

*The photo theme: Our market is the world*

***Annual Report***  
**1996**

**BASF**

<b>BASF Group</b>	<b>1996</b>	1995	Change
Figures in millions of DM			%
Sales	<b>48,776</b>	46,229	+5.5
Income from operations	<b>4,293</b>	4,023	+6.7
Profit before taxes	<b>4,414</b>	4,128	+6.9
Net income after taxes and minority interests	<b>2,790</b>	2,471	+12.9
Cash flow	<b>6,798</b>	6,368	+6.8
Capital expenditures	<b>3,639</b>	3,024	+20.3
Research and development expense	<b>2,286</b>	2,088	+9.5
Dividend paid by BASF Aktiengesellschaft	<b>1,051</b>	854	+23.1
Dividend per share in DM (nominal value DM 5)	<b>1.70</b>	1.40	+21.4
Number of employees (as of December 31)	<b>103,406</b>	106,565	-3.0

<b>Operations</b>	<b>1996</b>	1995	Change
Sales in millions of DM			%
Health & Nutrition	<b>9,115</b>	7,986	+14.1
Colorants & Finishing Products	<b>11,285</b>	10,766	+4.8
Chemicals	<b>7,300</b>	7,255	+0.6
Plastics & Fibers	<b>12,080</b>	12,456	-3.0
Oil & Gas	<b>5,208</b>	4,207	+23.8
Other*	<b>3,788</b>	3,559	+6.4
	<b>48,776</b>	46,229	+5.5

Income from operations in millions of DM	<b>1996</b>	1995	Change
			million DM
Health & Nutrition	<b>781</b>	194	+587
Colorants & Finishing Products	<b>565</b>	291	+274
Chemicals	<b>1,733</b>	2,054	-321
Plastics & Fibers	<b>974</b>	1,499	-525
Oil & Gas	<b>744</b>	201	+543
Other*	<b>-504</b>	-216	-288
	<b>4,293</b>	4,023	+270

<b>Regions</b> (location of customers)	<b>1996</b>	1995	Change
Sales in millions of DM			%
Europe	<b>30,830</b>	29,819	+3.4
thereof Germany	<b>12,971</b>	12,614	+2.8
North America (including Mexico)	<b>9,547</b>	8,963	+6.5
South America	<b>2,691</b>	2,339	+15.0
Asia, Pacific Area, Africa	<b>5,708</b>	5,108	+11.7
	<b>48,776</b>	46,229	+5.5

## At a glance

We are a multinational chemical company. Our operations extend from oil and gas to high-tech chemical products.

The BASF Group comprises BASF Aktiengesellschaft and all companies which are directly or indirectly at least 50-percent owned by BASF Aktiengesellschaft or come under Group management. The Financial statements of the Group include majority holdings in full, and 50-percent participations on a pro rata basis. Group companies of minor significance are not consolidated. Kali und Salz GmbH is not consolidated either, because of considerable restrictions on the rights of Kali und Salz Beteiligungs AG, which has a majority holding.

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

Singapore's young skyline is a symbol of the rapid growth in the Asian states. By 2010, the Asian markets will be as important for chemical and pharmaceutical products as the European and North American markets. BASF is committing itself in Asia in order to develop the new growth markets. In May 1997, a new Board ressort responsible for the Asian region will be established and headquartered in Hong Kong. The Textile & Leather Dyes & Chemicals Division has been taking care of its customers from Singapore since 1996. This is also the headquarters of the South-East Asia, Australia Division. The origins of BASF's Asian business go back more than 100 years. To begin with, we exported only dyes. After the Second World War, Asia became attractive for cooperations and capital expenditures, which resulted in agencies and, later, production sites being established. Plants were erected in Japan, Australia, Pakistan and Indonesia.

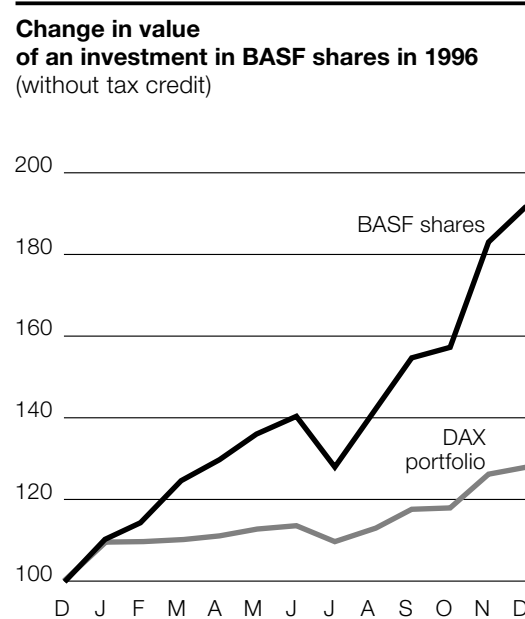
In addition to our Mangalore site in India, which we are extending, large facilities are planned in China and Malaysia. The integration of the production plants at these sites will play a special role. Europe is our home market. We are a supplier held in high esteem by our customers and we want to shape our growth worldwide from our strong position in Europe. Altogether, BASF has production facilities in 39 countries and sells its products in 170 countries. As the world market is so important, BASF's international operations are the theme of this year's photos.

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Presented to the 45th Annual Meeting on Thursday, May 15, 1997, 10.00 a.m., at BASF Feierabendhaus, Leuschnerstrasse 47, Ludwigshafen am Rhein, Germany

Key BASF share data	1996	1995*
Number of shares outstanding as of Dec. 31:		
Millions of shares	<b>618**</b>	610
Per share in DM		
Dividend	<b>1.70</b>	1.40
Dividend including tax credit	<b>2.43</b>	2.00
Net income	<b>4.51</b>	4.05
Net income (DVFA/SG result)	<b>4.40</b>	3.77
Cash flow	<b>11.00</b>	10.44
Equity	<b>33.15</b>	29.40
Year-end price	<b>59.00</b>	32.30
Year's high	<b>61.95</b>	33.68
Year's low	<b>32.56</b>	27.72

\* Figures for 1995 adapted to the DM 5 quotation  
 \*\* Number of shares still to be issued for the exercise of stock warrants: 2 million DM 50 shares (see page 46)



## The BASF share

*Our success in restructuring the company and in placing strategic emphasis on core operations, greater internationalization and better profitability are especially taken into account by the financial markets. The result is greater interest in our share. BASF's stock exchange value grew considerably.*

As of July 1, 1996, the quotation of our share was reduced to a nominal value of DM 5 per share.

### Strong price gains

The BASF share price made strong gains over the year. On the Frankfurt Stock Exchange, the maximum was reached on December 10, 1996, at a spot price of DM 61.95 and a closing price of DM 62.18. On a spot price basis, the year-end price of DM 59.00 was 82.7 percent up on that of the previous year. Investors who reinvested the 1995 dividend (excluding the tax credit) earned an 89.2 percent return on their investment in 1996.

### Long-term yield also better than the market

A 10-year comparison of yields also shows an investment in BASF shares to be ahead of the market. An investor who acquired BASF shares for a single payment of DM 10,000 on January 1, 1987 and reinvested each year's dividend (excluding the tax credit) in more BASF shares would have increased the value of the holding to DM 32,100 by the end of 1996. This represents an average annual yield of 12.4 percent, which is significantly

above the comparable DAX figure of 7.3 percent.

### Vigorous dividend rise

The dividend of DM 1.70 per share proposed by the Board of Executive Directors and the Supervisory Board exceeds the previous year's payment by 21.4 percent and is a new record. For the first time, BASF is paying total dividends to its shareholders in excess of DM 1 billion, a reassertion of our principle of giving our shareholders an appropriate share of the company's earnings.

### Abolition of the maximum voting right

The Board of Executive Directors and the Supervisory Board are proposing to the Annual Meeting that the restriction on the maximum voting right, introduced on June 12, 1975, should be abolished. The main reasons for its existence no longer apply due to the introduction of the obligation to notify large-lot purchases and of the takeover code.

### Share buy-back

We welcome the planned amendment to the Stock Corporation Law, under which German companies, like others, will be able to buy back

their own shares in the capital market. We believe that it must be possible to set off such shares against the equity as shown in the balance sheet.

### Investor-relations activities

We maintain an intensive dialogue with investors and financial analysts, in which our international contacts are becoming increasingly important. In discussions and at investor-relations meetings, we shall continue to give a clear picture of BASF's strategy and the prospects in our various operations. In conjunction with our other channels of communication, we want to satisfy the increased demand for information, make BASF more open and bolster our shareholders' confidence in their company.

### BASF on the Internet

BASF now has its own home pages on the Internet. Information on BASF shares can be found under: <http://www.basf.de/share>

Dear  
shareholders

*We are pleased to be able to propose a higher dividend to you. In 1996, we achieved new peaks in sales and earnings. The return on assets before income taxes and interest expenses rose by 11.4 percent. Although capital outlay was significantly higher, we were not able to achieve the top values of 1988 and 1989.*

*Our operations that are less sensitive to cyclical trends made an increasing contribution to the good result. The improved return figures show that we are on the right lines with the optimization of the portfolio.*

*I would like to mention only the most important steps. In the Pharmaceuticals and Crop Protection Divisions, we took advantage of opportunities to make acquisitions in Japan and the United States. Our position in textile dyes improved following the acquisition of Zeneca's business. The magnetic media operations were sold as of the end of the year, and we are planning to relinquish our majority holding in Kali und Salz Beteiligungs AG. We are setting up new joint ventures with Shell for the production of polyethylene and with Hoechst for polypropylene.*

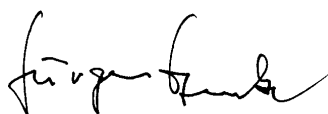
*Our company's strategy is consistently geared to earnings and returns. Integration is the mainstay of this policy. Our integrated sites demonstrate how to get the best out of chemical production. For us, this means more than just integrating individual production plants at one site into a tight network of internal supplier-customer relationships. We also set up integrated energy supply systems and exploit synergistic effects in the areas of infrastructure, logistics and distribution, which extend up to the supply of raw materials and the disposal of residues. We estimate that the worldwide cost advantages amount to at least DM 1 billion per year.*

*At Antwerp, for example, virtually no steam now has to be generated from valuable fossil fuels due to energy integration of the 50 plants in operation there. Integrated sites are, therefore, also the most efficient form of production from an ecological viewpoint.*

*We are also strengthening integration by expanding our works at Geismar and Freeport in the United States. In Asia, we have plans to create high-efficiency sites in China, Malaysia and India. I am convinced that our policy will be just as successful there as it has been at the other integrated sites.*

*I am counting on our employees here, and I take this opportunity to thank all who actively contribute to our joint success. And, of course, I also thank you, our shareholders, for the confidence you place in the future of our company.*

*Yours sincerely*



*Jürgen Strube, Chairman of the Board of Executive Directors of BASF Aktiengesellschaft*

## Management's analysis

BASF Group and  
BASF Aktiengesellschaft

*We enjoyed another successful year in 1996, taking advantage of brisk demand on world markets to increase our sales. Our production plants operated at close to full capacity.*

*In Germany, however, demand was sluggish in most industrial sectors. We increased natural gas sales significantly.*

*Prices in some operations were unsatisfactory. They declined perceptibly. More favorable exchange rates, expanding operations that are less dependent on cyclical factors and focusing on increased profitability enabled us to improve on the previous year's good results.*

*BASF's Board of Executive Directors*

*Front row, from left: Helmut Becks, Dr. J. Dieter Stein, Prof. Dr. Dietmar Werner, Eggert Voscherau*

*Back row, from left: Dr. Volker Trautz, Prof. Dr. Hans-Jürgen Quadbeck-Seeger, Max Dietrich Kley, Dr. Jürgen Strube, Dr. Hanns-Helge Stechl, Gerhard R. Wolf, Dr. Albrecht Eckell*

**Sales and earnings**

Million DM

<b>BASF Group</b>	<b>1996</b>	1995	<b>BASF Aktiengesellschaft</b>	<b>1996</b>	1995
Sales	<b>48,776</b>	46,229	Sales	<b>20,607</b>	21,061
			– Germany	<b>6,304</b>	7,026
Income from operations	<b>4,293</b>	4,023	– Exports	<b>14,303</b>	14,035
Financial results	<b>121</b>	105			
Profit before taxes	<b>4,414</b>	4,128	Profit before taxes	<b>2,215</b>	2,301
Income taxes	<b>1,575</b>	1,705	Income taxes	<b>514</b>	947
Minority interests	<b>49</b>	–48	Net income	<b>1,701</b>	1,354
Net income	<b>2,790</b>	2,471			
			Appropriation of net income		
			– Dividend	<b>1,051</b>	854
			– Transferred to revenue reserve	<b>650</b>	500

**Sales**

In the BASF Group, we achieved sales of DM 48,776 million in 1996, an improvement of DM 2,547 million over the previous year's figure. The 5.5-percent increase consisted of the following changes:

	Million DM	%
Volume growth	+2,658	+5.7
Price changes	–1,172	–2.5
Exchange rate changes	+921	+2.0
Scope of consolidation	+140	+0.3
	<b>+2,547</b>	<b>+5.5</b>

**Earnings**

BASF Group profit before taxes rose by DM 286 million to DM 4,414 million. Special charges – reduced by special income – are included in this figure in an amount of DM 517 million.

Special charges amounting to DM 435 million were required for restructuring and divestitures. The magnetic product business was sold to KOHAP Inc., Korea. Plants and facilities in the United States and Indonesia that were not included in the sale were shut down. A comprehensive program of restructuring is being implemented in coatings and paints, as well as in printing systems. Other expenses related to the integration of Zeneca's textile dye business. Unscheduled write-downs reduced earnings by DM 266 million. Because of the changes in circumstances resulting from the opening of the market in Brazil, we adjusted the book values of various plants there to the cash values of the expected future cash flow. Our holding in IVAX Corporation was also subject to value reductions because of the sharp fall in the company's share price.

Further expenditure of DM 302 million was incurred as one-off charges associated with changes to the pensions fund and as additional provisions for environmental protection and site clean-ups.

Special income totaling DM 486 million arose from the payment of insurance claims for environmental and other damage, and adjustments to various provisions and value corrections.

Net income after taxes was DM 2,790 million, which is DM 319 million or 12.9 percent more than in the previous year. The fact that net income increased more than earnings before taxes is substantially due to the carrying forward of the loss made by BASF Magnetics Holding GmbH.

**Proposed distribution of retained profit**

BASF Aktiengesellschaft's retained profit totals DM 1,051 million. We propose to the Annual Meeting the distribution of a dividend of DM 1.70 per share.

Operations	Sales			Sales incl. intersegment transfers*			Income from operations		
	Million DM	Change %		Million DM	Change %		Million DM	Change Million DM	
	1996	1995		1996	1995		1996	1995	
Health & Nutrition	9,115	7,986	+14.1	9,445	8,299	+13.8	781	194	+587
Colorants & Finishing Products	11,285	10,766	+4.8	12,071	11,565	+4.4	565	291	+274
Chemicals	7,300	7,255	+0.6	10,888	10,982	-0.9	1,733	2,054	-321
Plastics & Fibers	12,080	12,456	-3.0	12,804	13,183	-2.9	974	1,499	-525
Oil & Gas	5,208	4,207	+23.8	5,567	4,581	+21.5	744	201	+543
Other**	3,788	3,559	+6.4	4,007	3,776	+6.1	-504	-216	-288
	48,776	46,229	+5.5	54,782	52,386	+4.6	4,293	4,023	+270

\* Exchange of goods and services between operations

\*\* Sales from other activities, income from other activities, and expense, income and assets not allocatable to operations

\*\*\* Including intangible assets

## Operations

We have expanded reporting on the operations. In addition to sales and income from operations, we list:

**Assets** belonging to the operations. Under "Other" we present the operational assets of Comparex Informationssysteme and other business. We also list here financial assets, other receivables and liquidity to assist in the transition to the assets of the BASF Group.

The **Return on operational assets** is the ratio of income from operations to average operational assets.

In **Research and development expense**, the item "Other" relates mainly to expenditures on exploratory research, which cannot be allocated.

**Capital expenditures** and **Depreciation** include intangible assets.

Sales and earnings in **Health & Nutrition** increased substantially. An important contribution was made by the successful pharmaceutical business in the United States and Europe, boosted by the integration of Boots plc's pharmaceutical operations. Our fine chemicals made a solid contribution to sales and earnings. Vitamin C was an exception. The high-earning crop protection business improved significantly, thanks especially to the fungicides Opus® and Brio®. We expect another jump in sales in 1997

as a result of acquiring the Sandoz corn herbicide business. Fertilizer sales and earnings also made gratifying progress, with a slight rise in west European consumption and the capacity shutdowns of recent years leading to a balance between supply and demand. Higher raw material costs meant that earnings did not fully reflect price increases.

In **Colorants & Finishing Products**, we improved sales and earnings. Textile and leather dyes and chemicals are still exposed to tough competition, especially in Asia, and this greatly reduced earnings. From August, the operations acquired from Zeneca played a major part in increasing sales of our textile dyes. Earnings from colorants and process chemicals improved overall despite falling prices for printing ink pigments. Dispersion sales rose slightly, and these products once again proved strong earners, thanks in particular to new production plants for acrylic acid and acrylates. We slightly increased earnings in coatings and paints. Changes in the product mix, more advantageous exchange rates and lower costs of coatings raw materials improved earnings despite the restructuring expense.



Assets		Return on operational assets		Research and development expense		Capital expenditures ***		Depreciation ***	
Million DM		%		Million DM		Million DM		Million DM	
1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
<b>6,288</b>	5,736	<b>13.0</b>	4.0	<b>961</b>	816	<b>1,431</b>	1,877	<b>666</b>	580
<b>6,823</b>	6,540	<b>8.5</b>	4.5	<b>385</b>	376	<b>785</b>	657	<b>749</b>	856
<b>4,556</b>	4,646	<b>37.7</b>	42.6	<b>245</b>	229	<b>511</b>	442	<b>756</b>	895
<b>6,185</b>	5,986	<b>16.0</b>	24.5	<b>350</b>	325	<b>916</b>	437	<b>742</b>	778
<b>4,215</b>	4,135	<b>17.8</b>	4.8	<b>77</b>	95	<b>441</b>	476	<b>409</b>	378
<b>15,651</b>	14,992			<b>268</b>	247	<b>642</b>	673	<b>193</b>	159
<b>43,718</b>	42,035	<b>13.0</b>	12.9	<b>2,286</b>	2,088	<b>4,726</b>	4,562	<b>3,515</b>	3,646

Sales in **Chemicals** remained at a high level although price competition was fierce. Our capacities for important basic and industrial chemicals, which we produce at efficient, integrated sites, were well utilized. Cracker product prices began to recover in the second quarter. Higher raw material costs meant, however, that earnings only partially reflected improvements in revenues. Prices and margins of industrial chemicals declined as a whole. Earnings stabilized on a high level. Business in intermediates proved gratifyingly robust. The increase in earnings here helped to limit the overall decline in this operation. Sales of specialty chemicals remained steady; earnings again matched the previous year's level.

Sales in **Plastics & Fibers** declined and earnings dropped significantly. Markets were weak and prices initially declined sharply, especially for polyolefins, PVC and engineering plastics. However, demand picked up in the course of the year and we achieved higher prices. The engineering plastic business in Asia and South and North America did well. We are improving structures in Europe and are aiming at cost leadership with new world-scale plants that we are constructing in the NAFTA Region and the growth markets of Asia. Business in foams was depressed by softness in the European construction industry. Revenues were under heavy pressure worldwide, and earnings were unsatisfactory as a result. Polyurethanes, however, saw a gratifying improvement in sales and, especially, earnings. Sales of fiber products improved slightly and earnings achieved a satisfactory level.

Sales and earnings in **Oil & Gas** improved considerably. Rising oil prices, increased crude oil production, the increase in the value of the U.S. dollar and, especially, the expansion of our natural gas merchant business were contributory factors here. Capital expenditures on the natural gas pipeline network and the expansion of merchant sales proceeded on schedule in cooperation with our partner Gazprom. Construction started on the WEDAL pipeline through the Ruhr area, where the first section has been completed.

Regions	Location of customers		Location of companies		Sales incl. inter-segment transfers*		Income from operations	
	Million DM	Change over 1995 %	Million DM	Change over 1995 %	Million DM	Change over 1995 %	Million DM	Change over 1995 Million DM
Europe	<b>30,830</b>	+3.4	<b>35,090</b>	+3.9	<b>37,902</b>	+4.7	<b>3,208</b>	+137
thereof Germany	<b>12,971</b>	+2.8	<b>24,047</b>	+1.3	–	–	<b>2,086</b>	–141
North America (including Mexico)	<b>9,547</b>	+6.5	<b>9,356</b>	+7.9	<b>9,871</b>	+8.2	<b>981</b>	+211
South America	<b>2,691</b>	+15.0	<b>2,100</b>	+13.9	<b>2,210</b>	+16.7	<b>9</b>	–92
Asia, Pacific Area, Africa	<b>5,708</b>	+11.7	<b>2,230</b>	+13.9	<b>2,294</b>	+13.2	<b>95</b>	+14
	<b>48,776</b>	+5.5	<b>48,776</b>	+5.5	<b>52,277</b>	+6.1	<b>4,293</b>	+270

\* Exchange of goods and services between regions (export)

## Regions

The growth in BASF Group sales derived primarily from business with our customers outside Germany, where sales increased by 6.5 percent.

In **Europe**, our home market, sales made up the ground lost during the first half and exceeded the previous year's high level by 3.4 percent. Volumes were slightly higher. Exchange rates developed favorably, although selling prices declined. Europe's contribution to earnings improved.

Sales in Germany rose by 2.8 percent. Business declined initially but picked up in the second half. Sales and earnings in Oil & Gas improved considerably and plastics volumes were high, although falling prices affected earnings severely.

In France, the significant increase in sales was above all attributable to a good business with crop protection agents and pharmaceuticals. Italy and Spain also contributed more to sales, partly for exchange rate reasons. Increased sales in the United Kingdom were mainly due to the expanded pharmaceutical business and the integration of the textile dyes taken over from Zeneca. We extended our business in eastern Europe.

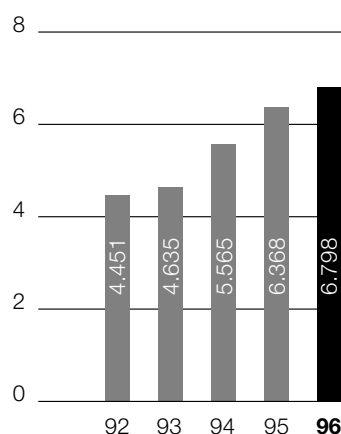
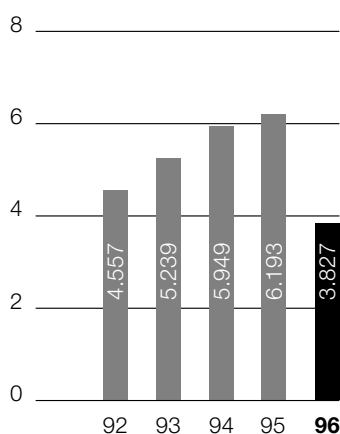
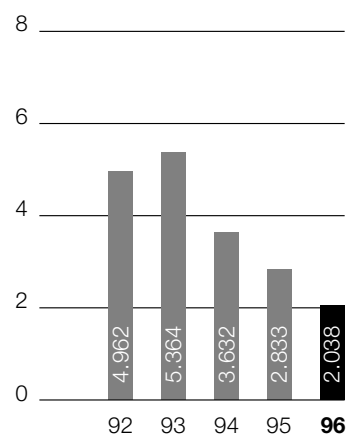
In **North America**, our companies improved both sales and earnings in the NAFTA Region. BASF Corporation's profit before taxes in U.S. dollars rose by 25 percent. BASF de México made a sound operating profit after the country's peso crisis had been overcome. Pharmaceuticals recorded above-average growth in the NAFTA Region, and sales of plastics and dispersions also improved significantly.

In **South America**, our business increased gratifyingly with the stabilization of national economies. Sales were up by 15 percent. Earnings were affected by special charges.

In the Mercosur countries and Chile, there was a significant upswing in demand. Improved sales in Brazil derived mainly from engineering plastics, building paints, pharmaceuticals and crop protection agents.

Sales in **Asia, the Pacific Area and Africa** were up by about 12 percent. Earnings improved despite advance investments for the expansion of our Asian operations. We have set ourselves ambitious targets in Asia. We aim to double our market share by 2010 and increase local production, which now accounts for 30 percent of the region's sales, to 70 percent. We are planning integrated sites with SINOPEC in China and PETRONAS in Malaysia. BASF's site at Mangalore, India, will be expanded.

In southeast Asia, our rate of increase exceeded the markets' high growth. Sales rose despite falling prices. In eastern Asia, too, the rise in sales outstripped market growth. Business in China is being consistently expanded. In Japan, we consolidated our position after successfully reversing the trend in the previous year. Our companies improved their sales by 17 percent in yen.

**Cash flow**  
Billion DM**Cash and cash items**  
Billion DM**Financial indebtedness**  
Billion DM**Finance**

We achieved a return on assets before income taxes and interest expenses of 11.4 percent, exceeding the previous year's gratifying figure despite an increased balance-sheet total. The financial requirement increased, partly as a result of acquisitions, and was financed from the cash flow of DM 6.8 billion and available liquidity.

**Source and application of funds**

The improvement in earnings resulted in an increase in cash flow of DM 430 million or 6.8 percent to DM 6,798 million. Depreciation remained at the previous year's level. Cash flow amounted to 13.9 percent of sales, slightly more than in 1995. The cash flow per DM 5 share improved slightly to DM 11.00 (previous year: DM 10.44).

Additions to fixed assets totaled DM 6,637 million, DM 1,662 million more than in the previous year. This resulted from the increased investment in tangible assets and further additions resulting from the acquisition of Sandoz's corn herbicide business and Zeneca's textile dye operations.

In financial assets, the grant of a credit by our affiliate Kali-Bank to Gazprom to help with the construction of the Yamal natural gas transit pipeline, and the acquisition of a majority shareholding in the Japanese pharmaceutical company Hokuriku Seiyaku Co., Ltd. resulted in a much higher application of funds than in the previous year. In current assets, the total funds tied up increased by DM 970 million. Inventories

rose mainly due to the acquisitions in the second half. The increment in receivables is primarily attributable to higher sales during the fourth quarter. By comparison with the same period last year, we increased sales by DM 1,545 million.

Overall, the financial requirement for fixed and current assets rose by DM 1,894 million to DM 7,607 million. 80 percent of this financial requirement and of the dividend of DM 854 million paid for the 1995 financial year was financed from cash flow. The remaining financial requirement was covered by using our liquidity, which also made it possible to further reduce the financial indebtedness, especially by the repayment of the 8% U.S. Dollar Bonds of BASF Finance Europe N.V. of 1989. Despite this reduction, net liquidity after the deduction of financial indebtedness amounts to DM 1,789 million.

**Asset and capital structure**

Fixed assets as a proportion of total assets rose to 51.9 percent (previous year: 47.0 percent), and the proportion of total assets accounted for by current assets (excluding liquidity) was slightly up at

39.3 percent (previous year: 38.3 percent).

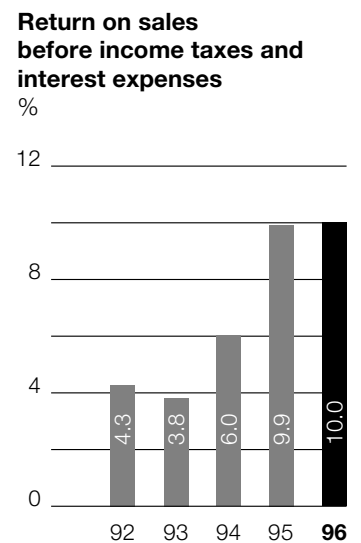
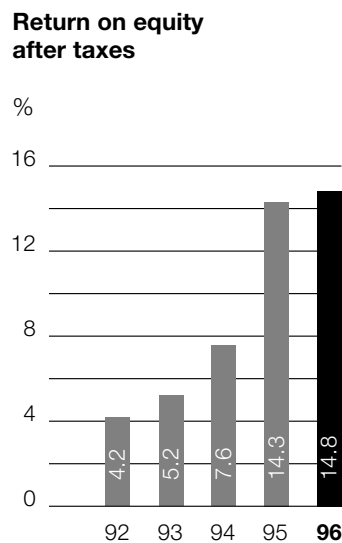
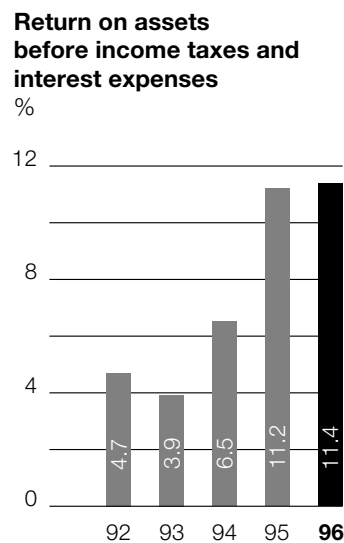
As a result of the use of available liquidity to cover the financial requirement, liquidity as a proportion of total assets fell to 8.8 percent (previous year: 14.7 percent).

Equity as a proportion of total capital rose to 46.9 percent (previous year: 42.6 percent). Equity increased as a result of the improvement in earnings and also rose by DM 255 million because of the exercising of option rights.

Financial indebtedness amounted to only 4.7 percent of total capital (previous year: 6.7 percent).

**Stable returns**

Returns were again gratifying. Although total assets grew by 4 percent, we increased the return on assets before income taxes and interest expenses to 11.4 percent. Our aim is to achieve a return of at least 10 percent as an average for an economic cycle. The return on equity after taxes improved to 14.8 percent (previous year: 14.3 percent). The return on sales before income taxes and interest expenses was 10 percent and exceeded the previous year's level.



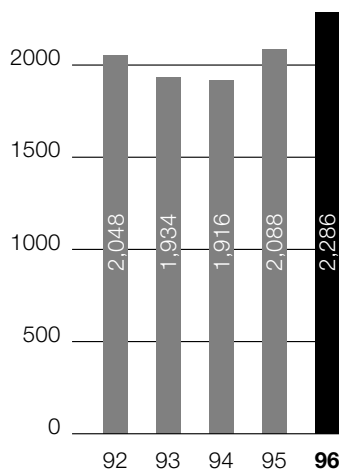
<b>Statement of source and application of funds</b>	<b>1996</b> Million DM	1995 Million DM
Net income	<b>2,790</b>	2,471
Depreciation of fixed assets	<b>3,709</b>	3,707
Retirement of tangible and intangible assets	<b>154</b>	133
Change in long-term provisions and in miscellaneous items	<b>145</b>	57
<b>Cash flow</b>	<b>6,798</b>	6,368
<b>Dividend for the preceding year</b>	<b>854</b>	610
<b>Internal financing</b>	<b>5,944</b>	5,758
Capital expenditures	<b>3,639</b>	3,024
Net additions to financial assets	<b>2,014</b>	614
Additions of intangible assets and other items	<b>984</b>	1,337
Fixed assets	<b>6,637</b>	4,975
Change in inventories	<b>371</b>	391
Change in receivables	<b>599</b>	347
Current assets	<b>970</b>	738
<b>Application of funds</b>	<b>7,607</b>	5,713
<b>Balance of internal financing</b>	<b>-1,663</b>	45
Increase in paid-in capital	<b>255</b>	-
Change in financial indebtedness	<b>-890</b>	-836
Change in other liabilities	<b>-176</b>	1,059
<b>Balance of external financing</b>	<b>-811</b>	223
Change in scope of consolidation	<b>107</b>	-23
<b>Change in cash items</b>	<b>-2,367</b>	245

<b>Structure of assets and liabilities in 1996</b>	<b>Million DM</b>	<b>%</b>
<b>Assets</b>		
Intangible assets	<b>2,536</b>	<b>5.8</b>
Tangible assets	<b>16,071</b>	<b>36.8</b>
Financial assets	<b>4,094</b>	<b>9.3</b>
<b>Fixed assets</b>	<b>22,701</b>	<b>51.9</b>
Inventories	<b>7,169</b>	<b>16.4</b>
Receivables	<b>10,021</b>	<b>22.9</b>
Cash and cash items	<b>3,827</b>	<b>8.8</b>
<b>Current assets*</b>	<b>21,017</b>	<b>48.1</b>
<b>Assets</b>	<b>43,718</b>	<b>100.0</b>
<b>Equity and liabilities</b>		
Paid-in capital	<b>8,008</b>	<b>18.3</b>
Revenue reserves	<b>12,248</b>	<b>28.0</b>
Translation adjustment	<b>-253</b>	<b>-0.5</b>
Minority interests	<b>486</b>	<b>1.1</b>
<b>Equity</b>	<b>20,489</b>	<b>46.9</b>
Long-term provisions and special reserves	<b>9,881</b>	<b>22.6</b>
Long-term liabilities	<b>2,290</b>	<b>5.2</b>
Short-term provisions and liabilities	<b>11,058</b>	<b>25.3</b>
<b>Liabilities*</b>	<b>23,229</b>	<b>53.1</b>
<b>Equity and liabilities</b>	<b>43,718</b>	<b>100.0</b>

\* Including prepaid expenses, deferred income and special reserves

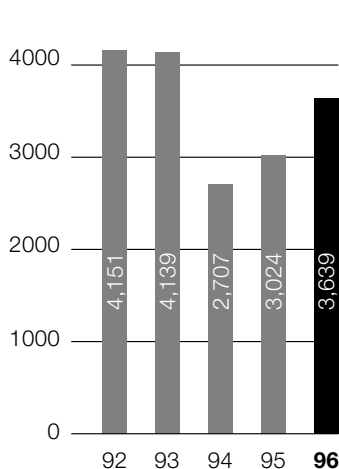
**Research and development expense**

Million DM

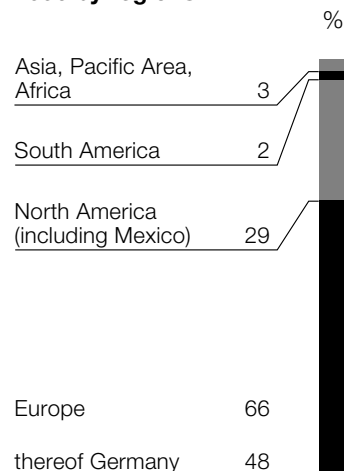


**Capital expenditures**

Million DM



**Capital expenditures in 1996 by regions**



**Shaping our own future**

*We are shaping our future with innovative products and processes from our research operations, long-term capital expenditures and structural improvement programs. Our aim is to respond actively to the ever-changing market requirements and convert them into business success.*

**Research and development**

We spent DM 2,286 million on R&D. We also invested DM 247 million in new laboratories, pilot plants and equipment.

10,091 people worked in laboratories in the BASF Group, 2,393 of them with university degrees. The inventiveness of our employees resulted in 1,107 basic patent applications worldwide in 1996. Our portfolio of patents and patent applications rose to about 75,000.

**Capital expenditures**

Capital expenditures on tangible fixed assets were DM 3,639 million, 20.3 percent more than in the previous year. This includes DM 297 million for herbicide facilities that we acquired. DM 1,750 million was spent on plant and equipment in Germany, of which BASF Aktiengesellschaft accounted for DM 924 million. We plan to increase capital expenditures further in 1997 to DM 3,800 million. The following facilities were completed and brought on stream:

At the Ludwigshafen site, additional capacity for the production of isophorone diamine, alkylaminopropylamines, optically active intermediates and specific vinyl monomers, the coproduction of methanol in one of the ammonia plants and the regeneration of triphenylphosphine from triphenylphosphine oxide; at Schwarzhede, plants for the compounding of styrene copolymers and, in our joint venture with General Electric, for the production of polybutylene terephthalate (PBT); at Antwerp, Belgium, plants for the production of ethanolamines and nitrobenzene and the expansion of the steamcracker and styrene capacity; at Enka, North Carolina, a plant for the production of Basofil® fibers; at Altamira, Mexico, a plant for the production of styrene/butadiene dispersions; in China, plants at Shanghai BASF Colorants and Auxiliaries Company Ltd. for the production of textile dyes, auxiliaries and pigments. We have made a start on additional projects: At Ludwigshafen, we are expanding the steamcracker capacity and plants for the production of butanediol,

neopentyl glycol and carbon oxychloride derivatives; at Wesseling, we are increasing the polyethylene, polypropylene and cracker capacities at Rheinische Olefinwerke; at Antwerp, Belgium, a plant for the production of formaldehyde is under construction; in the United States, we are building a new synthesis gas plant at Freeport, Texas, and expanding capacity there for oxo-C<sub>4</sub> products, acrylates, Ultramid® and caprolactam. Capacity is being expanded for specialty amides, butyrolactone and N-methylpyrrolidone at Geismar, Louisiana, and high-impact polystyrene capacity at Joliet, Illinois. Polyacetal capacity at Ultraform Company in Mobile, Alabama, is being doubled; at Altamira, Mexico, we are building plants to produce styrene copolymers and polystyrene; at Ulsan, BASF Korea is building a polyTHF plant and Hyosung-BASF is erecting a plant for ABS plastics; in China, we are building a neopentylglycol plant together with Jilin Chemical Industrial Corporation at Jilin and a nylon carpet fiber plant with China Worldbest Group Corp. in Shanghai.

### **Acquisitions and cooperations**

We have taken over various companies and lines of business, acquired participating interests and established joint ventures as follows:

Acquisition of a majority shareholding in the pharmaceutical company Hokuriku Seiyaku Co., Ltd., Japan; purchase of the generics companies of GNR-pharma S.A., France, and Sudco B.V., Netherlands; acquisition of a 49-percent interest in M. Dohmen GmbH, Willich, which markets dyes for automobile textiles; takeover of the worldwide textile dye operations from Zeneca Ltd., London, as of August 1, 1996; founding of a joint venture, headquartered in Heidelberg, with the U.S. biotech company Lynx Therapeutics for biotechnological and genetic engineering research; takeover of the U.K. company Frank Wright, which operates in the feed premix sector; acquisition of a substantial part of the Sandoz business in corn herbicides.

Further cooperations are planned:

We intend to contribute our polyethylene operations to a joint venture with Shell, which is additionally to acquire the European polyethylene business of Montell Polyolefins B.V.; Rheinische Olefinwerke GmbH of Wesseling, in which BASF and Shell each hold 50 percent, will also belong to the new company.

In cooperation with Shell, it is planned to set up the joint venture BASELL, which will build a new plant at Moerdijk, Netherlands, for the production of propylene oxide and styrene.

Another joint venture is being planned with Hoechst to take over both partners' polypropylene operations.

### **Structural measures**

To optimize our product portfolio and improve structures, we realigned some operations and gave up or sold some businesses and interests: Foundation of BASF Health and Nutrition A/S headquartered in Denmark; foundation of BASF (China) Company Ltd. as a holding company, headquartered in Beijing, to steer our operations in China;

divestiture of a 40-percent holding in Comparex Informationssysteme GmbH to Per-setel Holdings Ltd., Johannesburg, South Africa; acquisition of all the shares in Knoll-Norton GmbH from IVAX and realignment of our cooperation under licensing agreements;

sale of the worldwide magnetic product business to KOHAP Inc., Korea, and shut-down of production in Indonesia;

contribution of our European business in unsaturated polyester resins to a joint venture in which the Dutch company DSM holds 60 percent of the shares, and sale of our 50-percent interest in the Chinese joint venture with Jinling Petrochemical Company to DSM;

sale of the oilfield chemical business to Baker Performance Chemicals Inc., with production remaining at BASF; conclusion of an agreement with Potash Corporation of Saskatchewan Inc. on the sale of 51 percent of our shares in Kali und Salz Beteiligungs AG. After the German Cartel Office has decided not to allow the acquisition, we intend to apply to the German Minister for Economic Affairs for permission for the merger.

*Colorful ceremony: A plant of Shanghai BASF Colorants and Auxiliaries Company Ltd. (SBCA) for the production of leather and textile auxiliaries opened with a celebration. SBCA, in which BASF has a 75-percent holding, was founded in 1994. It has been producing cationic textile dyes since 1995 and organic pigments since June 1996 in the Pudong industrial area of Shanghai. BASF is now involved in 8 joint ventures in China.*

*Giant pipes and complex equipment in the basement of BASF's Bioresearch Center in Worcester, Massachusetts, are used for recovering energy. BASF utilizes waste heat successfully worldwide, which greatly reduces site energy requirements. This cuts costs and benefits the environment at the same time.*

### **Environment, safety and energy**

Our business operations are geared to Sustainable Development, which was agreed on as a common objective by the states attending the UN Conference in Rio de Janeiro in 1992. We also participate in the chemical industry's worldwide voluntary Responsible Care initiative. We regard it as a permanent duty to improve our performance in safety, health and environmental protection, a principle that applies to the entire BASF Group and all its production operations, services and products.

#### **New environmental protection facilities**

New wastewater treatment plants began operation at Mangalore, India, and Concon, Chile. The treatment plant at Knoll's Minden site was expanded. A treatment plant is under construction at the Monaca site in the United States. Total capital expenditures amounted to DM 23 million.

### **Highly efficient energy generation**

We are continuing the implementation of gas/steam turbine technology. A plant using it began operation at Rheinische Olefinwerke, Wesseling. A similar plant will go on stream in Ludwigshafen at the end of 1997. The existing gas turbine power plant at the Tarragona site in Spain is being expanded. The British electricity company National Power is building a new gas turbine power plant at our Seal Sands site. These capital expenditures will further reduce CO<sub>2</sub> emissions.

### **Safety management**

Our employees bear a high responsibility at their workplaces. This is why we ensure that they are well trained, carefully familiarized with their job and receive ongoing education, which includes safety and environmental protection. Safety management in the BASF Group was the subject of 47 safety and environmental protection audits at 35 sites.

### **Eco-audit**

Since January 1997, the Schwarzheide site has been certified according to eco-audit standards. The experience gained will be evaluated for audits at other BASF sites.

### **More flexible approval procedures**

Approval procedures have been shortened as a result of intensive discussions with local authorities, especially at the German sites of Ludwigshafen and Schwarzheide. The amendment to the German Air Pollution Control Act will further speed up implementation of our projects.

### **Ludwigshafen site: Work accidents**

The number of accidents increased slightly but remained low. With 4.6 reportable accidents per million working hours, or 6.7 per thousand employees, the accident rate is a quarter of the average for the German chemical industry.

### **Emissions**

Despite high plant utilization rates, emissions at the Ludwigshafen site were reduced again. The volume of wastewater entering our treatment plant and the ammonium and dirt content dropped by about 5 percent.

### **Environment Report**

Our Environment Report contains more detailed information.

## Employees by regions

As per December 31	1996	1995	Change
Europe	<b>77,646</b>	80,929	-3,283
thereof Germany	<b>61,067</b>	63,715	-2,648
North America (including Mexico)	<b>14,714</b>	15,282	-568
South America	<b>6,362</b>	6,869	-507
Asia, Pacific Area, Africa	<b>4,684</b>	3,485	+1,199
	<b>103,406</b>	106,565	-3,159

## Personnel expense

Million DM	1996	1995	Change %
Wages and salaries	<b>8,718.4</b>	8,404.3	+3.7
Social contributions and expenses for pension benefits and assistance	<b>2,306.5</b>	2,414.1	-4.5
- thereof for pension benefits	<b>764.5</b>	961.3	-20.5
	<b>11,024.9</b>	10,818.4	+1.9

## Employees

The number of employees in the BASF Group fell to 103,406, a drop of 3,159 since the end of 1995.

There was an increment of 2,152 people as a result of changes in the scope of consolidation and the acquisition of the textile dye business from Zeneca. Set against this was a reduction of 5,311 people in the BASF Group as a whole, of whom 3,069 were taken on by other companies as a result of the sale of BASF Magnetics and the printing ink business in North America.

The number of people employed in Germany was 61,067 or 59 percent of total employees, 2,648 fewer than in the previous year. In European countries other than Germany, the number of employees fell by 635 to 16,579. The workforce outside Europe increased, mainly in Asia, by 124 to 25,760.

## Personnel costs

Personnel costs, including BASF Magnetics, rose by DM 207 million to DM 11,025 million mainly because of the change in the scope of consolidation and the Zeneca acquisition. Wages and salaries accounted for DM 8,718 million of this, and social contributions, pension benefits and assistance for DM 2,307 million. Personnel expenditure increased by 3.1 (previous year: 4.5) percent with reference to the average number of employees.

## Training

At year-end, 3,079 young people were undergoing vocational training in our Group companies in Germany. They accounted for 5 percent of the total workforce, slightly more than the previous year. Spending on vocational training fell slightly by DM 2 million to DM 138 million. During the year under report, we again took on most of those who had completed training.

## Career advancement and training

We continue to consider career advancement and training to be very important. In Germany alone, 54,369 employees or 86 percent of the workforce took part in training, on which we spent DM 73 million.

## End-of-year payments and asset formation

The end-of-year payments in the German Group companies increased by DM 25 million compared with 1995. As compensation for not being covered by the statutory savings enhancement plan, exempt employees acquired BASF shares to a nominal value of DM 1.2 million.

## BASF Aktiengesellschaft

Compared with 1995, the workforce was 44,402, down by a total of 223 employees. We recruited 1,331 employees from outside the company. Apart from this, 295 returned from military or community service or child-care leave to resume work. Limited-term employment contracts were concluded with 70 long-term unemployed.

At the end of 1996, 7,493 employees of outside contractors were working at the Ludwigshafen site, 161 more than in the previous year. Between 1991 and 1995, despite the reduction in the number of jobs, 7,600 people were taken on at BASF Aktiengesellschaft, including 4,000 who had completed their training and 1,000 university graduates. The number of people hired in 1996 was 3,100.

As in previous years, we again offered jobs at the Ludwigshafen site to all 604 people who had completed their training. The number of new trainees rose again from 722 to 768. This means that we are training considerably more young people than we need for our own workforce. At the end of 1996, 2,378 young people were undergoing training, representing 5.4 percent of the total workforce.

Absences due to illness at BASF Aktiengesellschaft were down in 1996 from 4.9 to 4.6 percent. The overtime rate fell by 0.1 percent, compared with the previous year, to 0.4 percent.



## Outlook

*We are confident about 1997.*

*The world economy will continue to make good progress. Demand in Germany has picked up. Our strategically improved position will help us to take advantage of the opportunities that arise.*

*We are planning further growth with a portfolio strengthened by divestitures and acquisitions. We expect to increase sales to over DM 49 billion and we want to improve earnings further.*

*We will raise capital expenditures probably to DM 3.8 billion.*

*R&D expenditure will again be at a high level, with a planned sum of DM 2.1 billion.*

*Our home market is Europe. This is why the future single European currency is very important to us. The elimination of exchange rate fluctuations and transaction costs within Europe will bring advantages and make planning more reliable.*

*We are preparing for closer integration in Europe.*

*Our regional organization is being geared to it, as are our sites and capital expenditures.*

*From a position of strength in Europe, we want to shape our growth in the world's markets.*

*Under the microscope, the surface of paper looks like a mountain range.*

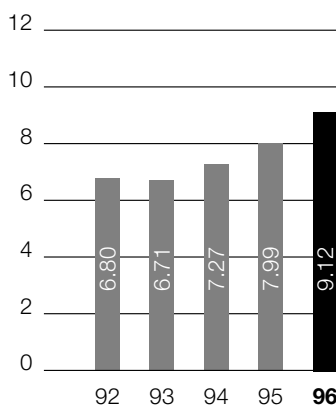
*Yupi Seteaningsih, a laboratory assistant at BASF Indonesia, tests the effect of paper auxiliaries.*

*They render paper absorbent to ink – a must for brilliant prints.*

**Health & Nutrition**

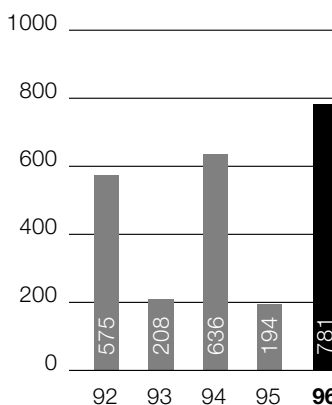
**Sales**

Billion DM



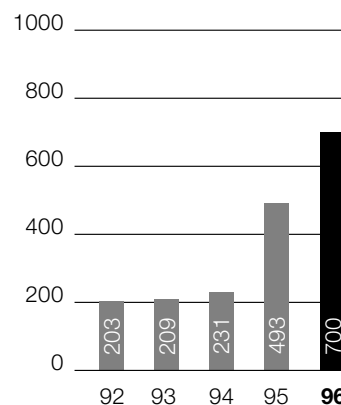
**Income**

Million DM



**Capital expenditures**

Million DM



*Health & Nutrition*

*We are strengthening Health & Nutrition as one of the cyclically more stable operations. Sales were DM 9.1 billion. Most of the 14.1-percent increase in sales derived from our expanded pharmaceutical operations and from new crop protection products. Earnings rose to DM 781 million.*

This operation comprises pharmaceuticals, fine chemicals with the emphasis on vitamins, as well as crop protection agents and fertilizers. Our range is made up of drugs for treating disorders of the cardiovascular system, CNS and gastrointestinal tract, analgesics and drugs for wound healing; pharmaceutical chemicals; vitamins and other fine chemicals for the pharmaceutical, food and cosmetics industries, as well as for animal nutrition; crop protection agents, especially herbicides and fungicides; and a wide range of straight and compound nitrogen fertilizers.

**Pharmaceuticals again successful**

Sales and earnings in our pharmaceutical business rose considerably, with Synthroid<sup>®</sup>, our thyroid drug, making particularly good progress. Sales of Isoptin<sup>®</sup> for the treatment of hypertension remained steady, while those of Rytmonorm<sup>®</sup> for arrhythmia increased again. Products under development are promising. We have high hopes for sibutramine, a new product for treating obesity and diseases associated with it. We have received an approvable letter from the

U.S. Food and Drug Administration and expect marketing authorization in the United States in 1997, and in Europe a year later.

Tarka<sup>®</sup>, a cardiovascular combination product, was granted marketing authorization in the United States, Germany and other European countries. Registration proceedings are currently under way for the neuroleptic zotepine in Europe and the analgesic Vicoprofen<sup>®</sup> in the United States. Other development projects include products for treating septicemia and apoplexy. The pharmaceutical operations acquired from Boots plc were integrated according to plan.

In Japan, we acquired a majority shareholding in Hokuriku Seiyaku Co., Ltd. We therefore now have our own infrastructure to develop and market our products in the world's second largest pharmaceutical market. The company operates in the fields of antibiotics and drugs for the peripheral and central nervous systems and respiratory diseases. Some promising development projects are in the pipeline.

With the purchase of the French GNR-pharma S.A. and Dutch Sudco B.V., we contin-

ued the development of the generic business in Europe. The joint venture with IVAX was replaced by a new arrangement. We now have access to the attractive IVAX products under exclusive and nonexclusive licensing agreements.

**Fine chemicals on expansion course**

The steady demand for fine chemicals ensured good capacity utilization rates. Sales and earnings remained high.

Volumes of fat-soluble vitamins and carotenoids made satisfactory progress. Our business in water-soluble vitamins suffered from the keen price competition in vitamin C. As part of our strategy to sell more vitamins via feed premixes, we took over the British company Frank Wright and are building additional premix plants in the United States and Brazil. New products stimulated the feed enzyme business.

*William Boulton of Knoll Pharmaceuticals producing the basic substance for Meridia™. This new development is for treating obesity and associated diseases. Marketing authorization in the United States is expected in 1997 and in Europe a year later.*

There was strong demand for our specialties for the cosmetics industry. UV absorbers for skin protection improved their market position. Our patented top product Uvinul® T 150 was granted marketing authorization in Japan. The cation-active hair-care polymer Luviquat® Hold, which is superior to the market standard, is already attracting great interest in its launch phase.

We are implementing extensive capital expenditures at the Ludwigshafen site to further expand our market position in carotenoids, vitamins and fragrances.

#### **Growth in crop protection**

We expanded our position in the crop protection business and increased sales and earnings again.

The herbicides Butisan Star® for oilseed rape and Rebell® for sugarbeets gained market share in western Europe. The cereal fungicide Opus®, now in its third year on the market, again lived up to our high expectations. This gives us the leadership in Europe's most important markets.

Our new active ingredient kresoxim-methyl, produced in a new plant in Brazil, is the first

fungicide from the strobilurin class to be launched for use in various crops. Combined with other active ingredients and marketed as Brio® in Germany and Allegro® in Belgium, it made a very successful start.

We purchased most of Sandoz's corn herbicide business, thus increasing the number of crops covered by our product range. This acquisition, which also includes a development product, improves our position especially in North America.

#### **Fertilizers successful**

The upturn in fertilizers continued and we raised sales and earnings again. We are developing innovative advisory systems that are being well received by our customers.

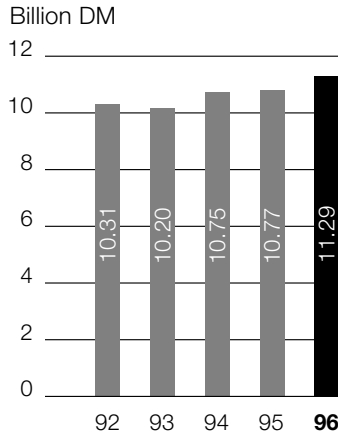
A slight increase in west European consumption and the capacity shutdowns of recent years have restored the balance between supply and demand. Increased raw material costs meant that earnings only partially reflect price rises.

We further improved our range of multinutrient fertilizers. We maintained our leading position in the keenly

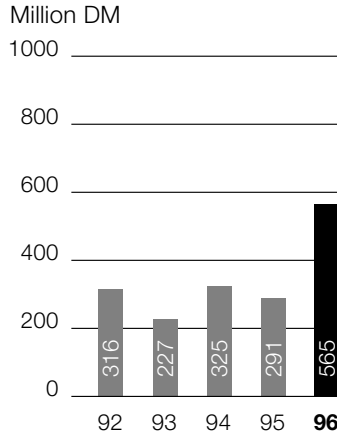
contested market for sulfur fertilizers in Germany and the rest of western Europe. Business in specialty products for the home and garden was expanded in European markets. Sales of both market gardening and home gardening products increased. Higher prices and more favorable exchange rates contributed to the gratifying growth in earnings.

**Colorants & Finishing Products**

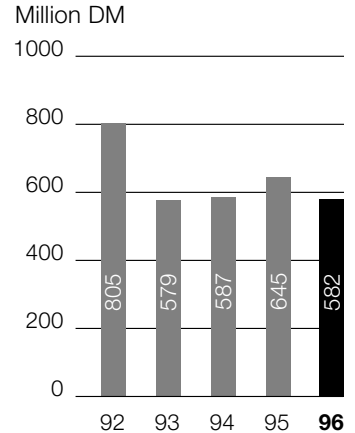
**Sales**



**Income**



**Capital expenditures**



*Colorants & Finishing Products*

*Sales in Colorants & Finishing Products rose by 4.8 percent to DM 11.3 billion. Earnings increased to DM 565 million.*

Our numerous dyes, pigments, finishing products, process chemicals, dispersions, coatings and printing systems are used for a wide variety of purposes by our customers in the automotive, construction, chemical, printing, adhesives, coatings, leather, paper and textile industries.

**Structural change in textile and leather dyes and chemicals**

Although we raised sales of our products for the textile and leather industries, earnings remained unsatisfactory. Structural changes continue: Customers are relocating their production facilities, and new capacity is being created at sites where costs are lower. Ongoing cost pressure on textile and leather producers also impacts dye prices. We acquired and integrated Zeneca's textile dye business. It complements our existing range, especially with reactive dyes, increases the volume of business and improves cost structures in production and marketing. In line with our increasing concentration on Asian markets, we have managed our worldwide business from Singapore since October 1996.

The joint venture Shanghai BASF Colorants and Auxiliaries Co. Ltd. began production of textile and leather auxiliaries in September.

**Colorants & process chemicals steady**

Despite increasing competition, we held our ground in the colorants and process chemicals business. Falling prices reduced earnings, however, especially in printing ink pigments. Volumes of our innovative Paliocrom® special-effect pigments for automotive finishes increased significantly worldwide. There was continuing brisk demand for our heat-stable, weatherfast pigments for coloring bottle crates, gas pipes and fibers. Interest in our Uvinul® light stabilizers for plastics, and lead-free PVC stabilizers grew. We adapted to the increasing volumes of color products by expanding regional production sites. The pigment production facility at our joint venture in Shanghai went on stream successfully. We defended our strong position in products for the paper industry and in specialty inks in Europe and further improved it overseas, especially

in the United States. Thanks to new process chemicals, a greater proportion of waste-paper can be used in paper-making without any quality loss.

Our European market position in printing inks and plates was consolidated, and earnings from printing inks improved. Business with these products was transferred to an independent company, Drucksysteme GmbH, in January 1997. Our new sheet-fed offset inks with vegetable-based binders and flexographic printing plates for exposure without a film made good progress.

**Growth for dispersions**

We further increased sales of polymer dispersions and monomers. In monomers, new acrylic acid and acrylate plants at Antwerp, Belgium, made a special contribution. The new acrylic acid plant at Freeport, Texas, will go on stream in mid-1997. In Asia, plants are planned in Malaysia and China. The polymer business advanced gratifyingly, especially in the second half. The initial losses caused by adverse weather conditions were more than recovered in

*In awe of fast sports cars: BASF refinish paints not only conjure up logos and special finishes, but must also withstand a variety of adverse effects under extreme conditions.*

*The cars are not painted on the production line but in specialized workshops where extensive expertise is required.*

*BASF Corporation has built a technical service center for refinish paints in Whitehouse, Ohio. Here, employees from carmakers, bodyshops and dealers receive all the information they need on paints and color matching.*

the course of the year, especially in dispersions for coatings. We increased our share of the market for paper-finishing products. Business in adhesives raw materials remained at a high level. Dispersions for floor coverings recorded strong growth in North America and especially in Australia, where we took over this line from Huntsman. Capacity for polymer dispersions was expanded in Australia and China. New plants were brought on stream at the Mangalore site in India and at Altamira, Mexico.

### **Coatings and paints on the up**

We increased sales considerably in the growing market for coatings and paints. New products, more favorable exchange rates and lower prices for coatings raw materials resulted in improved but still not satisfactory earnings despite special charges. Our business in automotive coatings was expanded with wet- and powder-finish systems that go particularly easy on the environment. Cooperation with leading car manufacturers further improved the efficiency of coating processes. Production of waterborne coatings began in Mexico. In Canada, the capacity for new automotive finishes was expanded. We are bolstering our market position in Asia through cooperations.

We made good progress in the marketing of low-emission automotive refinishes.

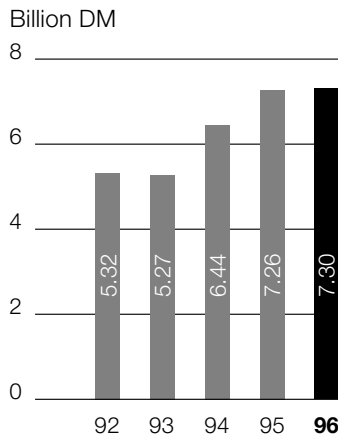
Demand was high for waterborne coatings and high-solids systems of the Glasurit® and R-M® brands. We gained market share in eastern and southern Europe and Brazil.

Industrial coatings did very well and improved their market position. Our concept of supplying complete systems was a contributory factor here.

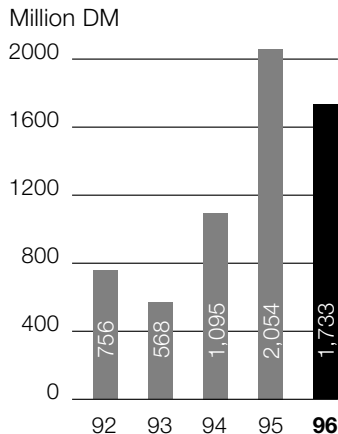
In the dwindling market for building paints, we held our ground in Europe with the Glasurit® and Herbol® brands. Business with the Suviniil® brand improved significantly in Brazil and Argentina.

**Chemicals**

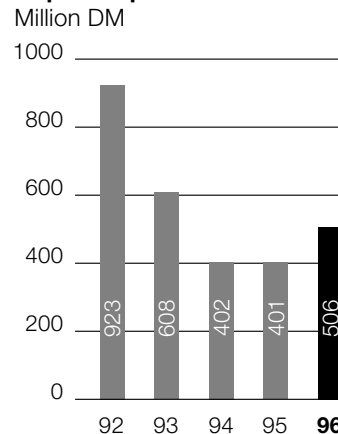
**Sales**



**Income**



**Capital expenditures**



*Chemicals*

*Sales in Chemicals rose slightly by 0.6 percent to DM 7.3 billion. Earnings were DM 1,733 million.*

At our big integrated sites, we produce important basic chemicals primarily for captive use: ethylene, propylene, acetylene, synthesis gas, ammonia, methanol, sulfuric acid, chlorine and sodium hydroxide solution. From these, in numerous upgrading steps, we produce industrial chemicals and intermediates for chemical syntheses. Our specialty chemicals are used, for example, in detergents and cleaning agents, in oil production and for antifreezes and fuel additives in the automotive industry.

**Volumes of basic chemicals steady**

Strong and steady volumes characterized the basic chemicals business. After months of price erosion, especially for cracker products, the trend was reversed from the second quarter onward. However, increased raw material prices meant that improved revenues were not fully reflected in earnings. In inorganic chemicals, the upward trend for specialties and products for the electronics industry continued.

Sales of catalysts, already strong, increased further. The business in catalysts for gas generation was sold to ICI at the beginning of 1997. The conversion of one of our ammonia plants to coproduce methanol was completed at year-end. This new concept will enable us to optimize costs by deciding whether to produce or purchase.

**Industrial chemicals well positioned**

The worldwide availability of industrial chemicals was greater than in the previous year, resulting in falling prices and margins. Earnings were stable at a high level. Our high-tech chemicals, such as plasticizers, solvents and laminating and impregnating resins, are produced by our own processes in large-scale plants that are part of highly efficient integrated structures. Capacity utilization rates at Ludwigshafen, Tarragona, Spain, and Freeport, Texas, remained high.

In Asia, we considerably improved our market position in solvents and plasticizers and are planning to build production plants with partners. Volumes also increased in North and South America. From early 1998, additional volumes of oxo products will be available from the expanded plant at Freeport, Texas.

Despite weaker demand from the construction and furniture industries, we consolidated our strong position in laminating and impregnating resins in Europe, our key market. Productivity will be further increased and competitiveness improved. Integration at Antwerp is being extended with a new plant for the production of formaldehyde.

**Intermediates on growth course**

Demand for our intermediates remained strong and we raised sales and earnings again. We compensated for falling consumption of amines in Europe by selectively expanding our business outside of

*From road to rail: BASF's Logistics Division is making intensive use of the possibilities of shipping goods by rail. This form of transportation is reliable and ecofriendly and thus tailor-made to customers' requirements. By easing congestion on the roads, BASF helps to keep traffic moving.*

Europe. Additional capacities for ethanolamines and alkylaminopropylamines will give us an above-average share of market growth. Following the expansion of isophorone diamine production, we can play an even more active part in epoxy resins.

Formic acid and adipic acid were the mainstays of growth in our carboxylic acids. A second formic acid plant at Ludwigshafen improved our market position. We are planning to build further monocarboxylic acid production plants in Asia.

Carbon oxychloride derivatives progressed favorably. Therefore, capacity was again increased.

Despite falling prices, diols generally did well. Strong demand for butanediol and its derivatives helped us here.

We want to boost our presence in Asia and develop the butanediol/tetrahydrofuran/polytetrahydrofuran product line in Korea. We expect neopentyl glycol to gain additional impetus from its use in low-emission powder-coating systems and are preparing for increased demand with capital expenditures at Ludwigshafen and in China.

The new business in optically active intermediates made gratifying progress. These innovative building blocks are increasingly being used in the synthesis of pharmaceuticals and crop protection agents.

#### **Specialty chemicals on a good level**

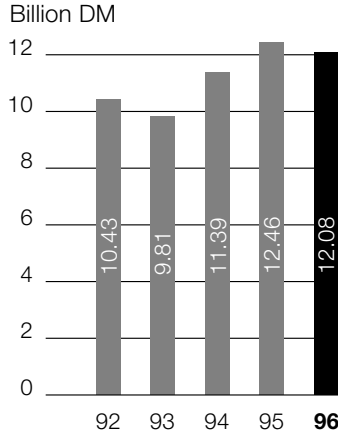
Customer interest in our specialty chemicals remained strong. Overall, we matched the previous year's good earnings. Worldwide demand for ethylene glycol suffered, however, from extensive stockpiling by manufacturers of polyester fibers and antifreezes; volumes and revenues fell across the board. Innovative developments strengthened our position in specialty polymers for detergents and cleaning agents. A new product in the Sokalan® line for preventing the formation of deposits in seawater desalination plants was successfully launched.

Our business in oilfield chemicals was sold to Baker Performance Chemicals Inc. Our plants will continue to produce for Baker.

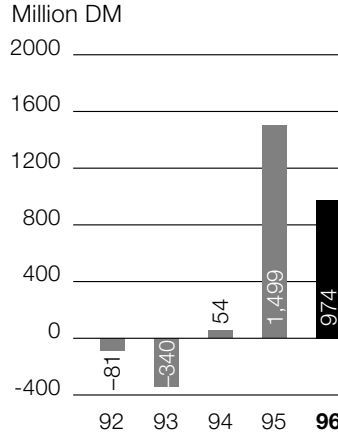
Keropur® fuel additives with a superior cost/performance ratio improved their market position in Europe and North America. They were launched in Japan, the most important Asian market.

**Plastics & Fibers**

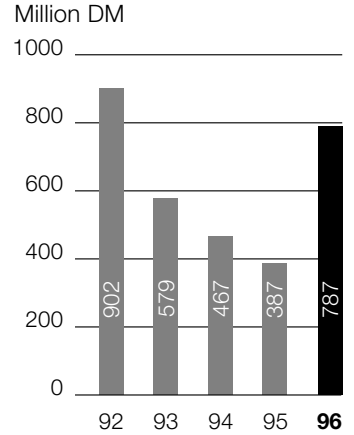
**Sales**



**Income**



**Capital expenditures**



*Plastics & Fibers*

*Plastics & Fibers sales fell by 3.0 percent to DM 12.1 billion. Earnings reached DM 974 million.*

Focal points of our plastics range are polyolefins, engineering plastics, styrene-based foams, and polyurethanes. We also produce fiber intermediates and synthetic fibers.

**New prospects for polyolefins**

The market for polyolefins and PVC was influenced by keen competition. Earnings were significantly lower than in the previous year and were unsatisfactory.

We aim to put our business on a new basis and are preparing cooperations.

In 1997, we intend to contribute our polyethylene operations to a joint venture with Shell that will also acquire Montell's European business. This planned cooperation will be based on the long-standing partnership with Shell at Rheinische Olefinwerke (ROW), and take advantage of the fact that the sites and product ranges complement each other well.

We are planning a joint venture with Hoechst that will combine the partners' polypropylene businesses. The new dimension, the pooling of sophisticated know-how and a strong position in polypropylene compounds will give

the joint venture a good position in the market.

We are improving the efficiency of existing plants and investing in new ones in order to improve cost-effectiveness. We have started building a plant for polypropylene copolymers at ROW.

**Global expansion in engineering plastics**

Demand for engineering plastics picked up during the second half. Business in Asia and South and North America progressed well. Despite increased volumes, sales and earnings declined significantly.

We are improving our structures in Europe and are striving for cost leadership with new world-scale plants which we are building in the NAFTA Region and the growth markets of Asia. Our objective is a regionally balanced high-earning portfolio in our core operations.

In addition to the new commodity polystyrene plant in Mexico, we are building a plant for high-impact polystyrene in the United States. In Mexico, we are building a styrene copolymer plant that uses the advantages of our new process. At Ultraform Company, our joint venture

with Degussa, we are doubling polyacetal capacity. In China, the plants of Yangzi-BASF Styrenics Co. (YBS) for the production of ethylbenzene, styrene and polystyrene will go on stream in 1997. A large-scale plant for ABS plastics is under construction at Ulsan, our joint site with Hyosung in Korea.

PBT from our joint venture with GE Plastics at Schwarzhede has been available since early 1997, giving us a much stronger position in this growth segment for engineering plastics.

**Foams sluggish**

The softness of the European construction industry impaired our foam business. Revenues were under heavy pressure worldwide and earnings were unsatisfactory. We are facing up to the challenges of the market with structural adjustments and process improvements. In North and South America and especially in Asia, demand for Styropor® was dynamic. Work began on the construction of a plant at YBS in China. It will join the production facilities in Japan, Korea, India and Malaysia as our fifth Styropor® unit in Asia. This will further reduce



*The internal paneling of refrigerators in China is made of BASF polystyrene. A joint venture between the German refrigerator manufacturer Haier and a Chinese company in Qingdao produces the thermoformed parts. The plastic for this will in future be supplied by a joint venture between BASF and Yangzi Petrochemicals Co., Yangzi-BASF Styrenics.*

economic dependence on Europe.

We vigorously pushed ahead with the conversion to carbon dioxide as the blowing agent in the production of Styrodur<sup>®</sup>, our green insulating boards, which we produce at 4 sites in Europe. This Styrodur<sup>®</sup> C already accounts for half of our volumes in Germany. Gratifying progress was made by Elastopreg<sup>®</sup>, glass-mat-reinforced large-area pre-pregs for the automotive industry.

#### **Polyurethanes successful**

Our strategy for polyurethanes is being successfully implemented. Sales increased in line with market growth and earnings improved significantly. However, revenues came under pressure in the second half.

Business in PUR systems and PUR specialty elastomers made good progress. In Brazil, it exceeded our expectations after we had acquired a system house.

We are planning to increase volumes and are debottlenecking MDI production at our sites in the United States, Korea and Belgium.

We are planning to join Shell in building a plant for the pro-

duction of propylene oxide and styrene at Moerdijk, Netherlands. The proposed joint venture BASELL will facilitate backward integration in polyether polyols in Europe. We are planning to build a system house in Malaysia for the Asian market.

#### **Fiber products steady**

We increased sales of our fiber products. Earnings dropped but were still satisfactory. We further improved our product and customer portfolios and production cost structures.

Volumes of carpet fibers were gratifying. Our plants operated at full capacity. Market share was consolidated. To expand our business in China, we set up a joint venture together with China Worldbest Group Corp. and began the construction of a nylon carpet fiber plant.

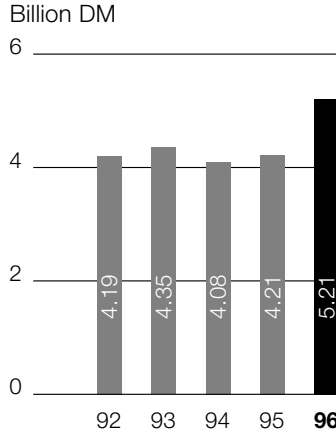
Textile fibers held their ground and made a steady contribution to earnings. Production of Basofil<sup>®</sup>, the high-temperature-resistant fiber, got off to a successful start.

Demand for fiber intermediates led to high capacity utilization rates. Price pressure in the Asian market reduced earnings in the nylon-6 business during the second half.

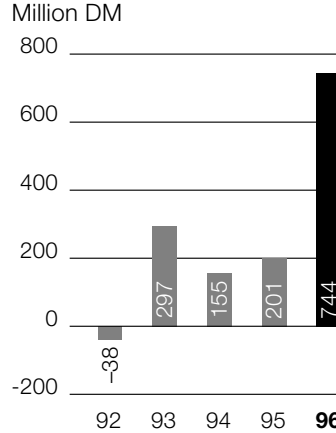
The new nylon-6 plant at Antwerp began production in the spring of 1997, and nylon-6 production at Freeport is currently being extended to meet captive demand for engineering plastics. For the expansion of our fiber business in Asia, we are planning a joint venture with DuPont to produce fiber intermediates by a new process.

**Oil & Gas**

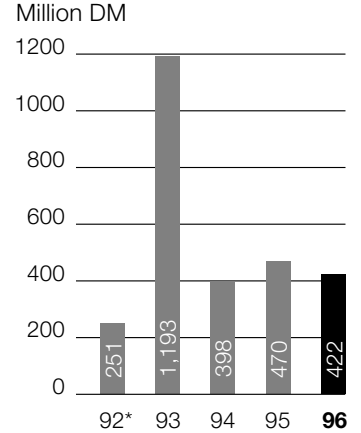
**Sales**



**Income**



**Capital expenditures**



\* plus DM 1,383 million for natural gas projects (not yet consolidated in 1992)

**Oil & Gas**

*Oil & Gas sales rose by 23.8 per cent to DM 5.2 billion (excluding petroleum and natural gas taxes). Earnings improved to DM 744 million.*

The Oil & Gas operation is handled by Wintershall AG and its affiliates. We explore for and produce crude oil and natural gas, refine oil, market petroleum products and sell crude oil and natural gas.

**Sales and earnings significantly up**

Firm crude oil prices, further increases in oil production and high natural gas volumes in Germany at the start of the year led to a 12-percent rise in sales. Earnings gratifyingly reflected this trend.

Once again, most earnings derived from oil and gas production. Earnings from the natural gas merchant business improved as a result of

increasing supplies to customers in the German market. Petroleum products made a greater contribution to earnings despite the scheduled inspection of the Lingen refinery. This was mainly due to ongoing, consistent efficiency improvements. Refinery margins remained unsatisfactory. Despite improvements in middle distillates and motor fuels, the overall upturn was only slight.

**Crude oil and natural gas production up again**

Total production, including our share in DEMINEX, was 9.4 million metric tons of oil equivalent. Wintershall's crude oil production was up by 30 percent at 5.6 million metric tons. Production from the Al Rayyan field in Qatar began in November. Natural gas production was raised to 2.0 billion cubic meters, a hike of 16 percent compared with

the previous year's level, which was low because we sold less. This growth came particularly from Germany. Our share of production from the DEMINEX holding was unchanged at 1.7 million metric tons of crude oil and 0.5 billion cubic meters of natural gas.

**Petroleum product volumes slightly down**

Volumes of petroleum products fell slightly to 4.0 million metric tons because of the inspection shutdown of the refinery at Lingen. About 60 percent of motor fuels were marketed through the ARAL gas-station network, in which Wintershall has a 15-percent holding. The remainder was sold through our own marketing organization.

*This pipeline will transport natural gas across mountains, valleys and rivers from Siberia to western Europe. The picture shows the Yamal pipeline going under the Oder River. The first section of the pipeline from Szamotuly in western Poland to Mallnow in eastern Germany was completed in 1996. Natural gas from Russia flowed through this section for the first time at the end of 1996. The gas is sold by WIEH, a joint venture between the BASF Group company Wintershall and Gazprom.*

At the Lingen refinery, DM 37 million was invested in replacements and improvements. Substantial capital expenditures for process improvements and the modernization of the coking plants are planned for the coming years.

In 1996, the German petroleum industry again suffered from a surplus of petroleum products. A combination of site disadvantages, surplus capacity and stagnating consumption reduced refinery earnings. The restrictive environmental regulations alone put Germany at a cost disadvantage of about DM 4 per metric ton in comparison with Rotterdam.

### **Natural gas earnings up again**

In the course of expanding our natural gas business, we substantially increased volumes in the German market and improved earnings. Work began on the construction of the west German pipeline (WEDAL) connecting Bielefeld with Aachen on the German-Belgian border. The first section, as far as Soest, has been completed. The diversification of natural gas purchases continued. Under supply agreements with British Gas and Conoco, WINGAS will purchase a total of 3 billion cubic meters of natural gas per year from the British sector of the North Sea on a long-term basis from 1998.

Volumes of natural gas in Germany totaled about 11 billion cubic meters in 1996. We will be increasing this figure continuously and aim to increase our share of the German market to 15 percent by 2010.

Our partner Gazprom is developing major gas fields on the Yamal peninsula in Siberia and planning to supply some of the gas to western Europe. A pipeline is being built for this purpose through Belarus and Poland to Frankfurt an der Oder. Kali-Bank GmbH, a subsidiary of Wintershall AG, granted a loan of DM 1 billion in January 1996 to support the construction of this natural gas transit pipeline. The Yamal-Europe pipeline system is being gradually extended eastward, using existing free pipeline capacity. At the end of 1996, we received the first delivery of natural gas at a new terminal for Russian gas in Frankfurt an der Oder.

## From the regions

*The BASF Group operates in many countries with different political, economic and social structures. In line with the OECD recommendations for multinational companies, we are aware of our numerous responsibilities.*

### **Our market is the world**

We are a transnational company operating throughout the world and we conduct business with customers in 170 countries. BASF Group companies operate production plants in 39 countries. Modern logistic systems maintain the flow of products and goods between the various regions. Marketing, distribution and technical service are being expanded in regional markets. We carry out development work close to the markets and optimize products and processes together with our customers. In this way, we provide innovative solutions which contribute to our customers' success.

### **Europe – our home market**

In Europe, we increased sales by 3.4 percent. Here, we achieved 63 percent of the BASF Group's sales and 75 percent of income from operations.

Demand for chemicals in Germany was sluggish. Overall, sales slightly increased by 2.8 percent due to growth in our Oil & Gas operation. Plastics did well in terms of volumes, but falling prices impacted earnings severely. Our wide range in Colorants & Finishing Products helped us to expand our market position. At BASF Schwarzheide GmbH, we made a profit before taxes for the first time. Although sales in most west European countries were slightly down on the previous year, the marketing of our products in France made good progress. New crop protection agents and pharmaceuticals were an important factor here. In Italy and Spain, we achieved gratifying growth rates with our products for health and nutrition and the textile and leather industries, and with polyurethanes. Business in plastics and chemicals was characterized by unsatisfactory prices despite strong demand.

*Plastics, with their light weight and stability, are as big a breakthrough in automobile design as steel was in large structures. Numerous plastics made by BASF are used in cars in such diverse applications as Lupolen® fuel tanks, which can be made into any shape, polyurethane coverings for steering wheels, Luran®, Luran® S or Terluran® operating elements and Ultramid® inlet manifolds.*

*Final check before transportation: Earl Millet, who works in the tank farm at the Geismar works, seals the drums and checks the closures. Geismar in Louisiana is BASF Corporation's largest site.*

Increased sales in the United Kingdom were largely attributable to the pharmaceutical business and the textile dyes taken over from Zeneca.

Our core operations in the reform states of central and eastern Europe did well. We improved our position in the CIS states, especially Russia.

#### **Earnings in the NAFTA Region up again**

We gained market share in the NAFTA Region. Sales of plastics, dispersions and pharmaceuticals grew faster than average. BASF Corporation's pre-tax earnings in U.S. dollars increased vigorously by 25 percent and in German marks by 31 percent.

We expanded our production plants. We will be continuing this policy in the coming years and investing about U.S.\$ 600 million in tangible assets each year.

We increased vitamin E capacity at the Wyandotte, Michigan, site. Rapid progress is being made with the construction of new plants for acrylic acid, acrylates and oxo alcohols at Freeport, Texas, and also with the increase in capacity for fiber intermediates and nylon 6. Production of the heat-resistant fiber Basofil® began at the Enka, North Carolina, site.

BASF de México achieved a sound operating profit, with our structural measures playing their part. We simplified the company's organization and increased efficiency. A plant for styrene/butadiene dispersions started up at Altamira, Mexico. New plants are being built to supply predominantly the NAFTA market with polystyrene and styrene copolymers.

We reached an agreement with Air Products and Chemicals Inc. to supply dinitrotoluene from a new plant at our Geismar, Louisiana, site, thus improving our position in polyurethanes.

In coatings and paints, cost structures were improved consistently. Our subsidiary Automotive Refinish Technologies Inc. is strengthening distribution outlets for automotive refinishes. Integration of the textile dye business acquired from Zeneca is going according to plan.

#### **Structural adjustments in South America**

The stabilization of South America's economies also gave a gratifying boost to our business there. Demand for our products was strong in the Mercosur countries of Brazil, Argentina, Uruguay and Paraguay, and in Chile. In Brazil, sales improved, especially in engineering plastics, building paints, pharmaceuticals and crop protection agents. Earnings were not satisfactory. In view of the change in general economic conditions resulting from the opening of the market, we adjusted the book values of various plants in Brazil to the cash values of the future cash flow. Earnings in Argentina and Chile improved significantly.

The countries belonging to the Andean Pact are going through a radical process of reform, and economic activity is somewhat depressed. Despite the effects of this, most of our companies achieved satisfactory earnings. At BASF Química Colombiana, earnings were adversely affected by special factors.

We geared our organization to the increasing cohesion of the South American markets. Costs were cut by efficiency measures and structural improvements. We are consistently endeavoring to improve the cost effectiveness of our sites and plants. With specific capital expenditures, we want to share in the growth of the South American markets and take advantage of new business opportunities.

**Ambitious targets in Asia**

We have set ourselves ambitious targets in Asia. We aim to share in the growth of this region, which is expected to be considerably higher than in the developed markets. In the medium term, we expect an annual market expansion in real terms of more than 7 percent in the rising countries of Asia.

By 2010, the BASF Group intends to achieve 20 percent of its sales and earnings in Asia. We want to double our market share by then. Sales from local production in Asia are planned to rise from 30 percent at present to 70 percent.

With these aims in mind, we are expanding our production facilities in the region. Over the next 5 years, we want to make 25 percent of our capital expenditures in Asia.

**Production hike in southeast Asia**

Volumes of our products in southeast Asia grew faster than the market. Local production was further increased. Sales improved despite falling prices but earnings were affected by advance expenditures for the expansion of our business in this region.

Following the integration of Boots plc's pharmaceutical operations, Knoll's affiliates in Pakistan and India made gratifying contributions to earnings.

Dispersion capacity was increased in Australia and Indonesia. At our site in Mangalore, India, we brought a new dispersion plant on stream and are expanding dye production. In Malaysia, we are constructing a Tamol<sup>®</sup> plant to meet the fast-growing demand for concrete aggregates. A system house for polyurethanes is being built in Kuala Lumpur.

Together with our partner PETRONAS, we intend to build an acrylic acid plant at Kuantan, Malaysia, the first project in a planned integrated chemical site that is intended to supply mainly the ASEAN market. Further plants for oxo alcohols, plasticizers and intermediates will follow.

*Crop protection agents must be more and more effective at lower and lower application rates. Extensive series of trials that take years are therefore necessary. Here, at BASF's Agricultural Products Center in Raleigh, North Carolina, the effect of a crop protection agent on corn is being tested.*

*Colorful capes brighten the scene in Nanjing, China. BASF operates 8 joint ventures in the People's Republic of China. One of them produces textile dyes and organic pigments, and another makes coatings especially for automobiles.*

### **Expansion in east Asia**

Economic development in east Asia is still very dynamic even though the pace is easing in certain countries, such as Korea and Taiwan. Our sales grew more quickly than the markets. The mainstays were chemicals, plastics and fiber intermediates. New plants for the production of textile dyes and auxiliaries as well as pigments began operation at Shanghai BASF Colorants and Auxiliaries (SBCA). BASF Shanghai Coatings began producing and marketing paints and coatings on schedule at the beginning of 1997.

We are aiming to use our competence in the planning, construction and operation of integrated production sites to build petrochemical plants at Nanjing together with China Petrochemical Corporation (SINOPEC) and its subsidiary SINOPEC Yangzi Petrochemical Corporation. At present, we and our partners are examining the technical and economic conditions for a steamcracker and downstream facilities. We are also investigating the possibility of a joint venture to produce MDI and TDI in Shanghai.

### **Business stronger in Japan**

Following the previous year's successful trend reversal, we further improved our position in Japan during 1996. Gratifying progress in the domestic market and the change in the value of the yen, which benefited exports, helped BASF Japan to increase sales. If unconsolidated Group companies are taken into

account, sales in yen grew by 17 percent, with new companies making a major contribution.

The Nisso BASF Agro joint production venture bolstered our crop protection business. Following the acquisition of a majority holding in the pharmaceutical company Hokuriku Seiyaku, we now have direct access to the Japanese pharmaceutical market, the second largest in the world. In September, Toyota became the first Japanese car manufacturer to fit inlet manifolds made from Ultramid®, BASF's glass-fiber-reinforced polyamide.

## Research and development

*We quickly convert scientific and technical discoveries and experience as well as pioneering ideas into new products, processes and applications. R&D is the key to innovation and an essential element in shaping our future.*

We have built up a highly efficient integrated system of chemical and technical know-how, which we use to systematically exploit synergies to meet our customers' stricter requirements, including ecology aspects. A few examples from our wide range of projects will make this clear.

### **Competitive position improved by innovative processes**

We intend to commercialize a new and economically attractive process for producing caprolactam on the basis of adipodinitrile in a joint venture with DuPont. Caprolactam is mainly used as a raw material for our Ultramid® grades and for nylon 6 fibers.

Caprolactam is, therefore, an important link in our integrated production system. It is also used as a raw material for specific vinyl monomers for producing specialty chemicals, such as adhesives, hair-setting products and detergents. We produce these vinyl monomers by a new efficient process, which reinforces our position as the market leader in this segment.

We are also developing biotechnological processes in order to manufacture higher value-added products. For example, vitamin B<sub>2</sub> is produced by a fermentation process. We start with a vegetable oil and obtain the desired product direct in a single-step process. Production capacity was expanded by optimizing the microorganisms used.

### **Technological leadership boost from catalysts**

Catalysts accelerate chemical processes and reduce the formation of byproducts. New, selective catalytic processes make more efficient use of the raw materials and are, thus, an important contribution to Sustainable Development.

For example, a new catalyst has significantly improved the production of phthalic anhydride, a precursor for plasticizers. A key to this success was cooperation between various disciplines at our integrated Ludwigshafen site. We achieved a major advance in catalysts for the production of polyolefins. Through systematic R&D work, we improved productivity in the

*Endless DNA sequences are decoded and utilized by genetic research. Dr. Burkhard Kröger from cardiovascular research at Ludwigshafen examines a section of a sequence from the Lifeseq genome database, which BASF licensed from the Californian specialists Incyte in 1996 in the hope of finding sites of action for new therapeutic agents. Genetic research has good prospects because it offers new ways of developing active compounds and therapeutic methods for treating serious diseases.*



*The aim of microreactor experiments is to develop optimum chemical reactions without any undesired byproducts.*

*The same reactions take place in the microreactor as in BASF's large-scale plants, but are much easier to study and refine. This means that the reactor can be optimized for each separate reaction. Chemical engineers have developed a microreactor in which the reactions take place in diamond-carved channels as fine as hairs.*

manufacture of Novolen<sup>®</sup>, which is processed into film, sheeting and fibers, and enhanced product quality.

#### **New solutions to customers' problems**

We use modern scientific methods to devise innovative solutions to our customers' problems. Computer simulation provides an understanding of the properties of solids at the molecular level. Crystal design has made it possible to develop new pigments for modern coatings. One example is Paliogen<sup>®</sup> Red, a transparent pigment that is outstandingly suitable for water-borne coatings.

The interaction of chemistry and molecular modeling also provided the key to our new biodegradable complexing agent. For the first time, we were able to use computer models to predict the ecological properties of products. The new, readily biodegradable complexing agent methylglycinediacetic acid binds interfering metal ions and exhibits a broad spectrum of action in detergents and cleaning agents.

For detergents, we also developed the Sokalan<sup>®</sup> HP grades. These are polymers that improve dirt release and provide better protection against dirt being redeposited on the washing.

#### **New methods for innovative active compounds**

New insights into the interaction between active compounds and biological systems, and new discoveries in molecular biology paved the way to innovative products. A new drug for the treatment of schizophrenia is based on the selective blockage of a particular dopamine receptor in the brain. The neuroleptic can alleviate the symptoms of schizophrenia without the usual severe side effects. In addition to projects at a more advanced stage, an endothelin receptor antagonist for the treatment of various diseases of the cardiovascular system is at an early stage of clinical development.

To speed up innovation, we are relying on modern technologies in research to find new active compounds. A

new synthesis strategy, combinatorial chemistry, allows the rapid automated synthesis of a very large number of test substances. This is followed by high throughput screening, which very quickly identifies promising active compound lead structures.

#### **Cooperation on future-oriented technologies**

Together with the American biotech company Lynx Therapeutics, we have set up a joint venture in the field of molecular biology. Lynx provides a new DNA sequencing technology by means of which dynamic processes can be monitored at the molecular level, thus opening new routes to the discovery of active compounds. The company is headquartered in Heidelberg. We regard this as an important step toward strengthening and expanding biotechnological and genetic engineering research in Germany and the Rhine-Neckar triangle, one of the award-winning regions in the German Government's "BioRegio" development program.

# Annual financial statements

## Balance sheet of the BASF Group

as of December 31, 1996

Million DM

<b>Assets</b>	Notes	<b>Dec. 31, 1996</b>	Dec. 31, 1995
Intangible assets	(7)	<b>2,535.5</b>	1,730.0
Tangible assets	(7)	<b>16,071.0</b>	15,399.3
Financial assets	(8)	<b>4,094.4</b>	2,615.5
<b>Fixed assets</b>	(3/4)	<b>22,700.9</b>	19,744.8
Goods on lease		<b>151.3</b>	183.3
Inventories	(9)	<b>7,018.2</b>	6,541.6
Accounts receivable – trade		<b>7,262.9</b>	6,563.9
Receivables from affiliated companies		<b>730.3</b>	703.7
Miscellaneous receivables and other assets		<b>1,607.7</b>	1,638.7
Receivables and other assets	(10)	<b>9,600.9</b>	8,906.3
Securities		<b>2,670.7</b>	3,865.4
Checks, cash on hand, central bank balances, bank balances		<b>1,156.0</b>	2,328.0
<b>Current assets</b>	(3)	<b>20,597.1</b>	21,824.6
<b>Prepaid expenses</b>	(11)	<b>420.3</b>	465.9
		<b>43,718.3</b>	42,035.3
<b>Equity and Liabilities</b>			
Subscribed capital	(12)	<b>3,090.3</b>	3,048.8
Capital surplus	(13)	<b>4,917.6</b>	4,703.9
Revenue reserves and profit retained	(14)	<b>12,248.2</b>	10,317.0
Translation adjustment	(6)	<b>-252.5</b>	-495.4
Minority interests		<b>485.9</b>	353.2
<b>Equity</b>		<b>20,489.5</b>	17,927.5
<b>Special reserves</b>	(3)	<b>61.9</b>	77.9
Pension provisions and similar obligations	(15)	<b>6,747.6</b>	6,657.5
Provisions for taxes		<b>1,278.0</b>	1,234.7
Other provisions	(16)	<b>6,470.6</b>	6,485.9
<b>Provisions</b>	(3/16)	<b>14,496.2</b>	14,378.1
Bonds and other liabilities to the capital market		<b>1,040.2</b>	1,387.9
Liabilities to credit institutions		<b>998.0</b>	1,444.9
Accounts payable – trade		<b>3,183.8</b>	2,770.7
Liabilities to affiliated companies		<b>402.2</b>	459.1
Miscellaneous liabilities		<b>2,875.0</b>	3,444.2
<b>Liabilities</b>	(17)	<b>8,499.2</b>	9,506.8
<b>Deferred income</b>		<b>171.5</b>	145.0
		<b>43,718.3</b>	42,035.3

**Profit and loss account of the BASF Group**

January 1 – December 31, 1996

Million DM

	Notes	1996	1995
Sales	(21)	<b>52,201.9</b>	49,402.6
– Petroleum and natural gas taxes		<b>3,425.9</b>	3,173.5
<b>Sales</b> (without petroleum and natural gas taxes)	(21)	<b>48,776.0</b>	46,229.1
Cost of sales		<b>31,080.8</b>	29,766.5
<b>Gross profit on sales</b>		<b>17,695.2</b>	16,462.6
Selling expense		<b>8,455.0</b>	7,747.9
General administration expense		<b>1,198.0</b>	1,087.4
Research and development expense		<b>2,285.8</b>	2,087.9
Other operating income	(22)	<b>1,925.5</b>	2,013.8
Other operating expense	(22)	<b>3,388.8</b>	3,530.4
<b>Income from operations</b>		<b>4,293.1</b>	4,022.8
Net income from financial assets	(23)	<b>107.7</b>	128.3
Amortization of and losses from retirement of financial assets as well as securities held as current assets		<b>169.6</b>	44.2
Interest result	(24)	<b>182.5</b>	21.3
<b>Profit before taxes*</b>		<b>4,413.7</b>	4,128.2
Income taxes	(25)	<b>1,575.0</b>	1,704.9
<b>Net income</b>		<b>2,838.7</b>	2,423.3
Minority interests in profit/loss	(28)	<b>48.5</b>	–47.2
<b>Net income after minority interests</b>		<b>2,790.2</b>	2,470.5

\* Results from ordinary activities

**Balance sheet of BASF Aktiengesellschaft**

as of December 31, 1996

Million DM

<b>Assets</b>	Notes	<b>Dec. 31, 1996</b>	Dec. 31, 1995
Intangible assets	(7)	<b>713.0</b>	115.7
Tangible assets	(7)	<b>3,020.3</b>	2,991.0
Financial assets	(8)	<b>14,874.9</b>	11,016.0
<b>Fixed assets</b>	(3/4)	<b>18,608.2</b>	14,122.7
Inventories	(9)	<b>2,415.0</b>	2,363.4
Accounts receivable – trade		<b>1,961.0</b>	1,768.2
Receivables from affiliated companies		<b>3,337.4</b>	2,190.4
Miscellaneous receivables and other assets		<b>351.4</b>	303.6
Receivables and other assets	(10)	<b>5,649.8</b>	4,262.2
Securities		<b>2,153.2</b>	2,689.2
Cash on hand, central bank balances, bank balances		<b>254.8</b>	1,044.5
<b>Current assets</b>	(3)	<b>10,472.8</b>	10,359.3
<b>Prepaid expenses</b>	(11)	<b>9.9</b>	10.4
		<b>29,090.9</b>	24,492.4
<b>Equity and Liabilities</b>			
Subscribed capital (Conditional capital: 299.6)	(12)	<b>3,090.3</b>	3,048.8
Capital surplus	(13)	<b>4,736.0</b>	4,522.2
Revenue reserve	(14)	<b>5,439.4</b>	4,789.4
Profit retained	(14)	<b>1,050.8</b>	853.8
<b>Equity</b>		<b>14,316.5</b>	13,214.2
<b>Special reserves</b>	(3)	<b>26.7</b>	37.9
Pension provisions	(15)	<b>4,683.0</b>	4,534.0
Provisions for taxes		<b>989.5</b>	923.9
Other provisions	(16)	<b>2,633.4</b>	2,626.5
<b>Provisions</b>	(3/16)	<b>8,305.9</b>	8,084.4
Liabilities to credit institutions		<b>62.6</b>	77.9
Accounts payable – trade		<b>849.1</b>	909.8
Liabilities to affiliated companies		<b>4,718.6</b>	1,433.4
Miscellaneous liabilities		<b>585.2</b>	719.2
<b>Liabilities</b>	(17)	<b>6,215.5</b>	3,140.3
<b>Deferred income</b>		<b>226.3</b>	15.6
		<b>29,090.9</b>	24,492.4

**Profit and loss account of BASF Aktiengesellschaft**

January 1 – December 31, 1996

Million DM

	Notes	1996	1995
<b>Sales</b>	(21)	<b>20,607.2</b>	21,060.8
Cost of sales		<b>13,575.9</b>	13,834.9
<b>Gross profit on sales</b>		<b>7,031.3</b>	7,225.9
Selling expense		<b>3,073.7</b>	2,981.2
General administration expense		<b>432.9</b>	404.0
Research and development expense		<b>1,416.8</b>	1,310.5
Other operating income	(22)	<b>602.1</b>	694.3
Other operating expense	(22)	<b>922.7</b>	894.5
<b>Income from operations</b>		<b>1,787.3</b>	2,330.0
Net income from financial assets	(23)	<b>388.6</b>	8.7
Amortization of and losses from retirement of financial assets as well as securities held as current assets		<b>222.3</b>	263.5
Interest result	(24)	<b>261.3</b>	226.1
<b>Profit before taxes*</b>		<b>2,214.9</b>	2,301.3
Income taxes	(25)	<b>514.2</b>	947.6
<b>Net income</b>		<b>1,700.7</b>	1,353.7

\* Results from ordinary activities

**Development of fixed assets**

as of December 31, 1996

Million DM

**BASF Group****Gross book values**

	Jan. 1, 1996	Change in scope of consolidation	Additions	Retire- ments	Reclassi- fications	Dec. 31, 1996
Concessions, industrial and similar rights and assets, as well as licenses for such rights and assets	2,263.8	14.1	774.0	185.2	17.9	2,884.6
Goodwill	434.9	105.4	227.6	48.3	5.9	725.5
Payments on account	5.8	2.0	85.3	–	–0.8	92.3
<b>Intangible assets</b>	<b>2,704.5</b>	<b>121.5</b>	<b>1,086.9</b>	<b>233.5</b>	<b>23.0</b>	<b>3,702.4</b>
Land, land rights and buildings including buildings on land owned by others	10,642.0	37.4	124.0	273.7	162.1	10,691.8
Machinery and technical equipment	38,365.0	230.1	976.6	1,172.5	1,931.0	40,330.2
Miscellaneous equipment and fixtures	5,390.7	6.8	303.3	511.7	359.9	5,549.0
Payments on account and construction in progress	1,722.1	18.1	2,235.0	23.2	–1,952.0	2,000.0
<b>Tangible assets</b>	<b>56,119.8</b>	<b>292.4</b>	<b>3,638.9</b>	<b>1,981.1</b>	<b>501.0</b>	<b>58,571.0</b>
Shares in affiliated companies	1,682.2	–232.6	894.8	167.8	–24.2	2,152.4
Loans to affiliated companies	86.8	–46.8	1,026.7	15.6	0.5	1,051.6
Shares in associated companies	535.6	–100.2	12.8	11.9	36.8	473.1
Shares in participating interests	341.2	–	94.9	0.5	–0.2	435.4
Loans to associated companies and participating interests	35.7	–	67.6	39.8	1.8	65.3
Securities held as fixed assets	68.0	–	9.1	19.0	–0.2	57.9
Other loans and other investments	156.5	1.2	32.0	34.2	35.9	191.4
<b>Financial assets</b>	<b>2,906.0</b>	<b>–378.4</b>	<b>2,137.9</b>	<b>288.8</b>	<b>50.4</b>	<b>4,427.1</b>
<b>Fixed assets</b>	<b>61,730.3</b>	<b>35.5</b>	<b>6,863.7</b>	<b>2,503.4</b>	<b>574.4</b>	<b>66,700.5</b>

**BASF Aktiengesellschaft**

Industrial and similar rights and assets, as well as licenses for such rights and assets	356.6		640.7	164.2	–	833.1
Goodwill			17.1			17.1
Payments on account	–		0.9	–	–	0.9
<b>Intangible assets</b>	<b>356.6</b>		<b>658.7</b>	<b>164.2</b>	<b>–</b>	<b>851.1</b>
Land, land rights and buildings including buildings on land owned by others	4,260.0		32.1	10.1	28.7	4,310.7
Machinery and technical equipment	14,469.2		336.6	198.5	379.3	14,986.6
Miscellaneous equipment and fixtures	2,474.5		121.8	117.8	108.3	2,586.8
Payments on account and construction in progress	632.7		433.9	0.2	–516.3	550.1
<b>Tangible assets</b>	<b>21,836.4</b>		<b>924.4</b>	<b>326.6</b>	<b>–</b>	<b>22,434.2</b>
Shares in affiliated companies	11,639.4		4,527.7	841.2	–	15,325.9
Loans to affiliated companies	911.6		10.0	185.7	–	735.9
Participating interests	431.7		12.6	9.5	–	434.8
Loans to participating interests			22.6		–	22.6
Other loans and other investments	18.2		2.7	5.0	–	15.9
<b>Financial assets</b>	<b>13,000.9</b>		<b>4,575.6</b>	<b>1,041.4</b>	<b>–</b>	<b>16,535.1</b>
<b>Fixed assets</b>	<b>35,193.9</b>		<b>6,158.7</b>	<b>1,532.2</b>	<b>–</b>	<b>39,820.4</b>

<b>Amortization</b>						<b>Net book values</b>		
Jan. 1, 1996	Change in scope of consolidation	Additions	Retire- ments	Write- backs	Reclassi- fications	Dec. 31, 1996	Dec. 31, 1996	Dec. 31, 1995
706.0	4.9	295.4	179.2	–	4.2	831.3	2,053.3	1,557.8
268.0	30.7	78.6	45.0	–	1.8	334.1	391.4	166.9
0.5	1.3	0.2	–	0.5	–	1.5	90.8	5.3
<b>974.5</b>	<b>36.9</b>	<b>374.2</b>	<b>224.2</b>	<b>0.5</b>	<b>6.0</b>	<b>1,166.9</b>	<b>2,535.5</b>	<b>1,730.0</b>
6,473.2	–15.6	398.3	176.9	–	–81.1	6,597.9	4,093.9	4,168.8
29,927.9	117.5	2,230.2	1,112.5	–	307.4	31,470.5	8,859.7	8,437.1
4,315.2	–5.5	509.3	469.1	–	80.6	4,430.5	1,118.5	1,075.5
4.2	–	2.8	–	–	–5.9	1.1	1,998.9	1,717.9
<b>40,720.5</b>	<b>96.4</b>	<b>3,140.6</b>	<b>1,758.5</b>	<b>–</b>	<b>301.0</b>	<b>42,500.0</b>	<b>16,071.0</b>	<b>15,399.3</b>
213.4	–2.8	17.1	97.6	–	–1.0	129.1	2,023.3	1,468.8
4.9	–4.9	–	–	–	–	–	1,051.6	81.9
54.5	1.4	–	–	–	–	55.9	417.2	481.1
4.5	–	130.3	0.3	–	–	134.5	300.9	336.7
–	–	–	–	–	–	–	65.3	35.7
1.0	–	2.4	0.2	–	–0.1	3.1	54.8	67.0
12.2	–	1.1	2.8	–	–0.4	10.1	181.3	144.3
<b>290.5</b>	<b>–6.3</b>	<b>150.9</b>	<b>100.9</b>	<b>–</b>	<b>–1.5</b>	<b>332.7</b>	<b>4,094.4</b>	<b>2,615.5</b>
<b>41,985.5</b>	<b>127.0</b>	<b>3,665.7</b>	<b>2,083.6</b>	<b>0.5</b>	<b>305.5</b>	<b>43,999.6</b>	<b>22,700.9</b>	<b>19,744.8</b>
240.9		59.7	164.2		–	136.4	696.7	115.7
–		1.7	–		–	1.7	15.4	–
–		–	–		–	–	0.9	–
<b>240.9</b>		<b>61.4</b>	<b>164.2</b>		<b>–</b>	<b>138.1</b>	<b>713.0</b>	<b>115.7</b>
3,308.1		125.4	4.3		–0.8	3,428.4	882.3	951.9
13,418.4		562.2	195.7		1.0	13,785.9	1,200.7	1,050.8
2,118.9		195.1	114.2		–0.2	2,199.6	387.2	355.6
–		–	–		–	–	550.1	632.7
<b>18,845.4</b>		<b>882.7</b>	<b>314.2</b>		<b>–</b>	<b>19,413.9</b>	<b>3,020.3</b>	<b>2,991.0</b>
1,977.1		195.0	517.4		–	1,654.7	13,671.2	9,662.3
2.8		–	0.6		–	2.2	733.7	908.8
0.8		0.3	0.2		–	0.9	433.9	430.9
4.2		–	1.8		–	2.4	22.6	–
<b>1,984.9</b>		<b>195.3</b>	<b>520.0</b>		<b>–</b>	<b>1,660.2</b>	<b>14,874.9</b>	<b>11,016.0</b>
<b>21,071.2</b>		<b>1,139.4</b>	<b>998.4</b>		<b>–</b>	<b>21,212.2</b>	<b>18,608.2</b>	<b>14,122.7</b>

**Major affiliates**

Company name and headquarters	Number of employees <b>Dec. 31, 1996</b>	Capital expenditures <b>Million DM 1996</b>	Sales <b>Million DM 1996</b>	Profit before taxes <b>Million DM 1996</b>
<i>Products and services</i>	Dec. 31, 1995	Million DM 1995	Million DM 1995	Million DM 1995
<b>Europe</b>				
BASF Antwerpen N.V., Antwerp, Belgium	<b>3,563</b>	<b>399.7</b>	<b>3,645.0</b>	<b>289.8</b>
<i>Fertilizers, plastics, intermediates for plastics and fibers, chemicals</i>	3,552	328.6	3,517.6	408.1
BASF Española S.A., Barcelona, Spain	<b>991</b>	<b>63.3</b>	<b>1,011.1</b>	<b>83.4</b>
<i>Chemicals, plastics, finishing products, sale of fertilizers and crop protection products</i>	981	47.7	1,008.0	97.2
BASF France S.A., Levallois-Perret, France	<b>519</b>	<b>2.4</b>	<b>1,422.2</b>	<b>25.7</b>
<i>Sale of fertilizers and crop protection products, chemicals, plastics, colorants and finishing products</i>	526	2.2	1,459.6	26.4
BASF Italia Spa, Cesano Maderno, Italy	<b>653</b>	<b>23.8</b>	<b>570.3</b>	<b>20.2</b>
<i>Colorants and finishing products</i>	678	16.4	509.4	37.1
BASF Lacke + Farben AG, Münster	<b>4,142</b>	<b>46.3</b>	<b>1,720.5</b>	<b>12.6</b>
<i>Coatings, paints, printing inks</i>	5,188	62.3	1,743.7	-82.7
BASF Peintures + Encres S.A., Clermont, France	<b>1,228</b>	<b>11.3</b>	<b>507.8</b>	<b>1.8</b>
<i>Coatings, paints, printing inks, pigments</i>	1,244	9.9	479.2	-3.8
BASF plc, Cheadle, Great Britain	<b>1,346</b>	<b>30.3</b>	<b>1,665.8</b>	<b>99.5</b>
<i>Chemicals, polypropylene, fiber intermediates</i>	1,157	16.7	1,584.0	24.3
BASF Schwarzheide GmbH, Schwarzheide	<b>2,249</b>	<b>86.2</b>	<b>813.8</b>	<b>21.8</b> <sup>1</sup>
<i>Polyurethane products and systems, foamed plastics, crop protection products, waterborne coatings</i>	2,273	91.8	755.4	44.9 <sup>1</sup>
BASF Vernici e Inchiostri Spa, Cinisello Balsamo, Italy	<b>573</b>	<b>6.7</b>	<b>350.5</b>	<b>9.9</b>
<i>Coatings, paints, printing inks, pigments</i>	576	7.1	317.8	5.6
Comparex Informationssysteme GmbH, Mannheim <sup>2</sup>	<b>591</b>	<b>5.1</b>	<b>970.0</b>	<b>89.8</b>
<i>Sale and renting of data processing and storage equipment, services</i>	610	8.7	827.8	60.8
Elastogran GmbH, Lemförde <sup>3</sup>	<b>1,222</b>	<b>19.9</b>	<b>1,626.8</b>	<b>117.5</b>
<i>Basic polyurethane products and systems, PUR special elastomers and technical parts</i>	1,209	14.7	1,513.2	107.5
Knoll AG, Ludwigshafen <sup>3</sup>	<b>3,408</b>	<b>79.8</b>	<b>1,154.8</b>	<b>-63.0</b> <sup>1</sup>
<i>Pharmaceuticals, pharmaceutical chemicals</i>	3,388	75.3	1,081.2	-52.2
Rheinische Olefinwerke GmbH, Wesseling <sup>4</sup>	<b>2,426</b>	<b>150.7</b>	<b>1,973.4</b>	<b>102.4</b> <sup>1</sup>
<i>Polyolefins, styrene, butadiene, epoxy resins, thermoplastic rubber</i>	2,490	80.0	2,228.5	421.4 <sup>1</sup>
Wintershall AG, Celle/Kassel <sup>5</sup>	<b>2,014</b>	<b>422.0</b>	<b>5,558.5</b>	<b>804.1</b>
<i>Crude oil, natural gas, petroleum products</i>	2,083	469.6	4,572.2	204.7

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



**Major affiliates**

Company name and headquarters	Number of employees <b>Dec. 31, 1996</b>	Capital expenditures <b>Million DM 1996</b>	Sales <b>Million DM 1996</b>	Profit before taxes <b>Million DM 1996</b>
<i>Products and services</i>	Dec. 31, 1995	Million DM 1995	Million DM 1995	Million DM 1995
<b>North America</b>				
BASF Corporation, Mount Olive, New Jersey, USA <sup>6</sup>	<b>13,454</b> 14,051	<b>985.7</b> 503.7	<b>9,541.8</b> 8,889.3	<b>889.6</b> 678.8
<i>Chemicals, crop protection products, plastics, fibers, colorants, finishing products, coatings, pharmaceuticals</i>				
BASF de México, S.A. de C.V., Mexico City, Mexico <sup>6</sup>	<b>1,142</b> 1,113	<b>42.3</b> 30.4	<b>324.6</b> 233.8	<b>44.9</b> -50.8
<i>Chemicals, colorants and finishing products, coatings</i>				
<b>South America</b>				
BASF Argentina S.A., Buenos Aires, Argentina	<b>362</b>	<b>2.7</b>	<b>233.4</b>	<b>7.7</b>
<i>Styropor<sup>®</sup>, finishing products, crop protection products</i>	374	2.0	187.8	4.6
BASF Química Colombiana S.A., Medellín, Colombia	<b>467</b>	<b>9.9</b>	<b>130.2</b>	<b>-11.7</b>
<i>Chemicals, polyester resins, finishing products, crop protection products</i>	530	2.9	140.9	4.3
BASF S.A., São Bernardo do Campo, Brazil	<b>4,459</b>	<b>38.9</b>	<b>1,585.3</b>	<b>-91.2</b>
<i>Chemicals, colorants, finishing products, coatings and paints, crop protection products, Styropor<sup>®</sup></i>	4,957	73.6	1,353.5	-29.4
<b>Asia, Pacific Area</b>				
BASF Australia Ltd., Melbourne, Australia	<b>261</b>	<b>18.9</b>	<b>264.6</b>	<b>-10.6</b>
<i>Plastics, finishing products</i>	283	9.0	250.0	0.2
BASF India Ltd., Bombay, India	<b>937</b>	<b>18.1</b>	<b>110.7</b>	<b>6.3</b>
<i>Styropor<sup>®</sup>, colorants, finishing products, crop protection products</i>	834	33.0	105.2	9.9
BASF Japan Ltd., Tokyo, Japan	<b>402</b>	<b>4.3</b>	<b>812.6</b>	<b>35.8</b>
<i>Chemicals, finishing products, plastics</i>	408	4.7	841.8	23.8
BASF (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia	<b>221</b>	<b>15.8</b>	<b>118.8</b>	<b>-8.1</b>
<i>Styropor<sup>®</sup></i>	223	1.6	137.5	-2.2
Hanwha-BASF Urethane Ltd., Seoul, Korea <sup>4</sup>	<b>278</b>	<b>19.8</b>	<b>179.0</b>	<b>16.4</b>
<i>Basic polyurethane products and systems</i>	279	7.4	151.3	6.7
Hyosung-BASF Co., Ltd., Seoul, Korea <sup>4</sup>	<b>479</b>	<b>25.8</b>	<b>379.5</b>	<b>4.5</b>
<i>Styropor<sup>®</sup>, polystyrene, styrene copolymers</i>	451	28.6	428.2	5.4
Knoll Pharmaceuticals Ltd., Bombay, India <sup>7</sup>	<b>883</b>	<b>10.3</b>	<b>95.1</b>	<b>15.1</b>
<i>Pharmaceuticals, pharmaceutical chemicals</i>	909	0.5	75.2	6.0
Mitsubishi Chemical BASF Company Ltd., Yokkaichi, Japan <sup>4</sup>	<b>273</b>	<b>11.7</b>	<b>215.4</b>	<b>-0.9</b>
<i>Styropor<sup>®</sup>, polymer dispersions, foam sheeting</i>	279	14.0	252.8	-4.1

The values of the non-German companies were translated to DM at average quarterly exchange rates, and for South American companies to DM at average monthly exchange rates.

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

<sup>2</sup> Our holding: 60 (1995: 100) percent

<sup>3</sup> Including its consolidated majority-owned German affiliates

<sup>4</sup> Our holding: 50 percent

<sup>5</sup> Including its consolidated majority-owned and 50-percent affiliates, 1995 results before extraordinary items.

There is a profit and loss transfer agreement between BASF Aktiengesellschaft and Wintershall AG.

<sup>6</sup> Including its consolidated majority-owned affiliates

<sup>7</sup> Our holding: 40 percent, under uniform control

The notes to the financial statements of the BASF Group and BASF Aktiengesellschaft are combined. Unless expressly noted, the disclosures refer to both financial statements. The BASF Group is identical with the BASF Konzern in its conformity with German accounting

legislation; all disclosures relating to the Group apply to the Konzern. The financial statements were prepared in accordance with the provisions of the German Commercial Code (HGB) and the Stock Corporation Law (AktG).

**(1) Scope of consolidation, participating interests**

Domestic and foreign subsidiaries are included in the Group financial statements in full, and significant 50-percent-owned affiliates on a pro rata basis. Subsidiaries of minor significance are not consolidated.

The magnetic product business was sold to KOHAP Inc., Korea, with effect from the end of the year. As a result, 4 companies were removed from the consolidated balance sheet as of December 31, 1996. Their sales and earnings for 1996 are still included in the Group figures.

We signed a contract with Potash Corporation of Saskatchewan Inc., Canada, to sell 51 percent of our shares in Kali und Salz Beteiligungs Aktiengesellschaft, subject to antitrust laws or official approval. This company was still fully consolidated on December 31, 1996, and its major affiliates, including Kali und Salz GmbH and Potash Company of Canada Ltd., were included under the equity method as before.

The following companies were consolidated for the first time in 1996:

- BASF Horticulture et Jardin S.A., Roche-Lez-Beaupré, France
- BHC Company, Dallas, U.S.
- BASF (Thai) Ltd., Bangkok, Thailand
- Knoll Pharmaceuticals Ltd., Bombay, India
- Hanwha-BASF Urethane Ltd., Seoul, South Korea

The number of consolidated companies also changed because of restructuring measures under company law.

As a result, the Group financial statements include 97 subsidiaries and 10 fifty-percent-owned affiliates apart from BASF Aktiengesellschaft.

Furthermore, 35 subsidiaries, not fully consolidated, and 13 associated companies are included at their proportional share of net equity (equity method).

The additions to the scope of consolidation and the divestiture of the magnetic product business had the following effect on the Group balance sheet:

	Million DM	%
Fixed assets	- 214.2	-1.1
- thereof: tangible assets	65.4	
Current assets	-130.0	-0.6
<b>Assets</b>	<b>- 344.2</b>	<b>- 0.8</b>
<b>Equity</b>	<b>-132.3</b>	<b>-0.7</b>
Provisions	-193.6	-1.3
Liabilities	-18.3	-0.2
<b>Total liabilities</b>	<b>- 211.9</b>	<b>-0.9</b>

Sales revenues increased by DM 140 million or 0.3 percent as a result and on account of acquisitions after the deduction of further divestitures and due to relocations of certain other businesses to the other operational revenues. The comparability of the Group result is not significantly affected by the new additions, since the results of the newly consolidated companies have already been included under the equity method.

**(2) Consolidation methods**

The financial statements of the consolidated companies are prepared as of the balance sheet date of the Group financial statements. In exceptional cases, interim financial statements or extrapolations are drawn up as of the balance sheet date of the Group financial statement.

Assets and liabilities of consolidated companies are included uniformly in the Group financial statements in accordance with the accounting and valuation methods described here and in Note 3. Apart from consolidations, the financial statements of BASF Aktiengesellschaft are not adjusted for inclusion in the Group financial statements, except for proceeds from stock warrants, which are included in capital surplus including issues prior to 1985.

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

Intercompany sales, income and expense, and loans, receivables, liabilities and provisions, are eliminated in full; for 50-percent-owned affiliates, on a pro rata basis.

Intercompany profits resulting from deliveries and services rendered between consolidated companies are eliminated, unless they originate from the construction of plants on customary market conditions and are of minor

importance. With respect to the companies included by the equity method, intercompany profits resulting from deliveries or services rendered on customary market conditions are not eliminated, because the amounts are insignificant or determining them would involve a disproportionately high effort.

The acquisition cost of participations is eliminated on consolidation against the proportion-

ate share in equity of such participations at the time of the acquisition of the shares. The resulting differences are allocated to the assets or liabilities of the acquired companies up to their fair values. Any residual balances are added to the assets as goodwill, and for the most part amortized within 5 years. Debit balances are debited to income pro rata to compensate for expected special charges.

### (3) Accounting and valuation methods

#### Intangible assets

Intangible assets are valued at acquisition cost less scheduled straight-line depreciation.

Special write-downs are made in cases of expected permanent impairment of value.

The average weighted depreciation period is 8 years, based on the following expected useful lives:

	Years
Product rights	7 – 15
Marketing rights and similar	5 – 20
Know-how or patents	5 – 15
Licenses and other rights of use	3 – 7
Software	3 – 5
Other rights and values	5 – 10

#### Tangible assets

Tangible assets are stated at acquisition or production cost less depreciation. Movable fixed assets subject to depreciation whose technical components of production are permanently integrated through their function and use are combined into a single asset item.

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

Movable fixed assets are mostly depreciated by the declining balance method over the expected useful life, with a change to straight-line depreciation when this is higher. Long-distance natural gas pipelines are the exception; they are depreciated using the straight-line method over their customary useful life. The immovable fixed assets are mainly depreciated using the straight-line method.

The average weighted periods of depreciation are as follows:

	Years
Buildings and structural installations	21
Industrial plant and machinery	9
Long-distance natural gas pipelines	25
Working and office equipment and other facilities	8

Special write-downs are made in cases of expected permanent impairment of value. Low value assets are fully depreciated in the year of acquisition and are shown as retirements.

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

#### Financial assets

The acquisition cost of the companies accounted for by the equity method is increased or decreased by the proportionate share of net income. The same principles apply to the full consolidation as to the capital consolidation and allocation of the resulting differences to the assets and liabilities. Residual balances are mainly amortized as goodwill within 5 years.

The subsidiary companies included under the equity method are shown as “shares in affiliated companies”.

The other participating interests are accounted for at cost or, in the case of expected perma-

nent impairment of value, at the appropriate lower values.

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

Securities held as fixed assets are stated at cost or, in the case of expected permanent impairment of value, at the appropriate lower values.

#### Goods on lease

Goods on lease consist of EDP equipment (central processing units and peripheral equipment). They are shown at cost, reduced

by devaluations in order to take into consideration lower attributable values on the return of the equipment.

Inventories	<p>“Work in progress” and “Finished goods and merchandise” are combined into one item for the BASF Aktiengesellschaft inventories due to the production conditions in the chemical industry.</p> <p>Uncompleted contracts relate mainly to domestic and foreign plants under construction for third parties. Expected profits are not shown until final settlement of accounts for the projects in question, while expected losses are recognized by being written down to the lower attributable value.</p> <p>Inventories are carried at acquisition or production cost or the lower quoted or market value, or at such lower values as appropriate. Production costs include direct costs and an appropriate portion of the production overhead allocated using normal utilization rates of the production plants. Financing costs for the production period and costs for the company pension scheme and voluntary social benefits are not included.</p>	<p>The acquisition or production cost of raw materials, work in progress, finished goods and merchandise is mainly determined by the LIFO method (annual-period LIFO), factory supplies generally by the average cost method. The inventories of certain foreign companies for which a similar LIFO method is not allowed under local valuation rules are carried at average cost in the Group financial statements. This relates particularly to the dollar value method applied in the case of BASF Corporation.</p> <p>In the case of raw materials and factory supplies, the lower market value represents the replacement costs thereof, and, in the case of work in progress and finished products, the lower appropriate value represents associated production costs or the expected sales revenues less costs to be incurred prior to sale and an average profit margin.</p>
Receivables and other assets	Receivables are carried at their nominal value. Notes receivable and non-interest-bearing or low-interest-bearing loans are carried at their present value. Risks for collectibility and trans-	ferability, as well as general credit risks, are covered by appropriate write-downs and flat-rate valuation adjustments.
Marketable securities	These are carried individually at cost or at lower stock-market or market values as appropriate. They consist mainly of fixed-interest-	bearing securities, some of them in closed investment funds.
Special reserves with equity portion	In the case of German companies, special reserves with equity portion may be formed in accordance with the tax regulations for certain situations. The figure shown includes, in particular, the apportionment of gains from sales	of assets according to § 6 b Income Tax Law (EStG) and reserves for capital investments in developing countries according to § 1 of the Developing Countries Tax Law. Appropriations and write-backs are shown in Note 22.
Provisions	<p>The principles for the determination of provisions for pensions and similar obligations and their composition are explained in Note 15. Provisions for taxes, uncertain liabilities, anticipated losses from uncompleted transactions and deferred maintenance expenses to be incurred within the first 3 months of the following business year are recognized, in accordance with reasonable commercial expectation, in the sum necessary to meet expected future payment obligations, losses or expenses. Furthermore, some Group companies collect provisions in installments for regular shutdowns of certain large-scale plants.</p> <p>Provisions for deferred taxes are recognized for valuation differences between the commercial and fiscal balance sheets of the consolidated companies and for differences resulting</p>	<p>from consolidation operations which are expected to be offset in future years. Credit and debit differences are accumulated in each individual case. In the event of residual credit balances, no apportionments are recorded for deferred taxes.</p> <p>Provisions for required recultivation associated with oil and gas exploration, especially the filling of wells and clearance of oil fields, or the operation of landfill sites are recorded over the expected service life.</p> <p>Provisions for long-service and anniversary bonuses in the German Group companies are formed by the partial value method at a calculated interest rate of 5.5 percent. Foreign Group companies use comparable procedures permissible under national law.</p>

**(4) Influence of special tax valuation measures**

The German companies in the Group also apply certain balance-sheet and valuation principles permitted on the basis of tax regulations. Special depreciation allowed under the Development Areas Law and measures based on circumstances which must be eliminated, are not included in the Group financial statements.

Other special depreciation, special reserves with equity portion or omitted write-offs are retained in the Group financial statements. Mainly as a result of taking into account retrospective scheduled depreciation for special tax write-downs undertaken in earlier years, the effect on earnings is as follows:

Million DM	BASF Group	BASF AG
Net income	2,790.2	1,700.7
Tax influence	-18.2	-16.7
Adjusted net income	2,772.0	1,684.0

The omitted write-offs were DM 2.9 million for the BASF Group and DM 2.4 million for BASF Aktiengesellschaft. The influences arising from earlier special depreciation facilities, with the exception of profits of sale transferred to land

or buildings, will be subject to scheduled depreciation over the next few years. This is of no substantial importance for the individual years as regards the future tax payment.

**(5) Continuity in accounting and valuation methods**

There has been no change in the accounting and valuation methods. There was a change in the way in which profits or losses from retirements of investments and securities shown as current assets were presented in 1996. These are no longer listed as a component of other

operating income or expense but rather as a component of the financial result. The operating result in 1995 would be reduced by DM 25.4 million in the BASF Group and by DM 36.1 million at BASF Aktiengesellschaft on a comparable basis.

**(6) Currency conversion**  
Conversion of foreign currency items

The cost of assets acquired in foreign currencies, as well as revenues from sales in foreign currencies, are recorded at current rates on transaction dates. Items covered by specific hedging measures are recorded at the hedged rate.

Foreign currency receivables are recorded at the rate prevailing on the acquisition date or at the lower rate on the balance sheet date. Foreign currency liabilities are recorded at the rate prevailing on the acquisition date or at the higher rate on the balance sheet date.

## Conversion of foreign currency financial statements

Currency conversion is based on the internationally recognized principle of the functional currency.  
The local currency is the functional currency of our subsidiaries and affiliates in North America, Japan and Korea, because of the low utilization of the German mark in the trading operations. The balance sheet items are converted to DM at year-end current rates, and the expense and revenue at quarterly average rates. The difference between the equity at the rates on the date of payment or accumulation and at year-end current rates is classified separately as "translation adjustment". The adjustment of fixed assets to year-end current rates is included in the "reclassifications" category in the development of fixed assets.  
The financial statements of the other companies are converted in accordance with the modified temporal method. The fixed assets, except loans, are converted at rates in effect

on the date of acquisition or production (historical rates), all other assets, liabilities and provisions at year-end current rates. The paid-in equity is converted at rates on the date of payment or acquisition; earned equity is determined as a remaining balance in the balance sheets converted in accordance with these principles.  
Expenses and income are converted at quarterly average rates, or monthly average rates for companies in high-inflation countries, except when they are shown in the balance-sheet items converted at historical rates. The changes to balance sheet items converted at year-end exchange rates are reported under other operating expense or income.  
In the case of companies in high-inflation countries, sales revenues, interest and foreign exchange results, inventories and trade accounts receivable and payable have been adjusted for inflation.

**Notes to the balance sheet**

The development of gross book values and amortizations by individual categories of fixed assets and a summary of the major affiliates

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

**(7) Intangible and tangible assets**

The additions to intangible assets relate primarily to product rights and developments and goodwill resulting from the acquisition of Zeneca's textile dye business and Sandoz's corn herbicide business.

Unscheduled write-downs of tangible assets to a lower assigned value mainly relate to our

subsidiary BASF S.A., Brazil. As a result of the opening of the Brazilian market, various production units are not competitive. Accordingly, the book values had to be adjusted to the cash values of the expected future cash flows. Overall, the following special write-downs were carried out:

Million DM	BASF Group	BASF AG
Permanent impairment in value	118.9	12.4
Depreciation permissible for tax purposes, mainly in accordance with § 6 b Income Tax Law (EStG) in excess of regular depreciation	27.9	15.3

**(8) Financial assets**

The additions to "Shares in affiliated companies" result primarily from the acquisition of a majority holding in the Japanese pharmaceutical company Hokuriku Seiyaku Co., Ltd.

In the case of BASF Aktiengesellschaft, there were further additions resulting from capital increases in consolidated companies, mainly BASF Chemie-Beteiligungsgesellschaft mbH, in anticipation of a future commitment in China, as well as Knoll AG and BASF S.A., Brazil.

The increases in "Loans to affiliated companies" include the granting of a loan by our subsidiary Kali-Bank of DM 1 billion to our Russian joint venture partner Gazprom to assist with the construction of the Yamal natural gas transit pipeline.

Depreciation for permanent impairment in value and discounts on loans amounted to DM 150.9 million in the BASF Group, particularly for the reduction in value of our holding in IVAX Corporation because of the sharp fall in the quoted price of these shares.

In the case of BASF Aktiengesellschaft, the carrying values of the participations in BASF S.A., Brazil, BASF Vitaminfabrik A/S, Denmark, in connection with the merger with BASF Health & Nutrition A/S, Denmark, and BASF (Malaysia) Sdn. Bhd., Malaysia, were written down by DM 195.0 million as a result of the fall in the capitalized income value.

**(9) Inventories**

Inventories are as follows:

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Raw materials and supplies			<b>387.6</b>	425.4
Work in progress, finished goods and merchandise	<b>6,806.9</b>	6,399.9	<b>1,813.0</b>	1,787.3
Uncompleted contracts	<b>182.7</b>	126.5	<b>212.1</b>	146.1
Payment on account	<b>28.6</b>	15.2	<b>2.3</b>	4.6
	<b>7,018.2</b>	6,541.6	<b>2,415.0</b>	2,363.4

For BASF Group inventories valued on the LIFO basis, LIFO reserves are approximately DM 251 million. For BASF Aktiengesellschaft, raw materials are valued at approximately

DM 26 million and work in progress, finished goods and merchandise at approximately DM 115 million.

**(10) Receivables and other assets**

Breakdown of miscellaneous receivables and other assets

The miscellaneous receivables and other assets consist of:

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Receivables from companies in which participations are held	<b>442.7</b>	408.0	<b>115.3</b>	38.2
Other assets	<b>1,165.0</b>	1,230.7	<b>236.1</b>	265.4
	<b>1,607.7</b>	1,638.7	<b>351.4</b>	303.6

Other assets include DM 77.7 million for the BASF Group and DM 54.0 million for BASF

Aktiengesellschaft of accrued items, mainly of accrued interest.

Residual terms of receivables

Receivables having a residual term in excess of one year are as follows:

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Accounts receivable – trade	<b>18.7</b>	16.0	<b>0.9</b>	1.9
Receivables from affiliated companies	<b>26.6</b>	21.8	<b>4.8</b>	0.8
Receivables from companies in which participations are held	<b>44.6</b>	37.9	–	–
Other assets	<b>189.0</b>	157.2	<b>19.7</b>	8.8
Miscellaneous receivables and other assets	<b>233.6</b>	195.1	<b>19.7</b>	8.8
	<b>278.9</b>	232.9	<b>25.4</b>	11.5

**(11) Prepaid expenses**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Deferred tax assets	<b>135.0</b>	118.6	–	–
Debit discount	<b>65.4</b>	106.0	–	–
Miscellaneous	<b>219.9</b>	241.3	<b>9.9</b>	10.4
	<b>420.3</b>	465.9	<b>9.9</b>	10.4

Deferred tax assets are formed for lower valuations in the commercial balance sheet as compared with the fiscal balance sheet. These differences arise from consolidation operations, especially the elimination of interim profits in inventories. Deferred tax liabilities of

DM 110.5 million were offset against the deferred tax assets. Debit discount, arising primarily from the issue of a low-interest bond, is capitalized and written down as interest expense over the term of the underlying obligations.

(12) Subscribed capital		Number of shares		Nominal value DM
		DM 5	DM 50	
	In accordance with a resolution of the Annual Meeting of May 9, 1996, 2,000,000 shares with a nominal value of DM 50 each were converted to 20,000,000 shares with a nominal value of DM 5 each. The stock exchange listing was converted to the DM 5 share on July 1, 1996.			
	January 1, 1996		60,976,628	3,048,831,400
	Conversion to DM 5 share	20,000,000	-2,000,000	-
	Additions from conditional capital by exercising subscription rights connected with the 3% U.S. Dollar Bond 1986/2001 of BASF Finance Europe N.V.		828,579	41,428,950
	Additions from conditional capital through exchange of Wintershall shares		26	1,300
	December 31, 1996	20,000,000	59,805,233	3,090,261,650
Conditional capital	The conditional capital of BASF Aktiengesellschaft totals DM 299,585,000. Of this, DM 99,585,000 is reserved for settling subscription rights connected with Bond 1986/2001 of BASF Finance Europe N.V. and for settling compensation claims by former Wintershall shareholders.			As the Annual Meeting of May 9, 1996 authorized the Board of Executive Directors to do so, bonds in the nominal sum of up to DM 600 million may be issued by April 1, 2001, together with option rights to new shares in a total nominal sum of up to DM 200 million.
Subscription rights	The subscription rights from the 3% U.S. Dollar Bond 1986/2001 of BASF Finance Europe N.V. allow the purchase, by April 9, 2001, of			1,991,421 shares in BASF Aktiengesellschaft at a price of DM 308 per share with a nominal value of DM 50.
Authorized capital	The Board of Executive Directors is authorized, with the approval of the Supervisory Board, to increase the capital stock by the issue of new shares in the amount of up to DM 600 million for cash or contributions in kind through April 1, 2000. The legal subscription privilege can be overruled to the extent necessary to grant subscription rights for new shares to the bearers of warrants from the bonds mentioned			in § 3 in the Articles of Incorporation to the extent to which they would be entitled after exercising the subscription right. In the case of capital increases against cash contributions up to a maximum total sum of DM 300 million, the legal subscription privilege can be overruled if the issue price of the new shares is not substantially below the stock exchange price.
(13) Capital surplus	Million DM		BASF Group	BASF AG
	January 1, 1996		4,703.9	4,522.2
	Additions		213.7	213.8
	December 31, 1996		4,917.6	4,736.0
	Capital surplus includes share premiums from stock issues, compensation for stock warrants and for the BASF Group credit balances from the capital consolidation, which resulted from			carrying participating interests acquired by issuing shares of BASF Aktiengesellschaft at the par value of shares issued.



**(14) Revenue reserve and profit retained**

BASF Group

Revenue reserve	Million DM
January 1, 1996	295.8
Transfers from other revenue reserves and profit retained, and changes in the scope of consolidation	10.2
December 31, 1996	306.0
Other revenue reserves and profit retained	Million DM
January 1, 1996	10,021.2
Dividend of BASF Aktiengesellschaft (previous year)	- 853.7
Transfers to legal reserves	- 10.6
Net income after minority interests	2,790.2
Changes in the scope of consolidation and other changes	- 4.9
December 31, 1996	11,942.2
In the Group financial statements, "Other revenue reserves" and "Profit retained" are	combined into one item in order to take into account the special features of consolidation.

BASF Aktiengesellschaft

Other revenue reserves	Million DM
January 1, 1996	4,789.4
Appropriations from net income	650.0
December 31, 1996	5,439.4
Profit retained	Million DM
Net income (DM 1,700,669,820)	1,700.7
Profit carried forward from preceding year (DM 117,323)	0.1
Appropriations to other revenue reserves (DM 650,000,000)	- 650.0
December 31, 1996 (DM 1,050,787,143)	1,050.8

**(15) Provisions for pensions and similar obligations**

Most employees of the consolidated companies are entitled not only to future pensions from statutory pension plans but also to payments from contributory or performance-oriented pension plans. The benefits are generally determined by the length of employment, remuneration or contributions of the entitled employees, taking into account the provisions of labor and social law in the various countries. For BASF Aktiengesellschaft and other German group companies, basic benefits are provided by the legally independent BASF Pension Benefits System, which is financed by contributions from members and companies and is subject to the Law on the Supervision of Private Insurance Companies (VAG).

Additional company pension commitments are financed, in the case of German companies, by pension provisions. These are determined by actuarial principles by the modified entry age normal method with a discount rate of 6 percent. Adjustments under § 16 Employee Social Security Benefits Law (Betr AVG) are recognized in the amount of advance commitments entered into or by installments in accordance with the expected need of adjustment. In the case of foreign Group companies, pension entitlements are covered in some cases by pension provisions but mainly by externally financed pension funds, which show the following obligations and assets:

Million DM	1996	1995
Cash value of future benefits	<b>2,404.9</b>	1,787.8
Fund assets at market values	<b>2,694.5</b>	2,187.4

Commitments by our North American Group companies to provide for the costs of medical and life insurance benefits for employees and dependents after retirement are recorded as obligations similar to pensions. They are

calculated in accordance with actuarial rules, allowing for future cost trends, using a discount rate of 7.5 percent. The provisions amount to DM 522.5 million (1995: DM 559.5 million).

**(16) Other provisions**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Oil and gas production, mining	<b>743.0</b>	750.7	-	-
Environmental protection measures	<b>723.2</b>	726.3	<b>398.4</b>	373.4
Personnel obligations	<b>1,698.9</b>	1,627.2	<b>1,046.1</b>	1,096.3
Sales and purchases risks	<b>836.3</b>	1,158.7	<b>222.4</b>	207.9
Shutdown and restructuring operations	<b>594.7</b>	589.5	<b>115.2</b>	2.2
Maintenance and repairs	<b>257.0</b>	267.6	<b>67.6</b>	71.5
Others	<b>1,617.5</b>	1,365.9	<b>783.7</b>	875.2
	<b>6,470.6</b>	6,485.9	<b>2,633.4</b>	2,626.5

**(17) Liabilities**

Bonds and other liabilities to the capital market

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
8% U.S. Dollar Bonds of BASF Finance Europe N.V. of 1989, repaid 1996	-	429.5	-	-
3% U.S. Dollar Bonds with warrants of BASF Finance Europe N.V. of 1986, due 2001	<b>357.4</b>	329.3	-	-
7% U.S. Dollar Bonds of BASF Finance Europe N.V. of 1992, due 1999	<b>290.6</b>	267.7	-	-
3.3 – 6.8% Pollution Control and Industrial Development Bonds of BASF Corporation, due 1997 – 2031	<b>171.2</b>	134.8	-	-
Commercial Paper and other	<b>221.0</b>	226.6	-	-
	<b>1,040.2</b>	1,387.9	-	-

Other liabilities

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Advances received on account of orders	<b>131.4</b>	103.5	<b>58.9</b>	24.5
Liabilities on bills	<b>19.1</b>	28.6	-	-
Liabilities to companies in which participations are held	<b>393.3</b>	378.1	<b>119.0</b>	111.2
Miscellaneous liabilities	<b>2,331.2</b>	2,934.0	<b>407.3</b>	583.5
- thereof taxes	<b>(465.5)</b>	(847.2)	<b>(109.8)</b>	(399.1)
- thereof relating to social security	<b>(287.3)</b>	(190.2)	<b>(115.6)</b>	(32.6)
	<b>2,875.0</b>	3,444.2	<b>585.2</b>	719.2

Residual terms of liabilities

Million DM	BASF Group		BASF AG	
	Up to one year	More than 5 years	Up to one year	More than 5 years
Bonds and other liabilities to the capital market	74.3	168.8	-	-
Liabilities to credit institutions	604.0	112.9	10.3	9.7
Accounts payable – trade	3,155.5	-	832.9	-
Liabilities to affiliated companies	385.7	-	4,703.9	1.0
Advances received on account of orders	112.5	-	40.1	-
Liabilities on bills	19.1	-	-	-
Liabilities to companies in which participations are held	388.5	0.7	113.2	1.5
Other liabilities	1,469.8	811.4	391.1	14.5
	6,209.4	1,093.8	6,091.5	26.7

## Secured liabilities

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Bonds	<b>0.3</b>	1.1	–	–
Liabilities to credit institutions	<b>88.3</b>	209.9	<b>1.7</b>	2.8
Miscellaneous liabilities	<b>197.5</b>	149.7	<b>108.2</b>	56.3
	<b>286.1</b>	360.7	<b>109.9</b>	59.1

Liabilities are collateralized primarily by mortgages or land charges. Covenants to

maintain certain financial ratios have been declared.

**(18) Contingent liabilities**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Contingent liabilities from the issuance and endorsement of bills of exchange	<b>333.0</b>	149.7	<b>214.8</b>	54.9
– thereof to affiliated companies	<b>(29.1)</b>	(13.8)	<b>(28.5)</b>	(13.0)
Contingent liabilities from guarantees	<b>302.8</b>	330.6	<b>988.1</b>	1,425.2
Contingent liabilities from warranties	<b>74.4</b>	56.1	<b>324.7</b>	251.7
Contingent liabilities from the granting of security for third party liabilities	<b>5.7</b>	2.0	<b>1.0</b>	3.0
	<b>715.9</b>	538.4	<b>1,528.6</b>	1,734.8

**(19) Other financial commitments**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Remaining cost of uncompleted investment projects	<b>2,910.0</b>	2,700.8	<b>1,122.5</b>	1,422.5
– thereof purchase commitment	<b>(826.2)</b>	(733.7)	<b>(260.7)</b>	(276.0)
Commitments from long-term rental and leasing contracts	<b>1,055.4</b>	1,013.9	<b>373.7</b>	370.5
– thereof payable during the following year	<b>(233.7)</b>	(229.5)	<b>(49.1)</b>	(49.9)
– thereof payable during second to fifth years	<b>(446.7)</b>	(442.8)	<b>(146.7)</b>	(147.5)
Miscellaneous liabilities	<b>94.9</b>	60.6	<b>2.3</b>	3.3
	<b>4,060.3</b>	3,775.3	<b>1,498.5</b>	1,796.3

Uncompleted investment projects will be completed and financed according to schedule.

Other commitments comprise DM 2.5 million of BASF Aktiengesellschaft to affiliated companies.

**(20) Derivative financial instruments**

To reduce the risks of foreign exchange and interest rate changes, use is made of forward exchange and option transactions as well as interest or currency swaps or combined instruments. Their use is confined to hedging the

positions, cash investments or finance arising from the operating business, and is subject to strict internal controls in compliance with the principles of separation of functions.

Million DM	BASF Group		BASF AG	
	Nominal value	Market value	Nominal value	Market value
Foreign currency derivatives	5,224.1	–104.4	2,607.2	–87.4
Interest derivatives	777.0	3.8	700.0	4.6
Other derivatives	7.8	0.1	–	–
	6,008.9	–100.5	3,307.2	–82.8

The nominal values are the totals for the purchase and sale of the specific derivatives without netting. The market values correspond to the difference between the cost and resale value, which is determined from market quotations or by the use of option price models or,

in the case of unlisted contracts, the yield in the event of premature writing back. Contrary value developments resulting from the basic transactions are not taken into account. To limit the risk of nonpayment, transactions are concluded only with leading banks.

**Notes to the profit and loss account and other disclosures**
**(21) Sales**

Breakdown by operations	Million DM	BASF Group		BASF AG	
		1996	1995	1996	1995
Health & Nutrition		<b>9,115.0</b>	7,986.2	<b>4,058.4</b>	3,842.4
Colorants & Finishing Products		<b>11,284.6</b>	10,766.0	<b>4,670.8</b>	4,466.0
Chemicals		<b>7,300.3</b>	7,255.4	<b>5,521.2</b>	5,668.7
Plastics & Fibers		<b>12,079.8</b>	12,456.0	<b>5,679.0</b>	6,230.4
Oil & Gas		<b>5,207.5</b>	4,207.1	–	–
Other		<b>3,788.8</b>	3,558.4	<b>677.8</b>	853.3
Sales of operations		<b>48,776.0</b>	46,229.1	<b>20,607.2</b>	21,060.8
Petroleum/natural gas taxes		<b>3,425.9</b>	3,173.5	–	–
Sales incl. petroleum/natural gas taxes		<b>52,201.9</b>	49,402.6	<b>20,607.2</b>	21,060.8

The sales of "Information Systems", shown as a separate operation last year, are included under "Other"; the previous year's figures have been adjusted. A substantial proportion is ac-

counted for by Comparex Informationssysteme GmbH and the magnetic product business sold at year-end.

**Breakdown by regions**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Europe	<b>30,829.3</b>	29,819.1	<b>15,512.7</b>	16,388.6
– thereof Germany	<b>(12,971.0)</b>	(12,614.3)	<b>(6,303.6)</b>	(7,026.1)
North America (including Mexico)	<b>9,547.0</b>	8,963.2	<b>1,297.6</b>	1,174.2
South America	<b>2,691.4</b>	2,338.6	<b>538.7</b>	471.4
Asia, Pacific Area, Africa	<b>5,708.3</b>	5,108.2	<b>3,258.2</b>	3,026.6
Sales	<b>48,776.0</b>	46,229.1	<b>20,607.2</b>	21,060.8
Petroleum/natural gas taxes	<b>3,425.9</b>	3,173.5	–	–
Sales incl. petroleum/natural gas taxes	<b>52,201.9</b>	49,402.6	<b>20,607.2</b>	21,060.8

**(22) Other operating expenses or income**

Million DM	BASF Group	
	1996	1995
Other operating income		
Dissolution or adjustment of provisions	<b>907.7</b>	935.1
Income from other nontypical transactions	<b>218.1</b>	155.7
Profits from foreign currency and conversion transactions	<b>413.7</b>	378.5
Dissolution of special reserves	<b>27.9</b>	30.5
– thereof: BASF AG	<b>(15.4)</b>	(7.4)
Other	<b>358.1</b>	514.0
	<b>1,925.5</b>	2,013.8

**Other operating expenses**

Million DM	BASF Group	
	1996	1995
Costs of restructuring, shutdowns, severance packages and other personnel obligations	<b>828.1</b>	697.9
Environmental protection and safety measures, costs of demolition, disposal and projects excluded from capitalization	<b>330.6</b>	431.8
Losses from foreign exchange and conversion transactions	<b>322.8</b>	561.8
Prime costs of the other nontypical transactions	<b>216.7</b>	153.8
Transfers to special reserves	<b>11.9</b>	47.8
– thereof: BASF AG	<b>(4.2)</b>	(35.5)
Other	<b>1,678.7</b>	1,637.3
	<b>3,388.8</b>	3,530.4

The expenses of restructuring and shutdown measures include charges resulting from the divestiture of the magnetic product business, which we sold to KOHAP Inc., Korea. Plants and facilities in the United States and

Indonesia, which were not included in the sale, were shut down. Additional charges were incurred as a result of the restructuring of Coatings and of Printing Systems.

**(23) Net income from financial assets**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Income from participating interests and similar income	<b>26.8</b>	21.1	<b>474.3</b>	177.8
– thereof from affiliated companies	<b>(16.4)</b>	(18.5)	<b>(464.4)</b>	(173.8)
Income from profit transfers	<b>122.4</b>	128.0	<b>67.4</b>	182.8
Expenses from loss transfers	<b>118.6</b>	73.0	<b>153.1</b>	351.9
Results of affiliated and associated companies (equity method)	<b>77.1</b>	52.2	–	–
	<b>107.7</b>	128.3	<b>388.6</b>	8.7

BASF Group: The profits of affiliated and associated companies shown by the equity method include, in addition to the proportions of the profits made, amortization of goodwill and adjustments of negative differences. The profits primarily relate to income from Kali und Salz GmbH, Kassel, with DM 55.7 million, in particular as a result of the adjustment of a negative difference, Potash Company of Canada Group, Toronto, with DM 28.1 million, and Polioles, S.A. de C.V., Mexico City, with DM 7.1 million. Losses were incurred by Shanghai BASF Colorants and Auxiliaries Co., Shanghai, with DM 40.7 million, Hokuriku Seiyaku Co., Ltd., Katsuyama City, caused by scheduled depreciation of goodwill, with DM 16.6 million, and Wintershall (UK) Ltd., London, with DM 14.3 million.

BASF Aktiengesellschaft: Income from participating interests relates primarily to dividends

paid by Comparex Informationssysteme GmbH, Mannheim, with DM 132.7 million, including corporation tax credits, and BASF Coordination Center N.V., Antwerp, with DM 199.6 million, BASF Española S.A., Barcelona, with DM 17.8 million, BASF Magnetics France S.A., Levallois, with DM 23.1 million, and BASF France S.A., Levallois, with DM 17.7 million.

Income from profit transfers were derived primarily from Rheinische Olefinwerke GmbH, Wesseling, and from BASF Schwarzheide GmbH, Schwarzheide. Expenses from loss transfers relate primarily to Knoll AG, Ludwigshafen, with which a profit-sharing agreement was concluded in 1996, and BASF Waren- und Anlagenvertriebs- und -leasing GmbH, Ludwigshafen.

**(24) Interest result**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Income from other investments and financial assets	<b>62.6</b>	27.4	<b>50.8</b>	55.8
– thereof from affiliated companies	<b>(33.3)</b>	(6.5)	<b>(48.8)</b>	(53.9)
Other interest, income from sale of current asset securities and similar income	<b>604.7</b>	449.7	<b>360.4</b>	299.5
– thereof from affiliated companies	<b>(11.5)</b>	(8.0)	<b>(41.0)</b>	(45.2)
Interest and similar expenses	<b>484.8</b>	455.8	<b>149.9</b>	129.2
– thereof to affiliated companies	<b>(25.0)</b>	(45.5)	<b>(83.1)</b>	(99.0)
	<b>182.5</b>	21.3	<b>261.3</b>	226.1

The interest expenses also include charges from invoicing after tax office investigations.

**(25) Taxes**

Million DM	BASF Group		BASF AG	
	1996	1995	1996	1995
Income taxes	<b>1,575.0</b>	1,704.9	<b>514.2</b>	947.6
– thereof taxes for oil-producing operations	<b>(284.8)</b>	(173.4)	<b>(–)</b>	(–)
Other taxes	<b>259.8</b>	308.1	<b>61.9</b>	111.5
	<b>1,834.8</b>	2,013.0	<b>576.1</b>	1,059.1

Income taxes comprise corporation tax, trade income tax and similar income-related taxes as well as deferred taxes. Tax expenses of BASF Aktiengesellschaft also include income taxes to be paid for companies under tax assumption agreements; the corresponding income

from allocating these taxes is included in other operating income.

Other taxes, particularly property tax, trade capital tax and real estate tax, are allocated to operational costs.

**(26) Cost of materials of BASF Aktiengesellschaft**

Million DM	1996	1995
Cost of raw materials, consumables and supplies and for purchased merchandise	<b>9,018.5</b>	9,366.2
Cost of purchased services	<b>2,149.5</b>	1,851.4
	<b>11,168.0</b>	11,217.6

**(27) Employees**

Personnel cost	Million DM	BASF Group		BASF AG	
		1996	1995	1996	1995
Wages and salaries		<b>8,718.4</b>	8,404.3	<b>4,090.0</b>	4,053.4
Social security contributions and expenses for pensions and assistance		<b>2,306.5</b>	2,414.1	<b>1,106.8</b>	1,255.9
– thereof for pensions		<b>(764.5)</b>	(961.3)	<b>(420.9)</b>	(579.3)
		<b>11,024.9</b>	10,818.4	<b>5,196.8</b>	5,309.3

Cost of employees' representatives

On the basis of statutory regulations, German Group companies incurred costs of DM 22.5 million (1995: DM 21.0 million) for employees'

representatives. BASF Aktiengesellschaft accounted for DM 13.5 million (1995: DM 12.6 million) of this sum.

Average number of employees

BASF Group	Fully consolidated companies		Pro rata consolidated companies	
	1996	1995	1996	1995
Europe	<b>78,510</b>	79,619	<b>2,714</b>	2,785
– thereof Germany	<b>(61,480)</b>	(62,511)	<b>(2,448)</b>	(2,518)
North America (including Mexico)	<b>14,876</b>	15,758	<b>7</b>	–
South America	<b>6,681</b>	7,084	<b>–</b>	–
Asia, Pacific Area, Africa	<b>4,140</b>	3,096	<b>1,012</b>	740
	<b>104,207</b>	105,557	<b>3,733</b>	3,525
thereof with trainee contracts	<b>2,785</b>	2,901	<b>133</b>	138

The personnel figures for the companies which are consolidated pro rata are given in full in the above list; if they are taken into account at

50 percent, the average number of personnel for the Group is 106,074 in 1996 and 107,320 in 1995.

BASF AG	1996	1995
Hourly workers	<b>19,113</b>	19,350
Salaried employees	<b>22,791</b>	23,002
Trainees	<b>2,084</b>	2,195
	<b>43,988</b>	44,547

**(28) Minority interests**

Million DM	BASF Group	
	1996	1995
Minority interests in profits	<b>150.2</b>	89.6
Minority interests in losses	<b>101.7</b>	136.8
	<b>48.5</b>	- 47.2

The minority interests in profits relate to interests in the profits of Kali und Salz Beteiligungs AG and its affiliated companies, EBEWE Arzneimittel Ges. mbH and Comparex Informationssysteme GmbH. Interests held by the

Gazprom Group in the earnings of the companies active in the natural gas business are included both in the profit interests and in the loss interests.

**(29) Remuneration of the Board of Executive Directors and the Supervisory Board, advances and loans granted**

Total remuneration of the Supervisory Board amounts to DM 2.4 million, of the Board of Executive Directors to DM 19.2 million, including the remunerations granted by subsidiaries in the amount of DM 2.4 million. These sums include the deferred success-dependent payments for 1996. Total remuneration of former members of the Board of Executive Directors and their survivors amounts to DM 7.7 million. Pension provisions for former members of the Board of Executive Directors amount to DM 61.9 million.

Loans granted to members of the Board of Executive Directors amount to DM 0.1 million (1995: DM 0.3 million), the loans bearing an interest rate of 5 percent. The terms are 10 years. During 1996, loans of DM 0.2 million were repaid. New loans were not granted. There were no commitments assumed in favor of these persons. The members of the Board of Executive Directors and of the Supervisory Board are listed on separate pages following these notes.

**Proposed distribution of profit retained**

We propose to the Annual Meeting of Shareholders the distribution of a dividend of DM 1.70 per share at a nominal value of DM 5 from the profit retained of DM 1,050,787,143 of BASF Aktiengesellschaft. Eligible domestic shareholders also receive a tax credit of DM 0.73. If the proposal is accepted, the dividend payable for the 1996 financial year on capital

stock of DM 3,090,261,650 entitled to a dividend will be DM 1,050,688,961, leaving an undistributed amount of DM 98,182. We propose this amount be carried forward.

Ludwigshafen, March 4, 1997

**The Board of Executive Directors****Accountants' opinion**

The accounting records and the financial statements of BASF Aktiengesellschaft, which we have audited in accordance with professional standards, comply with the German legal provisions. The financial statements of BASF Aktiengesellschaft, prepared in accordance with generally accepted accounting principles, give a true and fair view of the net worth, financial position and earnings of BASF Aktiengesellschaft. The BASF Aktiengesellschaft Management's Analysis, which is combined with the BASF Group Management's Analysis, is consistent with the financial statements of BASF Aktiengesellschaft.

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

The financial statements of the BASF Group, prepared in accordance with generally accepted accounting principles, give a true and fair view of the net worth, financial position and earnings of the BASF Group. The BASF Group Management's Analysis, which is combined with the Management's Analysis of BASF Aktiengesellschaft, is consistent with the financial statements of the BASF Group.

**Deloitte & Touche GmbH**

Wirtschaftsprüfungsgesellschaft

Frankfurt, March 4, 1997

Prof. Dr. Emmerich      Kompenhans  
Wirtschaftsprüfer      Wirtschaftsprüfer

**Deloitte & Touche GmbH**

Wirtschaftsprüfungsgesellschaft

Frankfurt, March 4, 1997

Prof. Dr. Emmerich      Dr. Künnemann  
Wirtschaftsprüfer      Wirtschaftsprüfer

# Report of the Supervisory Board

We carefully supervised the management of the company's affairs during the period under review. We kept ourselves fully and continuously informed about important issues of management in 6 meetings with the Board of Executive Directors and by reviewing its written and verbal reports. Reporting included the major companies in the BASF Group. At two of the meetings, division presidents of BASF reported on their operations. We dealt thoroughly with the strategic orientation of the BASF Group. In accordance with the statutes, we discussed major acquisitions and divestitures made in this connection.

In March 1996, we appointed Messrs. Helmut Becks and Eggert Voscherau to the Board of Executive Directors of the company, with effect from November 1, 1996. Dr. Jürgen Hambrecht and Dr. Stefan Marcinowski were appointed to the Board in December 1996. They will take up office at the end of the Annual Meeting of the company on May 15, 1997. We have examined the Financial Statements and Management's Analysis of BASF Aktiengesellschaft and the proposal for the appropriation of net income. The Financial Statements, including the books and Management's Analysis of BASF

Aktiengesellschaft, have been examined by Deloitte & Touche GmbH, the auditors elected by the Annual Meeting, and have been given an unqualified opinion. The auditors gave detailed explanations of their report at a meeting specifically called for this purpose before the accounts meeting. Having concluded our examination we concur with the auditors and see no grounds for objections.

The Financial Statements and Management's Analysis of the BASF Group as well as the report of the auditors Deloitte & Touche GmbH elected by the Annual Meeting, who have expressed an unqualified opinion, have been brought to our attention. At today's meeting, we approved the Financial Statements of the company drawn up by the Board of Executive Directors, which are thus final, and concur with the proposal of the Board of Executive Directors regarding the retained profit.

Mr. Wolfgang Daniel succeeded Mr. Ulrich Nickel as member of the Supervisory Board on September 9, 1996.

*Ludwigshafen, March 18, 1997*

*The Supervisory Board*

## Supervisory Board

Dr. rer. nat. Hans Albers  
Bad Dürkheim  
Chairman

Professor Dr. rer. nat.  
Matthias Seefeldt  
Heidelberg  
Honorary Chairman

Volker Obenauer  
Ludwigshafen  
Deputy Chairman  
Chairman of the Works Council  
of the Ludwigshafen Works  
of BASF Aktiengesellschaft

Dr. phil. Marcus Bierich  
Stuttgart  
Chairman of the Supervisory  
Board of Robert Bosch GmbH

Wolfgang Daniel  
Limburgerhof  
Deputy Chairman of the  
Works Council of the  
Ludwigshafen Works  
of BASF Aktiengesellschaft  
From September 9, 1996

Etienne Graf Davignon  
Brussels  
President of Société Générale  
de Belgique

Professor Dr. rer. nat.  
Manfred Eigen  
Göttingen  
Director, Max Planck Institute  
for Biophysical Chemistry  
in Göttingen

Lothar Hick  
Limburgerhof  
Member of the Works Council  
of the Ludwigshafen Works  
of BASF Aktiengesellschaft

Dr. rer. nat.  
Wolfgang Jentzsch  
Mannheim

Ulrich Küppers  
Ludwigshafen  
General Manager of the  
Ludwigshafen branch of  
Industriegewerkschaft  
Chemie - Papier - Keramik  
(Chemical, Paper and Ceramics  
Industries Union)

Professor Dr. rer. nat.  
Hans Joachim Langmann  
Jugenheim/Bergstrasse  
Chairman of the Board of  
Executive Directors of  
Merck KGaA

Dr. rer. nat.  
Karlheinz Messmer  
Weisenheim am Berg  
Plant Manager at the  
Ludwigshafen Works of  
BASF Aktiengesellschaft

Ulrich Nickel  
Frankenthal  
Deputy Chairman of the  
Works Council of the  
Ludwigshafen Works  
of BASF Aktiengesellschaft  
Deceased September 9, 1996

Ellen Schneider  
Wallenhorst  
Chairwoman of the Joint Works  
Council of Elastogran GmbH

Dr. jur.  
Henning Schulte-Noelle  
Munich  
Chairman of the Board  
of Executive Directors  
of Allianz Aktiengesellschaft

Gerhard Sebastian  
Ludwigshafen  
Member of the Works Council  
of the Ludwigshafen Works  
of BASF Aktiengesellschaft

Gerhard Söllner  
Philippssthal  
Chairman of the  
Joint Works Council  
of Kali und Salz GmbH

Robert Studer  
Zurich  
President of the  
Administrative Council of  
Schweizerische Bankgesellschaft  
(Union Bank of Switzerland)

Klaus Südhofer  
Recklinghausen  
Deputy Chairman of Industrie-  
gewerkschaft Bergbau und Ener-  
gie (Mining and Energy Industries  
Union)

Jürgen Walter  
Neustadt am Rügenberge  
Member of the Central Board  
of Executive Directors  
of Industriegewerkschaft  
Chemie - Papier - Keramik  
(Chemical, Paper and Ceramics  
Industries Union)

Dr. rer. pol. Ulrich Weiss  
Bad Soden  
Member of the Board of  
Executive Directors  
of Deutsche Bank AG

Helmut Werner  
Stuttgart

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*We mourn Mr. Ulrich Nickel, who died on September 9, 1996 at the age of 60. As Deputy Chairman of the Works Council of the Ludwigshafen Works of BASF Aktiengesellschaft, he had been a member of our Supervisory Board since 1991.*

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## Board of Executive Directors

## Division heads

Dr. Jürgen Strube Chairman	José-Maria Bach Southern Europe	Dr. Jürgen Hambrecht East Asia	Dr. Gerhard Paul Colorants Laboratory
Dr. Hanns-Helge Stechl Deputy Chairman	Dr. Ralf Bethke Potash & Salt	Dr. Hans Jörg Henne Environment, Safety & Energy	Dr. Werner Prätorius Engineering Plastics
Dr. Albrecht Eckell	Erich Binckli Central Europe	Herbert O. Hetz Corporate Information Services	Dr. Siegfried Riedmüller Colorants & Process Chemicals
Max Dietrich Kley	Dr. Egon Buhr BASF Aktiengesellschaft Works Engineering	Dr. Carl A. Jennings North America Chemicals	Professor Dr. Hans-Uwe Schenck BASF Group Human Resources
Professor Dr. Hans-Jürgen Quadbeck-Seeger	Dr. Manfred Buller North America Coatings	Wilfried Kahlmann South America	Professor Dr. Burghard Schmitt Polyolefins & PVC
Dr. J. Dieter Stein	Dr. Werner Burgert Fiber Products	Dr. Hans Kast Japan	Dr. Thorlef Spickschen Pharmaceuticals
Dr. Volker Trautz	Dr. Dieter Degner Ammonia Laboratory	Helmut Klamm Logistics	Barry John Stickings Northern Europe
Professor Dr. Dietmar Werner Up to December 31, 1996	Dr. Hans-Hermann Dehmel BASF Aktiengesellschaft Human Resources	Dr. Harald Köhl Specialty Chemicals	Dr. Eckart Sünner Legal, Taxes & Insurance
Gerhard R. Wolf	Herbert Detharding Oil & Gas	Dr. Josef F. Kohnle Dispersions	Dr. Dieter Suter Fine Chemicals
From November 1, 1996: Helmut Becks Eggert Voscherau	Jean-Pierre Dhanis Polyurethanes	Professor Dr. Werner Küsters Main Laboratory	Dieter Thomaschewski Fertilizers
	Dr. Antoon Dieusaert Antwerp Works	Dr. Jürgen Lenz Corporate Engineering	Eggert Voscherau North America Consumer Products & Life Science
	Dr. Christian Dudeck Intermediates	Klaus Peter Löbbe Coatings	Winfried Werwie Eastern Europe, Africa, West Asia
	Dr. John Feldmann Southeast Asia/Australia	Dr. Stefan Marcinowski Foam Plastics & Reactive Resins	
	Professor Dr. Walter Frey Engineering Research & Development	Klaus Messinger North America Finance	
	Dr. Elmar Frommer Planning & Controlling	Wolfgang Mörike Raw Materials Purchasing	
	Dr. R. Wayne Godwin North America Polymers	Dr. Albrecht Müller Textile & Leather Dyes & Chemicals	
	Dr. Walter Gramlich Industrial Chemicals	Dr. Rolf Niess Basic Chemicals	
	Harald Grunert Finance	Dr. Dietmar Nissen Polymers Laboratory	
		Peter Oakley Crop Protection	

*As of December 31, 1996*

## Ten-year summary BASF Group

Million DM	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>Balance sheet</b>										
Intangible assets	816	993	818	734	650	683	638	512	1,730	<b>2,536</b>
Tangible assets	9,807	10,716	11,865	13,252	14,629	15,214	17,722	15,993	15,399	<b>16,071</b>
Financial assets	1,392	1,238	1,534	1,693	1,692	2,955	1,929	2,068	2,616	<b>4,094</b>
<b>Fixed assets</b>	<b>12,015</b>	<b>12,947</b>	<b>14,217</b>	<b>15,679</b>	<b>16,971</b>	<b>18,852</b>	<b>20,289</b>	<b>18,573</b>	<b>19,745</b>	<b>22,701</b>
Inventories and goods on lease	5,671	6,067	6,533	6,407	6,456	6,748	6,317	6,262	6,725	<b>7,169</b>
Accounts receivable – trade	4,861	5,920	5,805	5,793	5,655	5,446	5,748	6,483	6,564	<b>7,263</b>
Miscellaneous receivables	<u>2,299</u>	<u>2,239</u>	<u>2,422</u>	<u>2,913</u>	<u>3,233</u>	<u>3,370</u>	<u>2,765</u>	<u>2,592</u>	<u>2,808</u>	<b>2,758</b>
Receivables	<u>7,160</u>	<u>8,159</u>	<u>8,227</u>	<u>8,706</u>	<u>8,888</u>	<u>8,816</u>	<u>8,513</u>	<u>9,075</u>	<u>9,372</u>	<b>10,021</b>
Cash and cash items	4,945	5,557	6,150	5,963	5,157	4,557	5,239	5,949	6,193	<b>3,827</b>
<b>Current assets*</b>	<b>17,776</b>	<b>19,783</b>	<b>20,910</b>	<b>21,076</b>	<b>20,501</b>	<b>20,121</b>	<b>20,069</b>	<b>21,286</b>	<b>22,290</b>	<b>21,017</b>
<b>Assets</b>	<b>29,791</b>	<b>32,730</b>	<b>35,127</b>	<b>36,755</b>	<b>37,472</b>	<b>38,973</b>	<b>40,358</b>	<b>39,859</b>	<b>42,035</b>	<b>43,718</b>
Paid-in capital	6,974	7,174	7,176	7,176	7,177	7,182	7,387	7,753	7,753	<b>8,008</b>
Revenue reserves and profit retained	4,873	5,330	6,661	7,054	7,372	7,315	7,629	8,441	10,317	<b>12,248</b>
Translation adjustment							-232	-453	-496	<b>-253</b>
Minority interests	119	129	120	118	86	86	160	179	353	<b>486</b>
<b>Equity</b>	<b>11,966</b>	<b>12,633</b>	<b>13,957</b>	<b>14,348</b>	<b>14,635</b>	<b>14,583</b>	<b>14,944</b>	<b>15,920</b>	<b>17,927</b>	<b>20,489</b>
Pension and other long-term provisions*	8,314	8,918	9,228	9,696	9,353	9,980	10,185	9,857	9,776	<b>9,881</b>
Tax and other short-term provisions	<u>2,947</u>	<u>3,390</u>	<u>3,631</u>	<u>3,820</u>	<u>4,167</u>	<u>3,795</u>	<u>3,821</u>	<u>4,147</u>	<u>4,680</u>	<b>4,677</b>
Provisions*	<u>11,261</u>	<u>12,308</u>	<u>12,859</u>	<u>13,516</u>	<u>13,520</u>	<u>13,775</u>	<u>14,006</u>	<u>14,004</u>	<u>14,456</u>	<b>14,558</b>
Financial indebtedness	2,367	2,475	3,185	3,370	3,926	4,962	5,364	3,632	2,833	<b>2,038</b>
Accounts payable – trade	2,505	2,905	3,096	3,385	3,224	2,892	2,802	2,995	2,771	<b>3,184</b>
Other liabilities	<u>1,692</u>	<u>2,409</u>	<u>2,030</u>	<u>2,136</u>	<u>2,167</u>	<u>2,761</u>	<u>3,242</u>	<u>3,308</u>	<u>4,048</u>	<b>3,449</b>
Liabilities	<u>6,564</u>	<u>7,789</u>	<u>8,311</u>	<u>8,891</u>	<u>9,317</u>	<u>10,615</u>	<u>11,408</u>	<u>9,935</u>	<u>9,652</u>	<b>8,671</b>
<b>Liabilities*</b>	<b>17,825</b>	<b>20,097</b>	<b>21,170</b>	<b>22,407</b>	<b>22,837</b>	<b>24,390</b>	<b>25,414</b>	<b>23,939</b>	<b>24,108</b>	<b>23,229</b>
<b>Equity liabilities</b>	<b>29,791</b>	<b>32,730</b>	<b>35,127</b>	<b>36,755</b>	<b>37,472</b>	<b>38,973</b>	<b>40,358</b>	<b>39,859</b>	<b>42,035</b>	<b>43,718</b>

\* Including prepaid expenses, deferred income and special reserves

Million DM	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>Sales and earnings</b>										
Sales	38,805	42,323	46,163	45,043	44,556	41,933	40,568	43,674	46,229	<b>48,776</b>
Income from operations	2,586	3,710	4,329	2,755	2,180	1,311	1,032	2,149	4,023	<b>4,293</b>
Profit before taxes	2,587	3,726	4,384	2,747	2,110	1,239	1,058	2,111	4,128	<b>4,414</b>
Net income	1,055	1,432	2,030	1,111	1,056	613	761	1,170	2,423	<b>2,839</b>
Net income after taxes and minority interests	1,051	1,410	2,015	1,107	1,039	615	858	1,284	2,471	<b>2,790</b>
<b>Capital expenditures and depreciation</b>										
Additions to fixed assets	3,180	4,247	4,379	5,098	5,381	5,730	4,423	3,274	5,363	<b>6,864</b>
– thereof in tangible assets	2,758	3,495	3,956	4,458	4,800	4,151	4,139	2,707	3,024	<b>3,639</b>
Depreciation of fixed assets	2,835	3,133	3,043	3,293	3,463	3,541	3,342	4,380	3,687	<b>3,666</b>
– thereof on tangible assets	2,663	2,798	2,767	3,025	3,176	3,338	3,174	4,027	3,339	<b>3,141</b>
<b>Number of employees</b>										
– at year-end	133,759	134,834	136,990	134,647	129,434	123,254	112,020	106,266	106,565	<b>103,406</b>
– year's average	132,920	134,517	136,579	136,295	130,328	126,028	117,368	107,716	107,320	<b>106,074</b>
<b>Personnel costs</b>										
	9,604	10,120	11,049	11,262	11,260	11,171	10,770	10,391	10,818	<b>11,025</b>
<b>Key data*</b>										
Net income per share (DM)	18.9	24.7	35.4	19.4	18.2	10.8	14.7	21.1	40.5	<b>4.51</b>
Cash flow	4,380	5,504	5,520	5,024	4,765	4,451	4,635	5,565	6,368	<b>6,798</b>
Cash flow per share (DM)	79	97	97	88	84	78	79	91	104	<b>11.00</b>
Return on sales before income taxes and interest expenses (%)	7.8	9.7	10.6	7.3	5.9	4.3	3.8	6.0	9.9	<b>10.0</b>
Return on assets before income taxes and interest expenses (%)	10.3	13.1	14.4	9.2	7.1	4.7	3.9	6.5	11.2	<b>11.4</b>
Return on equity after taxes (%)	8.9	11.6	15.3	7.8	7.3	4.2	5.2	7.6	14.3	<b>14.8</b>
<b>Appropriation of net income*</b>										
Net income of										
BASF Aktiengesellschaft	820	1,184	1,398	1,041	884	770	668	910	1,354	<b>1,701</b>
Transferred to revenue reserve	265	500	600	300	200	200	200	300	500	<b>650</b>
Dividend	555	684	798	741	684	570	468	610	854	<b>1,051</b>
Dividend per share (DM)	10	12	14**	13	12	10	8	10	14	<b>1.70</b>
<b>Number of shares* (1000)</b>										
	55,484	56,985	56,995	56,997	57,003	57,039	58,450	60,977	60,977	<b>618,052</b>

\* from 1996, based on shares with a nominal value of DM 5

\*\* including DM 1.00 anniversary bonus

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**Further reporting**

First quarter 1997

May 15, 1997

First half 1997

August 14, 1997

Third quarter 1997

November 13, 1997

Year 1997

March 26, 1998

1998 Annual Meeting

May 19, 1998

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