

Excellence in chemistry



1998 Annual Report

**BASF**

## BASF Group

Million DM	1998	1997	Change %
Sales	<b>54,065</b>	55,780	- 3.1
Income from operations	<b>5,132</b>	5,342	- 3.9
Profit before taxes	<b>5,419</b>	5,331	+ 1.7
Net income after taxes and minority interests	<b>3,324</b>	3,236	+ 2.7
Cash flow	<b>7,258</b>	7,225	+ 0.5
Capital expenditures	<b>5,671</b>	4,359	+30.1
Research and development expense	<b>2,561</b>	2,549	+ 0.5
Dividend paid by BASF Aktiengesellschaft	<b>1,355</b>	1,244	+ 8.9
Dividend per share in DM	<b>2.20</b>	2.00	+10.0
Number of employees (December 31)	<b>105,945</b>	104,979	+ 0.9
<b>Segments</b>			
Sales Million DM	<b>1998</b>	1997	Change %
Health & Nutrition	<b>9,970</b>	8,972	+11.1
Colorants & Finishing Products	<b>12,104</b>	12,791	- 5.4
Chemicals	<b>10,141</b>	10,675	- 5.0
Plastics & Fibers	<b>14,812</b>	14,463	+ 2.4
Oil & Gas	<b>5,251</b>	6,255	-16.1
Other*	<b>1,787</b>	2,624	-31.9
	<b>54,065</b>	55,780	- 3.1
Income from operations Million DM	<b>1998</b>	1997	Change Million DM
Health & Nutrition	<b>750</b>	680	+ 70
Colorants & Finishing Products	<b>1,256</b>	939	+ 317
Chemicals	<b>1,861</b>	2,203	- 342
Plastics & Fibers	<b>1,054</b>	720	+ 334
Oil & Gas	<b>540</b>	926	- 386
Other*	<b>- 329</b>	-126	- 203
	<b>5,132</b>	5,342	- 210
<b>Regions (location of customers)</b>			
Sales Million DM	<b>1998</b>	1997	Change %
Europe	<b>32,607</b>	34,112	- 4.4
• thereof Germany	<b>(13,713)</b>	(14,380)	- 4.6
North America (NAFTA)	<b>12,222</b>	11,668	+ 4.7
South America	<b>3,209</b>	3,278	- 2.1
Asia, Pacific Area, Africa	<b>6,027</b>	6,722	-10.3
	<b>54,065</b>	55,780	- 3.1

\* Sales from other operations, income from other operations, and expense and income not allocatable to the segments

Presented to the 47th Annual Meeting on Thursday, April 29, 1999, 10.00 a. m., at BASF Feierabendhaus, Leuschnerstrasse 47, Ludwigshafen am Rhein, Germany.

This report was finalized on March 2, 1999, and published on March 15, 1999.

BASF is one of the world's leading chemical companies. Our products range from natural gas, oil, petrochemicals and innovative intermediates to high value-added chemicals, crop protection agents and pharmaceuticals. Our hallmarks are our comprehensive know-how, our highly developed integrated systems, which we call Verbund, and a significant proportion of specialties.

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“We are doing it our way: evolutionary rather than revolutionary, focused and efficient.”

Dear shareholders and friends of BASF:

As far as our economic environment was concerned, 1998 was a year of surprising and profound change. Ever bigger mergers and acquisitions, not least in the chemical and pharmaceutical industries, were constantly in the headlines. I have often been asked when BASF intends to merge, and with whom. I would like to repeat my answer here. We are doing it our way: evolutionary rather than revolutionary, focused and efficient.

We want to go on developing BASF as a transnational chemical company primarily from our own strength. In doing so, we are conscious of where BASF's roots are. In Germany and in our home market of Europe, we have a strong base for tackling the global challenges of the coming century.

In further developing our company, we will be relying on research and development, capital expenditures, adjustment of our product range to market requirements, our marketing strengths and the expansion of the BASF-specific Verbund structure. We will continue to strengthen our portfolio by purchasing companies and, where appropriate, selling marginal operations. To achieve quick and efficient progress, we also enter into cooperations and partnerships.

This strategy again took BASF a good step forward in 1998. We increased the efficiency of the company and strengthened our presence in world markets. Details of this are given in this Annual Report, from which I would like to cite two examples: Our companies in the NAFTA Region became significantly more profitable, and in Korea we resolutely took advantage of opportunities.



Dr. Hans Albers  
Chairman of the Supervisory Board

## Report of the Supervisory Board

In the 1998 financial year, the Supervisory Board carefully supervised the management of the company's affairs and performed the duties required of it by law and the Articles. At Supervisory Board meetings and through additional written and oral reports, the Board of Executive Directors kept us regularly informed of the situation and progress of the company, the major affiliates and business developments.

In the period under review, the Supervisory Board held six meetings. At five of them, we had detailed discussions with the Board of Executive Directors on the business situation of the company and the BASF Group, the strategic orientation and the prospects of development and business risks of the segments. The consent of the Supervisory Board was required for four management measures in accordance with the Articles, and this consent was given. At two Supervisory Board meetings, reports were also given by company executives on topics from their operations.

Apart from the Supervisory Board meetings, the Chairman of the Supervisory Board was also kept regularly informed by the Chairman of the Board of Executive Directors on current business developments and the most important business events.

The Supervisory Board set up two Supervisory Board committees, the Committee for the Personal Affairs of the Board of Executive Directors and the Granting of Credits, in accordance with § 89 IV of the German

We improved our percentage return on sales. We matched 1997's healthy earnings despite more difficult market conditions. Nevertheless, the return on assets before taxes and interest expenses was not quite as high as in 1997. The main reason for this was that assets increased as a result of capital expenditures and acquisitions.

We want to give you, our shareholders, an appropriate share of the success of your company and will again pay a higher dividend than in the previous year.

What do we think the future holds? Business in 1999 will become more difficult: Sales are likely to remain at the level achieved in 1998, but earnings are expected to be lower. In 1999, BASF will, however, once again occupy a top position among the premier chemical companies.

I thank you, our shareholders, for the confidence you have placed in us. My thanks are also due to all of our employees, whose skill, creativity and



commitment made a vital contribution to a successful 1998, and to our trading partners for their valuable cooperation.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jürgen Strube', written in a cursive style.

Dr. Jürgen Strube  
Chairman of the Board of Executive Directors

Stock Corporations Act (Personal Affairs Committee), and the Mediation Committee in accordance with § 27 III of the German Codetermination Act. Each of these committees was made up of equal numbers of representatives of the shareholders and the employees. The Personal Affairs Committee met three times in the period under review. It was not necessary to convene the Mediation Committee.

We have examined the Financial Statements and Management's Analysis of BASF Aktiengesellschaft for the 1998 financial year, the proposal by the Board of Executive Directors for the appropriation of net income, and the Financial Statements and Management's Analysis of the BASF Group. The auditors elected by the Annual Meeting, Deloitte & Touche GmbH, have examined the Financial Statements of BASF Aktiengesellschaft and the Group Financial Statements, including the books and Management's Analyses, and have given each of them an unqualified opinion. The auditors also found that the Board of Executive Directors had established an appropriate internal monitoring system for the proper drawing up of the Financial Statements.

The documents to be examined and the auditors' reports were issued to all members of the Supervisory Board. The auditors attended the accounts meeting of the Supervisory Board and reported on the main findings of their audit. The auditors also gave detailed

explanations of their reports on the day before the accounts meeting.

We have approved the auditors' reports. The results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objections to the management of the company or the Financial Statements presented.

At today's meeting, we approved the Financial Statements of BASF Aktiengesellschaft drawn up by the Board of Executive Directors. The Financial Statements are thus final. We concur with the proposal of the Board of Executive Directors regarding the distribution of retained profit.

At the end of the Annual Meeting on May 19, 1998, Professor Dr. Bierich, Professor Dr. Eigen, Professor Dr. Langmann, Mr. Südhofer and Dr. Weiss retired from the Supervisory Board. They were succeeded at that time by Professor Dr. Diederich, Dr. von Heydebreck, Professor Dr. Leibinger and Dr. Scholl, as new members elected by the Annual Meeting, and Messrs. Kleffmann and Zibell as representatives of the employees.

Ludwigshafen, March 9, 1999

The Supervisory Board

**The BASF share:** A high dividend yield and long-term earnings prospects make BASF an attractive capital investment in international financial markets.



**Dividend payment to our shareholders**  
(\*including DM 0.10 anniversary bonus)

Key BASF share data	1998	1997
Number of shares in millions on Dec. 31	624*	622
Per share in DM:		
Dividend	2.20	2.00
Dividend including tax credit	3.14	2.86
Net income	5.34	5.22
Net income U.S. GAAP	5.56	-
Cash flow	11.65	11.65
Equity	41.54	37.83
Year-end price	63.55	64.20
Year's high	92.90	73.65
Year's low	58.30	55.90

\* Number of shares still to be issued for the exercise of stock warrants: 14 million

**Good dividend yield.** Based on the 1998 closing price of the share of DM 63.55, the dividend yield works out at 3.5 percent without the tax credit, or 4.9 percent if the tax credit is included. This means that the BASF share ranks among the top DAX securities.

Compared with DM 1,244 million last year, the dividend total increases to DM 1,355 million, another record.

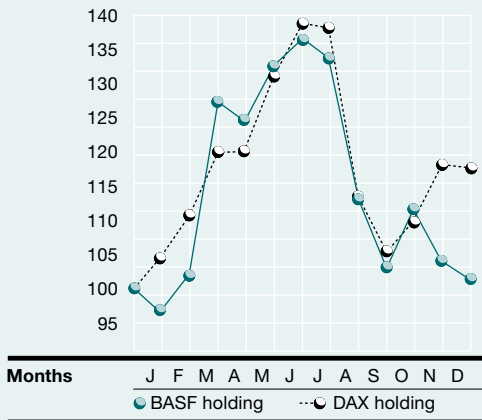
**Share buy-back.** In May 1998, the Annual Meeting authorized the Board of Executive Directors to buy back company shares up to the level of 10 percent of the capital stock. Once the tax situation had been clarified, we began this buy-back in January 1999. The intention is to acquire up to 5 percent of the capital stock on the stock exchange during this year.

**NYSE listing.** The BASF share is listed in Germany and on seven foreign stock exchanges. In 2000, we intend to list also on the New York Stock Exchange (NYSE). This will give us an even broader shareholder base and underline the global orientation of BASF.

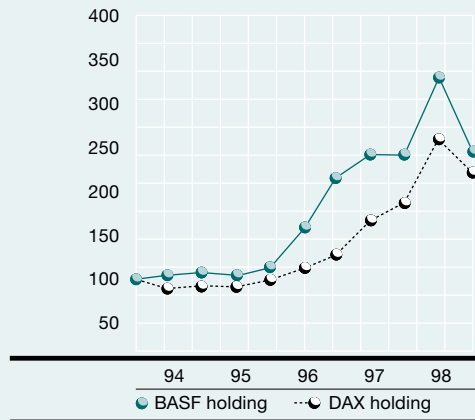
**Rising dividend.** We want our shareholders to benefit from the company's success. It is our aim to increase the dividend for the fifth year in a row. We propose to the Annual Meeting the payment of a dividend of DM 2.20 per share for the 1998 financial year. With the tax credit of DM 0.94, this means that shareholders liable to German income or corporation tax will receive a dividend income of DM 3.14 per share.

**Stock options and employee shares.** We will propose to the Annual Meeting the introduction of a stock option program. About 1,200 executives in the BASF Group will be eligible to participate. A requirement will be that those qualifying invest some of the variable part of their remuneration in BASF stock. For every share acquired on this basis, BASF will additionally grant stock subscription rights which can be exercised when ambitious targets are achieved.

We will gradually make shares available to all BASF Group employees who do not participate in the stock option program (see page 25).



**Change in value of an investment in BASF shares in 1998** (without taking account of the tax credit)



**Change in value of an investment in BASF shares from 1994 – 1998** (with dividends reinvested)

**Price trend in 1998.** The price of the BASF share started the year well, peaking at DM 92.90 in July. The rest of the year was disappointing. On the basis of the spot rate, the 1998 year-end price of DM 63.55 was slightly down on the previous year's DM 64.20. As a result, the price performance was weaker than the DAX figure.

**Long-term yield better than the market.**

A shareholder who made a single investment of DM 10,000 in BASF shares five years ago and reinvested the annual dividends (excluding tax credits) in additional BASF shares, had by the end of 1998 increased the value of the holding to about DM 24,460. This represents an average annual return of 19.6 percent. The comparable DAX figure is 17.2 percent.

**Increased interest abroad.** Our shareholder survey of July 31, 1998 shows that interest in our company among foreign shareholders has increased considerably. Their share of our capital stock has increased from 27 percent to 30 percent since the previous survey conducted in January 1995, with the proportion of U.S. shareholders increasing from 4 to 7 percent. Overall, BASF shareholders now come from 146 countries, and the total number of shareholders rose by 91,300 to 384,000.

**Active communication and reporting.** We take active steps to provide investors and financial analysts with candid information about our company's progress. Quarterly reporting was expanded in 1998.

The 1998 Annual Report is still presented in DM. We will be reporting on the quarters of the current year in euros.

**Dates**

- April 29, 1999 Annual Meeting, Ludwigshafen Report on the 1st quarter of 1999
- August 5, 1999 Half-year Press Conference, London International Analysts' Meeting, London Report on the 1st half of 1999
- November 11, 1999 Autumn Press Conference, Ludwigshafen Report on the 3rd quarter of 1999
- November 12, 1999 International Analysts' Meeting, Ludwigshafen
- March 15, 2000 Annual Press Conference, Ludwigshafen Publication of the 1999 Annual Report
- March 16, 2000 International Analysts' Meeting, Ludwigshafen
- April 27, 2000 Annual Meeting Report on the 1st quarter of 2000

**Information about the BASF share**

can be found on the Internet under <http://www.basf.de/share>

Our investor relations staff will be glad to provide further information:

Ludwigshafen, Germany  
 Tel.: +49 621 60-43263 and -40308  
 Fax: +49 621 60-22500

## The Board of Executive Directors

# Our strategies are driven

**Trautz:** "The plastics market is a hard-fought one. Continuous productivity increases help us to secure a top position among competitors."



**Oakley:** "We want to be among the best in the American markets that matter."



**Hambrecht:** "To succeed in Asia, you need stamina. 1998 was a turbulent year, but we took advantage of new opportunities."



**Strube:** "Two are stronger than one. This applies to all of our joint projects with able partners and is one way of increasing the value of the company."

**Kley:** "Our portfolio is geared to globalization. This makes our business more cyclically robust and less dependent on exchange rates."



**Voscherau:** "Partnership with our customers is an essential part of our value creation."



**Max Dietrich Kley**, 59, lawyer. With BASF for 30 years: responsible for finance, oil and gas, coatings (since 1999), raw materials purchasing and eastern Europe, Africa and west Asia.

**Dr. Volker Trautz**, 54, chemist. With BASF for 25 years: responsible for plastics and since 1999 for the Polymers Laboratory.

**Peter Oakley**, 46, economist. With BASF for 22 years: responsible for fiber products and for North and South America.

**Egbert Voscherau**, 55, economist. With BASF for 33 years: responsible for pharmaceuticals, crop protection, fertilizers, northern, southern and central Europe and, since 1999, for the Main Laboratory.

**Dr. Jürgen Strube**, 59, lawyer, Chairman since 1990. With BASF for 30 years.

**Dr. Jürgen Hambrecht**, 52, chemist. With BASF for 23 years: responsible for Asian operations, based in Hong Kong and covering the Far East, Japan and Southeast Asia/Australia regions.



# by a spirit of cooperation.

**Becks:** "Our employees are qualified and motivated. They keep the company in shape to meet the challenges ahead."

**Marcinowski:**  
"You have to be innovative to rank among the top."



**Eckell:** "Innovative products will ensure that we remain among the leading suppliers of specialty chemicals."

**Stechl:** "Our Chemicals segment is a special strength. Our Verbund is the right concept to meet the challenges of the next century."

**Dr. Hanns-Helge Stechl**, 62, chemist, Deputy Chairman. With BASF for 33 years: responsible for industrial chemicals, intermediates, fine chemicals, petrochemicals and inorganics, and also for the Ammonia Laboratory (since 1999) and the Antwerp works.

**Dr. Stefan Marcinowski**, 46, chemist. With BASF for 20 years: responsible for research, since 1999 Research Spokesman, and also responsible for dispersions, paints, specialty chemicals and the Colorants Laboratory.

**Helmut Becks**, 54, physicist. With BASF for 27 years: responsible for human resources, engineering, Ludwigshafen works engineering, environment, safety and energy, logistics, corporate information services, occupational medicine and health protection, and the Schwarzeide works.

**Dr. Albrecht Eckell**, 62, chemist. With BASF for 33 years: responsible until the end of 1998 for dispersions, colorants, specialty chemicals and coatings.

Until mid-year, business went very well, but it flattened off considerably in the second half. Prices declined under the impact of various economic crises, and demand slackened. As a result, we did not match 1997's good sales figures. Earnings remained nevertheless steady at a high level, thanks to lower raw material costs and measures to increase efficiency and cut costs. The financial result was also good.

## Earnings steady

**Sales.** Our business increasingly felt the impact of the crises in Asia, Russia and South America. BASF Group sales in 1998 totaled DM 54,065 million, which was DM 1,715 million below the previous year's figure.

The 3.1 percent drop in sales resulted from the following changes:

	Million DM	%
Volumes	972	+1.7
Prices	-3,368	-6.0
Currency	- 263	-0.5
Scope of consolidation	944	+1.7
	-1,715	-3.1

Selling prices declined, especially in the second half. All segments were adversely affected, although to varying degrees.

On account of the sharp fall in crude oil prices, Oil & Gas sales in particular were down and responsible for 1.7 percentage points of the BASF Group's decline in sales.

As part of the drive to optimize our portfolio, we acquired market shares and production facilities, and embarked on cooperations. As a result, we generated extra sales of DM 1.9 billion, while divestitures resulted in the loss of DM 1.2 billion in sales. Group companies headquartered in Asia were included in the scope of consolidation for the first time because of their increased importance.

**Earnings.** BASF Group profit before taxes rose slightly by DM 88 million, or 1.7 percent, to DM 5,419 million. However, earnings from operations declined by DM 210 million to DM 5,132 million as a result of slacker business during the second half.

Sales and earnings in million DM					
BASF Group			BASF Aktiengesellschaft		
	1998	1997		1998	1997
Sales	<b>54,065</b>	55,780	Sales	<b>21,045</b>	23,527
Income from operations	<b>5,132</b>	5,342	• Germany	<b>6,699</b>	7,040
Financial result	<b>287</b>	-11	• Exports	<b>14,346</b>	16,487
Profit before taxes	<b>5,419</b>	5,331	Profit before taxes	<b>3,178</b>	2,582
Income taxes	<b>-2,164</b>	-2,126	Income taxes	<b>-881</b>	-738
Minority interests in losses	<b>69</b>	31	Valuation adjustments	<b>-196</b>	-
Net income	<b>3,324</b>	3,236	Net income	<b>2,101</b>	1,844
			Appropriation of net income		
			• Dividend	<b>1,355</b>	1,244
			• Transferred to revenue reserve	<b>745</b>	600

The fall in earnings from operations was more than offset by a sharp improvement of DM 287 million in the financial result. This welcome improvement was attributable in particular to increased earnings from cash investments and profits from the sale of securities and participating interests.

Special charges totaling DM 280 million were for reorganization measures, unscheduled write-downs and value adjustments. Of this sum, DM 175 million was accounted for by reorganization, primarily at sites in North America in the Colorants & Finishing Products segment, and by measures in the Plastics & Fibers segment at Ludwigshafen and Antwerp.

We have converted the calculation period for the employee profit-sharing plan to the calendar year. The transition arrangement for the fourth quarter of 1998 which was made to this end resulted in additional charges of DM 54 million.

We earned DM 330 million from divestitures and reorganization, mainly in the Colorants & Finishing Products and Plastics & Fibers segments. In the company pension scheme, benefit claims from earlier adjustments to the Pension Fund pension were taken over by the BASF Pension Fund. Pension provisions at BASF Aktiengesellschaft and other Group companies were thus reduced by DM 169 million.

Net income was DM 3,324 million, surpassing the previous year's good result.

**Proposed distribution of retained profit.** BASF Aktiengesellschaft's retained profit totals DM 1,356 million. We propose to the Annual Meeting the distribution of a dividend of DM 2.20 per share. The tax credit for entitled shareholders is DM 0.94 per share.

# Regions

	Location of customers Sales in million DM			Change % 1998/1997	Share % 1998
	1998	1997	1996		
Europe	<b>32,607</b>	34,112	30,830	- 4.4	<b>60</b>
• thereof Germany	<b>(13,713)</b>	(14,380)	(12,971)	(- 4.6)	<b>(25)</b>
North America (NAFTA)	<b>12,222</b>	11,668	9,547	+ 4.7	<b>23</b>
South America	<b>3,209</b>	3,278	2,691	- 2.1	<b>6</b>
Asia, Pacific Area, Africa	<b>6,027</b>	6,722	5,708	-10.3	<b>11</b>
	<b>54,065</b>	55,780	48,776	- 3.1	<b>100</b>

\* Exchange of goods and services between regions

**BASF operates worldwide, maintaining business ties with customers in more than 170 countries and operating production facilities in 39 of them. We are conscious of our wide-ranging responsibilities as a transnational company trading in countries with different governmental, economic and social structures, and we conduct our business accordingly.**

**Sales dropped in all regions except North America. Europe's share of total sales declined from 61 to 60 percent. The fall in sales in Asia was primarily attributable to the massive devaluations of local currencies, but also to a drop in volumes as a result of the crisis situation there.**

## European business resilient

Sales in Europe rose slightly in the first half, but fell in the second half significantly below the previous year's level. This was a result of the increasing pressure on plastics and chemicals prices due to the cyclical downturn and the stronger competition as a consequence of the crisis in Asia. Further, the low price of crude oil impacted our oil and gas business. A positive effect was that the prices of essential raw materials fell. Business with our Health & Nutrition products developed well; this strengthened our earning power.

We are consistently continuing the development of our European marketing organization in view of the increasing concentration of European markets. Our customers' requirements determine the interplay between marketing, sales and logistics.

## Earnings well up in North America

Our companies in the North American Free Trade Agreement region, NAFTA, increased their U.S. dollar sales by 4 percent. As a result of the successful launch of new products, the reduction of fixed costs, lower nonrecurring costs and improved productivity, we improved earnings by 47 percent compared with 1997.

Despite unfavorable market conditions, we increased sales of Chemicals and Plastics. Higher sales and earnings in the Health & Nutrition segment came mainly from new pharmaceutical products and crop protection agents. Coatings, however, suffered slight losses.

We optimized the product portfolio, closed down sites that were no longer competitive and made selective acquisitions to strengthen cyclically robust operations. Our production Verbund was further expanded by way of capital expenditures totaling more than U.S.\$1 billion. Together with Fina Inc., Dallas, Texas, we are constructing a steam-cracker at Port Arthur, Texas, from which, in 2001, we will be providing our sites in Freeport, Texas, and Geismar, Louisiana, with cost-effective supplies of ethylene and propylene.

In the U.S., buyers of vitamin products filed suits against various manufacturers, including companies of the BASF Group, claiming violation of antitrust provisions, which is also the subject of an official investigation. The suits are still in the initial stages. We have filed for the suits to be dismissed. Our efforts to reach an appropriate settlement to the legal dispute over the drug Synthroid® in the U.S. are being continued.

Location of companies Sales in million DM			Sales incl. intersegment transfers* Million DM			Income from operations Million DM		
1998	1997	1996	1998	1997	1996	1998	1997	1996
<b>36,199</b>	38,915	35,090	<b>39,316</b>	42,247	37,902	<b>3,976</b>	4,502	3,208
<b>(23,837)</b>	(26,518)	(24,047)	-	-	-	<b>(2,545)</b>	(3,042)	(2,086)
<b>12,145</b>	11,617	9,356	<b>12,744</b>	12,179	9,871	<b>1,007</b>	685	981
<b>2,552</b>	2,494	2,100	<b>2,735</b>	2,647	2,210	<b>31</b>	141	9
<b>3,169</b>	2,754	2,230	<b>3,537</b>	2,821	2,294	<b>118</b>	14	95
<b>54,065</b>	55,780	48,776	<b>58,332</b>	59,894	52,277	<b>5,132</b>	5,342	4,293

### Earnings in South America affected by currency losses

Overall economic growth in South America slowed compared with the previous year. This was partly a consequence of crises in other regions. Our business felt the impact of this especially during the second half. Because of the obvious overvaluation of the Brazilian real, we made provisions for exchange-rate losses to be expected from U.S. dollar liabilities. Earnings fell considerably as a result.

In spite of this, we expanded our business with new life science products. We are making capital expenditures and efficiency improvements to be ready for the sustained integration of South American markets. In Brazil, we began operating a plant for waterborne automotive finishes.

### Opportunities seized in Asia

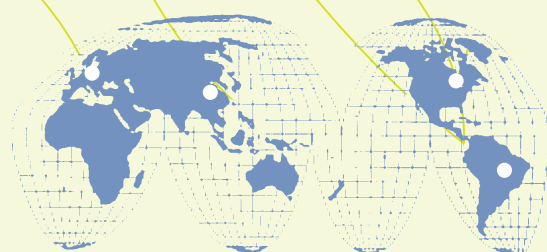
Our business in Asia Pacific did not escape the effects of the financial and economic crisis there. The main effects of the recession were felt by Colorants & Finishing Products, Plastics & Fibers and Chemicals. However, sales in the Health & Nutrition segment showed a gratifying increase. Our Group companies in Korea and China considerably improved their sales figures in local currency.

We took advantage of the opportunities that arose to strengthen our market position. New production plants were brought on stream in Korea; we bought out our joint venture partner in Hyosung BASF Co. Ltd., and acquired the lysine business of the Daesang Group and the polyol business of the Dongsung Group. At the end of 1998, all of our Korean companies were brought together under the name BASF Company Ltd.

China is for us an important growth market in which we intend to expand our business. It increased significantly with the start of production at the joint ventures BASF JCIC Neopentylglycol Co. Ltd., Jilin, and Yangzi BASF Styrenics. Negotiations on a Verbund site at Nanjing and an MDI project in Shanghai are continuing.

Construction of the Verbund site at Kuantan, Malaysia, together with our partner Petronas, is going ahead on schedule. We intend to start operating the first plants at the beginning of 2000. In Singapore, we plan to build a plant for the production of styrene and propylene oxide with Shell Chemicals.

Our business suffered from the drop in demand in the Japanese market. Sales on a comparable basis in local currency remained at the previous year's level. However, BASF Japan Ltd., our most important company, increased its business. The reorganization of our joint ventures is being consistently pursued. In addition, we want to take advantage of opportunities offered by structural adjustments in the Japanese chemical industry.



# Segments

	Sales			Sales incl. intersegment transfers*			Income from operations		
	Million DM			Million DM			Million DM		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Health & Nutrition**	9,970	8,972	7,211	10,150	9,122	7,349	750	680	665
Colorants & Finishing Products	12,104	12,791	11,285	12,672	13,516	12,071	1,256	939	565
Chemicals**	10,141	10,675	9,204	13,703	14,545	12,545	1,861	2,203	1,849
Plastics & Fibers	14,812	14,463	12,080	15,622	15,343	12,804	1,054	720	974
Oil & Gas	5,251	6,255	5,208	5,710	6,739	5,567	540	926	744
Other***	1,787	2,624	3,788	2,119	3,038	4,007	-329	-126	-504
• thereof costs of exploratory research							(236)	(250)	(224)
	54,065	55,780	48,776	59,976	62,303	54,343	5,132	5,342	4,293

\* Exchange of goods and services between the segments

\*\* From 1998, Fertilizers allocated to Chemicals; the previous year's figures have been adjusted

\*\*\* Sales from other operations, and expense, income and other assets not allocatable to the segments (from 1997, plants under construction have been allocated to the segments)

**Our segments include the following operating divisions and their products:**

## Health & Nutrition

(without Fertilizers from 1998)

**Pharmaceuticals** Drugs for treating obesity-related disorders, diseases of the cardiovascular system and thyroid insufficiency, analgesics and drugs for treating disorders of the central nervous system; pharmaceutical substances.

**Fine Chemicals** Vitamins, carotenoids, amino acids, enzymes, organic acids, flavors and fragrances, and polymers and fine chemicals for the pharmaceutical, food and cosmetics industries and products for animal nutrition.

**Crop Protection** Crop protection agents for the control of weeds (herbicides) and plant diseases caused by fungal attack (fungicides), and growth regulators.

## Colorants & Finishing Products

**Colorants** Dyes and process chemicals for textiles, leather and office requisites; pigments and pigment blends for coloring plastics; printing inks and printing plates for the graphics industry.

**Dispersions** Acrylic acid and acrylates, acrylate and styrene/butadiene dispersions, raw materials for paints, coatings and adhesives, dyes and process chemicals for the paper industry, and superabsorbers.

**Coatings** Automotive finishes and refinishes, industrial coatings and building paints.

## Chemicals

(including Fertilizers from 1998)

**Petrochemicals & Inorganics** (formerly: Basic Chemicals) Mainly for captive use: petrochemical feedstocks such as ethylene, propylene and benzene; organic and inorganic basic chemicals such as methanol, acetylene, ammonia, sulfuric acid and inorganic specialties; catalysts.

**Fertilizers** Straight nitrogen fertilizers, compound fertilizers of the Nitrophoska® line, specialty fertilizers and Compo® products for plant care in the home and garden and in market gardening and landscaping.

**Industrial Chemicals** Plasticizers and intermediates such as 2-ethylhexanol, phthalic anhydride and higher oxo alcohols; oxygenated solvents such as butanol; adhesives and impregnating resins, formaldehyde and melamine.

**Intermediates** Amines, diols, carboxyl and dye intermediates, carboxylic acids and other intermediates for various chemical syntheses.

**Specialty Chemicals** Alkylene oxides, glycols, surfactants, complexing agents, detergent raw materials, automotive chemicals, fuel and lubricant additives, biocides and electroplating chemicals.

Assets			Return on operational assets			Research and development expense			Additions to tangible and intangible fixed assets			Depreciation of tangible and intangible fixed assets		
Million DM			%			Million DM			Million DM			Million DM		
1998	1997	1996	1998	1997	1996	1998	1997	1996	1998	1997	1996	1998	1997	1996
9,549	7,835	5,449	8.6	10.2	12.7	1,241	1,098	947	1,960	778	1,410	1,045	835	598
7,786	7,925	6,823	16.0	12.7	8.5	309	358	385	680	500	785	747	830	749
7,371	7,020	5,395	25.9	35.5	34.3	305	278	259	1,167	987	532	932	838	824
9,694	8,600	6,185	11.5	9.7	16.0	367	370	350	1,460	1,316	916	1,099	930	742
5,129	4,896	4,215	10.8	20.3	17.8	98	135	77	987	629	441	466	416	409
12,695	11,712	15,651				241	310	268	1,026	804	642	131	118	193
52,224	47,988	43,718	12.7	14.6	13.0	2,561	2,549	2,286	7,280	5,014	4,726	4,420	3,967	3,515

## Plastics & Fibers

**Styrenic Polymers** Styrene and styrene-based polymers such as polystyrene and Styrolux<sup>®</sup>; expandable polystyrene (Styropor<sup>®</sup>) and specialty foams such as Styrodur<sup>®</sup>, Neopolen<sup>®</sup> and Basotect<sup>®</sup>.

**Engineering Plastics** Construction materials: copolymers such as ABS (acrylonitrile-butadiene-styrene) and SAN (styrene-acrylonitrile), nylons, polybutylene terephthalate (PBT), polyoxymethylene (POM) and high-temperature thermoplastics.

**Polyurethanes/PVC** Basic polyurethane products: polyols and isocyanates; polyurethane systems; polyurethane elastomers; polyvinyl chloride.

**Fiber Products** Fiber intermediates such as caprolactam, adipic acid and hexamethylenediamine; nylon-based fibers and filaments.

**Polyolefins** Polyethylene and polypropylene.

Joint ventures are responsible for these operations:

- Targor (polypropylene) with Hoechst
- Elenac (polyethylene) with Shell since March 1, 1998

## Oil & Gas

Our oil and gas operations are run by Wintershall AG and its affiliates.

They

- explore for and produce crude oil and natural gas,
- refine oil at the Lingen, Germany, refinery,
- market petroleum products (such as light fuel oil or precursors for the chemical industry),
- trade in crude oil and natural gas, and
- lease storage and transport capacities for natural gas.

About 60 percent of the fuels from the Lingen, Germany, refinery are marketed through the Aral gas station network, in which we have a 15-percent holding via Wintershall.

The **Health & Nutrition** segment encompasses pharmaceuticals, fine chemicals, in particular vitamins, and crop protection agents. Business in life science products is to a substantial extent cyclically robust, and we are therefore systematically expanding this area.

Sales in Health & Nutrition increased by 11 percent to almost DM 10 billion. Earnings rose to DM 750 million. In 1999, we expect increased sales and slightly higher earnings than in 1998.

We reinforced this segment with new drugs, food supplement products and new crop protection active ingredients. Plant biotechnology operations were broadened. We intend to make use of knowledge of genetic engineering and biotechnology for our agricultural and nutrition operations, thus opening up new areas of business.

**Success for new pharmaceutical products.**

Our pharmaceutical business grew considerably more rapidly than the market. Despite high product launch costs, we succeeded in improving earnings. Our best-selling product, Synthroid®, used in the treatment of thyroid insufficiency, remains highly successful.

The period of growth continued into its fifth year. New products made a major contribution here: Meridia®, used for the treatment of obesity, was launched in the U.S. and four other countries (where it is marketed as Reductil®) in 1998. Tarka®, our drug for the treatment of hypertension, was introduced in another seven countries. Our analgesic Vicoprofen® developed well on the U.S. market.

We assess the sales potential of our highly promising and close-to-market development projects to be DM 2.5 billion a year. Promising active substances for the treatment of stroke, rheumatoid arthritis, sepsis and thrombosis – all areas where there is a high demand for medicinal products – are at the late stage of clinical development.

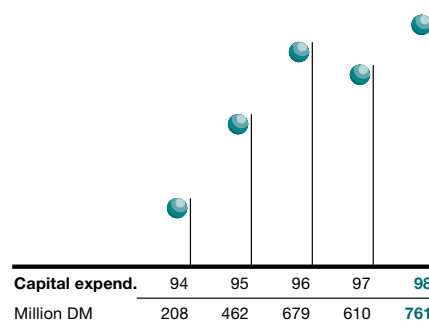
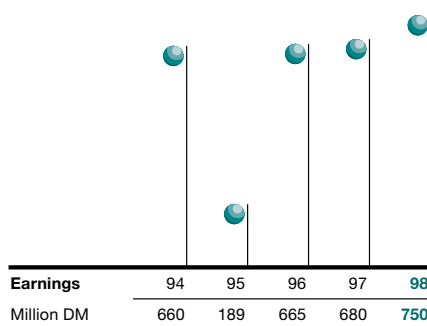
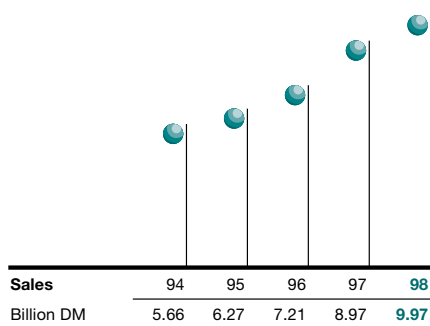
We are opening up additional opportunities for new drugs through research and development cooperations with well-known pharmaceutical companies. In 1998, three important additions were made to the partnerships already existing. Together with two of our new partners, we are planning to develop innovative drugs – using active substances discovered by our own research scientists – for the treatment of schizophrenia and cardiovascular disease (see page 27).

**Expansion for fine chemicals.** Sales of fine chemicals increased and earnings were generally satisfactory. By acquiring the worldwide lysine business of the Korean Daesang Group, we improved our position in animal feed additives. Lysine is an essential amino acid, indispensable in poultry and pig fattening. The plant we acquired in Korea uses a modern fermentative process, and we plan to make wider use of its potential.

Vitamins and carotenoids held up well in the market. We achieved gratifying volume increases in North America with vitamin E for the human sector. In the case of vitamin C, business suffered from continuing low prices, prompting us to improve our cost structure by acquiring an interest in a facility for producing ketogulonic acid, the precursor of vitamin C (see page 30).

As one of the leading producers of vitamins and carotenoids, we intend to expand our business in nutraceuticals - food ingredients as nutrition supplements which have a beneficial effect on health. We have already made additions to our product range.

Our products for the pharmaceuticals and cosmetics industries were again in high demand. We expanded





# New products



## Drug for treating obesity

In its very first year on the market, our new drug containing the active substance sibutramine became our fourth biggest pharmaceutical product in terms of sales. This product, available only on prescription, is being used in close consultation with physicians and nutritionists in the treatment of obesity under an integrated therapy program. In the U.S., we launched sibutramine under the Meridia® trademark

in February 1998. By the end of the year, it had been introduced in important countries of Latin America. We have been marketing the drug since February 1999 in Germany, where it is known as Reductil®. We have applied for marketing authorization in other European countries. We estimate the total annual sales potential of sibutramine to be DM 700 to 900 million.

our Ludwigshafen production capacities for the cosmetics chemical D-panthenol and the light stabilizers Uvinul® MBC95 and Uvinul® T150.

**Innovation and high earnings in crop protection.** Again, we increased sales in crop protection and achieved good earnings. Especially in Europe, our business made better progress than the market as a whole.

We lost ground in North America, where the wider use of soybean varieties that are resistant to total herbicides caused sales of our selective herbicides to drop. However, from 1999 onward, we expect business to rebound with our corn herbicides, highly promising new active ingredients and a continuing strong business in crop protection generics. The acquisition of a majority holding in the American generics supplier Micro Flo is a contributory factor here.

In recent years, we have optimized and consistently expanded our research operations. Over the next five years, we expect to launch an average of two new crop protection active ingredients a year.

One example of investing in the future is the broadening of our base in plant biotechnology. Our objective is to breed crop plants with improved constituents and cultivation properties. Our wide-ranging know-how in agriculture offers a very promising basis for us to occupy a good position in this field in future.

As an important first step, we founded two joint ventures, Metanomics and SunGene. In a further step, we want to acquire a holding in the Swedish seed breeder Svalöf Weibull and merge our plant biotechnology research operations with those of Svalöf Weibull in BASF Plant Science GmbH.



## Colorants & Finishing Products: Concentration on core operations, regionalization of marketing, innovative products and problem solutions are our success factors.

Sales in Colorants & Finishing Products fell by five percent to DM 12.1 billion. Earnings rose to DM 1,256 million.

We streamlined our product range, shed some of our marginal operations, increased the efficiency of our organization and improved cost structures. In the current year, 1999, we expect a slight increase in sales and earnings.

**Business in colorants better.** Our reorganization program in colorants is well underway. Earnings improved, but were still not satisfactory. Sales were down because of declining volumes and selling prices and the discontinuation of low-earning product lines.

The structural measures in production continued as planned. We closed unprofitable standard pigment facilities in Europe and increased production at our Shanghai, China, site. Work began in Brazil on the expansion of our textile dyes production facilities.

Our business with the textile and leather industries suffered from the worldwide drop in demand. Integration of the textile dye operations acquired from Zeneca was completed on schedule. In our business in chemicals for textile finishing, we gained additional market share through new application methods and customer-oriented service. Our position as a leading supplier to the leather industry was maintained despite the difficult economic situation.

We again did well with pigments for coatings, printing inks and the pigmentation of plastics. Variocrom™ special effect pigments for variable-shade automotive finishes were added to our inorganic pigment range. We built new production plants for our high-grade organic pigments. New light stabilizers aroused great interest in the plastics industry.

In view of the good economic climate in the European printing inks industry and strong demand for printing

plates, we increased our business in printing systems. The system package combining printing ink and plate is increasingly successful. We consolidated our leading technological position by developing laser-exposable flexigraphic plates and improved nyloprint® letterpress plates.

### Dispersions continue on growth course.

Our dispersions operations enjoyed another successful year, and we achieved a further improvement over the previous year's healthy earnings. The volume of polymer dispersions for paper finishing increased substantially. In our business in adhesives raw materials, paints, nonwovens and coatings, we abandoned unprofitable product lines and so improved our earnings position.

We successfully defended our position as world leaders in acrylic acid and acrylates - even in the difficult Asian market. Demand for dispersions and acrylic acid will continue to increase in future. BASF's extensive know-how and worldwide presence will open up outstanding market opportunities in this cyclically robust operation. Our strategy, which is geared to globalization and market and technological leadership, is being pursued consistently. We further expanded our position in acrylic acid-based superabsorbers by acquiring Clariant's business with them.

**Coatings leaner and stronger.** Portfolio adjustments and strict cost management are producing sustained success in the Coatings Division: Sales increased despite the divestitures, and earnings again rose considerably.

Our know-how in ecoefficient and future-oriented technologies, combined with comprehensive marketing and distribution expertise, ensure us a strong competitive position. We are continuing to expand our core operations of automotive finishes and refinishes and industrial coatings by means of specific capital expenditures and acquisitions.

The New Beetle dazzles in its BASF coat  
 The New Beetle dazzles in its BASF coat  
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 The New Beetle dazzles in its BASF coat  
**The New Beetle dazzles in its BASF coat**  
 The New Beetle dazzles in its BASF coat



The latest generation of the VW Beetle owes its dazzling colors to BASF. The New Beetle is being produced at Puebla, Mexico. Its popular predecessor was also made there, and BASF was involved in supplying the finish then, too. In the near future, Puebla's two Beetle finishing lines are to be converted to lead-free dip-coating with waterborne finishes.

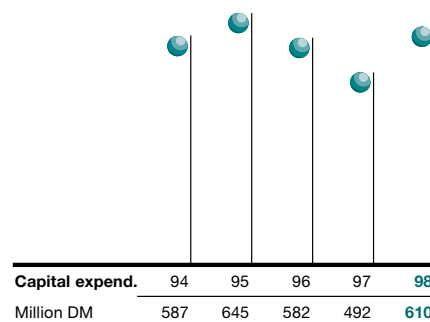
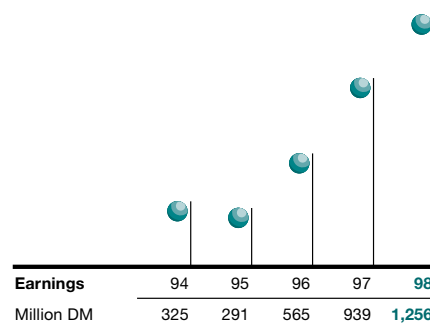
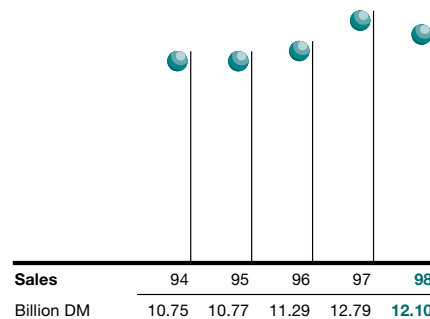
In the development of the coating concept for the New Beetle, the vehicle's novel design with its numerous round surfaces proved a tough nut to crack. Another challenge was posed by the many plastic parts of the New Beetle, all of which are coated in the same color as the car. The plastic mudflaps, for example, are coated after assembly, together with the metal body. A different method is used for other plastic components such as bumpers, tank caps and door handles; these are coated on a second line and then mounted.

Business in automotive finishes remained good. Our eco-compatible and efficiency-enhancing products are gaining worldwide acceptance. Responding to demand, we constructed a new waterborne coatings plant in Brazil in 1998.

Despite slightly shrinking markets, we again improved earnings from our Glasurit® and R-M® automotive refinish grades. We optimized cost structures and expanded our distribution network in Europe and North America.

Sales of industrial coatings again grew faster than the market in 1998. The concentration of production in Europe and the integration of the industrial coatings business acquired from Salchi Spa, Italy, will further increase earning power.

Our European building paint operations were sold to Akzo Nobel. In South America, we are continuing this line as a core operation with great success.





*A new Verbund site is being built at Kuantan, Malaysia (left).*

*Construction of an acetylene plant at Geismar, Louisiana.*



## Verbund site under construction

In Malaysia, work began on the construction of a joint Verbund site with Petrolim Nasional Berhad (Petronas). The first value-added chain is based on propylene supplied by Petronas. Together with our Malaysian partner, which is the national oil and gas company, we are building acrylic acid and acrylate plants close to the city of Kuantan. These are scheduled to go on stream at the beginning of 2000. A year later, we want to start producing oxo alcohols, plasticizers and phthalic anhydride. Total capital expenditures will be about U.S. \$700 million.

Acrylic acid is the basis for the production of polymer dispersions, used in such products as adhesives, paints and other surface coatings. Acrylic acid is also the precursor for super-absorbers used in diapers.

Oxo alcohols are starting materials for the production of acrylates, plasticizers, acetates and glycol ethers.

Phthalic anhydride is another important component for plasticizers used in plastics, for example plasticized PVC. BASF is one of the world's largest producers of oxo products. We have the capacities we need at our Verbund sites in Ludwigshafen; Freeport, Texas; and Tarragona, Spain.

## Investments worldwide

In the **Chemicals** segment, our Verbund concept is the basis of our high earning power. For this reason, we are expanding it throughout the world – and bringing in partners where beneficial.

Sales to third parties in Chemicals fell by 5 percent to a total of DM 10.1 billion. Including transfers to other segments, sales were DM 13.7 billion. Earnings declined to DM 1,861 million. In 1999, we expect sales to decline slightly, and we must assume that earnings, too, will fall because of the ongoing effects of the Asian crisis. Even so, Chemicals are still BASF's top-earning segment.

We aim to strengthen our healthy global position by consistently expanding our Verbund system, building production facilities in promising markets, and acquiring businesses.

### **Petrochemicals and inorganics meet high captive requirements.**

Petrochemicals and inorganics are mainly processed captively to higher value-added products. Demand, both internally and from our customers, remained gratifyingly high.

The softening of prices for the petrochemicals ethylene and propylene, first seen in 1997, continued. Since prices of the feedstocks, especially naphtha, did not fall to the same extent, the cracker margin declined. Utilization rates were good throughout the year.



In the catalyst business, we achieved double-digit growth rates for both sales and earnings. The volume of inorganic specialties sold increased again, despite strong competition.

We are expanding this operation worldwide with selective capital expenditures, and strengthening our Verbund.

**Difficult year for fertilizers.** Prices of agricultural fertilizers fell again, and sales and earnings were down. However, COMPO GmbH's business in specialty products for the home and garden was gratifying.

In what is still a hard-fought market, we plan to maintain our position by improving efficiency and introducing innovative products. We are continuing our strategy of increasing the relative proportion of specialty fertilizers with higher added value. For example, in 1999, we will be launching further specialty fertilizers which release their nutrients at a controlled rate as plants require them.

Because of the close links between fertilizer production and inorganics manufacture, fertilizers have since 1998 been included in the Chemicals segment.

**Industrial chemicals hotly contested.** Volumes, sales and earnings of our industrial chemicals fell short of the previous year's high level.

Our business in plasticizers and solvents was particularly hard hit by the Asian crisis and surplus capacities. As a result, selling prices worldwide came under heavy pressure. The lower raw material prices did not fully compensate for this.

Our strategy is designed to optimize our production structure by the construction of cost-effective world-scale plants, preferably in the growth markets of North America and Asia. Together with our partner Petronas, we are planning to produce oxo alcohols, phthalic anhydride and plasticizers for the Asian market at Kuantan, Malaysia, from 2001.

There was strong demand for adhesives and impregnating resins due to the flourishing state of the European furniture and woodworking industries.

**Intermediates expanded worldwide.** Demand for our intermediates was strong. Because of the high proportion of specialties, this sector hardly suffered from the economic crises, and earning power remained high.

This favorable situation applied particularly to amines. We increased our production capacities for ethanolamines and aniline at Antwerp, Belgium, alkylamines at Ludwigshafen and specialty amines at Geismar, Louisiana, with a view to expanding our position worldwide.

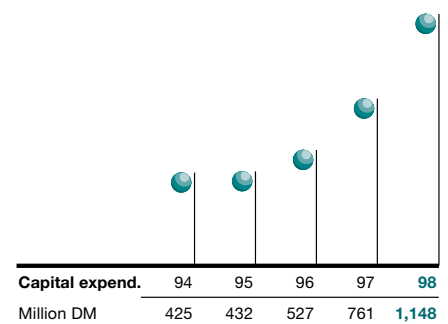
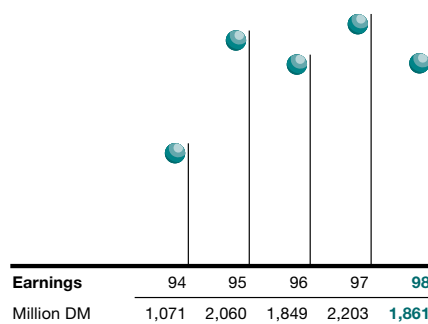
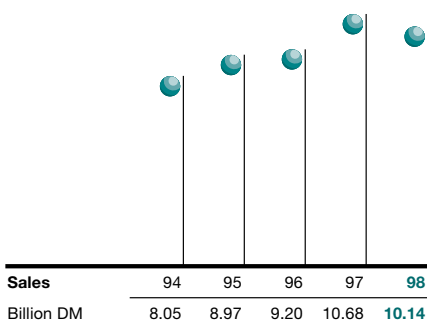
We also achieved significant sales increases with diols. The start-up of the new PolyTHF<sup>®</sup> plant at Ulsan, Korea, and the expansion of the Ludwigshafen butanediol plant put us in a position to take advantage of opportunities in growing markets for elastic fibers and specialty plastics. We want to strengthen our position as a global supplier of specialty diols. The high standard of our technologies and cost-effective plants place us among the top competitors.

**Broader base for specialty chemicals.** The specialty chemicals business made generally gratifying progress; only the prices of ethylene glycols were affected by the Asian economic crisis.

The successful integration of the surfactants businesses acquired in 1997 from PPG and Olin, and our acquisition of Ciba's complexing agent business – all in the U.S. – have strengthened our cyclically robust operations. We plan to increase capacities for ethylene oxide, ethylene glycols and surfactants in the U.S., thus exploiting the advantages of our Verbund concept.

Sales of gasoline and lubricant additives increased gratifyingly. We increased our share of the antifreeze business, both in direct trading with the automotive industry and at the retail level.

Our activities in biocides for preservation and disinfection were concentrated at BASF MicroCheck Ltd., United Kingdom, thus creating the basis for further growth.





## Ecoflex® – from plastic to compost

Ecoflex is a plastic that can be disposed of by simply composting it. This plastic specialty from BASF is completely biodegradable and ideally suited, for example, for the production of bio-garbage bags, which can be composted together with the waste they contain. BASF is currently involved in a pilot project with the district of Stade, Germany, to test the suitability of the biodegradable garbage bags for bio-waste collections.

There are many other possible applications: carrier bags, foodwrap, plastic sheeting for agricultural use, and coated paper products. Ecoflex is certified as a compostable material under DIN V 54 900. It meets all the requirements for complete biodegradability, compostability, compost quality and plant compatibility.

## focused

Our goal in **Plastics & Fibers** is to rank among the best in global competition, with low costs and state-of-the-art technologies.

Sales in Plastics & Fibers rose by 2 percent to DM 14.8 billion. Earnings improved to DM 1,054 million.

Our measures to improve structures are producing results: We expect sales and earnings to increase in 1999, despite the difficult competitive situation.

**New impetus for engineering plastics.** We increased the volume of engineering plastics sold, thanks to strong demand from the automotive and electrical industries. Our cost-cutting measures and the sale of marginal operations helped to improve earnings.

As part of our global strategy, we brought on stream a world-scale ABS production plant at Ulsan, Korea, which sets new cost standards. In 1999, a further plant at Altamira, Mexico, will start producing ABS commodities and specialties.

Capacities for the compounding of our Ultra range of plastics at Schwarzheide, Germany, and the production of Ultraform® in the U.S. were expanded. Further capital expenditures are planned. This will improve the cost situation and help us to share in the growth of the engineering plastics market.

**Styrene polymers out of the trough.** Although heavy competitive pressure on styrene polymers continued, we increased earnings significantly. However, falling raw material costs had to be passed on to customers in the form of lower selling prices.

The improvement in earnings came mainly from increased productivity and cost savings in all product lines and regions. Further measures were introduced to increase efficiency and ensure low-cost leadership.

Our global presence was further enhanced by the start-up of new plants for Styropor® at Nanjing, China, and for polystyrene at Joliet, Illinois.

The takeover of the Hyosung Group's shares in BASF Styrenics Korea Ltd., now BASF Company Ltd., Korea, is strengthening our strategic position in Styropor® and polystyrene in Asia.

**Polyurethane business steady.** Business in polyurethanes made gratifying progress. Sales increased only slightly because of declining exchange rates, but earnings increased notably. For 1999, we intend to raise both sales and earnings further.

Our strategy aims at increasing productivity and achieving cost leadership. To this end, we are installing competitive technologies and building cost-effective large-scale plants to be integrated in our Verbund system.

We made significant advances with polyurethane specialties, through which we market almost half of our basic products. In Europe, we improved the efficiency of our production and sales operations for polyurethane systems. Polyurethane research is being concentrated at Lemförde and Schwarzheide in Germany, closer to production. We aim to broaden our feedstock base and intensify our Verbund system. To this end, we are constructing or planning new large-scale MDI/TDI plants in the U.S. and China, and propylene oxide plants in Europe and Singapore. In Korea, we acquired a local polyol producer, thus consolidating our strong competitive position in Asia.

**Difficult environment for fiber products.** Sales of fiber products fell slightly. Earnings were well down as a result of the Asian crisis. Economic development in Asia is of considerable importance to our future business. We expect to see the beginning of economic recovery in the major Asian countries during 1999.

Demand for nylon weakened in the Asian market during the second half of 1998, causing massive falls in the prices of caprolactam and nylon 6.

In Europe, the price of caprolactam was depressed in the second half by a glut. Earnings from nylon 6.6 improved slightly.

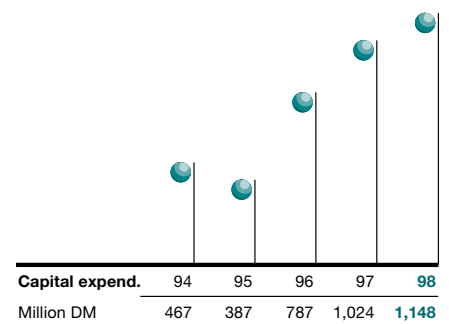
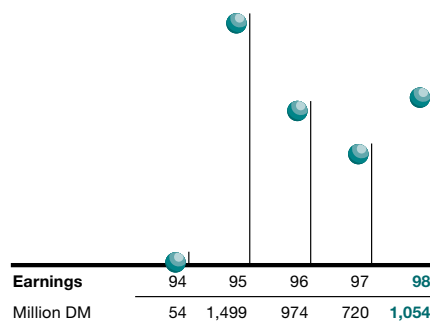
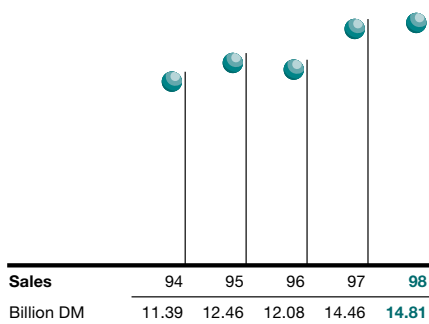
In the carpet fibers business, we made a considerably higher profit than in the previous year. Strong demand ensured that our plants were fully utilized, while prices remained stable and raw material costs fell. From the spring of 1999, we will be producing continuous carpet fibers for Asia Pacific at BASF Hua Yuan Nylon Co., Ltd. in Shanghai, China.

In North America, increasing imports of textile fibers from Asia and Mexico resulted in excess supplies, which reduced prices.

**Polyolefins under price pressure.** In our polyolefins business, which we conduct through joint ventures, demand continued to increase during the year, although heavy competitive pressure and market stresses resulting from the Asian crisis caused falls in selling prices. Earnings were unsatisfactory, especially in the case of polypropylene.

We made good progress in our efforts to be competitive and reduce costs. Important steps in the case of polyethylene were the establishment of the Elenac joint venture with Shell and the acquisition of Montell's and Hoechst's PE operations. We plan to replace old production plants by modern, cost-effective, large-scale units.

Targor, the polypropylene joint venture set up with Hoechst in 1997, is improving its cost situation. A state-of-the-art large-scale plant came on stream in 1998, producing PP copolymers by a cost-effective process of our own.



We are continuously expanding our **Oil & Gas** business.

A focal point of this business is trading in natural gas, where we work in partnership with Gazprom, the world's biggest natural gas producer. In the long term, natural gas sales will make a growing and cyclically resistant contribution to earnings.

In Oil & Gas, sales fell by 16 percent to DM 5.3 billion (excluding petroleum and natural gas taxes), because of low crude oil prices. Earnings dropped to DM 540 million.

We assume crude oil prices will remain low, which will have an impact on sales and earnings during 1999. Nevertheless, we expect earnings to rise slightly because of the increasing share contributed by natural gas.

1998 was a difficult year for the entire oil industry. Like others, we suffered considerably from the fall in crude oil prices, although oil and gas exploration and production were again the mainstays of earnings. Earnings from petroleum products were down on 1997, because of falling margins and reduced production resulting from a scheduled large-scale shutdown of the Lingen, Germany, refinery. We again increased sales of natural gas.

We raised capital expenditures in 1998, the bulk for extending the natural gas pipeline system.

**Oil and gas production up again.** Total production of oil and gas rose from 9.9 to 11.1 million metric tons of oil equivalent. Deminex, in which Wintershall had an 18.5 percent holding, was divided up between the partners retroactively as of January 1, 1998, Wintershall taking over the operations in Argentina, Russia and Azerbaijan. This led to a substantial increase in production volume and deposits, especially in the case of gas.

Oil production rose only slightly, to 7.9 million metric tons. The focus was again on North Africa and

Germany. In the offshore Mittelplate field, Germany's biggest, horizontal drilling from a site on land successfully reached oil-bearing strata. We expect this development to result in a significant increase in production.

The production of natural gas rose by 51 percent to 3.6 billion cubic meters as a result of the takeover of the Deminex holding in Argentina. In Germany, natural gas production remained at the previous year's 1.2 billion cubic meters.

In 1998, we raised the funds for prospecting for new oil and gas deposits from DM 189 million to DM 233 million.

**Selling prices in the refinery business down.**

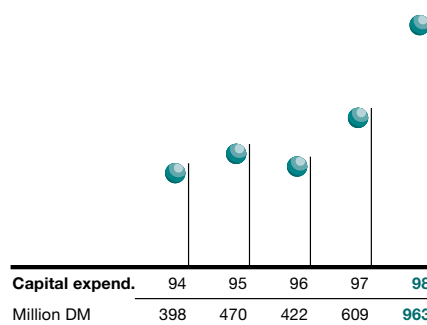
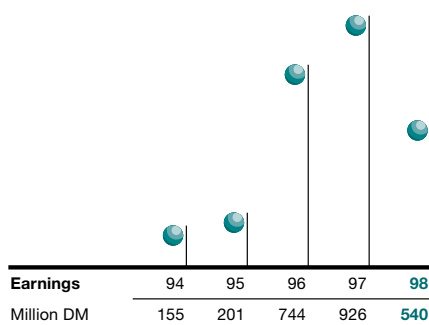
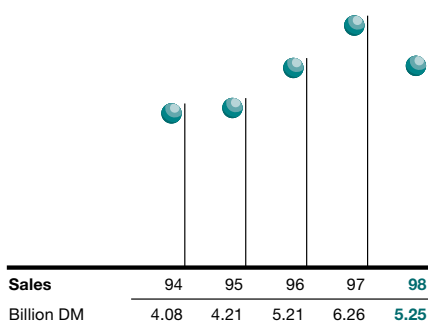
Sales of petroleum products in 1998 were 10 percent down on the previous year at 3.9 million metric tons. The reason for this was the temporary shutdown of our Lingen refinery for an overhaul, which provided an opportunity for us to carry out a modernization project. This measure will be beneficial to the sustained competitiveness of our refinery.

Sales fell because of reduced volumes and lower proceeds because of declining crude oil prices.

**Natural gas trading up.**

Our natural gas operations, conducted jointly with our Russian partner Gazprom, continued to make good progress.

The volume of gas sold by our WINGAS joint venture (65 percent Wintershall) increased in 1998 by about 10 percent to 81 billion kilowatt-hours.





Even more striking growth was achieved by Wintershall Erdgas Handelshaus GmbH (50 percent Wintershall), which boosted its volume sales – primarily because of increased deliveries to the VNG utility company – by 57 percent, to 72 billion kilowatt-hours.

Overall, our figure of 195 billion kilowatt-hours represents a sales volume hike of 24 percent over the previous year.

It seems likely that we will achieve a 15-percent share of the German market before 2005 – earlier than

planned. We are strengthening our marketing operations, especially in western Germany. With the start-up of the second section of the west German connection line (WEDAL) from Soest to Aachen in October, we set the scene for this expansion. Work also continued on the construction of the Yamal gas connection line (JAGAL), which is likely to be completed in the fall of 1999. JAGAL and WEDAL will then form a continuous long-distance gas pipeline linking gas deposits in Russia to the growing west European markets.

We have so far invested some DM 4.5 billion together with Gazprom in our natural gas pipeline system.

# expanding

## **We store enough energy here to supply two million houses for a year.**

WINGAS, the joint venture between Wintershall and Gazprom, began work on the fourth stage of the expansion of its natural gas reservoir near the village of Rehden, Germany. With a volume of 2.6 billion cubic meters, Rehden is already Germany's biggest natural gas reservoir. From May 1999, it will be able to hold some 4.2 billion cubic meters of natural gas, equivalent to the annual requirement of about two million houses. WINGAS is investing DM 150 million in this capacity expansion, creating additional security of supply for customers in about 40 German towns.

The Rehden natural gas reservoir has been in operation since August 1993. In winter, especially, the stored gas is used to meet peak demand, while in periods of low consumption the reservoir takes surplus gas. The reservoir is between 1,900 and 2,100 meters below ground.



# Responsibility

We attach the utmost importance to ensuring that our products satisfy customer requirements. For this reason, we provide products of high and consistent quality which are safe to use. They also help to make more economical use of resources.

For us, product stewardship begins at the research stage. While the product is still being developed, we check it for possible effects on people and the environment, taking account of today's and tomorrow's ecological and social needs. At the production stage, care is taken to ensure that the raw materials are used as efficiently as possible.

We maintain close contacts with our customers and advise them on the use of our products. This is also the responsibility of our product safety officers.



## Environment, safety and energy: Our products and services help to conserve resources and maintain values.

As a company that operates throughout the world, we accept responsibility at all of our sites for the effects of our products and processes on humans and the environment. For example, we act on our own initiative to look for solutions to problems and make constant improvements in safety, environmental protection and health. This is a basic principle of our operations, and underscores why we support the worldwide Responsible Care® initiative.

Our goals are as follows:

- No accidents
- No damage to health resulting from our operations
- No harmful effects from production or products
- A product portfolio committed to the concept of sustainability.

### Sustainability through Verbund structures.

As a result of the geographical proximity of various production and service units at our Verbund sites, considerable synergistic effects are achieved in logistics, energy and waste management. This results in efficient utilization of the resources employed and a significant reduction in emissions and wastes. At the Ludwigshafen site, for example, the environmental burden from production operations has been reduced by more than

95 percent since the early 1970s. To this end, we have invested DM 3.6 billion in environmental protection facilities and spend DM 900 million a year on operating costs.

### New environmental protection facilities.

A number of measures were taken to improve wastewater treatment plants at various sites throughout the world. In 1998, the plants in question were units at Arnheim, Netherlands; Gudang, Malaysia; Ulsan, Korea; and Geismar, Louisiana. At Ludwigshafen, we will have installed a third purification stage by 2000.

A low-emission gas-and-steam turbine powerhouse began operation in the spring of 1998 at our Seal Sands, United Kingdom, site. Similar plants are under construction at Altamira, Mexico, and Freeport, Texas.

### Safety, health and environmental management.

At 34 BASF Group sites, our experts audited, in 68 individual investigations, management systems in the fields of environmental protection, safety and health. The findings are being consistently implemented.

The number of on-the-job accidents resulting in days off work in the BASF Group in 1998 fell by 12 percent to 5.7 accidents per million hours worked.

**Reporting.** Each year, we produce a detailed report on BASF Group environment data entitled "Responsible Care". We also publish reports on various sites and regions: for example, Ludwigshafen and Schwarzheide, Germany; Tarragona, Spain; Seal Sands, United Kingdom; and various North American sites.

**Our employees** are responsible for the company's success. That is why we want to give them a greater share in it.

The number of employees in the BASF Group, including those on limited-term contracts, rose by 966 from the end of 1997; by the end of 1998, it was 105,945. This is mainly attributable to the fact that we consolidated certain companies for the first time.

57 percent of our employees work in Germany, another 15 percent at sites elsewhere in Europe, 15 percent in North America, 6 percent in South America and 7 percent in the Asia, Pacific Area, Africa Region.

**Personnel costs.** Personnel costs rose by DM 431 million to DM 11,755 million. They break down as follows:

	Million DM	Change in %
Wages and salaries	9,467	+3.3
Social contributions and expenses for pension benefits and assistance	2,288	+6.0
• Thereof for pension benefits	(604)	(+15.7)
	11,755	+3.8

**Training and career advancement.** Expenditure on vocational training last year totaled approximately DM 150 million. At year-end, the Group companies in Germany employed 3,454 trainees, 5 percent more than in 1997. As in the previous year, BASF offered

jobs to virtually all suitable candidates who had completed their training.

We look for and encourage creativity in our employees, together with a willingness to learn and be innovative. In this context, career training and advancement are becoming more and more important. In Germany alone, 65,500 employees took part in career advancement programs, on which the company spent DM 75 million.

**Employee shares.** We want to involve our employees to a greater extent in the company's success. For executives, we have planned a stock option program (see page 4). All other BASF Group employees in Germany will, in a first stage, be able to invest part of their annual bonuses in BASF shares at the stock exchange price. If shares are retained for a prolonged period, the company will contribute up to five additional shares for every ten held.

**BASF Aktiengesellschaft.** Compared with 1997, the number of BASF Aktiengesellschaft employees (including those on limited-term contracts) fell by a total of 894 to 43,956. We recruited 633 people from outside the company, including 42 long-term unemployed. At the end of 1998, the number of young people undergoing training was 2,631.

In "Agreement 2000" concluded in 1997 for the Ludwigshafen site, management and the employees' representatives agreed to set the number of people to be employed by the end of 2000 at 39,000 to 41,000 (excluding trainees). As matters stand at present, the terms of this agreement will be met.

## International partnership in training



BASF is proud of a successful international cooperation in the training sector: "Business Administration Combined with Practical Experience" is the name given to a joint initiative with Ludwigshafen Polytechnic, the Vocational Training College and the Chamber of Commerce and Industry. It is one of the few examples of a training course which takes equal account of theory and practice. Trainees work at BASF, attend the Vocational Training College and study at the same time at the Polytechnic. They thus

acquire two diplomas: one in business studies and the other in business administration. An essential component of the course is a stay abroad. Participants can choose between working at a Group company of BASF or studying at the University of North Carolina at Greensboro, U.S. There, they can also acquire an MBA (Master of Business Administration) degree. In the summer of 1998, the first ten trainees started their MBA courses at Greensboro.

**Research and development** are instrumental in shaping our future. And the commitment pays off. In 2000, at least a fifth of our sales (excluding the Oil & Gas segment) will come from products that have been launched in the last five years. The price: R&D expenditures of about DM 2.6 billion in 1998 alone, and probably DM 2.8 billion in 1999.

We convert new scientific findings into innovative products, processes and applications. In addition to our own R&D, in which about 10,000 people are employed all over the world, we extend our knowledge by working with leading scientists from universities, institutes and industry. We maintain a worldwide network of 770 cooperative projects, more than a third of which involve international partners. This tight network of knowledge enables us to develop innovative technologies and solutions to problems quickly and efficiently.

**Commitment to biotechnology.** We are increasing our commitment in plant biotechnology, a new key technology with great innovative potential. We set up two research joint ventures with partners from the scientific world and began an extensive cooperation:

- Metanomics analyzes which biological functions are controlled by which plant genes.
- SunGene introduces genes selectively into plants. The idea is that new properties will improve crop yields and the quality of food.

- We are working with Freiburg University, Germany, to identify lead genes from transgenic moss plants.

We want to use the technologies and products developed in these joint projects commercially to optimize seed. A first step in this direction is the planned acquisition of a participating interest in the Swedish seed breeding company Svalöf Weibull. To exploit synergistic effects from seed development and plant biotechnology, we plan to combine all the research operations of the two companies in this area in a company called BASF Plant Science GmbH.

In the field of genetic engineering, we operate, together with our American partner Lynx Therapeutics, the biotech company BASF-Lynx Bioscience AG in Heidelberg, Germany. Supported by a new method of analyzing dynamic biological processes, we are optimizing microorganisms for fermentation processes. We are also analyzing, at a molecular level, how diseases originate and the course they take, and are looking for test systems for the early identification of

## Broadening our knowledge

Genes control and influence the properties of plants. But what are the precise mechanisms? And how can these effects be systematically improved? These are exciting questions for Dr. Ralf Badur (left) and Dr. Mathieu Klein. The scientists are working for SunGene and Metanomics, two new BASF research joint ventures set up in August 1998.

We will be investing a total of DM 100 million in these companies over the next five years. We want to broaden our knowledge in the field of plant biotechnology: Our goal is to develop plants with improved cultivation properties and better constituents.



undesirable side effects of chemicals and active compounds.

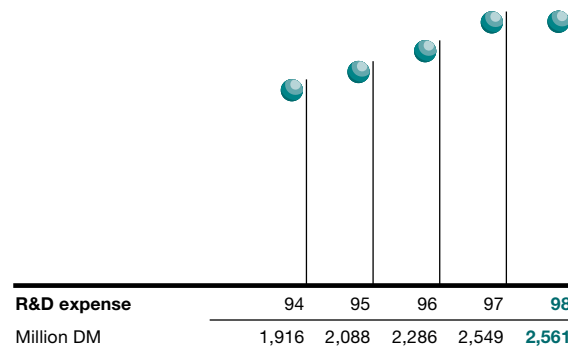
**Strength in numbers.** Our partnerships with well-known pharmaceutical companies offer additional opportunities. Together with Hoechst Marion Roussel, we are developing a BASF active substance for the treatment of cardiovascular disease, which is currently in Phase II of clinical trials.

Our new active compound for the treatment of schizophrenia is based on the selective blocking of a particular dopamine receptor in the brain. This substance, which we are developing jointly with Novartis, is in Phase I of clinical trials.

Electric cars need “mobile” power. This can be supplied by fuel cells, which are fed with hydrogen released from methanol. We have developed a catalyst for this process. We are using our great experience in this field in a joint project with DaimlerChrysler, Ford and Ballard Power Systems to produce an electric car of the future. The world market for such catalysts in fuel cells is estimated at over DM 1 billion.

We have formed an alliance with GE Plastics with a view to developing large bodywork sections made from innovative plastics. The new construction materials will make it possible to produce lightweight cars and so help to reduce fuel consumption, and thus CO<sub>2</sub> emissions.

In the development of new specialty chemicals, we cooperate closely with leading companies in the detergent, cleaning products and petroleum industries on the joint development of new surfactants, detergent components and fuel additives which our customers



can use in customized formulations. In the detergent sector, the aim is to manufacture products with improved cleaning power combined with the gentlest possible treatment of textiles and ecocompatibility. In the fuel sector, the goal of new packages of additives is to keep engines clean, thus saving fuel.

### Utilizing the advantages of new technologies.

We make use of synergies resulting from different technologies and methods.

#### Example 1:

We keep our Verbund structures flexible by developing production processes based on alternative raw materials for important intermediates. Caprolactam, the basic building block of nylon 6, is traditionally produced from benzene. We are using a newly developed process to produce caprolactam from butadiene on a pilot-plant scale. This offers a number of advantages: higher yield, lower capital expenditures and no by-products.

#### Example 2:

We founded a joint venture with Cerestar and Merck to produce vitamin C more cost-effectively. The company manufactures ketogulonic acid, a precursor of vitamin C, by a new, efficient fermentation process. This will strengthen our position as one of the world's biggest producers of vitamins.

## future-oriented

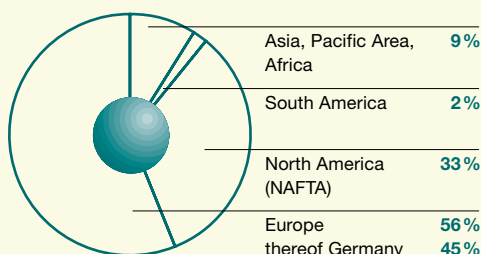
The research scientists at Metanomics, headquartered in Berlin, Germany, analyze the function of plant genetic material. They want to find out which plant genes control certain biological functions. The same issue is being investigated by researchers at Freiburg University, Germany, who are identifying lead genes from transgenic moss plants.

The second new company, SunGene, was set up at Gatersleben, Germany. It will test genes in crop plants and develop new technologies for introducing genes into plants.

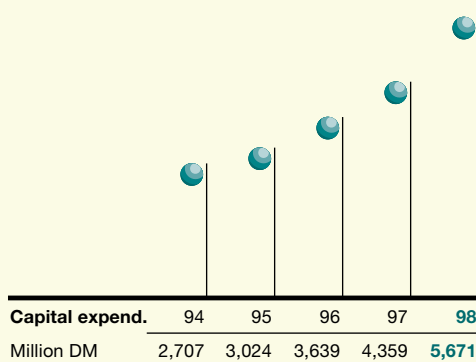
Between them, Metanomics and SunGene will provide a total of about 100 new jobs.

## Capital expenditures, cooperations, acquisitions and divestitures

play an important part in shaping our portfolio.



Capital expenditures in 1998 by region



### Capital expenditures

Capital expenditures on tangible fixed assets were DM 5,671 million, or 30.1 percent more than in the previous year. This includes additions of DM 328 million resulting from acquisitions. DM 2,539 million was spent on plant and equipment in Germany, of which BASF Aktiengesellschaft accounted for DM 1,075 million.

In 1999, we plan to increase capital expenditures – not counting possible additions due to acquisitions – to DM 5,350 million.

In **Health & Nutrition**, capital expenditures last year totaled DM 761 million, equivalent to 13.4 percent of total BASF Group capital expenditures.

At the Ludwigshafen site, we built new capacities for the manufacture of products for the cosmetics industry, expanded our existing flavor chemicals plants and completed a plant for a new cereal herbicide. Construction work began on a new rice herbicide facility.

At Tarragona, Spain, a further production plant for kresoxim-methyl, one of the new class of strobilurin fungicides, started up in February 1998. Work also began on the construction of a formulation plant for fungicides.

In the U.S., a plant for a new corn herbicide went on stream at Beaumont, Texas, in late 1998, and production of the active substance for the thyroid drug Synthroid® began at a new plant in Wyandotte, Michigan.

The expansion of pharmaceuticals production in France was completed and a capacity expansion project began at Ludwigshafen.

Capital expenditures in **Colorants & Finishing Products** amounted to DM 610 million, 10.8 percent of total capital expenditures.

At Ludwigshafen, we made a start on the radical restructuring of dispersion production, which will be completed in the year 2000.

# New plants round the world

At our Besigheim site, near Stuttgart, Germany, we started up a new plant for the production of Variocrom™ pigments.

A new plant for 2-ethylhexyl acrylate began operation at the Freeport, Texas, site. The acrylate dispersions plant at Monaca, Pennsylvania, is being rapidly expanded.

Construction of the acrylic acid/acrylate complex at Kuantan, Malaysia, is proceeding on schedule.

In Shanghai, China, we will be making a major increase in our dispersions capacity.

We plan to build a butyl acrylate plant at the Guaratinguetá, Brazil, site.

In **Chemicals**, we invested DM 1,148 million; this was 20.2 percent of total capital expenditures.

At Ludwigshafen, the expanded plants for the production of chloroformates, acid chlorides and alkyl chlorides came on stream in January 1998. We are increasing production of glycol ether, melamine, propylene oxide and propylene glycol. A new plant for the production of optically active intermediates is being started in 1999.

At the Antwerp, Belgium, site, we started up new aniline and formaldehyde plants and expanded capacities for ethylamines and ethylenediamine.

In the U.S., we increased specialty amine production capacity at the Geismar, Louisiana, site in the spring of 1998. We expanded oxo alcohol production at Freeport, Texas; we are also planning a new 1,6-hexanediol and caprolactam plant. In the new joint venture with Fina, construction of a steamcracker began at Port Arthur, Texas.

Together with our Chinese partner, we began operation of a neopentylglycol plant at Jilin, China, in June.

Production of PolyTHF® began in September in a new plant at Ulsan, Korea.

Capital expenditures in **Plastics & Fibers** were DM 1,148 million or 20.2 percent of the total.

Capacity at Schwarzheide, Germany, for compounding our Ultra line of plastics was expanded.

In the U. S., we began operating a new plant for the production of high-impact polystyrene at Joliet, Illinois. Capacity at the Ultraform Company in Theodore, Alabama, was increased.

A Neopolen® plant began operation at Guaratinguetá, Brazil.

Yangzi-BASF Styrenics began production of ethylbenzene, styrene, polystyrene and Styropor® at Nanjing, China.

A world-scale plant for the production of ABS went on stream at the Ulsan, Korea, site in early 1998.

Our capital expenditures in **Oil & Gas** were DM 963 million. This was 17.0 percent of total capital expenditures.

The measures to improve the plant structure at the Lingen, Germany, oil refinery were completed in August.

The construction of natural gas pipelines was again the focal point of capital expenditures in 1998. The second section of the west German connection line (WEDAL) from Soest to Aachen became operational in October. The extension of the Yamal gas connection line (JAGAL) went ahead on schedule. We are further expanding the Rehden, Germany, natural gas reservoir.

# Global portfolio optimization

We set up joint ventures, acquired companies and lines of business, reorganized our operations and also discontinued and divested businesses and interests in order to optimize our portfolio and improve our structures.

## Cooperations

We broadened the base of our plant biotechnology operations, setting up two new joint ventures: Metanomics, in cooperation with two senior staff of the Max Planck Institute for Molecular Plant Physiology, Potsdam, Germany; and SunGene, jointly with the Institute for Plant Genetics and Crop Research at Gatersleben, Germany, and two members of the institute's staff (BASF's stake being over 50 percent in each case). All our research operations in this field will be incorporated into the BASF Plant Science joint venture (BASF holding: 85 percent) which we intend to set up together with the Swedish company Svalöf Weibull.

Elenac, the polyethylene joint venture with Shell (BASF holding: 50 percent) was formed on March 1, 1998 from our joint affiliate Rheinische Olefinwerke GmbH, Wesseling, Germany.

We set up a joint venture under the name BASF Fina Petrochemicals (BASF share: 60 percent) for the construction and operation of a steamcracker at Port Arthur, Texas.

Together with Cerestar Deutschland GmbH, Krefeld, Germany, and Merck KGaA, Darmstadt, Germany, we set up KGS KETO-GULONSÄURE Produktionsgesellschaft mbH and began work on the construction of a ketogulonic acid production plant at Krefeld (BASF holding: 33.3 percent).

We intend to incorporate our European PVC operations into a joint venture (BASF: 25 percent) with Solvay S.A., Belgium.

We plan to set up a 50:50 joint venture with Shell Chemicals Ltd. to produce styrene and propylene oxide in Singapore.

We are rigorously pursuing our negotiations with SINOPEC and YPC on the construction of an integrated site at Nanjing, China. In Shanghai, we are planning two joint ventures that will construct plants for the production of MDI and TDI. The partners are Chinese companies and, in the case of MDI, will also include ICI Polyurethanes and Nippon Polyurethanes.

## Acquisitions

We acquired the following in 1998:

- the 50-percent holding of Hyosung T & C Co. Ltd., Korea, in the joint venture Hyosung BASF Co. Ltd., now BASF Company Ltd., Korea,

- the complexing agents business of Ciba Specialty Chemicals Corporation, Tarrytown, New York,
- the rigid foam polyol business of ARCO Chemical, Maidenhead, UK,
- the lysine business of Daesang, including the production plants at Kunsan, South Korea,
- the worldwide superabsorbers business of Clariant AG, Muttenz, Switzerland,
- from Dongsung Chemical Co. Ltd., Pusan, Korea, its business in polyol, a polyurethane raw material,
- a majority holding in Micro Flo Co., Lakeland, Florida, the second biggest supplier of generic products on the American crop protection market, and
- Hoechst Celanese's paracetamol business.

Elenac, our polyethylene joint venture with Shell, took over the polyethylene operations of Montell and Hoechst.

We reached agreement at the end of February 1999 with DSM N.V., Heerlen, Netherlands, on the purchase of its ABS plastics operations.

We want to acquire a 40-percent holding in the Swedish seed breeding company Svalöf Weibull AB.

## Divestitures

In 1998, we sold:

- Handelsgesellschaft Chemag AG, Frankfurt, Germany, to Metallgesellschaft AG, Frankfurt, Germany,
- our feed phosphates marketing operation to Kemira Kemi AB, Helsingborg, Sweden,
- our business in solvent-containing acrylate contact adhesives to National Starch & Chemical, Bridgewater, New Jersey,
- our European operations in building paints to Akzo Nobel N.V., Netherlands,
- 35 percent of our shares in Comparex Informationssysteme GmbH, Mannheim, Germany, to what was then Persetel (now Comparex) Deutschland Holding GmbH, and
- our operations in semi-finished sheets of glass-mat-reinforced thermoplastics to Symalit, Switzerland.

Guano-Werke GmbH, an affiliate of BASF Aktiengesellschaft, reduced its holding in Kali und Salz Beteiligungs AG to just over 25 percent.



## Historians write the history of the company

In 2002, BASF Aktiengesellschaft will be celebrating the 50th anniversary of its refounding. To mark the occasion, a comprehensive history of the company will be published. Four renowned historians are researching the company archives. The book will survey BASF's history, from its founding as Badische Anilin- & Soda-Fabrik to the present-day BASF Aktiengesellschaft, and will be divided into four periods: Professor Dr. Wolfgang von Hippel will be dealing with the period from 1865 to 1900, Dr. Jeffrey A. Johnson with the period from 1900 to 1925 and Dr. Raymond G. Stokes will be investigating the period from 1925 to 1952, and, thus, BASF's inclusion in I. G. Farbenindustrie AG's involvement in Nazi tyranny. Professor Dr. Werner Abelshauser will be responsible for the history of BASF from 1952. The agreement signed between BASF and these four authors stipulates that the company will not exert any influence on the content of the publication.

## Year 2000: Systems converted

We are carefully preparing our date-dependent control systems to handle the changeover from 1999 to 2000. Group-wide, EDP specialists are checking mainframes and computer centers to ensure Y2K compliance for BASF. This includes relations with our customers and suppliers. The critical systems were already checked and converted at the end of 1998.



## BASF Innovation Fund: new jobs through new ideas

Storing music and other sounds on ordinary paper? Using a hand scanner to make a dictionary talk? It may sound incredible, but it might be a promising innovation. The Ludwigshafen company Datasound intends to develop this idea to the stage of market readiness. In doing so, the young company is being supported by BASF Innovationsfonds GmbH, which was founded in the spring of 1998. The idea is to support new businesses in the Rhine-Neckar triangle and other areas of Germany where BASF has Group companies by acquiring participating interests. The areas concerned are the conurbations of Kassel (Wintershall AG), Dresden/Cottbus (BASF Schwarzheide GmbH) and Münster/Osnabrück (BASF Coatings AG and Elastogran GmbH).

BASF allocated a starting capital of DM 20 million to the fund, which is being used both to found new companies and to expand existing ones. All innovative ideas that hold out promise for the future – whether in research, production, crafts or services – will be considered. The deciding factor is not just the innovative value of a business idea but, in particular, whether it will create new and sustainable jobs in the regions concerned.

**Finance:** We achieved a cash flow of DM 7.3 billion. The return on assets before income taxes and interest expenses was 11.9 percent. The return on equity after taxes was 13.2 percent. In order to improve the future return on equity, we launched a share buy-back program in January 1999.

#### Change in accounting methods

We are aiming to have our shares listed on the New York Stock Exchange in the year 2000. With this in mind, we have changed our accounting policies to the extent permitted by the accounting and valuation methods allowed under the German Commercial

Code, to bring them into line with U.S. GAAP (Generally Accepted Accounting Principles). The adjustments were recorded directly in the revenue reserves as of January 1, 1998.

	Million DM
Revenue reserves and profit retained as of December 31, 1997/January 1, 1998	23,031
Valuation of pension obligations in accordance with the projected unit credit method (FAS 87)	- 1,881
Elimination of special tax valuation measures	412
Other adjustments	- 210
Recognition of deferred tax assets for the above temporary differences	2,060
Minority interests	85
<b>Revenue reserves without minority interests and profit retained as of January 1, 1998 after adjustment</b>	<b>23,497</b>

#### Reconciliation

Additionally required adjustments to comply with U.S. GAAP, which could not be recorded in accordance

with the German Commercial Code, are included in the following reconciliation:

#### Reconciliation of shareholders equity as of January 1, 1998

	Million DM
Revenue reserves and profit retained after valuation changes as of January 1, 1998	23,497
Capitalization of construction period interest	812
Valuation of securities at market values	91
Adjustments for pension funds	1,297
Other adjustments	354
Recognition of deferred tax assets for the above adjustments and for tax loss carryforwards	- 785
Minority interests	- 52
<b>Revenue reserves and profit retained according to U.S. GAAP as of January 1, 1998</b>	<b>25,214</b>

## Reconciliation of net income and shareholders equity as of December 31, 1998

	Net income after taxes and minority interests Million DM	Equity excluding minority interests Million DM
Amounts shown in BASF Group	3,324	25,268
Financial Statements in accordance with the German Commercial Code	69	881
Capitalization of construction period interest	- 3	173
Valuation of securities at market values		
Adjustments for pension plans	- 66	1,231
Other adjustments	109	457
Recognition of deferred tax assets for U.S. GAAP adjustments and for tax carryforwards	55	- 738
Minority interests	- 24	- 76
<b>Net income and equity according to U.S. GAAP</b>	<b>3,464</b>	<b>27,196</b>
<b>Earnings per share according to U.S. GAAP (in DM)</b>	<b>5.56</b>	
<b>Diluted earnings per share according to U.S. GAAP (in DM)</b>	<b>5.45</b>	

### Financing

The cash flow statement has also been prepared on the basis of U.S. GAAP. The previous year's figures have been reclassified.

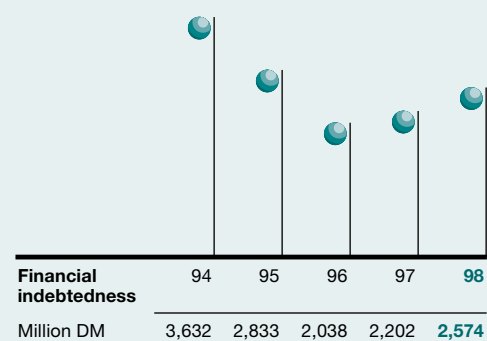
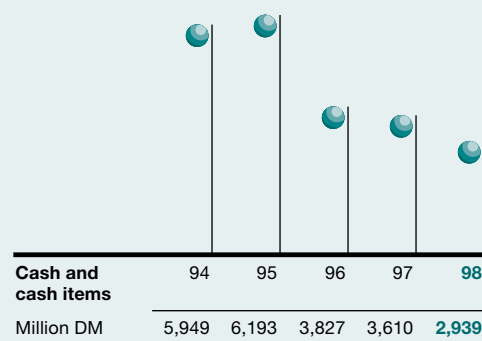
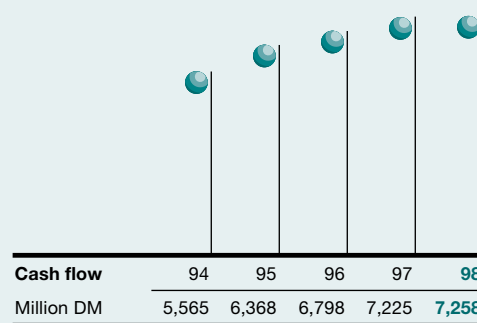
The cash flow rose by DM 33 million to DM 7,258 million. Depreciation on fixed assets was 11.3 percent higher than in the previous year. The cash flow as a percentage of sales reached 13.4 percent, compared with 13.0 percent in the previous year. The cash flow per share was DM 11.65, the same figure as for the previous year.

The reduction in inventories and receivables released additional funds so that a total of DM 7,324 million was available from current business operations.

We spent a total of DM 6,311 million on capital expenditures and acquisitions. Capital expenditures on tangible and intangible fixed assets rose by DM 475 million to DM 5,324 million. After deduction of proceeds from divestitures, we spent DM 1,487 million on acquisitions, especially on expanding our business in Korea. The net proceeds from the sale of financial assets and securities amounted on balance to DM 500 million.

Financing activities resulted in an outflow of funds of DM 1,365 million. The bulk of this related to the dividend payment made to BASF Aktiengesellschaft shareholders. We also reduced financial indebtedness and similar liabilities, balanced against the assumption of such liabilities, by DM 185 million.

Cash and cash items – excluding foreign exchange effects – fell by DM 352 million. Securities not included in these items declined by DM 504 million. As a result, cash and cash items fell by DM 671 million to DM 2,939 million.



<b>Statement of cash flow</b>	<b>1998</b>	1997
	<b>Million DM</b>	Million DM
Net income	<b>3,324</b>	3,236
Depreciation of fixed assets	<b>4,476</b>	4,023
Changes in long-term provisions and other items	<b>- 542</b>	- 34
<b>Cash flow</b>	<b>7,258</b>	7,225
Gains (+) / losses (-) on fixed asset dispositions	<b>- 290</b>	18
Change in inventories and receivables	<b>841</b>	- 1,638
Change in other operating liabilities	<b>- 485</b>	832
<b>Net cash provided from operating activities</b>	<b>7,324</b>	6,437
Additions to tangible and intangible fixed assets	<b>-5,324</b>	- 4,849
Additions to financial assets and securities	<b>-2,302</b>	- 1,866
Additions and retirements related to acquisitions and divestitures	<b>-1,487</b>	- 711
Proceeds from the disposition of fixed assets and securities	<b>2,802</b>	2,302
<b>Net cash from investing activities</b>	<b>- 6,311</b>	- 5,124
Net proceeds from capital increases/decreases	<b>53</b>	124
Proceeds from additions to financial indebtedness	<b>659</b>	249
Repayment of financial indebtedness	<b>- 844</b>	- 245
Dividend paid		
- to shareholders of BASF AG	<b>- 1,244</b>	- 1,051
- to minority interests	<b>11</b>	35
<b>Cash used for financing activities</b>	<b>- 1,365</b>	- 888
<b>Net change in liquid funds</b>	<b>- 352</b>	425
Effect of currency translation and changes in the scope of consolidation	<b>185</b>	67
Liquid funds at beginning of year	<b>1,648</b>	1,156
<b>Liquid funds at end of year</b>	<b>1,481</b>	1,648
Other securities in current assets	<b>1,458</b>	1,962
<b>Cash and cash items (balance sheet item)</b>	<b>2,939</b>	3,610

## Assets and capital structure

Total assets increased by DM 4.2 billion to DM 52.2 billion. This increase is attributable to higher capital expenditures, acquisitions, the widening of the scope of consolidation and the changes in accounting methods. Fixed assets as a proportion of total assets increased from 51.8 to 54.5 percent. The share of current assets (excluding cash and cash items) dropped to 39.9 percent (previous year: 40.7 percent). Cash and cash items decreased as a result of the capital expenditures and acquisitions; their proportion of total assets fell from 7.5 to 5.6 percent.

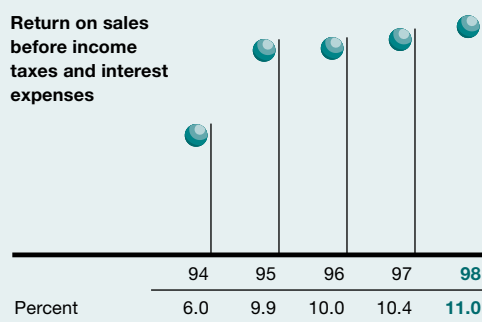
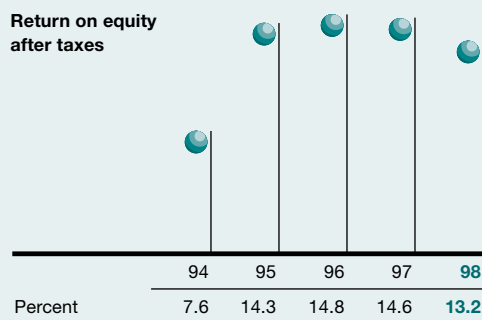
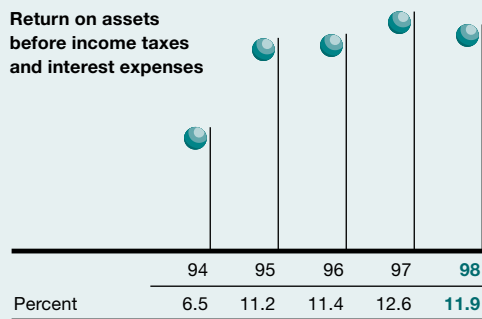
Equity increased by DM 2.4 billion as a result of the accounting changes and retained profit. Equity as a proportion of total assets increased as a consequence to 49.6 percent (previous year: 49.0 percent).

Long-term provisions and liabilities accounted for 25.8 percent of total liabilities and equity (previous year: 24.9 percent). This increase is mainly attributable

to pension provisions, which increased by DM 1.5 billion, primarily as a result of the adjustments to comply with U.S. GAAP. Total financial indebtedness was DM 2,574 million. It increased, despite the repayments made, primarily as a result of the inclusion of additional companies in the scope of consolidation. The share of financial indebtedness in U.S. dollars was 59 percent. Short-term borrowing accounted for 24.6 percent (previous year: 26.1 percent) of total liabilities and equity.

## Returns

Although earnings before income taxes increased, this did not result in an increase in the return on assets before income taxes and interest expenses. The reason for this is the sharp increase in total assets. As a result, the return fell from 12.6 percent to 11.9 percent. Since the start of the upturn in 1994, we have achieved an average return on assets before income taxes and interest expenses of 10.8 percent. This is within our target range of a minimum return of 10 percent, averaged over the economic cycle.



Structure of assets and liabilities	1998		1997
	Million DM	%	%
<b>Assets</b>			
Intangible assets	3,843	7.4	6.1
Tangible assets	21,034	40.3	37.0
Financial assets	3,572	6.8	8.7
<b>Fixed assets</b>	<b>28,449</b>	<b>54.5</b>	51.8
Inventories	7,243	13.9	15.8
Accounts receivable – trade	7,857	15.0	17.5
Other receivable	3,629	7.0	7.2
Deferred tax assets	2,107	4.0	0.2
Cash and cash items	2,939	5.6	7.5
<b>Current assets*</b>	<b>23,775</b>	<b>45.5</b>	48.2
<b>Assets</b>	<b>52,224</b>	<b>100.0</b>	100.0
<b>Equity and liabilities</b>			
Paid-in capital	8,185	15.7	17.0
Revenue reserves	17,006	32.6	30.2
Translation adjustment	77	0.1	0.8
Minority interests	647	1.2	1.0
<b>Equity</b>	<b>25,915</b>	<b>49.6</b>	49.0
Long-term provisions	10,877	20.8	19.7
Long-term debt	1,298	2.5	3.1
Other long-term liabilities	1,317	2.5	2.1
<i>Long-term liabilities</i>	<b>13,492</b>	<b>25.8</b>	24.9
Short-term debt	1,276	2.4	1.5
Liabilities from receivables	3,628	7.0	8.0
Other short-term liabilities and provisions	7,913	15.2	16.6
<i>Short-term liabilities</i>	<b>12,817</b>	<b>24.6</b>	26.1
<b>Liabilities*</b>	<b>26,309</b>	<b>50.4</b>	51.0
<b>Current assets</b>	<b>52,224</b>	<b>100.0</b>	100.0

\* Including deferred tax assets and other prepaid expenses

We improved the return on sales before income taxes and interest expenses to 11.1 percent, as compared with 10.4 percent in the previous year. This is the highest figure we have ever achieved.

The return on equity fell from 14.6 percent to 13.2 percent, because equity has been increased as a result of the adjustments to comply with U.S. GAAP. We began buying back our own shares in January 1999, and plan this year to acquire up to 5 percent of the capital stock. This measure, too, will help to improve the return on equity in the future as a result of the leverage effect.

**Outlook:** Business in 1999 is becoming more difficult. We expect, however, sales at the previous year's level and are confident of achieving a satisfactory result from business operations.



#### **Economic situation and business trends.**

1999 will be a difficult year for the chemical industry worldwide. Pressure on prices is likely to continue. Important markets and regions have been hit by crisis situations whose duration and effects are hard to foresee at present.

In western Europe, the economic downturn resulting from the Asian crisis will likely bottom out at the middle of the year. We expect economic growth, averaged over the year, to be weaker than in 1998. For the west European chemical industry, production is forecast to rise by just under 1.5 percent. We assume a moderate revival will be probable in 2000 and 2001. The positive effects of the introduction of the euro will play a part here.

In Germany, overall economic growth will slow down in 1999. There is the possibility of a reversal of the trend in the second half if general economic and political conditions allow.

In North America, we expect economic growth to slow in 1999 after the strong growth in 1998. Even so, we are confident about BASF's future earnings because we will be expanding our business in new life science products and specialties. The expected recovery of the world economy over the next few years will also benefit the U.S. economy.

In South America, the economic situation is still unstable. In Brazil and the Mercosur countries especially, a temporary recession seems likely. This, combined with the monetary uncertainty, will have an adverse effect on our business, and thus on earnings. In the year 2000, we expect a moderate general recovery in South America.

There are increasing signs that stability is returning to southeast Asia. In some countries, it seems the downturn has already ended. We expect average GDP growth in southeast Asia (excluding Japan) in 1999 to be about 2 percent, and we consider a further recovery to be probable in subsequent years, although the previous high rates of growth are not expected again in the medium term. In Japan, a gradual improvement seems likely only from 2000.

We assume that local business in Asia will be stable, but expect exports to the region to be more difficult because of drastic devaluations in local currencies.

**Strategy and planning.** Our strategic objectives are unchanged: We intend to increase BASF's corporate value by expanding our core activities, strengthening cyclically robust operations, increasing cost efficiency, and focusing business expansion on growth regions.

With these objectives in mind, we are optimizing our portfolio, improving our procedures and structuring our production and administration processes more efficiently. These measures are helping to cut costs, increase productivity and benefit sales and earnings. We also intend to launch new products in many sectors.

New plants using state-of-the-art technologies are also improving productivity. The funds earmarked for capital expenditures in 1999, probably DM 5.3 billion, are therefore being kept at a high level. Planning for the year 2000 envisages similar capital expenditures.

We are adhering to our expansion plans in Asia. We see it as a joint task for ourselves and our partners to adjust time schedules to suit the changing markets.

R&D is instrumental in shaping BASF's future. The funds necessary will be increased from the 1998 figure of DM 2.6 billion to DM 2.8 billion in 1999, and a further increase to DM 2.9 billion is planned for the year 2000. We are working constantly on increasing the efficiency of our research and converting its results into tangible business success even more quickly. One of our measures was to assign, at the beginning of 1999, the individual areas of research to various Board members (see page 61).

**Outlook for 1999 and 2000.** BASF is headed in the right direction. We have significantly increased our competitiveness and profitability in the past few years. Consequently, we are confident that, even under the difficult conditions of 1999, we will achieve a satisfactory result from business operations.

On the basis of our plans, we expect BASF Group sales in 1999 to be similar to those of 1998. We expect them to increase considerably in 2000. The earnings forecast at present envisages a moderate decline in 1999 and a perceptible rise in 2000.

## Financial Report

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## Balance sheets of the BASF Group and BASF Aktiengesellschaft as of December 31, 1998 in million DM

Assets	Explanations in Note	BASF Group		BASF Aktiengesellschaft	
		Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1998	Dec. 31, 1997
Intangible assets	(7)	3,843.1	2,928.1	1,191.3	595.0
Tangible assets	(7)	21,033.9	17,750.5	3,284.5	2,905.9
Financial assets	(8)	3,571.5	4,169.6	16,323.2	15,720.7
<b>Fixed assets</b>	(3)	<b>28,448.5</b>	24,848.2	<b>20,799.0</b>	19,221.6
Inventories	(9)	7,243.3	7,580.2	2,323.4	2,205.0
Accounts receivable – trade		7,857.3	8,408.4	1,599.2	2,060.6
Receivables from affiliated companies		1,265.1	967.9	3,945.6	4,218.5
Miscellaneous receivables and other assets		2,099.8	2,138.2	574.8	494.2
Receivables and other assets	(10)	11,222.2	11,514.5	6,119.6	6,773.3
Securities		1,458.5	1,961.7	1,180.3	1,744.3
Checks, cash on hand, Bundesbank balances, bank balances		1,480.3	1,648.3	513.1	849.2
<b>Current assets</b>	(3)	<b>21,404.3</b>	22,704.7	<b>10,136.4</b>	11,571.8
<b>Deferred taxes</b>	(11)	<b>2,107.0</b>	89.1	<b>931.0</b>	–
<b>Prepaid expenses</b>	(12)	<b>264.1</b>	345.6	<b>21.3</b>	19.4
		<b>52,223.9</b>	47,987.6	<b>31,887.7</b>	30,812.8
<b>Equity and liabilities</b>					
Subscribed capital	(13)	3,119.0	3,110.3	3,119.0	3,110.3
Capital surplus	(14)	5,065.8	5,021.1	4,884.1	4,839.4
Revenue reserves*	(15)	17,006.2	14,508.1	6,784.4	6,039.4
Profit retained	(15)			1,356.3	1,244.2
Translation adjustment	(5)	77.2	391.7		
Minority interests	(29)	646.7	498.5		
<b>Equity</b>		<b>25,914.9</b>	23,529.7	<b>16,143.8</b>	15,233.3
<b>Special reserves</b>	(4)			<b>255.9</b>	6.7
Pension provisions and similar obligations	(16)	7,945.5	6,420.7	5,584.3	4,602.5
Provisions for taxes		953.0	1,343.8	313.1	975.5
Other provisions	(17)	6,251.1	6,487**	2,542.3	2,812.3
<b>Provisions</b>	(3/17)	<b>15,149.6</b>	14,251.5	<b>8,439.7</b>	8,390.3
Bonds and other liabilities to the capital market		1,155.0	1,258.3		
Liabilities to credit institutions		1,418.6	943.3	103.6	15.1
Accounts payable – trade		3,659.7	3,858.2	900.4	942.5
Liabilities to affiliated companies		396.7	233.0	4,707.4	5,221.9
Miscellaneous liabilities		4,136.7	3,643.5	1,132.4	768.6
<b>Liabilities</b>	(18)	<b>10,766.7</b>	9,936.3	<b>6,843.8</b>	6,948.1
<b>Deferred income</b>		<b>392.7</b>	270.1	<b>204.5</b>	234.4
		<b>52,223.9</b>	47,987.6	<b>31,887.7</b>	30,812.8

\* Including profit retained in the case of the BASF Group

\*\* Including special reserves with equity portion 35.4



Explanations in Note	BASF Group		BASF Aktiengesellschaft	
	1998	1997	1998	1997
Sales	<b>57,199.5</b>	58,904.3		
– Petroleum and natural gas taxes	<b>3,134.6</b>	3,124.2		
<b>Sales</b> (without petroleum and natural gas taxes) (22)	<b>54,064.9</b>	55,780.1	<b>21,045.2</b>	23,527.3
Cost of sales	<b>33,786.0</b>	35,520.5	<b>13,696.9</b>	15,681.1
<b>Gross profit on sales</b>	<b>20,278.9</b>	20,259.6	<b>7,348.3</b>	7,846.2
Selling expense	<b>9,707.2</b>	9,355.0	<b>3,180.7</b>	3,402.9
General administration expense	<b>1,510.8</b>	1,396.5	<b>424.8</b>	437.5
Research and development expense	<b>2,560.7</b>	2,548.9	<b>1,555.3</b>	1,530.8
Other operating income (23)	<b>2,223.5</b>	2,139.5	<b>883.0</b>	660.7
Other operating expense (23)	<b>3,592.1</b>	3,757.2	<b>1,285.7</b>	1,349.9
<b>Income from operations</b>	<b>5,131.6</b>	5,341.5	<b>1,784.8</b>	1,785.8
Net income from financial assets (24)	<b>171.6</b>	–47.6	<b>1,289.8</b>	675.6
Amortization of and losses from retirement of financial assets as well as securities held as current assets	<b>94.7</b>	63.4	<b>194.5</b>	91.5
Interest result (25)	<b>210.8</b>	100.6	<b>298.1</b>	211.9
<b>Financial result</b>	<b>287.7</b>	–10.4	<b>1,393.4</b>	796.0
<b>Profit before taxes*</b>	<b>5,419.3</b>	5,331.1	<b>3,178.2</b>	2,581.8
Income taxes (26)	<b>2,164.8</b>	2,125.7	<b>880.7</b>	737.7
<b>Net income</b>	<b>3,254.5</b>	3,205.4	<b>2,297.5**</b>	1,844.1
Minority interests in profit/loss (29)	<b>–69.2</b>	–30.3		
Results from valuation adjustments as of January 1, 1998 (6)			<b>–196.3</b>	–
<b>Net income after minority interests</b>	<b>3,323.7</b>	3,235.7	<b>2,101.2</b>	
<b>Results per share (DM)</b>	<b>5.34</b>	5.22		

\* Results from ordinary operations

\*\* Before valuation adjustments

Development of fixed assets as of December 31, 1998 in million DM

Gross book values						
<b>BASF Group</b>	Jan. 1, 1998	Change in scope of consolidation	Additions	Retirements	Reclassi- fications	Dec. 31, 1998
Concessions, industrial and similar rights and assets, as well as licenses for such rights and assets	3,257.3	187.1	971.7	62.5	46.0	4,399.6
Goodwill	1,000.5	92.5	629.4	33.8	-49.1	1,639.5
Payments on account	158.8	0.2	8.2	0.1	-152.7	14.4
<b>Intangible assets</b>	<b>4,416.6</b>	<b>279.8</b>	<b>1,609.3</b>	<b>96.4</b>	<b>-155.8</b>	<b>6,053.5</b>
Land, land rights and buildings including buildings on land owned by others	11,223.1	574.0	159.9	206.1	408.3	12,159.2
Machinery and technical equipment	43,501.7	803.7	1,528.9	1,207.7	2,178.5	46,805.1
Miscellaneous equipment and fixtures	5,977.8	79.9	369.0	570.9	248.1	6,103.9
Payments on account and construction in progress	2,713.6	401.7	3,612.7	37.6	-3,401.5	3,288.9
<b>Tangible assets</b>	<b>63,416.2</b>	<b>1,859.3</b>	<b>5,670.5</b>	<b>2,022.3</b>	<b>-566.6</b>	<b>68,357.1</b>
Shares in affiliated companies	1,875.0	-678.5	546.9	70.8	-114.2	1,558.4
Loans to affiliated companies	1,049.2	-	4.5	208.4	6.3	851.6
Shares in associated companies	654.6	-27.2	44.6	236.5	-50.0	385.5
Shares in participating interests	505.1	-	39.3	28.8	-5.8	509.8
Loans to associated companies and participating interests	83.7	-6.1	118.3	16.1	-3.9	175.9
Securities held as fixed assets	52.5	14.1	16.4	2.1	0.7	81.6
Other loans and other investments	303.4	-4.1	28.9	31.1	-28.5	268.6
<b>Financial assets</b>	<b>4,523.5</b>	<b>-701.8</b>	<b>798.9</b>	<b>593.8</b>	<b>-195.4</b>	<b>3,831.4</b>
<b>Fixed assets</b>	<b>72,356.3</b>	<b>1,437.3</b>	<b>8,078.7</b>	<b>2,712.5</b>	<b>-917.8</b>	<b>78,242.0</b>
<b>BASF Aktiengesellschaft</b>						
Industrial and similar rights and assets, as well as licenses for such rights and assets	802.6		658.0	12.8	1.4	1,449.2
Goodwill	17.1		179.4	-	-	196.5
Payments on account	1.4		0.5	-	-1.4	0.5
<b>Intangible assets</b>	<b>821.1</b>		<b>837.9</b>	<b>12.8</b>	<b>-</b>	<b>1,646.2</b>
Land, land rights and buildings including buildings on land owned by others	4,450.6		33.2	39.9	19.4	4,463.3
Machinery and technical equipment	15,203.0		405.3	454.8	353.7	15,507.2
Miscellaneous equipment and fixtures	2,603.6		154.3	205.1	64.7	2,617.5
Payments on account and construction in progress	529.2		481.7	3.0	-437.8	570.1
<b>Tangible assets</b>	<b>22,786.4</b>		<b>1,074.5</b>	<b>702.8</b>	<b>-</b>	<b>23,158.1</b>
Shares in affiliated companies	16,484.8		990.8	1,218.3	43.5	16,300.8
Loans to affiliated companies	532.3		318.8	108.2	-	742.9
Participating interests	309.3		252.2	4.6	-43.5	513.4
Loans to participating interests	12.1		201.0	3.0	-	210.1
Other loans and other investments	13.0		2.1	4.7	-	10.4
<b>Financial assets</b>	<b>17,351.5</b>		<b>1,764.9</b>	<b>1,338.8</b>	<b>-</b>	<b>17,777.6</b>
<b>Fixed assets</b>	<b>40,959.0</b>		<b>3,677.3</b>	<b>2,054.4</b>	<b>-</b>	<b>42,581.9</b>

Amortization							Net book values	
Jan. 1, 1998	Change in scope of consolidation	Additions	Retire- ments	Write- backs	Reclassi- fications	Dec. 31, 1998	Dec. 31, 1998	Dec. 31, 1997
1,215.6	36.4	480.5	57.8	–	–26.2	1,648.5	2,751.1	2,041.7
271.1	14.0	334.2	49.7	–	–9.8	559.8	1,079.7	729.4
1.8	–	0.3	–	–	–	2.1	12.3	157.0
<b>1,488.5</b>	<b>50.4</b>	<b>815.0</b>	<b>107.5</b>	<b>–</b>	<b>–36.0</b>	<b>2,210.4</b>	<b>3,843.1</b>	<b>2,928.1</b>
7,022.7	114.5	376.9	134.5	0.5	–360.0	7,019.1	5,140.1	4,200.4
33,815.3	411.3	2,623.2	1,109.8	0.7	–304.7	35,434.6	11,370.5	9,686.4
4,755.7	49.4	603.9	510.3	–	–30.3	4,868.4	1,235.5	1,222.1
72.0	–	1.1	–	0.3	–71.7	1.1	3,287.8	2,641.6
<b>45,665.7</b>	<b>575.2</b>	<b>3,605.1</b>	<b>1,754.6</b>	<b>1.5</b>	<b>–766.7</b>	<b>47,323.2</b>	<b>21,033.9</b>	<b>17,750.5</b>
119.2	0.4	9.3	1.7	–	–93.1	34.1	1,524.3	1,755.8
–	–	0.4	–	–	–	0.4	851.2	1,049.2
55.6	–	26.2	2.3	–	–38.7	40.8	344.7	599.0
169.6	–	–	–	–	–	169.6	340.2	335.5
–	–	0.7	–	–	–	0.7	175.2	83.7
2.6	1.8	2.2	–	–	0.2	6.8	74.8	49.9
6.9	–	1.6	1.0	–	–	7.5	261.1	296.5
<b>353.9</b>	<b>2.2</b>	<b>40.4</b>	<b>5.0</b>	<b>–</b>	<b>–131.6</b>	<b>259.9</b>	<b>3,571.5</b>	<b>4,169.6</b>
<b>47,508.1</b>	<b>627.8</b>	<b>4,460.5</b>	<b>1,867.1</b>	<b>1.5</b>	<b>–934.3</b>	<b>49,793.5</b>	<b>28,448.5</b>	<b>24,848.2</b>
221.0		214.4	12.8	–	–	422.6	1,026.6	581.6
5.1		27.2	–	–	–	32.3	164.2	12.0
–		–	–	–	–	–	0.5	1.4
<b>226.1</b>		<b>241.6</b>	<b>12.8</b>	<b>–</b>	<b>–</b>	<b>454.9</b>	<b>1,191.3</b>	<b>595.0</b>
3,603.7		111.6	36.5	–	–244.5	3,434.3	1,029.0	846.9
14,053.2		601.2	437.1	–	–8.7	14,208.6	1,298.6	1,149.8
2,223.6		206.4	198.8	–	–0.5	2,230.7	386.8	380.0
–		–	–	–	–	–	570.1	529.2
<b>19,880.5</b>		<b>919.2</b>	<b>672.4</b>	<b>–</b>	<b>–253.7</b>	<b>19,873.6</b>	<b>3,284.5</b>	<b>2,905.9</b>
1,627.0		1.2	223.1	–	0.3	1,405.4	14,895.4	14,857.8
1.3		18.6	0.5	–	–	19.4	723.5	531.0
0.3		26.2	–	–	–0.3	26.2	487.2	309.0
–		0.7	–	–	–	0.7	209.4	12.1
2.2		0.8	0.3	–	–	2.7	7.7	10.8
<b>1,630.8</b>		<b>47.5</b>	<b>223.9</b>	<b>–</b>	<b>–</b>	<b>1,454.4</b>	<b>16,323.2</b>	<b>15,720.7</b>
<b>21,737.4</b>		<b>1,208.3</b>	<b>909.1</b>	<b>–</b>	<b>–253.7</b>	<b>21,782.9</b>	<b>20,799.0</b>	<b>19,221.6</b>

## Major affiliates

Company name and headquarters Products and services	Number of employees		Capital expenditures Million DM		Sales Million DM		Profit before taxes Million DM	
	Dec. 31, 1998	Dec. 31, 1997	1998	1997	1998	1997	1998	1997
	<b>Europe</b>							
BASF Antwerpen N.V., Antwerp, Belgium Fertilizers, plastics, intermediates for plastics and fibers, chemicals	<b>3,410</b>	3,506	<b>242.2</b>	223.8	<b>4,248.1</b>	4,563.5	<b>668.3</b>	624.0
BASF Coatings AG, Münster, Germany Coatings	<b>2,488</b>	2,760	<b>22.0</b>	20.3	<b>1,135.2</b>	1,133.5	<b>379.7</b>	156.0
BASF Coatings S. A., Clermont de l'Oise, France Coatings	<b>862</b>	921	<b>9.4</b>	12.0	<b>406.0</b>	448.7	<b>30.4</b>	33.2
BASF Coatings S. A., Guadalajara, Spain Coatings	<b>578</b>	560	<b>2.1</b>	2.1	<b>258.6</b>	241.4	<b>30.5</b>	35.1
BASF Curtex S. A., L'Hospitalet de Llobregat, Spain Colorants and finishing products	<b>234</b>	256	<b>13.5</b>	7.9	<b>157.8</b>	157.3	<b>13.8</b>	12.0
BASF Drucksysteme GmbH, Stuttgart, Germany Printing inks and printing plates	<b>741</b>	739	<b>8.5</b>	5.6	<b>413.3</b>	397.9	<b>48.7</b>	49.8
BASF Española S.A., Barcelona, Spain Chemicals, plastics, finishing products, sale of fertilizers and crop protection products	<b>936</b>	1,017	<b>102.2</b>	163.2	<b>1,173.9</b>	1,059.2	<b>55.3</b>	57.0
BASF France S.A., Levallois-Perret, France Sale of fertilizers and crop protection products, chemicals, plastics, colorants and finishing products	<b>481</b>	486	<b>2.2</b>	1.6	<b>1,460.0</b>	1,508.6	<b>25.7</b>	30.2
BASF Italia Spa, Cesano Maderno, Italy Colorants and finishing products	<b>653</b>	626	<b>26.1</b>	16.6	<b>570.7</b>	598.2	<b>33.4</b>	25.9
BASF plc, Cheadle, Great Britain Chemicals, fiber intermediates	<b>898</b>	1,030	<b>25.3</b>	41.0	<b>1,528.9</b>	1,847.6	<b>68.3</b>	88.8
BASF Schwarzheide GmbH, Schwarzheide, Germany Polyurethane products and systems, foamed plastics, crop protection products, waterborne coatings	<b>2,278</b>	2,247	<b>71.3</b>	79.7	<b>871.4</b>	874.7	<b>80.4</b> <sup>1</sup>	47.2 <sup>1</sup>
BASF Vernici e Inchiostri Spa, Cinisello Balsamo, Italy Printing inks	<b>480</b>	465	<b>20.8</b>	9.2	<b>298.5</b>	346.9	<b>15.6</b>	10.3
Compo GmbH, Münster, Germany Home and garden specialty products, fertilizers	<b>267</b>	267	<b>0.7</b>	1.5	<b>389.0</b>	352.9	<b>22.9</b> <sup>1</sup>	24.6 <sup>1</sup>
Elastogran GmbH, Lemförde, Germany <sup>2</sup> Basic polyurethane products and systems, PUR special elastomers and technical parts	<b>1,332</b>	1,303	<b>48.3</b>	27.7	<b>1,813.6</b>	1,785.5	<b>201.9</b>	153.6
Elenac GmbH, Kehl, Germany/ Elenac S. A., Strasbourg, France <sup>2, 3a, 4</sup> Polyethylene	<b>3,296</b>		<b>453.3</b>		<b>2,937.4</b>		<b>166.5</b>	
Knoll AG, Ludwigshafen, Germany Pharmaceuticals, pharmaceutical chemicals	<b>3,205</b>	3,162	<b>64.4</b>	60.5	<b>1,158.1</b>	1,183.0	<b>49.6</b> <sup>1, 5</sup>	53.9 <sup>1</sup>
Knoll Farmaceutici Spa, Muggio, Italy Pharmaceuticals	<b>473</b>	455	<b>19.3</b>	12.5	<b>229.2</b>	211.2	<b>21.6</b>	14.8
Targor GmbH, Mainz, Germany <sup>2, 3b, 4</sup> Polypropylene	<b>1,636</b>		<b>88.8</b>		<b>1,955.0</b>		<b>-99.5</b>	
Wintershall AG, Celle/Kassel, Germany Crude oil, natural gas, petroleum products	<b>1,718</b>	1,693	<b>963.0</b> <sup>2</sup>	609.0 <sup>2</sup>	<b>5,734.6</b> <sup>2</sup>	6,759.8 <sup>2</sup>	<b>625.0</b> <sup>2</sup>	1,014.2 <sup>2</sup>

Company name and headquarters Product and services	Number of employees		Capital expenditures Million DM		Sales Million DM		Profit before taxes Million DM	
	Dec. 31, 1998	Dec. 31, 1997	1998	1997	1998	1997	1998	1997
<b>North America</b>								
BASF Corporation, Mount Olive, New Jersey, U.S. <sup>2</sup> Chemicals, crop protection products, plastics, fibers, colorants, finishing products, coatings, pharmaceuticals	15,365	15,202	1,842.4	1,403.1	12,532.1	11,913.6	640.1	400.5
Poliolos S.A. de C.V., Mexico City, Mexico <sup>3a</sup> Polyurethane products, chemicals, Styropor®	790	815	21.7	22.5	446.1	455.4	32.3	34.2
<b>South America</b>								
BASF Argentina S.A., Buenos Aires, Argentina Styropor®, finishing products, crop protection products, coatings	755	456	8.6	9.6	362.9	287.4	1.2	21.6
BASF Química Colombiana S.A., Medellin, Colombia Chemicals, polyester resins, finishing products, crop protection products	407	414	2.0	4.5	148.4	145.6	-6.3	1.4
BASF S.A., São Bernardo do Campo, Brazil Chemicals, colorants, finishing products, coatings and paints, crop protection products, styrene polymers	4,153	4,342	87.1	63.0	1,906.5	1,901.0	-0.5	8.0
Knoll Produtos Quimicos e Farmaceuticos Ltda., Rio de Janeiro, Brazil Pharmaceuticals	629	618	21.5	21.1	212.7	177.2	47.7	37.3
<b>Asia Pacific</b>								
BASF Australia Ltd., Melbourne, Australia Plastics, finishing products	223	238	2.1	14.7	264.3	279.4	3.5	-14.6
BASF Company Ltd., Seoul, Korea <sup>4</sup> Basic polyurethane products and systems, styrene polymers, lysine, intermediates	1,092	-	332.0	-	764.3	-	84.1	-
BASF India Ltd., Bombay, India <sup>3b</sup> Styropor®, colorants, finishing products, crop protection products	939	933	6.1	16.8	139.1	140.5	8.4	9.5
BASF Japan Ltd., Tokyo, Japan Chemicals, finishing products, plastics	420	364	10.1	5.0	798.8	814.0	46.3	37.6
BASF (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia Styropor®, chemicals	248	234	25.7	27.8	108.0	149.3	-7.9	-12.1
Hokuriku Seiyaku Co., Ltd., Katsuyama-Shi, Fukui, Japan <sup>3c, 6</sup> Pharmaceuticals	879	893	23.6	4.9	204.2	214.6	10.2	13.6
Knoll Pharmaceuticals Ltd., Bombay, India <sup>3d</sup> Pharmaceuticals, pharmaceutical chemicals	944	924	1.0	1.5	107.6	123.7	17.5	32.8

The values of the non-German companies were translated to DM at average quarterly exchange rates.

<sup>1</sup> Before profit/loss transferred

<sup>2</sup> Consolidated values

<sup>3</sup> Our holdings: 3a: 50%, 3b: 50% uniform control, 3c: 64.1%, 3d: 51%

<sup>4</sup> Previous year's figures not comparable on a consolidated basis

<sup>5</sup> On the basis of accounting regulations uniform for the Group

<sup>6</sup> End of financial year: March 31

The compilation of the total holding (list of shares held) pursuant to § 313, Section 2 or § 285, No. 11 of the German Commercial Code, has been filed with the Commercial Register in Ludwigshafen, HRB 3000.

The notes to the financial statements of the BASF Group and BASF Aktiengesellschaft are combined. Unless expressly noted, the disclosures apply to both statements. The statements were prepared in accordance with the provisions of the German Commercial Code and the Stock Corporation Law.

We have made significant changes in the accounting policies as of January 1, 1998:

- Accounting policies have been changed wherever possible to comply with U.S. Generally Accepted Accounting Principles (U.S. GAAP) within the scope offered by the accounting and valuation options available under commercial law.

- The effects on the earnings and equity of any remaining differences to U.S. GAAP are shown in a reconciliation. The effects of these significant accounting changes as of January 1, 1998 have been charged or added directly to revenue reserves in the Group financial statements (cf. Note 6). In the financial statements of BASF Aktiengesellschaft, an item "Result of valuation adjustments" as of January 1, 1998, has been added to the profit and loss account. This item also shows the effect of accounting changes for companies with which there is a profit and loss transfer agreement.

## 1 Scope of consolidation, participating interests

The major German and foreign subsidiaries are consolidated in the Group financial statements in full, and fifty-percent-owned joint ventures on a pro rata basis. Subsidiaries and joint ventures of minor importance are not consolidated. The European polyethylene business of BASF and Shell and the polyethylene business acquired from Montell Polyolefine Company, Netherlands, were combined on March 1, 1998 in the Elenac joint venture (BASF share 50 percent) with the companies Elenac GmbH, Kehl, Germany, (formerly Rheinische Olefinwerke GmbH, Wesseling) and Elenac S.A., Strasbourg, France. This joint venture, including its affiliates, is consolidated on a pro rata basis. The Hostalen business of Hoechst AG acquired by Elenac on December 31, 1998, including the Spanish affiliate Hostalen Polietileno S.L., Barcelona, Spain, is consolidated in the Group financial statements from that date.

The following companies were consolidated for the first time in 1998:

- BASF GE Schwarzheide GmbH & Co. KG, Schwarzheide, Germany (BASF share 50 percent)
- BASF South East Asia Pte. Ltd., Singapore
- BASF Korea Ltd., Seoul, Korea (merged with BASF Company Ltd., Seoul, Korea, as of Dec. 31, 1998)
- Hokuriku Seiyaku Co. Ltd., Katsuyama-Shi, Fukui, Japan (BASF share 64.1 percent)
- Micro Flo Company, Lakeland, Florida, U.S.
- Mitsui BASF Dyes Ltd., Osaka, Japan (BASF share 50 percent)
- Yangzi-BASF Styrenics Co. Ltd., Nanjing, China (BASF share 60 percent)
- Shanghai BASF Colorants and Auxiliaries Co. Ltd., Shanghai, China (BASF share 91 percent)

The following companies are no longer consolidated, owing to their sale or a reduction of our shareholding:

- Chemag AG, Frankfurt, Germany
- Comparex Informationssysteme GmbH, Mannheim, Germany (including 4 subsidiaries)

The number of consolidated companies also changed as a result of reorganizations under company law.

The Group financial statements include:

- BASF Aktiengesellschaft
- 114 fully consolidated subsidiaries
- 17 joint ventures consolidated pro rata
- 32 subsidiaries accounted for under the equity method
- 9 associated companies accounted for under the equity method.

The changes in the scope of consolidation had the following effects on the Group balance sheet:

	Mill DM	%
Fixed assets	790.6	3.2
• thereof tangible assets	1,244.2	7.0
Current assets (excluding liquid assets)	340.2	1.7
Liquid assets	291.2	8.1
Assets	1,422.0	3.0
Equity	201.3	0.9
Financial indebtedness	673.5	30.6
Other liabilities	547.2	2.2
Equity and liabilities	1,422.0	3.0

Sales revenues increased as a result of the changes to the scope of consolidation and as a result of acquisitions and divestitures by DM 944 million or 1.7 percent.

## 2 Consolidation methods

**Balance sheet date:** The financial statements of the consolidated companies are prepared as of the balance sheet date of the Group financial statements. In certain cases, interim financial statements or adjusted statements as of the balance sheet date of the Group financial statements are prepared.

**Uniform valuation:** Assets and liabilities of consolidated companies included in the Group financial statements are accounted for and valued uniformly in accordance with the principles described here and in Note 3.

Where the accounting and valuation methods applied in the financial statements of the consolidated companies differ from these principles, appropriate adjustments are made to the relevant items. For companies accounted for under the equity method, significant deviations in the valuation methods have also been adjusted.

The financial statements of BASF Aktiengesellschaft are not adjusted for inclusion in the Group financial statements, except that proceeds from stock warrants issued prior to

1985 are also included in capital surplus; further, special reserves are eliminated.

**Eliminations:** Transactions between consolidated companies are eliminated in full and those for joint ventures on a pro rata basis. Intercompany profits resulting from deliveries and services between consolidated companies are eliminated unless they originate from the construction of plants on customary market conditions and are of minor importance.

As regards the companies accounted for under the equity method, intercompany profits resulting from deliveries and services on customary market conditions are not eliminated because the amounts are insignificant or because determining them would involve a disproportionate amount of effort.

**Capital consolidation:** Capital consolidation is based on the book value method at the time of acquisition. The acquisition cost of participations is offset against the proportionate share of equity acquired. Differences arising are allocated – taking account of deferred tax assets as of January 1, 1998 – to the assets or liabilities of the acquired company, up to their fair values, or capitalized as intangible fixed assets.

Differences not allocated to individual assets are capitalized as goodwill and amortized within the expected useful life, generally within a period of 7 to 15 years. For participations acquired through December 31, 1997, goodwill is generally amortized within 5 years. Credit balances are eliminated and shown as income if they originate from a realized profit.

### 3 Accounting and valuation methods

#### Intangible assets

Intangible assets are valued at acquisition cost, less scheduled straight-line amortization. Unscheduled write-downs are made in cases of expected permanent impairment of value.

The average weighted amortization period is 7 years, based on the following expected useful lives:

Goodwill	5–15 years
Product rights	7–15 years
Marketing, supply and similar rights	4–20 years
Know-how and patents	5–15 years
Licenses and other rights of use	3–7 years
Software	3–5 years
Other rights and values	5–25 years

#### Tangible assets

Tangible assets are stated at acquisition or production cost less scheduled depreciation over their customary useful lives. Special write-downs are made in cases of expected permanent impairment of value. Low-value assets are fully depreciated in the year of acquisition and are shown as retirements. Movable depreciable fixed assets which are functionally integrated are treated as a single asset item.

Costs of successful oil and gas drilling operations are capitalized as tangible assets. They are depreciated by the declining balance method based on the estimated useful lives of 8 (for drilling operations in old fields) or 15 years. However, in certain regions, depreciation is calculated based upon production. Geophysical expenditures, including exploratory and dryhole costs, are charged against income.

The cost of self-constructed plants includes direct costs and an appropriate proportion of the production overhead, but excludes financing costs for the period of construction.

Movable fixed assets are mostly depreciated by the declining balance method, with a change to straight-line depreciation if this results in higher depreciation rates. Long-distance natural gas pipelines and immovable fixed assets are depreciated using the straight-line method.

The average weighted periods of depreciation are as follows:

Building and structural installations	22 years
Industrial plant and machinery	9 years
Long-distance natural gas pipelines	25 years
Working and office equipment and other facilities	8 years

#### Financial assets

Shares in affiliated and associated companies - if not accounted for by the equity method -, the other participations, and securities held as fixed assets, are shown in accordance with the principle of individual valuation at acquisition cost or, in cases of expected permanent impairment of value, at the appropriate lower values.

The acquisition cost of the affiliated and associated participations accounted for by the equity method is increased or decreased yearly by the proportionate change in equity. In addition, goodwill is amortized within the expected useful

life of 7 to 15 years. Goodwill related to participations acquired through December 31, 1997 is mostly amortized over a period of 5 years.

The capital consolidation of the companies accounted for by the equity method at the time of acquisition is based on the same principles as a full consolidation.

Loans are stated at cost or, in the case of non-interest-bearing loans or loans at below market interest rates, at their present value. Foreseeable risks are covered by unscheduled write-downs.

<p><b>Investories</b></p>	<p>"Work in process" and "Finished goods and merchandise" are combined into one item for the BASF Aktiengesellschaft inventories due to the production conditions in the chemical industry.</p> <p>Uncompleted contracts relate mainly to domestic and foreign plants under construction for third parties. Expected profits are not recognized until final settlement of accounts for the projects in question; expected losses are recognized by write-downs to the lower attributable values.</p> <p>Inventories are carried at acquisition or production cost or the lower quoted or market value, or at such lower values as appropriate. These lower values are the replacement costs of raw materials and plant supplies and merchandise</p>	<p>and, in the case of work in process and finished products, the associated production costs or the expected sales proceeds less costs to be incurred prior to sale and an average profit margin. Production costs include, in addition to direct costs, an appropriate proportion of the production overhead using normal utilization rates of the production plants. Financing costs are not included.</p> <p>The valuation is mainly based on the LIFO method (last in, first out on an annual basis). Overall, 64 (BASF Aktiengesellschaft: 91) percent of inventories were valued by the LIFO method. The other inventories, particularly including plant supplies, are valued by the average cost method.</p>
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<p><b>Receivables and other assets</b></p>	<p>Receivables are generally carried at their nominal value, notes receivable and loans generating no or a low-interest income are discounted to their present values. Risks of collectibility and transferability, and general credit risks, are covered by appropriate write-downs and valuation allowances.</p>	<p>Total valuation allowances of DM 781.4 million (1997: DM 789.5 million) in the case of the BASF Group and of DM 295.5 million (1997: DM 324.1 million) in the case of BASF Aktiengesellschaft have been deducted from total receivables.</p>
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<p><b>Securities</b></p> <p>These are valued individually at cost or at lower quoted or market values or at such lower values as appropriate. The portfolio comprises:</p>		<p>Composition</p>	<p><b>BASF Group</b></p>	<p><b>BASF AG</b></p>
		<p>Available-for-sale securities:</p>	<p>99%</p>	<p>100%</p>
		<ul style="list-style-type: none"> <li>• Thereof</li> </ul>		
		<p>Shares</p>	<p>51%</p>	<p>64%</p>
		<p>Fixed-interest securities</p>	<p>30%</p>	<p>36%</p>
		<p>Mutual funds</p>	<p>15%</p>	<p>–</p>
		<p>Variable-interest securities</p> <p>Securities to be held until maturity:</p>	<p>4%</p> <p>1%</p>	<p>–</p> <p>–</p>

<p><b>Deferred tax assets and liabilities</b></p>	<p>Deferred tax assets are recorded for deductible temporary differences between the valuations in the commercial balance sheets as compared with the tax balance sheets of the consolidated companies. If expected future earnings of</p>	<p>a company make it seem more likely than not that the tax benefits will not be realized, appropriate value allowances are made.</p>
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<p><b>Provisions</b></p>	<p>The principles for the determination of pension provisions and the composition of these obligations are both explained in Note 16.</p> <p>Tax provisions are recognized for income taxes and other taxes in the amount necessary to meet the expected payment obligations, less any prepayments which have been made. Provisions for deferred taxes are recognized for a net liability from taxable temporary differences between the commercial and tax balance sheets of the consolidated companies. The provision or deferred tax asset is calculated on the basis of the tax rates applicable in the individual countries. For German companies, the provision was based on a tax rate of 56 percent.</p> <p>There are also provisions for uncertain liabilities and anticipated losses from uncompleted transactions and deferred maintenance expenses to be incurred within the first 3 months of the following year.</p>	<p>These provisions are recognized in the amount necessary, based on reasonable commercial judgement, to cover expected future payment obligations, losses or expenses. Provisions for required recultivation associated with oil and gas exploration, especially the filling of wells and clearance of oilfields, or the operation of landfill sites are built up in instalments over their expected service lives. In addition, provisions are accrued in instalments for regular shutdowns of certain large-scale plants as required by the public authorities, up until the next shutdown.</p> <p>Provisions for long-service and anniversary bonuses in the German Group companies are calculated actuarially using the partial value method and an interest rate of 5.5 percent. Group companies outside Germany use similar procedures as permitted under national regulations.</p>
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#### 4 Influence of special tax valuation measures BASF AG

In the financial statements of BASF Aktiengesellschaft, accounting and valuation methods which are permitted by tax regulations, especially the deferral of gains from sales of assets according to § 6b of the Income Tax Law, are covered and recorded primarily as special reserves. This had the following effect on earnings:

	Million DM
Net income	2,101.2
Special tax valuation measures	-0.7
Adjusted net income	2,100.5

The omitted write-ups in 1998 were DM 1.2 million. Deferred tax liabilities arising from special tax valuation measures amounted to DM 109.2 million.

#### 5 Currency translation

##### Translation of foreign currency items

The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at current rates on transaction dates. Short-term foreign-currency receivables and liabilities are valued at the rate on the balance sheet date. Long-term foreign-currency receivables are recorded at the rate prevailing on the acquisition date or at the lower rate on the balance sheet date. Long-term foreign currency liabilities

are recorded at the rate prevailing on the acquisition date or at the higher rate on the balance sheet date. Foreign-currency receivables or liabilities that are hedged are recognized at hedge rates. Profits from currency derivatives which cannot be allocated to a particular underlying transaction are realized upon maturity. Provisions are created for anticipated losses from forward exchange and option dealing.

##### Translation of foreign currency financial statements

Currency translation is based on the functional currency of the consolidated companies. The local currency is the functional currency of our subsidiaries and joint ventures in North America, Japan, Korea and China, because the influence of the DM on business operations is slight. The balance sheet items are converted to DM at year-end rates, and expenses and income at quarterly average rates. The effects of rate changes are shown as "translation adjustment" in a separate component of equity. This is the difference between the companies' equity calculated at historical rates and at year-end current rates. In the development of fixed assets, the changes caused by translation are included as "reclassifications".

The DM is the functional currency for the other companies. The financial statements are therefore translated in accordance with the modified temporal method. The fixed assets, with the exception of loans, and paid-in equity are converted at rates on the date of acquisition (historical rates), and all other assets, liabilities and provisions at year-end current rates; earned equity is determined as a remaining balance. Expenses and income are converted at quarterly average rates, except when they are derived from balance sheet items converted at historical rates. The changes in assets caused by translation are reported under other operating expenses or income.

#### 6 Accounting policy changes and reconciliation to U.S. GAAP

##### Valuation adjustments as of January 1, 1998

We have changed our accounting policies, to the extent allowed by the accounting and valuation options available under German commercial law, to U.S. Generally Accepted Accounting Principles (U.S. GAAP), as follows:

##### Valuation changes as of January 1, 1998

Million DM	BASF Group	BASF AG
Valuation of pension obligations in accordance with the projected unit credit method (FAS 87)	-1,881.1	-1,161.6
Elimination of special tax valuation measures	411.5	-
Other adjustments	-209.5	77.2
Deferred tax assets/liabilities for above adjustments and for temporary differences between the commercial and tax balance sheets	2,060.1	888.1
Minority interests	84.7	-
	465.7	-196.3

Obligations arising from pension commitments were revalued as of January 1, 1998, using the projected unit credit method required by U.S. accounting standard FAS 87. For the German Group companies, the 1998 mortality tables compiled by Dr. Heubeck were used.

The effects of accounting and valuation methods utilized exclusively for tax considerations have been fully eliminated from the Group Financial Statements.

Other adjustments related mainly to the valuation of short-term foreign currency receivables and liabilities at year-end

current rates and the accrual of provisions for regular shut-downs of large-scale plants.

For deductible temporary differences between the valuation of assets and liabilities in the commercial and tax balance sheets of the Group companies, deferred tax assets were capitalized taking into account the additional differences arising from the accounting changes which had been made.

Effects on the balance sheet of valuation changes as of January 1, 1998

The adjustments which have been made resulted in the following changes to the balance sheet items shown last year:

Million DM	BASF Group		BASF AG
Tangible assets		376.1	253.7
Inventories/receivables		-90.2	157.9
Deferred tax assets		2,060.1	888.1
Prepaid expenses		-86.1	-
<b>Assets</b>		<b>2,259.9</b>	<b>1,299.7</b>
Revenue reserves and profit retained		465.7	-196.3
Minority interests		-84.7	-
Special reserves		-35.4	253.7
Provisions for pensions and similar obligations		1,795.0	1,161.6
Other provisions		119.3	80.7
<b>Liabilities</b>		<b>2,259.9</b>	<b>1,299.7</b>

Reconciliation of income and equity of the BASF Group to U.S. GAAP

Deviations from U.S. GAAP which could not be adjusted in accordance with commercial law are included in the following reconciliation.

Million DM	Profit after taxes and minority interests for 1998	Equity excluding minority interests	
		Jan. 1, 1998	Dec. 31, 1998
BASF Group's Financial Statements according to German commercial law	3,323.7	23,496.9	25,268.2
Capitalization of construction period interest	69.2	811.6	880.8
Adjustments for pension funds	-65.8	1,296.6	1,230.8
Adjustments of foreign currency items	102.9	32.6	135.5
Valuation of securities at market values	-2.7	91.0	173.3
Other adjustments	6.1	321.4	321.6
Recognition of deferred tax assets for the above adjustments and for tax loss carryforwards	54.4	-784.7	-738.0
Minority interests	-24.0	-51.7	-76.5
Net income and shareholders' equity according to U.S. GAAP	3,463.8	25,213.7	27,195.7

In their report, the auditors certified that net income and shareholders' equity conform to U.S. GAAP.

Construction period interest is capitalized for qualifying fixed assets and is depreciated once the assets are put into operation.

The BASF Pension Fund and other pension schemes are to be included in the Group financial statements according to the principles of FAS 87. The revaluation of assets and obligations resulted, as the calculation assumptions differed from the German regulations, in prepayment of future pension benefits.

Remaining deviations from a valuation of foreign currency items at year-end rates in accordance with U.S. GAAP were eliminated.

Available-for-sale securities which are part of the fixed and current assets are to be recorded at market values on the balance sheet date. The change in valuation is immediately taken into account in shareholders' equity. Realized profits and losses are charged to income, as are, in cases of permanent impairment of value, write-downs at a lower value. Other adjustments primarily relate to deferred maintenance and valuation differences at companies accounted for in accordance with the equity method.

Deferred tax assets are recognized for tax loss carry-forwards in accordance with U.S. GAAP. Valuation allowances have been recognized when the realization of deferred tax assets is uncertain.

The development of gross book values and amortization by individual categories of fixed assets and a summary of the

major affiliates are shown in a schedule following the balance sheet and profit and loss account.

## 7 Intangible and tangible assets

The additions to intangible assets result primarily from the acquisition of the lysine business of the Korean Daesang Group and of the polyethylene business of the Hoechst Group, and also from the takeover of the 50 percent share that Hyosung T&C Co., Ltd., Korea, held in the former joint venture BASF Styrenics Korea Ltd. (merged with BASF Company Ltd., Korea, on December 31, 1998). Further increases related to the first-time consolidation of Hokuriku Seiyaku Co. Ltd., Japan.

Unscheduled write-downs of tangible assets to a lower assigned value were made particularly for two sites of BASF Corporation. Overall, the following unscheduled write-downs were made:

Million DM	BASF Group	BASF AG
Intangible assets	26.7	22.4
Tangible assets	55.4	19.9

## 8 Financial assets

The additions to "Shares in affiliated companies" relate to the acquisition of the Italian industrial coatings manufacturer Salchi Spa and to the exploration and production company that was set up by Wintershall mbH in connection with the split-up of Deminex and has taken over the operations in Argentina (Wintershall Energía S.A.), Russia and

Azerbaijan. In addition, the establishment of BASF Petronas Chemicals Sdn. Bhd., Malaysia, had an effect on the financial assets.

At BASF Aktiengesellschaft, there were further additions as a result of capital increases at consolidated Group companies, especially at BASF S.A. and BASF de Mexico S.A.

## 9 Inventories

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Raw materials and plant supplies			<b>408.7</b>	387.1
Work in process, finished goods and merchandise	<b>7,125.9</b>	7,267.8	<b>1,802.5</b>	1,673.8
Leased goods	–	134.8		
Uncompleted contracts	<b>91.6</b>	160.0	<b>111.6</b>	143.5
Payments on account	<b>25.8</b>	17.6	<b>0.6</b>	0.6
	<b>7,243.3</b>	7,580.2	<b>2,323.4</b>	2,205.0

For inventories valued on the LIFO basis, LIFO reserves are approximately DM 238 million for the BASF Group; at BASF Aktiengesellschaft, approximately DM 11 million for raw

materials and approximately DM 67 million for work in process, finished goods and merchandise.

## 10 Receivables and other assets

Miscellaneous receivables and other assets

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Receivables from companies in which participations are held	<b>401.2</b>	462.7	<b>280.5</b>	179.9
Other assets	<b>1,698.6</b>	1,675.5	<b>294.3</b>	314.3
	<b>2,099.8</b>	2,138.2	<b>574.8</b>	494.2

Other assets include DM 80.0 million for the BASF Group and DM 27.1 million for BASF Aktiengesellschaft of accrued items, in particular accrued interest.

Receivables having a residual term in excess of one year	Million DM	BASF Group		BASF AG	
		1998	1997	1998	1997
Accounts receivable – trade	42.4	17.3	0.3	3.9	
Receivables from affiliated companies	7.4	5.3	13.9	12.2	
Receivables from companies in which participations are held	–	48.4	0.0	0.1	
Other assets	232.4	224.6	27.8	13.1	
Miscellaneous receivables and other assets	232.4	273.0	27.8	13.2	
	282.2	295.6	42.0	29.3	

## 11 Deferred taxes

Deferred taxes as of December 31, 1998 are based on the following temporary differences in the commercial and tax

balance sheets, thereof DM 223,0 million from consolidation measures.

Million DM	BASF Group		BASF AG	
	Short-term	Long-term	Short-term	Long-term
Intangible assets	–	204.0	–	13.3
Tangible assets	–	–461.2	–	5.8
Financial assets	–	105.0	–	–15.2
Inventories and receivables	319.6	18.7	38.2	–
Pension provisions	–	1,177.0	–	672.7
Other provisions, miscellaneous	333.1	410.8	30.4	185.8
	652.7	1,454.3	68.6	862.4

## 12 Prepaid expenses

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Discount	34.1	50.5	–	–
Miscellaneous	230.0	295.1	21.3	19.4
	264.1	345.6	21.3	19.4

Discount, arising primarily from the issue of a low-interest bond, is capitalized and written down as interest expense over the term of the underlying obligations.

## 13 Subscribed capital

	Number of shares	Nominal value in DM
January 1, 1998	622,062,680	3,110,313,400
Additions from conditional capital by exercising subscription rights connected with the 3% U.S. Dollar Bond 1986/2001 of BASF Finance Europe N.V.	1,731,460	8,657,300
Additions from conditional capital through exchange of Wintershall shares	10	50
December 31, 1998	623,794,150	3,118,970,750

As a result of a resolution of the Annual Meeting of May 19, 1998, nominal shares were replaced by no-par-value unit shares.

<b>Conditional capital</b>	The conditional capital of BASF Aktiengesellschaft totals DM 270,875,900. Of this, DM 70,875,900 is reserved for settling rights connected with the 1986/2001 bond of BASF Finance Europe N.V. for subscribing 14,172,440 shares and for settling compensation claims by former	Wintershall shareholders. The remaining conditional capital of DM 200,000,000 is for settling subscription rights connected with bonds for whose emission the Board of Executive Directors was authorized by the Annual Meeting of May 9, 1996.
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<b>Authorized capital</b>	The Board of Executive Directors is authorized, with the approval of the Supervisory Board, to increase the capital stock by the issue of new shares in the amount of up to DM 600 million for cash or contributions in kind through April 1, 2000. The legal subscription right can be overruled to the extent necessary to grant subscription rights for new shares to the bearers of warrants from the bonds men-	tioned in § 3 in the Articles of Incorporation to the extent to which they would be entitled after exercising the subscription right. In the case of capital increases against cash contributions up to a maximum total sum of DM 300 million, the legal subscription right can be overruled if the issue price of the new shares is not substantially below the stock exchange price.
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#### 14 Capital surplus

Million DM	BASF Group	BASF AG
January 1, 1998	5,021.1	4,839.4
Additions	44.7	44.7
December 31, 1998	5,065.8	4,884.1

Capital surplus includes share premiums from stock issues, compensation for stock warrants and, for the BASF Group, credit balances from the capital consolidation which resulted from carrying participating interests acquired by issuing shares of BASF Aktiengesellschaft at the par value of shares issued.

#### 15 Revenue reserve and profit retained

BASF Group	Revenue reserve	Million DM
	January 1, 1998	349.3
	Transfer from other revenue reserves and profit retained and from changes in the scope of consolidation	97.2
	December 31, 1998	446.5

Other revenue reserves and profit retained	Million DM
December 31, 1997	14,158.8
Valuation adjustments (cf. Note 6)	465.7
January 1, 1998	14,624.5
Dividend of BASF Aktiengesellschaft (previous year)	-1,244.1
Transfer to legal reserves	-92.2
Net income after minority interests	3,323.7
Changes in the scope of consolidation and other changes	-52.2
December 31, 1998	16,559.7

In the Group financial statements "Other revenue reserves" and "Profit retained" are combined into one item because of the nature of the consolidation.

BASF Aktiengesellschaft	Other revenue reserves	Million DM
	January 1, 1998	6,039.4
	Appropriations from net income	745.0
	December 31, 1998	6,784.4

Profit retained	Million DM
Net income (DM 2,101,223,337)	2,101.2
Profit carried forward from previous year (DM 124,021)	0.1
Appropriations to other revenue reserves (DM 745,000,000)	745.0
December 31, 1998 (DM 1,356,347,358)	1,356.3

## 16 Provisions for pensions and similar obligations

Most employees of the consolidated companies are entitled not only to future pensions from statutory pension plans but also to payments from defined contribution or defined benefit pension plans. Benefits are generally determined by the length of employment, remuneration or contributions of the entitled employees taking into account the provisions of labor and social laws in the various countries. For BASF Aktiengesellschaft and other German Group companies, basic benefits are provided by the legally independent BASF Pension Fund, which is financed by contributions from members and companies and is subject to the Law on the Supervision of Private Insurance Companies. Additional company pension commitments are financed, in the case of German companies, primarily by pension provisions. In the case of foreign Group companies, pension entitlements are covered in some cases by pension provi-

sions, but mainly by external life insurance or externally financed pension funds.

As explained in Note 6, pension commitments are determined on the basis of FAS 87, using the projected unit credit method. The difference compared with the previous balance sheet figure has been taken fully into account in the revenue reserves. For BASF Aktiengesellschaft, the difference in the profit and loss account is included in the item "Result of valuation adjustments".

Predominantly the following assumptions were taken as a basis for the valuation as of the balance sheet date:

– Interest rate	5.75%
– Wages and salaries trend	2.50%
– Pension trend	1.50%
– Fluctuation (average)	1.95%

Development of pension provisions	Million DM	BASF Group		BASF AG	
		1998	1997	1998	1997
	Projected benefit obligations as of January 1, 1998	11,462.2		5,764.1	
	Service costs	234.6		76.9	
	Interest costs	710.4		349.6	
	Pension payments	–648.3		–324.2	
	Settlements and other changes	–136.1		–276.9	
	Projected benefit obligation as of December 31, 1998	11,622.8		5,589.5	
	Plan assets	4,193.0		–	
	Reconciliation amounts	6.0		–5.2	
	Pension commitments as of December 31, 1998	7,435.8		5,584.3	
	Similar obligations	509.7		–	
	Pension provisions as of December 31, 1998	7,945.5		5,584.3	

Similar obligations include commitments by our North American Group companies to provide for the costs of illness and life insurance benefits for employees and depen-

dents after retirement. They are calculated in accordance with actuarial rules, allowing for future cost trends, using an interest rate of 6.75 percent.

## 17 Other provisions

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Oil and gas production	638.2	621.2	–	–
Environmental protection measures	573.9	655.0	270.3	333.0
Personnel obligations	1,923.6	1,815.3	1,210.0	1,097.5
Sales and purchase risks	821.2	983.4	242.8	269.9
Shutdown and reorganization measures	405.5	535.0	41.6	79.8
Maintenance and repairs	337.5	272.0	92.1	51.3
Other	1,551.2	1,569.7	685.5	980.8
	6,251.1	6,451.6	2,542.3	2,812.3

## 18 Liabilities

### Bonds and other liabilities to the capital market

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
3% U.S. Dollar Bonds of BASF Finance Europe N.V. of 1986, due 2001	385.0	412.1	–	–
7% U.S. Dollar Bonds of BASF Finance Europe N.V. of 1992, due 1999	299.7	320.8	–	–
3.1–6.8% Pollution Control and Industrial Development Bonds of BASF Corporation, due 1999–2033	339.8	296.3	–	–
Commercial Paper and other	130.5	229.1	–	–
	<b>1,155.0</b>	<b>1,258.3</b>	<b>–</b>	<b>–</b>

### Other liabilities

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Advances received on account of orders	153.6	231.7	53.5	94.5
Liabilities on bills	80.2	20.0	–	–
Liabilities to companies in which participations are held	259.9	328.0	57.1	88.2
Miscellaneous liabilities	3643.0	3063.8	1,021.8	585.9
• thereof taxes	(1,237.1)	(651.0)	(819.4)	(197.8)
• thereof relating to social security	(311.5)	(356.5)	(135.4)	(179.6)
	<b>4,136.7</b>	<b>3,643.5</b>	<b>1,132.4</b>	<b>768.6</b>

The rise in tax liabilities is attributable to the settlement of accounts of previous years. Corresponding decreases are shown in the provisions for taxes.

### Residual terms of liabilities

Million DM	BASF Group		BASF AG	
	Up to 1 year	More than 5 years	Up to 1 year	More than 5 years
Bonds and other liabilities to the capital market	374.7	331.4	–	–
Liabilities to credit institutions	900.9	172.4	91.5	–
Accounts payable – trade	3,628.0	–	900.1	–
Liabilities to affiliated companies	316.8	–	4,673.4	–
Advances received on account of orders	137.5	–	39.5	–
Liabilities on bills	54.6	–	–	–
Liabilities to companies in which participations are held	257.3	–	51.8	–
Other liabilities	2,481.4	674.1	1,014.5	4.5
	<b>8,151.2</b>	<b>1,177.9</b>	<b>6,770.8</b>	<b>4.5</b>

### Secured liabilities

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Liabilities to credit institutions	54.0	81.4	–	–
Miscellaneous liabilities	86.1	262.9	5.4	177.6
	<b>140.1</b>	<b>344.3</b>	<b>5.4</b>	<b>177.6</b>

Liabilities are collateralized by mortgages, land charges or securities. In addition, negative declarations were made with regard to adherence to certain balance sheet ratios.

## 19 Contingent liabilities

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Contingent liabilities from the issuance and endorsement of bills of exchange	174.4	319.0	73.2	208.4
• thereof to affiliated companies	(2.0)	(13.7)	(2.0)	(13.7)
Contingent liabilities from guarantees	269.1	500.6	1,104.1	1,140.3
Contingent liabilities from warranties	51.1	44.6	259.4	432.8
Contingent liabilities from the granting of security for third-party liabilities	8.6	6.4	0.3	1.0
	<b>503.2</b>	870.6	<b>1,437.0</b>	1,782.5

## 20 Other financial commitments

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Remaining cost of uncompleted investment projects	6,231.0	5,069.1	2,147.0	1,745.0
• thereof purchase commitment	(2,176.7)	(1,662.2)	(321.1)	(289.2)
Commitments from long-term rental and leasing contracts	1,858.0	1,457.4	363.7	355.3
• thereof payable during the following year	(401.1)	(298.6)	(66.4)	(62.5)
• thereof payable during the 2nd to 5th years	(796.6)	(637.1)	(135.2)	(140.5)
Other commitments	4.3	4.2	2.6	2.5
	<b>8,093.3</b>	6,530.7	<b>2,513.3</b>	2,102.8

Uncompleted investment projects will be completed and financed according to schedule. Other financial commit-

ments of BASF Aktiengesellschaft include DM 57.7 million to affiliated companies.

## 21 Derivative financial instruments

Million DM	BASF Group		BASF AG	
	Nominal value	Market value	Nominal value	Market value
Foreign currency derivatives	7,664.5	-121.0	2,992.9	12.9
Interest derivatives	405.6	4.8	300.0	5.1
Other derivatives	100.0	23.8	100.0	23.8
	8,170.1	-92.4	3,392.9	41.8

Financial derivatives are used to secure risks arising from changes in foreign currency rates and interest rates arising from business operations.

Only customary market instruments with sufficient liquidity are used: forward exchange contracts, currency options, currency and interest swaps or combined instruments. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities.

Derivative financial instruments are only used if they are supported by positions, cash investments and financing arising from the operating business. The leverage effect which can be achieved with derivatives is deliberately not used even where derivative financial instruments are used to replace transactions in original financial instruments.

To limit the risk of non-payment where financial derivatives have a positive market value, transactions are only concluded with leading banks and are subject to defined limits. To allow efficient risk management, market risks are centralized at BASF AG and other Group companies determined for this purpose. Conclusion and execution of the transactions are based on internal guidelines, are subject to

strict controls and comply with the principles of the separation of functions.

The risks arising from changes in exchange rates and interest rates as a result of the underlying transactions and the derivative transactions concluded to secure them are monitored constantly. For this purpose, market quotations or computer or mathematical models are used to establish the current market values not only of the underlying transactions but also of the derivative transactions and these are compared with each other. Where derivative instruments are concluded as replacement for original financial instruments, market trends are also monitored constantly.

The use of currency derivatives was considerably reduced compared with the previous year. Since May 1998, there has been a very high level of synchronicity between the DM and the other euro currencies. For this reason, transactions were primarily aimed at hedging the exchange rate risk against the U.S. dollar, the pound sterling and the Japanese yen. Interest derivatives or combined interest/currency derivatives were concluded in 1998 to secure credits extended to Group companies. In addition, interest derivatives were used in combination with investments at variable



interest rates in order to create fixed-interest security investments. As far as other derivatives are concerned, an Index swap was used to create synthetic share investments with a guarantee of the capital invested.

The nominal values are the totals for the purchase and sale of the particular derivatives without netting. The market values correspond to the difference between the cost and resale value, which is determined from market quotations or by the use of option pricing models or, in the case of unlisted contracts, the yield in the event of premature cancella-

tion. Offsetting valuation developments from the underlying transactions are not taken into account.

The negative market value of foreign currency derivatives relates primarily to the financing of our North American business with intercompany loans hedged by foreign currency swaps. Our net assets there increased accordingly due to the rise in the U.S. dollar exchange rate after the loans were taken up. The reduction in the negative market values compared with last year led to a corresponding drop in the "translation adjustment" in equity.

## Notes to the profit and loss account and other disclosures

The breakdown of sales by the BASF Group by segments and regions is shown in Management's Analysis.

### 22 Sales

Breakdown of sales by segments and regions for BASF AG	Sales of the segments Million DM		Sales in the regions Million DM	
	1998	1997	1998	1997
Health & Nutrition	3,702.9	3,348.7	Europe	15,993.8
Colorants & Finishing Products	4,692.2	5,268.9	• thereof Germany	(6,699.3)
Chemicals	6,757.5	7,565.5	North America (NAFTA)	1,489.1
Plastics & Fibers	5,126.1	6,453.8	South America	651.0
Oil & Gas	–	–	Asia, Pacific Area, Africa	2,911.3
Other	766.5	890.4		
	<b>21,045.2</b>	23,527.3		<b>21,045.2</b>
				23,527.3

### 23 Other operating income or expenses

Other operating income	Million DM	BASF Group	
		1998	1997
Dissolution or adjustments of provisions		761.3	872.8
Income from other nontypical transactions		302.7	239.6
Gains from foreign currency exchange and translation		377.7	477.8
Gains from disposals of assets		300.6	95.3
Dissolution of special reserves			36.8
• thereof BASF AG		(24.4)	(26.0)
Other		481.2	417.2
		<b>2,223.5</b>	2,139.5

Other operating expenses	Million DM	BASF Group	
		1998	1997
Costs of reorganization, shutdowns, severage packages and other personnel obligations		567.4	705.4
Environmental protection and safety measures, costs of demolition, disposal and noncapitalizable project costs		415.2	373.4
Losses from foreign currency exchange and translation		698.7	379.9
Costs of the other nontypical transactions		294.9	251.6
Losses from disposal of assets		64.5	119.6
Transfer to special reserves			19.4
• thereof BASF AG		(19.9)	(6.0)
Other		1,551.4	1,907.9
		<b>3,592.1</b>	3,757.2

The special charges and special income resulting from reorganization measures and divestitures are explained in Management's Analysis.

## 24 Net income from financial assets

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Income from participating interests and similar income	<b>119.9</b>	63.6	<b>976.6</b>	379.3
• thereof from affiliated companies	<b>(71.1)</b>	(39.9)	<b>(840.2)</b>	(332.3)
Income from profit transfers	<b>21.9</b>	101.2	<b>378.5</b>	455.0
Expenses from loss transfers	<b>42.1</b>	110.2	<b>65.3</b>	158.7
Results of affiliated and associated companies (equity method)	<b>71.9</b>	-102.2	<b>-</b>	-
	<b>171.6</b>	-47.6	<b>1,289.8</b>	675.6

**BASF Group:** The results of affiliated and associated companies recorded using the equity method include amortization of goodwill. The results include, in particular, income from the Kali und Salz Group, Kassel, Germany, including income from the sale of shares in Kali und Salz, Wintershall Energía S.A., Buenos Aires, Argentina, and Lucura Rückversicherungs GmbH, Ludwigshafen.

Losses were incurred by BASF Poliestireno S.A., São José dos Campos - São Paulo, Brazil, and Salchi Spa (since January 1, 1999 BASF Coatings Spa), Burago Molgora, Italy, mainly as the result of scheduled amortization of goodwill.

**BASF Aktiengesellschaft:** Income from participating interests, including corporation tax credit, relates primarily to Knoll AG, Ludwigshafen, with DM 275.7 million, Elastogran

GmbH, Lemförde, Germany, with DM 126.7 million, BASF Coatings AG, Münster, Germany, with DM 54.3 million, Lucura Rückversicherungs GmbH, with DM 37.1 million, Elenac GmbH, Kehl, Germany, with DM 88.6 million, and to BASF Japan Ltd., Tokyo, with DM 27.8 million.

Income from profit transfers was derived primarily from Wintershall AG, Kassel, BASF Schwarzheide GmbH, Schwarzheide, Germany, Knoll AG, Ludwigshafen and Ultraform GmbH, Ludwigshafen.

Expenses from loss transfers relate mainly to BASF Waren- und Anlagenvertriebs- und -leasing GmbH, Ludwigshafen. In addition, income from financial assets includes DM 145.5 (1997: 196.1) million from tax allocations to companies with which tax assumption agreements exist.

## 25 Interest result

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Income from other securities and financial assets	<b>136.0</b>	100.1	<b>38.5</b>	51.0
• thereof from affiliated companies	<b>(40.2)</b>	(39.3)	<b>(37.5)</b>	(49.3)
Other interest, income from sale of current asset securities and similar income	<b>606.5</b>	455.6	<b>459.2</b>	360.1
• thereof from affiliated companies	<b>(28.7)</b>	(19.1)	<b>(75.0)</b>	(40.4)
Interest and similar expenses	<b>531.7</b>	455.1	<b>199.6</b>	199.2
• thereof to affiliated companies	<b>(12.9)</b>	(19.8)	<b>(181.8)</b>	(175.6)
	<b>210.8</b>	100.6	<b>298.1</b>	211.9

The interest income includes special income of DM 238 million from the sale of securities and swaps.

## 26 Taxes

Million DM	BASF Group		BASF AG	
	1998	1997	1998	1997
Income taxes	<b>2,164.8</b>	2,125.7	<b>880.7</b>	737.7
• thereof deferred taxes	<b>(168.5)</b>	(45.9)	<b>(-42.9)</b>	
• thereof noncreditable taxes on oil-producing operations	<b>(122.9)</b>	(277.5)	<b>(-)</b>	(-)
Other taxes	<b>238.5</b>	302.9	<b>35.6</b>	71.7
	<b>2,403.3</b>	2,428.6	<b>916.3</b>	809.4

Income taxes comprise corporation tax, trade income tax and similar income-related taxes, and also deferred taxes. Other taxes are allocated to operational costs.

## 27 Cost of material of BASF Aktiengesellschaft

Million DM	1998	1997
Cost of raw materials, plant supplies and purchased merchandise	9,198.0	10,758.1
Cost of purchased services	2,388.5	2,313.3
	<b>11,586.5</b>	13,071.4

## 28 Employees

Personnel cost	BASF Group		BASF AG	
	1998	1997	1998	1997
Million DM				
Wages and salaries	9,466.9	9,167.0	4,379.1	4,312.3
Social security contributions and expenses for pensions and assistance	2,287.7	2,157.3	993.0	1,046.7
• thereof for pensions	(603.6)	(521.6)	(223.1)	(293.3)
	<b>11,754.6</b>	11,324.3	<b>5,372.1</b>	5,359.0

Income of DM 168.8 million for the BASF Group and DM 156.7 million for BASF Aktiengesellschaft resulting from the retransfer of the obligation to make pension adjustments for previous financial years to the BASF Pension Fund has been offset against expenses for pensions.

Adjustments of the pension provisions in accordance with U.S. GAAP of DM 1,881.1 million in the BASF Group and of DM 1,161.6 million in BASF Aktiengesellschaft are not included in the expenses for pensions.

### Cost of employees' representatives

German Group companies incurred costs, in accordance with statutory regulations, of DM 20.9 million (1997: 22.1 million) for employees' representatives. BASF Aktiengesell-

schaft accounted for DM 13.1 million (1997: 14.8 million) of this amount.

### Average number of employees

BASF Group	Full consolidated companies		Pro rata consolidated companies	
	1998	1997	1998	1997
Europe	75,314	77,414	2,975	2,700
• thereof Germany	(59,215)	(60,332)	(2,596)	(2,443)
North America (NAFTA)	15,438	15,232	807	799
South America	6,449	6,703	–	–
Asia, Pacific Area, Africa	7,656	4,417	360	739
	<b>104,857</b>	103,766	<b>4,142</b>	4,238
• thereof with trainee contracts	3,060	2,913	148	144
• thereof with limited-term contracts	3,107	2,871	23	20

The personnel figures for the companies which are consolidated pro rata are given in full in the above list; if they are taken into account at 50 percent, the average number of

personnel for the Group is 106,928 in 1998 and 105,885 in 1997.

BASF AG	1998	1997
Hourly workers	18,086	18,849
Salaried employees	22,588	22,938
Trainees	2,308	2,185
Employees on limited-term contracts	1,051	961
	<b>44,033</b>	44,933

## 29 Minority interests

Minority interests exist, in particular, in the case of the following fully consolidated Group companies: Targor Group (50 percent), Wingas GmbH (35 percent), Yangzi-BASF Styrenics Company Ltd. (40 percent) and Hokuriku Seiyaku Co. Ltd. (35.9 percent).

Minority interests in profits relate primarily to the companies active in the natural gas business. Minority interests in losses arose mainly in the case of Targor, Wingas and Yangzi-BASF Styrenics.

Million DM	BASF Group	
	1998	1997
Minority interests in profits	63.4	50.0
Minority interests in losses	132.6	80.3
	-69.2	-30.3

## 30 Remuneration of the Board of Executive Directors and the Supervisory Board

Total remuneration of the Supervisory Board amounts to DM 3.1 million, of the Board of Executive Directors to DM 24.4 million, including the remunerations granted by subsidiaries in the amount of DM 2.8 million. These sums include the accrued performance-related bonuses for 1998.

Total remuneration of former members of the Board of Executive Directors and their survivors amounts to DM 8.7

million. Pension provisions for former members of the Board of Executive Directors amount to DM 81.3 million. No commitments were assumed in favor of the members of the Supervisory Board or the Board of Executive Directors. The members of the Supervisory Board and of the Board of Executive Directors, including the posts held by them in other supervisory boards which they have notified to us, are listed separately on pages 59 or 62 and 63.

### Proposed distribution of retained profit

We propose to the Annual Meeting the distribution of a dividend of DM 2.20 per share from the profit retained of DM 1,356,347,358 of BASF Aktiengesellschaft. Eligible shareholders in Germany will also receive a tax credit of DM 0.94 per share.

Taking into consideration the shares bought back up until March 2, 1999, 615,897,950 shares are entitled to a dividend for the 1998 financial year. If this proposal is accepted, the dividend payable on these shares entitled to a dividend will be DM 1,354,975,490.

We furthermore propose that the remaining profit retained of DM 1,371,868 be carried forward.

Ludwigshafen, March 2, 1999

The Board of Executive Directors

### Auditors' opinion

The accounting records and the financial statements of BASF Aktiengesellschaft and the financial statements of the BASF Group, which we have audited in accordance with professional standards, comply with the German legal provisions.

The financial statements of BASF Aktiengesellschaft and the financial statements of the BASF Group, prepared in accordance with generally accepted accounting principles, give a true and fair view of the net worth, financial position and earnings of BASF Aktiengesellschaft and the BASF Group.

The Management's Analysis of BASF Aktiengesellschaft and of the BASF Group is consistent with the financial statements of BASF Aktiengesellschaft and the financial statements of the BASF Group.

**Deloitte & Touche GmbH**  
Wirtschaftsprüfungsgesellschaft

Frankfurt, March 2, 1999

Professor Dr. Emmerich  
Wirtschaftsprüfer

Kompenhans  
Wirtschaftsprüfer

## Board of Executive Directors: memberships of supervisory boards

The members of the Board of Executive Directors of BASF Aktiengesellschaft exercise mandates on statutorily constituted supervisory boards and in similar controlling bodies in the following German and non-German industrial companies (December 31, 1998):

<b>Dr. Jürgen Strube</b> Chairman	Allianz Lebensversicherungs-AG ( <i>Supervisory Board member</i> ) Commerzbank AG ( <i>Supervisory Board member</i> ) Hapag-Lloyd AG ( <i>Supervisory Board member</i> ) Hochtief AG ( <i>Supervisory Board member</i> )
<b>Dr. Hanns-Helge Stechl</b> Deputy Chairman	BASF Antwerpen N.V. ( <i>Administrative Council chairman</i> ) MAN AG ( <i>Supervisory Board member</i> ) Pfleiderer AG ( <i>Supervisory Board member</i> ) Pfleiderer Unternehmensverwaltung GmbH & Co. KG ( <i>Supervisory Board member</i> )
<b>Helmut Becks</b>	BASF Schwarzheide GmbH ( <i>Supervisory Board chairman</i> )
<b>Dr. Albrecht Eckell</b> (up to December 31, 1998)	BASF Coatings AG ( <i>Supervisory Board chairman</i> ) Grünzweig + Hartmann AG ( <i>Supervisory Board member</i> ) Klöckner Werke AG ( <i>Supervisory Board member</i> ) Robert Cordier AG ( <i>Supervisory Board member</i> )
<b>Dr. Jürgen Hambrecht</b>	–
<b>Max Dietrich Kley</b>	Bayerische Hypo- und Vereinsbank AG ( <i>Supervisory Board member</i> ) Comparex Informationssysteme GmbH ( <i>Supervisory Board chairman</i> ) Gerling-Konzern Speziale Kreditversicherungs-Aktiengesellschaft ( <i>Supervisory Board member</i> ) Landesbank Rheinland-Pfalz ( <i>Administrative Council member</i> ) Lausitzer Braunkohle AG ( <i>Supervisory Board member</i> ) Mannesmann Demag AG ( <i>Supervisory Board member</i> ) VIAG AG ( <i>Supervisory Board member</i> ) Wintershall AG ( <i>Supervisory Board chairman</i> )
<b>Dr. Stefan Marcinowski</b>	BASF Coatings AG ( <i>Supervisory Board member</i> ) Knoll AG ( <i>Supervisory Board member</i> )
<b>Peter Oakley</b> (from May 20, 1998)	–
<b>Dr. Volker Trautz</b>	Deutsche Gesellschaft für Kunststoff-Recycling mbH ( <i>Supervisory Board chairman</i> )
<b>Eggert Voscherau</b>	BASF Española S. A. ( <i>Administrative Council chairman</i> ) Knoll AG ( <i>Supervisory Board chairman</i> )
<b>Gerhard R. Wolf</b> (up to May 19, 1998)	Hornbach Holding AG ( <i>Supervisory Board member</i> ) Hornbach Baumarkt AG ( <i>Supervisory Board member</i> ) Kali und Salz Beteiligungs AG ( <i>Supervisory Board chairman</i> ) Kali und Salz GmbH ( <i>Supervisory Board chairman</i> ) Lehnkering AG ( <i>Supervisory Board member</i> ) SGE Deutsche Holding GmbH ( <i>Supervisory Board member</i> ) STINNES AG ( <i>Supervisory Board member</i> ) Südzucker AG ( <i>Supervisory Board member</i> )

# Board of Executive Directors, Division Presidents and organization

(as of December 31, 1998)

Board of Executive Directors	Operating Divisions
Ressort I <b>Dr. Jürgen Strube</b> Chairman	
Ressort II <b>Eggert Voscherau</b> up to May 19, 1998: <b>Gerhard R. Wolf</b>	Fertilizers ..... <b>Dr. Andreas Kreimeyer</b> Crop Protection ..... <b>Dr. Friedrich Vogel</b> Pharmaceuticals ..... <b>Dr. Thorlef Spickschen</b>
Ressort III <b>Max Dietrich Kley</b>	Oil & Gas ..... <b>Herbert Detharding</b> Raw Materials Purchasing ..... <b>Wolfgang Mörike</b>
Ressort IV <b>Dr. Volker Trautz</b>	Styrenic Polymers ..... <b>Dr. Werner Prätorius</b> Engineering Plastics ..... <b>Professor Dr. Burghard Schmitt</b> Polyurethanes/PVC ..... <b>Jean-Pierre Dhanis</b>
Ressort V <b>Helmut Becks</b>	
Ressort VI <b>Dr. Hanns-Helge Stechl</b> Deputy Chairman	Industrial Chemicals ..... <b>Dr. Christian Dudeck</b> Intermediates ..... <b>Dr. Dietrich Lach</b> Fine Chemicals ..... <b>Dr. Dieter Suter</b> Petrochemicals & Inorganics ..... <b>Dr. Rolf Niess</b>
Ressort VII <b>Dr. Albrecht Eckell</b> up to Dec. 31, 1998	Coatings (from Jan. 1, 1999 part of Ressort III) ..... <b>Klaus Peter Löbbe</b> Dispersions ..... <b>Dr. Josef F. Kohnle</b> Colorants } (from Jan. 1, 1999 part of Ressort VIII) ..... <b>Dr. Walter Gramlich</b> Specialty Chemicals } ..... <b>Dr. Siegfried Riedmüller</b>
Ressort VIII <b>Dr. Stefan Marcinowski</b> (from Jan. 1, 1999 Research Spokesman)	
Ressort IX <b>Peter Oakley</b> up to May 19, 1998 <b>Eggert Voscherau</b>	Fiber Products ..... <b>Dr. Werner Burgert</b>
Ressort X <b>Dr. Jürgen Hambrecht</b>	

Regional Divisions	Corporate and Functional Divisions
	Legal, Taxes & Insurance ..... <b>Dr. Eckart Sünner</b> Planning & Controlling ..... <b>Dr. Elmar Frommer</b>
Southern Europe ..... <b>José-Maria Bach</b> Northern Europe ..... <b>Barry John Stickings</b> Central Europe ..... <b>Erich Binckli</b> (from Jan. 1, 1999: <b>Dieter Thomaschewski</b> )	
East Europe, Africa, West Asia ..... <b>Winfried Werwie</b>	Finance ..... <b>Dr. Eckhard Müller</b>
	Corporate Engineering ..... <b>Dr. Axel Anderlohr</b> Logistics ..... <b>Bernd Flickinger</b> Human Resources ..... <b>Dr. Hans-Hermann Dehmel</b> Environment, Safety & Energy ..... <b>Dr. Hans Jörg Henne</b> (from Jan. 1, 1999: <b>Dr. Walter Seufert</b> ) BASF AG Works Engineering ..... <b>Dr. Egon Buhr</b>
	Antwerp Works ..... <b>Dr. Antoon Dieusaert</b>
	Ammonia Laboratory (from Jan. 1, 1999 part of Ressort VI) . . . <b>Dr. Dieter Degner</b> Colorants Laboratory ..... <b>Dr. Gerhard Paul</b> Engineering Research & Development ..... <b>Professor Dr. Walter Frey</b> Main Laboratory (from Jan. 1, 1999 part of Ressort II) ..... <b>Professor Dr. Werner Küsters</b> Polymers Laboratory (from Jan. 1, 1999 part of Ressort IV) . . . <b>Professor Dr. Hans-Uwe Schenck</b>
South America ..... <b>Winfried Kahlmann</b> (from Jan. 1, 1999: <b>Dr. Rolf-Dieter Acker</b> ) North America Chemicals ..... <b>Dr. Carl A. Jennings</b> North America Coatings & Colorants <b>Frank E. McKulka</b> North America Polymers ..... <b>William J. Lizzi</b> North America Consumer Products & Life Science ..... <b>Dr. Hans Kast</b>	North America Finance ..... <b>Dr. Kurt Bock</b>
East Asia ..... <b>Dr. Jürgen Hambrecht</b> (also head of Ressort X) (from Feb. 1, 1999: <b>Erich Binckli</b> ) Japan ..... <b>Dr. Dietmar Nissen</b> South East Asia/Australia ..... <b>Dr. John Feldmann</b>	

# Supervisory Board

<b>Members of the Supervisory Board of BASF Aktiengesellschaft</b>	<b>Memberships in statutorily constituted supervisory boards and similar controlling bodies of other German and non-German industrial companies (December 31, 1998)</b>
<b>Dr. rer. nat. Hans Albers</b> Bad Dürkheim, Chairman	FRIATEC AG ( <i>Supervisory Board chairman</i> ) G. Haindl'sche Papierfabriken KGaA ( <i>Supervisory Board member</i> ) Haindl Papier GmbH & Co. KG ( <i>Supervisory Board member</i> )
<b>Volker Obenauer</b> Ludwigshafen, Deputy Chairman Chairman of the Works Council of the Ludwigshafen Works of BASF Aktiengesellschaft	–
<b>Wolfgang Daniel</b> Limburgerhof, Deputy Chairman of the Works Council of the Ludwigshafen Works of BASF Aktiengesellschaft	–
<b>Etienne Graf Davignon</b> Brussels, President of Société Générale de Belgique	ARBED S.A. ( <i>Deputy chairman of the Administrative Council</i> ) COMPAGNIE INTERNATIONALE DES WAGONS-LITS ET DU TOURISME S.A. ( <i>Administrative Council chairman</i> ) FORTIS AG ( <i>Deputy chairman of the Administrative Council</i> ) SIBEKA S.A. ( <i>Administrative Council chairman</i> ) Suez Lyonnaise des Eaux S.A. ( <i>Administrative Council member</i> ) TRACTEBEL S.A. ( <i>Deputy chairman of the Administrative Council</i> ) UNION MINIERE S.A. ( <i>Administrative Council chairman</i> )
<b>Professor Dr. rer. nat. François N. Diederich</b> Zurich, Professor at Zurich Technical University (from May 19, 1998)	–
<b>Dr. jur. Tessen von Heydebreck</b> Frankfurt am Main, Member of the Board of Executive Directors of Deutsche Bank Aktiengesellschaft (from May 19, 1998)	Bank 24 AG ( <i>Supervisory Board chairman</i> ) Deutsche Ausgleichsbank ( <i>Administrative Council member</i> ) Deutsche Bank OOO, Moscow ( <i>Supervisory Board chairman</i> ) Deutsche Bank Polska S.A. ( <i>Supervisory Board chairman</i> ) Deutsche Bank Suisse S.A. ( <i>Administrative Council chairman</i> ) Dürr AG ( <i>Supervisory Board member</i> ) DWS Deutsche Gesellschaft für Wertpapiersparen mbH ( <i>Supervisory Board member</i> ) Dyckerhoff AG ( <i>Supervisory Board member</i> ) Gruner + Jahr AG ( <i>Supervisory Board member</i> ) Nestlé Deutschland AG ( <i>Supervisory Board member</i> ) Versicherungsholding der Deutschen Bank AG ( <i>Supervisory Board chairman</i> ) Zürich Investmentgesellschaft mbH ( <i>Supervisory Board member</i> ) BVV Versicherungsverein des Bankgewerbes a. G. ( <i>Supervisory Board member</i> )
<b>Lothar Hick</b> Limburgerhof, Member of the Works Council of the Ludwigshafen Works of BASF Aktiengesellschaft	–
<b>Dr. rer. nat. Wolfgang Jentzsch</b> Mannheim	Linde Aktiengesellschaft ( <i>Supervisory Board member</i> )
<b>Rolf Kleffmann</b> Wehrbleck, Chairman of the Works Council of Wintershall Aktiengesellschaft's Barnstorf Oil Plant (from May 19, 1998)	–
<b>Ulrich Küppers</b> Ludwigshafen, Manager of the Ludwigshafen branch of Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)	Wirtschafts-Entwicklungsgesellschaft mbH ( <i>Supervisory Board member</i> ) Verkehrsbetriebe Ludwigshafen GmbH ( <i>Supervisory Board member</i> ) Rhein-Haardtbahn GmbH ( <i>Supervisory Board member</i> )
<b>Professor Dr. (Ing. E. h., Dipl.-Ing.) Berthold Leibinger</b> Ditzingen, Managing Director of TRUMPF GmbH + Co. (from May 19, 1998)	BMW Bayerische Motoren Werke AG ( <i>Second deputy chairman of the Supervisory Board</i> ) Deutsche Bank AG ( <i>Supervisory Board member</i> ) SCHITAG ERNST & YOUNG Deutsche Allgemeine Treuhand AG ( <i>Deputy chairman of the Supervisory Board</i> )
<b>Dr. rer. nat. Karlheinz Messmer</b> Weisenheim am Berg, Plant Manager at the Ludwigshafen Works of BASF Aktiengesellschaft	–



<b>Ellen Schneider</b> Wallenhorst, Chairwoman of the Joint Works Council of Elastogran GmbH	–
<b>Dr. Ing. Hermann Scholl</b> Stuttgart, Managing Director of Robert Bosch GmbH (from May 19, 1998)	Allianz AG (Supervisory Board member) Deutsche Bank AG (Supervisory Board member) Thyssen AG (Supervisory Board member)
<b>Dr. jur. Henning Schulte-Noelle</b> Munich, Chairman of the Board of Executive Directors of Allianz Aktiengesellschaft	Allianz Versicherungs-AG (Supervisory Board chairman) Allianz Lebensversicherungs-AG (Supervisory Board chairman) Dresdner Bank AG (Supervisory Board member) Linde AG (Supervisory Board member) MAN AG (Deputy chairman of the Supervisory Board) Mannesmann AG (Supervisory Board member) Münchener Rückversicherungsgesellschaft AG (Deputy chairman of the Supervisory Board) Siemens AG (Supervisory Board member) Thyssen AG (Deputy chairman of the Supervisory Board) Veba AG (Supervisory Board member)
<b>Gerhard Sebastian</b> Ludwigshafen, Member of the Works Council of the Ludwigshafen Works of BASF Aktiengesellschaft	–
<b>Robert Studer</b> Zurich	Elf Aquitaine S. A. (Administrative Council member) Renault S. A. (Administrative Council member) Nestlé S. A. (Administrative Council member) Schindler Holding AG (Administrative Council member)
<b>Jürgen Walter</b> Neustadt am Rübenberge, Member of the Central Board of Executive Directors of Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)	BASF Schwarzheide GmbH (Supervisory Board member) Henkel KGaA (Supervisory Board member) Ruhrfestspiele GmbH (Supervisory Board member) Beteiligungs-Managementgesellschaft Berlin mbH (Supervisory Board member)
<b>Helmut Werner</b> Stuttgart	Expo 2000 Hannover GmbH (Supervisory Board chairman) Alcatel Deutschland GmbH (Supervisory Board chairman) Metallgesellschaft AG (Supervisory Board chairman) Alcatel S. A., Paris (Supervisory Board member) Gerling-Konzern Versicherungsbeteiligungs AG (Supervisory Board member) Aktiebolaget SKF (Supervisory Board member)
<b>Gerhard Zibell</b> Gau-Odernheim, Regional Manager of Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union) Rhineland-Palatinate/Saar region (from May 19, 1998)	Saarbergwerke AG (Supervisory Board member)

#### Supervisory Board members retired at the end of the Annual Meeting on May 19, 1998

<b>Professor Dr. phil. Marcus Bierich</b> Stuttgart, Chairman of the Supervisory Board of Robert Bosch GmbH	<b>Klaus Südhofer</b> Recklinghausen, Deputy Chairman of Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)
<b>Professor Dr. rer. nat. Manfred Eigen</b> Göttingen, Director at the Max Planck Institute of Biophysical Chemistry in Göttingen	<b>Dr. rer. pol. Ulrich Weiss</b> Kronberg
<b>Professor Dr. rer. nat. Hans Joachim Langmann.</b> Jugenheim/Bergstraße, Chairman of the Board of Executive Directors of Merck KGaA	

We mourn Professor Dr. Helmut Dörfel, who died on September 3, 1998 at the age of 70. Professor Dörfel joined BASF in 1956 and was a member of the Board of Executive Directors from 1980 to 1990 with responsibility for research.

Million DM	1989	1990	1991	1992	1993	1994	1995	1996	1987	1998
<b>Balance sheet</b>										
Intangible assets	818	734	650	683	638	512	1,730	2,536	2,928	<b>3,843</b>
Tangible assets	11,865	13,252	14,629	15,214	17,722	15,993	15,399	16,071	17,750	<b>21,034</b>
Financial assets	1,534	1,693	1,692	2,955	1,929	2,068	2,616	4,094	4,170	<b>3,572</b>
<b>Fixed assets</b>	<b>14,217</b>	<b>15,679</b>	<b>16,971</b>	<b>18,852</b>	<b>20,289</b>	<b>18,573</b>	<b>19,745</b>	<b>22,701</b>	<b>24,848</b>	<b>28,449</b>
Inventories	6,533	6,407	6,456	6,748	6,317	6,262	6,725	7,169	7,581	<b>7,243</b>
Accounts receivable – trade	5,805	5,793	5,655	5,446	5,748	6,483	6,564	7,263	8,408	<b>7,857</b>
Miscellaneous receivables	2,422	2,913	3,233	3,370	2,690	2,463	2,689	2,623	3,452	<b>3,629</b>
Receivables	8,227	8,706	8,888	8,816	8,438	8,946	9,253	9,886	11,860	<b>11,486</b>
Deferred taxes	–	–	–	–	75	129	119	135	89	<b>2,107</b>
Cash and cash items	6,150	5,963	5,157	4,557	5,239	5,949	6,193	3,827	3,610	<b>2,939</b>
<b>Current assets*</b>	<b>20,910</b>	<b>21,076</b>	<b>20,501</b>	<b>20,121</b>	<b>20,069</b>	<b>21,286</b>	<b>22,290</b>	<b>21,017</b>	<b>23,140</b>	<b>23,775</b>
<b>Assets</b>	<b>35,127</b>	<b>36,755</b>	<b>37,472</b>	<b>38,973</b>	<b>40,358</b>	<b>39,859</b>	<b>42,035</b>	<b>43,718</b>	<b>47,988</b>	<b>52,224</b>
Subscribed capital	2,850	2,850	2,850	2,852	2,923	3,049	3,049	3,090	3,110	<b>3,119</b>
Capital surplus	4,326	4,326	4,327	4,330	4,464	4,704	4,704	4,918	5,021	<b>5,066</b>
Paid-in capital	7,176	7,176	7,177	7,182	7,387	7,753	7,753	8,008	8,131	<b>8,185</b>
Revenue reserves and profit retained	6,661	7,054	7,372	7,315	7,629	8,441	10,317	12,248	14,508	<b>17,006</b>
Translation adjustment					–232	–453	–496	–253	392	<b>77</b>
Minority interests	120	118	86	86	160	179	353	486	499	<b>647</b>
<b>Equity</b>	<b>13,957</b>	<b>14,348</b>	<b>14,635</b>	<b>14,583</b>	<b>14,944</b>	<b>15,920</b>	<b>17,927</b>	<b>20,489</b>	<b>23,530</b>	<b>25,915</b>
Pension and other long-term provisions	9,228	9,696	9,353	9,980	10,185	9,857	9,776	9,881	9,435	<b>10,877</b>
Tax and other short-term provisions	3,631	3,820	4,167	3,795	3,821	4,147	4,680	4,677	4,817	<b>4,273</b>
Provisions	12,859	13,516	13,520	13,775	14,006	14,004	14,456	14,558	14,252	<b>15,150</b>
Financial indebtedness	3,185	3,370	3,926	4,962	5,364	3,632	2,833	2,038	2,202	<b>2,574</b>
Accounts payable – trade	3,096	3,385	3,224	2,892	2,802	2,995	2,771	3,184	3,858	<b>3,660</b>
Other liabilities	2,030	2,136	2,167	2,761	3,242	3,308	4,048	3,449	4,146	<b>4,925</b>
Liabilities	8,311	8,891	9,317	10,615	11,408	9,935	9,652	8,671	10,206	<b>11,159</b>
<b>Liabilities*</b>	<b>21,170</b>	<b>22,407</b>	<b>22,837</b>	<b>24,390</b>	<b>25,414</b>	<b>23,939</b>	<b>24,108</b>	<b>23,229</b>	<b>24,458</b>	<b>26,309</b>
<b>Equity and liabilities</b>	<b>35,127</b>	<b>36,755</b>	<b>37,472</b>	<b>38,973</b>	<b>40,358</b>	<b>39,859</b>	<b>42,035</b>	<b>43,718</b>	<b>47,988</b>	<b>52,224</b>

\* Including deferred taxes and other prepaid expenses

Million DM	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Sales and earnings</b>										
Sales	46,163	45,043	44,556	41,933	40,568	43,674	46,229	48,776	55,780	<b>54,065</b>
Income from operations	4,329	2,755	2,180	1,311	1,032	2,149	4,023	4,293	5,342	<b>5,132</b>
Profit before taxes	4,384	2,747	2,110	1,239	1,058	2,111	4,128	4,414	5,331	<b>5,419</b>
Net income	2,030	1,111	1,056	613	761	1,170	2,423	2,839	3,205	<b>3,255</b>
Net income after taxes and minority interests	2,015	1,107	1,039	615	858	1,284	2,471	2,790	3,236	<b>3,324</b>
<b>Capital expenditures and depreciation</b>										
Additions to fixed assets	4,379	5,098	5,381	5,730	4,423	3,274	5,363	6,864	5,798	<b>8,079</b>
• thereof in tangible assets	3,956	4,458	4,800	4,151	4,139	2,707	3,024	3,639	4,359	<b>5,671</b>
Depreciation of fixed assets	3,043	3,293	3,463	3,541	3,342	4,380	3,687	3,666	4,005	<b>4,460</b>
• thereof on tangible assets	2,767	3,025	3,176	3,338	3,174	4,027	3,339	3,141	3,387	<b>3,605</b>
<b>Number of employees</b>										
• at year-end*	136,990	134,647	129,434	123,254	112,020	106,266	106,565	105,589	104,979	<b>105,945</b>
• year's average*	136,579	136,295	130,328	126,028	117,368	107,716	107,320	108,266	105,885	<b>106,928</b>
<b>Personnel costs</b>										
	11,049	11,262	11,260	11,171	10,770	10,391	10,818	11,025	11,324	<b>11,755</b>
<b>Key data</b>										
Net income per share (DM)	3.54	1.94	1.82	1.08	1.49	2.15	4.05	4.54	5.22	<b>5.34</b>
Cash flow	5,520	5,024	4,765	4,451	4,635	5,565	6,368	6,798	7,225	<b>7,258</b>
Cash flow per share (DM)	9.70	8.80	8.40	7.80	8.00	9.30	10.40	11.07	11.65	<b>11.65</b>
Return on sales before income taxes and interest expenses (%)	10.6	7.3	5.9	4.3	3.8	6.0	9.9	10.0	10.4	<b>11.0</b>
Return on assets before income taxes and interest expenses (%)	14.4	9.2	7.1	4.7	3.9	6.5	11.2	11.4	12.6	<b>11.9</b>
Return on equity after taxes (%)	15.3	7.8	7.3	4.2	5.2	7.6	14.3	14.8	14.6	<b>13.2</b>
<b>Appropriation of net income</b>										
Net income of BASF Aktiengesellschaft	1,398	1,041	884	770	668	910	1,354	1,701	1,844	<b>2,101</b>
Transferred to revenue reserve	600	300	200	200	200	300	500	650	600	<b>745</b>
Dividend	798	741	684	570	468	610	854	1,051	1,244	<b>1,355</b>
Dividend per share (DM)	1.40	1.30	1.20	1.00	0.80	1.00	1.40	1.70	2.00	<b>2.20</b>
Number of shares (1000)	569,954	569,968	570,030	570,390	584,502	609,766	609,766	618,052	622,063	<b>623,794</b>

\* From 1996, including employees on limited-term contracts

**For further information:**

Investor Relations:

Klaus D. Jessen

Tel. +49 621 60-43263

Fax +49 621 60-22500

Press Department, Business  
and Financial Press:

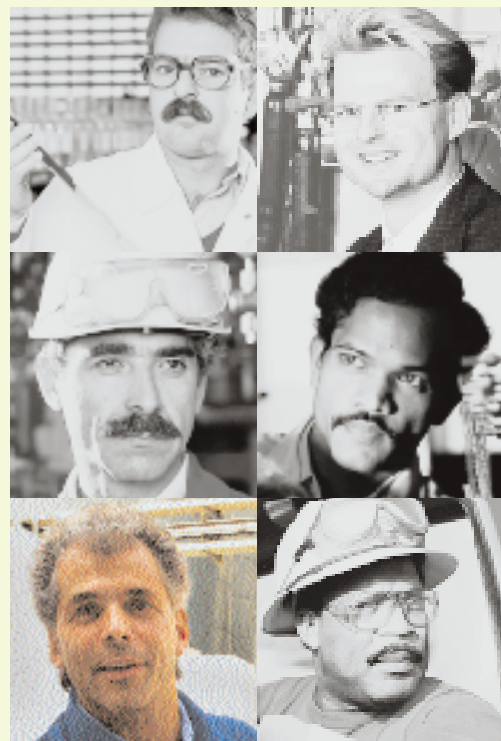
Michael Grabicki

Tel. +49 621 60-99938

Fax +49 621 60-20129

Internet:

<http://www.basf.de/annual-report>



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