



**Shaping the Future**  
Short Report on the  
2004 Financial Year

 **BASF**

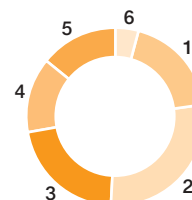
The Chemical Company

## Key data BASF Group

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

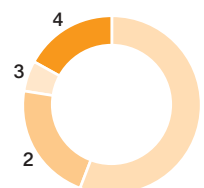
## Sales by segment

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



## Sales by region (location of customer)

Million €	2004	%
1 Europe	20,967	55.9
Thereof Germany	7,382	19.7
2 North America (NAFTA)	8,182	21.8
3 South America	2,064	5.5
4 Asia, Pacific Area, Africa	6,324	16.8
	37,537	100.0





### Who we are

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

### What we aim to achieve

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

### How we shape the future

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

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#### Contents

- 2 Letter from the Chairman of the Board of Executive Directors
- 4 Board of Executive Directors
- 6 BASF Shares
- 8 BASF's Segments
- 9 BASF Group Business Review and Outlook
- 17 Corporate Governance
- 18 Supervisory Board
- 19 Sustainability

The Short Report contains key sections from the 2004 Consolidated Financial Statements and Management's Analysis for the BASF Group, as well as text from the Corporate Report 2004.

# Letter from the Chairman of the Board of Executive Directors

*Dear Shareholders and friends of BASF,*

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

## **Measurable success**

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

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

## **Profitable growth**

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

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



### Strategy for sustainable success

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

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

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

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

### Outlook

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

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

# Board of Executive Directors

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

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



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

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

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

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



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

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

As of March 1, 2005

# BASF Shares

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

In 2004, BASF shares again performed very well, increasing in value by 22.8%. As a result, BASF shares performed considerably better than the EURO STOXX<sup>SM</sup> 50 index and Germany's DAX 30 index, which rose by 9.4% and 7.3%, respectively. In recent years, long-term investors have profited from the good performance of BASF shares. Shareholders who invested €1,000 in BASF shares at the end of 1994 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of the holding to €4,429 after 10 years at the end of 2004. This increase of 342.9% corresponds to an average annual return of 16.0%, and is considerably higher than the corresponding return for the EURO STOXX 50 (10.7%) and DAX 30 (7.3%).

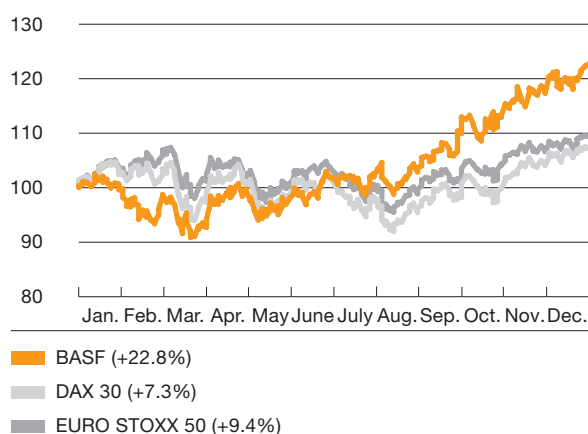
## Dividend of €1.70 and further share buybacks to increase shareholder value

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

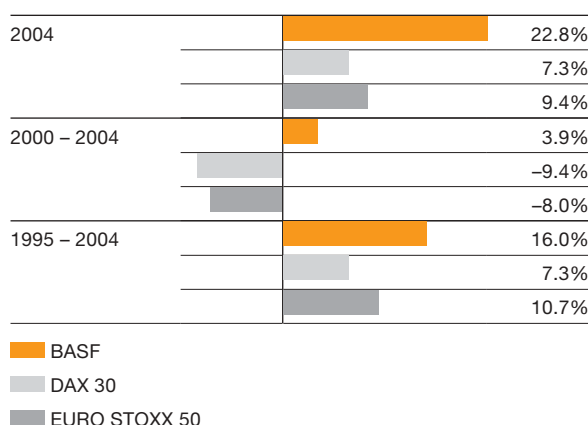
Taking into account the per share dividend and the year-end price, BASF shares provided a dividend yield of 3.21% in 2004. Since 1994, we thus increased our dividend in eight out of 10 years; in two years it remained unchanged. This shows our interest in providing our shareholders with an attractive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

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

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



Investment in BASF shares – average annual performance







### BASF shares included in important indices

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

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

In 2004, BASF shares were included in the Dow Jones Sustainability Index for the fourth year in succession and remained a member of the FTSE 4 Good Index. Our membership in sustainability indices shows that BASF is recognized internationally as a company that conducts its business in accordance with the principles of sustainable development.

### Broad base of international shareholders

Our last shareholder survey carried out at the beginning of 2004 indicated the strong interest of international investors in BASF shares. Non-German investors hold 52% of BASF's share capital. U.K. and U.S. investors are particularly well represented, accounting for 15% and 14% of the share capital, respectively. Institutional

Key BASF share data	2004
Year-end price (€)	53.00
Year high (€)	53.00
Year low (€)	40.49
Number of shares as of December 31 (million shares)	541.24
Market capitalization as of December 31 (billion €)	28.69

investors – for example banks and investment companies – hold 72% of the share capital; 28% is held by private investors. Many of our employees and executives own BASF shares, and we offer share purchase programs in many countries to encourage them to become shareholders and thus co-owners of BASF. BASF Aktiengesellschaft's entire share capital is listed on the stock market.

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

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

### Dividend

in €	€1	
2004		1.70
2003		1.40
2002		1.40
2001		1.30
2000		2.00

Dividend  
 Special dividend

# BASF's Segments

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## **Chemicals – The heart of our Verbund**

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

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## **Plastics – Focusing on strengths**

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

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## **Performance Products – Close cooperation with customers**

Our innovative systems from performance chemistry contribute to the comfort and safety of many everyday items, from cars and textiles to detergents and babies' diapers. We want to be the key contact for our customers. Our success is based on new products, system solutions and applications that we develop in close cooperation with our customers. Our keys to success are our powerful research and development organization and our ability to solve our partners' problems quickly, flexibly and in line with their needs.

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## **Agricultural Products & Nutrition – Increased customer focus – higher competitiveness**

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

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## **Oil & Gas – Expertise and regional focus**

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

# BASF Group Business Review and Outlook



## Results of Operations

### Overview

2004 was a very successful business year for BASF. Income from operations rose significantly in a positive global economic environment, driven by economic growth in the United States and Asia. We increased production and sales volumes substantially and raised sales prices. In addition, our restructuring measures had

a positive effect, enabling us to reduce our fixed costs considerably.

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

### Sales

Sales by segments			Change in sales in 2004 in %				
	2004	2003	Overall change	Volumes	Portfolio	Prices	Currencies
Million €							
Chemicals	7,020	5,752	22.0	12.9	4.4	9.7	(5.0)
Plastics	10,532	8,787	19.9	9.2	0.7	15.2	(5.2)
Performance Products	8,005	7,633	4.9	7.9	(0.1)	0.8	(3.7)
Agricultural Products & Nutrition	5,147	5,021	2.5	7.8	0.2	(1.4)	(4.1)
Thereof Agricultural Products	3,354	3,176	5.6	9.2	0.5	0.2	(4.3)
Fine Chemicals	1,793	1,845	(2.8)	5.5	(0.4)	(4.1)	(3.8)
Oil & Gas	5,263	4,791	9.9	7.4	.	6.2	(3.7)
Other	1,570	1,377	14.0	17.1	(0.5)	1.4	(4.0)
	<b>37,537</b>	<b>33,361</b>	<b>12.5</b>	<b>9.4</b>	<b>0.9</b>	<b>6.6</b>	<b>(4.4)</b>

Sales in 2004 rose €4,176 million compared with the previous year to €37,537 million.

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

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

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

### Income from operations

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

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

€277 million was incurred for restructuring measures related to steps to increase efficiency as part of the Ludwigshafen Site Project, the further development of our organization in Europe, as well as restructuring

in North America (NAFTA). Special items also arose due to portfolio measures and litigation.

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

#### BASF GROUP SEGMENTS:

Million €	Income from operations (EBIT) before special items			Income from operations (EBIT)		
	2004	2003	Change in %	2004	2003	Change in %
Chemicals	1,334	500	166.8	1,241	393	215.8
Plastics	727	363	100.3	669	296	126.0
Performance Products	790	568	39.1	1,068	478	123.4
Agricultural Products & Nutrition	645	427	51.1	540	359	50.4
Thereof Agricultural Products	556	294	89.1	492	234	110.3
Fine Chemicals	89	133	(33.1)	48	125	(61.6)
Oil & Gas	1,647	1,365	20.7	1,637	1,365	19.9
Other	(250)	(230)	(8.7)	(299)	(233)	(28.3)
	4,893	2,993	63.5	4,856	2,658	82.7

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

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

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

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

**PERFORMANCE PRODUCTS:** Income from operations rose considerably by €590 million to €1,068 million as a result of higher capacity utilization and the reduction of fixed costs in all three divisions (Performance Chemicals, Coatings and Functional Polymers). Income from operations contains the special income from the sale of the printing systems business.

**AGRICULTURAL PRODUCTS & NUTRITION:** The Agricultural Products & Nutrition segment comprises the Agricultural Products and Fine Chemicals divisions.

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

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

**OIL & GAS:** We increased income from operations by €272 million to €1,637 million. Income from operations from natural gas trading, which is included in this amount, rose by €31 million to €342 million due to higher volumes. Earnings were negatively impacted by declining margins.

In the exploration and production business sector, we increased income from operations by €241 million to €1,295 million in 2004, mainly as a result of higher prices. The average price of crude oil (Brent) rose compared with the previous year by \$9/barrel to \$38/barrel. Because of the weak U.S. dollar, the price of oil on a euro basis rose by only €5/barrel to €31/barrel.

Income taxes of €668 million on oil production in North Africa and the Middle East that are noncompensable with German corporate income tax are not deducted from income from operations but are reported as income taxes (see Financial Report, Note 8 to the Consolidated Financial Statements).

#### **Income before taxes and minority interests**

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

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

#### **Net income/earnings per share**

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

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

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

### Proposed appropriation of profit

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

and the amount of the dividend payable decline by the date of the Annual Meeting due to share buy-backs, it is further proposed that the remaining profit retained be carried forward.

\* The auditors have approved the Consolidated Financial Statements of BASF Aktiengesellschaft free of qualification. The Consolidated Financial Statements are published on the Internet at [www.basf.de/governance\\_e/reports](http://www.basf.de/governance_e/reports). They are also published in the Federal Gazette and filed in the Commercial Register of Ludwigshafen (Rhine) HRB 3000. A reprint may be obtained by contacting the address shown on the back of this report.

Consolidated Statements of Income, Year Ended December 31		
Million €	2004	2003
Sales	38,072.2	33,865.3
– Natural gas taxes	535.6	504.1
<b>Sales, net of natural gas taxes</b>	<b>37,536.6</b>	<b>33,361.2</b>
Cost of sales	25,637.7	23,333.0
<b>Gross profit on sales</b>	<b>11,898.9</b>	<b>10,028.2</b>
Selling expenses	4,522.6	4,519.1
General and administrative expenses	715.6	706.0
Research and development expenses	1,172.8	1,104.7
Other operating income	943.8	560.5
Other operating expenses	1,576.1	1,600.7
<b>Income from operations</b>	<b>4,855.6</b>	<b>2,658.2</b>
Expense/income from financial assets	62.7	(6.5)
Write-downs of, and losses from, retirement of financial assets as well as securities held as current assets	671.3	260.4
Interest result	(227.9)	(223.3)
<b>Financial result</b>	<b>(836.5)</b>	<b>(490.2)</b>
<b>Income before taxes and minority interests*</b>	<b>4,019.1</b>	<b>2,168.0</b>
Income taxes	2,005.5	1,191.5
<b>Income before minority interests</b>	<b>2,013.6</b>	<b>976.5</b>
Minority interests	130.6	66.3
<b>Net income</b>	<b>1,883.0</b>	<b>910.2</b>
<b>Earnings per share (€)</b>	<b>3.43</b>	<b>1.62</b>

\* Income from ordinary activities

## Liquidity

### Cash provided by operating activities

In 2004, cash provided by operating activities was again high at €4,511 million. This was due primarily to the increase in earnings. Despite the considerable expansion in business, it was possible to maintain net working capital at a low level. In 2003, substantial funds were

released, mainly through inventory reductions and shortened payment terms.

“Miscellaneous items” primarily reflects the reclassification of gains from divestitures, which are included as part of cash inflows in cash used in investing activities.

<b>Consolidated Statements of Cash Flows, Year Ended December 31</b>		
Million €	2004	2003
Net income	1,883	910
Depreciation and amortization	3,097	2,682
Change in net working capital	(199)	1,118
Miscellaneous items	(270)	168
<b>Cash provided by operating activities</b>	<b>4,511</b>	<b>4,878</b>
Payments related to tangible and intangible fixed assets	(1,934)	(2,071)
Acquisitions/divestitures, net	570	(1,394)
Financial investment and other items	254	205
<b>Cash used in investing activities</b>	<b>(1,110)</b>	<b>(3,260)</b>
Capital increases/repayments	(781)	(500)
Changes in financial indebtedness	(203)	(2)
Dividends	(852)	(857)
<b>Cash used in financing activities</b>	<b>(1,836)</b>	<b>(1,359)</b>
Net changes in cash and cash equivalents	1,565	259
Cash and cash equivalents as of beginning of year and other changes	521	222
<b>Cash and cash equivalents</b>	<b>2,086</b>	<b>481</b>
Marketable securities	163	147
<b>Liquid funds</b>	<b>2,249</b>	<b>628</b>

### Cash used in investing activities

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

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

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

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

### Cash used in financing activities

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

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

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

### Liquid funds

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

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



## Balance Sheet Structure

### Consolidated Balance Sheets at December 31

#### ASSETS

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

#### Stockholders' equity and liabilities

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

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

**Fixed assets** declined, primarily due to lower financial assets and capital expenditures below the level of depreciation and amortization. Fixed assets accounted for 52% of total assets.

**Inventories** increased by €475 million to €4,626 million as a result of the expansion of business and higher raw materials prices. Their share of total assets was 13.6% compared with 12.4% in 2003.

**Trade accounts receivable** rose by 11.2% and their share of assets increased to 16.3% compared with 14.7% in the previous year. The ratio of total current assets to total assets was 47.8%.

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

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

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

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

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

## Outlook

### Macroeconomic factors

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

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

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

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

### Sales and earnings forecasts

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

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

We will continue to implement our restructuring, cost reduction and portfolio optimization measures.

# Corporate Governance



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

The German Corporate Governance Code was published in 2002. It represents a major step forward in the capital market-driven development of statutory provisions and practical implementation of corporate governance. We welcome the Code and the objectives it sets out. We follow the recommendations of the German Corporate Governance Code in its revised version of May 2003 with a few exceptions. You can find the 2004 joint Declaration of Conformity by the Board of Executive Directors and the Supervisory Board at the end of the Financial Report, which can be ordered using the postcard at the end of this Short Report. The Declaration of Conformity and the German Corporate Governance Code are also available on our website at [www.basf.de/governance\\_e](http://www.basf.de/governance_e).

Because BASF's shares are listed on the New York Stock Exchange (NYSE), BASF is also subject to U. S. capital market legislation, including the Sarbanes-Oxley Act (SOX) of 2002. SOX contains a number of new corporate governance regulations. To ensure that they are observed, the Supervisory Board has, for example, established an Audit Committee and introduced a new approval procedure for procuring non-audit services from auditors. We are currently establishing a system to

document the information and control systems for financial reporting within the BASF Group that will be subject to attestation by our auditors in accordance with Section 404 of SOX for the first time in our 2005 Consolidated Financial Statements. Thanks to this system, we will be better able to evaluate and confirm the completeness and accuracy of our reporting and the effectiveness of the internal control system. In general, the new U.S. regulations considerably increase documentation and review requirements as well as the associated expenses.

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

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

# Supervisory Board

The Supervisory Board of BASF Aktiengesellschaft comprises 20 members. Ten members are elected by shareholders at the Annual Meeting, and the remaining 10 are elected by employees. With the exception of Hans Dieter Pötsch, the shareholder representatives were elected at the Annual Meeting on May 6, 2003. Hans Dieter Pötsch was appointed by the district court of Ludwigshafen on March 2, 2004 to replace Helmut Werner, who died on February 6, 2004. With the exception of Ralf Sikorski and Michael Vassiliadis, the employee representatives were elected on February 25, 2003 in accordance with the German Codetermination Act. Effective August 7, 2003, Ralf Sikorski was appointed by the district court of Ludwigshafen to replace Gerhard Zibell, who resigned from the Supervisory Board with effect from July 31, 2003. Effective August 1, 2004, Michael Vassiliadis, who had been elected to the Supervisory Board by employees, replaced Dr. Jürgen Walter, who retired effective July 31, 2004. The current term of all members of the Supervisory Board expires at the end of BASF Aktiengesellschaft's Annual Meeting in 2008.

**Dr. Jürgen F. Strube**, Mannheim  
Chairman of the Supervisory Board of BASF Aktiengesellschaft  
Former Chairman of the Board of Executive Directors of BASF Aktiengesellschaft

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

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

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

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

**Michael Diekmann**, Munich  
Chairman of the Board of Management of Allianz AG

**Dr. Tessen von Heydebreck**, Frankfurt (Main)  
Member of the Board of Managing Directors of Deutsche Bank AG

**Arthur L. Kelly**, Chicago  
Chief executive of KEL Enterprises L. P.

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

**Max Dietrich Kley**, Heidelberg  
Lawyer  
Former Vice Chairman of the Board of Executive Directors of BASF Aktiengesellschaft

**Professor Dr. Renate Köcher**, Allensbach  
Managing Director of the Institut für Demoskopie Allensbach, Gesellschaft zum Studium der öffentlichen Meinung mbH

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

**Ulrich Küppers**, Ludwigshafen  
Regional manager of the Rhineland-Palatinate/Saarland branch of the Mining, Chemical and Energy Industries Union (IG BCE)

**Konrad Manteuffel**, Bensheim  
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

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

**Hans Dieter Pötsch**, Wolfsburg  
Member of the Board of Management of Volkswagen AG

**Dr. Hermann Scholl**, Stuttgart  
Chairman of the Supervisory Council of Robert Bosch GmbH and Managing Director of Robert Bosch Industrietreuhand KG

**Ralf Sikorski**, Ludwigshafen  
Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union (IG BCE)

**Robert Studer**, Zurich  
Former Chairman of the Supervisory Board of the Union Bank of Switzerland

**Michael Vassiliadis**, Hemmingen  
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union (IG BCE)

Retired effective February 6, 2004:  
**Helmut Werner**, Stuttgart  
(died February 6, 2004)

Retired effective July 31, 2004:  
**Dr. Jürgen Walter**, Neustadt am Rübenge

Additional board memberships held by members of the Supervisory Board are listed in the Financial Report 2004 and on the Internet at [www.basf.de/supervisoryboard](http://www.basf.de/supervisoryboard).

# Sustainability



## Ensuring sustainable development

For BASF, sustainable development means combining long-term success with environmental protection and social responsibility. This is how we understand our contribution to ensure a better future for us and coming generations. The strategies needed to achieve this are developed and monitored by BASF's Sustainability Council. The Council, which is headed by Eggert Voscherau, Vice Chairman of BASF's Board of Executive Directors, ensures that the entire BASF Group is aligned with the principles of sustainable development. In 2004, we began setting up regional networks in Asia, the Americas and Europe to support the implementation of strategies drawn up by the Council and strengthen the implementation of our sustainability organization in the various regions. You can find out more about our management structures for sustainability at [www.basf.de/sd-management\\_e](http://www.basf.de/sd-management_e).

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

Various BASF projects aim to reconcile career and family commitments. From 2005 onward, BASF will collaborate with external providers in Ludwigshafen to gradually offer day nursery places for children between six months and three years. The prime aim is to make it easier for mothers to reenter working life. BASF's subsidiary Wintershall also provides a childcare program, which received an award from the nonprofit Hertie foundation in 2003.

In order to provide young people with a chance, we again took on a far higher number of trainees this year than we need for our own needs in Germany. We also encourage training projects in the communities in which our sites are located. Most recently in 2003, BASF Aktiengesellschaft initiated the Training Verbund for the Rhine-Neckar region. Through this alliance, we create additional trainee positions in the region together with partner companies.

## Sustainability means business

Sustainable enterprise is a basic requirement for long-term success – this applies both to us and our customers, who must also ensure a balance between economic, environmental and social issues. As the world's leading chemical company, we help our customers to achieve this – after all, innovations from the chemical industry act as an engine for innovation in many industries. Examples are two sustainability tools from BASF: the eco-efficiency analysis and our Expert Services Sustainability (ESS). The eco-efficiency analysis helps our customers to determine the most suitable products and processes for their applications, both in commercial and environmental terms. Hair care company Wella, for example, used our eco-efficiency analysis to find out which hairspray formulation is both particularly economic and environmentally friendly.

We are continuously refining our eco-efficiency analysis and want it to be used as widely as possible – worldwide. On September 24, 2004, the foundation stone was laid for the Espaço ECO foundation in São Bernardo do Campo, Brazil. This is the first eco-efficiency center in Latin America. In collaboration with the German Society for Technical Cooperation and the United Nations Industrial Development Organization, BASF will provide companies from all over South America with expertise and technology in the areas of eco-efficiency, environmental training and reforestation. Approximately €1 million is being invested in the project by 2009. You can find out more about BASF's eco-efficiency analysis at [www.basf.de/eco-efficiency](http://www.basf.de/eco-efficiency).

Our Expert Services Sustainability combine our know-how in the fields of Responsible Care® and sustainability to provide applications for our customers. This enables us to offer not only our products, but also tailor-made solutions in the areas of environmental protection, occupational safety and health protection. Such services enable us, and our customers, to increase our competitiveness.

You can find further examples in our Corporate Report and on the Internet at [www.basf.de/corporate-report](http://www.basf.de/corporate-report).

## Important dates

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

## Annual Meetings

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

## Contacts

- Corporate Media Relations:  
Michael Grabicki  
Phone: +49 621 60-99938  
Fax: +49 621 60-92693
- Investor Relations:  
Magdalena Moll  
Phone: +49 621 60-48230  
Fax: +49 621 60-22500
- General inquiries:  
Phone: +49 621 60-0  
Fax: +49 621 60-42525
- Internet: [www.basf.de/financial-report](http://www.basf.de/financial-report)  
[www.basf.de/corporate-report](http://www.basf.de/corporate-report)
- BASF Aktiengesellschaft  
67056 Ludwigshafen  
Germany

### Forward-looking statements

This report contains forward-looking statements under the U.S. 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.

## Key data BASF Group 2004

Sales (million €)	37,537
BASF Group sales	
Sales by segment	
Chemicals	7,020
Plastics	10,532
Performance Products	8,005
Agricultural Products & Nutrition	5,147
Oil & Gas	5,263
Other	1,570
Sales by region (location of customer)	
Europe	20,967
Thereof Germany	7,382
North America (NAFTA)	8,182
South America	2,064
Asia, Pacific Area, Africa	6,324
Earnings (million €)	
Income from operations (EBIT)	4,856
Income before taxes and minority interests	4,019
Net income	1,883
Net income in accordance with U.S. GAAP	1,863
Other key data	
Equity ratio (%)	46.5
Return on assets (%)	12.9
Research and development expenses (million €)	1,173
Additions to fixed assets (million €)	2,186
Number of employees (December 31, 2004)	81,955
Key BASF share data (€)	
Year-end price	53.00
High	53.00
Low	40.49
Per-share information:	
Dividend	1.70
Earnings per share	3.43

**BASF Aktiengesellschaft**  
 67056 Ludwigshafen  
 Germany  
 www.basf.com

**Corporate Media Relations:**  
 Michael Grabicki  
 Phone: +49 621 60-99938  
 Fax: +49 621 60-92693

**Investor Relations:**  
 Magdalena Moll  
 Phone: +49 621 60-48230  
 Fax: +49 621 60-22500

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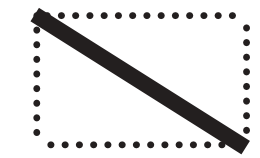
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How do you rate the information in the report:

- Very good  
 Good  
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Various statements on the report are listed below. How do these statements compare with your opinions? (Please give only one answer per statement.)

“The report has a clear and logical structure.”

- Completely agree  
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 Yes and no  
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 Completely disagree

“The report is written in a clear and easy-to-understand style.”

- Completely agree  
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 Yes and no  
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“The report has an attractive layout.”

- Completely agree  
 Tend to agree  
 Yes and no  
 Tend not to agree  
 Completely disagree

“The report provides a good overview of BASF.”

- Completely agree  
 Tend to agree  
 Yes and no  
 Tend not to agree  
 Completely disagree

How do you rate the information that BASF provides to shareholders?

	Very good				Very poor
... Before the Annual Meeting	<input type="checkbox"/>				<input type="checkbox"/>
... During the Annual Meeting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... In the course of the year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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The survey is anonymous and will be performed in accordance with the German Data Protection Act. You can participate in the survey anonymously. We only require your address if you wish to enter our prize draw with a chance of winning one of twenty-five €25 book vouchers. We guarantee that your data will be treated confidentially.

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- yes
- no

Are you...

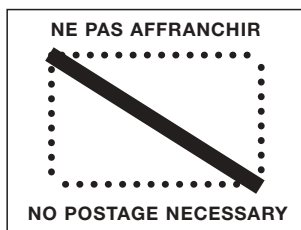
- male?
- female?

Which age group do you belong to?

- 18 to 29
- 30 to 39
- 40 to 49
- 50 to 59
- 60 and older

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- middle school diploma
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- college/university degree
- post graduate degree/PhD



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45314 Essen  
Germany**

BASF is a member of the World Business Council for Sustainable Development.



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



This report went to press on February 24, 2005.