental protection costs

The costs of operating environmental protection facilities throughout the BASF Group amounted to €667 million in 2003. In the same period, we also invested €159 million in new and improved environmental protection plants and facilities. These capital expenditures cover both end-of-pipe measures and production-integrated environmental protection measures.

Further data at
www.reports.basf.de/environment2003

Greater Knowledge Means Greater Safety

Knowing the impact of our substances means safety – for customers, end users and the public. This is why we provide detailed information about our products. And we want to become even better in this area.

2008 goal

By 2008, we want to extend our data even further so that we will have all relevant information on all substances that we handle worldwide in volumes of more than 1 metric ton per year.

Key data are available for close to 90 percent of these substances as a result of the voluntary commitment made in 1997 by the German Chemical Industry Association (VCI) for Germany. We are now working to complete the data for the remaining substances. This will involve products in Asia and the United States as well as substances resulting from portfolio changes and acquisitions.

Information available worldwide

Uniformly structured data records help us to identify where our data are incomplete and to fill these gaps. All BASF experts and the relevant authorities have access to our substance assessments. We also provide our customers with this information: They receive safety data sheets so they can familiarize themselves with the products and their properties and in this way learn how to avoid risks. Our safety data sheets are now available in 15 languages, and further language versions are planned. Using the local language is also extremely important for hazard warnings on product labels: In the European region alone, BASF product labels are translated into 19 languages. In an emergency, our customers and partners can obtain information on our products around the clock using the hotline system we have established worldwide.

Environmental and toxicological testing

Before new chemical substances come on to the market, we subject them to comprehensive environmental and toxicological testing and apply for registration with the appropriate authorities. When necessary to comply with legal and regulatory requirements we use animals to test chemical substances. Such studies serve to reduce possible risks to humans and the environment. BASF is committed to the ethical principles of animal protection. This is why we avoid animal studies and use alternative methods wherever possible and permitted by law. We are involved in developing alternative methods through a number of international committees.

We advise and support our customers

Along with detailed information on product safety, we offer our customers even more: Training for their employees, suggestions for improvements and eco-efficiency analyses (see pages 38 to 39). Since 2003, BASF offers its customers in Thailand monthly training sessions on how to handle products safely. In Australia, BASF drew up a safety concept for a customer in the paper industry in 2003 and helped the company to implement it. Australian customers are also regularly invited to employee training sessions in areas such as safety and the handling and storage of hazardous goods, and are offered special training at their own premises.

Taking Responsibility

Safety comes first. It is the foundation for the trust that employees and the public place in us. We have therefore set ourselves the ambitious target of reducing our lost time accident rate – the number of working days lost through injuries per one million working hours – by 80 percent worldwide by 2012 compared with 2002. We can best achieve this if all employees take responsibility for themselves and for their colleagues.

In 2003, the BASF Group's lost time accident rate was 2.4 per one million working hours (2002: 3.3), bringing us significantly nearer to our target: We reduced the number of accidents by 27 percent. Unfortunately, one contract company employee died in 2003.

Local safety programs

In order to promote safety awareness and reduce risks to a minimum, we focus on local programs and measures developed and implemented according to the particular needs of the individual site. Employees with managerial responsibility play a key role here. We expect them to act consciously as role models.

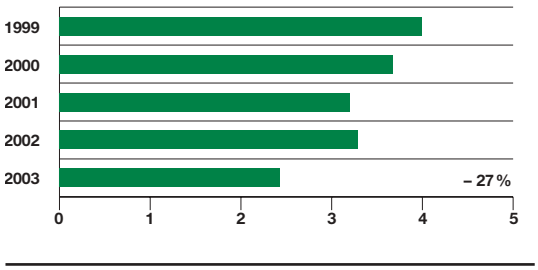
In Thailand, BASF has employed monthly training sessions and reviews since 2003 to promote a working atmosphere in which each employee is accountable. The aim is for all employees to structure their workplace conscientiously and therefore safely. BASF has also drawn up a standardized safety analysis in Yeosu, South Korea. All working processes are reviewed at regular intervals. The system, introduced in March 2000, enables risks and potential weaknesses to be identified and eliminated. At BASF Styrenics in India all new employees receive specific training. Since 2003, they are also given a special handbook that provides information about Responsible Care® – from training measures to responsibilities.

Alongside workplace safety, we also focus closely on road safety. In 2003, for example, we made it mandatory for cyclists to wear helmets at our Ludwigshafen site. This is intended to avoid head injuries in accidents involving cyclists and to encourage our employees to wear a cycle helmet when cycling in their leisure time.

Safety for partner companies

We want all employees from contract companies at our sites to work safely at all times, and this is why we are systematically integrating them into our safety procedures. In 2003, BASF PETRONAS Chemicals introduced a handbook for contract company employees at its site in Kuantan, Malaysia. It explains what to do in an emergency, describes the risks that can occur in everyday work and gives advice on how to avoid them. We also provide financial incentives to safety-conscious contract companies. Our Ludwigshafen site introduced a merit-rating system in 2003 (see page 52).

Lost time accidents (> 1 day)
Per million hours worked



Safe Transportation on all Routes

We want to ensure safe transport, handling and storage of our products. We aim to reduce the rate of transportation accidents per 10,000 shipments by 70 percent by 2012 compared with 2003. We want to achieve this through reliable logistics partners, global standards and an effective organization.

In 2003, there were 0.56 transportation accidents per 10,000 shipments. This figure is based on the accidents reported to us by our logistics partners. Over the past few years, we have encouraged our carriers to develop awareness for the need for transparency. This enabled us to further improve our database and publish reliable global statistics for the first time in 2003. Accidents are assessed according to the five criteria of the European Chemical Industry Council (CEFIC): deaths/injuries, leaks, extent of damage, disruption to public life and media response.

The BASF Transportation and Distribution Safety Guide, which lists our globally binding criteria for the transportation and storage of chemical products, forms the basis for all our measures. Our global network of distribution safety officers also plays a key role. We have established this function throughout the BASF Group even though it is not mandatory outside Europe. Distribution safety officers ensure that national and international regulations are observed for all shipments. In the event of an accident, the distribution safety officers collect and evaluate all the necessary information. We use these reports to develop strategies for avoiding similar accidents in the future.

Training and safety checks

We want to achieve our goal by working even more closely with our logistics partners. To do this we use the Safety and Quality Assessment System – SQAS (see page 62) – as well as training measures for our employees and carriers.

Last year, we trained distribution safety officers in six Eastern European countries with the aim of integrating them more closely into our European network. They were given further in-depth training at a Ludwigshafen forum on distribution safety. The event was also attended by external European logistics partners for the first time, with the intention of raising awareness for our standards through joint safety training and exchange of information.

Along with well-trained employees and partners, safe transportation routes are also important. In 2003, our Malaysian joint venture BASF PETRONAS Chemicals began reviewing all key road routes in order to suggest ways of minimizing risk to the appropriate authorities. To date, routes between Malaysia, Thailand and Singapore have been reviewed.

Responding swiftly to accidents

If an accident occurs while chemicals are being transported, a swift and appropriate response is essential. This is why we belong to networks that supply information and help in emergencies. These include the German Transport Accident and Emergency Response System (TUIS) and the International Chemical Environmental (ICE) initiative. In addition, we have established a global network of emergency contact numbers and control centers that we plan to expand. These systems exist primarily in Europe as well as in North and South America, and are optimized through regular training exercises. We are also working to establish these networks

Acting Responsibly in our Supply Chain

How carefully do carriers handle BASF's products? Under what conditions do BASF's technical partner companies work? How safe are our suppliers' products and processes? More and more customers and investors are asking us these questions, and we have a clear answer: What counts for us is acting responsibly throughout the entire supply chain because we want to build stable and sustainable relationships with our business partners. This is why we choose carriers, service providers and suppliers not just on the basis of price, but also include their performance in the fields of environmental and social responsibility when making our decisions.

Safe transportation to our customers

What our customers expect from our logistics system is easy to sum up: They want the products they have ordered to be delivered punctually and in the correct amount and quality. To achieve this, high safety standards must be observed by the carriers who transport our goods – most of whom are independent. Our comprehensive safety tool is the Safety and Quality Assessment System (SQAS), a standardized assessment system jointly developed by members of the European Chemical Industry Council (CEFIC). We use SQAS reports to identify staff training levels, response times during emergencies, vehicle equipment and whether carriers have security plans in place. Only if we are sure that a transport company meets all requirements do we trust it with our products.

We ensure safe transportation together with our partners – for example when filling tanker trucks.

We evaluate and support partner companies

Much repair, installation and transport work at BASF is carried out by contract companies. Many external companies perform such services for us at our sites. They act as our partners in the search for the best solutions. This is why all BASF companies and joint ventures in which we hold a majority share are committed to assessing and promoting the work of partner firms. Our global guidelines on safety, health and environmental management make no difference between contract workers and BASF employees when it comes to checking compliance with all regulations, carrying out training and assessing its success.

To further promote safety awareness at partner companies, BASF Ludwigshafen's site management introduced a merit-rating system for work carried out by contract companies in 2003. If a contract worker breaches one of BASF's safety regulations, the contract company's agreed bonus will fall by a certain pre-determined percentage.

Local measures like this are intended to encourage safety awareness at partner companies (see also page 50), and we now aim to promote these measures more vigorously worldwide.

Raw materials suppliers checked locally

Last year, BASF purchased more than 10,000 raw materials worth around €9 billion from approximately 5,000 different suppliers for use at its production sites worldwide. Employees in our Raw Materials Purchasing department have another responsibility: They carry out on-site product and supplier assessments.

Product types and sources important

All raw materials we purchase are classified into one of three hazard categories according to their environmental, toxicological and safety properties: A (safe), B (harmful) or C (e.g., toxic). For example, sodium chloride, more commonly known as table salt, would be category A. Ethanol, which is the alcohol in alcoholic beverages, is classified as highly flammable, therefore category B. Methanol, a toxic product, would be category C.

Suppliers and potential suppliers are then also classified according to exactly defined criteria. Initially, we look at whether they are located in OECD countries or non-OECD countries. The reason is that, as a first approach, the risk of non-compliance with environmental and safety standards is expected to be higher in non-OECD countries than in OECD countries. A final decision however requires an actual plant audit.

Products/producers assigned a C3 rating represent a potentially high risk and are subject to particularly careful scrutiny. This means that BASF employees from our purchasing organization, along with environmental, health and safety (EHS) experts, visit the supplier and carry out an EHS assessment to determine whether the supplier's plant operates according to Responsible Care® standards (e.g., regarding wastewater treatment, maintenance, safety equipment, quality control). If a potential supplier's facilities meet our requirements, the product/producer is upgraded to a C2 rating, which means we can begin regular purchasing of raw materials from this enterprise.

Providing advice for better services

In line with the Responsible Care® initiative, it is an integral part of our philosophy that we provide all our partners with information or offer them advice to promote safety, health and environmental protection. In raw materials purchasing, for example, this means that we provide suppliers who do not have adequate standards with the benefits of our expertise in order to minimize any possible risks. Once suppliers meet our requirements, we can include their raw materials in our purchasing program. It is crucial, especially in our strategic growth markets, that we develop successful long-term supplier relationships along with our new sites. This is why we assessed and advised more than 60 new suppliers in Asia alone last year (2002: about 30).

Minimum social standards for suppliers

Acting responsibly in our dealings with suppliers also includes minimum social standards. In accordance with the United Nations' Global Compact Initiative we insist that our suppliers do not employ children or use forced or bonded laborers. Our procurement conditions also specify that suppliers must comply with the International Labor Organization's (ILO) employment standards.

Our sites are open to visitors: Mirelle Numes from the Environmental Department and fire officer Jefferson Ciciliato receive a visit from a kindergarten class at our site in Guaratinguetá, Brazil.

Social Responsibility

How do we Implement Sustainability in BASF's Everyday Activities?

Implementing the principles of sustainability in a company's everyday activities is a particular challenge for a global company because economic, environmental and social conditions vary from country to country. The principles of sustainable development are firmly integrated in our Values and Principles, and we have created a management system to put them into practice throughout the BASF Group.

In 2001, BASF became one of the first companies to establish a Sustainability Council. The Council, which is headed by the Vice Chairman of the Board of Executive Directors Eggert Voscherau, ensures that the entire BASF Group is aligned with the principles of sustainable development. The International Steering Committee Sustainability develops suitable strategies, proposes them to the Sustainability Council and manages their implementation worldwide using the appropriate tools. A number of interdisciplinary global project teams report to the Steering Committee for specific tasks.

The Sustainability Council and its committees work closely with specialist units: For example, the Competence Center Responsible Care advises the Sustainability Council in all questions related to strategies for environment, health and safety and on how to implement them (see also pages 41 and 42).

You can find more information on our management structures for sustainability at **www.basf.de/sd-management_e**.

Minimizing risks, measuring performance

A responsible approach to risk management is a pre-condition for BASF's continued existence and long-term success and is therefore essential to sustainable enterprise. We want to minimize the risks inherent in our business activities and therefore review our performance to ensure this. For example, we perform comprehensive audits at all our sites at regular intervals to monitor our high standards for environmental protection, health and safety. We define specific measures in the event that an audit reveals room for improvement (see page 42). We also want to check the way in which we fulfill our social responsibility in a transparent manner. On behalf of the Sustainability Council a project team has now started to develop a Group-wide monitoring system that covers the central social aspects of our Values and Principles.

In addition, we have a comprehensive risk management system for general business risks. It consists of an internal monitoring system – a risk control system that observes developments in markets and regions and provides a summary for the Board of Executive Directors – as well as an early warning system. More information on our risk management system is provided on pages 70 to 74 of our Financial Report 2003. You can subscribe to our Sustainability Newsletter at **www.basf.de/newsletter_sustainability**.

Organization of sustainability management in the BASF Group

Selected sustainability prizes awarded to BASF in 2003

Award	From	For
"Most Welcome Enterprise to the Staff" Award	Pudong Labor Union, Pudong New Area, China	Outstanding achievements in the fields of health and safety as well as social insurance schemes for the employees of BASF Colorants & Chemicals Co. Ltd., Shanghai, China
First Prize for Occupational Safety	Mayoralty of West Jakarta and People's Forum for Environmental Care, Jakarta Barat, Indonesia	Workplace cleanliness and safety at the site in Cengkareng, Indonesia
Gold Award for Community Awareness	Responsible Care Committee of Indonesia (KN-RCI), Jakarta, Indonesia	Exemplary communications on environmental protection, health and safety in Indonesia
Responsible Care Award	Chilean Chemical Association (ASIQUIM), Santiago, Chile	Compliance with all requirements of the Responsible Care code at the site in Concón, Chile
Pollution Prevention Achievement Award	Governor of Louisiana, United States	Recycling of a catalyst used to produce aniline at the site in Geismar, Louisiana
"Ökologia" Prize	Foundation for Ecology and Democracy Rülzheim, Germany	LUWOGE's commitment to energy-efficient construction with the three-liter house as an innovation in refurbishing and modernizing older buildings
Total E-Quality Award	Total E-Quality Association; (comprising representatives of the Confederation of German Employers' Associations and the German trade union federation; supported by the European Commission and the German government)	Equal opportunities-driven personnel policy at BASF Aktiengesellschaft, Ludwigshafen, Germany
Certificate for family-friendly personnel policy	Non-profit-making Hertie Foundation, Frankfurt, Germany	Family-friendly personnel policy at Wintershall AG
Recognition Award for Gender Sensitive Management	Workers Employers Bilateral Council of Pakistan (WEBCOP), Karachi, Pakistan; Alliance Against Sexual Harassment (AASHA), Pakistan	Achievements of BASF Pakistan (Private) Ltd. in ensuring equal opportunities for men and women in the workplace

Value Added

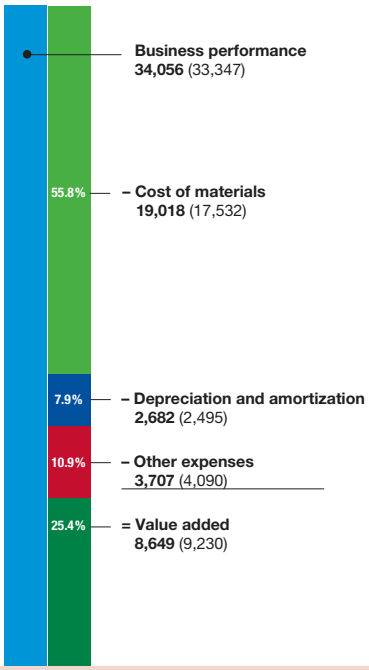
The value added statement for the BASF Group shows the company's business performance minus advance payments such as material cost or depreciation. Unlike the statement of income, the value added statement is not from the shareholder's perspective, but explains BASF's contribution to private and public income.

The value added statement therefore describes a key aspect of the relationships between important stakeholders such as employees, shareholders and the state. It is derived from the data in the consolidated financial statements.

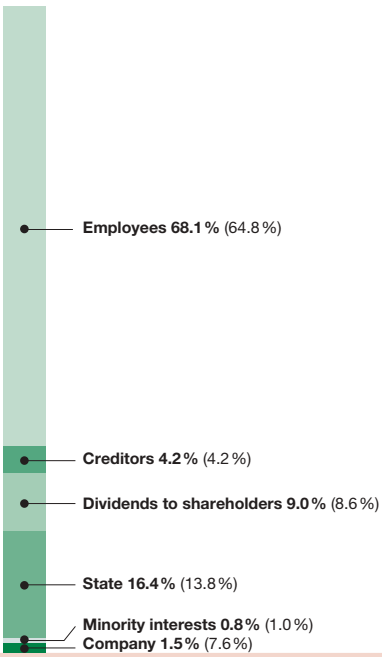
In 2003, BASF's value added amounted to €8,649 million and declined by 6.3 percent compared with 2002. This change resulted from higher cost of materials, which rose primarily due to increased raw materials costs and to a greater extent than the company's performance. The greatest share of value added (68.1 percent, 2002 64.8 percent) went to employees. The share for the state increased to 16.4 percent and that for shareholders to 9.0 percent. The company's share declined considerably to 1.5 percent.

Our social responsibility is reflected in a variety of activities. For example, we promote education, science and culture through donations and our own projects. You can find more information on page 62 ff.

Creation of value added
(Million €, previous year's figures in brackets)



Use of value added
(Percent, previous year's figures in brackets)



Relying on the Best Team

In order to develop the best solutions for our company, we rely on the strengths of our employees: As a dedicated and forward-looking team, it is they who create BASF's success. This is why we want to recruit, train and retain the best talent from a variety of cultures and countries. To be an attractive employer, we offer our employees interesting prospects that include giving them room to act entrepreneurially and providing opportunities for personal development and professional qualification.

People from all five continents work for BASF in more than 170 countries. At the end of 2003, BASF had 87,159 employees and 2,983 trainees worldwide. In 2003, an average of approximately 16,000 workers were additionally employed by contract companies who provide services at our sites. Global measures to maintain and enhance our competitiveness were the main reason for the decline in the size of our workforce by 2,230 in 2003. In order to make the necessary structural changes in a socially responsible manner while giving young people a career perspective at BASF, we have deployed tools such as partial retirement and early retirement programs in Germany. Further tools include voluntary redundancy packages and part-time working arrangements. In 2003, Group-wide expenditure on salaries, wages, social security contributions and expenses for pensions and assistance amounted to €5,891 million, or 1.4 percent less than in the previous year.

Entrepreneurial success needs diversity

A variety of attitudes, experience and intercultural competence are essential if we want to be able to offer intelligent solutions for the global market. We want to foster a wide range of personalities and thus enhance our competitiveness.

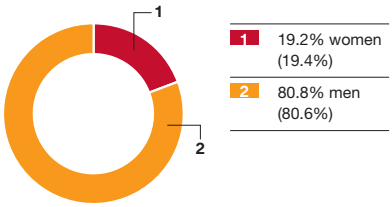
Today, BASF's team of senior executives comes from 31 different countries. In the future, we want this team to reflect even more strongly the global nature of our business. Our goal is to increase the proportion of non-German senior executives from a current figure of 30 percent to 35 percent by 2005. In addition, we aim to significantly increase the number of female senior executives from the current level of approximately 5 percent. In each region, we have appointed a team to use specific measures to increase our range of competencies. Diversity begins at the recruitment stage: BASF's management candidates worldwide come from around 40 countries. In addition, employees from more than 79 different countries work at our Ludwigshafen site alone.

Employees by region

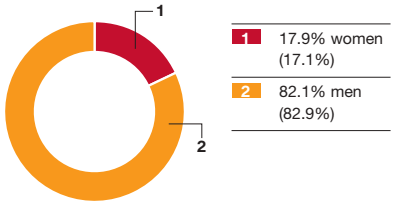
Percentage of BASF Group employees	2003	%	2002	%
Europe	60,541	69.5	62,103	69.5
Thereof Germany	48,997	56.2	50,320	56.3
Thereof BASF Aktiengesellschaft	37,054	42.5	38,361	42.9
North America	12,494	14.3	13,331	14.9
South America	4,976	5.7	5,097	5.7
Asia, Pacific Area, Africa	9,148	10.5	8,858	9.9
	87,159	100.0	89,389	100.0

Workforce profile 2003 (Previous year's figures in brackets)

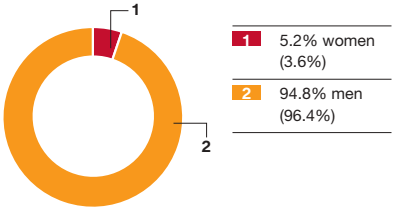
All employees



Management and professionals



Senior executives*



* Senior executives are defined as all managerial staff appointed by the Board of Executive Directors.

Promoting equal opportunities

Equal opportunity is something that affects everyone: At BASF, it represents a special responsibility in the globalized world of work. This is why – depending on the cultural specifics – company management, human resources departments or employee representatives are responsible for equal opportunity issues at BASF Group companies on top of the support provided by the leadership team. We have special equal opportunity officers in the United States, Australia, New Zealand and Pakistan. In addition, systematic evaluation of leadership behavior according to intellectual and social competencies makes it possible to recognize and specifically develop both male and female employees as individuals, irrespective of their social and educational background.

Special programs to specifically recruit women or actively develop women in managerial positions exist at the four largest companies in the BASF Group. Together, these companies account for approximately 60 percent of BASF Group employees. Internationalization is another focus of personnel development. At many sites, we offer intercultural training to integrate employees to prepare them for foreign assignments. Such programs are provided by more than 50 percent of BASF Group companies.

A family-friendly personnel policy is an important way of creating equal opportunities. Various BASF initiatives have therefore aimed to make it easier to combine family and career. We received external recognition for this commitment on several occasions last year. In Ludwigshafen, for example, BASF was awarded "Total E-Quality" certification in May 2003 for its equal opportunities-driven human resources policy. This award was made by an independent jury with representatives from employer bodies and German trade unions that is supported by the European Commission and the German government. The nonprofit-making Hertie Foundation commended BASF's subsidiary Wintershall for its flexible working-time models and its services to families, in particular its on-site children's center that provides full-time qualified childcare for the children of employees. All in all, 19 percent of Group companies offer childcare facilities or contributed to the cost of external facilities (2002: 18 percent). In 2003, more than 12,000 employees were able to take advantage of these services.

Australia offers another prime example: Since 1997, BASF has integrated into its human resources policy several equal opportunities projects and programs that go beyond what is required by law. Mentoring programs, training and flexible working time solutions are intended to make it easier for women in particular to combine a career with family life.

Achieving a good work/life balance

We want to continue to extend flexible working time models and new forms of work such as part-time work, job sharing and process and team-oriented work. This benefits both employees and the company. Working times that are more flexible make it easier for employees to combine the demands of family life and work. And the company benefits from more flexible working and plant operating times because employees can increasingly be deployed according to our needs.

Around 50 percent of BASF Group companies offer their employees the opportunity to work part time (2002: 55 percent). Worldwide, 4.6 percent, or 3,780 employees, took advantage of this in 2003. Many employees also take up the offer to work on a part-time basis during the period of parental leave, which can last up to three years. At our Ludwigshafen site alone, for example, more than 20 percent of some 600 employees on parental leave worked part time in 2003.

Rewarding performance

Recognizing and rewarding performance strengthens entrepreneurial thinking and acting. A number of programs at various Group companies are based on this principle. A successful model over many years has been compensation systems related to individual and company performance. As a result, 75 percent of Group companies offer their employees voluntary annual bonuses fixed by the Board of Executive Directors of BASF Aktiengesellschaft or company management at BASF Group companies. In 2003, more than 65,000 employees received a voluntary bonus. At BASF Aktiengesellschaft, the voluntary bonus is based on the BASF Group's return on assets. Fixing the bonus in such a transparent way – used for the first time in 2002 – motivates employees and fosters entrepreneurship.

Additional benefits for employees

A variety of benefits makes a good job even more interesting for talented job-seekers and company employees. Owning a stake in the company is particularly important because it encourages responsibility. Employees who are also shareholders identify more closely with the company and act accordingly. This is why 42 percent of Group companies offer almost 65,000 employees share purchase programs.

Many Group companies additionally offer social benefits above and beyond the minimum statutory requirements. For example, more than 71,000 employees receive company pension plans. In addition, 48 percent of Group companies offer their employees housing grants or company apartments in case of need. Rehabilitation programs for addiction or illness are available at 40 percent of Group companies. Social benefits are geared to the specific needs of employees in their cultural environment, such as the education of their children. In Indonesia, for example, we pay tuition fees for the children of 189 lower-wage employees. In Argentina, 44 gifted children receive a scholarship, and, in Pakistan, we pay college fees for technical or scientific studies for two children of any employee who has worked at BASF for at least five years.

Qualifications guarantee opportunities

Flexibility is becoming increasingly important at BASF and on the labor market. Virtually nobody undergoing training today will be doing the same job until retirement, which is why we support our employees through career development programs and through a number of specially targeted qualification programs. In 2003, we invested €135.7 million worldwide in education and training (2002: €134 million). In Germany, we train more young people than we need for our own requirements. Each employee received an average 3.4 days of training and more than 70,000 took part in at least one training measure. We want to support independent and practice-oriented learning even more intensively in the future by focusing on innovative training concepts and modern technologies such as e-learning at work or especially in one's free time.

As part of the career development of executive candidates at BASF, we employ a systematic program known as "Performance Factory – Business Driven Action Learning." In this program, we combine individual learning with adding value for the company in wide-ranging, strategically important projects: By working together in international teams for about four months, young managers gather important practical experience while strengthening their managerial skills.

Further information and data at
www.basf.de/employees
www.reports.basf.de/soc_resp2003

Actively integrating employees

Employees are local specialists: Together, they can identify possible improvements in their plants. This is why employees at our isophytol plant in Ludwigshafen have been working on modernizing the plant and its processes in an employee and organizational development project since 1999. After four years, both employees and the company have emerged as winners. Employees have benefited because joint training and new work models have further improved the working environment and simultaneously contributed to their prospects for the future. And the plant has benefited because the improvements have helped reduce costs: expenses for materials used were significantly lower in 2003 compared with 1999. And because more knowledge allows employees to take more responsibility, the team in the isophytol plant now independently makes many decisions that were previously reached by the shift foreman.

Contributing ideas and taking responsibility: That's also the goal of Tanja Pilz and Thomas Nick.

Developing Together as Good Neighbors

The communities in which our sites are located play an important role in our success: We can only be successful if we enjoy the trust and support of our neighbors. This is why we work at all sites to be recognized as a dependable partner and an attractive employer that takes its social responsibility seriously. In this way, we add to each region's competitiveness as well as our own.

The BASF Group spent a total of €13.1 million on the specific sponsorship of humanitarian, cultural and social issues in 2003 (2002: €15.7 million). Of this amount, 41 percent was in the form of donations, with the remainder going toward sponsorship activities and our own community projects. The projects BASF and its employees are committed to are as diverse as the communities in which our sites are located. Together with local partners, those responsible at BASF's sites draw up goals and projects for the community or region in question. All of our projects have one thing in common: They focus on local needs.

Increasing educational opportunities, securing the future

Investing in education and science today pays off in the long term in terms of competitiveness and social prosperity. This is why BASF promotes activities all over the world that provide access to education or develop knowledge networks. One of these networks – the Sino-German Research and Development Fund – was established six years ago by BASF and has to date supported more than 39 scientific projects and awarded 640 scholarships in China corresponding to a total of €1.2 million.

Promoting education also means improving the overall conditions under which education can operate, in this way making equal opportunities possible. For this reason, BASF has, for example, supported a project in Karachi, Pakistan, for several years that provides additional schooling for about 50 children aged between 5 and 14 years with learning difficulties. In the community at our site in Cengkareng, Indonesia, we provide scholarships to 125 local schoolchildren and financial support to 14 teachers. Two further examples of how the overall situation of local schools can be improved come from the Philippines and Argentina. At its Canlubang site in the Philippines, BASF not only donated school equipment in 2003, it also organized discussion groups with parents on nutrition, safety and environmental protection. The *Mi Escuela Crece* (My School is Growing) project in Argentina is aimed at improving the basic equipment and infrastructure at four schools with around 2,000 children in the vicinity of BASF's sites in Argentina.

Fostering interest in science

We are committed to a policy of meeting fundamental needs, but we also want to foster interest in the sciences and in this way show what prospects they offer. In Ludwigshafen, our hands-on lab for schoolchildren has been successful for many years. In 2003, the lab traveled to Nanjing and Shanghai for the first time, where 15,000 schoolchildren between the ages of 6 and 12 were able to carry out basic chemistry experiments. Last year, the lab also visited our sites in Yokkaichi, Japan, and Ulsan, Korea, in each case for two days. BASF also sponsors talented young scientists by supporting science competitions, such as Italy's *Giochi della Chimica* (Chemistry Games) and *Jugend forscht* in Germany. The finals of the 2003 German competition for budding scientists were hosted by BASF in Ludwigshafen.

Fostering voluntary activities by employees

We offer our full support to employees who wish to undertake voluntary work and this is why many Group companies have programs that grant these employees leave of absence. In 2003, more than 500 employees at our Ludwigshafen site were engaged in voluntary activities, 250 of them in politics. For the first time, 60 Ludwigshafen trainees have also been given the opportunity to undertake voluntary work and in this way acquire social, as well as professional skills.

BASF's Volunteer Program in Guaratinguetá, Brazil, has encouraged voluntary work by its employees since 2000. The company set up a focus group – which reports to the company's Steering Committee for Social Responsibility – to establish and oversee contacts between institutions and employees. In 2003, around 30 volunteers supported social projects promoted by BASF and the community of Guaratinguetá.

Protecting local environments and biodiversity

We support local environmental and nature conservation projects in the vicinity of several of our sites. In 2002, our Malaysian joint venture, BASF PETRONAS Chemicals, launched an annual initiative to clean up the Balok River in Gebeng, which adjoins the site. Along with employees, local residents and community representatives from Kuantan and Balok take part in the project, which is aimed at increasing awareness for the environmental significance of mangrove swamps.

Committed to training

Well-trained employees contribute day by day to a competitive society. Out of a sense of social responsibility, BASF has for many years taken on a far higher number of trainees than it actually needs. In spring 2003, BASF in Ludwigshafen underscored its commitment by launching a training network to take account of the persistently difficult situation in the training market in the Rhine-Neckar region. The network wants to tailor training more closely to the needs of future employers, and BASF is already cooperating closely with 100 companies in the region to achieve this. BASF's help extends to selecting trainees and providing facilities and the training expertise of its employees. Trainees work at partner companies during the practical stage of their training. Apart from a contribution to wages, all costs are borne by BASF. The program has a long-term advantage – it helps to secure training places in the region and possibly even increases their number.

Partners in the training network: Foreman Bernhard Esswein (left), KAMB Elektrotechnik Ludwigshafen, with his trainees.

In 2003, BASF cleaned up and redeveloped a disused part of its site in Wyandotte, Michigan, on the Detroit River, transforming it into a park. Local residents can now take walks or play golf where chemical facilities once stood.

Biodiversity is also an important issue at the Cramlington and Seal Sands sites in northeast England. Twenty employees are working with the Industry Nature Conservation Association (INCA) on how to foster biodiversity at the sites and combine their efforts with the plans of the Northumberland and Tees Valley community council for the area. The idea is now to work more closely with local groups and associations.

Coping with crises together

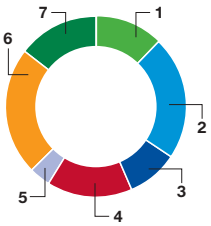
At all of our production sites, we want to be as well prepared as possible in the event of accidents and emergencies, and we are therefore expanding our Emergency Response Management System. It covers our subsidiaries and joint ventures around the world and also extends to suppliers, customers, neighboring companies as well as the cities and towns in the communities in which we operate.

We have established Site Incident Management teams at all of BASF's major production sites worldwide. Further teams for crisis management operate at the national level in countries with major production sites and at the regional level in Europe, North and South America and Asia Pacific. In addition, global support for crisis management is also available from Ludwigshafen. Which of these management levels is activated depends on the severity of the incident. We can count on support and flexibility: Those responsible at higher levels provide support to the local teams. If required, teams of experts may be formed at higher levels and dispatched to provide local support in the form of Incident Support Teams. In the event of a crisis, the procedures defined in BASF's global guidelines for emergency response are activated.

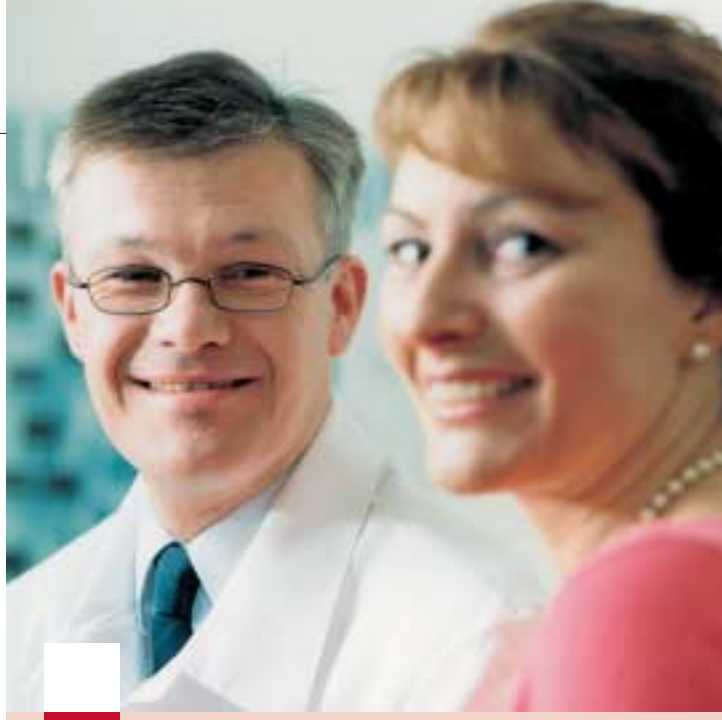
In dialogue with our communities

Regular and close dialogue is the aim of our community advisory panels (CAPs). These consist of company representatives and local citizens who discuss issues such as emissions, plant safety or procedures in the event of a plant malfunction. In 2003, there were 57 CAPs at BASF sites (2002: 57) and another 15 (2002: 14) are currently being planned. The CAP in Yeosu, Korea, established two years ago, even has its own magazine to provide information about its activities. To distinguish CAPs from other forms of contact and interaction with our neighbors, BASF drew up standards for CAPs in 2002: For example, membership should reflect the diversity of the community's interest groups and meetings should be regular.

BASF Group donations and sponsoring in 2003
€13.1 million (2002: €15.7 million)



		Million €	Percent
1	Charities	1.6	12.4
2	Schools and training	2.9	22.0
3	Science	1.2	9.1
4	Employment promotion	2.0	14.9
5	Sports	0.5	3.7
6	Culture	3.0	23.1
7	Other	1.9	14.8



Healthcare professionals like Dr. Stefan Webendörfer offers advice to promote good health.

Protecting and Promoting Health

Our goal is to promote and maintain the health, well-being and performance of all our employees. We also want to ensure that our products do not pose any risk to employees, local residents, customers and consumers. To this end, we focus on two key factors: uniform standards worldwide in line with the principles of Responsible Care® and a strong network of experts.

Exactly what is required of BASF's medical services for its employees is described in detail in our occupational medicine and health protection program. Implementation of the program is ensured by a worldwide network of specialists. We aim to apply the same prevention and health promotion standards worldwide. One example is our influenza inoculation program in Asia in 2003, in which around 3,200 employees took part. The standards we set ourselves are evaluated on a regular basis by occupational health audits (see page 42).

Advisory services for employees, the community and customers

Our knowledge in occupational medicine and health protection is available to all employees, residents and customers. The service includes 15 competence centers spanning all areas of occupational medicine. They provide benefits such as a hotline staffed around the clock to provide information on urgent BASF-related medical issues. BASF provides extra support during health crises like the recent epidemic of the lung disease SARS. In addition to providing individual advice, the unit also offers all employees with information that is updated daily via the company's intranet.

Promoting good health

Protecting and promoting health is an obligation that doesn't stop at the factory gate and this is why we also work closely with external institutions to improve prevention and screening services in the communities in which our sites are located. This also benefits us in the long term – a stable community that has good medical knowledge and care strengthens our sites and fosters good relations with our neighbors.

For example, we have supported a municipal health care project for mothers and children in São Bernardo do Campo, Brazil, since 2002: a mother-and-child passport. The passport is given to pregnant women from poor backgrounds and entitles them to medical support in 30 municipal institutions. Some 12,000 passports were distributed in 2002.

Prevention as a contribution to society

Whether you have your eyes regularly examined or do back exercises: Prevention is better than treatment. And that's not only true from the point of view of those affected and the companies that employ them but for welfare systems too. Many BASF Group companies offer measures to promote their employees' health. The social value of such activities can be summed up on the basis of a Ludwigshafen campaign for the early detection of bowel cancer, the results of which were published in early 2003. Screening of 3,700 employees over the age of 45 years detected a total of nine cases of cancer of the intestine at an early stage as well as 61 precancerous conditions. Early diagnosis increases the chance of a cure and saves costs for public health services, in this case around €700,000. In addition, disability allowances for employees were reduced by €1.1 million.

Further information at www.basf.de/occupational_health

Mutual Success through Open Dialogue

We exchange views within the company, with neighbors, business partners and opinion formers because we want to strengthen the basis of mutual trust and foster an atmosphere in which we can develop together. For us, dialogue is both a pre-condition and a means for building and cultivating partnerships.

Our business units consult our customers regularly to find out what they want and what they expect from us in the future. The results show us where we can further improve our services to positively differentiate ourselves from our competitors. We also hold open dialogue within the company: Last year, we carried out employee surveys on a variety of subjects at more than one-third of our companies, and the results are being used to develop BASF further.

Constructive cooperation with employee representatives

In 1995, BASF established a European works council – Euro Dialog – to further enhance cooperation with European employee representatives. The council meets on an annual basis; extraordinary meetings to discuss issues of cross-border importance are a well-established part of the council's work. Two meetings took place in 2003, with discussions between Euro Dialog and BASF's management focusing on the further development of the European organization. Trade union-backed networks of BASF employee representatives that are recognized by the company management as dialogue partners for regional issues also exist in South America and Asia.

Actively addressing social issues

Social and political conditions have a major impact on our competitiveness. This is why we address these issues openly, talk to political decision makers and work with them. We regard this as a right as well as a duty – both social and corporate.

As the world's leading chemical company and as a company that acts responsibly and contributes to sustainable development worldwide, we seek solutions together with experts from all fields of society. The safe handling of chemical products and global climate protection are two global goals we publicly support and actively pursue. In complex areas such as these, we offer our expertise and resources and act as a critical and constructive partner.

From dialogue to partnership

Along with existing projects within networks such as the Global Compact and the *Initiative für Beschäftigung!* (Initiative for Employment), new projects established in 2003 at the regional level include *Zukunftspakt Chemie* (Chemicals Pact for the Future). Together with the German chemical industry union and chemical industry associations we want to lobby for a sustainable industrial policy, innovations and employment. In Asia, we are also establishing a new network to promote sustainability. We founded the China Business Council for Sustainable Development (CBCSD) in Beijing in January 2004 together with 11 other companies. In addition, we recently hosted an international conference on foreign direct investment in Berlin. The goal was to contribute to the debate on globalization and sustainability and offer our experience as an international company.

GLOBAL COMPACT ▸ Shared values and activities for the global marketplace are the core idea behind the UN's Global Compact initiative, of which BASF is a founding member. As a member of the Global Compact, we report regularly on how we implement the nine principles. Our latest progress report can be found at **www.basf.de/global_compact_e**.

Verification

Independent Statement to BASF Group Management

Introduction We have performed an assurance engagement on environmental and social aspects of the BASF Corporate Report 2003 and respective information on the website **www.reports.basf.de** (as a whole hereafter referred to as the 'Report'), and of the underlying systems, structures and processes. These subject matters are the responsibility of the BASF Group Management, with whom the objective and terms of the engagement were agreed. We are responsible for expressing our conclusions based on the engagement.

We have based our approach on emerging best practice for independent assurance on sustainability reporting, on the International Framework for Assurance Engagements and on ISAE 3000, issued in January 2004 by the International Auditing and Assurance Standards Board.

Subject matter The effectiveness of the systems, structures and processes established at BASF Group level for managing sustainability, including BASF Values and Principles, Compliance Program, Organization of Sustainability Management and structures for managing environment, safety, health, as described in the Report on pages 14 to 15, 41 and 55, and the implementation of these at the Group companies BASF Schwarzheide GmbH, BASF Canada in Toronto, and BASF Colorants and Chemicals in Shanghai.

The procedures and practice for the collection, compilation and validation of 2003 data from Group companies and production sites on environmental protection and safety and on social responsibility as described in 'About the Report'; and whether data collected in this way are appropriately reflected in the Report.

The methodology and process that BASF at Group level has put in place for the preparation of the Report, as described in 'About the Report'; and whether the information presented in the Report meets its objectives to provide an appropriate and balanced picture of the BASF Group's material sustainability aspects.

Procedures Our objective was to achieve limited assurance. On a test basis we have gathered and evaluated evidence supporting the conformity with criteria for the subject matters described. This work included analytical procedures and interviews with management representatives and employees at BASF Group headquarters in Ludwigshafen and at the three Group companies mentioned, as we deemed necessary in the circumstance, but no substantial testing. Therefore, the assurance that we obtained from our evidence gathering procedures is limited. We believe that our work provides an appropriate basis for our conclusion.

Results In conclusion, nothing has come to our attention that causes us not to believe that:

BASF Management has designed and applied appropriate systems, structures and processes to manage material sustainability aspects, affecting BASF at Group level. The three Group companies visited have implemented the Group requirements to appropriately manage their material sustainability aspects at local level.

BASF at Group level has applied detailed and systematic procedures for the purpose of collecting, compiling and validating 2003 data on environmental protection and safety and on social responsibility from Group companies and manufacturing sites, as specified in the Report, for inclusion and appropriate reflection in the Report.

BASF at Group level has used detailed and systematic methodology and process for the preparation of the Report in order to achieve its reporting objective. The information presented in the Report provides an appropriate and reasonably balanced picture of the BASF Group's material sustainability aspects.

Ludwigshafen, March 3, 2004
DELOITTE Global Environment & Sustainability Services

Preben J. Sørensen
State Authorized Public Accountant (Denmark)

Deloitte.

Glossary

CO_2 equivalent
A parameter to describe the effect of greenhouse gas emissions. Each of the various gases has a different impact. A factor known as the global warming potential (GWP) provides information on the effect of the individual gases compared with CO_2 (= reference value).

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.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

eco-efficiency analysis
This analysis allows both economic and environmental aspects to be considered when developing and optimizing products and processes. The aim is to offer the best possible cost-effective products with good environmental performance.

energy management
In this area, BASF Future Business GmbH is focusing on new materials and technologies to convert and store energy, e.g., functional elements of fuel cells, new materials that employ the thermoelectric effect or supercapacitors.

greenhouse gases
A number of gases in the earth's atmosphere that are responsible for the greenhouse effect.
The greenhouse gases are: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), chlorofluorocarbons (HFC, PFC), sulfur hexafluoride (SF_6) and ozone (O_3).

heavy metals
BASF reports on emissions of heavy metals to air and water in accordance with the recommendations of the European Chemical Industry Council (CEFIC). Reporting covers the following heavy metals:
For air: arsenic, cadmium, cobalt, chromium, mercury, nickel, lead, zinc.
For water: arsenic, cadmium, chromium, copper, lead, mercury, nickel, zinc.

joint venture
Two or more businesses joining together under a contractual agreement to conduct a specific business enterprise in which all partners share profits and losses.

Kyoto Protocol
The Kyoto Protocol was adopted in 1997 at the 3rd Conference of Parties to the United Nations Framework Convention on Climate Change. Under the terms of the Protocol, industrialized nations agreed to cut their joint emissions of the most important greenhouse gases to at least 5 percent below 1990 levels in the period 2008 to 2012.

Montreal Protocol
The Montreal Protocol signed in 1987 governs the production and use of chlorofluorocarbons (CFCs). All CFC emissions deplete the ozone layer. In an interim period, production of CFCs is only permitted for use in medical aerosols. CFCs are expected to be banned completely from 2005 onward.

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

portfolio management
Includes all measures to further develop BASF's business areas, for example: organic growth, acquisitions, divestitures and strategic alliances.

product portfolio
The range of products offered by a company.

Responsible Care®
A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, health and safety. BASF committed itself to the concept of "responsible action" as early as 1992.

special items
One-time costs or one-time payments that significantly affect the earnings of a segment or the BASF Group. Special items include costs for restructuring measures and severance payments to employees who leave the company.

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.

sustainable development
The objective of sustainable development is to meet the economic, environmental and social needs of society without harming the development opportunities of future generations. BASF is committed to this principle.

value added
The increase in value of the goods used in the production process. At BASF, value-added is derived from the statement of income as the difference between business performance and advance payments (in particular payments to suppliers).

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: 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 (economies of scale).

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GRI Index
This index shows you where you can find information on the core elements and indicators of the Global Reporting Initiative (GRI) in this report and in our Financial Report (FR). Our online reporting provides additional information on some indicators at www.reports.basf.de. You can find the complete version of the GRI index with all cross-references at www.reports.basf.de/gri-index. Further information on GRI is available at www.globalreporting.org.

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Key data BASF Group 2003

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

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

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

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

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BASF shares were included for the third year in succession in the Dow Jones Sustainability Index World.

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  Financial Results 2003
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- August 4, 2004
  Interim Report Second Quarter 2004
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