

Social Responsibility 2000

We take our
responsibility seriously



BASF

BASF Group

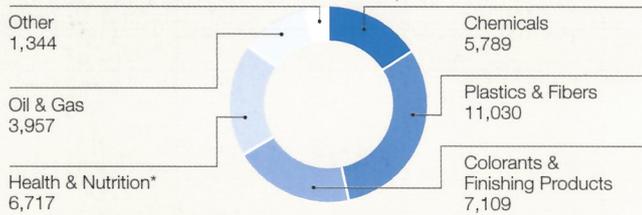
Overview of key financial data

| Million € | 2000 | 1999 | Change in % |
|--|---------|---------|-------------|
| Sales | 35,946 | 29,473 | 22.0 |
| Income from operations before special items | 3,400 | 2,950 | 15.3 |
| Income from operations | 3,070 | 2,009 | 52.8 |
| Income before taxes and minority interests | 2,827 | 2,606 | 8.5 |
| Net income | 1,240 | 1,237 | 0.2 |
| Dividend per share (€) | 2.00* | 1.13 | 77.0 |
| Research & Development expenses | 1,526 | 1,333 | 14.5 |
| Personell costs | 6,596 | 6,180 | 6.7 |
| • thereof wages and salaries | 5,307 | 4,935 | 7.5 |
| • thereof social security contributions and expenses for pensions and assistance | 1,289 | 1,245 | 3.5 |
| Operating costs for environmental protection facilities | 764 | 802 | -4.7 |
| Capital expenditures on environmental protection facilities | 112 | 129 | -13.2 |
| Number of employees as of December 31, 2000 | 103,273 | 104,628 | -1.3 |

* Thereof €0.70 special dividend of equity charged with 45% corporation tax

Sales by segments

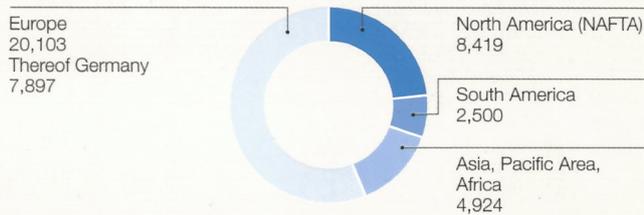
Million €



*Renamed Agricultural Products & Nutrition on March 2, 2001

Sales by regions (location of customer)

Million €



BASF is a member of the



**World Business Council
for Sustainable Development**

The Social Responsibility 2000 Report is part of the BASF Group's sustainability reporting. It covers the social dimension of Sustainable Development.

It is supplemented by our Annual Report and our Environment, Safety, Health Report in which we give a detailed account of the economic and ecological aspects of our activities. We would be pleased to send you copies (see back cover).



BASF supports the UN's Global Compact initiative.

This report went to press on May 31, 2001 and was published on August 15, 2001.

A new Social Responsibility Report will appear in 2002 and then every two years, alternating with the Environment, Safety, Health Report.

The key areas of our social responsibility



Employees – create our success

We consider our employees to be a key to our success. Our pay and benefits are based on local market conditions and on individual as well as company performance. We promote skills and training and have an open attitude toward flexible working hours and modern forms of work. We are committed to partnership within the company and cooperate with employee representatives in a spirit of open, trusting dialogue.



Community – BASF as a Good Corporate Citizen

We want our sites to become part of the community. We want to be accepted as a Good Corporate Citizen and as a reliable partner that acts responsibly and is an attractive employer. With our economic activities and our targeted sponsoring of humanitarian, societal and cultural issues, we contribute to the positive development of society.



Human rights – we reject discrimination and abide by internationally recognized labor standards

We firmly reject all forms of forced and compulsory labor and child labor and expect the same from our suppliers. We respect human rights and do not accept any form of discrimination.



Markets – we have clearly defined the limits of our business activities

We treat our competitors, suppliers and customers fairly. We respect the laws and good business practices of the countries in which we operate. BASF does not tolerate any violations and does not offer persons acting in the company's name any immunity from state sanctions. We have clearly defined the limits of our business activities: We do not supply any products for the purpose of producing illegal substances or chemical weapons and we are not involved in manipulating the human genome.



Dialogue – greater trust through transparency and openness

We communicate in an open and objective manner. We take the opinions of others seriously and encourage a constructive dialogue. Basic communication requirements that are valid worldwide ensure openness and transparency at all production sites. Our understanding of openness also means that we inform our neighbors quickly, honestly and comprehensively about possible danger in the event of a plant malfunction. Our goal is to increase society's trust in what we do – an important precondition for our success.

BASF Group: Value added in 2000

Calculation and distribution

Million €

**Business performance:
37,693**

Sales
35,946

Other operating income,
interest result and income
from financial assets
1,747

**Value added =
business performance
minus advance payments**

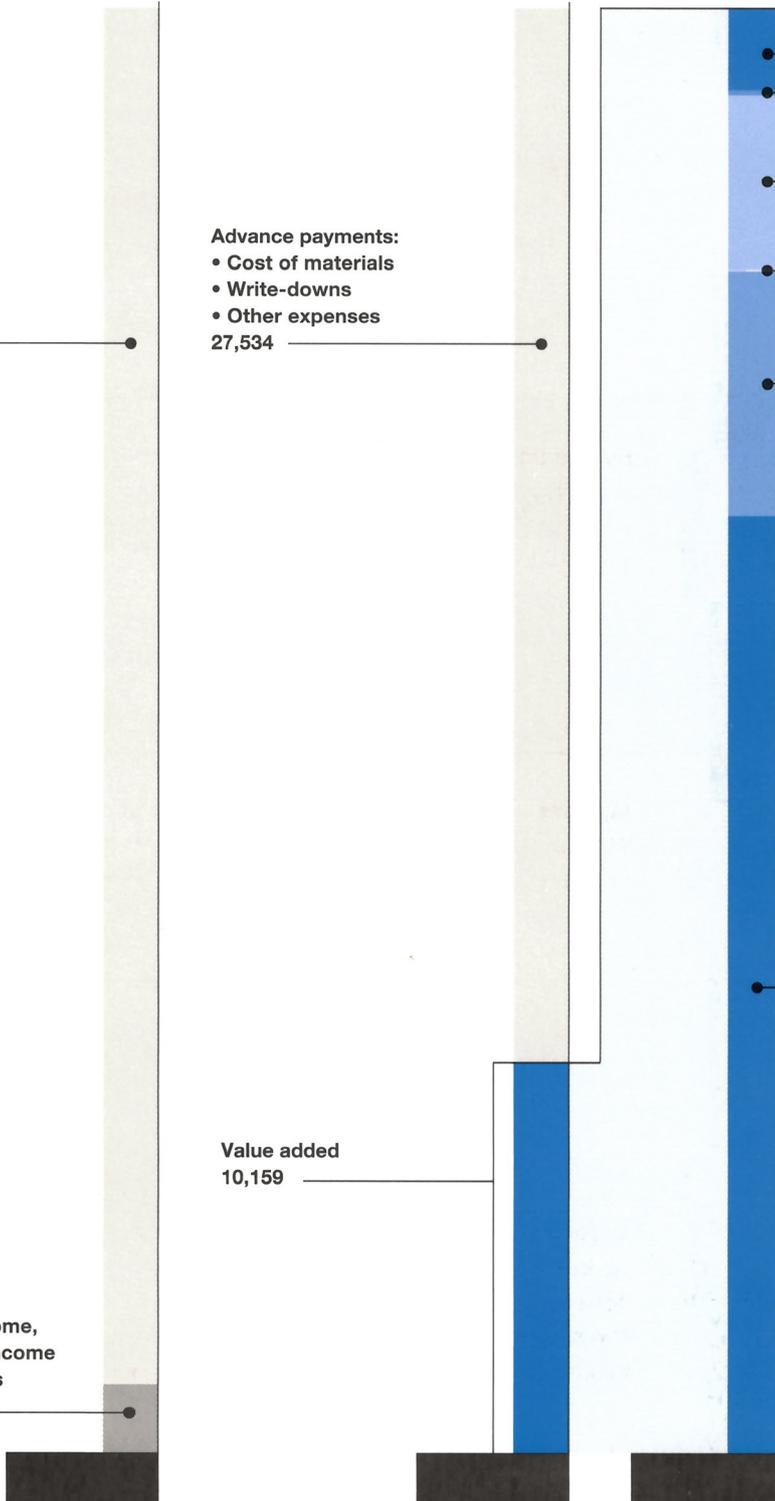
Advance payments:
• Cost of materials
• Write-downs
• Other expenses
27,534

Value added
10,159

**Distribution of
value added**

- Creditors 5.6%
- Minority interests 0.4%
- Dividends to shareholders 12.0%
- Company 0.2%
(including reserves)
- State: corporate taxes 16.9%

Employees:
Wages and salaries,
social security contributions,
and expenses for
pensions and
assistance
64.9%



We have

- ▶ published Values and Guidelines for the BASF Group,
- ▶ integrated Sustainable Development even more firmly into our management system through the establishment of a Sustainability Council,
- ▶ supported global and regional networks for the viability of society.

In the future too, socially responsible behavior will contribute

to the success of BASF because

- ▶ together, our **employees** create our success,
- ▶ our **community** provides the framework for our business activities,
- ▶ acting fairly and ethically in our **markets** and respecting **human rights** is essential for winning the trust of our customers, business partners and society,
- ▶ an open **dialogue** helps us to win approval for what we do and to learn from the wealth of different opinions.

In future, we want to extend the strategic tool of our eco-efficiency analysis beyond economic and environmental factors to include social issues.

This will give us a comprehensive means of measuring the performance of our products and services in all three key areas of Sustainable Development.

Milestones

January ▶ BASF employees donate €105,000 – more than any other German company – to the Children's Hour charity initiative for the last hour's pay of the millennium. ▶ Agreement 2003 is reached at BASF Aktiengesellschaft. At the heart of this agreement between management and employee representatives is the company's pledge: no involuntary redundancies until 2003 and training in excess of internal requirements.

February ▶ BASF donates €50,000 to the Yehudi Menuhin Foundation, which works to combat racism and violence through art and creativity. The money comes from the proceeds of a charity concert organized by BASF plus an additional amount from the company. ▶ BASF Corporation organizes Black History Month together with the African-American Employee Group. A number of events draw attention to the impact of African-Americans on the development of American society.

March ▶ Anniversary: 40 years ago the first foreign workers arrived at BASF Aktiengesellschaft in Ludwigshafen from Carrara in Italy. The town of Carrara, famed for its marble, presents a marble sculpture to BASF on the occasion of the anniversary.

April ▶ The BASF Group further develops its Values and Principles. The company pledges to act responsibly and also publicly discloses its internal auditing criteria.

May ▶ Together with other companies, BASF acknowledges Germany's historic and moral responsibility. As one of the founding members of the initiative Remembrance, Responsibility and the Future (*Erinnerung, Verantwortung und Zukunft*) it contributes €50 million toward compensation for victims of the National Socialist regime. ▶ The Works Council of BASF Schwarzheide GmbH celebrates its tenth anniversary at a festive event.

June ▶ BASF opens its Berlin office in order to encourage dialogue with politicians in Germany. ▶ BASF Corporation in the United States launches a Volunteer Grant Award program to provide financial support to employees carrying out volunteer work at non-profit organizations.

July ▶ BASF commits itself to the principles of the Global Compact initiative of the United Nations (UN). The aim is to implement principles applying to human rights, labor standards and environmental protection worldwide. ▶ The first incentive shares from BASF's "plus" share program are deposited in employee safekeeping accounts.

August ▶ BASF Coatings in Münster, Germany, organizes the Special Olympics, a swimming event for mentally disabled people from the region. Numerous employees help out as volunteers. ▶ BASF sponsors a hippotherapy project – an increasingly popular form of physical therapy in which horses are used to treat the physically and mentally disabled – in São Bernardo do Campo in Brazil.

September .. ▶ BASF in Mexico donates approximately €10,000 to an anti-drugs initiative "United for a drug-free world. Turn on the music, turn off drugs." ▶ BASF together with the EMNID research institute presents the Governmental Relations Study, the first company-sponsored study on the relationship between business and government policy in Germany.

October ▶ BASF shows its commitment to jobs in the federal states in eastern Germany. At 70 percent, BASF Schwarzheide boasts the highest retention rate of all east German chemical sites since the collapse of the communist regime in 1989. ▶ BASF Aktiengesellschaft's Right to Part-Time Work program shows positive results after its one-year pilot phase and is extended.

November ▶ BASF's Sino-German Research & Development Fund awards 34 scholarships to students in China. ▶ Mid-term assessment by the Initiative for Job Creation sponsored by BASF, the trade union IG BCE and the Bertelsmann Foundation: The projects in question have created 4,500 jobs in Germany to date. ▶ The BASF Board of Executive Directors, Works Council, Committee of Senior Management Spokesmen and IG BCE appeal jointly to all BASF employees in Germany not to discriminate against foreigners.

December ... ▶ Positive results: the venture capital company BASF Innovationsfonds GmbH creates 100 new jobs outside BASF by the end of 2000.

BASF is the largest chemical company in the world. We aim to increase and sustain our corporate value through growth and innovation.

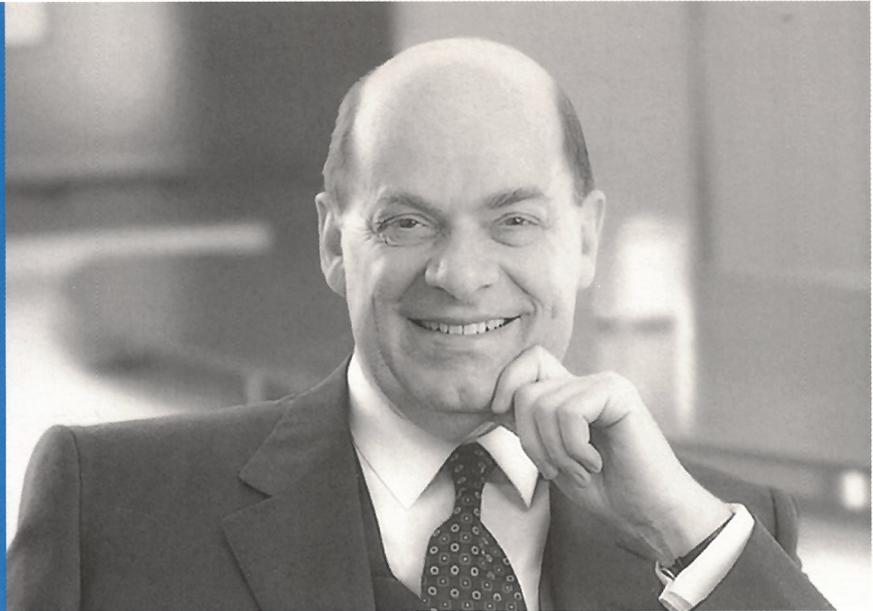
We offer our customers a range of high-performance products, including high-value chemicals, plastics, colorants and pigments, dispersions, automotive and industrial coatings, agricultural products and fine chemicals as well as crude oil and natural gas. Our distinctive Verbund strategy is our strength. It ensures our cost leadership and thus gives us a decisive competitive advantage in the long term.

We act in accordance with the principles of Sustainable Development.

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Society can support
or hamper BASF's
success.



Dr. Jürgen F. Strube
Chairman of the Board of
Executive Directors

Dear readers,

Globalization has opened up a new discussion about the role of transnational companies. The merging of economic regions is a cause for hope for some and anxiety for others. This experience is made by employees at BASF every day, and in this respect we are no different from other parts of society. "Our market is the world" – this sentence from our Vision 2010 is already reality for many at BASF. We are in fierce competition with other successful companies in all the world's markets. And this competition can also be felt within BASF – for example when different sites compete with one another for new capital expenditures.

When it comes to globalization, two fundamental questions concern us. The first is: "What does it mean to BASF that it is increasingly producing and selling its products all over the world?" You can find an answer to this question in our Annual and Financial Reports: Globalization has played an important part in our tripling of BASF's corporate value in the past five years and will allow us to build on this success in future because, to quote again from Vision 2010, "our organization welcomes change as an opportunity." We have actively shaped this process of change and will continue to do so in future, bearing in mind our environment and the communities in which we live.

The second question that concerns us also addresses these two aspects: "What does it mean to the environment and society that BASF is increasingly producing and selling its products all over the world?" In order to provide answers to this question we have been publishing Environment, Safety, Health Reports for several years and now, for the first time, this Social Responsibility Report.

We are breaking new ground with this report. It is a further step on the path that we have laid out through our commitment to Sustainable Development. Sustainable Development requires a comprehensive approach that pays equal account to the three areas of economy, ecology and society. The present report completes our sustainability reporting and focuses on the societal dimension of our activities.

Here too, our activities are driven by business principles. Our mission is to benefit mankind, but our motives are not altruistic. BASF therefore takes its responsibility toward employees, shareholders, neighbors, customers and all other stakeholders very seriously. The sustainable success of the company and increasing its value are always central to the decisions we make.

In mid-1999, we saw how a lack of responsibility can endanger this success when our company's image was negatively affected because of violations of antitrust laws in the vitamins business. It is therefore important to us to reaffirm our commitment to sustainable and law-abiding behavior in all key areas of society.

None of the key sectors that we describe in this report is in any way trivial: BASF is a part of social existence and stands at the center of society. Everything that we do impacts on society – regionally, nationally and globally. It is equally true that society can support or hamper BASF's success. Shaping social and political processes is therefore both a duty and a key corporate interest. And because we want to do this actively, you have a right to know where we stand and what we understand by social responsibility.

However, transparent reporting can offer only opening remarks in the dialogue that we want to conduct with you and other members of society. Employees and customers, investors and neighbors, suppliers and politicians – each group of stakeholders has different priorities in this dialogue. As a result, the reports, in which we can only give an account of a few key areas, must be supplemented by direct communication.

We communicate actively: in discussions with business partners and employee representatives, in analyst conferences, in community advisory panels at our sites and in talks with representatives from the environmental movement, scientists and students. The variety of people we talk to is reflected in the topics discussed. This is why you will find such a broad spectrum of subjects under the heading "social responsibility," but in every case they involve people that have links with BASF.

There is a further common feature between all the sections of this report: the effort to bring together global trends and local developments. We provide figures for the entire BASF Group as well as individual examples from various countries and we illustrate globally valid statements with statistics from individual regions.

We are aware that the indicators we present here often give only an outline and not a complete picture. We are working to develop better methods so that we will be able to supply more concrete data on social responsibility in subsequent reports. Measurable statements on the social effects of our products, for example, are only rudimentary, but in the area of ecology our eco-efficiency analysis has brought us a long way forward.

Like our Annual Report and our Environment, Safety, Health Report, our first Social Responsibility Report shows the characteristic profile of BASF – the profile of a company that is on the way to becoming a sustainable company in every meaning of the word. To succeed in this, we need above all the creativity and personal commitment of our employees and the critical sympathy of our partners in society and business worldwide. We look forward to hearing your comments and suggestions.

*Yours sincerely,
Jürgen Huber*



Our new

BASF has reached a milestone with its report on social responsibility:

The three parts of sustainability reporting are now complete. The Annual

Report, the Environment, Safety, Health Report and the Social

Responsibility Report cover the three aspects of sustainability: economy,

ecology and society. Another new feature is that the Social Responsibility

Report provides for the first time an overall picture of the social

dimension of the BASF Group's business activities worldwide. However,

reporting about all aspects of sustainability is only part of the process

of implementing the idea of sustainability.



The making of the Social Responsibility Report

Economy, ecology and society are the three pillars of Sustainable Development. The initial idea for the present publication was to account for the social aspects of our activities in a new report.

The question is: How do you measure social sustainability? How can we summarize the social responsibility of the entire BASF Group in 60 pages? Which topics should be included, which not? Can the social effects of our 8,000 products or our production sites in 39 countries be measured? And if yes, can the results be expressed in numbers that are valid worldwide? These and similar questions were the starting point of our work on the report of BASF's social responsibility that you are now holding in your hands.

It was clear from the outset that the report would have to be based on solid data. To collect these, we had to perform a Group-wide survey because the data for BASF's Ludwigshafen headquarters provide only an incomplete picture. Because BASF Group companies operate under different conditions in different countries, central data collection had not seemed to make sense in many cases to date and had to be performed for the first time for this report.

Indicators of social sustainability

So what facts and figures actually provide concrete information on what we understand by social responsibility worldwide? The sustainability debate has recently devoted much time to discussing such key data or indicators. Non-governmental organizations (NGOs) and research institutes as well as trade associations and investors have prepared extensive lists of indicators.

In order to find the most suitable key data for BASF, we focused on the questions that we are repeatedly asked in discussions with various stakeholders. In addition, with support from the Institute of Organizational Communication (IFOK) we identified key areas and checked numerous indicators and lists of key data to see whether they actually provide useful information on the BASF Group. We paid particularly close attention to the following:

- ▶ The Sustainability Assessment Questionnaire from the Swiss SAM Group on which the Dow Jones Sustainability Group Index is based.
- ▶ The company questionnaire from Bank Sarasin & Cie.
- ▶ The Guideline for Sustainability Reports published in June 2000 by the Global Reporting Initiative.
- ▶ The publication Communicating Corporate Social Responsibility from CSR Europe.
- ▶ The principles of the United Nations Global Compact.
- ▶ The conventions of the International Labor Organization, the most important of which are contained in standard SA 8000.
- ▶ Questionnaires from the assessment companies IMUG Research, Eiris and Oekom Research.

We were also aided by the publication The Global Reporters from SustainAbility, London, an institution that also gave us valuable feedback on our reporting to date.

Worldwide data collection

This process resulted in a questionnaire containing approximately 70 individual questions and at the beginning of 2001 we started to collect qualitative and quantitative information from BASF Group companies for this report. In total, we surveyed 78 Group companies and were therefore able to account for almost 90 percent of employees within the BASF Group as of December 31, 2000. The Group companies that were not included in the survey were partly companies that belonged to BASF's pharmaceuticals business, the sale of which to Abbott Laboratories was completed in March 2001. In addition, organizational reasons meant that it was not possible to cover companies acquired as part of American Home Products' crop protection business. Joint ventures were generally not considered.

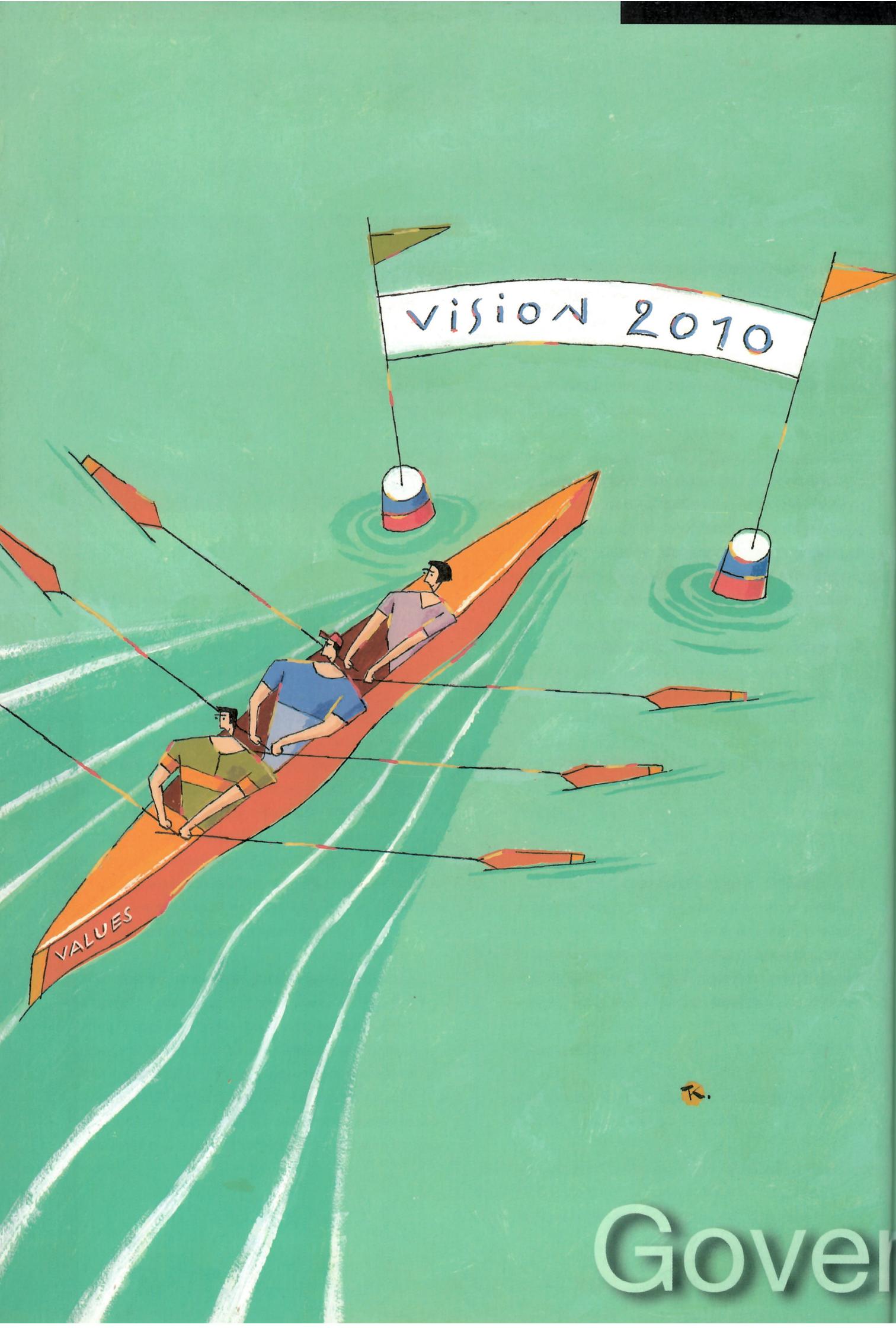
Strengths and weaknesses of the survey

From the multitude of information on the social effects of our activities, this report presents only those data that provide really global information on the BASF Group. Furthermore, because the survey was carried out for the first time in this form in 2000, we are unable to make any comparisons with previous years. We have already taken steps to optimize our data basis.

More difficult to solve are the problems that are rooted in the different nature and size of the companies and in the special characteristics of the regions. For example, it is difficult to compare the German apprenticeship system with the situation in other regions and it therefore makes little sense to quote a global figure.

Invitation to discussion

Nevertheless, we believe that the information we present forms a good basis for dialogue with our stakeholders. We are looking forward to adding our experiences to the public debate on sustainability reporting and to hearing the reactions of our readers. Last but not least, the survey and this report also contribute to discussion within BASF – and they are an important step on the way to integrating all three dimensions of Sustainable Development.



vision 2010

VALUES

R.

Gover

We are convinced that corporate values and long-term competitive success are closely connected. This is why, in spring 2000, we further developed our long-established corporate values and reformulated our Values and Principles. Our Vision 2010 continues to be the goal we are headed for. How we intend to act in order to achieve these goals is set out

- in six Values:
- ▶ Sustainable profitable performance
 - ▶ Innovation in the service to our customers
 - ▶ Safety, health, environmental responsibility
 - ▶ Intercultural competence
 - ▶ Mutual respect and open dialogue
 - ▶ Integrity

Discussions and workshops are the first steps toward a worldwide value management system which will help us to make our Values a living reality.



Values and Principles for BASF

What points of orientation do we have on the road to sustainability? What are the values that define BASF's identity and link its employees across all borders? And how can we be measured by our employees, business partners, shareholders and neighbors?

In response to these questions, the BASF Group further developed its Values and Principles in April 2000. Together with the Vision 2010, which was published a few years ago, they form the basis for our activities and provide information on BASF's goals and business practices. None of these documents emanated from an ivory tower. On the contrary: A practical approach was the prime consideration when the Board of Executive Directors decided to assign the task of developing the Values and Principles to an international team of executives early in 1999.

An international team prepares a draft

In the subsequent months, the team analyzed the multitude of cultural requirements within the company and formulated these requirements in Principles with Group-wide validity. The team also combed BASF's publications to identify values – both clearly stated and implied – and consulted experts from the field of corporate ethics. From the very outset, the idea was not to radically reformulate our corporate culture in a top-down approach. Instead, the goal was to check existing values critically against the background of current challenges and summarize them in statements valid throughout the BASF Group.

In preparing the Values and Principles, the team was supported by existing material such as previous versions of corporate guidelines and the guidelines on Responsible Care®, a voluntary initiative of the chemical industry in the fields of safety, health and environmental protection. Above all, however, the process showed that BASF's Vision 2010 was still in tune with the current situation. A preliminary version of the Values and Principles was discussed in fall 1999, initially by BASF's Board of Executive Directors and subsequently by all executives. The final version of the Values and Principles took into account the results of discussion forums in all regions, talks with employee representatives and feedback from individuals.

There are three elements to BASF's reformulated fundamental principles.

1. BASF's **Vision 2010** describes the path that the company will take in the coming years. Although Vision 2010 was formulated in the mid-1990s in a wide-ranging internal discussion process, it is still valid and sets forth the goals we want to achieve. Every strategic decision has to be based on this vision.

2. Six **Values** describe the orientation and the manner in which we want to reach these goals:

- ▶ Sustainable profitable performance
- ▶ Innovation in the service to our customers
- ▶ Safety, health, environmental responsibility
- ▶ Intercultural competence
- ▶ Mutual respect and open dialogue
- ▶ Integrity

3. BASF's **Principles** formally state how we want to apply these Values in our day-to-day business.

Corporate values and corporate value

Dr. Jürgen F. Strube, Chairman of BASF's Board of Executive Directors, presented the company's Values and Principles to around 1,200 managers at a meeting in Ludwigshafen on May 22, 2000. It was no coincidence that this meeting had a second topic: BASF's value. It is important to emphasize the relationship between corporate value and corporate values. In a way, BASF's identity, reputation, transparency and reliability are part of the company's assets and can be used to achieve economic success. The Values and Principles and their implementation in the day-to-day life of the company are not simply a means to an end, but are used to boost the company's success. We do not want to simply implement a catalog of morals with the aim of increasing our share price. In pursuing Sustainable Development we have discovered that economic success and socially responsible behavior cannot be considered separately, and this will be true to an increasing extent in future. In the medium and long term, it can be seen that companies that also consider social responsibility and environmental sustainability post better results than those that simply base their activities on economic criteria. A company can only shape its own future independently and maintain its own identity if it succeeds in pursuing a strategy that unites corporate value and corporate values.



Living up to high standards

To date, BASF's Vision 2010, Values and Principles have been translated into 13 languages and every employee has received a personal copy. In addition, a series of new structures and measures have been introduced to encourage their implementation. This ensures that we do not just pay lip service to these high standards. Stipulations that are intended to be valid worldwide sometimes have to be formulated in general terms and must therefore be adjusted to match the different fields and diverse countries in which we operate. In other words, global thinking has to be brought in line with local activities. In discussions and workshops, BASF employees throughout the world therefore work to put the Values and Principles into practice in their specific environment and day-to-day activities. In this way we create a global value management system – the heart of corporate ethics at BASF.

At the center of this management system is a Support Office in Ludwigshafen, which helps the company's divisions to implement the Values and Principles. Following the introduction of the Values and Principles, this office conducted around 45 information events at the BASF Group in Germany in the second half of 2000 alone. In addition, the Support Office guides discussion processes and develops training measures such as the seminar "Value management – how managers can implement the new Principles." The Support Office is part of the Central Department Human Resources, Executive Management Group, the head of which reports directly to the Chairman of the Board of Executive Directors. This department is responsible for ensuring that the Values and Principles form part of the personal target agreements of all senior executives within the BASF Group. A portion of the variable compensation of these executives is determined by the extent to which these agreements are successfully implemented.

Binding Codes of Conduct worldwide

BASF has introduced a global Compliance Program in connection with its Values: By the end of 2001, every Group company will establish its own Code of Conduct based on BASF's Values and Principles and local laws. These codes will oblige all employees to act in a legal fashion. Violations will not be tolerated and may have consequences under criminal and labor law.

In the United States, BASF Corporation has had a Code of Conduct since 1996. The German Group companies introduced a Compliance Program last year (see page 50). A hotline to an independent law office was also set up as part of this program. BASF employees can contact this office to seek advice regarding their own behavior or if they observe dubious practices in their work environment. Calls are treated confidentially if requested and every report is investigated.

BASF's Values*

Sustainable Profitable Performance ▶ Ongoing profitable performance in the sense of Sustainable Development is the basic requirement for all our activities. We are committed to the interests of our customers, shareholders, and employees and assume a responsibility toward society.

Innovation in the Service to our Customers ▶ We are committed to customer satisfaction. We develop products and chemical processes and provide services of high scientific and technical levels to foster good partnerships with our customers.

Safety, Health, Environmental Responsibility ▶ We act in a responsible manner and support the Responsible Care® initiatives. Economic considerations do not take priority over safety and health issues and environmental protection.

Intercultural Competence ▶ We foster intercultural diversity within the BASF Group and work together as a team. Intercultural competence is our advantage in global competition.

Mutual Respect and Open Dialogue ▶ We treat everyone fairly and with respect. We pursue an open and trusting dialogue within our company, with our business partners and relevant groups in society. We encourage our employees to be creative and to make full use of their potential for the common success of the Company.

Integrity ▶ We act in accordance with our words and values. We respect the laws and good business practices of the countries in which we operate.

* The individual Values are supplemented by Principles that can be found on the Internet at www.basf.de/en/corporate/overview/.



Sustainable Development as a management responsibility

Along with the value management system introduced to implement our Values and Principles, we have created new structures to ensure that Sustainable Development is put into practice consistently. And the outstanding feature of these new management structures is that sustainability is a Board responsibility at BASF.

Sustainability Council develops strategies

A committee chaired by Board member and Industrial Relations Director Eggert Voscherau will in future ensure that BASF Group policy is in accord with the principle of sustainability. The key task of this Sustainability Council – whose members, in addition to Voscherau, include seven division presidents – will be to draw up strategies for the three aspects of Sustainable Development: economy, ecology and society.

Steering committee manages global implementation

To implement strategic decisions, the Sustainability Council has an international steering committee (International Steering Committee Sustainability) at its disposal whose members reflect the range and diversity of the BASF Group and the significance of the topic. Its ten members, vice presidents from various regions and disciplines, plan and oversee strategy implementation. The integration of the three key areas of sustainability and the worldwide harmonization of all measures play a central role.

Project teams draw up concrete measures

Several project teams made up of employees from existing operating units liaise with and report to the Steering Committee. Their tasks include drawing up quantifiable indicators, developing and monitoring environmental and social standards and expanding our sustainability reporting.

Project team members remain in their operating units, which guarantees that all measures undertaken are geared to everyday reality at BASF. Our experience has shown that sustainability management can only be successful when it is carried out without parallel – and independent – structures that all too often remain detached from everyday business life and are hence ineffective. This is why we want to establish a genuine link between theory and practice, strategy and implementation, which will create realistic guidelines for a targeted way forward tailored to conditions at BASF's sites.

Network coordinator: the Sustainability Center

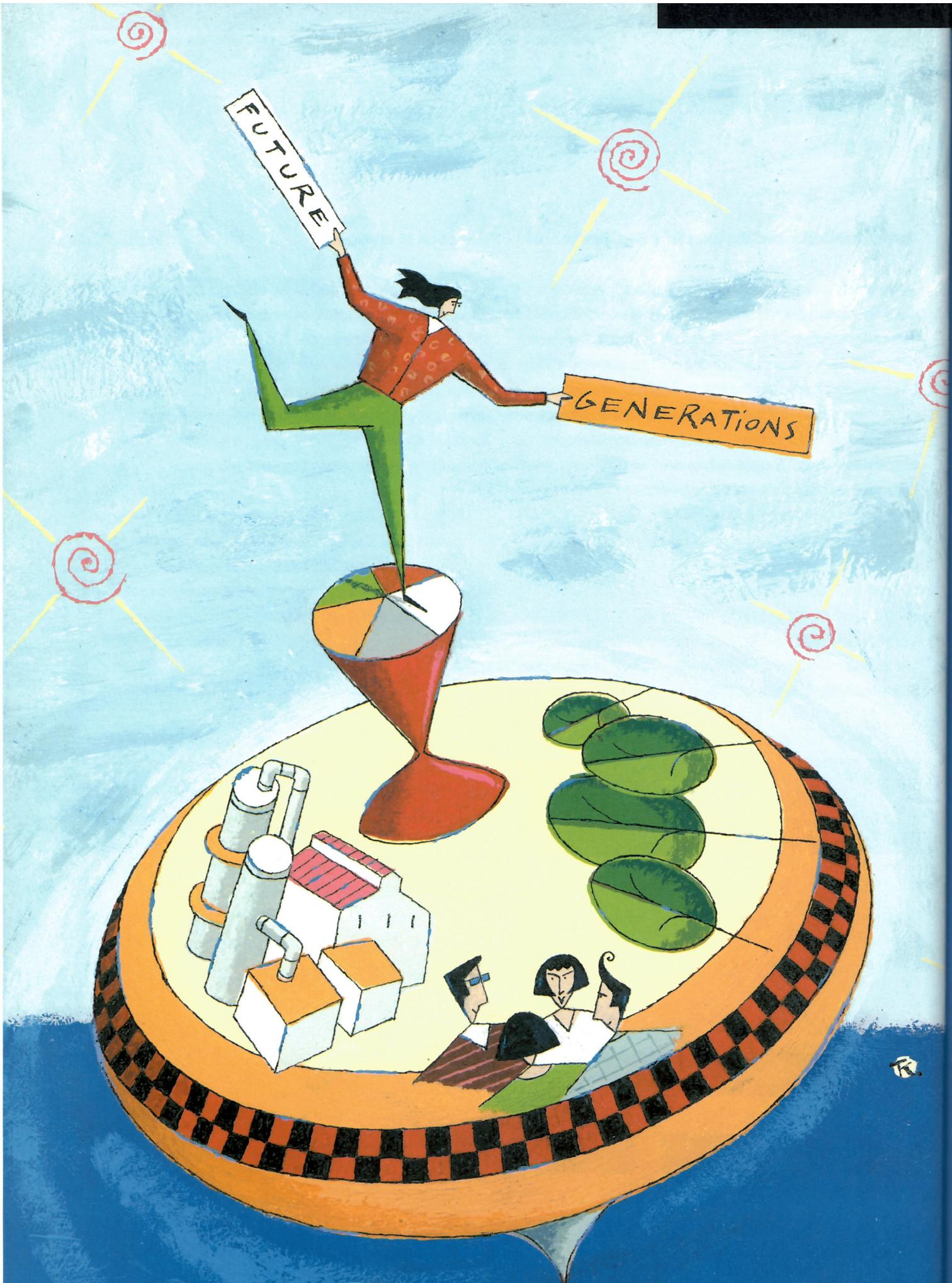
The recently established Sustainability Center in BASF's Central Department Communications is the central coordinating body between the Sustainability Council, the International Steering Committee, the project teams, operating units and sites. Along with coordinating the various in-house projects and teams, the Sustainability Center is also responsible for external coordination, for example with environmental groups. In this way, we maintain contacts with industry associations and initiatives such as the UN's Global Compact.

Invitation to dialogue

On the road to sustainability, we have not only learnt that we need to interact with others, but also that others can benefit from our experience. The Sustainable Development debate has grown enormously in importance in recent years and great progress has been made. And this is one of the reasons why our new structures are aimed at ensuring that BASF Group's beliefs and knowledge play a greater role in this public debate.

Sustainability in the BASF Group





Sustainable

Sustainable Development is a balancing act – between today's economic, ecological and social needs and the needs of future generations. In 1992, at the United Nations Environmental Conference in Rio de Janeiro, the international community agreed on the principle of Sustainable Development, to which BASF is also committed. Last year, we made sustained profitable performance based on the principle of Sustainable Development an obligatory part of the Values and Principles that underlie our global activities.

Development



Sustainable Development: the economic dimension

BASF is the world's largest chemical company. We offer our customers a wide range of high-performance products, including high-value chemicals, plastics, colorants and pigments, dispersions, automotive and industrial coatings, agricultural products and fine chemicals as well as crude oil and natural gas. In 2000, BASF reached a new earnings level with sales totaling €35.9 billion and income from operations before special items of €3.4 billion.

Our segments

Our core business consists of five segments:

In the **Chemicals** segment, we primarily manufacture organic and inorganic basic chemicals and innovative intermediates, exploiting the synergies of our Verbund. Our goal is market leadership.

BASF is a world leader in the manufacture of **Plastics & Fibers**. We aim to achieve worldwide cost leadership in standard plastics. In specialty plastics, we offer customers innovative high-performance products.

In **Colorants & Finishing Products**, we manufacture and market high-value chemicals and specialties particularly for the paper, construction and textile industry. Our success is based on creative solutions developed in close cooperation with our customers and on our ability to guarantee just-in-time delivery through a network of regional sites.

In our **Agricultural Products & Nutrition** segment, we concentrate on our strengths. We are the world's third largest supplier of agricultural products and continue to enhance our position thanks to new active ingredients and our presence in key agricultural markets worldwide. We intend to expand our activities in plant biotechnology. We offer our customers in the food, pharmaceuticals, animal nutrition and cosmetics industries a wide range of high-value fine chemicals.

Our **Oil & Gas** operations are carried out by our subsidiary Wintershall. In the exploration and production fields, we focus on selected regions rich in hydrocarbons. Our gas trading business is benefiting from the growth opportunities offered by the deregulation of European gas markets. Our oil and gas activities also help to cushion the impact of rising raw material prices on our Chemicals segment.

Our goal: to increase and sustain BASF's corporate value

We intend to continue to increase BASF's corporate value through growth and innovation.

We want to continue to grow by

- ▶ achieving above-average profits from a strong market position,
- ▶ focusing on expanding our business in growth regions, and
- ▶ extending our Verbund.

Our innovations are based on

- ▶ continually renewing products and processes,
- ▶ offering customers creative system solutions, and
- ▶ capitalizing on the broad potential of the chemistry we use.

A strong market position, worldwide presence and expansion of our core business

We generate more than two-thirds of our sales and earnings in product groups in which we are one of the top three suppliers.

BASF has a manufacturing and distribution presence in all key economic regions of the world and although Europe is our home market, we are systematically expanding our activities in growth regions. In Asia in particular, we are developing new sites and enlarging existing ones as part of a dedicated investment program.

In 2000, worldwide capital expenditures on tangible and intangible fixed assets were €2.9 billion. On a regional basis, capital expenditures were as follows:

- ▶ 49% in Europe (60% in 1999)
- ▶ 33% in North America (34% in 1999)
- ▶ 4% in South America (2% in 1999)
- ▶ 14% in Asia, Pacific Area, Africa (4% in 1999)

Capital expenditures for acquisitions were more than €6 billion. These included the purchase of Chemdal International Corporation and the crop protection business of American Home Products.

Divestitures led to special income of €205 million. These involved the sale of various business activities in Pharmaceuticals, Plastics & Fibers as well as Oil & Gas. The sale of our Pharmaceuticals business to Abbott Laboratories was not completed until 2001 and is therefore not included in this figure.

Research and development

In order to create, pool and transform knowledge into successful new products, our research activities are also organized into a worldwide research Verbund. It is made up of expertise centers at our Ludwigshafen headquarters, R&D units in Group companies, holdings in start-up enterprises and around 800 partnerships with leading universities, research institutes and industrial partners. In 2000, we invested more than €1.5 billion in research and development. We filed 22,553 applications for patents and trademarks to protect our intellectual property.

Reporting

In our Annual Report 2000, we give a detailed account of the economic aspects of our activities as part of our comprehensive sustainability reporting. You can order it on the Internet at www.basf.de/mediaorders or by sending us the postcard at the end of this report.

| Million € | Sales | | | Income from operations before special items | | | Research & development expenses | | |
|----------------------------------|---------------|--------|-------------|---|-------|-------------|---------------------------------|-------|-------------|
| | 2000 | 1999 | Change in % | 2000 | 1999 | Change in % | 2000 | 1999 | Change in % |
| BASF Group | 35,946 | 29,473 | 22.0 | 3,400 | 2,950 | 15.3 | 1,526 | 1,333 | 14.5 |
| - Chemicals | 5,789 | 4,423 | 30.9 | 724 | 774 | -6.5 | 147 | 149 | -1.3 |
| - Plastics & Fibers | 11,030 | 8,628 | 27.8 | 788 | 642 | 22.7 | 167 | 180 | -7.2 |
| - Colorants & Finishing Products | 7,109 | 6,395 | 11.2 | 548 | 682 | -19.6 | 168 | 160 | 5.0 |
| - Health & Nutrition* | 6,717 | 5,602 | 19.9 | 252 | 408 | -38.2 | 821 | 664 | 23.6 |
| - Oil & Gas | 3,957 | 3,051 | 29.7 | 1,266 | 603 | 110.0 | 50 | 47 | 6.4 |
| Other** | | | | | | | 173 | 133 | 30.1 |

* Renamed Agricultural Products & Nutrition on March 2, 2001

** Including exploratory research and plant biotechnology



Sustainable Development: the ecological dimension

“We act in a responsible manner and support the Responsible Care® initiatives. Economic considerations do not take priority over safety and health issues and environmental protection.” This is one of our Values which form the framework for all decisions and actions in the BASF Group.

But what does this actually mean for our work? Our Principles, which are closely linked to the idea of Sustainable Development, provide an answer:

- ▶ We encourage awareness of safety, health and environmental issues among our employees and strive for continuous improvement through agreed-upon targets.
- ▶ We produce products that are safe to manufacture, use, recycle and dispose of.
- ▶ We support our customers to use our products safely and in an environmentally sound manner.
- ▶ We minimize the impact on mankind and the environment in the production, storage, transportation, sale, use and disposal of our products.

Local conditions must be taken into account appropriately when applying our Group-wide Values for environment, safety and health. Decision-makers at each individual site decide how our Principles – and local regulations – are to be observed.

High standards worldwide

We take great care that our strict in-house regulations are applied without exception. Wherever new BASF plants are built, the company sets a good example and takes environmental, safety and health considerations into account at the planning stage. We will not tolerate cheap solutions for countries with different technical standards and requirements – even for existing plants. After all, only modern plants in combination with safe working methods are economically efficient.

To ensure high plant standards worldwide, our experts carry out regular audits and inspections at all sites on behalf of the Board. In 2000 alone, 141 environment and safety audits were carried out at 82 Group sites and, in conjunction with local staff, suggestions for improvements drawn up and carried out. Our audit program also monitors continuous improvement in performance in accordance with Responsible Care. This means not only monitoring the current state of all plants and sites but also implementing agreed targets.

To launch a long-term process of improvement, we have deliberately set ourselves ambitious goals – zero occupational illnesses and zero on-the-job accidents. Thanks to targeted measures, we have reduced the number of on-the-job accidents resulting in days off in the BASF Group by seven per cent to 3.68 accidents per million hours worked. The corresponding figure for BASF Aktiengesellschaft is 4.08. Both figures are significantly lower than the average for the chemical industry.

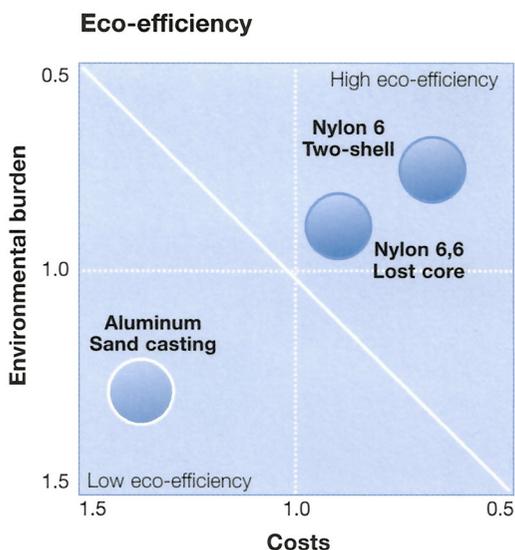
The eco-efficiency analysis: our innovative tool for better products

What should BASF's products of the future look like? The question underscores the close link between environmental safety and business success. In our search for the right answers, BASF teamed up with management consultants Roland Berger + Partners to develop the eco-efficiency analysis. This strategic tool allows us to consider both financial and environmental aspects in the product development and optimization processes and then to choose the most eco-efficient solution. The analysis looks at the complete lifecycle of a product – from the cradle to the grave – from raw material extraction to recycling or disposal. It includes comparison with other products and processes, in this way enabling BASF to develop the best possible products which are also environmentally sound – at the best possible price.

With a view to the markets of the future, we believe it is imperative to consider the environmental soundness of one's products, which is why it is important for us to develop an effective control system to measure environmental and economic performance. Eco-efficient products and processes will give us a competitive advantage. We are currently working to include social criteria in our eco-efficiency analysis.

Reporting

In our Environment, Safety, Health 2000 Report we give a detailed account of the ecological aspects of our activities as part of our comprehensive sustainability reporting. You can order it on the Internet at www.basf.de/mediaorders or by sending us the postcard at the end of this report.



Engine parts made from nylon:

In a study, engine parts (intake manifolds) made from nylon 6 or nylon 6,6 were compared with those made from aluminum. Different manufacturing processes are used depending on the nature of the component to be produced, i. e. its geometrical complexity. The present study therefore compared aluminum casting with lost-core and two-shell moldings. When viewed over their entire life cycle, the nylon components are much more eco-efficient than their aluminum counterparts because of their lower weight.



Whether it's a question of flexible working hours, training, social support or stock purchase programs, companies that are successful in the long term don't just use work and pay to open up new opportunities for their employees. Employees who are also co-entrepreneurs are a key to joint success.

As an innovative company, BASF promotes training for its staff – every BASF employee undertook an average of more than three days of further training last year.

Flexible working hours help employees to balance work, leisure and family. And innovative models such as part-time work and teleworking allow for shorter working hours and working from home.

At many sites we offer employees additional financial incentives and other benefits such as pension schemes or our stock purchase programs.

Employees



Employees:
92,000 personalities
give our company
its character

“We, BASF’s employees, contribute together to the company’s success.” This key phrase from BASF Group’s Vision 2010 puts it in a nutshell – whether we are conducting research into innovative products, developing sophisticated processes, operating plants safely and efficiently or keeping to tight delivery schedules, everything depends on our employees using their ideas, skills, experience and commitment. And, where necessary, beyond the call of duty.

We want to be at the forefront of the race for the best talents. We want to attract employees from all cultures and countries who are personally and technically qualified and who will work with commitment for our company. To be successful in this goal, we must be seen to be an attractive employer that offers its employees more than just a workplace and pay. This means that we give our employees scope to act as entrepreneurs, offer them numerous opportunities for personal development and training, and provide other needs-related benefits.

A global team

People from all five continents make up BASF’s global team. We sell our products to customers in more than 170 countries and as a transnational company operate production sites in 39 countries. Worldwide and including those with limited-term contracts, BASF had 103,273 employees at the end of 2000. In addition, about 18,000 staff from partner companies perform services at our sites. In 2000, the BASF Group spent around €6.6 billion on salaries, wages, social security contributions and expenses for pensions and assistance. The sale of our pharmaceuticals business to Abbott Laboratories Inc. was the primary explanation for the decline in the number of BASF employees to 92,364 as of March 31, 2001.

Employees by region

| | 2000 | % in 2000 | % in 1999 |
|-----------------------|----------------|--------------|--------------|
| Europe | 68,861 | 66.7 | 70.5 |
| • Thereof Germany | 54,356 | 52.6 | 55.6 |
| North America | 17,331 | 16.8 | 15.0 |
| South America | 6,913 | 6.7 | 6.4 |
| Asia, Pacific, Africa | 10,168 | 9.8 | 8.1 |
| Total | 103,273 | | |

Firm data on employee fluctuation are currently only available for BASF Aktiengesellschaft in Ludwigshafen, which had 41,117 employees at the end of 2000. The proportion of “unwanted departures” was about one percent. In other words, 410 employees left BASF Aktiengesellschaft although we would have been glad to have continued to employ them.

We will be successful in worldwide competition only if we can be customer-oriented and act quickly and flexibly. Among other things, this demands that dialogue within the company is open and based on good faith, and we have also made this part of our Values and Principles (see page 12 ff.). Open communication and feedback from our employees is very important to us. In order to find out more about employee opinions and wishes, 35 percent of BASF Group companies poll their employees regularly, 39 percent irregularly. The results provide us with valuable indications of the measures that are needed to encourage cooperation and develop our corporate culture.

Increasing employee ownership

Employees as entrepreneurs within the company – we also promote wealth creation according to this principle.

We want to encourage our employees to buy BASF shares so that they can profit from the increasing value of the company.

In 2000, around 17,000 employees of BASF Aktiengesellschaft and various Group companies in Europe took the opportunity of buying BASF shares using the “plus” share purchase program. For every 10 shares an employee purchases, the company awards up to five additional shares during a 10-year period. Under this program, employees bought 544,730 shares last year, entitling them to receive up to 272,365 free shares from BASF.

A similar scheme was offered to employees of BASF Corporation in the United States and a number of other companies plan to follow suit this year. Our aim is to introduce the program throughout the entire Group, in each case adapted to local circumstances.

Since April 1999, around 1,200 senior executives in the BASF Group have been eligible to participate in a stock option program (BOP) that aims to link a portion of their salaries to the long-term performance of BASF shares. In 2000, more than 75 percent of those eligible participated and invested a portion of their variable compensa-

Development of personnel costs

| Million € | 2000 | Change compared with 1999 in % |
|---|--------------|--------------------------------------|
| Wages and salaries | 5,307 | 7.5 |
| Social security contributions and expenses for pensions and assistance | 1,289 | 3.5 |
| • Thereof for pension benefits | 401 | 3.1 |
| | 6,596 | 6.7 |



tion in BASF shares. For each share purchased under the scheme, BASF grants stock option rights that can be exercised if ambitious share price targets are achieved.

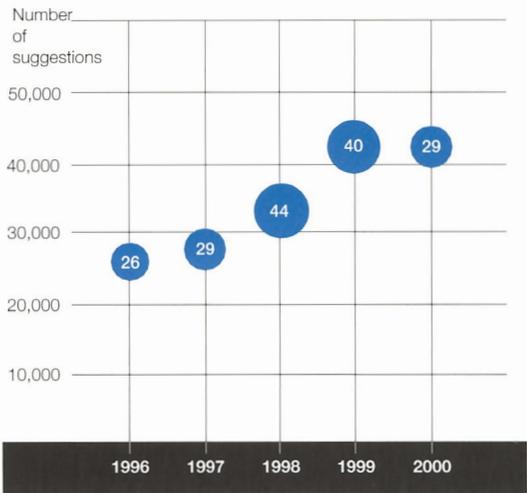
Promoting innovations

New products and processes ensure that we keep one step ahead of our competitors around the world. We therefore encourage our employees to be creative and innovative by showing that good ideas are rewarded. One example is BASF's Innovation Award, which is presented every year for outstanding achievements by individuals and in particular by interdisciplinary, cross-divisional teams that arise out of BASF's Know-how Verbund. The status given to promoting innovation is also made clear from the fact that the prizewinners are chosen by BASF's Board of Executive Directors.

The Company Suggestion Scheme is another way in which we have successfully supported the creativity and ideas of our employees for many years: This scheme rewards ideas that improve the efficiency of our processes, reduce the amount of materials used and improve safety. Similar systems to reward suggestions exist at many Group companies and in all regions. In 2000 alone, an average of 0.7 suggestions for improvements were submitted per eligible employee. Per employee, around €500 was saved and bonuses of about €60 were awarded.

BASF Group's Company Suggestion Scheme

Suggestions for improvements/
● = savings (million €/year)



Flexible working hours and innovative forms of work

Companies like BASF that see their employees as entrepreneurs within the company have to allow them scope to act on their own initiative. Flexible working hours and new forms of work meet employees' needs for greater freedom.

At many BASF Group companies there is a trend away from strictly regulated working hours toward more flexible

Working hours and vacation

(full-time employees)

| | Working hours (hours per week) | | Vacation (days per year) | |
|----------------------------|--------------------------------|---------|--------------------------|---------|
| | Minimum | Maximum | Minimum | Maximum |
| Germany | 37.5 | 40.0 | 30.0 | 30.0 |
| Europe (except Germany) | 35.0 | 41.0 | 20.0 | 39.0 |
| North America | 40.0 | 48.0 | 11.0 | 20.0 |
| South America | 40.0 | 47.5 | 15.0 | 30.0 |
| Asia, Pacific Area, Africa | 35.0 | 42.0 | 12.0 | 30.0 |

models such as part-time work. Employees can apply for a reduction in the number of hours they work in order to look after children or older relatives, or to do further training.

Even before legislation was passed, BASF Aktiengesellschaft introduced a Right to Part-Time Work pilot program in various departments that applied to about half its employees at the Ludwigshafen site. All employees in these departments are entitled to reduce their weekly working hours permanently by 15 percent.

Other up-to-date forms of work are teleworking, where employees work mainly from home and are linked to the company by computer, and semi-autonomous group work. In this model, teams of employees decide how and in which steps they perform their work without the intervention of superiors in the various tasks.

Promoting qualifications and training

As an innovative company, we support our employees' willingness to learn.

The world is changing at an ever increasing pace and to an ever greater extent. Lifelong learning is therefore crucial for our company to adapt to these changes and remain viable in future. In becoming a learning organization, the BASF Group invests approximately €145 million per year in training.

We offer our employees around the world practical training in our numerous training centers. Innovative approaches to training and modern technologies encourage efficient and practice-oriented learning. And as part of a personal initiative approach to learning, BASF and its employees work together to ensure the best possible qualifications.

We train employees in more than 30 scientific, technical and commercial occupations. The length of employee training courses varies widely according to local conditions. For employees in production for example, the average is 2 years in Japan, 2.5 years in the United States and up to 3.5 years in Germany and at BASF S.A. in Brazil.

We combine theory and practice in our training facilities.

Average number of training days per employee

(excluding basic training)

| | |
|----------------------------|----------|
| All companies polled | 3.4 days |
| Germany | 3.4 days |
| Europe (except Germany) | 4.4 days |
| North America | 1.8 days |
| South America | 3.2 days |
| Asia, Pacific Area, Africa | 3.2 days |

At BASF's modern training center at BASF PETRONAS Chemicals Sdn. Bhd. in Kuantan, Malaysia, for example, trainees receive hands-on instruction in the latest technologies in model plants, whereas subjects such as process engineering and process control engineering theory and teamwork are on the timetable in the training center. As well as traditional forms of training, we are increasingly focusing on innovative learning methods such as e-learning, in which employees are linked with the trainer and other participants at different sites via a computer network. In this way, we support practice-oriented learning in the workplace.

Many countries do not provide adequate schooling, which is why BASF launched its Citizenship Program in Brazil in 1998. The program teaches employees basic skills such as reading and writing and improves their general knowledge and life skills. The program's costs are covered almost entirely by BASF and include teaching materials, textbooks, meals and travel expenses.

A number of BASF Group companies sponsor the education of their employees' children. In Pakistan, for example, we pay the college fees of up to two children for employees who have been on the payroll for a minimum of five years. In South Africa, BASF contributes to the school fees of children whose parents are in lower pay brackets. In the United States, BASF Corporation awards ten college scholarships every year to particularly gifted children of BASF employees: Selection is made on the basis of a competition in association with the National Merit Scholarship Corporation (NMSC), an independent, non-profit organization.



Employee benefits (in excess of the minimum statutory requirements)

| | (1) | (2) |
|---|-----|--------|
| (1) Proportion of Group companies offering these benefits in percent | | |
| (2) Total number of employees at these Group companies* | | |
| Accident/disability insurance | 93 | 88,500 |
| Company pension schemes | 82 | 86,500 |
| Health insurance | 76 | 79,500 |
| Medical services through | | |
| Group facilities | 59 | 78,000 |
| Flexible working hours | | |
| (voluntary switch to part-time work, job sharing) | 51 | 72,000 |
| Annual bonus | 47 | 62,500 |
| Maternity/parental leave | 46 | 71,000 |
| Accommodation | | |
| (company apartment/housing grants) | 35 | 52,500 |
| Rehabilitation program for addiction or illness | 34 | 71,500 |
| Child care | | |
| (financial support for outside schemes) | 17 | 62,500 |

* In some cases, these benefits are not available to all employees at the given Group company.

Occupational health and occupational safety

No more occupational illnesses at BASF – this is our vision for occupational health in the BASF Group, and company physicians at many of our sites dedicate themselves to this goal. And in the field of occupational safety, we are also working toward continuous improvement as part of our commitment to the chemical industry's worldwide Responsible Care initiative. We are proud of our success – on-the-job accident rates have been falling steadily at our sites in North America for the past six years. At our Ludwigshafen site, we achieved a reduction of more than 20 percent last year. More information on these topics is available in our Environment, Safety, Health 2000 Report.

Retirement plans and social support

In view of the problems of financing state pension systems in many countries, supplementary company or private retirement plans are important for maintaining the standard of living in old age. At many BASF Group companies, employees are offered retirement plans to which they can also contribute their own funds. In order that future statutory conditions also find acceptance in industry, representatives of BASF play an active role and seek dialogue with associations, politicians and academics.

Examples include the promotion of additional company provisions as part of the reform of the pension system in Germany and the development of a pension fund guideline in Europe. These moves aim to ensure that company provisions remain viable in future and that the pension fund for the BASF Group in Germany, for example, continues to be appreciated by employees.

The company has set up pension schemes or similar plans at several sites and in this way contributes to assuring a reasonable standard of living for employees when they retire.

In the United States, BASF Corporation received a Silver Award from Treasury and Risk Management Magazine in 2000 for the innovative management of its pension fund.

In Pakistan, BASF has set up a voluntary social fund for employees which provides staff and their families with financial help in cases of social hardship.

Nor is our help limited to financial support – at Ludwigshafen, we have set up a counseling service for employees with personal problems such as divorce, debts or drug addiction.

Worldwide, social security contributions and expenses for pensions and assistance amounted to almost €1.3 billion at BASF last year.

Constructive cooperation with unions and employee representatives

Management at our BASF Group companies works constructively with employee representatives in a spirit of mutual respect and open dialogue – this is one of the pledges in our Values and Principles. Examples of this approach are Agreement 2000 and Agreement 2003, which were reached between plant management and employee representatives at our Ludwigshafen site and are described in more detail in the last section of this chapter. These agreements allow us to achieve the personnel levels we need without having to resort to layoffs.

Another example is the Euro Dialog group of employee representatives, which we established voluntarily at Group level in Europe in 1995.

About 55 percent of BASF's employees in Germany belong to the Mining, Chemical and Energy Industries Union (IG BCE). Excluding Germany, about 45 percent of the employees in Europe are unionized, as are 10 percent in the United States, 30 percent in Mexico, 70 percent in South America and 40 percent in Asia.

Employee representation at BASF

Examples from Germany and Europe

- ▶ **Euro Dialog: 19 employee representatives from BASF Group companies in Europe**
- ▶ **Group Works Council: works councils of all German Group companies**
- ▶ **General Works Council: works councils of one Group company**
- ▶ **Works Council: employee representatives at one site**
- ▶ **Employee representatives: on-site contact persons**
- ▶ **The Committee of Senior Management Spokesmen represents the interests of senior executives**
- ▶ **The Group Committee of Spokesmen comprises the committees of spokesmen of Group companies**
- ▶ **Employee representatives for disabled employees and young people and trainee representatives have special duties**

Employment: We take our responsibility seriously

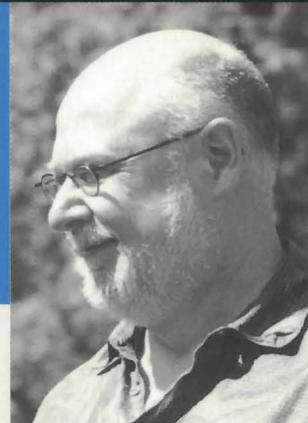
As a transnational company, we realize that measures must always be tailored to local circumstances when it comes to our responsibility toward our employees and the communities in which we operate. This is especially clear in the field of employment. While the U.S. economy has boomed in the last ten years, Europe and Germany especially have been confronted with consistently high levels of unemployment since the beginning of the 1990s.

There are many reasons for this. Fundamentally, however, the world of business and the chemical industry in particular are faced with the following challenge – the measures taken in order to increase efficiency and remain competitive, such as automation of production and process innovations, lead to jumps in capacity, while the market grows only to a small extent. This is particularly true in mature markets like Europe.

One example of the long-term consequences of this development are the technical strides we have made in ammonia production. Today we can produce in one plant two-and-a-half times as much ammonia as we did 60 years ago, using less than one-third of the energy. But with less than three percent of the staff – where 1,800 people were employed in 1940, only 40 are needed today. In other words, increased economic and environmental efficiency often means fewer jobs. At the same time, it is absolutely necessary to increase efficiency through rationalization in order for us to remain competitive and guarantee the continued existence of the company.

Numerous jobs outside our sites are also dependent on BASF, for example at suppliers, partner companies and spin-offs. In Germany alone, this accounts for more than 70,000 jobs, around 10,000 of them in the vicinity of our Ludwigshafen site.

Nowadays, new jobs at BASF are usually the result of new, innovative products. These products play an important role in maintaining our competitiveness and help to secure jobs in the long term. However, in this way it is not possible to compensate for all the jobs that have been lost due to technological progress and other factors. In order to avoid social hardship for those affected we have developed a series of socially-responsible, tailor-made measures at our Ludwigshafen site for example. Under the terms of Agreement 2000, which was reached with employee representatives in 1997, we committed ourselves to a policy of no involuntary redundancies up to the end of 2000. In April 2000, the Board of Executive Directors and the Works Council extended this cooperation and signed Agreement 2003, in which the company again pledged to carry out necessary adjustments to the size of the workforce through socially responsible measures rather than enforced redundancies. The most important measure is the offer of short-term contracts to those approaching retirement. Further measures include unpaid leave for up to five years and higher voluntary redundancy packages. In addition to severance pay, BASF employees who leave the company to set up their own businesses can apply for a start-up loan of up to €50,000 on extremely favorable interest rate and repayment terms.



Denise Schellemans and Ronny Janssens,
BASF Antwerpen N.V., employee representatives
in BASF's Euro Dialog group

Dialogue between employee representatives and management in Belgium



A constructive and open dialogue between the representatives of our trade unions and management is an important issue. Fortunately, Belgium has a long tradition of formal labor relations. Belgian society has a variety of sociopolitical blocks – the most important being Catholics, socialists and liberals – and these are reflected in different unions.

Despite their complex structure, these organizations have a real influence, not just on government policy, but also on the policy of our company.

The Company Council at BASF Antwerpen N. V. informs and advises on economic and social topics. This advisory body, which consists of 16 employer and 16 employee representatives, tries to reconcile all the different opinions relating to employment, profitability, future policy, etc.

Our Prevention Committee is responsible for top-level decisions on quality, safety and environment. In total, 28 representatives of both employers and employees attend meetings of this committee.

In addition, we have union delegates at the company who are not elected by the workforce but are instead appointed for four years by local union representatives. These delegates participate in negotiations on collective bargaining and work out interprofessional and sectoral agreements. This is how our collective bargaining agreements are established at the company level every two years.

The various bodies and committees work closely together and exchange information on a monthly basis. Although ideas and interests sometimes differ, the working relationship with our management is based on communication. There is a will to listen to one another and to try and understand concerns on both sides.

In a rapidly changing society that is characterized by competition, joint ventures and other economic changes, it is particularly important that we have a climate that allows fruitful and efficient consultation and helps to solve problems.





R.

Throughout the world, we are committed to becoming recognized as a Good Corporate Citizen in the communities where our sites are located. As a research-based company, supporting science and education is particularly important to us. For many years, our Sino-German Research & Development Fund has helped BASF to strengthen its relations with scientists as well as research institutions in China. To date, 26 joint research projects have been completed in fields such as polymers, catalysts and crop protection. The Fund also nurtures young talent – since 1997, 400 committed students at seven Chinese universities have received scholarships.

Community



Community: BASF as a Good Corporate Citizen

In the communities in which our sites are located we want to be accepted as a Good Corporate Citizen and reliable partner who acts responsibly and is an attractive employer.

This means being committed to our communities. As it says in our Values and Principles: "With our economic activities and targeted sponsoring of humanitarian, social and cultural issues, we contribute to a positive development of society."

We have chosen to take a decentralized approach: Those responsible at our individual sites decide according to local conditions, select appropriate projects and allocate resources.

Supporting education and science

As a research-based company, we at BASF know that education and science are key resources for a society's future and this is why supporting them is a major focus of our commitment.

This commitment covers an extremely broad range of country-specific activities including:

- ▶ Sponsoring youth science competitions such as the BASF Young Science Writers Awards in the UK, a competition for young scientists (*Jugend forscht*) and the Chemistry Olympics (*Chemieolympiade*) in Germany and the FIRST Robotic Competition in the United States.
- ▶ Arranging open days at BASF. Each year, around 200 school groups totaling more than 4,500 children visit our hands-on lab – H₂O and Co. – at our Ludwigshafen site and find out about the world of chemistry through experiments and exhibits.
- ▶ Joint projects, scholarships and funds such as the BASF Sino-German Research & Development Fund in China (see page 35).
- ▶ Providing schools and universities with financial and material support.

The help varies greatly according to site and region.

In 1982, we launched the To Grow Project in Brazil, aimed at improving the chances of 14 to 18 year olds from poor families. The young people receive training for their future career which includes a school scholarship and advice on employment options and prospects. In addition, they are given general "life training" – weekly sessions consisting of social and cultural activities, such as theater, presentations, concerts and field trips, to improve their general knowledge. The idea is to give the young people a chance to develop themselves and their potential and to hone social skills such as team spirit, initiative and creativity. BASF is currently spending around 500,000 Brazilian reals (approximately €260,000) per year in helping more than 80 young people at its sites in Guaratinguetá and São Bernardo do Campo.

Sponsoring and conserving art and culture

Cultural events have a long tradition at BASF. A "Committee for Education and Culture," which organized events such as literary evenings and concerts, was founded at the Ludwigshafen main site back in 1919. Since 1921, BASF's own concert hall, the Feierabendhaus, has hosted concerts with renowned musicians including Richard Strauss, Yehudi Menuhin, Pierre Boulez and Martha Argerich. The concerts are for the benefit of the entire region and not just our employees. Whether classical music, rock, pop or comedy, or exhibitions featuring the works of Joan Miró or Marc Chagall, BASF Ludwigshafen's program of cultural entertainment today encompasses around 60 events each season, attracting more than 60,000 visitors.



A major focus of our sponsorship of art and culture is the preservation of world heritage sites. We have contributed to the restoration of Speyer Cathedral – one of Germany's finest examples of Romanesque architecture – not far from BASF's Ludwigshafen headquarters. Last year, we donated around €50,000 to the Johann Sebastian Bach Heritage Fund (*Bach Patronat*) in Berlin. The money will go towards saving 8,000 of the great composer's original manuscripts, currently stored in the Berlin State Library. We also sponsored the restoration of the Master Houses in Dessau in eastern Germany, where Bauhaus artists Wassily Kandinsky and Paul Klee lived and worked, and which have also been declared world heritage sites.

BASF has taken this strong commitment to culture and art which originated in Ludwigshafen to many of its worldwide sites.

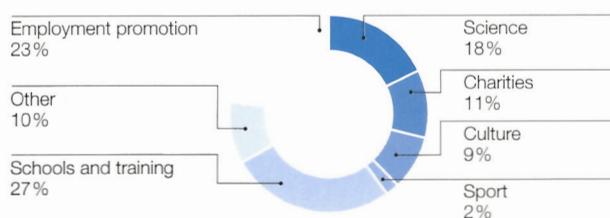
BASF's House of Culture (*Kulturhaus*) in Schwarzheide, eastern Germany, is the region's leading cultural center and it has mounted exhibitions of major artists including Henry Moore, Oskar Kokoschka and Francisco Goya.

The Suvinil Color, Architecture and Memory (SCAM) project in Brazil was launched by BASF in 1988 with the aim of maintaining and restoring important buildings and monuments throughout the country. BASF products play a key role in this project, since it uses our Suvinil® brand of decorative paints. One building renovated last year was the São Paulo Art Museum (MASP), designed and built in the 1960s by the renowned Brazilian architect Lina Bo Bardi. BASF restored the building's characteristic red façade which had faded considerably over the years – no mean feat considering that parts of this avant-garde building's pillars stand in water. BASF developed a special paint for this purpose which fitted the requirements – an extremely water-resistant paint in signal red – perfectly: MASP Acrylic Red Enamel. The paint, named after the museum, is one of our most exclusive products. It is not marketed and is used solely for the museum.

We also sponsor the renovation of historic palazzi, buildings and frescoes in Italy. One example is our €20,000 contribution toward the restoration of the frescoes in the *Sala dei Lavori Agresti* in the Palazzo Benaglio in Comun Nuovo near Bergamo.

BASF Group donations and sponsoring

(according to purpose, 100% = €27 million)



In 2000, BASF supported its communities with approximately €27 million. More than two-thirds of this amount consisted of donations; the remainder was used for sponsoring and for BASF's own community-related projects.



K. Ray Bailey, President, Asheville-Buncombe
Technical Community College (A-B Tech), Asheville, North Carolina



This unprecedented gift from BASF (almost 150,000 square meters – approximately 160,000 square feet – of land and three buildings) has the potential for making a tremendous impact on the economic development of the region.

It will allow us to establish a Corporate Technology Training and Conference Center in conjunction with Western Carolina University (WCU) and a Small Business Incubator. WCU will offer bachelor's and master's programs through the center, and our college will provide continuing education and curriculum programs as well. The college is also studying the potential of a biotechnology incubator.

Although BASF could have sold the tract where we plan to establish the corporate technology center and the incubator, it chose instead to provide the opportunity of a lifetime for our college and a gift for the future of our region.

All of us often hear rhetoric about partnerships between business and education, but seldom does that rhetoric become reality. Fortunately for A-B Tech, with corporate partners such as BASF, it has.



Improving healthcare infrastructure

An example of BASF's commitment towards better health-care provision can be seen at our site in Guaratinguetá, Brazil. A few years ago, BASF financed a new hospital building which is now operated by the town of Guaratinguetá. As well as providing accident and emergency facilities, the hospital is responsible for screening, inoculation and vaccination services for the neighboring districts.

In South Africa, BASF provides help in the form of money and equipment to the St. Francis' Care Center in Johannesburg, a hospice that cares for children and adults suffering from AIDS.

Last year also saw a spontaneous offer of help by BASF in the United States. Blood supplies at hospitals in Port Arthur, Texas – where BASF operates a site – dropped far below the usual 3-day reserve. Around 100 BASF employees promptly donated blood, in this way swiftly bringing supplies back to normal.



Supporting voluntary work by our employees

Volunteer and charitable organizations rely on the commitment and involvement of their members. BASF is pleased to support the political and social voluntary work of its employees – whether political or church-based, or other activities.

This is set out in company guidelines such as the “office-holders’ regulation” of BASF Aktiengesellschaft in Germany. This specifies that employees are entitled to partial leave of absence wherever this is necessary for their voluntary work. The leave of absence is granted on full pay so employees do not suffer any financial disadvantages. Last year, more than 500 BASF employees were actively engaged in voluntary work, over 300 of them in politics.

In addition, BASF Aktiengesellschaft makes donations to charitable private initiatives for childcare and youth services, projects organized by churches and welfare associations and to self-help groups of particular importance to its employees and the Ludwigshafen community.

In the United States, BASF has established a comprehensive Community Involvement Program, which also lists in detail how we support employee volunteer activities (Employee Volunteerism Policy). As part of this initiative, the company launched an innovative support program for volunteers – the Volunteer Grant Awards Program – in 2000, whereby employees can apply for a BASF grant for the association or organization they are involved in. The sum awarded depends on the number of hours of free time per year that employees dedicate to their particular organization. BASF donates around \$250 for a minimum of 40 hours’ work and around \$500 for 100 hours or more. Employee teams doing volunteer work for the same organization can apply for a grant of up to about \$2,500. The only condition is that the U.S. Internal Revenue Service has granted the organization charitable status, i.e. it is tax-exempt under section 501(c)(3). This generally applies to charitable, cultural and artistic organizations.

| | (1) | (2) |
|---|-----|--------|
| (1) Proportion of Group companies offering this benefit in percent | | |
| (2) Total number of employees at these Group companies | | |
| Support for voluntary work | | |
| (political, religious, social) | | |
| • paid leave | 38 | 60,000 |
| • unpaid leave | 35 | 59,500 |

Playing an active role in job creation

Our understanding of social responsibility also means that our horizons go beyond the factory gates when it comes to creating jobs.

In Germany, BASF is involved in projects that attempt to combat problems in the employment market. One of these is the Initiative for Job Creation, which was founded jointly in 1998 by Reinhard Mohn, Chairman of the Bertelsmann Foundation, Hubertus Schmoldt, Chairman of the Mining, Chemical and Energy Industries Union (IG BCE) and the Chairman of BASF's Board of Executive Directors, Dr. Jürgen F. Strube. The initiative pools the strengths and experience of committed representatives from business, unions, government, employment offices, chambers of trade and industry, municipal authorities and associations. Nineteen regional networks work throughout Germany on projects that help young people and the disadvantaged to find work, or that sponsor business start-ups and ensure jobs.

In 1998, we also established the venture capital fund BASF Innovationsfonds GmbH to back business start-ups. The fund has €15 million of capital which can be used to back new companies or expand existing ones. Applications are accepted from entrepreneurs from those regions in Germany in which BASF Group companies are located.

We also founded the *Ausbildungsplatzinitiative Pfalz* (AiP) in Ludwigshafen. This organization supports additional traineeships, in particular in the structurally weaker parts of the region, with up to €5,000.

In 2000, BASF donated around 37 acres of land (15 hectares) and three buildings to Asheville-Buncombe Community College in Enka, North Carolina, to help with its expansion plans. This major donation also included sponsorship of a business start-up center aimed at encouraging the growth of new jobs in a region severely affected by structural change.



Human

An American engineer oversees together with Japanese specialists, under Singaporean management, the construction of a chemical plant using a production process developed in Germany. This is living proof that BASF is a truly transnational company. Respecting human rights and complying with internationally accepted employment standards are prerequisites for this kind of intercultural cooperation, with external partners too. We uphold the same values at all our sites worldwide: We do not tolerate discrimination based on nationality, gender, religion, or any other personal characteristics. We foster intercultural competence within the BASF Group at all our sites worldwide.

rights



Human rights: We observe international labor standards and reject discrimination

There are certain principles that should be self-evident for all global companies. These include the protection of human rights and the observation of fundamental labor and environmental standards.

Together with partners such as the International Chamber of Commerce, the United Nations (UN) has defined such fundamental principles in its Global Compact initiative (see box). This initiative goes back to a speech made by UN Secretary General Kofi Annan on January 31, 1999 at the World Economic Forum in Davos, Switzerland.

BASF commits itself to the principles of the Global Compact and has made observance of internationally recognized labor standards part of its Values and Principles. For us, this commitment also means that the weekly wage paid by all BASF Group companies is considerably higher than the minimum standard required by law. We work in a spirit of good faith with employee representatives; furthermore, three-quarters of BASF Group companies also support the activities of these representatives through various measures (see table on page 46).

Employee rights at our suppliers

We also expect that our suppliers observe basic social standards (see also the chapter on Markets, page 49 ff.). For example, part of our internationally valid conditions of purchase for technical goods includes the following passage:

“BASF, as a company that takes its social responsibilities seriously, observes the international labor standards set out in of the International Labor Organization’s June 1998 ‘Declaration on Fundamental Principles and Rights at Work,’ and expects its business partners to do the same. In view of this, BASF, while taking into account the circumstances in the given country, reserves the right to terminate – without notice if necessary – the contract of any BASF contractor found to be violating or failing to observe the aforesaid labor standards.”

Global cooperation requires intercultural competence

There is no place for discrimination or intolerance in a situation where an American engineer oversees the construction of a chemical plant that uses a production process developed in Germany with the help of Japanese specialists under Singaporean management in Malaysia. People from almost all countries and cultures work together at BASF. The ability to take the broader view, tolerance and mutual understanding are essential to successful cooperation. More than 800 BASF Group employees are currently on international assignment – that means that they are working away from their home country for a specific period. Great emphasis is placed on language courses and intercultural training to prepare for a foreign posting and to make adapting to the new workplace easier.

We promote the international exchange of experience and the personal development of individual employees with a series of programs ranging from trainee exchanges in Europe to worldwide management development. There's no question: We see intercultural competence as a key to success and a competitive advantage – that is why we have made it part of our Values and Principles:

“We foster intercultural diversity within the BASF Group and work together as a team. Intercultural competence is our advantage in global competition.

- ▶ We seek employees from all cultures and nationalities who possess the appropriate skills and competencies and are willing to devote their energies to meet our objectives and to support our Values.
- ▶ We do not tolerate discrimination based on nationality, gender, religion or any other personal characteristics.”

This must function day-in, day-out when colleagues from different countries work together. We were therefore particularly pleased by a gift that we received from the Italian town of Carrara: In recognition of the 40 years of successful integration of foreign employees we were presented last year with a marble sculpture to commemorate the first guest worker who came from Carrara to Ludwigshafen in 1960. Back in the 1960s, up to 6,000 foreign workers were employed by BASF Aktiengesellschaft in Ludwigshafen. Nowadays, approximately 2,700 foreign employees from 70 different countries work at our Ludwigshafen headquarters.

The nine principles of the Global Compact*

| | |
|---------------------|---|
| Human rights | <ol style="list-style-type: none"> 1. To support and respect the protection of international human rights within the company's sphere of interest 2. To make sure that the company is not complicit in human rights abuses. |
| Labor | <ol style="list-style-type: none"> 3. To uphold freedom of association and effectively recognize the right to collective bargaining. 4. To eliminate all forms of forced and compulsory labor. 5. To effectively abolish child labor. 6. To eliminate discrimination with respect to employment and occupation. |
| Environment | <ol style="list-style-type: none"> 7. To support a precautionary approach to environmental protection. 8. To undertake initiatives to promote greater environmental responsibility. 9. To encourage the development and diffusion of environmentally friendly technologies. |

* For further information visit: www.unglobalcompact.org.



Anti-discrimination programs

Proportion of BASF Group companies with programs to combat the discrimination of

| | in % |
|-------------------------|------|
| • Women | 48.1 |
| • Disabled persons | 41.0 |
| • Certain ethnic groups | 39.0 |

Employee representatives

73.3 percent of the polled BASF Group companies support elected employee representatives.

| Thereof through | in % |
|---|------|
| • Meetings during working time | 89.1 |
| • Company facilities for union meetings | 81.8 |
| • Free distribution of union information in the company | 83.6 |
| • Office facilities for union activities | 87.2 |
| • Time-off with pay for union activities | 83.6 |
| • Time-off without pay for union activities | 49.1 |

Other Group companies are also working to combat discrimination and promote equality. At BASF Corporation in Mount Olive, New Jersey, regular presentations on the history of African-Americans are held by the AAEG (African-American Employees Group).

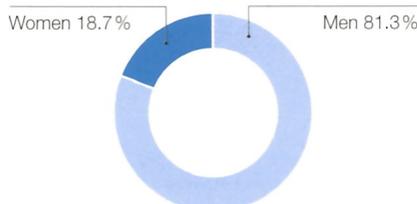
The large majority of BASF's employees are men. There are number of reasons for this: For example, for a long time, women were prevented from performing shift work in many countries. And in Germany, women have only been allowed to become chemical technicians in the last few years. An additional factor is that women are forced to choose between family and career to a much greater extent than their male colleagues. It is in the interests of BASF that highly qualified female employees do not have to forget about their career if they want to start a family. For this reason, BASF has a number of programs at many of its sites that are aimed at helping women to achieve the right balance of family and career through innovative regulations on working hours. In the United States, women have been actively involved in the Women & Business Issues Group for many years. The company supports such initiatives. Nevertheless, there is still room for improvement. After all, equality and tolerance have as much to do with the performance of the entire company as with the responsibility for the men and women that it employs.

Workforce profile

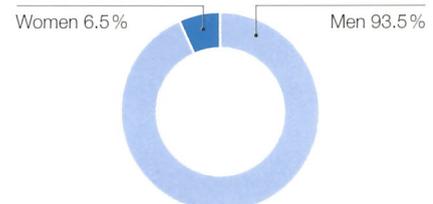
All employees



Middle management



Senior management



A critical look at our own history

It is important to remember the Nazi regime to ensure that its injustices are never repeated. That is why BASF is also taking a frank look at the darker side of the company's history. At the end of 1998, four independent historians were commissioned to investigate our entire development, from the foundation of the Badische Anilin- & Soda-Fabrik in 1865 to today's transnational company. Their book will appear in 2002.

The author responsible for the I.G. Farben era from 1925 to 1952 is Dr. Raymond G. Stokes, professor of history at the University of Glasgow and an expert on German industrial and corporate history in the 20th century. As part of the book on BASF's history, Dr. Stokes will look at how I.G. Farben was incorporated into the Nazi economic system and examine the use of forced laborers at its works in Ludwigshafen and Oppau.

Help for former forced laborers

During the Second World War, millions of people were forced to work for German industry and municipal and state authorities as replacements for German citizens who had been drafted into military service. In this way, it was hoped that companies would be able to meet state-imposed production quotas. During the war, a large number of forced laborers were employed in the Ludwigshafen and Oppau works of I.G. Farbenindustrie AG, which was formed in 1925 through the merger of BASF, Bayer, Hoechst and other companies. You can find detailed information on our website at www.basf.de/forced_laborers.

After the war, the Allies split up I.G. Farben. Along with other entities, BASF Aktiengesellschaft was refounded in 1952. The legal responsibility for all actions of I.G. Farben during the Nazi regime and the war lie with I.G. Farben. In 1957, DM30 million was paid from the residual assets of I.G. Farben in Liquidation to former concentration camp inmates who were forced to work at I.G. Farben's factory in Monowitz near Auschwitz.

Irrespective of this, BASF together with 15 other major German companies founded the initiative Remembrance, Responsibility and the Future (*Erinnerung, Verantwortung und Zukunft*) in February 1999 as sign of reconciliation and in recognition of the historical responsibility of German industry. Funds from the initiative are paid into a Federal German Foundation to help former forced laborers and other victims of the Nazi regime. The foundation will provide approximately €5 billion, with half provided by German industry and half from public funds.

The companies that founded the initiative called for members to contribute 0.1 percent of their annual sales (base year 1998). In May 2000, BASF paid approximately €50 million into the fund. Because the agreed contribution from German industry of more than €2.5 billion had not been achieved, the founder members pledged to increase their contribution to 0.2 percent of sales in March 2001. This corresponded to an additional €5 million for BASF.

The German government reached agreement with the U.S. government, attorneys, victims' organizations and German industry on rules for raising funds and their use, the start of payments and the basic prerequisites of the foundation to be established and formulated the rules in the Foundation Act. According to this act, payments may start as soon as there is a satisfactory guarantee of legal closure, in particular with regard to claims for damages in the United States. On May 30, 2001, legal closure was established by the German Bundestag (lower house of parliament) and so the way is now open to start payments to former Nazi forced laborers.

Dr. Jürgen F. Strube, Chairman of the Board of Directors of BASF Aktiengesellschaft, explains our company's commitment to the initiative as follows: "Both BASF and I personally regret the suffering of forced laborers under the Nazi regime and the discrimination they were made to bear. ... None of us can undo past injustices, but we can ensure that they never happen again."



Which products and which processes have a good cost/benefit ratio and are environmentally friendly, too? Our eco-efficiency analysis sheds light on this key question. This tool enables BASF to look at the entire lifecycle of a product – from the cradle to the grave – from raw material extraction to recycling or disposal.

To date, we have analyzed more than 100 products and manufacturing processes using this method and in each case identified the most eco-efficient option.

We are now working on a new challenge – how to integrate the third component of Sustainable Development – the social dimension – into the eco-efficiency analysis alongside environmental and economic factors.

Markets



Markets: fair in our dealings with competitors, suppliers and customers

To be successful, we need to be trusted by our customers, business partners, shareholders and the public. The basis for this are employees who act responsibly. As documented in its Values and Principles, BASF pledges to act responsibly and with integrity.

Suppliers: product stewardship from the start

Every year, BASF purchases raw materials worldwide worth more than €6 billion. Our buyers not only negotiate contract terms, they also assess product and supplier risk. This involves using a safety matrix in which all products are classified according to their physicochemical properties into hazard categories A, B and C, and suppliers into categories 1 (OECD countries), 2 (countries which have gone up or down a category) and 3 (all non-OECD countries). Products assigned a C3 rating present a potentially higher risk and are reviewed on a case-by-case basis. This means a BASF employee visits suppliers and carries out an environmental and safety assessment to ascertain whether they operate wastewater treatment plants to minimize pollution and use safety standards in accordance with Responsible Care. If this is not the case, we will not initially place any orders with the supplier. We will then use our expertise to help the supplier deal with environmental and safety issues and together reduce any potential risks in order for deliveries to meet accepted regulatory standards.

As part of its commitment to the principles of Sustainable Development, BASF has now supplemented the environmental criteria with minimum social standards. Our purchasing activities comply with the UN's Global Compact initiative (see page 44) – we insist that suppliers reject child labor and do not use forced or bonded laborers. Our conditions for the purchase of technical equipment and goods specify that suppliers must comply with the International Labor Organization's (ILO) employment standards.

Above and beyond these centrally defined minimum requirements, every other Group company itself investigates, evaluates or monitors its local suppliers and contractors with regard to their social and environmental compliance.

Strict yardsticks for ourselves: Code of Conduct and Compliance Program

Even illegal activities by individual employees can have a serious impact on our reputation and the trust people put in us, and can severely damage our company, also financially. We therefore expect our employees to respect the laws – and the accepted customs and traditions – of the countries in which we operate. BASF tolerates no infringement of regulations, nor will it protect those affected from the legal consequences of their actions. Employees who break the law may face far-reaching consequences under criminal and labor law.

Regional and national standards place varying demands on employee conduct. This is why all BASF Group companies in the various regions and countries are required to draw up a binding Code of Conduct for their employees by the end of 2001. Each Code of Conduct will be based on BASF's Values and Principles and take into account local legislation.

BASF Corporation in the United States has had a Code of Conduct in place since 1996 and a Compliance Program was established for BASF Group employees in Germany last year. The document explains by means of examples the legally binding conduct employees must adopt when dealing with business partners or government offices in key legislative areas such as antitrust, chemical weapons, money laundering and insider dealing. Further information can be obtained on our website at <http://www.basf.de/en/corporate/overview>.

All BASF employees are expected to ask for advice and help from their superiors, the department responsible, human resources or the legal department if they are uncertain about the legal consequences either of their own conduct or about a possible breach of regulations in their immediate working environment.



Prof. Josef Wieland,
Director of the German Center for Business Ethics, Constance

The Values and Principles presented by BASF fully meet international standards and have been framed extremely carefully – in short, they are an excellent business card for the company. But we mustn't assume that corporate values automatically become imbued with meaning just by publishing a booklet. Senior management has to live these values and integrate them into their everyday actions.

Codes of conduct, like those drawn up by BASF Group companies as part of the Group Compliance Program, are a key tool in achieving the above. They encourage and demand compliance and integrity, and help to reduce the tension triggered by conflicting objectives. They are not there to change the world but to tailor corporate decision making more successfully to the needs of customers, employees and the community.

Anyone can make a wrong decision and this is why it is crucial for codes of conduct and corporate values to deliver concrete results.

In such circumstances, all employees also have access to a confidential telephone hotline where they can seek information and suggestions, or communicate their concerns to independent lawyers. All requests for help and advice are followed up.

Customers: creative system solutions and product stewardship

We are convinced that an important factor in our success is making sure that customers have detailed information about how to use our products, and this is why applications engineers and researchers at BASF often work closely with customers to develop creative system solutions tailored to their individual needs (see Annual Report).

Our eco-efficiency analysis (see page 23) also focuses on customers by asking: What product best meets a customer's needs for a certain application according to environmental and financial criteria?

In our Environment, Safety, Health 2000 Report, the chapter on Product Stewardship describes in detail what we do to ensure our products are safe to manufacture, safe to use, safe to recycle and safe to dispose of. Our Principles state that we also support customers in the search for safe and environmentally friendly ways of processing BASF's products.

However, we have also clearly defined the limits of our business activities, as made clear in our Values and Principles – BASF does not supply any products for the purpose of producing illicit drugs or chemical weapons and is not involved in manipulating the human genome.

NOISE • THRESHOLD VALUES •
OPERATIONAL DISTURBANCES
• EMISSIONS •
• TRAFFIC •



What goes on inside BASF? Many people who live and work near our sites ask themselves this question. We have established Community Advisory Panels (CAPs) at many sites with the aim of providing satisfactory answers and increasing our neighbors' trust and confidence in us. Representatives from BASF meet regularly with interested neighbors who represent the interests of various community groups: schools, environmental associations, social institutions, healthcare bodies, trade and industry associations and municipal authorities.

In our Values and Principles, we commit ourselves to an open dialogue with society. We want to encourage transparency, exchange opinions and create trust and understanding.

Dialogue



“We cannot implement what
we cannot communicate.”

Dr. Jürgen F. Strube
Chairman of BASF's Board of Executive Directors

Dialogue – what does it really mean?

We define it as communicating a clear picture of what we are doing or intend to do to allow others to evaluate our actions, while respecting their opinions and trying to include them in our decision-making processes.

As simple as this may sound, it is not always that easy when two different opinions confront each other head-on. But we nevertheless make every effort to encourage this dialogue because we believe that differences in opinion can be important catalysts for creativity.

As stated in its Values and Principles, BASF has committed itself to an open dialogue with society: “Our communication within the company, with our business partners, neighbors and relevant opinion makers in society is based upon an open and factual dialogue.”



Dr. Luis F. Valero Iglesias, Professor at the University of Tarragona and founding member of the Citizens' Council at BASF's Tarragona site.



At BASF's site in Tarragona, BASF and the local population have recognized that we are jointly responsible for Sustainable Development. This was the reason for the establishment of the Citizens' Council (CCC) in 1995, aimed at helping us to get to know and understand each other better and to build trust.

By encouraging an open dialogue, the CCC can liaise with the people of Tarragona and BASF and in this way channel any fears arising from BASF's activities in the community.

I believe that the CCC has given a small but representative section of the population living near the BASF site access to in-depth information about the role a large company plays in its community.

It may well be useful to increase the number of participants and to include more sections of the population as well as other companies in Tarragona's industrial zone in the Council.

I am convinced that BASF and the population need the Citizens' Council because people are becoming more and more aware of industrial issues and because finding joint solutions to the harmonious interaction between industry and society is becoming increasingly important.



To achieve this, we want to:

- ▶ Create transparency: We want people to see what goes on behind the factory gates and this includes being accountable to the public for all our actions and their economic, ecological and social impact. This was an important reason for our introducing comprehensive sustainability reporting, which covers all these issues.
- ▶ Ensure a two-way exchange of opinions: Communication should not be a one-way street. We view the public's questions and concerns about our products and corporate activities as a learning opportunity and as a way of achieving better results by actively seeking a dialogue with different points of view. And this is why we take other opinions seriously and respond to them in a constructive manner.
- ▶ Create understanding and trust: Our aim is to encourage mutual understanding and to foster and deepen trust in what we do. Public acceptance of our activities is a key prerequisite for BASF's successful growth at all its sites.

Around 40 percent of BASF Group companies regularly conduct opinion surveys to find out more about how we are viewed by stakeholders. Details of those we poll are shown in the chart on the following page.



Minimum standards worldwide

BASF operates around 170 production sites in 39 countries. In order to ensure openness and transparency are maintained at all our production sites, we have laid down minimum standards for communication worldwide. These are binding and include the follow points:

- ▶ We nominate at least one suitably qualified member of the workforce as a contact person.
- ▶ We provide written information about the site.
- ▶ We allow site visits.
- ▶ We see ourselves as a Good Corporate Citizen and as such take part in the economic, social and cultural life of our communities.
- ▶ We provide our communities swiftly, honestly and professionally with detailed information about any accidents and operate a policy of active crisis communication.
- ▶ We actively seek a dialogue with community decision-makers and public opinion makers.

Community Advisory Panels (CAPs)

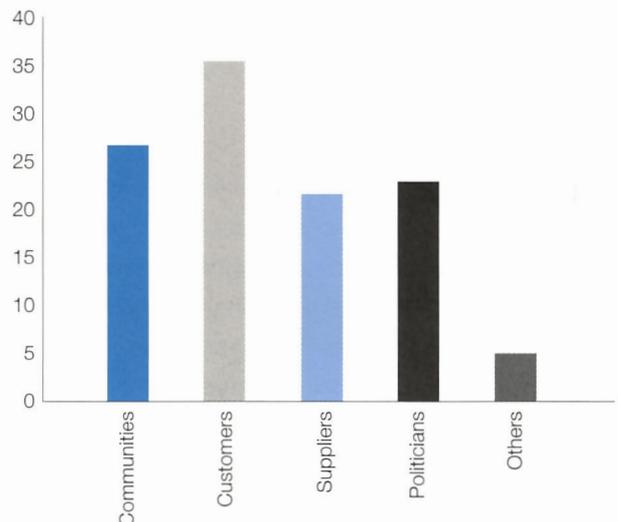
To enter into a close dialogue with our community neighbors, BASF has set up Community Advisory Panels (CAPs) at several locations. Representatives from BASF meet with interested neighbors who represent the interests of various community groups: schools, environmental associations, social institutions, healthcare bodies, trade and industry associations and municipal authorities. The CAPs meet regularly, usually every two to four months, and discuss topics of immediate concern to the neighborhood such as site-related traffic problems or emissions.

More than 30 CAPs exist at BASF sites around the world, for example in:

- ▶ Freeport, Texas
- ▶ Geismar, Louisiana
- ▶ Altamira, Mexico
- ▶ Tarragona, Spain
- ▶ Ludwigshafen, Germany

Surveys in the BASF Group

Proportion of Group companies that have carried out their own surveys or image tracking in various target groups
Percent



Crisis communication: We provide swift, detailed and comprehensive information on plant malfunctions

A key feature of our policy of openness and transparency is to inform the public immediately when we make a mistake – as, for example, in the case of a plant malfunction. BASF goes to great lengths to ensure that the facilities at its worldwide sites are as safe as possible, often putting procedures in place that exceed the statutory regulations (see our Environment, Safety, Health Report). But we cannot of course totally rule out the possibility of accidents or plant malfunctions.

In such an event, we consider it our duty to inform our employees, neighbors, the authorities and the general public swiftly, honestly and comprehensively about any potential risks, and have pledged our commitment as contained in the worldwide minimum standards for site communication (see above) and the Compliance Program for BASF Group companies in Germany.

To translate this commitment into action, BASF has – at its Ludwigshafen site, for example – developed a comprehensive crisis management system. It is all-embracing, stretching from individual production facilities, on-site medical services, environmental monitoring and analysis to plant and work safety all the way to corporate communications. The system sets out in detail who informs whom in the case of an emergency, both inside and outside the company, and what measures need to be taken not only to remedy the situation on site, but also to evaluate and limit all potential risks and damage to the neighborhood. This system also involves a crisis management team in our central communications department whose task it is to inform the public and the workforce about emergencies through news releases, flyers, the Internet and a telephone hotline – around the clock, 365 days a year.



Political communication and political relations

BASF's activities also take place in a permanent interplay of political interests that influence the success of the company's business. The company's political interests transcend traditional economic and public policy, and include social and educational issues as well. This political responsibility makes BASF not merely a corporation but a Corporate Citizen.

As a transnational company, BASF is dependent on political dialogue at all important decision-making levels. Start-

ing with a variety of contacts with local politicians and members of regional political groups, our involvement extends to participation in the Transatlantic Business Dialogue and the United Nations Global Compact Initiative. The fact that political decision-making is very much a local affair, even in today's global economy, is borne out by the location of BASF Aktiengesellschaft's political contact offices in Berlin and in the EU capital Brussels and BASF Corporation's office in Washington D.C. Additionally, political dialogue at our large sites – in particular Ludwigshafen – and at the headquarters of our Group companies is also one of the primary responsibilities of the Group's executive management.

In the face of extremely diverse political cultures, BASF's political communication is firmly based on a system of

Governmental relations study in Germany

476 individuals were polled,

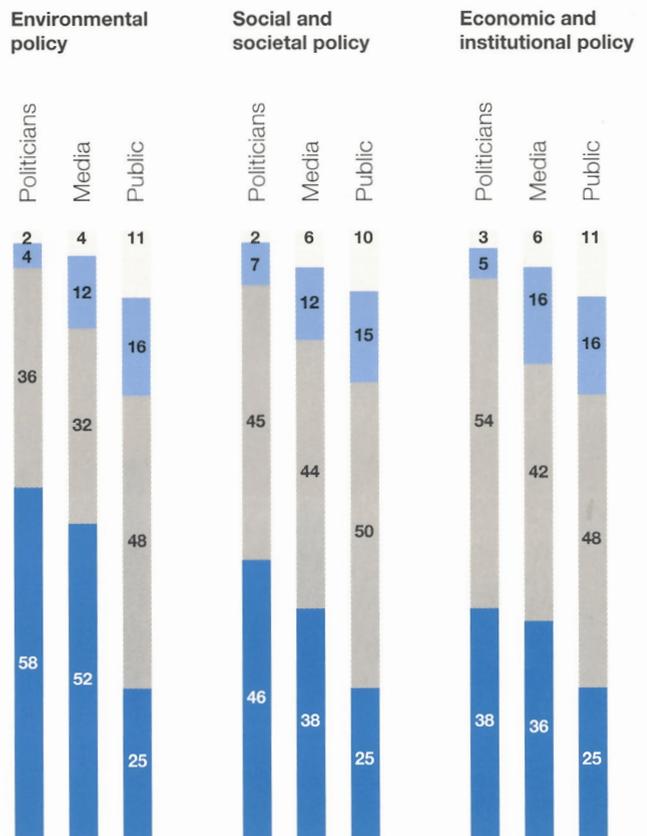
Thereof

| | |
|--|-----|
| • Members of the German Bundestag | 201 |
| • Personal assistants to members of the German Bundestag | 100 |
| • Media representatives | 50 |
| • Ministerial representatives | 75 |
| • Leading figures in public life | 50 |



Involvement of companies in political discussions

As seen by politicians, media representatives and the public at large Percent



Strategic aims of our Berlin office

- ▶ To seek dialogue and close cooperation with political decision makers in government and parliament
- ▶ To establish BASF as a benchmark in key political debates and selected issues
- ▶ To contribute to the formation of public opinion and democratic decision making

core political interests. These include closer integration of the world economy, which means that major global issues such as climate control, energy policy and world trade are particularly important, as are regional economic pacts such as MERCOSUR and ASEAN. As a research-based company, BASF also believes in developing a political response to the rapid pace of innovation and knowledge. Our goals here include the acceptance of plant biotechnology, the concept of sustainability and the better orientation of the education system toward competition. A third core interest concerns our own core competence – chemistry. BASF is affected worldwide by all aspects of environmental policy, chemical safety and consumer protection. In contrast to this, all BASF’s political interests in areas such as labor management relations, employment and labor market policies or the reform of company pension

schemes focus almost exclusively on Germany. These social issues have thus far been little impacted by European Union legislation or by globalization.

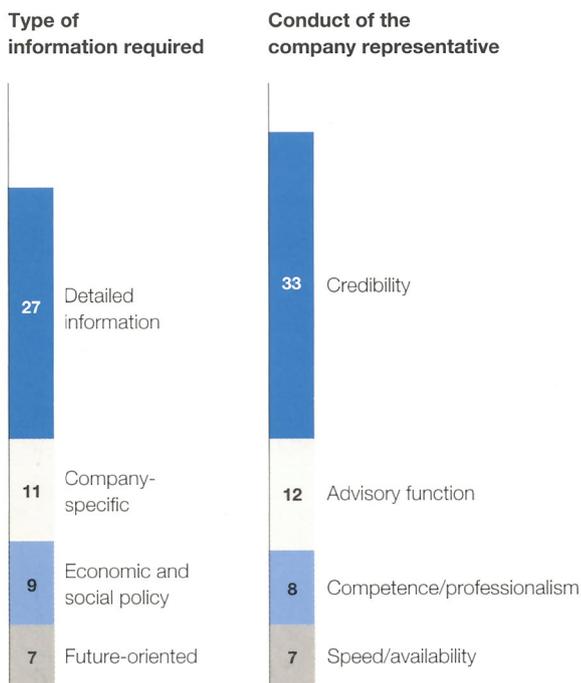
The opening of our Berlin office in June 2000 coincided with the publication of a governmental relations study carried out in conjunction with the German EMNID research institute on the expectations of political decision makers. The survey concluded that politicians are keen to obtain professional and strategic advice from companies, that they rely on information from companies in order to accurately assess political issues and the impact of political decisions, and that members of parliament and senior government advisers largely assume - as does the general public – that companies too have political responsibilities. Providing a factual, reliable and informed response is the main objective of our Berlin office, which emphasizes personal contacts, BASF-specific themes and above all open dialogue with all parts of the political spectrum.

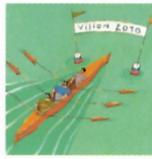
Finally, political relations at BASF also include a whole range of necessary contacts with interest groups and associations as well as government. This involves not only a great deal of committee work but also dealing with the procedural aspects of public grants, arranging representation on official state visits or foreign delegations – and equally important – planning the numerous visits of leading politicians to our research and production facilities, which are as valuable to us as they are to our visitors.

Important aspects of cooperation with companies

Which aspects of cooperation with companies do you personally consider to be particularly important?

Percent, multiple responses possible





As a transnational company, we are aware of our responsibility toward our employees, customers, suppliers and the people in the countries in which we operate. For BASF, social responsibility means that we act responsibly toward our employees, respect minimum social standards worldwide, treat our suppliers, customers and competitors fairly and work to achieve trusting and open dialogue with all stakeholders. We know that we must constantly work to achieve these ambitious goals. This is why BASF's Board of Executive Directors decided to establish a Sustainability Council in March 2001. The task of this body will be to develop tools and management systems and monitor their implementation Group-wide. That we have made a start is demonstrated by the following selection of six Group-wide goals that we want to achieve in the next two years.

Goals

Acting responsibly
has top priority

Goals that we want to achieve in the next two years:

- ▶ Each BASF Group company will establish a Code of Conduct based on the BASF's Values and Principles and local laws and customs.
- ▶ We want to include social criteria alongside environmental criteria in our Group-wide site audits.
- ▶ To promote the principles and goals of the Global Compact we want to enter into cooperation with a UN agency.
- ▶ Our eco-efficiency analysis is a strategic tool that we currently use to assess the economic and ecological effects of products and processes. In order to ensure a comprehensive assessment of alternative solutions we also want to integrate societal indicators in the process.
- ▶ We want to be included in the Dow Jones Sustainability Group Index in 2001.
- ▶ We want to gradually offer all employees the opportunity to participate in the success of the company. This is why we aim to continue to extend our "plus" stock purchase program worldwide, taking into account country or company-specific factors.

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Community Advisory Panels (CAPs)

Community Advisory Panels are bodies set up to foster a close dialogue between BASF and its neighbors at its production sites. CAPs meet regularly at 30 sites worldwide, with representatives from BASF and a variety of local community interest groups such as schools, environmental associations, social institutions, healthcare bodies, trade and industry associations and municipal authorities. Topics discussed include site-related traffic problems and emissions.

Compliance Program / Code of Conduct

As part of our Compliance Program, every BASF Group company is committed to drawing up by the end of 2001 a Code of Conduct based on our Values and Principles and on the laws of the respective country. Strict compliance will be expected from all employees. Breaches of conduct will not be tolerated and employees may face consequences under criminal and labor law.

Corporate issue management

Our worldwide system of information exchange and processing is the key to constructive action. Issue management enables experts to access data on the latest research and developments worldwide, evaluate and integrate them and then take all the necessary steps.

Global Compact

A United Nations sponsored initiative for the protection of human rights and compliance with accepted standards of employment and environmental protection. Together with other corporations and NGOs, BASF has committed itself to the Compact, whose nine core principles address human rights, labor standards and environmental issues.

"plus" share purchase program

The "plus" share program is an attractive way for employees to become co-owners in BASF. They have the option of investing all or part of their gross annual bonus in "plus" share packages of 10 BASF shares each. After one, three, five, seven and 10 years respectively, BASF adds one incentive share to each package of 10. This means that every 10 shares purchased by employees will become 15 after 10 years.

Responsible Care

A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, safety and health. BASF committed itself to the concept of responsible action as early as 1992. "Economic considerations do not take priority over safety and health issues and environmental protection." BASF established this as one of the Values that form the basis for all decisions and actions in the BASF Group.

Sustainability Council

This is the central body in the BASF Group which anchors the idea of sustainability in our organizational structure and allows it to be applied effectively in the way we do our business. The Sustainability Council consists of one member of the Board of Executive Directors and the heads of important divisions. The Council develops strategies for the three areas of Sustainable Development – economy, ecology and society. The Steering Committee Sustainability organizes the implementation of these strategies with the support of specialist project teams.

Sustainable Development

The objective of Sustainable Development is to meet the economic, ecological and social needs of society without harming the development of future generations. BASF is committed to this principle. In our three publications – the Annual Report, the Environment, Safety, Health Report and the Social Responsibility Report – we give a detailed account of the economic, ecological and social implications of our activities as part of our comprehensive sustainability reporting.

Verbund

The Verbund is one of BASF's greatest strengths, and it has become a guiding principle for the entire Group. At the heart of the Verbund is a dense network of interconnected production plants, energy

and waste flows, logistics and infrastructure. Our worldwide exchange of data and expertise is also organized in a Verbund, allowing us to manufacture innovative and superior products efficiently. The core Verbund principles – a comprehensive approach to linking, networking and pooling our potential – are used successfully in a host of other areas. And we also regard our suppliers, customers and local communities as partners in our Verbund.

Vision 2010, Values and Principles

Together, these form the basis for the way BASF conducts its business. Vision 2010 describes the route the company will take in the coming years and our Values provide signposts along the way; the Principles supply more specific details.



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This report contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates and projections of BASF management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results, performance or achievements of BASF to be materially different from those that may be expressed or implied by such statements. Such factors include those discussed in BASF's Form 20-F filed with the Securities and Exchange Commission. We do not assume any obligation to update the forward-looking statements contained in this report.



BASF

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