



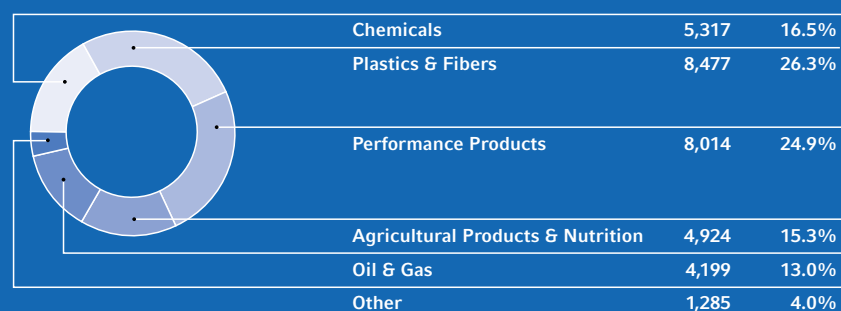
Adding value through  
growth and innovation

# BASF Group

## Overview of key financial data

Million €	2002	2001	Change in %
Sales	32,216	32,500	(0.9)
Income from operations before special items	2,881	2,293	25.6
Income from operations (EBIT)	2,641	1,217	117.0
Special items	(240)	(1,076)	77.7
Extraordinary income	–	6,121	–
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	5,105	4,142	23.2
Income before taxes and minority interests	2,641	6,730	(60.8)
Net income	1,504	5,858	(74.3)
Earnings per share (€)	2.60	9.72	(73.3)
Earnings per share in accordance with U.S. GAAP (€)	2.96	9.45	(68.7)
Dividend per share (€)	1.40	1.30	7.7
R&D expenses	1,135	1,247	(9.0)
Number of employees (as of December 31, 2002)	89,389	92,545	(3.4)

### Sales by segment Million €



### Sales by region (location of customer) Million €





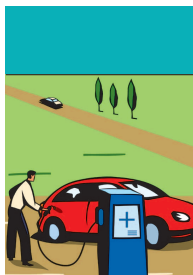
### **Chemicals – the heart of our Verbund**

The production of organic and inorganic basic chemicals and intermediates relies in particular on the synergy potential of our Verbund. Our goal is to achieve cost leadership. Integrated production sites, new processes and the advantages of modern large-scale plants are our keys to success. We are optimizing existing Verbund sites and constructing new ones in the major growth markets.



### **Plastics & Fibers – cost leadership and innovative specialties**

BASF is a leading supplier of plastics and fibers. We strive to achieve global cost leadership with our standard plastics. With our specialty plastics, we focus on the huge range of uses for these materials of the future. Together with customers, we develop new applications and open up new markets. We will sell our fibers business in 2003 and thus further streamline our portfolio.



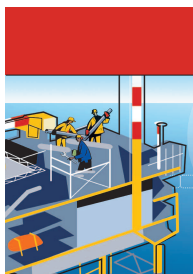
### **Performance Products – intensive cooperation with customers**

In the Performance Products segment, we concentrate our activities on innovative business areas and products toward the end of our value-adding chains. Our success is based on developing new chemical products, systems and applications in close cooperation with our customers. A key factor is our ability to ensure just-in-time delivery through a network of regional sites.



### **Agricultural Products & Nutrition – we are strengthening our competitiveness**

We have strengthened the competitiveness of our Agricultural Products & Nutrition segment through active portfolio management and are carrying out an ambitious program of cost-reduction measures. We are expanding our position through new active ingredients and our presence in the major agricultural markets. We are extending our activities in plant biotechnology. We supply our customers with a variety of high-value fine chemicals for the food, pharmaceuticals, animal feed and cosmetics industries.



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

We strengthen our oil and gas business through organic growth and through acquisitions. In exploration and production, we benefit from our expertise and focus on areas that are rich in oil and gas. In natural gas trading, we are making use of the growth opportunities arising from the liberalization of European gas markets. The earnings contributions from our oil and gas business act as a bridge over the economic troughs.

## Segments

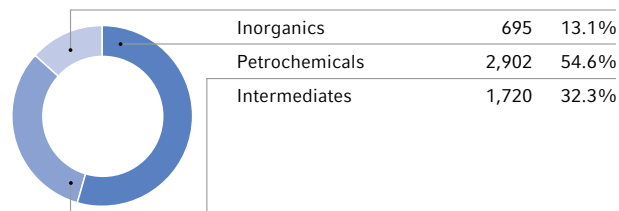
### Key data

Million €

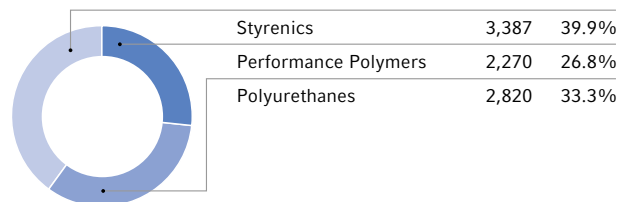
	2002	2001	Change in %
Sales	5,317	4,494	18.3
Income from operations before special items	676	425	59.1
Income from operations	635	362	75.4

### Sales by division

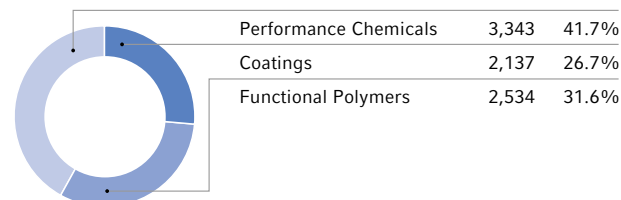
Million €



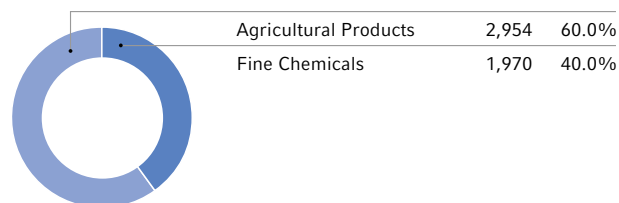
	2002	2001	Change in %
Sales	8,477	8,185	3.6
Income from operations before special items	593	180	229.4
Income from operations	582	(2)	.



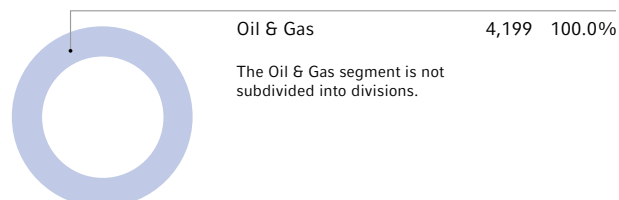
	2002	2001	Change in %
Sales	8,014	8,154	(1.7)
Income from operations before special items	653	397	64.5
Income from operations	646	99	.



	2002	2001	Change in %
Sales	4,924	5,826	(15.5)
Income from operations before special items	217	274	(20.8)
Income from operations	55	(162)	.



	2002	2001	Change in %
Sales	4,199	4,516	(7.0)
Income from operations before special items	1,210	1,308	(7.5)
Income from operations	1,210	1,308	(7.5)



BASF is the world's leading chemical company. We aim to increase and sustain our corporate value through growth and innovation. We offer our customers a range of high-performance products, including chemicals, plastics, performance products, agricultural products and fine chemicals as well as crude oil and natural gas.

Our distinctive approach to integration, known in German as "Verbund," is our strength. It enables us to achieve cost leadership and gives us a decisive competitive advantage. We conduct our business in accordance with the principles of sustainable development.

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## Milestones

# Milestones 2002

### January

▶ A highly efficient superabsorbents plant with an annual capacity of 100,000 metric tons starts operations at BASF's site in Antwerp, Belgium. Superabsorbents are highly absorbent polymers that are used above all in diapers and hygiene products.

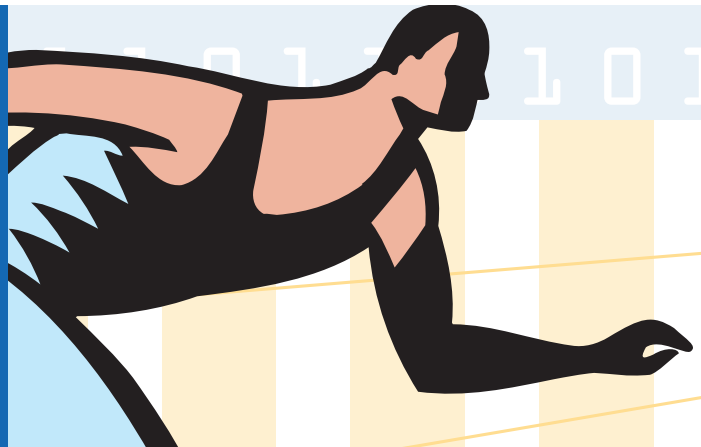
### February

▶ A global PC standard is introduced throughout the BASF Group. To this end, BASF and Dell Computer Corp. sign an exclusive agreement on the delivery of 60,000 personal computers. By standardizing hardware and software and thus optimizing service delivery, BASF is able to reduce costs.

### March

▶ The U.S. business magazine "Fortune" names BASF the most innovative company in the chemical industry. BASF was named the chemical industry world leader in four of nine key attributes – innovativeness, quality of management, financial soundness, and global business acumen.

In 2002, BASF withstood the weak business situation: Contrary to the general trend we considerably increased income from operations before special items. This was primarily due to our portfolio – which is now much more cyclically resilient – and the restructuring measures that we implemented in 2001 and which had an effect in the past year: We have significantly reduced our costs, streamlined our organization and further sharpened our customer focus. In 2002, BASF shares performed relatively well in what was a miserable year on the stock exchange and again outperformed the EURO STOXX<sup>SM</sup> 50 and DAX 30 share indexes.



The goal of our strategy is to increase and sustain BASF's corporate value through growth and innovation.

— We are expanding highly profitable businesses.

### July

▶ The Supervisory Board of BASF Aktiengesellschaft appoints Dr. Jürgen Hambrecht to succeed Dr. Jürgen F. Strube as Chairman of the Board of Executive Directors. The appointment will be effective following the end of the Annual Meeting on May 6, 2003.

### August

▶ BASF receives approval from the Chinese authorities for the construction of integrated production plants for polytetrahydrofuran (PolyTHF<sup>®</sup>) and tetrahydrofuran (THF) in Caojing, China. The plants will operate using a technology newly developed by BASF and are scheduled to begin operations in 2004. PolyTHF<sup>®</sup> is used in the production of elastic fibers for textiles. ▶ A German-language book on the corporate history of BASF is published ("Die BASF – Eine Unternehmensgeschichte"). Four distinguished historians spent several years analyzing all the available sources to reflect almost 140 years of German and international business history using the example of what is now the world's largest chemical company. An English version of the book will appear in November 2003.

### September

▶ ELLBA Eastern (Pte.) Ltd., a 50-50 joint venture between BASF and Shell, starts production of the raw materials propylene oxide and styrene monomer in Singapore. With annual capacities of 250,000 metric tons of propylene oxide and 50,000 metric tons of styrene monomer, the new plant is the largest of its kind in Asia. ▶ BASF shares are included in another major European share index – the STOXX<sup>SM</sup> 50.

#### April

▶ BASF works on a U.N. project in Morocco: The eco-efficiency of textile dye works is investigated as part of the Global Compact – an initiative of the U.N. Secretary-General Kofi Annan.

#### May

▶ In Ludwigshafen, Germany, BASF starts construction on a new production plant for the fine chemical intermediate citral; the plant will have an annual capacity of 40,000 metric tons. This aroma chemical will form a key component in the production of fine chemicals such as vitamins and flavors.

#### June

▶ BASF and the U.S. company Fortitech, Inc. establish a joint venture for the production, marketing and sale of premixes – customer-specific mixtures of nutritional additives.  
▶ BASF Venture Capital GmbH acquires a stake in the British company Oxonica, Ltd., a world leader in the field of applied nanotechnology.



— We are enhancing our long-term competitiveness.

— We create value for our customers and for BASF.

— We invest in growth markets.

— We rely on the diverse skills of our employees.

#### October

▶ BASF strengthens its insecticide business: It plans to purchase the insecticide fipronil and selected fungicides for seed treatment applications for €1.2 billion from Bayer CropScience AG. ▶ BASF's subsidiary Wintershall acquires Clyde Netherlands B.V. and thus expands its proven reserves of oil and gas in the North Sea and on the Dutch mainland.

#### November

▶ BASF starts implementing a site concept for its Ludwigshafen headquarters under the motto "Site future: here & now!" An extensive package of measures aims to ensure and enhance the competitiveness of the site. From 2005, the company expects the measures to permanently reduce costs at the Ludwigshafen site by €450 million.

#### December

▶ The German business publication "manager magazin" names BASF's Chairman, Dr. Jürgen F. Strube, Manager of the Year 2002. A jury consisting of management consultants, scientists and journalists honored Strube for clearly positioning BASF as a chemical company and making it a world leader.

**BASF is in a strong position and is driving forward its development with self-confidence. Our goal is to earn a premium above our cost of capital.**



## Letter from the Chairman of the Board of Executive Directors

*Dear shareholders and friends of BASF,*

In 2002, we showed that BASF is also capable of performing well in a difficult business environment. Despite a slight decline in sales, we were able to increase income from operations before special items considerably – by 25.6 percent to €2,881 million.

We were, however, unable to avoid the effects of a downturn in financial markets last year, and BASF shares also lost value in 2002. Personally, I find this disappointing, since I am convinced that our current value in financial markets does not reflect the company's performance. The relative performance of BASF shares on the other hand was very satisfactory: Our shares performed considerably better than the DAX 30 and EURO STOXX 50 indexes – for the fourth year in succession. Even though the stock market environment is difficult at the moment, BASF's share price has risen more than threefold from the end of 1992 through the end of 2002. We are committed to our goal of increasing BASF's corporate value through growth and innovation. With a dividend of €1.40 per share that we are proposing to the Annual Meeting, BASF is again offering its shareholders an attractive dividend yield. In the course of 2002, we repurchased shares for €500 million as planned. And we intend to buy back shares for the same amount again, thus further reducing our equity ratio and increasing earnings per share.

The past year was characterized by stock market losses and accounting scandals. This has shifted the focus back to tried and tested principles: Values such as reliability, responsibility and continuity – typical strengths of BASF – are once again in demand. It is now clear that we have been well served by having a clear strategy and adhering to it over the years. We have maintained the initiative and driven forward BASF's development. This might seem unspectacular to some, but it has led us to success.

Over the past few years, we have rid our portfolio of unprofitable businesses, making it not only more profitable, but also more resilient to economic cycles. Between 1993 and 2002, we divested businesses corresponding to approximately one-third of the company's current sales. In turn, we have acquired new future-oriented businesses with about the same amount of sales. We have thus achieved our goal of improving BASF's strategic position – our earnings in 2002 speak for themselves. We are continuing on this path: We have acquired Clyde Netherlands to strengthen our activities in oil and gas, whose earnings contributions act as a bridge over the economic troughs. Through the sale of our fibers business and an acquisition in engineering plastics, we want to improve our position in the Plastics segment. From Bayer we are acquiring the insecticide fipronil as well as a number of fungicides – this will substantially strengthen our crop protection portfolio and our competitiveness in this market.

In mid-2001, when the first dark clouds appeared on the business horizon, we started an extensive program of restructuring measures that took effect in 2002: We are reducing our costs significantly and aim to save €1 billion by the end of 2003. We have identified further potential for reducing costs at our Ludwigshafen site and in the Agricultural Products division. Despite all the uncertainties with regard to future developments in the economic climate, we will face the coming challenges with confidence. Overall, we aim to earn a significant premium on our cost of capital.

In Asia we are pursuing a long-term strategy: We started investing in the region some time ago and stood by our commitment, even during the Asian economic crisis in the second half of the 1990s. We are now increasingly participating in the dynamic growth in this region: We are expanding our first Asian Verbund site in Kuantan, Malaysia. In Singapore, our ELLBA Eastern joint venture with Shell has started producing propylene oxide and styrene. At the same time, we are taking further steps in Asia to capitalize



even more on the region's potential: The construction of our Verbund site in Nanjing, China, is proceeding apace and the first plants will start operations in 2005. In 2002, we received approval from the Chinese authorities for the construction of integrated production plants for polytetrahydrofuran (PolyTHF®) and tetrahydrofuran (THF) in Caojing, China.

On the basis of our financial strength, we are expanding our position as the world's leading chemical company. We are well set to face the competition and are confidently addressing the tasks ahead.

At the moment, however, I am concerned about the situation in Iraq. Should the crisis escalate, then oil prices may increase in the short term. In such a scenario, falling share prices and another blow to the global economy could be the result. We are prepared and ready to react flexibly to further developments.

The past year showed us clearly just how important trust is as a factor for a company's success. We want to consistently post high profits by maintaining and improving conditions for growth. We can best achieve this by acting responsibly and by linking our economic growth with environmental protection and social stability in accordance with the principle of sustainable development. And we ensure this through high standards that are valid worldwide. We see globalization as an opportunity. For BASF, acting responsibly also means that we contribute to society, for example through Global Compact, an initiative of the U.N. Secretary-General Kofi Annan, or through Germany's Initiative for Job Creation.

Following the Annual Meeting on May 6, Dr. Jürgen Hambrecht will succeed me as Chairman of the Board of Executive Directors. This position offered me 13 challenging and exciting years that, together with BASF's management team, I was able to devote to the company.

I owe particular thanks to two people who accompanied me over the years: Max Dietrich Kley has been at my side for many years, most recently as Vice Chairman, and is now also retiring from the Board of Executive Directors. Professor Berthold Leibinger has been a constant role model and a valuable advisor, even beyond his function as Chairman of the Supervisory Board, from which he now retires.

I should like to thank all members of the Supervisory Board for their constructive cooperation. They have made decisions responsibly and for the good of the company.

I have always considered BASF's successes to be the result of a team effort, and credit is due to all employees. I would therefore like to take this opportunity to thank them for their dedication.

I would also like to thank our business partners for their valuable cooperation and you, our shareholders, for placing your confidence in us. I hope that you will place the same trust in my successor, Dr. Jürgen Hambrecht, and in BASF's Board of Executive Directors.

**DR. JÜRGEN F. STRUBE**

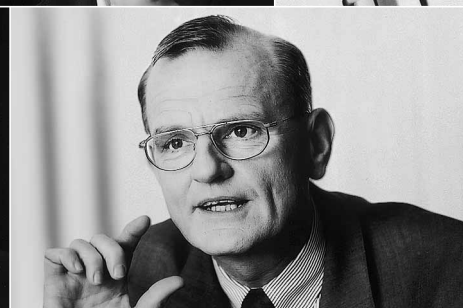
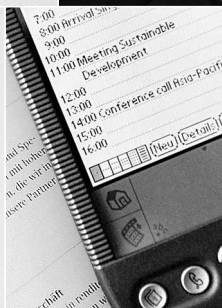
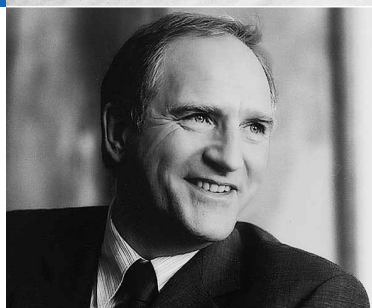
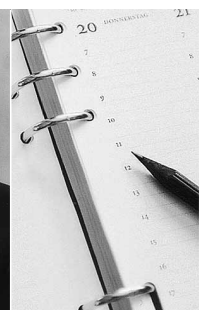
Chairman of the Board of Executive Directors

Our goal

To add value  
through growth  
and innovation

**DR. JÜRGEN F. STRUBE, 63,**  
Chairman since 1990.  
Lawyer, with BASF for 34 years.  
Legal, Taxes & Insurance; Planning  
& Controlling; Executive Manage-  
ment and Development; Corporate  
Communications. Board member-  
ship will expire following the  
Annual Meeting on May 6, 2003.

**MAX DIETRICH KLEY, 63,**  
Vice Chairman. Lawyer, with BASF  
for 34 years. Responsible for Finance;  
Oil & Gas; Global Purchasing; Investor  
Relations; Corporate Audit. Board mem-  
bership will expire following the Annual  
Meeting on May 6, 2003.



**DR. ANDREAS KREIMEYER, 47,**  
biologist, with BASF for 17 years.  
Functional Polymers; Performance  
Chemicals; Asia.

**KLAUS PETER LÖBBE, 56,**  
economist, with BASF for 37 years.  
Coatings; North America (NAFTA).

**DR. STEFAN MARCINOWSKI, 50,**  
chemist, with BASF for 24 years.  
Research Executive Director.  
Inorganics; Petrochemicals; Inter-  
mediates; Research & Engineering  
Chemicals; Corporate Engineering;  
University Relations & Research  
Planning; BASF Future Business  
GmbH.

As of March 1, 2003

**DR. KURT BOCK, 44,**  
business economist, with BASF for  
12 years. Logistics; Information  
Services; South America. Effective  
May 6, 2003, also Finance; Global  
Purchasing; Corporate Audit.

**DR. JOHN FELDMANN, 53,**  
chemist, with BASF for 15 years.  
Styrenics; Performance Polymers;  
Polyurethanes; Polymer Research.  
Effective May 6, 2003, also Oil &  
Gas.

**DR. JÜRGEN HAMBRECHT, 56,**  
chemist, with BASF for 27 years.  
Effective May 6, 2003, will assume  
Dr. Strube's responsibilities as  
Chairman as well as responsibility  
for Investor Relations.



**PETER OAKLEY, 50,**  
economist, with BASF for 26 years.  
Agricultural Products; Fine Chemi-  
cals; Specialty Chemicals Re-  
search; BASF Plant Science GmbH.

**EGGERT VOSCHERAU, 59,**  
economist, with BASF for 34 years.  
Industrial Relations Director; Vice  
Chairman effective May 6, 2003.  
Human Resources; Environment,  
Safety & Energy; Ludwigshafen  
site; Europe; Occupational Medi-  
cine & Health Protection; BASF  
Schwarzheide GmbH. Effective  
May 6, 2003, also responsible for  
BASF Antwerpen N.V.



# BASF shares again outperform DAX 30 and EURO STOXX<sup>SM</sup> 50

- ▶ Performance of BASF shares again better than DAX 30 and EURO STOXX 50 in 2002
- ▶ BASF shares included in the STOXX<sup>SM</sup> 50 index
- ▶ Dividend yield remains high at 3.9 percent
- ▶ Share buy-back program continued
- ▶ Innovative service introduced for shareholders: share price available via WAP phones

**In a weak year on the stock markets, BASF shares performed relatively well in 2002. BASF's active portfolio and cost management and the company's financial strength are recognized by investors and analysts, and this is reflected in the valuation of BASF shares. Around the world, share prices have in some cases fallen to mid-1990s levels. However, BASF's share price has risen more than threefold in the period from the end of 1992 through the end of 2002.**

## **Better than the market in both the short and long term**

In 2002, BASF shares performed significantly better than the German and European stock markets. In the course of the year, the EURO STOXX 50 index lost 36.1 percent<sup>1</sup> and Germany's DAX 30 index fell by 43.9 percent. BASF's share price ended 2002 at €36.08, which was below the 2001 year-end price of €41.75. With reinvestment of the cash dividend of €1.30, BASF shares decreased in value by 11.2 percent in 2002.

A shareholder who invested €1,000 in BASF shares at the end of 1992 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of the holding to €4,559 after 10 years, at the end of 2002. This 356 percent increase in value is equivalent to an

average annual return of 16.4 percent. The corresponding returns for the DAX 30 (6.5 percent) and the EURO STOXX 50 (11.2 percent) are therefore significantly lower than for an investment in BASF shares.

## **BASF shares included in the STOXX 50 index**

BASF's importance in the capital markets is increasing, which is also reflected by the fact that the company's shares were listed in another major share index – the STOXX 50 – in September 2002. The main criterion for inclusion in this index is the company's free-float market capitalization. Inclusion in the STOXX 50 is beneficial for BASF's shareholders because many institutional investors establish funds based on this index and are now likely to include BASF shares in their portfolios. BASF shares are already included in a number of other important indices, such as the DAX 30, the EURO STOXX 50, and the S&P Global 100, which consists of 100 of the world's largest international companies. The fact that BASF shares are also part of Dow Jones Sustainability World Index shows that BASF is recognized as a company that successfully conducts its business in accordance with the principles of sustainable development.

<sup>1</sup> With dividends reinvested

Key BASF share data	1998	1999	2000	2001	2002
Year-end share price (€)	32.49	51.90	48.17	41.75	36.08
High (€)	47.50	52.20	50.68	50.45	49.80
Low (€)	29.81	30.19	39.40	31.00	32.90
Daily trade in shares <sup>1</sup> (million €)	54.08	67.07	84.71	108.54	129.67
Daily trade in BASF shares <sup>1</sup> (million shares)	1.46	1.68	1.88	2.48	3.09
Price/earnings ratio as of December 31	11.90	25.95	23.85	4.30	13.88
Price/cashflow ratio as of December 31	5.40	9.85	9.87	10.84	9.04
Number of shares as of December 31 (million shares)	623.79	620.99	607.40	583.40	570.32
Market capitalization as of December 31 (billion €)	20.27	32.23	29.26	24.36	20.58
Weighted number of shares (million shares)	622	618	613	603	579

#### Per share information in €:

Earnings per share <sup>2</sup>	2.73	2.00	2.02	9.72	2.60
Earnings per share in accordance with U.S. GAAP <sup>2</sup>	2.84	2.14	2.37	9.45	2.96
Cash provided by operating activities <sup>2</sup>	6.02	5.27	4.88	3.85	3.99
Stockholders' equity as of December 31	20.71	22.26	23.55	30.05	29.01
Dividend (€)	1.12	1.13	2.00 <sup>3</sup>	1.30	1.40
Dividend yield <sup>4</sup> (%)	3.45	2.18	4.15	3.11	3.88

#### Key data for the BASF ADR<sup>5</sup>

Year-end share price (\$)	-	-	44.44	37.91	38.22
High (\$)	-	-	44.44	46.73	46.85
Low (\$)	-	-	34.00	28.80	32.40
Daily trade in shares <sup>1</sup> (million \$)	-	-	2.37	2.36	3.08
Daily trade in BASF shares <sup>1</sup> (thousand shares)	-	-	62.10	59.98	78.73

<sup>1</sup>Average, Xetra trading, in million €

<sup>2</sup>These data were based on the weighted number of shares

<sup>3</sup>Thereof special dividend of €0.70

<sup>4</sup>Based on year-end share price

<sup>5</sup>American Depository Receipt; New York Stock Exchange

#### Further information

##### Securities code numbers

Germany	515100
France	012807
United Kingdom	0083142
Switzerland	323600
United States (CUSIP)	055262505
ISIN International Stock Identification Number	DE0005151005

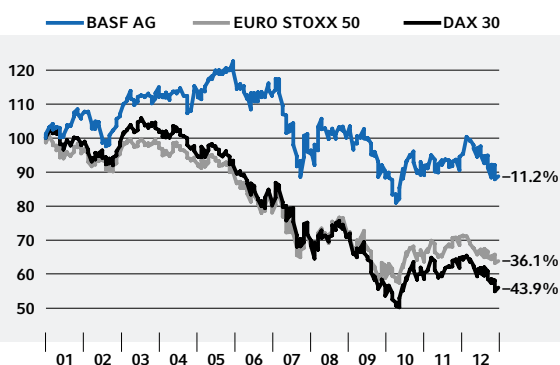
##### Ticker symbols

German stock exchanges	BAS
London Stock Exchange	BFA
New York Stock Exchange	BF
Bloomberg (Xetra trade)	BAS GY
Reuters (Xetra trade)	BASF.DE

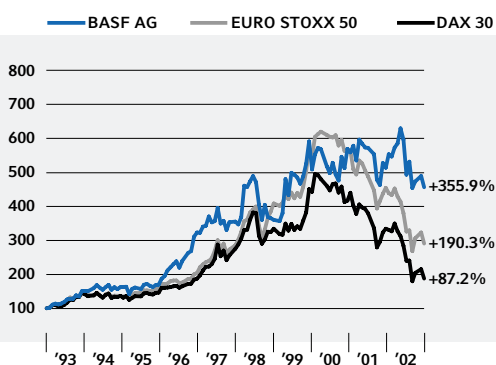


## BASF Shares

Change in value of an investment in BASF shares in 2002 (with dividends reinvested; indexed)



Change in value of an investment in BASF shares in 1993–2002 (with dividends reinvested; indexed)



### Dividend rises to €1.40

BASF aims to offer its shareholders an appropriate share in the success of the company in the form of a dividend. The level of the dividend is therefore based on income from operations in the previous year. In view of the increase in income from operations, the Board of Executive Directors is proposing to increase the dividend from €1.30 to €1.40. As a result, the total amount payable will increase by €40 million to €798 million with respect to the number of qualifying shares as of December 31, 2002. Taking into account the per share dividend and the year-end price, BASF shares provided a dividend yield of 3.9 percent in 2002. On the basis of dividend yield, BASF shares continue to occupy an excellent position among DAX shares.

### Share buy-back program continued

In 2002, BASF Aktiengesellschaft bought back shares for €500 million on the stock exchange. The buy-back program is aimed at reducing our equity ratio, reducing our cost of capital and increasing earnings per share. In the course of 2002, we bought back a total of 13.1 million BASF shares at an average price of €38.20 per share. This corresponds to 2.24 percent of BASF's share capital. In 2003, BASF will continue its buy-back program and plans to repurchase shares for up to €500 million.

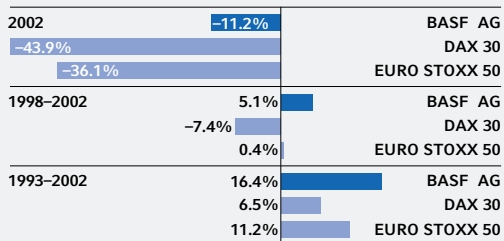
### Widely dispersed shareholdings

According to our shareholder survey carried out in 2001, almost 72 percent of BASF's share capital is held by institutional investors – for example by banks and investment companies. The remaining 28 percent is held by private investors. German shareholders hold 65 percent of BASF's share capital. BASF's entire share capital is listed on the stock market. More than 90 percent of the 570 million no par shares as of December 31, 2002 are held in dispersed shareholdings.

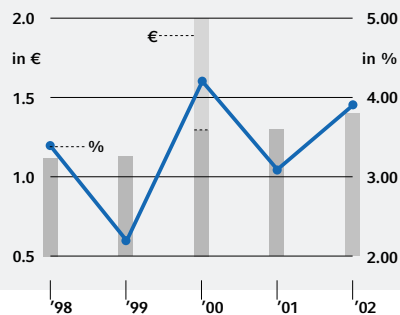
### Promoting employee ownership

In many countries, BASF offers programs that encourage its employees to become shareholders and thus co-owners of BASF. In 2002, we made BASF Aktiengesellschaft's "plus" share purchase program even more attractive: All permanent employees receive a one-off package of five free BASF shares. Since 1999, around 1,000 senior executives in the BASF Group have been eligible to participate in the BOP stock option program. At BASF this program does not result in dilution – if option rights are exercised, the value of the option is paid out in cash and new shares are not issued.

**BASF shares perform better than the market in the short and long term**  
(average annual change)



**Dividend and dividend yield**  
(without tax credit; yield calculated on the basis of the year-end share price)



**Investor relations: Closer dialogue with the capital markets**

In the course of 2002, we again stepped up our communications activities with investors. The goal of our worldwide investor relations is to establish a broad, up-to-date, open and transparent dialogue with our shareholders and the entire capital market. Each quarter, BASF gives updates on business developments in the past months at conferences – in person or by telephone. In addition, the Board of Executive Directors and the Investor Relations department review business and provide information on BASF's long-term strategy, goals and vision at numerous individual and group discussions, investment conferences, roadshows in international financial centers and through stock forums for private investors. All the information presented at these events is also available on the Internet. In this way, we guarantee that private investors and other interested parties have access to the same level of information as analysts and institutional investors. You can find extensive information and downloads relating to BASF and BASF shares on our homepage at [www.basf.de/share](http://www.basf.de/share). In addition, analyst conferences are transmitted live on the Web and are available as downloads for some time afterward. At the end of 2002, BASF introduced a WAP service that makes it even easier for investors to keep track of the price

of BASF shares – around the clock and even while traveling. The current price of BASF shares (Xetra), the level of the DAX and the latest news from BASF can be accessed directly via a WAP-enabled phone at [www.basf.de/wap](http://www.basf.de/wap).

Please contact the Investor Relations team if you have any further questions.

**INVESTOR RELATIONS ON THE INTERNET**

You can find BASF's Investor Relations homepage on the Internet at [www.basf.de/share](http://www.basf.de/share). If you are interested in receiving further information on BASF by e-mail, you can also subscribe to our newsletter [here](#).







# Growth and Innovation

Our goal is to increase and sustain our corporate value through growth and innovation.



# Growth and innovation

**Our goal is to increase and sustain our corporate value through growth and innovation. We base our activities on our corporate guidelines – our Values and Principles – as well as on the principles of Sustainable Development.**

**Important elements of our strategy are:**

## **Expanding highly profitable businesses**

We optimize our product portfolio by **expanding highly profitable business activities** and concentrating on our **core competencies**. As well as growing organically through innovation and capital expenditures we operate a strategy of active portfolio management. This means that we acquire innovative businesses with a high potential for growth and discontinue business activities that are unlikely to show long-term profitability as part of the company's product portfolio. Between 1993 and 2002, we divested businesses corresponding to approximately one-third of the company's current sales. In turn, we acquired new future-oriented businesses with about the same amount of sales. In production, we also enter into strategic alliances with strong partners with the aim of achieving profitable growth in our key businesses and value-adding chains.

## **Enhancing our long-term competitiveness**

**Cost leadership** is crucial to our long-term competitiveness. To achieve this, we use the cost efficiency offered by integrated large-scale plants as well as technological progress in our production processes. In doing so, our **Verbund** is our greatest strength.

We use the **technology platforms** in our research and development units to implement process and product innovations effectively. Our Know-how Verbund is effectively supplemented by some 1,000 research cooperations.

Our goal is to operate the most competitive sites in the chemical industry. We believe that to secure our long-term performance in the chemicals business we must optimize and extend our **Verbund** and **consolidate our portfolio of production sites**. We use the cost advantages of our Verbund and, where appropriate, expand it – either by building new plants at existing sites or by building new Verbund sites such as those in Nanjing, China, and Kuantan, Malaysia. At our Ludwigshafen site, we aim to reduce costs by €450 million as part of the Ludwigshafen Site Concept. To this end, we have introduced a series of optimization measures for raw materials, energy consumption, processes and personnel at our most important Verbund site in Ludwigshafen, Germany.

We operate regional and local sites where this offers a competitive advantage.

Our [competence in marketing and sales](#) and our access to [competitively priced raw materials, energy and precursors](#) are further aspects of our strategy. Where necessary, we ensure access by using our technological and market strength to enter into partnerships and alliances with strong global or regional partners.

#### **Creating value for our customers and for BASF**

We aim to become a preferred partner through [cooperation with key customers](#). In response to growing pressures in the commodities business, we are turning to modern [e-commerce solutions](#) to contain costs. In our non-commodities businesses, we are expanding the scope of our customer services. Here, our goal is to create added value for our customers.

Through new sales strategies, we are optimally positioning ourselves to meet the needs of customers who require smaller volumes and less advice. Eight new trading centers have started sales activities for specialty chemicals targeted at such customers in Western Europe.

We enter into [cooperative research and development agreements](#) with many innovative customers. We make our customers part of our Know-how Verbund and turn their needs into customized solutions. This gives us an advantage over our competitors and enhances our earnings potential through new products and services.

#### **Investing in growth markets**

We focus our resources on expanding selected businesses in specific regions. Building [local production capacities in growth markets](#) is a crucial element of our strategy, as it allows us to supply regional markets locally. At the same time, producing locally also increases the company's flexibility in high-growth markets and reduces the risks posed by temporary currency fluctuations and weak regional growth.

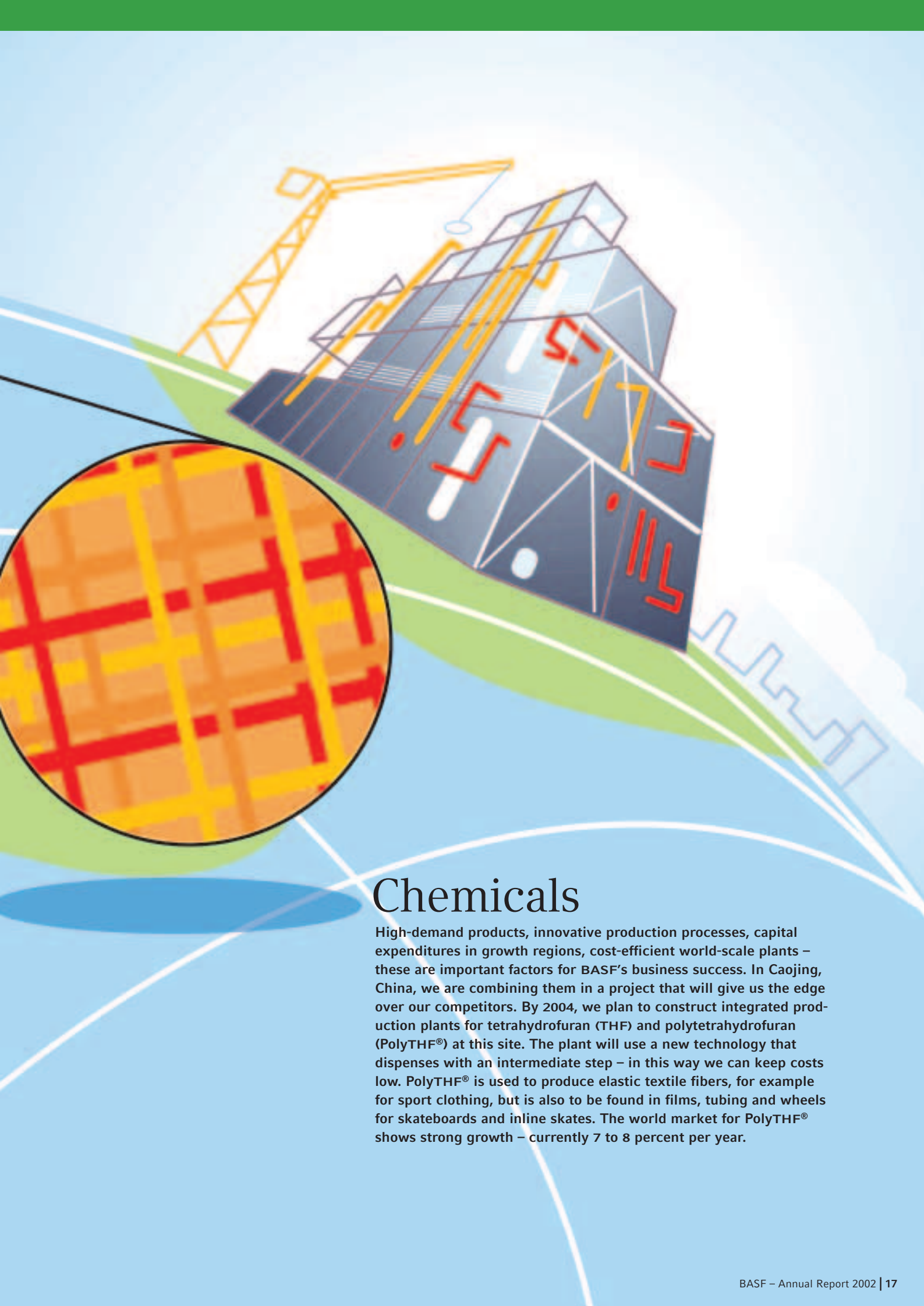
We anticipate that the Asian chemical markets – with the exception of Japan – will grow very strongly in the coming years and are likely to be as large as the European chemical market by 2010. Therefore, Asia is a key market for us. We are positioning ourselves as a major chemical manufacturer in this emerging market. In Europe and North America, we are [concentrating our resources](#) and using growth potential in businesses in which we have competitive advantages over other chemical producers.

#### **Relying on the diverse skills of our employees**

[Committed and skilled employees](#) are a key to our success. We value the national and cultural diversity of our employees and consider their skills to be a valuable asset. This is particularly the case in our research and development activities, which benefit from the efficient collaboration between a variety of talents and disciplines.

The market-oriented organization introduced in 2001 is making an impact: It brings us closer to our customers, strengthens our market presence and fosters [a spirit of entrepreneurship within the company](#).





## Chemicals

High-demand products, innovative production processes, capital expenditures in growth regions, cost-efficient world-scale plants – these are important factors for BASF's business success. In Caojing, China, we are combining them in a project that will give us the edge over our competitors. By 2004, we plan to construct integrated production plants for tetrahydrofuran (THF) and polytetrahydrofuran (PolyTHF®) at this site. The plant will use a new technology that dispenses with an intermediate step – in this way we can keep costs low. PolyTHF® is used to produce elastic textile fibers, for example for sport clothing, but is also to be found in films, tubing and wheels for skateboards and inline skates. The world market for PolyTHF® shows strong growth – currently 7 to 8 percent per year.



# Chemicals

- ▶ Earnings increase considerably
- ▶ Sales significantly higher than in 2001
- ▶ Cost reduction measures and optimization take effect
- ▶ Capital expenditures in China strengthen position in the Asian growth market
- ▶ Growth opportunities from inorganic specialties

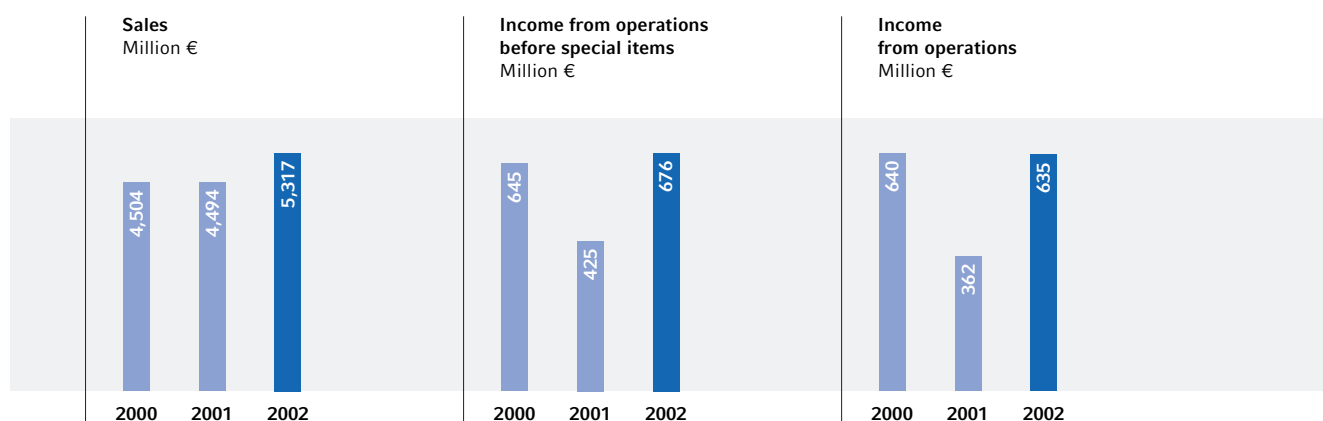
**Business in our Chemicals segment picked up substantially in 2002. Overall, we significantly increased sales volumes as a result of stable demand in almost all product lines due to additional production capacities. At the same time, our new steam cracker – a world-scale plant for the production of basic petrochemical products – in Port Arthur, Texas, provided us with greater self-sufficiency in products that we previously purchased from third parties. Earnings increased significantly due to good capacity utilization at our plants, the absence of plant start-up costs and noticeable cost reductions resulting from the structural measures we implemented in 2001.**

It's a fascinating thought: Take a few raw materials and turn them into thousands of high-demand products. And that's the story of BASF's success: Starting from a few raw materials such as crude oil, natural gas, rock salt, water and sulfur, we produce basic chemicals and intermediates that are turned into higher-value products along our value-adding chains. Ultimately, this is how almost 8,000 of our sales products are created.

The operating divisions in the Chemicals segment therefore form the foundation for our Production Verbund. The Verbund is one of BASF's most important strengths. At our major sites, we link our production plants in a sophisticated system along our value-adding chains: Even by-products or waste from one plant can often be used as raw materials in another plant. We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly. There is scarcely another chemical company that is as good as BASF when it comes to linking plants intelligently. The high level of internal processing at our Verbund sites ensures a solid basis for good capacity utilization of our plants.

We make constant efforts to reduce costs and increase efficiency. For example, in 2002, we closed underperforming plants in Geismar, Louisiana, and restructured production of plasticizers and phthalic anhydride production in Europe. A new steam cracker in Port Arthur, Texas, means that we no longer have to purchase the important petrochemicals feedstocks ethylene and propylene for our U.S. Verbund sites on the open market.

Investments in expanding markets open up opportunities for future growth: The first plants at our Asian Verbund site in Kuantan, Malaysia, are already running at full speed. And a further Verbund site is



to be built in Nanjing, China, by 2005. Yet another example for this strategy is the THF and PolyTHF® production complex in Caojing, China, that is mentioned on page 17.

We strengthen our competitiveness through innovative products. Current research activities also include developing new types of catalysts used, for example, in fuel cell systems.

#### **Inorganics: Profitable growth through production in the Verbund and high-tech specialties**

It seems impossible, but it's true: Two substances won't react with one another – and then suddenly they do! This is because catalysts reduce the activation energy that is necessary for the reaction to occur. At the same time, they decrease energy consumption and costs, and often increase yields. This principle is fundamental to today's chemical industry: many plastics, pharmaceuticals or dyes simply would not exist without catalysts. Catalysts are therefore strategically important products for chemical companies. Heterogeneous catalysts of the kind produced by our Inorganics division are to be found in 80 percent of all BASF processes. Our catalysts are among the best in the world – and are a key to the success of BASF and its customers.

We are therefore continuously developing our catalysts further and focusing on those that promise high growth rates. In addition, we are investing in research into completely new catalysts – for example, for use in fuel cells. We will continue to research extensively in the field of catalysts and expect above-average growth for these products in coming years.

With basic chemicals such as ammonia, methanol, sulfuric acid and chlorine, the Inorganics division provides the starting materials for many of our production processes. Our goal is to produce these starting materials as cost effectively as possible. To do so, we rely on modern production processes, highly efficient world-scale plants and optimal integration into our Verbund.

Further important areas are glues and impregnating resins for the wood products industry, which are used, for example, in laminated flooring or particle board. We develop new products in close cooperation with our customers and are focusing on growth markets.

Our business with electronic grade chemicals is profitable and fast-growing. These are chemicals such as extremely pure inorganic acids or iron powder with specific chemical or magnetic properties that are used in the production of microchips. Our customers have very stringent requirements, and we are one of only a handful of companies that can meet the necessary purity standards.



We plan to further extend our portfolio in the area of electronic grade chemicals.

### **Petrochemicals: Reliable supplies of raw materials**

Plasticizers are what give shape to many plastics. In the same way that you can't bake a cake with flour alone, many polymers need additives in order to be processed. Plasticizers in PVC can act like eggs in a cake mix – they make the material smooth and elastic. World consumption stands at 5.2 million metric tons per year.

BASF is one of the world's leading producers of plasticizers, with a capacity of about 645,000 metric tons. And we are continuously developing our product range. For example, last year we launched a completely new type of plasticizer: Hexamoll® DINCH. This product is suitable for use in applications with stringent requirements such as foodwrap, toys and medical devices like infusion tubing. The total sales potential for plasticizers for such applications is more than €100 million per year.

The Petrochemicals division is the source of almost all our important product lines. Here we produce raw materials that go into nearly all products at BASF. Primarily, we use liquid petroleum (naphtha) and natural gas to generate building blocks such as ethylene, propylene and butadiene as well as technical gases such as nitrogen, oxygen and hydrogen.

The Petrochemicals division is the heart of our Verbund, and it's easy to understand its importance to BASF: The more reliable the supply, the better the process, and the more competitive we are.

How do we do this? Production at large plants is generally more effective than at small ones (economies of scale). We therefore aim to establish modern world-scale plants with particularly efficient production processes in all important markets.

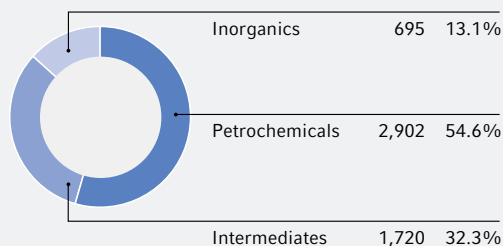
A precondition for this strategy are large integrated sites at which we can further process raw materials – for example our Verbund sites in Ludwigshafen, Germany; Antwerp, Belgium; Geismar, Louisiana; and Freeport, Texas. If we can better capitalize on competitive advantages together with partner companies, we enter into cooperative ventures. Since December 2001, for instance, we have been operating a production plant for petrochemical feedstocks in Port Arthur, Texas, in a joint venture with TotalFinaElf. This plant – a steam cracker with an annual capacity of 920,000 metric tons of ethylene and 550,000 metric tons of propylene – is the largest of its kind in the world.

But it also has another advantage: It is integrated into TotalFinaElf's refinery in Port Arthur. The resulting integration of raw materials, products and energy provides us and our partner with additional economic advantages.

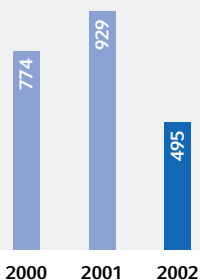
We are also building world-scale plants in the Asian growth region: Together with our partner SINOPEC, we plan to construct a steam cracker and other plants in Nanjing, China, by 2005. In this way, we aim to ensure supplies at BASF's latest Verbund site and participate in China's dynamic growth.



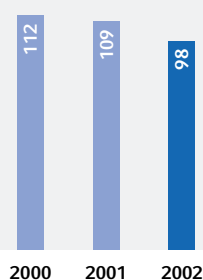
**Sales by division**  
Million €



**Capital expenditures**  
Million €



**Research and development**  
Million €



### Intermediates: Superior technology

How are pharmaceutical active ingredients, crop protection agents or dyes made? Usually from chemical intermediates such as amines, diols or acids. Intermediates are also used as reactants in the production of textiles, paper or detergents.

BASF produces about 500 of these intermediates. We sell approximately two-thirds of our output to other chemical companies for further processing. We are the preferred partner of these companies. There is a strong demand for intermediates within BASF, and most of the raw materials needed to produce them are created within the company. The Verbund is therefore an important competitive advantage for our business and we aim to develop it further. BASF leads when it comes to the technology for its intermediates. One example is the production plant for glyoxal – an important building block used to synthesize products for the textile, paper and leather industries. The plant started operations in Ludwigshafen in 2002 and uses an innovative production process. An eco-efficiency analysis showed that this technology has significant environmental benefits compared to the standard process, since it

uses less energy and emits less greenhouse gases. At the same time, the plant has an annual capacity of 60,000 metric tons and is the largest of its kind in the world, which means that we have lower fixed costs per metric ton of product (economies of scale). The plant also benefits from the advantages of our Production Verbund: The precursor for glyoxal is produced within the Ludwigshafen Verbund and some of the glyoxal is itself further processed at the site.

We expect Asia to provide particularly strong impulses for future growth. We are therefore strengthening our position in the region through capital expenditures in plants like the integrated THF and PolyTHF® plants in Caojing, China, mentioned on page 17.





## Plastics & Fibers

No more sunburn! Unlike cotton, textiles made from innovative nylon fibers will guarantee a sun protection factor of more than 60 in the future – even with thin summer fabrics and even when they are stretched or wet. BASF supplies the starting material for such fibers – the new plastic Ultramid® BS 416N. The secret: extremely fine particles of titanium dioxide in the fibers block harmful UV rays. BASF is so far the only company able to distribute the titanium dioxide particles so finely in the plastic that they produce such a high sun protection factor. Unlike most products from our competitors our material has the further advantage of being much easier to spin into a yarn that feels and looks like cotton. Fibers that offer sun protection are a growth market: In the next three years we expect sales volumes to increase by approximately 20 percent per year.



# Plastics & Fibers

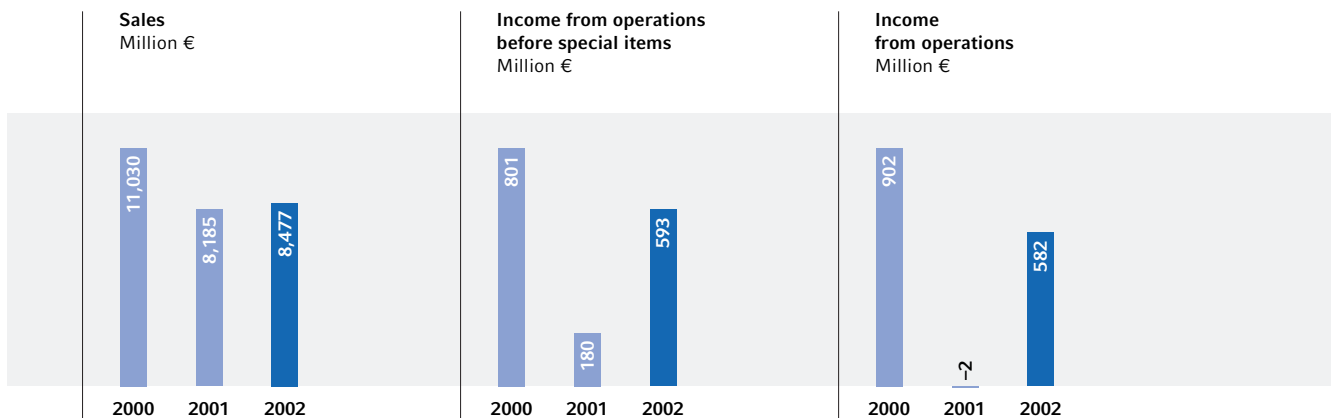
- ▶ Earnings before special items more than tripled
- ▶ Sales above previous year's level
- ▶ Underperforming plants closed
- ▶ Portfolio measures implemented to sell the fibers business and strengthen engineering plastics
- ▶ Cooperative ventures with customers open up new markets for BASF

**Thanks to our timely restructuring measures, we significantly increased earnings. In order to further reduce costs, we have continued to close underperforming plants and have streamlined our marketing and sales organization in Europe. The increase in raw material costs could be offset only to a limited extent by higher sales prices.**

Materials don't just characterize ages in the development of the human race, they also give them their names. Today, we live in the plastic age: World consumption of these versatile polymers is in excess of 150 million metric tons per year, compared with only 3 million metric tons 50 years ago. And this development continues apace: By 2010, global consumption of polymers is expected to rise by more than 5 percent per year. In the same period, per capita consumption is projected to climb by 85 percent in Southeast Asia alone. In brief, plastics will be the materials of the 21st century. BASF has shaped developments in this field with numerous inventions and is today one of the world's leading plastics suppliers. Our product range stretches – from what is probably our best-known product, Styropor<sup>®</sup>, to polyurethanes and our biodegradable plastic Ecoflex<sup>®</sup>.

Our customers value us as more than simply a supplier: Together with them we develop new applications and thereby tap into new markets for BASF. If Hewlett-Packard, for example, is planning to develop a new printer housing, our experts are involved in all production steps from the design phase through to mass production (see page 46).

We operate production sites in all the world's major markets. In Asia, we have significantly improved our backward integration into the raw materials styrene and propylene oxide through the start-up of the ELLBA Eastern (Pte.) Ltd. joint venture with Shell in Singapore. At the same time, we are pursuing an ambitious global program to reduce costs and actively manage our portfolio. In 2002, for example, we closed a number of underperforming plants and in early 2003 we reached an agreement to sell our fibers business to Honeywell International Inc., Morris Township, New Jersey. Simultaneously, we announced that we would acquire Honeywell's engineering plastics business to strengthen our activities in this area and become the world's leading supplier.



We will increasingly use cooperative ventures to achieve cost leadership for standard products. For example, together with Dow Chemical Co., we are developing a new process technology for the production of propylene oxide, a raw material used in the manufacture of polyurethanes.

We want to set new standards with our services as well as with our products: Last year we achieved sales of €700 million through our e-commerce activities such as the Internet portals [www.worldaccount.basf.com](http://www.worldaccount.basf.com), [www.plasticsportal.com](http://www.plasticsportal.com) and [www.omnexus.com](http://www.omnexus.com). This significantly exceeded our forecasts. We now plan to extend our service so that customers in Asia can now also order our plastics, call up product information or check order status around the clock.

#### Styrenics: Popular all-arounders

You might never have heard the name Luran<sup>®</sup> S, but you are probably more familiar with this plastic than you think. Luran<sup>®</sup> S is to be found in coffee machines, surfboards and automobiles – so it's never far away. This multipurpose plastic is resistant to heat and cold, durable in sun and rain, still looks new after years of use, and does not become porous. Now it is even possible to cover roofs with tiles made from this plastic. Like Luran<sup>®</sup> S, styrenics from

BASF can be found in thousands of different finished products: CD cases, packaging, computer housings, monitors, printers – and in Microsoft's Xbox<sup>™</sup>.

We now produce top products such as Terluran<sup>®</sup> (ABS) and polystyrene at cost-efficient world-scale plants in all major economic regions. As a result, we can supply products with identical properties from local production all around the world and are thus a preferred partner for global companies.

As well as for standard products, we construct competitive large-scale plants for specialty products: In Schwarzheide, Germany, a new plant for our melamine resin foam Basotect<sup>®</sup> with an annual capacity of 170,000 cubic meters was completed at the beginning of this year. Basotect<sup>®</sup> is used, for example, in the automotive industry as a soundproofing and thermal insulation material.

We are especially proud of Ecoflex<sup>®</sup>: With this plastic we are the world's leading supplier of synthetic biodegradable materials. Ecoflex<sup>®</sup> can be used to make starch or paper food packaging resistant to moisture or grease. In soil or compost, Ecoflex<sup>®</sup> is broken down within a few weeks without leaving residues.



**Performance Polymers: Successfully opening up new applications with high-performance plastics**

Engine and gear components in automobiles used to be made from metal: Their production was extremely energy intensive and the components were heavy. Nowadays, the situation is completely different: More than 18 million intake manifolds for gasoline engines, for example, are produced from plastic every year worldwide. Our plastic gear components can withstand gear oil at temperatures of up to 140C. Such applications are clearly suited to BASF's Ultramid<sup>®</sup>, a type of nylon that maintains its toughness and rigidity and stays in shape even under extreme conditions.

Ultramid<sup>®</sup> is part of our range of our engineering plastics. These high-performance plastics are tough and strong, and at the same time resilient and elastic. They are light, but retain their shape at extremes of temperature. They show few signs of wear even after prolonged use, and can withstand wind and weather. Performance polymers are even resistant to oil, gasoline and acids.

Providing plastics with exactly the right characteristics is one of our key strengths. We are active in all the major markets for high-performance plastics.

In 2002, we pushed forward with the restructuring measures implemented in 2001 and thus significantly reduced our fixed costs, in particular in the NAFTA region.

This year, we will further strengthen our business: We agreed two transactions with Honeywell International Inc., Morris Township, New Jersey, in early 2003. On the one hand, we agreed to sell our nylon fibers business to Honeywell to streamline our product range. On the other hand, we agreed to acquire Honeywell's engineering plastics business. The two transactions are expected to close in the course of the first half of 2003 and are subject to regulatory approval.

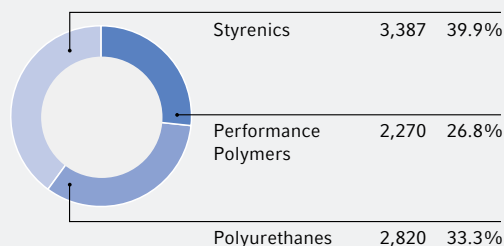
**Polyurethanes: Innovations that enhance quality of life**

It doesn't matter whether you're running in the New York Marathon or having a game of tennis with your neighbors – thanks to sport shoes with built-in air conditioning you don't have to worry any more about your feet overheating. The secret: The foot is enclosed in a stable mesh made from a high-tech plastic that allows air to circulate. This is possible thanks to our plastic Elastollan<sup>®</sup>.

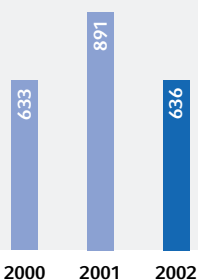
Special elastomers such as Elastollan<sup>®</sup> are, however, only one feature of the product portfolio in our Polyurethanes division. BASF is one of the world's largest manufacturers of polyurethanes and offers its customers an extensive portfolio of polyurethane basic materials, polyurethane systems and polyurethane special elastomers. In the field of polyurethane systems we offer more than 8,000 formulations, many of which can be delivered in less than 48 hours.

Basically, polyurethanes (PUR) consist of two components: an isocyanate and a polyol. Other substances involved in the production process include

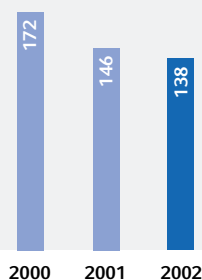
**Sales by division**  
Million €



**Capital expenditures**  
Million €



**Research and development**  
Million €



catalysts, blowing agents and stabilizers. Depending on the formulation and the mixing ratio, we can tailor the properties of the resulting polyurethane so that they exactly meet our customers' requirements – rigid or flexible, foamed or compact. Together with customers, we can develop innovative solutions for their needs in a very short period – this is one of our strengths.

We are taking steps to expand our business in growth markets. Here, our focus is on Asia: In Singapore, we established the joint venture ELLBA Eastern (Pte.) Ltd. together with our partner Shell. A new world-scale plant for the production of styrene and propylene oxide started operations in September. With an annual capacity of 550,000 metric tons of styrene and 250,000 metric tons of propylene oxide, the plant is the largest of its kind in Asia. In South Korea, we are extending our site in Yeosu. In China, we are focusing on strategic alliances and are building a site for the production of polyurethane basic materials in Caojing together with Chinese partners and the U.S. company Huntsman.

Propylene oxide (PO) is an important raw material for the production of polyurethanes. We are therefore proud that we have succeeded in developing a new production process for propylene oxide that is based on hydrogen peroxide. Compared with the standard process, our new process has two key advantages: It is more cost-effective and no longer produces by-products other than water. Together with Dow Chemical Co. we want to make such a process ready for the market.







## Performance Products

Put BASF products in your tank – your engine will live longer, be more powerful and consume less fuel. At the same time, they significantly cut the level of pollutants in exhaust fumes – by more than a quarter in the case of carbon monoxide. These results are possible thanks to additives from BASF, which many petroleum companies add to their fuel. With our Keropur® brands, we lead the world market for gasoline additives. In 2002, we started to offer our customers tailor-made diesel additives as a system solution. Last year, we successfully launched our fuel additives in China, a country with huge potential: In Asia, the market for fuel additives is expected to grow by more than 10 percent per year up to 2005.



# Performance Products

- ▶ Earnings climb considerably
- ▶ Sales slightly lower than in 2001
- ▶ Costs lowered, market orientation improved
- ▶ Coatings receives customer award for successful collaboration
- ▶ Growth in innovative products such as nyloflex® printing plates

**In 2002, sales in the segment declined 1.7 percent compared with the previous year. Earnings, however, climbed considerably. This is primarily due to the fact that we reduced our costs with the restructuring measures we introduced in 2001 and have consistently expanded our portfolio with innovative products.**

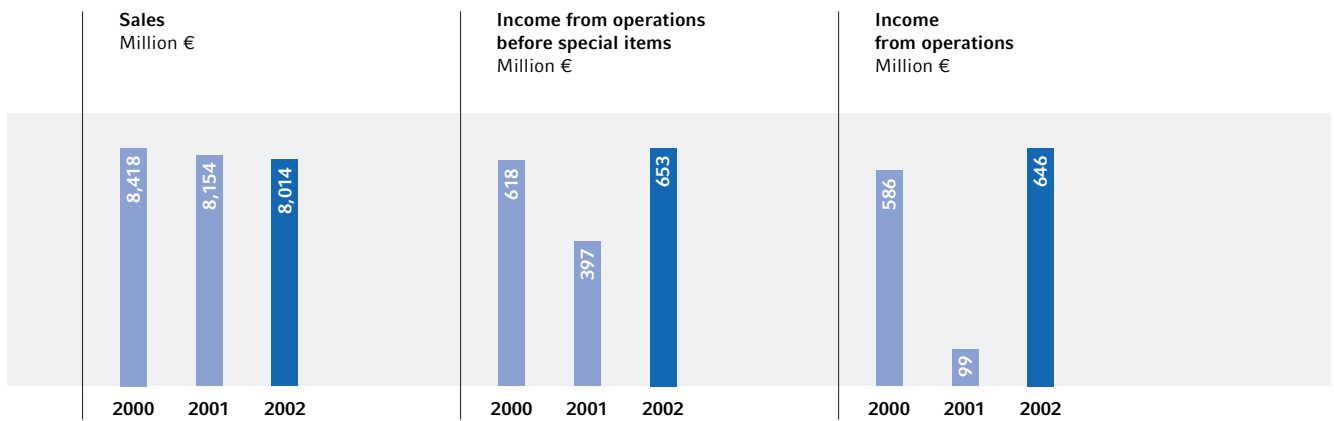
Making our customers' products better – that's what we mean by "performing," and that's why the name "Performance Products" is so appropriate: It's our products that turn many mundane items into things that are beautiful, comfortable or functional. For example, they improve the properties and durability of textiles, leather and paper. Our pigments and coatings and our brilliant printing inks brighten up everyday objects – from chocolate boxes to automobiles. Detergents and cleaning products would not be effective without raw materials from BASF. And diapers would not be sufficiently absorbent without our superabsorbents.

Our success is based on innovative developments, which we create in close collaboration with customers. One example is Xfast®: Unlike standard products, these new stir-in pigments no longer require laborious preparation steps before use.

As a result, coloring water-based coatings is almost as easy as making instant coffee. Our customers can thus optimize their processes and make significant cost savings.

Thanks to our network of sites in the important growth regions, we can offer our customers flexibility and just-in-time delivery. For example, 2002 saw the start of operations at our new plant for coating binders for the paper industry in Hamina, Finland. It is in direct proximity to important customers: About one-third of all European production capacities for paper is located in northern Europe.

In the past year, we have considerably improved our competitiveness: On the one hand, we have aligned our business more closely with the market and our customer industries. On the other hand, we have shut down uneconomical plants and combined production. For example, we closed plants for Sicommin® pigments in South America and Asia and concentrated production in Germany.



**Performance Chemicals: Market trendsetters thanks to innovative products**

End-users are rarely aware of our performance chemicals even though they have a major influence on people’s quality of life. When do-it-yourselfers have exactly the right shade of paint mixed at the hardware store, then this is often possible due to our pigments. Our performance chemicals make packaging, magazines and household appliances colorful, shoes waterproof and engines more cost-efficient. Our raw materials for detergents mean that laundry can now be washed with less water and at lower temperatures – without colors bleeding or fading.

One of our competitive advantages in this business is that we exploit synergy effects. For instance, our specialists for textile chemicals work closely with their colleagues in detergents and cleaning agents because customers will later wash textiles manufactured with our auxiliaries using surfactants from BASF. In all business areas, we offer our cus-

tomers tailor-made solutions and invest heavily in research and development. And we do this successfully: Our numerous innovations set us apart from our competitors.

A good example is UV curing of coatings and printing inks. This market is growing annually at approximately 9 percent and becoming increasingly important, for example in the industrial coating of wood and plastic. The advantage over the process used to date is that the coating is irradiated with UV light and hardens within a fraction of a second. We have been a successful innovator in this market from the outset with our Laromer® adhesive raw materials and our Lucirin® brands.

Our new nyloflex® ART printing plates offer improved color transfer when printing corrugated cardboard or drink cartons. We developed them together with our customers and they are now the quality benchmark in this segment. Over the last few years, we have doubled sales volumes of digital, laser-imaged printing plates every year.



## Performance Products

In 2002, every second leather product in the world was produced in China, and the proportion is increasing. We are therefore systematically strengthening our position in leather chemicals in this country. For example, we provide customers with local technical support at our Asian Technical Center Leather in Shanghai. Local production at BASF Colorants & Chemicals Co. Ltd. in Shanghai means that we also keep ahead of the competition in terms of logistics and can offer products specially developed for the Chinese market.

### **Coatings: Eco-efficient, high-tech system products**

Wafer-thin, but hard as nails – protective and nevertheless stylish: Modern coatings are complex, high-performance products. They beautify, improve and protect a variety of objects and surfaces.

BASF is a market leader when it comes to innovative automotive OEM and refinish coatings, industrial coatings and the various coating processes. For a number of years, we have been number one in decorative paints in Brazil with our Suvinil® brand.

BASF offers an optimal system solution for every automotive OEM coatings application. A complete product range in all technologies and close technical support in all questions related to paintshops make BASF a competent supplier of coating systems with basecoats, fillers, topcoats and many further products. Our customers appreciate this principle of system partnership, as evidenced by numerous awards. For example, in 2002 we received the Fournisseur Optima Award from Renault, the Volkswagen Group Award 2002 and the DaimlerChrysler Eurostar Supplier Award. As well as continually improving conventional coating systems, we develop innovative technologies such as eco-efficient powder and water-based coatings, lead-free cathodic dip, water-soluble fillers und emission-free clearcoats.

In recent years, we have been very successful in introducing new types of eco-efficient water-based and high-solid coatings for the automotive refinish industry. These systems result in a coating that is as attractive and durable as conventional coatings – the plus is that they are much more environmentally friendly because they contain little or no solvent.

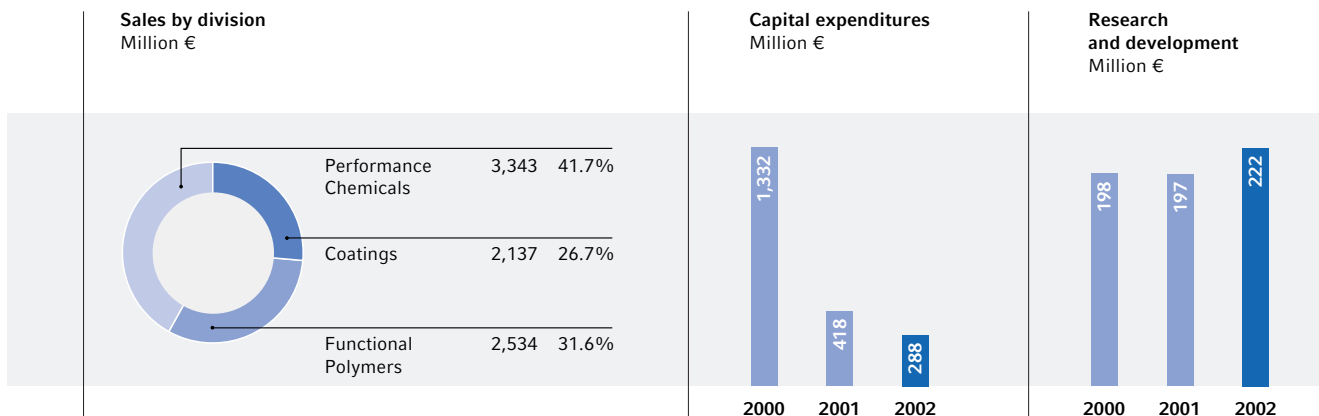
We expect additional growth in industrial coatings from a new mixing system we launched in 2002 under the name Salcomix®. With the Salcomix® system individual industrial coatings can be mixed in any required quantity. We thus provide our customers with a great deal of flexibility with regard to time, volumes and supply inventories.

The business with coatings for industrial products is generally difficult and complex. We are currently restructuring our business in this area, reducing costs and improving our competitiveness.

The 50-50 joint venture – BASF NOF Coatings Co. Ltd. – that we founded in 2001 with the Japanese NOF Corporation has made a good start. Through this joint venture, we have considerably strengthened our coatings business in the Asia Pacific region and have set a course for growth.

### **Functional Polymers: Stronger and better positioned**

Worldwide, more than 130 million babies are born every year – the diapers business is therefore an important market and will continue to remain so. This is also the case for BASF: We lead the world market in supplying the products that keep babies' bottoms dry – substances called superabsorbents. These are polymers based on acrylic acid that have a special property: They can absorb more than fifty times their own weight of liquid.



BASF is also a leading producer of functional polymers for other industries.

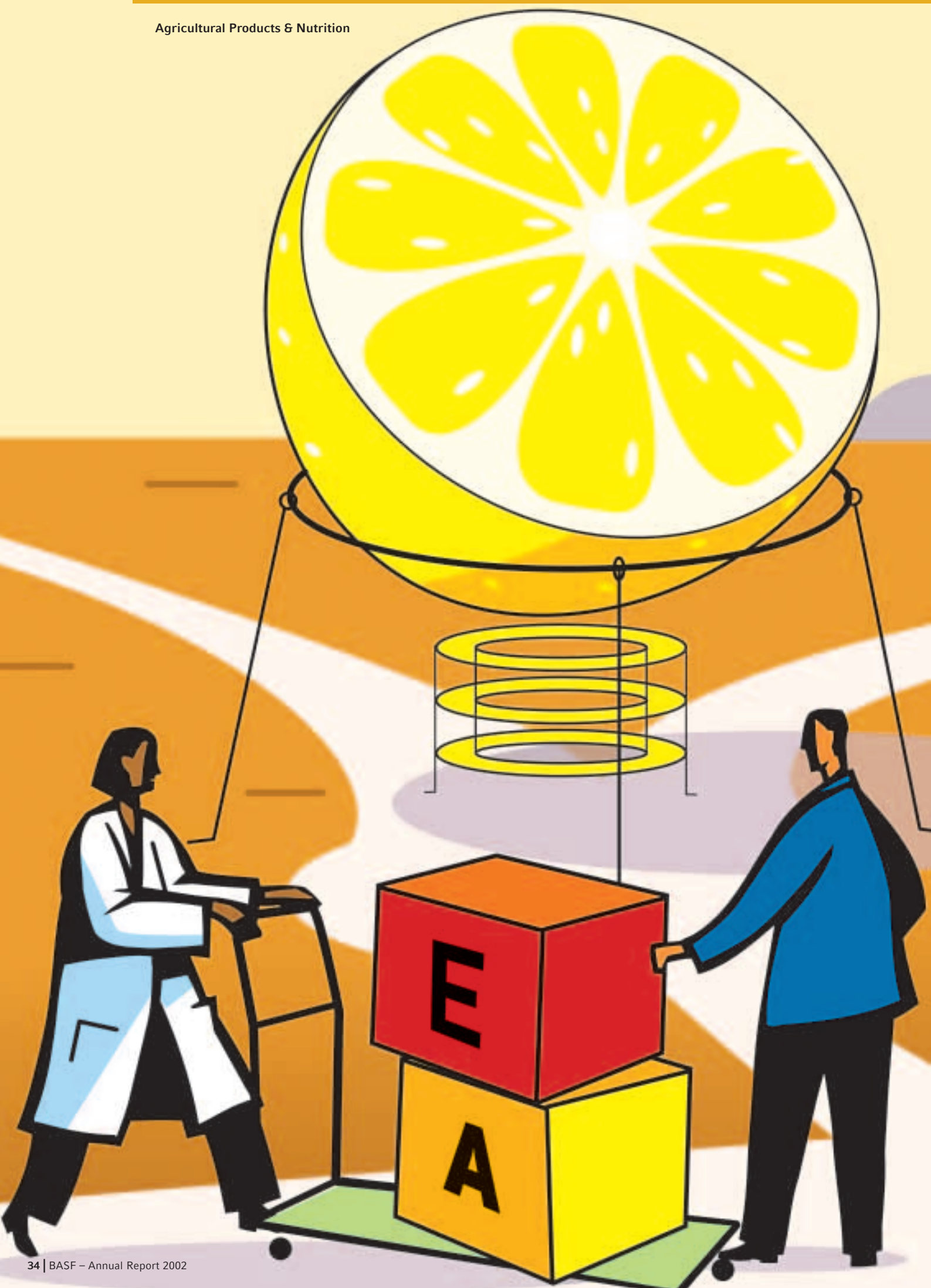
We assemble our polymers from simple chemical building blocks – so-called monomers such as acrylic acid – by connecting them in long chains. By choosing the right monomer building blocks and the right reaction conditions, we obtain products with a wide variety of properties. Some are responsible for ensuring the optimal adhesiveness of tile adhesives or sticky labels, others produce the mat gloss of decorative paint.

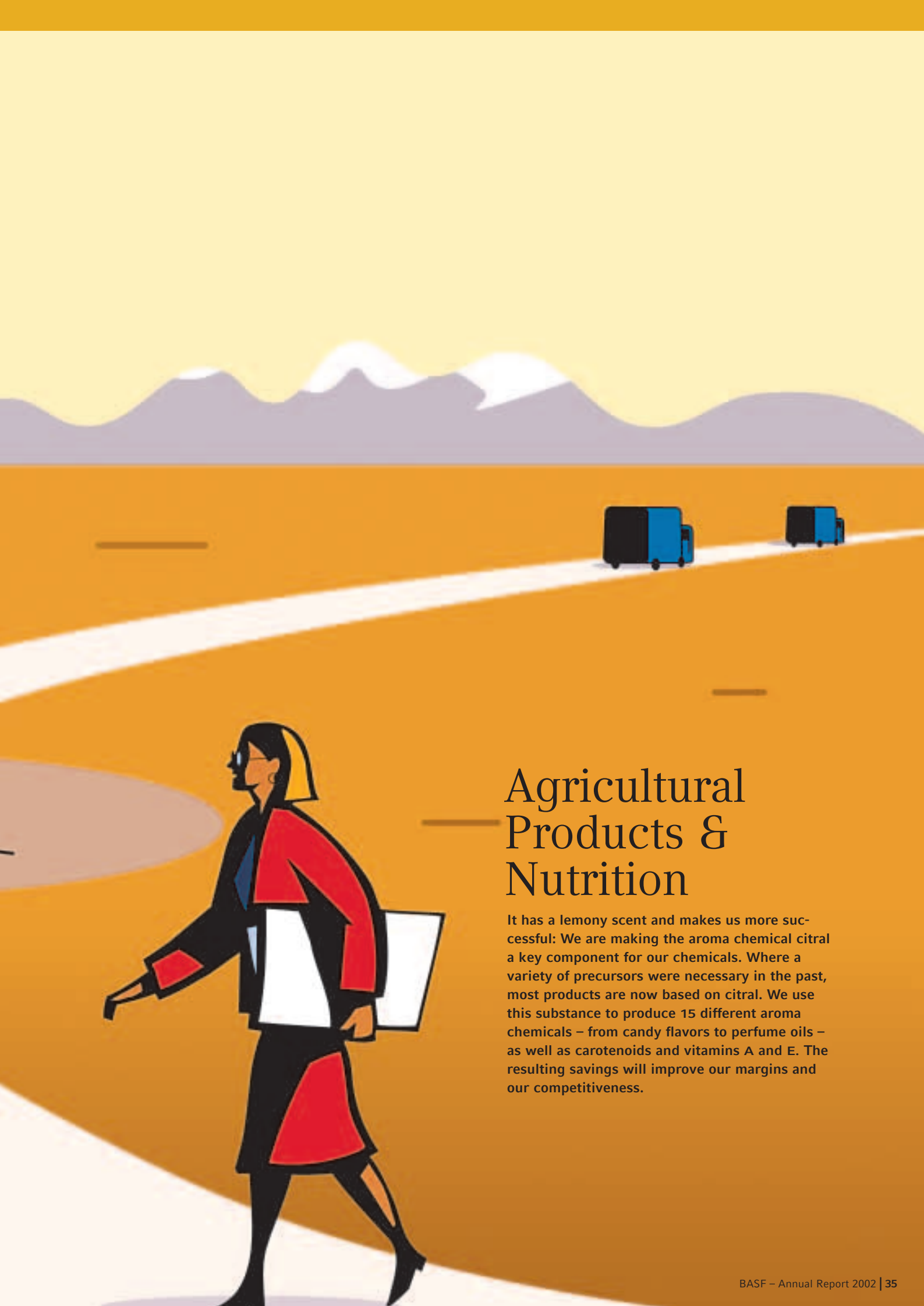
Our strategy goals are to establish a global business, strengthen the acrylic acid value-adding chain, achieve cost leadership, increase efficiency, and position ourselves as an attractive and innovative partner for our customers. Based on a strong position in our home market Europe, we are expanding our business in all regions, in particular in the Asian growth markets. Following Kuantan, Malaysia, we are now building production plants for acrylic acid and its derivatives at our second Verbund site in Asia in Nanjing, China. These plants are scheduled for completion in 2005.

Increasing our international competitiveness, making our structures more customer-oriented and creating platforms for innovation – these are our

permanent goals. For instance, in 2002 we put the world's largest superabsorbents plant into operation in Antwerp, Belgium. This plant is fully integrated into the acrylic acid value-adding chain and replaces two older plants in Europe. In Arnhem, the Netherlands, we have ceased producing dispersions and transferred production to Ludwigshafen. In addition, we have started up our new plant for paper coating binders in Hamina, Finland – a local production site from which we can supply the globally important paper industry in northern Europe.

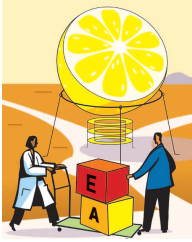
We can only ensure our business success in the long term if we remain innovative. To develop and market innovative solutions, we work closely with customers and put our technological competence at their disposal. Acrodur® and Acronal® Optive are two examples of innovative products. Acrodur® is an aqueous solution of polymers that crosslink when heated and act as ideal binders for wood and glass fibers in a variety of applications. With Acronal® Optive we offer an extremely versatile range of dispersions for decorative paints that was specially developed for the North American market. These can be used to produce paints dispersions with excellent environmental characteristics and outstanding product performance.





## Agricultural Products & Nutrition

It has a lemony scent and makes us more successful: We are making the aroma chemical citral a key component for our chemicals. Where a variety of precursors were necessary in the past, most products are now based on citral. We use this substance to produce 15 different aroma chemicals – from candy flavors to perfume oils – as well as carotenoids and vitamins A and E. The resulting savings will improve our margins and our competitiveness.



# Agricultural Products & Nutrition

- ▶ Difficult market environment negatively impacts earnings in the crop protection business
- ▶ Sales fall by 9.8 percent (excluding Pharmaceuticals)
- ▶ Portfolio strengthened through the acquisition of the fipronil package from Bayer
- ▶ Measures to reduce costs further by approximately €100 million
- ▶ Successful entry into the growth market for pharmaceutical contract manufacturing

The development in our agricultural products and in our nutrition businesses diverged in 2002: While our fine chemicals performed relatively well, the crop protection business was negatively impacted by a difficult market environment. The continuing economic and financial crisis in South America, unfavorable weather conditions throughout wide areas of the United States and reduction of very high inventory levels in the channel caused the global market for crop protection products to decline further and resulted in even fiercer competition. All these factors led to a drop in sales and income from operations before special items.

## Fine Chemicals: On course for growth in an attractive market

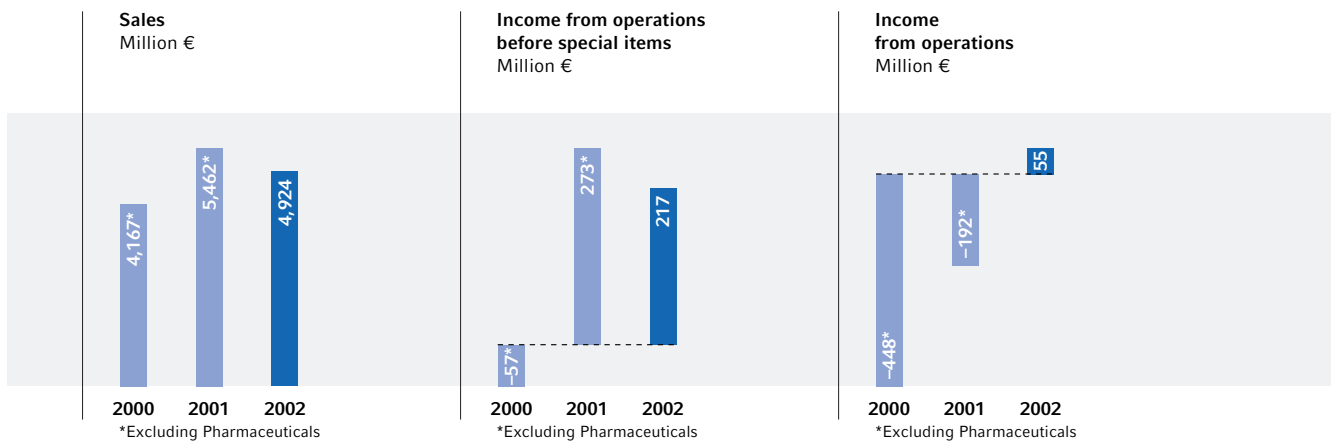
Sunscreen for the summer vacation, perfume for a night out on the town, an energy drink after coming back from jogging, or multivitamin supplements to help get through the winter fit and healthy – these are just a few examples of countless things that affect our lives and contain fine chemical products.

We serve the animal and human nutrition, pharmaceuticals and cosmetics industries – a cyclically resilient market valued at a total of approximately €45 billion that is showing stable growth of 4 to 5 percent per year.

In the past year, we concentrated our production at a few sites and significantly increased income before special items as a result.

In the field of pharmaceutical active ingredients, we offer products in which we have clear technological advantages. To meet future demand for our products, we are expanding capacities for pseudoephedrine, caffeine and theophylline at our site in Minden, Germany. We are supplementing our product portfolio with isotretinoin, a well-established medication for severe acne that offers considerable growth potential.





We are establishing a good market position with innovative pharmaceutical excipients. A milestone is the ongoing launch of Kollicoat® IR, a tablet coating that allows the active ingredient to be released very quickly after the tablet has been swallowed.

Our entry into the growth market of pharmaceutical contract manufacturing has been promising.

In the field of human nutrition, we joined forces with a strong partner last year: Fortitech Inc., Schenectady, New York, is a leading manufacturer of customer-specific premixes for the food and beverage industry. We contributed our food premix activities to the newly founded joint venture with Fortitech, which will purchase vitamins, carotenoids and further specialties from BASF. The deal optimally combines the specific strengths of the two partners and maximizes customer benefits.

Our portfolio of feed additives covers the complete range of vitamins and carotenoids as well as enzymes, organic acids and the amino acid lysine.

We therefore make an important contribution to efficient and sustainable animal production. With Formi®, we offer farmers throughout Europe the first non-antibiotic growth promoter for use in pig breeding.

We are strengthening the long-term competitiveness of our product lines through our capital expenditures program. The new citral plant with an annual capacity of 40,000 metric tons will allow us to use this product cost-effectively as a key component for fine chemicals.

We spend more than 4 percent of sales on research and development. For example, we develop cutting-edge production technology including biotechnological processes such as those used in the production of lysine and vitamin B<sub>2</sub>.



### **Agricultural Products: Maintaining a clear course in a difficult environment**

Agriculture would be unimaginable without modern crop protection products: They combat fungal diseases, control insects and weeds and thus help optimize crop yields. We provide our customers with a broad range of modern, high-performance fungicides, herbicides and insecticides for all important crops.

In a very difficult market environment, we worked hard in 2002 to reduce costs and further improve our competitiveness. In 2002, we achieved, for the first time, the targeted cost savings of more than €250 million per year from synergy effects resulting from the integration of the crop protection business acquired from American Home Products Corp. Alongside numerous other measures, we closed our research center in Princeton, New Jersey, and concentrated our research and development activities at our two sites in Ludwigshafen and Limburgerhof, Germany, and at the Research Triangle Park, North Carolina. In 2003, we want to maintain this course with measures to reduce costs further by approximately €100 million.

In addition, we are concentrating our research and development activities on fungicides and insecticides, and are focusing on markets with attractive growth potential. We are continuing to rigorously streamline our product portfolio and further optimize our processes – from production through to the customer. We have reduced inventories and receivables by more than €500 million. This was favored by the increase in the strength of the euro. In 2003, we will continue to shorten payment terms and further optimize inventory levels.

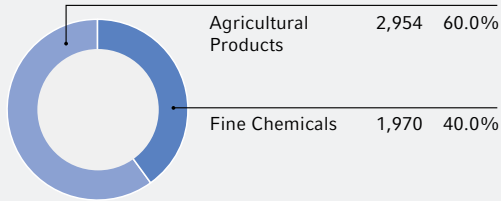
We are actively capitalizing on the consolidation process in the industry to improve our position among the leading manufacturers of active ingredients for crop protection products: We are acquiring Bayer's global business with the insecticide fipronil as well as selected fungicides for approximately €1.2 billion. Fipronil is based on innovative chemistry and is effective against insects that cause major crop damage.

We want to maintain our position against the market trend by introducing innovative new products. Our attractive pipeline offers us the means to do this: In the coming years, we plan to develop eight crop protection active ingredients with a peak sales potential of approximately €800 million. In addition, we are currently launching five products with an expected peak sales potential of approximately €900 million.

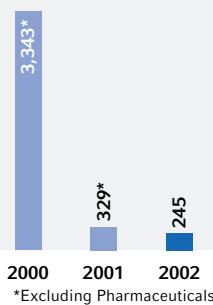
Even though the crop protection market is difficult at the moment, our products such as F 500® are convincing. This innovative active ingredient to combat fungal diseases performed very well in its first year, and our customers have confirmed its outstanding effectiveness. Thanks to approvals in the United States, Canada and France, which we received in time for the 2003 season, we can now offer the active ingredient in all important markets. We have thus come a step closer to realizing our goal of achieving peak sales of more than €300 million with F 500®.

We expect to launch our new fungicide boscalid in 2003/2004. We are also planning to offer our CLEARFIELD® Production System in additional markets, which will provide us with further sales potential.

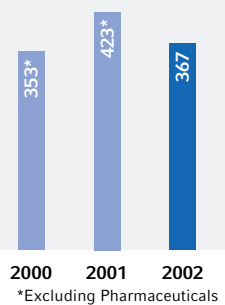
**Sales by division**  
Million €



**Capital expenditures**  
Million €



**Research and development**  
Million €



In the medium term, we expect the market for agricultural products to grow steadily by 1 to 2 percent per year.

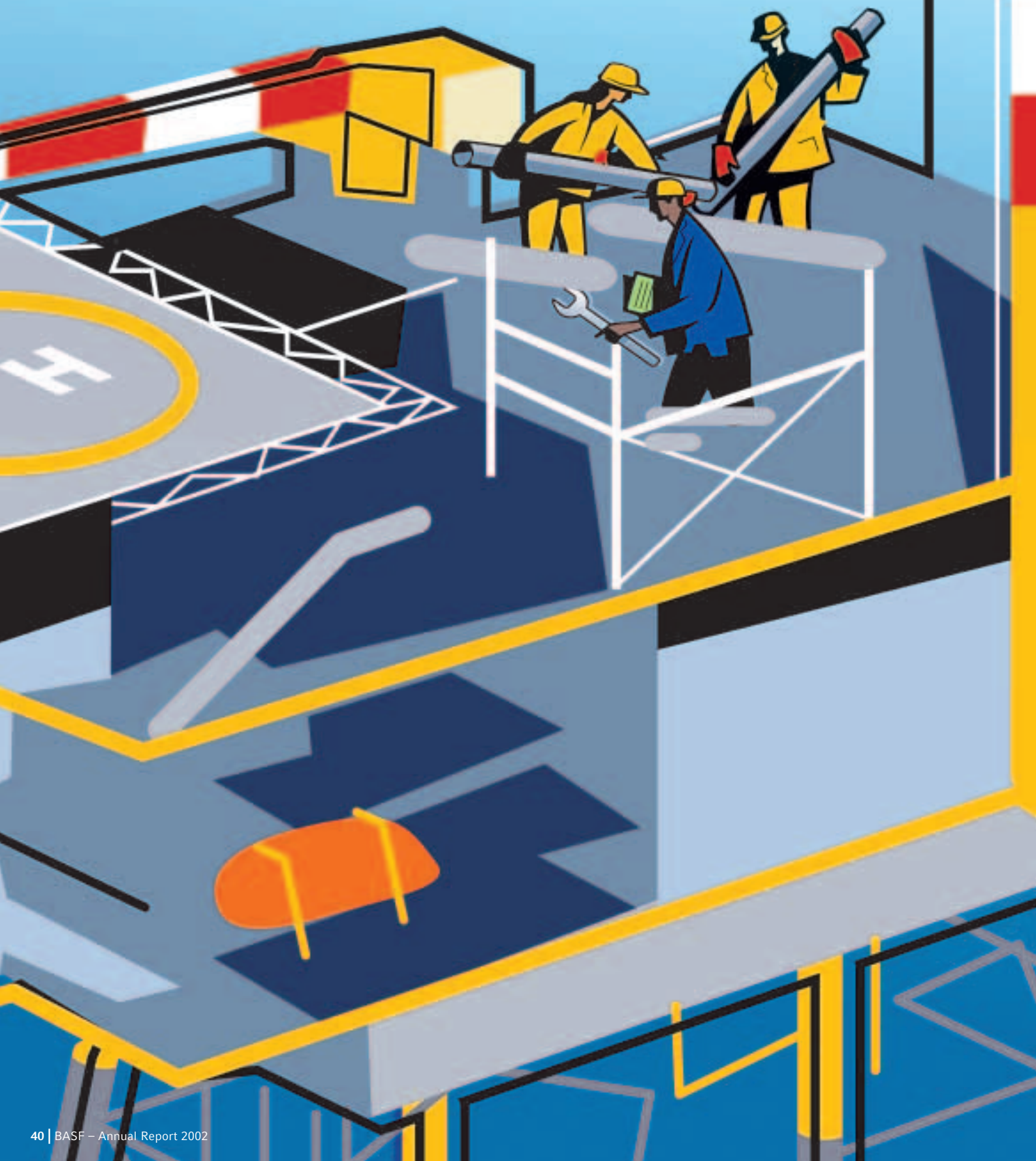
#### Plant biotechnology at BASF Plant Science GmbH

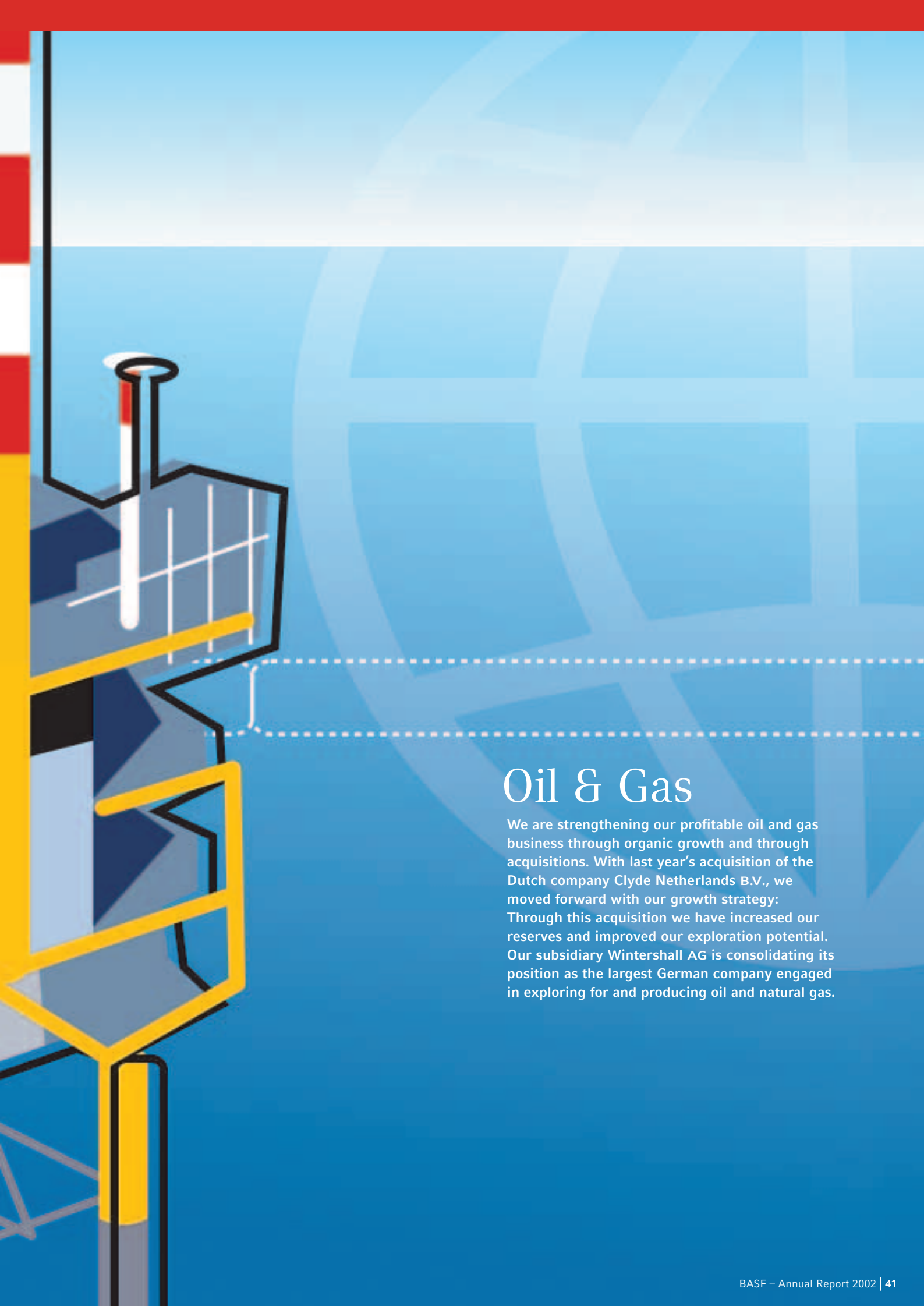
More efficient agriculture, better nutrition and plants as “green factories” – these are the goals of our research in the area of plant biotechnology. For example, we aim to develop plants that are less sensitive to drought or that contain higher levels of vitamins or omega-3 fatty acids to prevent cardiovascular disease.

Plant biotechnology is one of the key technologies of the 21st century. BASF succeeded in quickly entering the field by establishing BASF Plant Science GmbH in 1999. This subsidiary coordinates an international research and technology platform for plant biotechnology at seven sites in Europe and North America. The competencies at the various units complement each other in such a way that we cover all steps from modifying plant properties in the laboratory through to launching new types of seeds.

In 2002, we received a positive opinion from the European Union’s Scientific Committee on Plants for a high amylopectin potato. As a result, we have cleared an important hurdle in the registration process. In contrast to conventional potatoes, the starch in this genetically optimized potato consists entirely of amylopectin. This represents a significant advantage for the paper, textile, cosmetics and adhesives industries that use potato starch: Because the starch is easier to process, it is possible to improve production methods and save energy. Assuming that the current moratorium on genetically modified plants in the European Union is lifted, we plan to start marketing activities in 2005.

In 2000, BASF decided to invest about €700 million in research and development in the area of plant biotechnology over a period of 10 years. By 2010, we want to become one of the world’s leading companies in the field of plant biotechnology.





## Oil & Gas

We are strengthening our profitable oil and gas business through organic growth and through acquisitions. With last year's acquisition of the Dutch company Clyde Netherlands B.V., we moved forward with our growth strategy: Through this acquisition we have increased our reserves and improved our exploration potential. Our subsidiary Wintershall AG is consolidating its position as the largest German company engaged in exploring for and producing oil and natural gas.



# Oil & Gas

- ▶ Highest-earning segment in the BASF Group
- ▶ Sales down compared with 2001 due to a weaker dollar and lower prices for natural gas
- ▶ Production of crude oil and natural gas unchanged
- ▶ Growth based on successful exploration and through carefully selected acquisitions
- ▶ Natural gas business on course for further growth

**At €1,210 million, earnings were almost at last year's high level and exceeded €1 billion for the third year in succession. The average price for Brent crude in euros declined due to the lower average exchange rate of the dollar in 2002. As a result, sales declined by €317 million to €4.2 billion.**

BASF's oil and gas business is conducted through Wintershall AG, a wholly owned subsidiary. Wintershall is active in the exploration and production of oil and gas (E&P) and in natural gas trading.

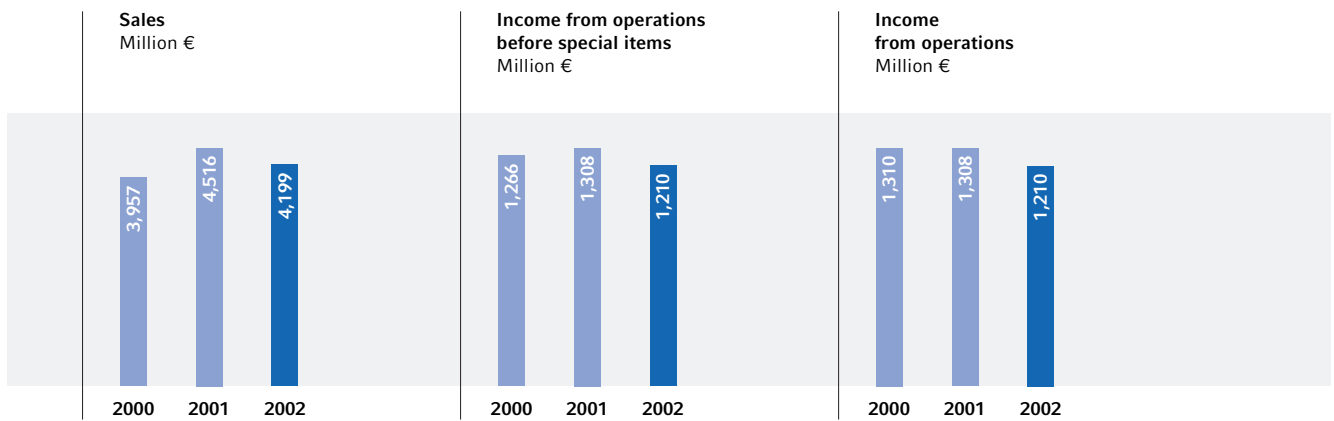
## **Exploration and production of oil and gas: Position strengthened through acquisition of Clyde**

BASF's subsidiary Wintershall has more than 70 years' experience in exploring for and producing oil and gas. The key to our success? We deliberately focus our activities on a few promising regions such as Germany and the North Sea, Russia, the Caspian region, North Africa and South America.

In 2002, for example, about 44 percent of our drilling operations to explore for new deposits were successful – this figure is considerably higher than the industry average of 15 to 30 percent. We discovered oil and gas fields in North Africa, the Netherlands, Romania and Argentina. We plan to increase production significantly in the medium to long term.

In 2002, E&P activities again made the greatest contribution to earnings in our Oil & Gas segment. Total production was 12.3 million metric tons of oil equivalent and was thus maintained at the previous year's high level. Production of crude oil was also at the previous year's level at 8.0 million metric tons, and we were able to compensate for the effect of OPEC production limits by expanding production in Germany and Argentina. We have a 50 percent participation in the Mittleplate field in the North Sea – Germany's largest offshore oilfield, which produces approximately 2 million metric tons of crude oil each year.

In 2002, we increased natural gas production by 2 percent to 5.1 billion cubic meters.



### Natural gas trading: On course for further growth

Natural gas is the most environmentally friendly fossil fuel. It burns without leaving solid residues and produces relatively low emissions.

We have had a strong partner in the natural gas business for more than 10 years. The Russian enterprise OAO Gazprom has the largest gas reserves in the world. WINGAS, WIEH (Wintershall Erdgas Handelshaus GmbH) and WIEE (Wintershall Erdgas Handelshaus Zug AG) are joint ventures of OAO Gazprom and Wintershall. They supply Germany with natural gas from Russia and the North Sea and via the Zeebrugge spot market. In addition, these companies trade in natural gas in Central and Eastern Europe.

Despite a stagnating natural gas market in Germany, we were again able to increase sales volumes in 2002. The total sales volume of all three joint ventures was approximately 239 billion kilowatt hours of natural gas (2001: 214 billion) and 11 percent higher than in the previous year. The natural gas business contribution to the segment's earnings increased further.

As a partner with public utility companies, regional gas providers and industry, WINGAS is a major supplier of natural gas in the German market. We are using the liberalization of the natural gas market as the basis for future growth, and we already supply 10 percent of our natural gas to our customers through third-party pipelines. We also have a good infrastructure, with an up-to-date pipeline network spanning approximately 2,000 kilometers and Western Europe's largest underground natural gas storage facility in Rehden, Germany. The further enlargement of our pipeline network and provision of transport and storage capacity will help us expand further.







## Creating Value for Customers

For us, customer service means that we work closely with our customers, provide advice regarding applications, offer support through our expertise, and help create innovations and more efficient processes for example to develop a new printer housing at Hewlett-Packard. In this way, we make our customers more successful in their markets and become their preferred partner. In a word: We create value for our customers and for BASF.



## What customers want...

**...are suppliers who don't just sell products, but who also offer an all-round, one-stop service; who address customers' needs; and who provide individual solutions for problems without losing sight of the costs. In short, suppliers who contribute to the success of their customers.**

BASF fulfills many of these wishes because we act in accordance with this principle. In all our business areas, we work closely with our customers and offer them our support in the form of our expertise and applications management.

### **Example Hewlett-Packard: 3C Team provides global support**

It's Saturday at the computer store. A customer decides on a new printer – an elegant model in light gray. It's now just a matter of paying, and the printer can soon be installed on his PC. But very few people are aware of what an international product he now has at home.

At Hewlett-Packard (HP), the idea for a new printer model is born in the United States. The prototype might be produced in Singapore, for example, and be mass-produced in China or Hungary. The specialists usually need only three months to develop a new model for the market. Global presence and speed are the key factors in this business.

BASF has aligned its business on these principles. Our global 3C Team supports international customers in many countries around the world: wherever those customers are located. The abbreviation 3C stands for the industry sectors consumer electronics, computing and communications. The team's efforts are paying off: HP is the world's largest producer of printers, and BASF is now its strategic partner when it comes to plastics.

Not all plastics are alike. This is why our key account managers are involved in choosing the right materials for printers at HP right from the start: They provide suggestions relating to design and the type of plastic used. After all, a printer housing must be UV-stable, durable and shock-resistant. Furthermore, the plastic must meet special technical specifications, be easy to color and withstand the effects of cleaning agents. Our specialists are constantly looking to see where savings can be made – they continuously strive to develop the most efficient solution in plastic materials.

BASF employees are also involved when a printer model goes into mass production. We coordinate subcontractors for our customers, provide support in the event of processing difficulties and ensure the supply of raw materials. With HP we work to further optimize production processes and thus increase the number of units manufactured each day – a cash benefit for our customer.

Our expertise in applications and the fact that we produce plastics in all the major regions are further convincing arguments for customers to use BASF products. Take Microsoft as an example: The multi-functional games console Xbox™ has a housing and a chassis made from BASF's plastic Terluran® and is produced in various countries. Here again, BASF is able to provide a uniform grade of plastic with identical product characteristics at all production sites.

This is one of BASF's key strengths – our customers need register a given plastic from BASF only once for their manufacturing process because we can supply the same plastic in the same quality almost anywhere in the world – quickly and flexibly.

**Example automobile industry: Brilliant solutions thanks to innovative concepts**

Coatings, plastics for instrument and door panels, Cellasto shock absorber systems (CeoDS®) made from polyurethane, Ultramid® for intake manifolds – these are just a few examples from our extensive product range that we offer as the chemical industry’s partner to the automotive industry. We have established an Automotive Steering Committee in order to match the variety of the products we supply as closely as possible to the needs of customers in the automotive industry. In joint projects with customers, BASF teams develop solutions based on agreed materials and extensive applications know-how. The result: cost savings, higher quality and shorter processing times.

Today, there are hardly any car models that don’t contain plastics from BASF: That’s not surprising for interiors. In the future, however, plastic car body parts will also be commonplace. One example is the rear trim panel of the new Mercedes E Class. Because of different standards for license plates in Europe and North America, DaimlerChrysler was looking for an alternative to the deep-drawn sheet metal process. They found the answer in BASF’s Luran® S and Ultradur® plastics. Our engineers came up with a special injection molding process, adapted it to the tools available and developed it for mass production. Three-and-a-half months after the start of production, more than 1,000 vehicles with this new panel roll off the production line every day.

Our new paintless film molding process makes it possible to make exterior car body parts that no longer require painting. Coated or colored plastic films ensure that exterior car bodies are an identical shade. Films of special BASF plastics are molded exactly into the shape specified by the customer and then insert-molded using specially developed plastics. For the roof of the Smart car, for example, we were therefore able to develop the first large exterior body part in which areas of glass and plastic components appear to be made in one piece: The black tinted sunroof sits perfectly in the surrounding high-gloss plastic film.

**BASF’s sales by industry**

Percentage of sales in 2002*	Industries
> 15 %	Agriculture
10 – 15 %	Automotive, chemical (not for consumer goods), energy
5 – 10 %	Construction
< 5 %	Carpets, cosmetics, detergents and cleaning agents, electrical/electronics, furniture, health, leather, packaging, paper, printing, textiles
	Other industries: approximately 12% in total

\* Estimates

We launched our idea for system partnership in the automobile coating process with DaimlerChrysler in Rastatt, Germany, in 1997. Since then, it has become more and more popular with other automobile companies. For example, we have taken on increasing process responsibility at VW, Audi, Ford and Renault. This involves organization of materials and stock management as well as coordination of external and internal logistics. Furthermore, we inspect incoming goods, organize and supervise suppliers, and are responsible for color management, quality control of materials and processes and analyses. In short, we provide a one-stop shop.





## Research & Development

The name is derived from "nanos," the ancient Greek word for dwarf. Nanotechnology involves unimaginably small particles that are up to 50,000 times smaller than the diameter of a human hair. BASF is among the leaders in penetrating the nanoworld. For many years, we have been producing nanomaterials such as pigments to color coatings or plastics. The special structure of these pigments means that they do not impair product characteristics such as hardness and transparency. We use nanotechnology to better meet our customers' needs, to create new products or refine existing ones. Nanotechnology is therefore another component in BASF's profitable growth. Our researchers are currently working on nanocubes as hydrogen stores for miniature fuel cells. In the not-too-far future, they could revolutionize power supplies for mobile phones, laptops or video cameras.



# Research & Development

**There are three keys to the success of our research and development activities: Keeping our eyes and ears open for current and future customer needs, acting as a sensitive radar for the latest scientific trends, and dedicated employees. We therefore ensure that our research and business units work in close cooperation with external partners from science and industry, in particular from our customer industries.**

Our Research Verbund is made up of core technology platforms in Ludwigshafen, research and development units at BASF Group companies, R&D subsidiaries such as BASF Plant Science GmbH, and interests in innovative start-up companies. Worldwide, approximately 8,000 employees work in research and development at BASF.

In 2002, we spent a total of €1,135 million on research and development.

## **BASF's Research Verbund with partners from science and industry**

Cooperative agreements in research and development are an important component of our Research Verbund. Many revolutionary innovations from BASF are the result of fruitful collaborations with leading scientists. This has a long tradition at BASF, from the Haber-Bosch process for the production of ammonia to the latest generation of fungicides for crop protection. From experience, we are therefore increasing our focus on this approach: We

work together with universities, research institutes, other companies and small but innovative start-ups in about 1,000 cooperative ventures, a figure that has more than doubled since 1996. In 2002, cooperative ventures accounted for approximately 8 percent of our research and development expenses.

Cooperation with highly specialized start up companies is becoming increasingly important, for example in the field of biocatalysis. In the past, it was only possible to manufacture products such as vitamins or amino acids in complex, multistage chemical syntheses. Nowadays, such syntheses can be performed in a single step with the help of microorganisms. The advantage: fewer resources, lower costs and no undesirable by-products. One of BASF's cooperation partners in this area is the U.S. company OmniGene Bioproducts Inc. BASF's expertise in biocatalysis and processes together with OmniGene's innovative technology for optimizing microorganisms creates the ideal preconditions for developing new biotech production processes quickly and successfully. The focus of ongoing projects is to develop new ways of producing vitamins and amino acids. But in future we also want to use the diverse possibilities offered by biocatalysis to create performance chemicals or polymers, for example.

## **New processes, new products, new markets**

These are the three elements in our innovation strategy that have made BASF one of the world's most successful chemical companies.

We use process innovations to optimize our production processes, thereby increasing efficiency and reducing costs. BASF's new technology for the production of tetrahydrofuran (THF) and polytetrahydrofuran (PolyTHF®) is just one of many examples (see page 16 f.).

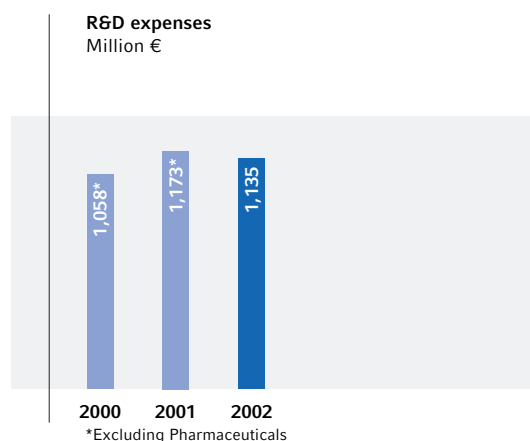
With product innovations, we create the preconditions for profitable growth. Hyperbranched polymers – substances with structures that resemble the branches of a tree – are a good example. These innovative polymers make coatings extremely scratch-resistant and durable. BASF is working to develop them in new coating systems, for example for car bodies.

However, it is not always necessary to come up with completely new chemistry. We often apply existing chemical knowledge in new applications to open up new market opportunities.

Polymer dispersions, for example, make paints decorative and protective, but can also be used as pressure-sensitive adhesives for labels and adhesive tape, or as binding agents for coatings. We are working to extend this range of applications. Together with partners, researchers from BASF have developed new dispersions for use in building dams and dikes. In the past, loamy soil often had to be transported great distances for use as a suitable construction material. BASF's new dispersions now make it possible to reinforce local soil types so that they can also act as a water barrier. The advantage: greater stability, less erosion and significantly lower costs.

#### Opening up new fields of growth even faster

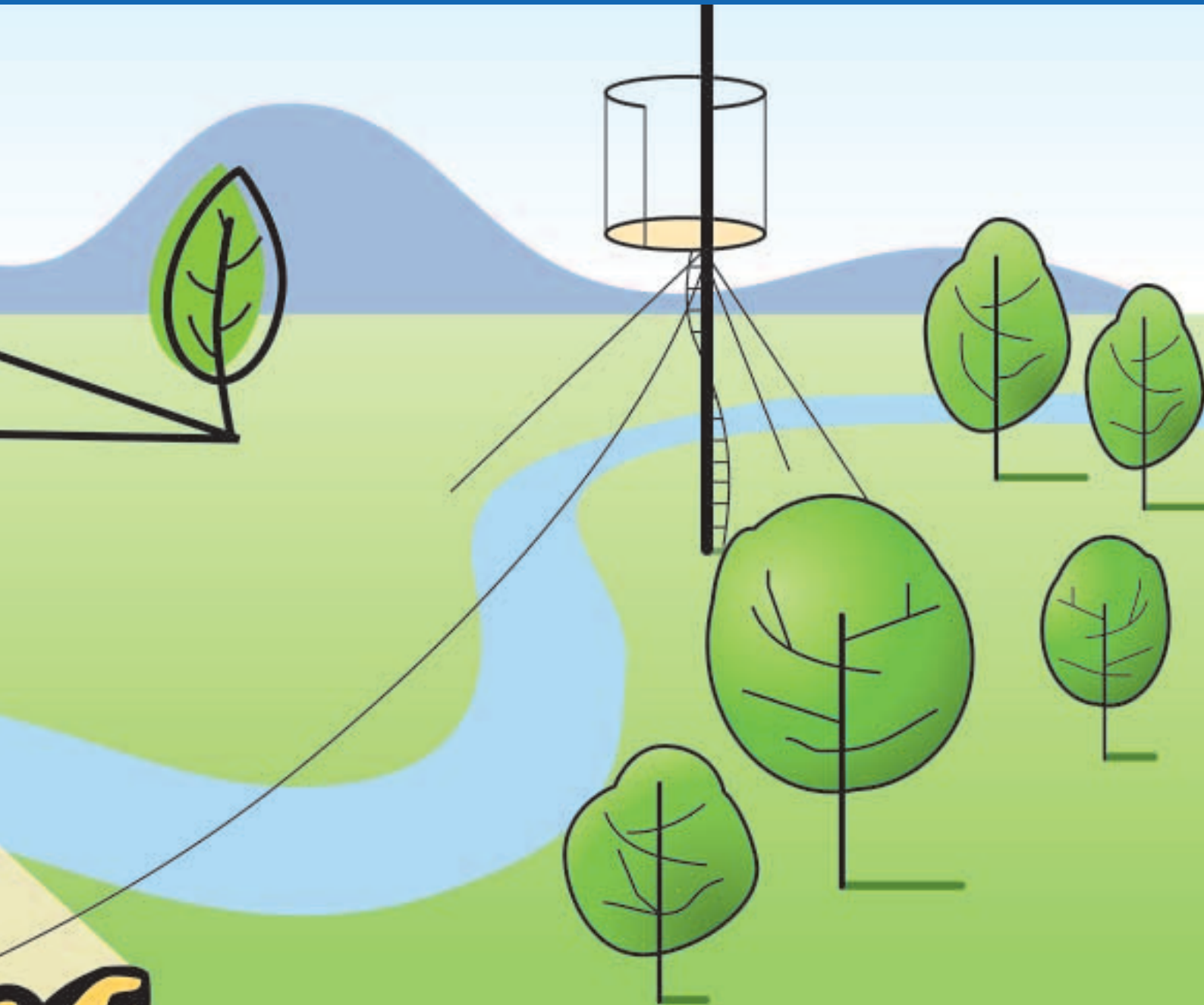
The task of BASF Future Business GmbH is to recognize new opportunities for profitable growth and harness them for BASF. The company focuses on areas that are outside the scope of BASF's existing operations and in which innovative chemistry is a key factor for success.



One of these areas are what are known as OLED (organic light-emitting diode) displays. These are considered to be the displays of the future, for example in notebooks and mobile phones. They offer considerable advantages over conventional displays: They consume less power, produce a clear image in bright sunlight and provide more brilliant colors – and they are easily readable even when viewed from a very oblique angle. The key components in such displays are special dyes known as emitters – chemical substances that turn electric current into light. BASF Future Business GmbH has agreed a strategic partnership for the development of OLED displays with the Taiwanese display manufacturer teco Optronics Corp. The combination of teco Optronics' manufacturing expertise and BASF's strong dye research is aimed to ensure the market success of OLED display technology.







## Sustainable Development

Finding a balance between today's economic, environmental and social needs without prejudicing the development chances of future generations: That is the key principle of sustainable development. We conduct our business in accordance with this principle and want to consistently post high profits.



# Sustainable Development – the social dimension

**BASF aims to increase and sustain its value through growth and innovation. We want to consistently achieve high profits by maintaining and expanding conditions for growth. We believe that the most successful way of doing this is by reconciling our economic growth with environmental protection and social stability. Responsibly shaping society is therefore a key corporate interest for BASF. People are the focus of our activities: employees and shareholders, business partners and neighbors, as well as persons in positions of responsibility in politics and administration.**

## **Employees – they create our success**

As the world's leading chemical company, we want to attract, develop and retain the best talent available – this is our human resources objective. We motivate our employees with challenging and attractive assignments, international career opportunities, suitable qualification measures, comprehensive training on the job, performance and profit-related pay as well as progressive social benefits.

At year-end 2002, BASF had a global workforce of 89,389 or 3,156 less than in the previous year. This decline is mainly due to the worldwide consolidation measures that we took to maintain and increase our competitiveness.

If employees are to act entrepreneurially within their company, they need to be given the freedom to make decisions independently. This is why we encourage process and team-oriented forms of work

and flexible working hours as well as self-learning programs.

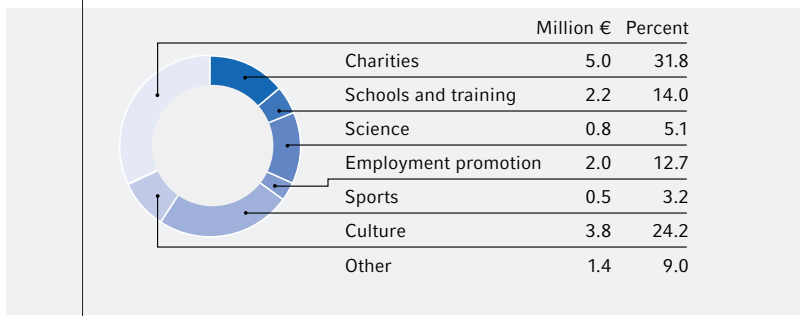
We are convinced that entrepreneurial behavior is more pronounced in BASF employees who are also BASF shareholders and who have a stronger sense of identity with the company. We therefore offer our employees attractive share purchase programs (see page 10).

Our employees need to keep continuously abreast of the very latest in science and technology if we are to maintain our innovative strength. To this end, we encourage independent training measures. In Germany alone we spent €105.5 million worldwide on training in 2002. BASF also fosters creativity and innovative thinking with an Innovation Prize. Another successful way in which we manage good ideas is to reward suggestions that improve the efficiency of our processes, reduce the amount of materials used or improve safety.

## **Community – BASF as a good corporate citizen**

Around the world, we are actively involved in the communities in which our sites are located. We want to be accepted as a good corporate citizen and as an attractive employer. With our economic activities and our targeted sponsoring of humanitarian, societal and cultural issues, we contribute to the positive development of society. One way in which we do this is to support projects that are accomplished through the direct action of our employees. Following the flood catastrophe in Germany last August, for example, our employees donated more than €700,000 – we doubled this amount and provided a further €1 million in immediate aid. As a result, more than €2.4 million was raised to help those affected.

**BASF Group donations and sponsoring in 2002**  
 €15.7 million (2001: €19.5 million)



**We are committed to the Global Compact initiative**

As a founding member of the United Nations' Global Compact initiative, we are committed to protecting human rights and observing fundamental labor and environmental standards. In 2002, we developed a software package that can calculate the eco-efficiency of processes in textile dye works as part of a joint pilot project with the United Nations Environment Programme (UNEP) and the United Nations Industrial Development Organization (UNIDO) in Morocco. BASF plans to train UNIDO and UNEP employees in how to develop this software for use on a broader basis in small and medium-size enterprises in developing countries.

**Sustainability Council: Responsibility integrated into top management**

We have made sustainable development an integral part of our organizational structures and management processes to ensure that this principle is implemented throughout the BASF Group. The Sustainability Council outlines global orientation and decides on strategies. The Sustainability Council is headed by a member of the Board of Executive Directors. The International Steering Committee Sustainability develops strategies, proposes them to the Sustainability Council, and manages their world-

wide implementation using suitable tools. The Steering Committee is supported in its work by a number of task-specific, interdisciplinary project teams. At present, the project teams are working on questions such as how sustainability criteria can be included systematically in our investment decisions or how to account for social factors in our eco-efficiency analysis. Furthermore, they are also looking at how we can put our environmental expertise to good use in the markets in which we operate.

**Social Responsibility Report**

You can find more information on these and other topics in our Social Responsibility Report. Here, we give a detailed account of the social dimension of our activities as part of our comprehensive sustainability reporting. Last year, this report was verified by independent auditors for the first time. You can find the report on the Internet at [www.basf.de/sustainability](http://www.basf.de/sustainability), or order a copy at [www.basf.de/mediaorders](http://www.basf.de/mediaorders) or by sending us the postcard at the end of this report.



# Sustainable Development: Responsible Care<sup>®</sup> – the environmental dimension

**Constant progress in the areas of environmental protection, safety and health – that is the goal of Responsible Care, the chemical industry's global voluntary initiative and an important component of our sustainability strategy. We have made significant advances with regard to environment, safety and health over the past decades, and we want to build on this – worldwide.**

BASF's sustainability strategy lies in the responsibility of the Competence Center Responsible Care, a body that was established in 2001. We achieve additional transparency in each of the key sectors of Responsible Care through the work of international expert groups. We have systematically identified areas in which there is room for improvement and have taken further steps to refine our environment, safety and health measurements.

#### **What have we achieved to date?**

- ▶ We have made year-for-year progress in all key sectors of Responsible Care. In the past, however, our ambitious goals were only announced within the company.
- ▶ We have further developed the standards that are valid throughout the BASF Group worldwide. In doing so, individual guidelines were standardized in a general approach, which means that our high standards can be benchmarked using internationally comparable parameters for all the key sectors of Responsible Care. The incentive for constant improvement therefore takes on a new dimension.

### **BASF further develops its environmental audit system**

How can we measure our success in implementing our Responsible Care goals? How can we tell whether we are actually improving – and where there is still room for improvement? Regular site audits carried out on behalf of the Board of Executive Directors are an important means of answering such questions. These audits are performed by an international team of experts that is supported by the regional organization in the fields of environment, safety and health. In this way, we are able to take appropriate account of national and site-specific standards.

We have adapted the structure of our audit system to the individual sectors of Responsible Care: The results of the audits now show even more clearly how a site performs with regard to:

- ▶ environmental protection,
- ▶ product stewardship,
- ▶ occupational safety and occupational health,
- ▶ process safety and emergency response,
- ▶ distribution safety and
- ▶ dialogue.

Improvements in each sector from year to year can thus be shown in a clear and straightforward manner.

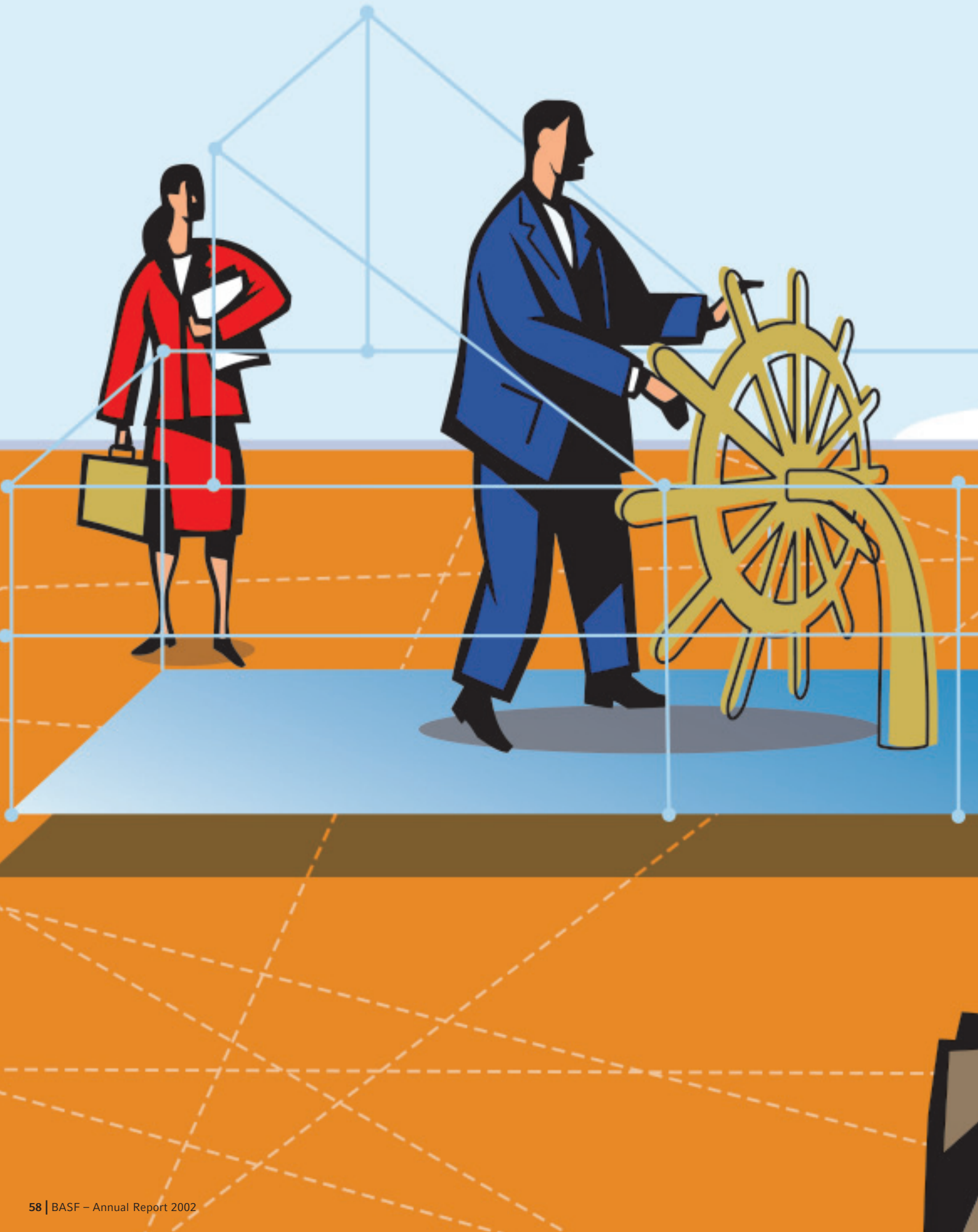
In the 2002 reporting period alone, we carried out 138 environment and safety audits at 74 sites throughout the BASF Group. In addition, occupational health and health protection audits were carried out at 44 sites.

### **BASF's eco-efficiency analysis certified by the German Technical Surveillance Association**

With its eco-efficiency analysis, BASF is able to compare and evaluate similar products or processes over their entire lifecycle. Our method allows us to consider both financial and environmental aspects and then choose the most eco-efficient solution. In 2002, our eco-efficiency analysis was certified by the Rhineland-Berlin-Brandenburg branch of the German Technical Surveillance Association (TÜV). As an independent third party, this association pioneered a process to compare eco-efficiency analyses, which was then used to evaluate the methods currently available worldwide. On this basis, BASF's method was judged to be a successful tool. BASF's eco-efficiency analysis is the first and so far only method to be certified according to international standards.

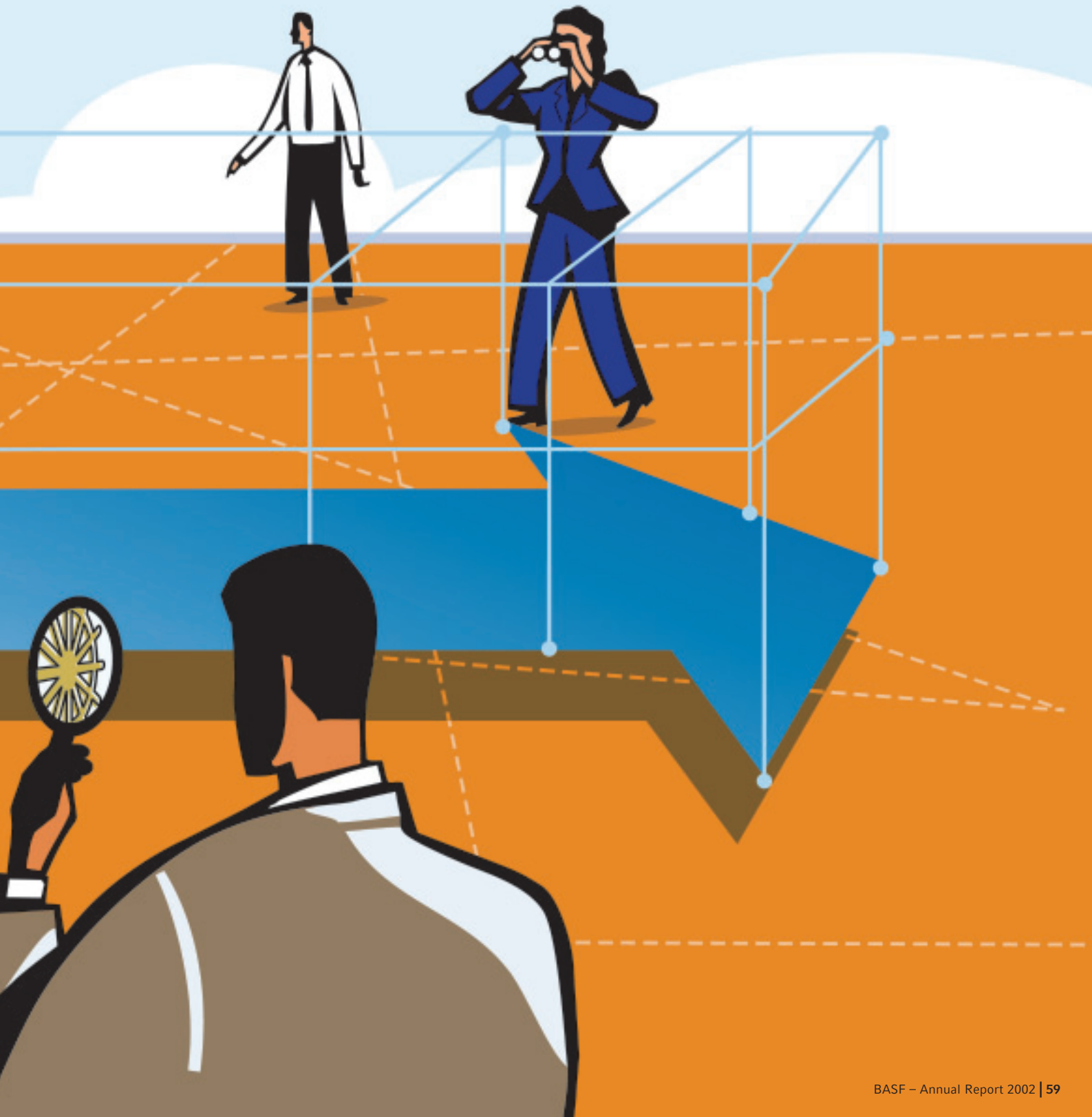
### **Environment, Safety, Health Report**

If you want to find out more about the topics mentioned above, our Environment, Safety, Health Report covers the environmental dimension of our sustainability reporting. You can find the report on the Internet at [www.basf.de/sustainability](http://www.basf.de/sustainability), or order a copy at [www.basf.de/mediaorders](http://www.basf.de/mediaorders) or by sending us the postcard at the end of this report.



# Corporate Governance

In order to be successful, we need to win the confidence of our customers, business partners, shareholders and the public. The way to achieve this is through effective and transparent corporate governance, which will guarantee that BASF is managed and monitored in a responsible and value-driven manner.





# Corporate Governance

**How is a company monitored and managed? How is it organized? What are its strategic principles and guidelines? All these things are part of corporate governance. Corporate governance includes the entire system of managing and overseeing a company as well as all internal and external regulatory and monitoring mechanisms.**

We want to guarantee that BASF is managed and monitored in a responsible and value-driven manner through effective and transparent corporate governance. This fosters the confidence of our shareholders, the financial markets, our business partners, employees and the public in BASF. As a result, it contributes to our success.

The German Corporate Governance Code was published in 2002. It represents a major step forward in the capital market-driven development of statutory provisions and practical implementation of corporate governance. We welcome the Code and the objectives it sets out. The Board of Executive Directors and the Supervisory Board have studied the Code and its implications for BASF, and in December 2002 voted to adopt its recommendations with a few exceptions, which predominantly apply to the Supervisory Board. You can find the joint Compliance Statement by the Board of Executive Directors and the Supervisory Board as well as a variety of further information on our website at [www.basf.de/governance\\_e](http://www.basf.de/governance_e).

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

In contrast to the situation in many other countries, two separate bodies work together at German stock corporations: a Board of Executive Directors and a Supervisory Board.

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

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

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



Alongside the Mediation Committee required by the German Codetermination Act, the Supervisory Board has established a Committee for the Personal Affairs of the Board of Executive Directors and the Granting of Credits ("Personalausschuss"), which is also charged with setting members' remuneration and related contractual issues. The Committee comprises Supervisory Board chairman Professor Berthold Leibinger (chairman), and Supervisory Board members Volker Obenauer, Dr. Henning Schulte-Noelle and Jürgen Walter.

The Supervisory Board has not established a special Audit Committee to date. To date, as many Supervisory Board members as possible are included directly in key accounting and auditing issues. In 2003, the Supervisory Board will reexamine and decide whether this established, successful system should be replaced by a separate Audit Committee. Due to BASF's listing on the New York Stock Exchange, the organizational standards of the U.S. Sarbanes-Oxley Act will also have to be considered.

The members and chairmen of Supervisory Board committees receive attendance payments as compensation for these activities. If an Audit Committee is established, Supervisory Board members should in future be appropriately compensated for committee activities. A proposed resolution will be submitted for consideration to the Annual Meeting on May 6, 2003.

Members of the Board of Executive Directors and the Supervisory Board are listed together with remuneration details in our Financial Report.

### **Shareholders' rights**

At Annual Meetings, shareholders have rights of participation and supervision. Each BASF share represents one vote. Shareholders may exercise their voting rights at Annual Meetings either personally or through a representative of their choice. With effect from the Annual Meeting of May 6, 2003, shareholders may also exercise their voting rights through a company-appointed proxy authorized by shareholders to vote according to their instructions.

There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has thus fully implemented the principle of "one share one vote." All shareholders are entitled to participate in Annual Meetings, to speak, and request information from the Board relating to items on the agenda to the extent necessary to make an informed judgment of the company's affairs.

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

In order to guarantee a high standard of corporate governance, the Board of Executive Directors has published Vision 2010, the Values and Principles of BASF Group, and the Code of Conduct/Compliance Program and distributed them throughout the company. These lay down business principles and guidelines for the conduct of activities at BASF. The German Code of Conduct sets out the conduct we expect from BASF employees. This Code of Conduct also serves as the basis for corresponding codes throughout the BASF Group. Particular importance is placed on respecting all relevant laws (especially antitrust and competition legislation, sanctions and export controls, labor and plant safety regulations). Other issues are bans on using insider knowledge and providing or receiving bribes from business partners or state officials, and the need to treat BASF's assets responsibly.

Compliance is monitored on a regular basis by our Corporate Audit department. With the newly created position of Chief Compliance Officer, BASF is committed to keeping abreast of developments in the area of compliance.

Vision 2010, Values and Principles of the BASF Group, is available on the Internet at [www.basf.de/en/corporate/overview/](http://www.basf.de/en/corporate/overview/).





## Finance

In a generally difficult year for business, we increased income from operations before special items by 25.6% to €2,881 million in 2002. Sales, however, declined slightly by 0.9% compared with 2001 to €32.2 billion.

The improvement in earnings was primarily due to higher profitability in the Chemicals, Plastics & Fibers and Performance Products segments. The timely program of restructuring measures that we introduced paid off in 2002: We have significantly reduced costs and will achieve our goal of saving €1 billion by the end of 2003. We have also identified further cost-reduction potentials, in particular at our site in Ludwigshafen and in our Agricultural Products division.

We continued our share buy-back program in 2002 and repurchased shares for €500 million to reduce our cost of capital and increase earnings per share. We are proposing to pay our shareholders a dividend of €1.40 per share.



# Finance

## Results of operations in the BASF Group

Our earnings developed positively in 2002 compared with 2001. The previous year was marked on the one hand by high charges for a comprehensive restructuring program and the reorganization of our sales structures, and on the other hand by high extraordinary income from the sale of our pharmaceuticals activities. In an uncertain economic climate, BASF did well in 2002 and substantially increased earnings. In spite of a somewhat difficult business climate in important customer segments, we were able to increase sales volumes substantially. The economies of scale associated with higher capacity utilization and the cost reductions from structural measures introduced in 2001 contributed to improved earnings.

## Sales

In 2002, sales were slightly lower than the previous year's level and decreased €284 million, or 0.9 percent, to €32,216 million. Sales growth in the Chemicals and Plastics & Fibers segments was not quite enough to offset the decline in the Agricultural Products & Nutrition and Oil & Gas segments.

The following factors contributed to the change in sales:

Million €	2002	In % of sales
Volumes	2,547	7.8
Prices	(1,680)	(5.2)
Currencies	(941)	(2.9)
Acquisitions and additions to the scope of consolidation	205	0.6
Divestitures and denconsolidations	(415)	(1.2)
	<b>(284)</b>	<b>(0.9)</b>

## Sales and earnings

Million €	2002	2001	Percent change from prev. year
Sales	32,216	32,500	(0.9)
Gross profit	10,400	10,312	0.9
Gross profit as a percentage of sales (%)	32.3	31.7	1.9
Income from operations (EBIT)	2,641	1,217	117.0
Income from operations as a percentage of sales (%)	8.2	3.7	121.6
Special items	(240)	(1,076)	77.7
Income from ordinary operations	2,641	609	333.7
Extraordinary income	-	6,121	
Income before taxes and minority interests	2,641	6,730	(60.8)
Net income	1,504	5,858	(74.3)
Net income as a percentage of sales	4.7	18.0	(73.9)
Earnings per share (€)	2.60	9.72	(73.3)
Net income in accordance with U.S. GAAP	1,717	5,692	(69.8)
Earnings per share in accordance with U.S. GAAP (€)	2.96	9.45	(68.7)
Diluted earnings per share in accordance with U.S. GAAP (€)	2.96	9.45	(68.7)

Sales volumes were up substantially in 2002. We achieved significant growth in the Chemicals and Plastics & Fibers segments. As a result of new plants, in particular the new steam cracker in Port Arthur, Texas, we were able to increase production significantly in the Petrochemicals division. In addition to covering internal requirements, we sold larger volumes to external customers.

The selling prices for our products remained under pressure. Some divisions were able to impose price increases to offset higher raw material costs, but overall prices declined by 5.2 percent. The rise in the value of the euro against the U.S. dollar and Japanese yen, as well as a devaluation of South American currencies had a significantly negative impact on sales.

Portfolio changes, which amounted to €(286) million, were 0.8 percent lower than in 2001 and did not have a substantial impact. Acquisitions – primarily, the Intermediates division's acquisition in mid-2001 of the Italian SISAS Group's activities in Feluy, Belgium – accounted for a €118 million increase in sales.

Divestitures reduced comparable sales by €404 million, primarily due to the divestiture of the pharmaceuticals business at the end of February 2001.

Additions to the scope of consolidation contributed €76 million, or 0.2 percent, to sales.

#### **Income from operations**

Following a weak year marked by high restructuring charges, income from operations in 2002 almost returned to the level of previous years. Income from operations of €2,641 million in 2002 was €1,424 million or 117 percent higher than in the previous year and represented 8.2 percent of sales, compared with 3.7 percent in 2001.

Excluding special items of €240 million in 2002 and €1,076 million in 2001, income from operations rose by 25.6 percent to €2,881 million. This was primarily due to improved earnings in the Chemicals and Plastics & Fibers segments as well as in Performance Products.

#### **Special items**

Income from operations in 2002 included special charges of €240 million. This was €836 million less than in the previous year. Charges of €124 million were incurred as a result of restructuring measures. These were due to the closure of ethylene oxide and glycol plants in the Chemicals segment in Geismar, Louisiana; various optimization and restructuring measures in the Agricultural Products & Nutrition segment; and measures to improve efficiency associated with the Site Concept at the Ludwigshafen production site.

Further special charges of €116 million resulted primarily from the €100 million provision for claims for damages related to the vitamins business.

The financial result included special income of €301 million related in particular to the sale of marketable securities and of a lease financing company.

#### **Income from ordinary activities/income before taxes**

Income from ordinary activities rose from €609 million in 2001 to €2,641 million in 2002. Lower special charges as well as higher special income accounted for €1,210 million of this increase of €2,032 million. On a comparable basis, income from operations contributed €588 million and the financial result €234 million to an increase of €822 million.

#### **Earnings per share**

Earnings per share in 2002 were €2.60 compared with ordinary earnings per share of €(0.20) in the previous year. In addition, there was extraordinary income per share of €9.92 in the previous year. In 2002, net income in accordance with U.S. GAAP was €1,717 million or €2.96 per share compared with €5,692 million or €9.45 per share in 2001.



Statements of cash flows

Million €	2002	2001
Net income <sup>1</sup>	1,504	(118)
Depreciation of fixed assets	2,502	2,933
Changes in net current assets	(1,033)	(682)
Miscellaneous items	(660)	186
<b>Cash provided by operating activities</b>	<b>2,202</b>	<b>2,319</b>
Additions to tangible and intangible fixed assets	(2,410)	(2,811)
Acquisitions/divestitures, net	(262)	7,043
Financial investments and other items	508	(112)
<b>Cash provided by (used in) investing activities</b>	<b>(2,164)</b>	<b>4,120</b>
Proceed from capital increases	(462)	(1,124)
Changes in financial indebtedness	1,040	(4,293)
Dividends	(843)	(1,266)
<b>Cash provided by (used in) financing activities</b>	<b>(265)</b>	<b>(6,683)</b>
Net changes in cash and cash equivalents	(116)	(244)
Initial cash and cash equivalents and other changes	347	604
<b>Cash and cash equivalents</b>	<b>231</b>	<b>360</b>
Marketable securities	132	383
<b>Liquid funds</b>	<b>363</b>	<b>743</b>

Proposed appropriation of profit

BASF Aktiengesellschaft<sup>2</sup> achieved net income of €1,045 million. After transferring €247 million to other retained earnings, profit retained was €798 million. The Board of Executive Directors and the Supervisory Board are proposing to the Annual Meeting on May 6, 2003 a dividend payment of €1.40 per qualifying share. If shareholders approve this proposal, the dividend payable on qualifying shares as of December 31, 2002 will be €798 million.

<sup>1</sup> Excluding extraordinary income

<sup>2</sup> The auditors have approved the Consolidated Financial Statements of BASF Aktiengesellschaft free of qualification. The Consolidated Financial Statements are published in the Federal Gazette and filed in the Commercial Register of Ludwigshafen (Rhine) HRB 3000. A reprint may be obtained by contacting the address shown on the back cover.

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

Cash provided by operating activities

In 2002, cash provided by operating activities was €2,313 million. In spite of significantly higher net income, cash provided by operating activities was only at the previous year's level. This was caused by cash expenses being charged against provisions for restructuring measures established in 2001. Further funds were required for the payment of fines for antitrust violations involving the vitamins business and compensation payments to direct purchasers of vitamins in the United States following the conclusion of corresponding settlements. The antitrust violations relating to the vitamins business occurred several years ago. The contribution of \$475 million to the pension fund in the United States also led to a cash outflow. This contribution constitutes a prepaid pension asset and will be recognized in subsequent years' earnings as net periodic pension cost.

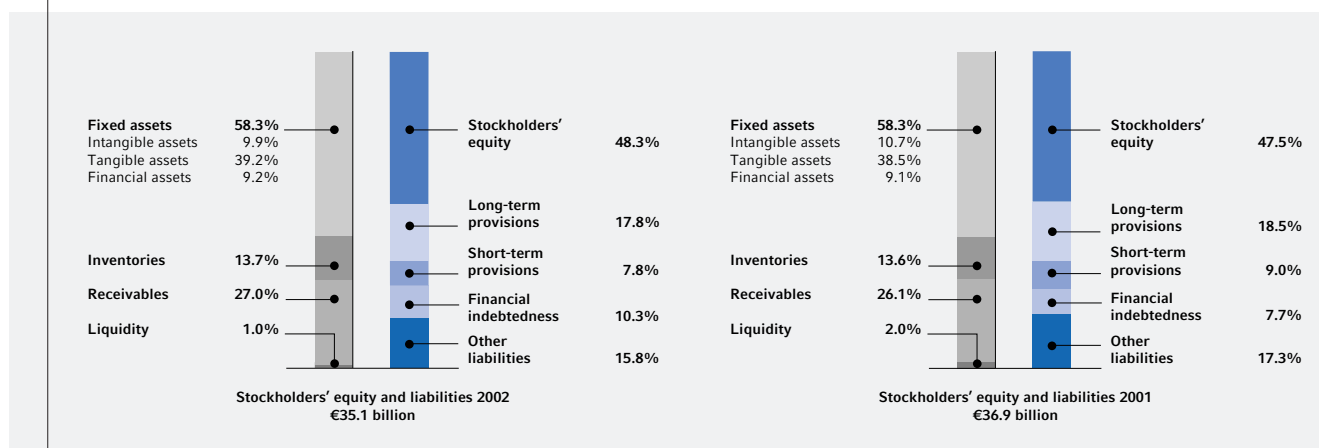
Cash provided by (used in) investment activities

We spent €2,410 million on additions to tangible and intangible assets. We thus substantially reduced capital expenditures compared with 2001 as planned.

Expenditures for acquisitions totaled €267 million. They involved in particular the purchase of Clyde Netherlands B.V., which has concessions for oil and gas exploration in the Dutch North Sea.

The sale of securities held as current assets, as well as fixed assets generated total proceeds of €900 million. Including the funds thus released, outflows for capital expenditures and acquisitions were €2,164 million.

## Change in balance sheet structure



### Cash provided by (used in) financing activities

In 2002, cash used in financing activities was €265 million. We bought back 13.1 million shares for €500 million at an average price of €38.20 per share (see page 10).

We paid out a total of €843 million in dividends and profit transfers in 2002. Dividend payments to the shareholders of BASF Aktiengesellschaft for fiscal year 2001 totaled €758 million, or €1.30 per share. €85 million in profits was paid or transferred to shareholders in fully or proportionally consolidated companies.

Financial indebtedness increased due in particular to the issuance of commercial paper by BASF Aktiengesellschaft using the cost-effective CP Markets Internet platform.

### Balance sheet structure

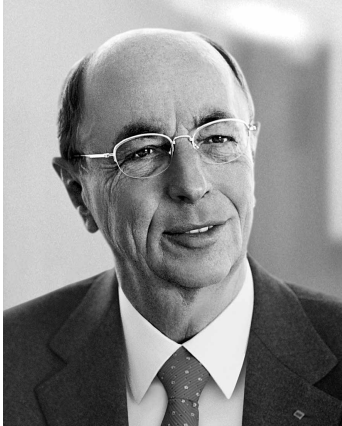
BASF's total assets decreased by 4.9 percent, or €1.8 billion, to €35.1 billion. This was primarily due to a decline in fixed assets and inventories that was to some extent due to currency translation effects as well as to a reduction in liquid funds. Stockholders' equity declined by €580 million due to a reduction in

currency translation adjustments and the buy-back and cancellation of shares. The equity ratio rose to 48.3 percent (2001: 47.5 percent) as a result of a decline in total assets. In the medium term, we aim to achieve an equity ratio of approximately 40 percent.

Long-term liabilities declined by €744 million to €9,211 million. Long-term liabilities as a share of stockholders' equity and liabilities declined to 26.2 percent from 27.0 percent in 2001. Short-term liabilities declined by 4.9 percent to €8,933 million, in particular due to the realization of short-term provisions. Short-term financial indebtedness increased by €905 million to €1,814 million due to the issuance of commercial paper and due to short-term bank loans.

### Returns

Return on assets, based on income from ordinary operations plus interest expenses, was 8.4 percent in 2002, compared with 3.1 percent in the previous year. Income from operations as a percentage of sales rose to 8.2 percent from 3.7 percent in 2001.



## Dear shareholders,

Following 2001, a year that was both difficult and unsatisfactory for BASF, the company posted generally positive results in 2002 despite an environment that remained difficult for business and that posed increasing political pressures. In 2002, BASF was largely able to avoid the negative developments and achieve its targets despite the economic upturn expected by many at the beginning of 2002 failed to materialize, despite persistently disappointing global growth rates, and, in particular, despite the considerable uncertainties with regard to the Iraq conflict. The year 2002 has shown that BASF's strategy of continuous and extensive reorganization while maintaining its identity as a chemical company was and is the right way of shaping the company's future. This is the core of BASF's strategy of adding value through growth and innovation. Dr. Jürgen F. Strube, who will retire as Chairman of the Board of Executive Directors following this year's Annual Meeting, has pursued this strategy with persistence and great determination since taking office in 1990. The Supervisory Board is convinced that the new Chairman of the Board of Executive Directors, Dr. Jürgen Hambrecht, will continue to pursue this strategy rigorously.

The Supervisory Board carefully and regularly monitored company management during the year and provided advice on the company's strategic development and on important individual measures. To this end, the Supervisory Board requested detailed information from the Board of Executive Directors at meetings as well as in written and verbal reports. Topics included the business situation and business trends and policies, profitability as well as the company's planning with regard to finances, capital expenditures and human resources at the company and its major subsidiaries. The Supervisory Board also requested information on the possible effects of major political and economic developments such as the E.U.'s chemicals policy, emissions trading, the E.U. Gas Directive, German tax legislation

and an escalation of the conflict in the Middle East on BASF's business and progress. The Chairman of the Supervisory Board also regularly requested information from the Chairman of the Board of Executive Directors with regard to current business developments and important events outside of Supervisory Board meetings.

### Meetings

The Supervisory Board met five times in 2002. At these meetings, the Supervisory Board discussed reports from the Board of Executive Directors in detail. The Supervisory Board also discussed the company's prospects as a whole and its individual businesses with the Board of Executive Directors. Where specific transactions and measures proposed by the Board of Executive Directors required decisions by the Supervisory Board as required by law or the Articles of Association, votes were taken at the Supervisory Board meetings. Among other things, this related to the acquisition of part of Bayer's insecticides business to further strengthen BASF's crop protection business as well as to the sale of BASF's fibers business to Honeywell and the simultaneous acquisition of Honeywell's business with engineering plastics.

In 2002, the Supervisory Board dealt in particular detail with the development and perspectives for Agricultural Products, Oil & Gas and Functional Polymers. In the Agricultural Products division, discussions focused on the global positioning of this important and promising area following the integration of the crop protection business acquired from American Home Products in 2000, the further development of the product portfolio as well as developments in the field of plant biotechnology. Key topics relating to the Oil & Gas segment were the strategic orientation of the key business areas Exploration and Production as well as Gas Distribution in accordance with the principle of adding value through growth.



The Supervisory Board also paid special attention to the further organizational development of the Ludwigshafen production site, the BASF Group's largest and most important site. The Site Concept Ludwigshafen sets a course for the competitiveness of chemical production at this site in the heart of Europe in the coming decade.

#### **Corporate governance and compliance statement**

In its meetings on July 18, October 17 and December 19, 2002, the Supervisory Board also dealt extensively with the issue of corporate governance, in particular with regard to the new German Corporate Governance Code and the effects of the new U.S. capital market legislation (Sarbanes-Oxley Act) and German Transparency and Disclosure Act.

Good corporate governance has always been an utmost concern of the Supervisory Board. A spirit of trusting cooperation between BASF's Board of Executive Directors and the Supervisory Board has been and remains part of how both bodies see their role. In view of this, we welcome and support the German Corporate Governance Code, which underlines the importance of good corporate governance.

In its meeting on December 19, 2002, the Supervisory Board approved the first joint Compliance Statement by the Supervisory Board and Board of Executive Directors in accordance with Section 161 of the German Stock Corporation Act. In this Statement, the Board of Executive Directors and the Supervisory Board declare that, with a few exceptions, they will comply with the recommendations of the Government Commission on the German Corporate Governance Code. The exceptions relate primarily to the Supervisory Board. In particular, the Supervisory Board has so far not established a separate Audit Committee for important accounting and auditing issues in order to ensure that all members are involved as far as possible in these key areas of the Supervisory Board's activities. The Supervisory Board will reexamine whether an Audit Committee should be established following the re-election of the Supervisory Board this year. The complete text of the Compliance Statement is included in the Management's Analysis in the Financial Report.

#### **Committees**

The Supervisory Board has established two equal representation committees: the Committee for the Personal Affairs of the Board of Executive Directors and the Granting of Credits, which was established in accordance with Section 89 (4) of the German Stock Corporation Act (Personal Affairs Committee), and the Mediation Committee created in accordance with Section 27 (3) of the German Code-termination Act. The Personal Affairs Committee met three times in 2002. The Mediation Committee did not have to be convened.

Key areas of work of the Personal Affairs Committee were the preparation of important decisions with regard to appointments to the Board of Executive Directors. Dr. Jürgen F. Strube, who has been on the Board of Executive Directors for 18 years and its Chairman since 1990, is to retire from the Board of Executive Directors following the Annual Meeting on May 6, 2003. Max Dietrich Kley, the Vice Chairman of the Board of Executive Directors and BASF's Chief Financial Officer, will retire at the same time. Their succession has been prepared and discussed in detail by the Personal Affairs Committee and by the Supervisory Board. The Supervisory Board is convinced that the appointment of the existing members of the Board of Executive Directors Dr. Jürgen Hambrecht as Chairman and Eggert Voscherau as Vice Chairman as well as the new appointments of Dr. Kurt Bock and Dr. Andreas Kreimeyer have created the right management team to ensure the continuous and successful development of BASF.

#### **Financial Statements of the BASF Group and BASF Aktiengesellschaft**

We have examined the Financial Statements of BASF Aktiengesellschaft for 2002, the proposal by the Board of Executive Directors for the appropriation of profit, the BASF Group Consolidated Financial Statements and Management's Analysis for BASF Aktiengesellschaft and the BASF Group. Deloitte & Touche GmbH, the auditors elected by the Annual Meeting, have examined the Financial Statements of BASF Aktiengesellschaft and the BASF Group Consolidated Financial Statements, including the

bookkeeping and Management's Analysis, and have approved them free of qualification. The auditors also noted that the Board of Executive Directors, in accordance with Section 91 (2) of the German Stock Corporation Act, had instituted a suitable information and monitoring system which met the needs of the company and appeared suitable, both in design and the way it had been applied, to provide early warning of developments that pose a threat to the continued existence of the company.

The documents to be examined and the auditors' reports were given to every member of the Supervisory Board. The auditors attended the accounts meeting of the Supervisory Board on March 11, 2003 and reported on the main findings of their audit. The auditors also provided 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 ground for objections.

At the Supervisory Board's accounts meeting on March 11, 2003, we approved the Financial Statements of BASF Aktiengesellschaft drawn up by the Board of Executive Directors and the Consolidated Financial Statements of the BASF Group, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit and the payment of a dividend of €1.40 per share.

#### **Composition of the Supervisory Board and Board of Executive Directors**

Ellen Schneider resigned as member of the Supervisory Board with effect from August 20, 2002. The district court of Ludwigshafen appointed Eva Kraut, chairwoman of the works council of BASF IT Services GmbH, Ludwigshafen, in her place as employee representative on the Supervisory Board.

In its meeting on July 18, 2002, the Supervisory Board appointed Dr. Jürgen Hambrecht as the new Chairman of the Board of Executive Directors and Eggert Voscherau as the new Vice Chairman. These appointments will take effect following the end of

the Annual Meeting on May 6, 2003. At the same meeting, the Supervisory Board appointed Dr. Kurt Bock to the Board of Executive Directors effective January 1, 2003. Dr. Andreas Kreimeyer was appointed to the Board of Executive Directors effective January 1, 2003 in the meeting of the Supervisory Board on December 19, 2002. Until December 31, 2002, Dr. Bock was responsible for Logistics & Information Services and Dr. Kreimeyer was responsible for the Functional Polymers division.

Due to ill health, Helmut Becks resigned as member of the Board of Executive Directors following the Annual Meeting on April 30, 2002.

The electoral period for the members of the Supervisory Board expires following the Annual Meeting on May 6, 2003. The composition of the Supervisory Board will change considerably following the election of new shareholder representatives. The Chairman of the Supervisory Board, Professor Dr. Berthold Leibinger, and Supervisory Board members Etienne Graf Davignon, Dr. Wolfgang Jentsch and Dr. Henning Schulte-Noelle are no longer eligible for re-election.

Of the employee representatives, the deputy chairman of the Supervisory Board, Volker Obenauer, will retire from the Supervisory Board. Ralf Bastian has already been elected to replace him as employee representative.

Ludwigshafen, March 11, 2003

The Supervisory Board

**PROFESSOR DR. BERTHOLD LEIBINGER**

Chairman of the Supervisory Board



## Glossary: Selected terms

- backward integration** ▶ This means that a company produces its own raw materials and precursors instead of purchasing them elsewhere.
- corporate governance** ▶ Corporate governance refers to the entire system of managing and overseeing a company. This includes the organization of a company, its principles and guidelines as well as all internal and external regulatory and monitoring mechanisms.
- EBIT** ▶ Earnings before interest and taxes.
- EBITDA** ▶ Earnings before interest, taxes, depreciation and amortization.
- economies of scale** ▶ Cost advantages derived from modern world-scale plants (see also world-scale plants).
- eco-efficiency analysis** ▶ The eco-efficiency analysis looks at the entire lifecycle of a product, "from the cradle to the grave," starting from extraction of raw materials to recycling or disposal after use. Such an analysis allows us to consider both economic and environmental aspects when developing and optimizing products and processes, and helps us choose the most eco-efficient of the various alternatives available. The aim is to offer the best possible cost-effective products with good environmental performance.
- e-commerce** ▶ E-commerce or e-business is the name given to business transactions that are conducted in whole or in part over the Internet or similar open or closed computer networks.
- fungicide** ▶ An active ingredient that kills fungi or inhibits their growth (for example in crops).
- herbicide** ▶ An active ingredient used to destroy weeds.
- insecticide** ▶ An active ingredient used to destroy harmful insects.
- joint venture** ▶ Two or more businesses joining together under a contractual agreement to conduct a specific business enterprise in which all partners share profits and losses.
- naphtha** ▶ Liquid petroleum that is obtained as a by-product of oil refining. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.
- oil equivalent** ▶ International standard for comparing the thermal energy of different fuels.
- portfolio management** ▶ Includes all measures to further develop BASF's business areas, for example, organic growth, acquisitions, divestitures and strategic alliances.
- product portfolio** ▶ The range of products offered by a company.
- Research Verbund** ▶ The worldwide network of BASF's research units and competence centers.
- Responsible Care®** ▶ A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, safety and health. BASF committed itself to the concept of "responsible action" as early as 1992.
- special items** ▶ One-time costs or one-time payments that significantly affect the earnings of a segment or the BASF Group. Special items include costs for restructuring measures and severance payments to employees who leave the company.
- steam cracker** ▶ A large plant in which steam is used to "crack" naphtha (petroleum). The resulting petrochemicals – above all, ethylene and propylene – are the starting materials used to manufacture most of BASF's products.
- sustainable development** ▶ The objective of sustainable development is to meet the economic, environmental and social needs of society without harming the development opportunities of future generations. BASF is committed to this principle.
- synergy effects** ▶ Advantages that arise from the combination of previously separate strengths or partners, e.g., cost savings or higher performance compared with the sum of individual operations.
- value added** ▶ The increase in value of the goods used in the production process. At BASF, value-added is derived from the statement of income as the difference between business performance and advance payments (in particular payments to suppliers).
- value-adding chain** ▶ Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.
- Verbund** ▶ The Verbund is one of BASF's greatest strengths: At our major sites, we link our production plants in a sophisticated system along our value-adding chains: Even by-products or waste from one plant can often be used as raw materials in a neighboring plant. We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly.
- world-scale plants** ▶ Large production plants in which products can be manufactured on a world scale. The more a plant produces, the lower the fixed costs per metric ton of product (see also: economies of scale). BASF is therefore committed to cost-effective large-scale plants of this kind in all major economic regions.

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## Ten-Year Summary

### BALANCE SHEET

Million €	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Intangible assets	326	262	884	1,297	1,497	1,965	2,147	4,538	3,943	3,464
Tangible assets	9,061	8,177	7,873	8,217	9,076	10,755	12,416	13,641	14,190	13,745
Financial assets	987	1,057	1,338	2,093	2,132	1,826	1,507	3,590	3,360	3,249
<b>Fixed assets</b>	<b>10,374</b>	<b>9,496</b>	<b>10,095</b>	<b>11,607</b>	<b>12,705</b>	<b>14,546</b>	<b>16,070</b>	<b>21,769</b>	<b>21,493</b>	<b>20,458</b>
Inventories	3,230	3,202	3,439	3,665	3,876	3,703	4,028	5,211	5,007	4,798
Accounts receivable, trade	2,939	3,315	3,356	3,714	4,299	4,017	4,967	6,068	5,875	5,316
Other receivables	1,375	1,259	1,375	1,341	1,765	1,856	2,211	3,369	2,384	2,947
Deferred taxes	38	66	61	69	45	1,077	1,225	1,270	1,373	1,204
Liquid funds	2,679	3,042	3,166	1,957	1,846	1,503	1,508	870	743	363
<b>Current assets</b>	<b>10,261</b>	<b>10,884</b>	<b>11,397</b>	<b>10,746</b>	<b>11,831</b>	<b>12,156</b>	<b>13,939</b>	<b>16,788</b>	<b>15,382</b>	<b>14,628</b>
<b>Assets</b>	<b>20,635</b>	<b>20,380</b>	<b>21,492</b>	<b>22,353</b>	<b>24,536</b>	<b>26,702</b>	<b>30,009</b>	<b>38,557</b>	<b>36,875</b>	<b>35,086</b>

Subscribed capital	1,495	1,559	1,559	1,580	1,590	1,595	1,590	1,555	1,494	1,460
Capital surplus	2,282	2,405	2,405	2,515	2,567	2,590	2,675	2,746	2,914	2,948
Paid-in capital	3,777	3,964	3,964	4,095	4,157	4,185	4,265	4,301	4,408	4,408
Retained earnings	3,901	4,316	5,275	6,262	7,418	8,695	9,002	8,851	12,222	12,468
Currency translation adjustments	(119)	(232)	(254)	(129)	201	39	549	662	532	(330)
Minority interests	82	92	181	248	255	331	329	481	360	396
<b>Stockholders' equity</b>	<b>7,641</b>	<b>8,140</b>	<b>9,166</b>	<b>10,476</b>	<b>12,031</b>	<b>13,250</b>	<b>14,145</b>	<b>14,295</b>	<b>17,522</b>	<b>16,942</b>
Pensions and other long-term provisions	5,207	5,040	4,998	5,052	4,824	5,561	5,812	6,209	6,809	6,233
Tax and other short-term provisions	1,954	2,120	2,393	2,391	2,463	2,185	2,826	3,334	3,332	2,764
<b>Provisions</b>	<b>7,161</b>	<b>7,160</b>	<b>7,391</b>	<b>7,443</b>	<b>7,287</b>	<b>7,746</b>	<b>8,638</b>	<b>9,543</b>	<b>10,141</b>	<b>8,997</b>
Financial indebtedness	2,742	1,857	1,448	1,042	1,126	1,316	1,294	7,892	2,835	3,610
Accounts payable, trade	1,433	1,531	1,417	1,628	1,972	1,871	2,316	2,848	2,467	2,344
Other liabilities	1,658	1,692	2,070	1,764	2,120	2,519	3,616	3,979	3,910	3,193
<b>Liabilities</b>	<b>5,833</b>	<b>5,080</b>	<b>4,935</b>	<b>4,434</b>	<b>5,218</b>	<b>5,706</b>	<b>7,226</b>	<b>14,719</b>	<b>9,212</b>	<b>9,147</b>
<b>Total liabilities</b>	<b>12,994</b>	<b>12,240</b>	<b>12,326</b>	<b>11,877</b>	<b>12,505</b>	<b>13,452</b>	<b>15,864</b>	<b>24,262</b>	<b>19,353</b>	<b>18,144</b>
Thereof long-term	6,424	6,235	6,614	6,223	6,094	6,898	7,529	9,059	9,955	9,211
<b>Stockholders' equity and liabilities</b>	<b>20,635</b>	<b>20,380</b>	<b>21,492</b>	<b>22,353</b>	<b>24,536</b>	<b>26,702</b>	<b>30,009</b>	<b>38,557</b>	<b>36,875</b>	<b>35,086</b>

Inside flap: **Ten-Year Summary** →  
 Sales and earnings  
 Capital expenditures and depreciation  
 Number of employees  
 Key data  
 Appropriation of profit

<b>Sales and earnings</b>	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Million €										
Sales	20,742	22,330	23,637	24,939	28,520	27,643	29,473	35,946	32,500	32,216
Income from operations (EBIT)	528	1,099	2,057	2,195	2,731	2,624	2,009	3,070	1,217	2,641
Income from ordinary activities	541	1,079	2,111	2,257	2,726	2,771	2,606	2,827	609	2,641
Extraordinary income	–	–	–	–	–	–	–	–	6,121	–
Income before taxes and minority interests	541	1,079	2,111	2,257	2,726	2,771	2,606	2,827	6,730	2,641
Income before minority interests	389	598	1,239	1,452	1,639	1,664	1,245	1,282	5,826	1,599
Net income	439	656	1,263	1,427	1,654	1,699	1,237	1,240	5,858	1,504

#### Capital expenditures and depreciation

Additions to fixed assets	2,261	1,674	2,742	3,510	2,964	4,131	3,800	8,637	4,053	3,289
Thereof tangible assets	2,116	1,384	1,546	1,861	2,229	2,899	2,764	3,631	3,037	2,677
Depreciation of fixed assets	1,709	2,239	1,885	1,874	2,048	2,280	2,681	2,921	2,945	2,501
Thereof tangible assets	1,623	2,059	1,707	1,606	1,732	1,843	2,018	2,245	2,307	2,012

#### Number of employees

At year-end	112,020	106,266	106,565	105,589	104,979	105,945	104,628	103,273	92,545	89,389
Annual average	117,368	107,716	107,320	108,266	105,885	106,928	107,163	105,784	94,744	90,899

<b>Personnel costs</b>	5,507	5,313	5,531	5,637	5,790	6,010	6,180	6,596	6,028	5,975
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#### Key data

Earnings per share (€)	0.76	1.10	2.07	2.32	2.67	2.73	2.00	2.02	9.72 <sup>1</sup>	2.60
Earnings per share in accordance with U.S. GAAP (€)						2.84	2.14	2.37	9.45	2.96
Cash provided by operating activities	2,370	2,845	3,256	3,476	3,291	3,744	3,255	2,992	2,319	2,313
Return on sales <sup>2</sup>	2.5	4.9	8.7	8.8	9.6	9.5	6.8	8.5	3.7	8.2
Return on assets <sup>3</sup>	3.9	6.5	11.2	11.4	12.6	11.9	10.2	9.9	3.1	8.4
Return on equity after taxes (%)	5.2	7.6	14.3	14.8	14.6	13.2	9.1	9.0	36.6 <sup>1</sup>	9.3

#### Appropriation of profit

Net income of BASF AG	342	465	692	870	943	1,074	1,007	1,265	5,904	1,045
Transfer to retained earnings	102	153	256	332	307	381	304	50	5,153	247
Dividend	239	312	437	537	636	693	695	1,214	758	798 <sup>4</sup>
Dividend per share (€)	0.41	0.51	0.72	0.87	1.02	1.12	1.13	1.30	1.30	1.40
								+0.70 <sup>5</sup>		
<b>Number of shares as of Dec. 31, 2002 (in thousands)</b>	584,502	609,766	609,766	618,052	622,063	623,794	620,985	607,399	583,401	570,316

<sup>1</sup> Including extraordinary income

<sup>2</sup> Income from operations as a percentage of sales

<sup>3</sup> Income from ordinary activities plus interest expenses as a percentage of average assets

<sup>4</sup> With regard to the number of qualifying shares as of December 31, 2002

<sup>5</sup> Special dividend of stockholders' equity charged with 45% corporation tax

## Key data BASF Group 2002

Sales (million €)	
BASF Group sales	32,216
Sales by segment	
Chemicals	5,317
Plastics & Fibers	8,477
Performance Products	8,014
Agricultural Products & Nutrition	4,924
Oil & Gas	4,199
Other	1,285
Sales by region (location of customer)	
Europe	17,697
Thereof Germany	6,944
North America (NAFTA)	7,808
South America	1,660
Asia, Pacific Area, Africa	5,051

Earnings (million €)	
Income from operations before special items	2,881
Income from operations (EBIT)	2,641
Income before taxes and minority interests	2,641
Net income	1,504
Net income in accordance with U.S. GAAP	1,717

Other key data	
Equity ratio (%)	48.3
Return on assets (income from ordinary activities plus interest expenses as a percentage of average assets)	8.4
R&D expenses (million €)	1,135
Capital expenditures (million €)	3,289
Number of employees (Dec. 31, 2002)	89,389

Key BASF share data (€)	
Year-end share price	36.08
High	49.80
Low	32.90
Per share information:	
Dividend	1.40
Earnings per share	2.60

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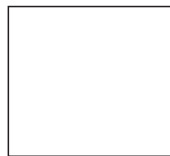
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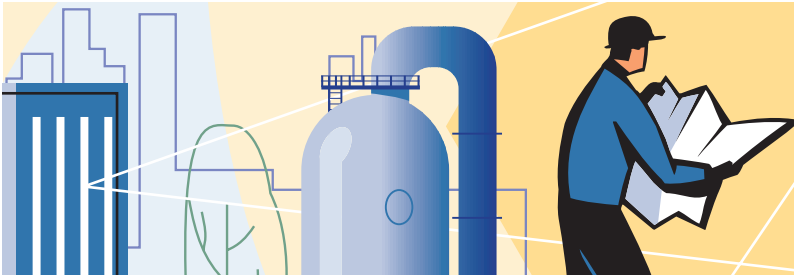
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BASF Group key data

# 2002



## Forward-looking statements

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

# BASF



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



The Annual Report covers the economic aspects of the BASF Group's sustainability reporting.

This report went to press on March 4, 2003 and was published on March 18, 2003.

The Annual Report is supplemented by a Financial Report containing the complete Consolidated Financial Statements of BASF Group together with the Management's Discussion and Analysis and the Report of Independent Auditors. We would be pleased to send you a copy.

please send me further information.

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## Important dates

- ▶ **March 18, 2003**  
Financial Results 2002
- ▶ **April 29, 2003**  
Interim Report First Quarter 2003
- ▶ **May 6, 2003**  
Annual Meeting, Mannheim
- ▶ **August 7, 2003**  
Interim Report Second Quarter 2003
- ▶ **November 13, 2003**  
Interim Report Third Quarter 2003
- ▶ **March 17, 2004**  
Financial Results 2003

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