



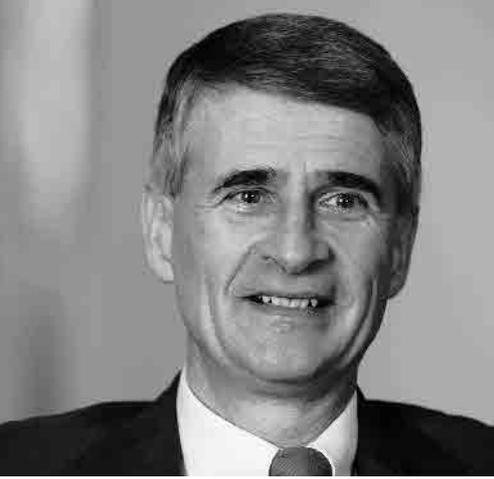
 **BASF**

The Chemical Company

BASF – a strong partner for the future

Speech by Dr. Jürgen Hambrecht,
Chairman of the Board of Executive Directors
of BASF Aktiengesellschaft

**52nd Annual Meeting
April 29, 2004**



Dr. Jürgen Hambrecht
Chairman of the Board of Executive Directors

Good morning ladies and gentlemen,

On behalf of the Board of Executive Directors of BASF Aktiengesellschaft, I would like to welcome you to our Annual Meeting, here in the Rosengarten Congress Center in Mannheim.

Good news from BASF

After my first year as Chairman of the Board of Executive Directors, I am pleased to be able to report on several items of good news from BASF in 2003:

First: Our sales and earnings, and especially our cash flow, show that we are also successful even in the face of difficult market conditions. Second: We have refined our strategy and at the same time given our brand and corporate design a fresh, new look. And third, an item that is of particular interest to you: BASF shares increased in value by 28 percent. This is proof that BASF is a reliable partner that creates value for its owners.

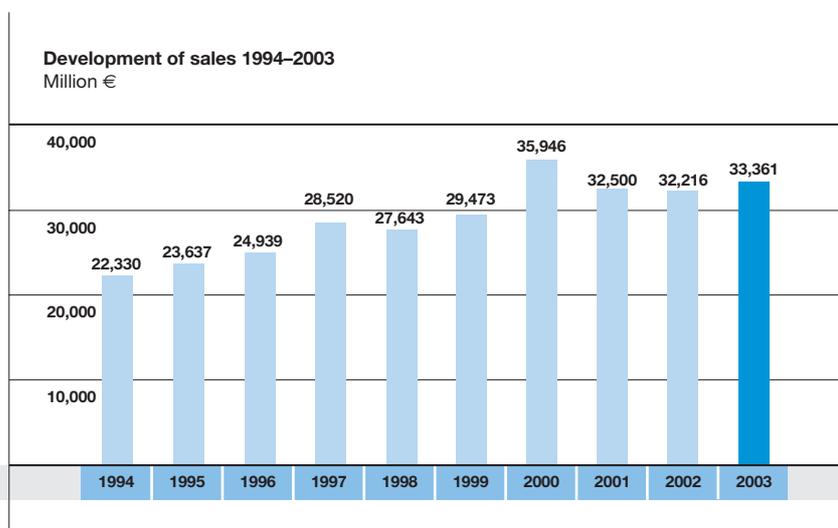
Unfortunately, however, there was bad news from business and politics worldwide in 2003: The war in Iraq, rising prices for raw materials, the weak U.S. dollar and economic stagnation in Europe made things difficult for us and for our customer industries around the world. In addition, increasing bureaucracy from Brussels and here in Germany has particularly hampered the chemical industry. The fact that BASF has been and is successful despite these difficulties is a reflection of our strength and gives us grounds for confidence.

With regard to 2004 I am optimistic, even though the economy – in particular in Europe – offers only hope but no promises. The only certain prognosis is that we must continue to reckon with unforeseen situations.

Reliable partner to our shareholders

In uncertain times, having a strong, reliable partner becomes even more important. BASF is indeed such a partner, as we again proved to you, our shareholders, in 2003. BASF shares continued on their long-term growth path: An investor who bought BASF shares 10 years ago and reinvested the dividends in additional BASF shares would today have increased the value of the holding almost fourfold. This is equivalent to an average annual return of 14.5 percent and is far higher than the corresponding return for the DAX 30 or the EURO STOXX 50 index.

This potential for creating value is now increasingly persuading foreign investors to invest in BASF. Our shareholder structure has changed considerably: Today, 52 percent of BASF's share capital is held by non-German investors compared with only 35 percent in 2001.



Ladies and gentlemen,

We want to continue to give our shareholders an appropriate share in BASF's success. Based on our income from operations, we are therefore proposing to maintain the dividend at the previous year's level of €1.40 per share.

We also want to buy back further shares. As you know, we bought back shares for a total of €500 million in 2003 with the aim of reducing our cost of capital and increasing our return on equity and earnings per share. We would like to continue our share buyback program and are therefore asking you for your approval.

Business development 2003: Successful in a difficult environment

Ladies and gentlemen,

Let me return to my review of BASF's business in 2003. This was a difficult and disappointing year for the chemical industry, with growth of only 1.8 percent – the slowest rate in the past 10 years.

Nevertheless, BASF posted sales of €33.4 billion, an increase of 3.6 percent – far higher than the industry average. Despite negative currency effects of more than 7 percent, we achieved this sales growth on the one hand by increasing sales volumes by almost 8 percent, and on the other hand by raising prices in some areas. Excluding currency effects, sales climbed nearly 11 percent.

At almost €3 billion, income from operations (EBIT) before special items rose by nearly 4 percent compared with the previous year. Our global measures to increase efficiency and reduce costs are starting to pay off. Cash provided by operating activities reached a record level of €4.9 billion.

Let me give you a short outline of business in the individual segments:

Business in the Chemicals, Plastics and Performance Products segments was characterized by high, volatile raw materials costs and a weak U.S. dollar. Margin pressure continued undiminished.

We posted a significant increase in sales in the **Chemicals** segment. Our capital expenditure projects at our new Verbund site in Nanjing, China, and in Caojing, China, are making good progress. We plan to seize these future opportunities for growth.

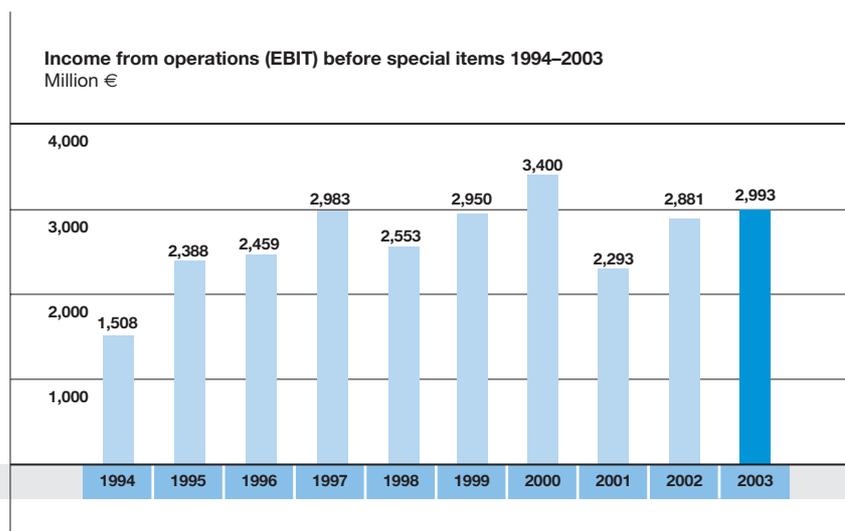
We also achieved higher sales in the **Plastics** segment, primarily as a result of higher volumes and price increases. In 2003, we continued to improve our production structures in this segment: In Altamira, Mexico, we started operations at a world-scale plant for Styrolux®, a high-quality packaging material. In Yeosu, South Korea, production started at our first Asian plant for the polyurethanes precursor TDI.

Sales in the **Performance Products** segment did not quite reach the previous year's level. Pressure on our sales prices increased due to a difficult business environment in some customer industries, in particular the textile, leather and paper industries. This was compounded by negative currency effects. Our ongoing restructuring and cost reduction programs could not completely offset these negative effects.

Last summer was particularly unfavorable for business in our **Agricultural Products & Nutrition** segment because it was so hot and dry. Even so, and despite negative currency effects, we achieved slightly higher sales and significantly higher earnings. This was due primarily to:

- positive developments in our business in the Americas,
- rigorous cost savings, and
- the successful launch of our fungicide F 500® and the newly acquired fipronil as well as selected fungicides in our crop protection portfolio.

In the Fine Chemicals division, we posted higher EBIT before special items, although sales declined due to currency effects.



In 2003, **Oil & Gas** was again our most profitable segment. Here, we even succeeded in exceeding the strong level of 2002. We have further strengthened our position in the area of exploration and production; in terms of oil equivalent, we increased production by 12 percent. Our natural gas trading business also continues to show steady growth. Gas volumes rose by 20 percent, and we achieved significant gains in Belgium and the United Kingdom. Step by step, our concept “Gas for Europe” is becoming a reality. In order to achieve our long-term growth targets, we have invested further to increase production and to maintain our reserves.

Let me now turn from the segments to the regions:

Our business in Asia Pacific and in **South America** developed well. Earnings improved significantly in South America. This was due in particular to the restructuring measures implemented in recent years as well as to strong business with agricultural products.

Asia Pacific again proved to be the growth region. In local currency terms, sales by company in this region climbed 25 percent and earnings improved even though we started up new plants.

In our home market **Europe** we also increased sales thanks primarily to the contribution of our oil and gas business; overall, however, earnings declined due to persistent pressure on margins.

Business in **North America** was unsatisfactory. Although sales in dollar terms increased by 10 percent, EBIT after special items was down on the previous year as a result of considerably higher prices for raw materials and energy. We therefore want to achieve total annual cost savings of \$250 million by 2006 through a two-phase restructuring program.

First quarter and outlook for 2004

Ladies and gentlemen,

In 2003, BASF showed that it can maintain a good course, even in stormy weather. We perform consistently thanks to our clear strategy for long-term success, as demonstrated by the good start in the first quarter of 2004.

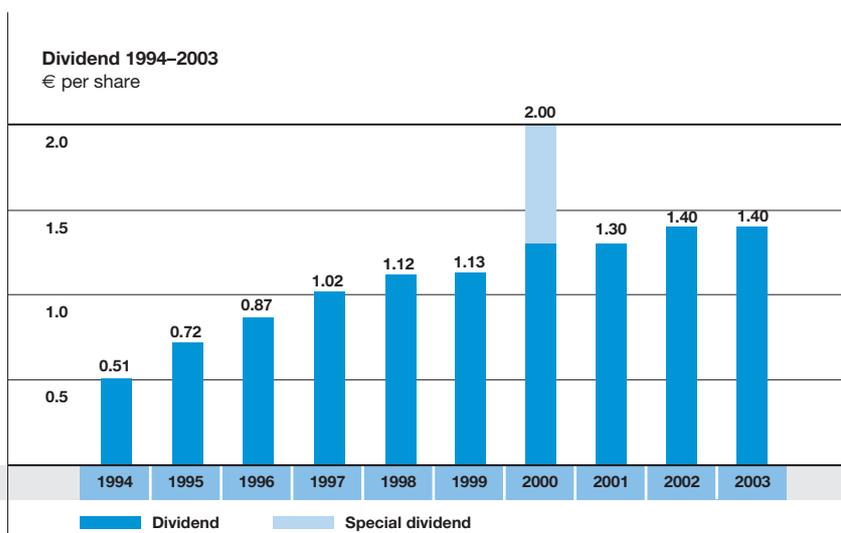
Compared with the strong first quarter of 2003, we boosted sales by 2.5 percent and income from operations by more than 10 percent. With the exception of Oil & Gas, earnings improved in all segments compared with the same period in 2003. Sales growth was due to significantly higher volumes. Excluding negative currency effects, sales climbed 8.4 percent.

The first quarter is not generally representative of the further course of the year because of seasonally higher contributions from the Agricultural Products division and from the Oil & Gas segment. Even so, the first three months of 2004 offer grounds for confidence. Driven by dynamically growing economies in the Far East – especially in China – and by solid growth in North America, we are seeing synchronized growth in the global economy for the first time in years. All these factors are reflected in our order books. Europe, and Germany especially, is sadly lagging behind. However, we expect the forthcoming expansion of the European Union to bring further opportunities. Unfortunately, we also anticipate persistently high and volatile raw materials costs and a relatively weak dollar. Based on our baseline scenario, we expect slightly higher sales and an increase in income from operations before special items in 2004.

BASF 2015: Our path to the future

Ladies and gentlemen,

Our clear strategy for long-term success has made us what we are today: the number one in the industry. BASF’s leadership team will continue to build on the core elements of this strategy, but we have extended them and added new elements with a view to future developments.



We asked ourselves, how can we and must we position ourselves so that we are still the world's leading chemical company in 2015?

Three major trends are apparent:

- The chemical industry will continue to consolidate. This means that the competition for a leading market position will therefore become even tougher.
- Markets for chemicals are shifting: The number of potential consumers for our products will increase only slightly in our traditional markets in the United States, Europe and Japan. This compares with an almost tenfold increase in the emerging economies in Asia, in particular in China.
- Economic and political developments are becoming increasingly difficult to predict. Incalculable events such as the SARS crisis, the war in Iraq or terrorist attacks can have a massive impact on the closely networked global economy.

As a consequence of these factors, we need to increase our resilience, reaction speed and flexibility even further, to ensure that we remain number one.

In order to achieve this goal, we are pursuing four strategic guidelines:

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

I would now like to give a few examples of what we mean by the guidelines and the measures we are taking.

Creating long-term value

Our cost of capital has top priority. We aim to create more value for our investors over the long term, and a precondition for doing so is that we earn a premium on our cost of capital. Through our new value-based management concept, we have incorporated this goal more firmly in our company. Our cost of capital represents 10 percent of the operational assets of our operating divisions. This means that we must earn an income from operations (EBIT) of at least €2.8 billion in 2004. This is a very ambitious goal in our industry. But we are ambitious and we will do everything in our power to achieve this goal in the course of the year. Accordingly, we have implemented a series of measures:

We have defined the most important value-drivers in all units and functions so that every employee realizes what personal contribution he or she can make to add value to BASF. We are concentrating our funds on particularly promising business areas and aligning our portfolio to profitable growth. Last year, for example, we sold our fibers business to Honeywell and in turn acquired their business with engineering plastics. This transaction makes us one of the world's leading suppliers in this field. Another example is our acquisition of Callery Chemical in the United States to strengthen our portfolio of inorganic specialties.

A third and crucial point is to improve our cost structure. As I mentioned, in North America, we aim to reduce our annual fixed costs by a total of \$250 million by 2006 in a two-phase restructuring program. We will have completed the first phase by the end of 2004, reducing costs by \$100 million. In Europe, we want to develop the Ludwigshafen site – the largest in the BASF Group – into one of the world's best-performing and most efficient chemical Verbund sites. Our employees have developed numerous individual measures that have already resulted in annual cost savings of €200 million. By mid-2005, we will have implemented all measures to permanently save a total of €450 million.

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

Partner for our customers' success

Our second strategic guideline focuses on our customers, since in the long term, adding value stands or falls with their trust and satisfaction. This is why we are pursuing the goal of helping our customers be even more successful – because if they are successful, then so are we. To achieve this, we are working on a number of levels.

Together with customers, we develop tailor-made, intelligent solutions based on chemistry. One example is a completely new paper quality for optimal newspaper printing. We developed this product in close cooperation with the media group Axel Springer AG, suppliers of paper machines and pigment manufacturers.

In research and development, we are working more closely with our customers and at an earlier stage. We thus take up impulses from the markets in the very first steps of product development. A case in point: Until now, there have been virtually no sun protection products that offer long-lasting protection from harmful UVA radiation. Our new Uvinul® A Plus fills this gap.

Technologies of the future are also high on the agenda at BASF. We use them and develop them further. Through our plant biotechnology activities, we want to achieve more efficient agriculture and make our diet healthier. We are also already using nanotechnology successfully to develop a variety of solutions for our customers, for example in the automotive, construction, plastics and textiles industries.

Finally, we are wherever our customers are. This means that we are focusing our capital expenditures on those markets that offer future opportunities for growth: in the emerging economies of Asia, in particular in China. In 2003, we laid the cornerstone for the world's largest integrated facility for PolyTHF® in Caojing near Shanghai. This facility operates using a new environmentally friendly process developed by BASF and is scheduled to start operations in 2005. Overall in Asia we plan to invest approximately €5.6 billion by 2005. Our goal is to generate 20 percent of BASF's sales in this region by 2010.

On behalf of BASF, I would like to thank our customers and partners for the confidence they have placed in BASF in the past year.

Sending a signal with BASF's strong brand

Ladies and gentlemen,

Our strategy and our activities are characteristic of our company: We see ourselves as a partner for mutual success. We face up to our responsibilities to our shareholders and customers. This applies equally to our employees, the neighbors at our sites, and society in all the countries in which we operate.

Our new corporate design is an expression of the way in which we see ourselves. The familiar letters BASF stand for our traditional strengths, our reliability and continuity. The two squares symbolize the fact that we are breaking new ground within this framework: Each square complements the other, and together they form a whole, like a lock and key, like two partners working together successfully.

The text supplement to our logo – “The Chemical Company” – states our clear commitment to chemistry – the business in which we have been successfully operating for almost 140 years and in which we want to remain. We are proud to be the world's leading chemical company, and we are convinced that the future can only be successfully shaped with the help of chemistry. In other words, chemistry *is* the future.

We have received a great deal of positive feedback on our new brand positioning. BASF is achieving greater public presence and a sharper profile as a result. This is a further important contribution toward increasing our corporate value.

Segment overview						
Million €	Sales		Income from operations (EBIT) before special items		Income from operations (EBIT)	
	2003	2002	2003	2002	2003	2002
Chemicals	5,752	5,317	500	676	393	635
Plastics	8,787	8,477	363	593	296	582
Performance Products	7,633	8,014	568	653	478	646
Agricultural Products & Nutrition	5,021	4,924	427	217	359	55
Thereof Agricultural Products	3,176	2,954	294	99	234	61
Thereof Fine Chemicals	1,845	1,970	133	118	125	(6)
Oil & Gas	4,791	4,199	1,365	1,210	1,365	1,210
Other	1,377	1,285	(230)	(468)	(233)	(487)
	33,361	32,216	2,993	2,881	2,658	2,641

BASF: A strong partner for the future

Ladies and gentlemen,

Profitable growth is our foremost goal. We are on the right course with our strategic guidelines. I am convinced that BASF will remain the world's leading chemical company – not least thanks to the joint effort and enormous dedication of our outstanding team of employees. I would like to take this opportunity to thank them all for their achievements in the past year.

We are somewhat more confident about the remainder of the year. Overall, however, the business environment for the chemical industry does not offer the prospect of a leisurely stroll under a sunny economic sky in 2004, but demands continued efforts on our part.

It would, however, also be helpful if politicians gave us tailwind rather than headwind. In Europe and in Germany – the largest European economy – we must realize that if we stand still, we will most certainly fall behind. To move forward we need:

- more voluntary responsibility instead of more regulation such as the REACH chemicals policy or emissions trading,
- more investment in the best minds instead of in the most cumbersome bureaucracy,
- more boldness instead of avoiding risk at all cost, and
- more enthusiasm for progress instead of technophobia.

There is still an enormous amount of potential in Germany. But we also have to make every effort to use it. The motto must be: Full steam ahead with the necessary reforms. We must encourage people to reach for the future and shape it actively. Innovations don't grow on trees. We need the most creative minds that are conducting research into the technologies of the future. We need bold companies that invest in the markets of the future. And above all, we need a social climate in which *opportunities* are given priority over *anxieties*.

We are engaged in close dialogues with politicians and with relevant groups in society. We would like to see Germany turn around, and we are doing our utmost to make sure this happens:

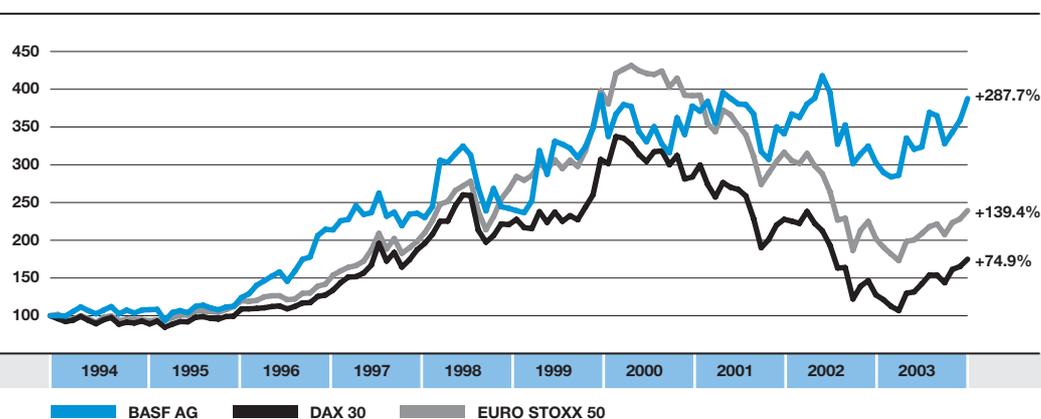
- with our ideas and business success,
- by investing in our sites,
- by training young people far in excess of our requirements, and
- with our initiative to promote the Rhine-Neckar region and our commitment in the former East German states, for example at our site in Schwarzheide.

We want this country to become more flexible and regain its competitiveness. This is a heartfelt concern for BASF. Although we conduct our business in markets around the world, our roots are here in Germany, in the heart of Europe.

Ladies and gentlemen,

Thank you for the confidence you have placed in our company. BASF is a strong partner, and one that combines its clear, coherent strategy with a strong spirit of innovation. We are well prepared for our path to the future, and we hope that you will accompany us on this journey. We invite you to support us. It will surely be worth your while.

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



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- ▶ November 11, 2004
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