The central element of our long-term strategy is the worldwide expansion of our Verbund.

Annual Report 1997

BASF

BASF Group

Million DM	1997	1996	Change %
Sales	**55,780**	48,776	+ 14.4
Income from operations	**5,342**	4,293	+ 24.4
Profit before taxes	**5,331**	4,414	+ 20.8
Net income after taxes and minority interests	**3,236**	2,790	+ 16.0
Cash flow	**7,349**	6,798	+ 8.1
Capital expenditures	**4,359**	3,639	+ 19.8
Research and development expense	**2,549**	2,286	+ 11.5
Dividend paid by BASF Aktiengesellschaft	**1,244**	1,051	+ 18.4
Dividend per share in DM (nominal value DM 5)	**2.00**	1.70	+ 17.6
Number of employees (December 31)	**104,979**	105,589	– 0.6

Segments

Sales Million DM	1997	1996	Change %
Health & Nutrition	**10,902**	9,115	+ 19.6
Colorants & Finishing Products	**12,791**	11,285	+ 13.3
Chemicals	**8,746**	7,300	+ 19.8
Plastics & Fibers	**14,463**	12,080	+ 19.7
Oil & Gas	**6,255**	5,208	+ 20.1
Other*	**2,623**	3,788	– 30.8
	55,780	48,776	+ 14.4

Income from operations Million DM	1997	1996	Change million DM
Health & Nutrition	**753**	781	– 28
Colorants & Finishing Products	**939**	565	+ 374
Chemicals	**2,130**	1,733	+ 397
Plastics & Fibers	**720**	974	– 254
Oil & Gas	**926**	744	+ 182
Other*	**–126**	– 504	+ 378
	5,342	4,293	+1,049

Regions (location of customers)

Sales Million DM	1997	1996	Change %
Europe	**34,112**	30,830	+ 10.6
• thereof Germany	**(14,380)**	(12,971)	(+ 10.9)
North America (NAFTA)	**11,668**	9,547	+ 22.2
South America	**3,278**	2,691	+ 21.8
Asia, Pacific Area, Africa	**6,722**	5,708	+ 17.8
	55,780	48,776	+ 14.4

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

With sales in excess of DM 55 billion, BASF is one of the leading companies in the chemical industry. Our products range from natural gas, oil and basic chemical products through innovative intermediates to specialties, high value-added chemicals, crop protection products and pharmaceuticals. We are noted for our chemical know-how and highly developed integrated systems, which we call Verbund. We are an international company. From a strong position in Europe, we want to grow in global markets.

Presented to the 46th Annual Meeting on Tuesday, May 19, 1998, 10.00 a.m., at BASF Feierabendhaus, Leuschnerstrasse 47, Ludwigshafen am Rhein, Germany.

This report was finalized on March 3, 1998, and published on March 26, 1998.


Dr. Jürgen Strube, Chairman

“BASF stands for innovation, know-how and soundness.”

Dear shareholders and friends of BASF:

1997 was another successful year for us: Sales and earnings reached record levels. We improved the return on assets before income taxes and interest expenses to 12.6 percent. I am pleased that we are able to pay a significantly higher dividend and offer you, our shareholders, an attractive return.

This good result derives above all from the optimal use of our Verbund strategy. Wherever expedient, we link the various chemical production facilities to form chains and networks - a system in which plants are suppliers and customers of each other. However, at BASF, Verbund is more than this; it includes utilities, logistics, research and marketing. This concept makes us strong and offers considerable advantages, both economically and ecologically.

We want to take advantage of Verbund worldwide and apply to the Asian sites the experience we have gained in establishing and operating Verbund systems in Europe and the U.S. The worldwide expansion of our production and marketing operations provides a further advantage: Regional variations in economic cycles can balance each other out. This means that increasing globalization helps us to grow profitably and make our business more resistant to economic fluctuations.

In 1997, we made good progress in global markets. 39 percent of sales are now achieved outside our home market of Europe. The crisis in Asia has so far scarcely affected our business, and we do not see any major impact for the future either. Although we are having to adjust to declining selling prices in some lines, the export opportunities for products from our plants in Asia will improve. We are keeping to the capital expenditure plans for new integrated sites in Malaysia and China. When they have been inaugurated, high demand can be expected from the region for the products manufactured there. However, exports to Asia will continue to supplement local production.

BASF is on the right course to becoming more international, more customer-oriented and, in particular, more profitable. We are accepting the challenges posed by a changing world economy and making use of the opportunities. In doing so, we are building on our proven strengths. For shareholders, customers and employees, BASF stands for innovation, know-how and soundness.

I thank you, our shareholders, for your confidence. My thanks are also due to all of our employees, who again performed outstandingly in 1997, and to our customers, suppliers and trading partners for the good cooperation.

Yours sincerely

Jürgen Strube
Chairman of the Board of Executive Directors

Report of the Supervisory Board

We carefully supervised the management of the company's affairs during the period under review. To this end, we held 5 meetings with the Board of Executive Directors. At 3 of the meetings, reports were also given by division presidents of BASF on their operations. The Board of Executive Directors informed us fully at these meetings, and in continuous written reports, about the important issues of management. Reporting included the major companies of the BASF Group. We dealt thoroughly with the strategic orientation of the BASF Group and the development opportunities and business risks of the segments. In accordance with the Articles, we discussed major acquisitions and divestitures.

We have appointed Mr. Peter Oakley to the Board of Executive Directors. He will take up office at the end of the Annual Meeting of the company on May 19, 1998.

We have examined the Financial Statements and Management's Analysis of BASF Aktiengesellschaft and the proposal for the appropriation of net income. Deloitte & Touche GmbH, the auditors elected by the Annual Meeting, have examined the Financial Statements, including the books, and Management's Analysis of BASF Aktiengesellschaft and have given them 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 Deloitte & Touche GmbH. We see no grounds for objections.

The Financial Statements and Management's Analysis of the BASF Group and 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.

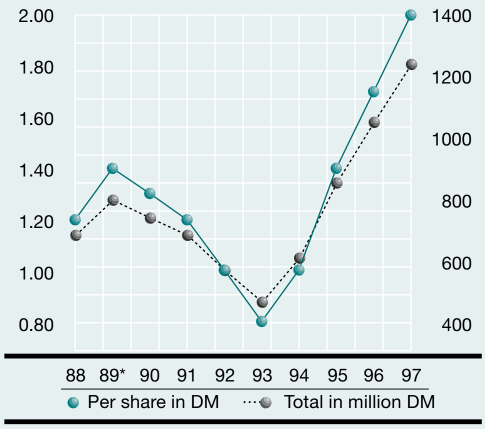
Dr. Hans Albers,
Chairman of the Supervisory Board

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

Ludwigshafen, March 17, 1998

The Supervisory Board

The BASF share: A high dividend yield and long-term earnings prospects make it an attractive capital investment.



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

Key BASF share data	1997	1996
Number of shares in millions on Dec. 31	622*	618
Per share in DM		
Dividend	2.00	1.70
Dividend including tax credit	2.86	2.43
Net income	5.22	4.54
Net income DVFA/SG result	4.91	4.40
Cash flow	11.85	11.07
Equity	37.83	33.15
Year-end price	64.20	59.00
Year's high	73.65	61.95
Year's low	55.90	32.56

* Number of shares still to be issued for the exercise of stock warrants: 1.6 million DM 50 shares (see page 45)

Dividend at record level

In view of the further significant increase in earnings, we propose to our shareholders that the dividend for the financial year 1997 be raised by DM 0.30 to DM 2.00 per share. This means that shareholders liable to German income or corporation tax will, together with the tax credit of DM 0.86, receive a dividend income of DM 2.86.

Based on the stock exchange price of the BASF share of DM 64.20 on December 30, 1997, the dividend yield amounts to 3.1 percent disregarding the tax credit, or 4.5 percent if the tax credit is included. This means that the BASF share is once again a high-yielding security.

The dividend total increases to a record level of DM 1,244 million as compared with DM 1,051 million in the previous year.

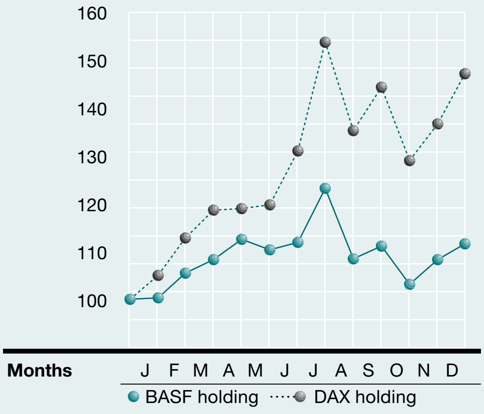
High liquidity of the BASF share The BASF share is quoted in Germany and on 10 stock exchanges outside Germany. In 1997, it had a turnover volume of DM 135 billion and was the eighth most frequently traded security quoted on German stock exchanges. It is, consequently, one of the most liquid shares, and accounted for 4 percent of total stock exchange turnover.

Long-term yield significantly better than the market

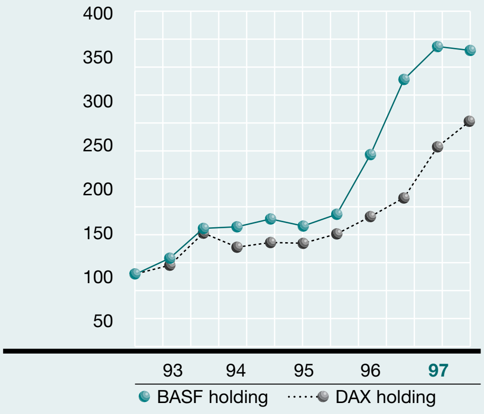
Based on a 5-year comparison of yields, an investment in BASF shares outpaces the market. An investor who made a single investment of DM 10,000 in BASF shares on January 1, 1993 and reinvested the annual dividends (excluding the tax credit) in BASF shares would have increased the value of his holding to DM 35,543 by the end of 1997. This represents an average annual yield of 28.9 percent, which is significantly above the comparable DAX figure of 22.4 percent.

Price trend in 1997 Following a strong price gain of 82.7 percent in 1996, 1997 saw a modest performance. Based on spot prices, the year-end price of DM 64.20 was 8.8 percent higher than in the previous year.

On a 1997 basis, investors who reinvested the 1996 dividend (excluding the tax credit) earned an 11.6 percent return on their investment. The comparable DAX figure was 47.1 percent.



Change in value of an investment in BASF shares in 1997 (without taking account of the tax credit)



Change in value of an investment in BASF shares from 1993 – 1997 (with dividends reinvested)

Investment in BASF shares (sum invested: DM 10,000)

Start of investment	Jan. 1997	Jan. 1993
Investment period	1 year	5 years
Value of holding on December 31, 1997	DM 11,161	DM 35,543
Average interest p.a.	11.6 %	28.9 %
Comparable DAX interest	47.1 %	22.4 %

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 want to make use of this if a favorable opportunity arises. We will therefore propose to the Annual Meeting that the Board of Executive Directors be authorized to acquire BASF shares, taking advantage of the possibilities then offered by law.

Investor relations We improved communication with investors and financial analysts. We expanded our quarterly reports and intensified the dialog with market players. Following the publication of the Annual Report and the interim reports, we regularly invite financial analysts and institutional investors in and outside Germany to meetings.

Our aim is to continue strengthening the confidence capital markets place in our company by clear reporting and frank communication.

BASF on the Internet Since 1996, we have been on the Internet. Information on the BASF share can be found under: http://www.basf.de/share

For additional information, please contact our investor relations staff:
Tel.: +49-621-60-43263
Fax: +49-621-60-22500
E-mail: aktie@zfk.x400.basf-ag.de

Dates

- May 19, 1998
  Annual Meeting

  Publication of the interim report for the 1st quarter of 1998
- August 4, 1998
  Half-year Press Conference, London

  International analysts' meeting, London

  Publication of the interim report for the 1st half of 1998
- November 10, 1998
  Autumn Press Conference, Frankfurt

  International analysts' meeting, Frankfurt

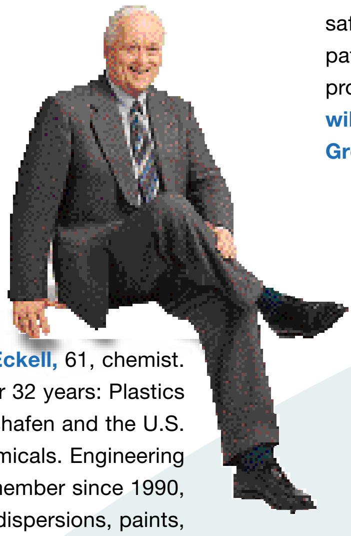
  Publication of the interim report for the 3rd quarter of 1998
- March 15, 1999
  Annual Press Conference, Ludwigshafen

  Publication of the 1998 Annual Report
- March 16, 1999
  International analysts' meeting, Ludwigshafen
- April 29, 1999
  Annual Meeting

  Publication of the interim report for the 1st quarter of 1999

The Board of Executive Directors

Helmut Becks, 53, physicist. With BASF for 26 years: Corporate engineering. Works engineering. Singapore. Board member since 1996, responsible for engineering, human resources, Ludwigshafen works engineering, environment, safety and energy, and occupational medicine and health protection. **"Ludwigshafen is and will remain the most important Group site."**



Dr. Albrecht Eckell, 61, chemist. With BASF for 32 years: Plastics research, Ludwigshafen and the U.S. Specialty chemicals. Engineering plastics. Board member since 1990, responsible for dispersions, paints, specialty chemicals, coatings and southern Europe. **"In many industries, our products open the door to innovation and progress."**

Dr. Jürgen Hambrecht, 51, chemist. With BASF for 22 years: Plastics research. Coatings and paints. Engineering plastics. Board member since 1997, responsible for the newly created Asia Ressort, based in Hong Kong. **"Someone on the spot can understand better what is going on in Asia."**

Bundling is our

Max Dietrich Kley, 58, lawyer. With BASF for 29 years: Legal. Tax. Gewerkschaft Auguste Victoria Mine, Marl. Energy. Board member since 1990, responsible for finance, information services, oil and gas, raw material purchasing and eastern Europe, Africa and west Asia. **"Our return-oriented strategy will be reflected in rising stock exchange prices."**

Dr. Stefan Marcinowski, 45, chemist. With BASF for 19 years: Biotechnology research. Public relations. Brazil. Foams and reactive resins. Board member since 1997, responsible for research. **"It is a question of combining the knowledge of our varied talents to shape the future of BASF."**

Gerhard R. Wolf, 62, economist. With BASF for 38 years: Lebanon. Syria. Fertilizers. Purchasing. Intermediates. Industrial chemicals. Board member since 1989, responsible for pharmaceuticals, crop protection and fertilizers, central Europe and logistics. **“We want to be our customers’ preferred partner.”**

Eggert Voscherau, 54, economist. With BASF for 32 years: Peru. Argentina. Brazil. U.S. Crop protection. Board member since 1996, based in the U.S., responsible for North and South America and for fiber products. **“We aim to rank among the top chemical companies in the NAFTA Region.”**

Dr. Volker Trautz, 53, chemist. With BASF for 24 years: Plastics research. Brazil. Information systems. Board member since 1995, responsible for plastics. **“Global competitiveness is the key to future success in plastics.”**

forces strength

Dr. Jürgen Strube, 58, Chairman, lawyer. With BASF for 29 years: Finance. Logistics. Antwerp. Brazil. U.S.; Board member since 1985 and Chairman since 1990. **“We consistently orient our company to long-term profitable growth.”**

Dr. Hanns-Helge Stechl, 61, Deputy Chairman, chemist. With BASF for 32 years: Chemicals research. Specialty chemicals. Intermediates. Board member since 1990, responsible for industrial chemicals, intermediates, fine chemicals and basic chemicals, northern Europe and the Antwerp works. **“The chemical production Verbund is one of our strengths. We intend to expand it consistently.”**

Management's Analysis

BASF continued on its growth course in 1997. Sales increased substantially once again, and there was a gratifying improvement in earnings. Vigorously increased volumes and higher exchange rates of the U.S. dollar and the pound sterling were the main reasons for this. In view of higher raw material costs, selling prices were unsatisfactory.

Sales and earnings up

Sales In the BASF Group, we achieved sales of DM 55,780 million in 1997, an improvement of DM 7,004 million over the previous year's figure.

The 14.4-percent increase resulted from the following changes:

	Mill DM	%
Volumes	4,338	+ 8.9
Prices	265	+ 0.6
Currency	2,350	+ 4.8
Scope of consolidation	51	+ 0.1
	7,004	+ 14.4

Switch to the euro in 1999

We welcome the introduction of the euro. For our home market of Europe, where we achieve more than 60 percent of our sales, this is an important step toward the creation of a uniform economic area. We are prepared for the change-over. Our systems have "multicurrency capability", which means that we can conduct transactions in various currencies. Thus, we will be able to handle orders, invoices and payments in euros as early as January 1, 1999. During this parallel currency phase, we first intend to treat the euro as a foreign currency. Interim reports and the Annual Report will also be published in euros from 1999. Our internal systems, such as cost accounting and fixed-asset accounting, will be switched over in one step at Easter 2000.

Sales and earnings in million DM					
		BASF Group			**BASF Aktiengesellschaft**
	1997	1996		**1997**	1996
Sales	**55,780**	48,776	Sales	**23,527**	20,607
Income from operations	**5,342**	4,293	• Germany	**7,040**	6,304
Financial result	**–11**	121	• Exports	**16,487**	14,303
Profit before taxes	**5,331**	4,414	Profit before taxes	**2,582**	2,215
Income taxes	**2,126**	1,575	Income taxes	**738**	514
Minority interests	**–31**	49	Net income	**1,844**	1,701
Net income	**3,236**	2,790	Appropriation of net income		
			• Dividend	**1,244**	1,051
			• Transferred to revenue reserve	**600**	650

substantially

Favored by exchange rates, sales of our companies outside Europe achieved above-average growth. Although our German companies did not improve as strongly in a regional comparison, their sales were nevertheless 10 percent higher than in the previous year. Targor, the joint venture with Hoechst, has been fully consolidated since July 1, 1997.

Earnings BASF Group profit before taxes rose by DM 917 million, or 21 percent, to DM 5,331 million. Special charges – reduced by special income – are included in this figure and amount to DM 494 million.

We spent a total of DM 446 million on restructuring and divestitures, DM 167 million of which was for unscheduled write-downs. Charges related, in particular, to structural measures in Colorants & Finishing Products, the sale of the affiliates Resart and Critesa and the closure of two polystyrene plants in the U.S.

The not yet finally approved extrajudicial settlement in the legal dispute over the Knoll drug Synthroid® in the U.S. reduced earnings by DM 191 million.

In Germany, a total of DM 183 million was spent on the replacement of piecework systems and on part-time working arrangements for those nearing retirement.

Further charges of DM 209 million resulted from depreciation on participating interests, value adjustments as a consequence of the financial crisis in Asia, and other write-downs or provisions.

Special income totaling DM 535 million derived from a reduction in pension provisions resulting from the retransfer of early benefit claims to the BASF Pension Fund, a change in the actuarial assumptions for health care benefit provisions for retired employees of our North American Group companies and the writing-back of provisions no longer required.

Net income was DM 3,236 million. This is DM 446 million, or 16 percent, more than in the previous year.

Proposed distribution of retained profit BASF Aktiengesellschaft's retained profit totals DM 1,244 million. We propose to the Annual Meeting the distribution of a dividend of DM 2.00 per share. The tax credit for entitled shareholders is DM 0.86 per share.

	Location of customers Sales Million DM			Change %	Share %
	1997	1996	1995	**1997/1996**	**1997**
Europe	**34,112**	30,830	29,819	**+ 10.6**	**61**
• thereof Germany	**(14,380)**	(12,971)	(12,614)	**(+ 10.9)**	**(26)**
North America (NAFTA)	**11,668**	9,547	8,963	**+ 22.2**	**21**
South America	**3,278**	2,691	2,339	**+ 21.8**	**6**
Asia, Pacific Area, Africa	**6,722**	5,708	5,108	**+ 17.8**	**12**
	55,780	48,776	46,229	**+ 14.4**	**100**

* Exchange of goods and services between regions

Regions

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

We will reinforce our strong position in our home market of Europe, while at the same time raising our profile in those regions where economic growth will be above average. We have already made substantial progress along these lines: Sales in Europe grew by 10.6 percent; there, our share of total sales dropped from 63 to 61 percent. In North and South America, our sales rose by 22 percent and in Asia by 18 percent.

Business satisfactory in Europe The main contributors to sales growth in Europe were the Plastics & Fibers, Chemicals and Oil & Gas segments. This growth was mainly due to increased volumes. Prices stayed at a level which, considering the higher raw material costs, was unsatisfactory. We made good progress in central and east European markets.

We are increasingly orienting our marketing and selling operations to the European markets, which are growing together. Specialist marketing units and key-account managers operating across national boundaries and our own trading companies complement each other in looking after customers. To improve our supply service, we set up 2 regional distribution centers in 1997 – in Copenhagen for Scandinavia and in Vienna for the Danube basin.

Location of companies Sales Million DM			Sales incl. intersegment transfers* Million DM			Income from operations Million DM		
1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995
38,915	35,090	33,758	**42,247**	37,902	36,207	**4,502**	3,208	3,071
(26,518)	(24,047)	(23,733)	**–**	–	–	**(3,042)**	(2,086)	(2,227)
11,617	9,356	8,670	**12,179**	9,871	9,122	**685**	981	770
2,494	2,100	1,843	**2,647**	2,210	1,894	**141**	9	101
2,754	2,230	1,958	**2,821**	2,294	2,026	**14**	95	81
55,780	48,776	46,229	**59,894**	52,277	49,249	**5,342**	4,293	4,023

Soundly based growth in the NAFTA Region In the NAFTA Region, we strengthened our market position. BASF companies' sales in U.S. dollars increased by more than 8 percent. Sales of life science products, such as pharmaceuticals, crop protection agents and fine chemicals, rose at above-average rates. We significantly increased the value of our portfolio with new products. We intend to continue growing strongly in the NAFTA Region, supporting this strategy with annual capital expenditures of between U.S. $ 700 million and $ 800 million.

Although sales were up, BASF Corporation's earnings were considerably lower than in the two peak years of 1995 and 1996. The reasons for this were up-front costs for the launch of new pharmaceuticals, lower sales margins for plastics and some industrial chemicals, higher raw material prices and special charges.

Structural change in South America Integration within the Mercosur economic area and with the associated states and the Andean Pact continued. Overall economic growth in South America averaged 4.5 percent.

Most of our companies expanded their business with double-digit growth rates. We recorded a major increase in sales especially in crop protection agents, specialty chemicals, coatings, building paints, polystyrene and products for the textile industry. The development of our companies in Argentina and Chile was particularly gratifying. Earnings of the Brazilian companies improved significantly. In view of the fact that the South American markets are growing together, we have streamlined our organization. We are countering continuing price pressure with projects to improve efficiency.

Challenges in Asia Demand for our products in Asia rose strongly. Sales in our Asia, Pacific Area, Africa Region, on a D-Mark basis, were up by 17.8 percent last year. The crisis in some countries in Asia had no major impact here. The leading contributors to the growth were the Plastics & Fibers and Colorants & Finishing Products segments. Sales of products manufactured locally increased further.

After the vigorous expansion in recent years, a number of Asian countries are experiencing a considerable weakening of economic growth. Signals from the markets indicate, however, that this will have no significant effects on our business. Asia continues to be an attractive growth market, in which we want to play an active role (see page 33).

Our proposed project for a Verbund site in Nanjing, China, was approved by the Chinese government. Negotiations are making rapid progress.

	Sales Million DM			Sales incl. intersegment transfers* Million DM			Income from operations Million DM		
	1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995
Health & Nutrition	**10,902**	9,115	7,986	**11,257**	9,445	8,299	**753**	781	194
Colorants & Finishing Products	**12,791**	11,285	10,766	**13,516**	12,071	11,565	**939**	565	291
Chemicals	**8,746**	7,300	7,255	**12,855**	10,888	10,982	**2,130**	1,733	2,054
Plastics & Fibers	**14,463**	12,080	12,456	**15,343**	12,804	13,183	**720**	974	1,499
Oil & Gas	**6,255**	5,208	4,207	**6,739**	5,567	4,581	**926**	744	201
Other**	**2,623**	3,788	3,559	**3,038**	4,007	3,776	**–126**	–504	–216
	55,780	48,776	46,229	**62,748**	54,782	52,386	**5,342**	4,293	4,023

* Exchange of goods and services between the segments
** Sales from other operations, income from other operations, and expense, income and assets not allocatable to the segments
*** Including intangible assets

Segments

Our segments include the following operating divisions and their products:

Health & Nutrition

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

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

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

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

Colorants & Finishing Products

Colorants
(Merger of the former Colorants & Printing Systems and Textile & Leather Dyes & Chemicals Divisions on October 1, 1997)
Dyes and process chemicals for textiles, leather and office requisites; pigments and pigment blends for coloring plastics; printing inks and printing plates for the graphics industry.

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

Coatings
(Formerly Coatings & Paints)
Automotive finishes and refinishes, industrial coatings and building paints.

Assets Million DM			Return on operational assets %			Research and development expense Million DM			Capital expenditures*** Million DM			Depreciation*** Million DM		
1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
8,297	6,288	5,736	**10.3**	13.0	4.0	**1,113**	961	816	**806**	1,431	1,877	**902**	666	580
7,531	6,823	6,540	**13.1**	8.5	4.5	**358**	385	376	**500**	785	657	**830**	749	856
5,557	4,556	4,646	**42.1**	37.7	42.6	**263**	245	229	**959**	511	442	**771**	756	895
7,766	6,185	5,986	**10.3**	16.0	24.5	**370**	350	325	**1,316**	916	437	**930**	742	778
4,705	4,215	4,135	**20.8**	17.8	4.8	**135**	77	95	**629**	441	476	**416**	409	378
14,132	15,651	14,992				**310**	268	247	**804**	642	673	**118**	193	159
47,988	43,718	42,035	**14.6**	13.0	12.9	**2,549**	2,286	2,088	**5,014**	4,726	4,562	**3,967**	3,515	3,646

Chemicals

Basic Chemicals
Mainly for captive use: Petrochemical feedstocks such as ethylene, propylene and benzene; organic and inorganic basic chemicals such as methanol, ammonia, sulfuric acid, chlorine and sodium hydroxide solution; inorganic chemicals; catalysts.

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

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

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

Plastics & Fibers

This segment was reorganized as of May 1, 1997.

Styrenic Polymers
Styrene and styrene-based polymers such as polystyrene and Styrolux®; expandable polystyrene (Styropor®) and specialty foams such as Styrodur®, Neopolen® and Basotect®; glass-mat-reinforced thermoplastics (GMTs).

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

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

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

Polyolefins
Joint ventures are responsible for these operations:
- Targor (polypropylene) with Hoechst since July 1, 1997
- Elenac (polyethylene) with Shell since March 1, 1998.

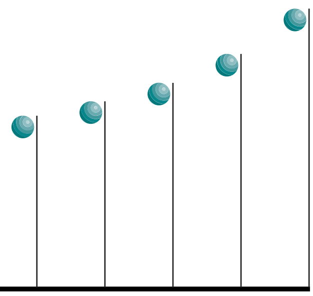
Oil & Gas

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

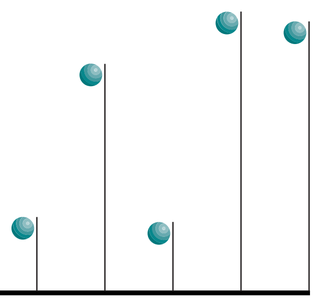
They
- explore for and produce crude oil and natural gas,
- refine oil at the Lingen refinery,
- market petroleum products (such as light fuel oil or precursors for the chemical industry),
- trade in crude oil and natural gas, and
- lease storage and transport capacities for natural gas.

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

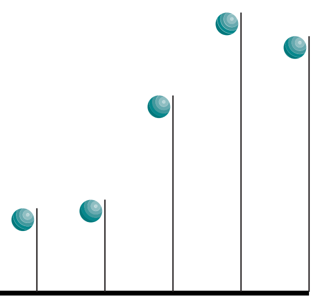
The **Health & Nutrition** segment encompasses pharmaceuticals, vitamins, crop protection agents and fertilizers – products which contribute to the health and feeding of the world's growing population.



Sales	93	94	95	96	**97**
Billion DM	6.71	7.27	7.99	9.12	**10.90**



Earnings	93	94	95	96	**97**
Million DM	208	636	194	781	**753**



Capital expenditures	93	94	95	96	**97**
Million DM	209	231	493	700	**635**

committed

Sales in Health & Nutrition increased by 19.6 percent to DM 10.9 billion. Earnings dropped slightly to DM 753 million.

We are keen to expand our business in this segment, which is relatively insensitive to cyclical fluctuations. To this end, we are not only intensifying our own R&D work but are also interested in further acquisitions.

New pharmaceuticals

Pharmaceutical sales increased, partly as a result of exchange rate changes, by 15.5 percent to DM 3.5 billion. Earnings were affected by high development expense and up-front costs for the launch of new products. Charges of DM 191 million arose from a settlement, which has not yet been finally approved by the courts, to resolve suits filed in the U.S. relating to the kind of marketing of our thyroid drug Synthroid®.

We successfully launched Tarka® and Gopten® for the treatment of hypertension and the antithrombosis drug Clivarine® in additional markets. Our analgesic Vicoprofen® was added to the portfolio and granted marketing authorization in the U.S. at midyear. In the medium term, we expect these products from our own development work to generate annual sales of about DM 1 billion.

In November, our new active substance sibutramine was granted marketing authorization in the U.S. and Mexico. This is a novel prescription product for the treatment of pathological obesity. We estimate sibutramine to have a sales potential of DM 700 to 900 million per year in the medium term.

Our development products are highly promising. We are planning to introduce up to 5 new drugs into the market in the next 3 years. The total sales potential for all the current and planned launches is estimated to be up to DM 3 billion per year.

Fine chemicals on a high level With demand remaining stable, our fine chemicals production plants were well utilized. We further improved the sales and good earnings of the previous year.

Vitamins are increasingly sold in the form of premixes. These are vitamin blends for the animal feed and food industries. This strategy was continued successfully, with three new premix plants being brought on stream and another two acquired.

The constant fall in vitamin C prices during recent years has now come to a standstill. Earnings were again unsatisfactory. We want to switch to a more cost-effective and future-oriented technology, and to this end set up a joint venture with Merck, Darmstadt, and Cerestar Deutschland, Krefeld, for the production of ketogulonic acid, an important precursor for vitamin C.

We stepped up our business with the cosmetics industry with new intermediates for hair and skin care. Our new UV absorber Uvinul® MC80 for skin protection was well received by the market. We intend to increase funds for research and product development in this sector.

Crop protection agents set for further success

We achieved high growth rates in sales and earnings with crop protection agents. In the U.S., we significantly improved our position in the market with the herbicide portfolio we acquired.

In order to achieve our growth aims, we want to launch two new active ingredients each year. From 1999 to 2002, there will be 5 herbicides and 3 fungicides. These products are outstandingly successful in meeting economic, crop management and ecological requirements and thus offer our customers excellent solutions to their problems.

For important precursors and crop protection active ingredients, we are building new plants at Ludwigshafen which benefit from our Verbund. Another aim is to broaden our regional production basis by expanding our sites in Spain, the U.S. and Mexico.

Countering price pressures with specialty fertilizers

We raised sales of fertilizers. However, earnings fell significantly short of the previous year's good result because an increased market supply depressed prices. Raw material costs also rose. Compo GmbH's business in specialty products for the home and garden, however, again did well.

We are continuing our efforts to raise the share of specialty fertilizers with higher added value in our portfolio. In developing these specialties, we can take advantage of our know-how Verbund, in this case drawing on plastics and process technology. For example, we have developed fertilizers which control the release of nutrients to meet plant requirements, and we expect these inhibited fertilizers to be registered shortly. With products of this kind, we will enhance our reputation as an innovative partner for farmers.

Crop protection capital expenditures right on target

There were two main reasons for our success with crop protection agents: The swift and smooth integration of the U.S. corn herbicide business acquired in 1996 and the new kresoxim-methyl-based fungicides, which were successfully launched first in Germany and Belgium and then in other countries. For example, Juwel®, in its first year on sale, went straight to the top of the German fungicide market. During the next 5 years, we will be investing more than DM 3 billion on research and new production plants to further strengthen our position in innovative herbicides and fungicides.

CLOSE TO MARKETS

Together with Mercedes-Benz and the plant engineers Dürr Systems, we developed a coating method and prepared it for industrial-scale production. This method sets new standards in terms of efficiency and ecology. It was recently introduced in the production of the Mercedes "A" series. The coating materials and application methods used, some of them completely novel, have reduced coating consumption by about 20 percent without any compromise on the normal high quality. The biggest advance is a clearcoat which combines the favorable properties of waterborne and powder-finish coatings.

Sales in Colorants & Finishing Products increased by 13.3 percent to DM 12.8 billion. Earnings rose to DM 939 million.

We expect to see a healthy rise in volumes in the current year, although with very wide regional variations. New products and the expansion of our worldwide operations will increase sales. We are adopting numerous structural measures to reduce fixed costs and thus improve earnings.

Bundling of colorant operations Sales in our reorganized Colorants Division rose in 1997. Earnings improved but were still not satisfactory.

Gratifying growth rates were achieved by our high-quality Paliogen® and Paliotol® organic pigments and the inorganic pigments used in the coatings industry and for coloring plastics. The success of our Paliocrom® line of special-effect pigments was accompanied by an increase in capacity. A number of novel, optically variable pigments were launched.

The plant for the production of organic pigments at our joint venture in Shanghai, which went on stream in 1996, is now increasingly supplying customers outside China.

The favorable economic situation in the European printing industry boosted our business in printing inks and plates. The earnings situation was notably improved by a successful restructuring program.

Following the integration of the textile dye business acquired from Zeneca in 1996, we significantly increased sales, especially of reactive and disperse dyes and of indigo. The earnings situation in textile dyes remained unsatisfactory. We further expanded our business in Asia, reorganizing our textile operations in Japan with our partner Mitsui Toatsu Chemicals; selling operations were included in the existing production joint venture.

Dispersions expanding worldwide We substantially raised sales of our dispersions based on acrylic monomers and styrene/butadiene. Earnings remained strong. We also recorded high growth rates with our products for paper finishing and adhesives raw materials. Business in intermediates for paints and coatings improved significantly. The volume of

Apart from strong and profitable sectors, the **Colorants & Finishing Products** segment has operations which are particularly affected by worldwide structural changes. We see change as a challenge and are concentrating on our strengths and optimizing our portfolio and regional presence. Success can already be seen.

acrylate dispersions for paints sold in North America increased again. Volumes and sales of acrylic monomers increased vigorously, especially in the NAFTA Region. The new acrylic acid plant at the Freeport, Texas, site made a major contribution to this development.

In Asian markets, we made good progress with both polymers and monomers. At Kuantan, Malaysia, we will start producing acrylic acid and acrylates in 2000 in the joint venture with Petronas. We are planning new plants for polymer dispersions in Korea and the Philippines.

Coatings close to the market and innovative In the Coatings Division, consistent cost management and further measures to improve earnings were successful. Sales rose and earnings increased considerably.

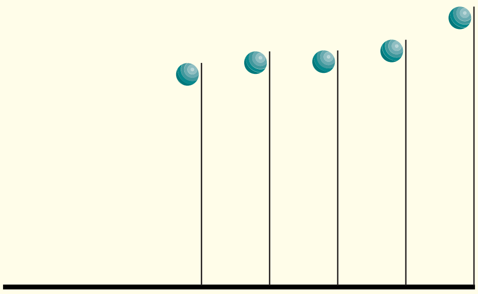
We are concentrating especially on automotive finishes and refinishes and industrial coatings. Acquisitions and divestitures streamlined our portfolio.

In the growing automotive finishes market, we increased our sales volume, especially in wet- and powder-finish systems. Together with selected automobile manufacturers, we further improved the efficiency of coating processes. Joint ventures in China and Turkey are intended to consolidate our position in these countries. We are also planning to build a plant in Brazil for waterborne coatings and expand production capacities at Münster and in Mexico.

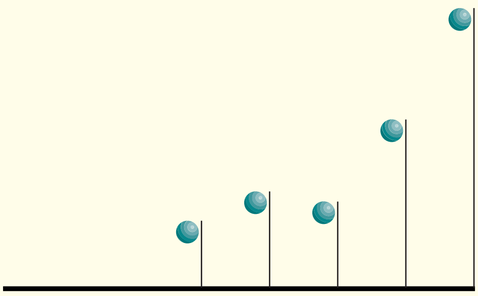
Especially in the growing markets of eastern Europe, Asia and South America, we expanded our automotive refinish business, which is cyclically resilient. We are adjusting our portfolio toward low-emission waterborne and high-solids coatings and new metallic-effect coatings.

Volumes of industrial coatings exceeded general market growth. This is due to our strategy of supplying complete systems.

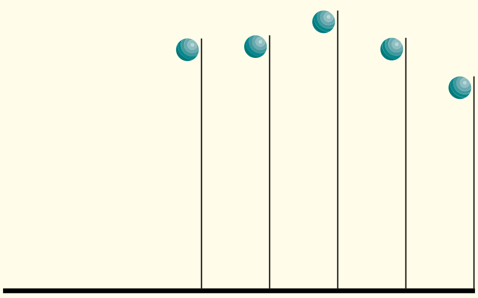
Our building paints made gratifying progress in Brazil. In Europe, sales increased slightly. Business in central and eastern Europe continues to improve, and we are planning to support this trend with new marketing structures.



Sales	93	94	95	96	**97**
Billion DM	10.20	10.75	10.77	11.29	**12.79**

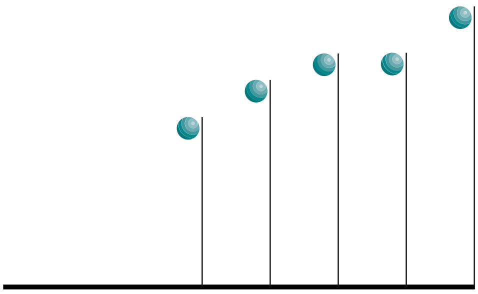


Earnings	93	94	95	96	**97**
Million DM	227	325	291	565	**939**

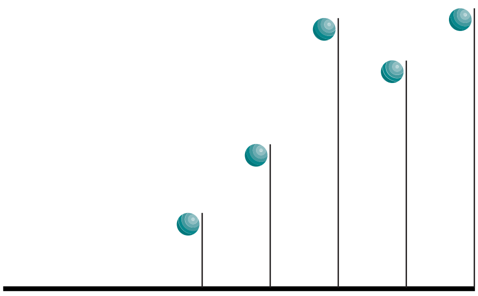


Capital expenditures	93	94	95	96	**97**
Million DM	579	587	645	582	**492**

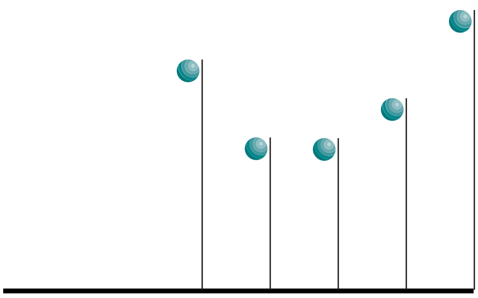
The **Chemicals** segment is one in which Verbund is particularly important: Wherever expedient, we link the various chemical production facilities to form chains and networks. We increase our earning power and create growth by constantly optimizing this integration.



Sales	93	94	95	96	**97**
Billion DM	5.27	6.44	7.26	7.30	**8.75**



Earnings	93	94	95	96	**97**
Million DM	568	1,095	2,054	1,733	**2,130**



Capital expenditures	93	94	95	96	**97**
Million DM	608	402	401	506	**736**

Sales to third parties in Chemicals grew by 19.8 percent to DM 8.7 billion. Including transfers to other segments, sales were DM 12.9 billion. Earnings rose to DM 2,130 million.

We will continue expansion of this profitable segment with substantial capital expenditures. We plan to build a steamcracker in the U.S. in conjunction with a FINA refinery. In China and Malaysia, integrated sites, which we will operate with partners, are being planned or are already under construction.

Basic chemicals successful in Verbund Basic chemicals, most of which we produce at Ludwigshafen and Antwerp, are mainly processed captively to higher value-added products. They thus play an important part in our Verbund. Captive demand remained high, which meant that plants operated at capacity throughout the year.

Our inorganic specialties exceeded the previous year's good earnings.

We sold our catalyst operations for gas generation processes to ICI. The remainder of our catalyst business showed a very gratifying development.

Regional boost for industrial chemicals Volume sales of our plasticizers, solvents and laminating and impregnating resins rose significantly. We were unable, however, to match the previous year's good earnings, as the vigorous increase in raw material costs could not be entirely passed on to customers.

The markets of southeast Asia are becoming more important. The present economic crisis will do little to alter this. The joint venture with Petronas in Kuantan, Malaysia, is to produce oxo alcohols, phthalic anhydride and plasticizers from 2001. We also want to manufacture butanol and butyl acetate there to strengthen our situation in the Asian markets.

We are further consolidating our strong position in the Americas. The production facilities at Freeport, Texas, expanded in the 1st quarter of 1998, and an extension of our cooperation with Sterling Chemicals for another 10 years are steps in this direction.

Our largest market is Europe. Here, we are expanding capacities for key products such as oxo alcohols and increasing productivity. This will enhance our competitiveness and strengthen our market position.

Intermediates again profitable We again improved our good business with intermediates, especially in Germany and Japan. Despite higher raw material costs, earnings matched the previous year's gratifying level.



Verbund is our strength

Piping and bundles of lines: An impossible jumble to the untrained eye. Yet it conceals a sophisticated system for carrying chemical products and energy in the form of heating gas and steam. This is how the various plants at a site are linked together in a close supplier and customer system – the Verbund. It is efficiency-oriented, both economically and ecologically. BASF has developed this concept to high performance levels.

Demand for our amines, used for example in detergents and cleaning agents and for gas scrubbing, rose. Capacity expansions enabled us to increase volumes.

The diol business also made significant progress. The new neopentyl glycol plant at Ludwigshafen and the butyrolactone and N-methylpyrrolidone capacity expansions at Geismar, Louisiana, were successfully brought on stream.

In the carboxylic acid market, we again improved our position. Increased prices for raw materials were offset in part by cost degression resulting from higher utilization rates. We plan to safeguard our global market share by establishing production capacities in Asia, initially in China.

Buoyed by increasing demand in the pharmaceutical, crop protection and paper industries, our business in carbon oxychloride derivatives reached record levels.

Specialty chemicals expanded Demand for our specialty chemicals increased vigorously. Our plants therefore operated at full capacity, and we further improved sales and earnings.

Our polyisobutene-based products stimulated business in additives for fuels and lubricants. We consolidated our good market positions in Europe and North America and succeeded in entering the Japanese market.

We acquired Dow’s antifreeze business in certain European countries and Brazil and thus improved our market position. We also expanded our line and offer the automotive industry and private customers high-quality customized products.

We also acquired the surfactant businesses of the U.S. companies PPG and Olin, thus strengthening this cyclically resilient operating sector.

In **Plastics & Fibers,** we are concentrating on core operations and are resolutely expanding our global presence. We aim to be among the leaders with regard to both costs and technology.

Sales in Plastics & Fibers increased by 19.7 percent to DM 14.5 billion. Earnings were down to DM 720 million.

Engineering plastics grow strongly The engineering plastics business was notable for keen competition and a high level of demand. Falling sales proceeds and rising raw material costs depressed earnings. The PMMA business again made a loss; it was sold in November 1997. At the Ludwigshafen site, we cut costs considerably by shutting down unprofitable small plants and improving production methods. At Freeport, Texas, we are expanding nylon production to reinforce our market position.

Prices of styrene polymers under pressure Brisk demand meant that our plant utilization rates were good. However, prices of styrene and styrene polymers were under persistent pressure because of tough competition. Raw material costs rose. As a result, earnings remained unsatisfactory.

We are cutting costs and increasing productivity at all production sites. At Altamira, Mexico, we started up a new, cost-effective polystyrene plant. In the U.S., we are closing 2 old unprofitable plants. We can participate in world market growth, since we now have our own production facilities in all the main economic regions of the world.

Polyurethanes with good results Polyurethane sales rose considerably; earnings remained at a good level.

Our strategy aims at increasing productivity and securing cost leadership. We are achieving this goal with competitive technology, cost-effective large-scale plants and integration into our Verbund.

In Europe, we streamlined the production and marketing of our polyurethane systems to increase efficiency. Polyurethane research is being combined and located close to production operations at Lemförde and Schwarzheide.

On the

Economizing on resources

When will we see the 100-mpg car? Nobody, as yet, can say for sure. But one thing is certain: Most of its bodywork will consist of plastics. After decades in which the large exterior parts of automobiles were

New large-scale plants for isocyanates in the U.S. and China and for propylene oxide in Europe will give us a broader base for our commodities and extend our production Verbund. The acquisition of all the shares of our partner Hanwha in the polyurethane joint venture in Korea confirms our interest in a strong competitive position in Asia.

Improved earnings in fibers

Sales of fiber products increased considerably, and earnings improved. Strong demand meant that capacity utilization rates were good.

Carpet fiber volume stabilized at a high level. We consolidated our market share in the NAFTA Region despite increasing competition. To broaden our operations in Asia, we set up a joint venture in Shanghai for the production and marketing of continuous nylon carpet fibers.

The textile fiber business made a gratifying contribution to earnings in a growing market.

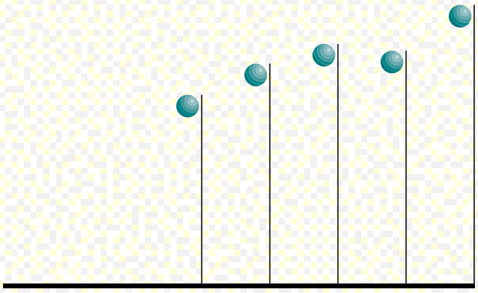
We became the world's first supplier to introduce the fiber intermediate caprolactam in dustfree form and developed a new nylon-6 product line. Our business in fiber intermediates in southeast Asia was a major factor in our success. We are planning to establish a joint venture in China with Du Pont to produce fiber intermediates.

New basis for polyolefins

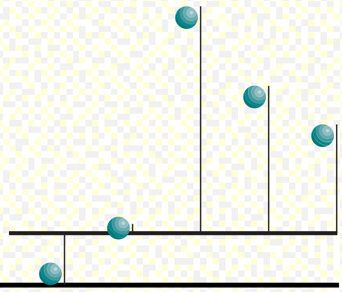
Demand for polyolefins grew significantly. Sales proceeds and margins improved overall. Earnings were still unsatisfactory due to extensive structural expenditures.

Our strategy is to improve efficiency and broaden our business through cooperation and the building of efficient large-scale plants.

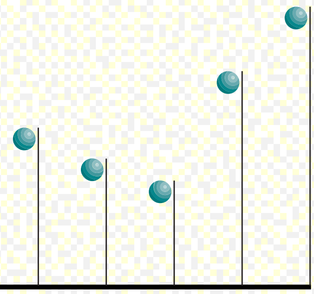
We reorganized our operations. In the Targor polypropylene joint venture, we and Hoechst complement each other ideally in terms of portfolio, markets and know-how. In polyethylene, we expanded our cooperation with Shell and launched the Elenac joint venture as of March 1, 1998. The new companies will help to optimize cost structures, have state-of-the-art technologies and offer balanced portfolios.



Sales	93	94	95	96	97
Billion DM	9.81	11.39	12.46	12.08	**14.46**



Earnings	93	94	95	96	97
Million DM	−340	54	1,499	974	**720**

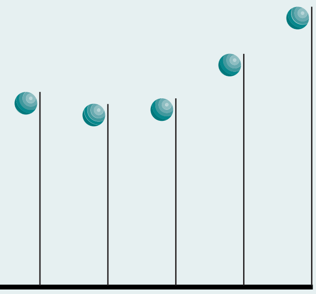


Capital expenditures	93	94	95	96	97
Million DM	579	467	387	787	**1,024**

way to global structures

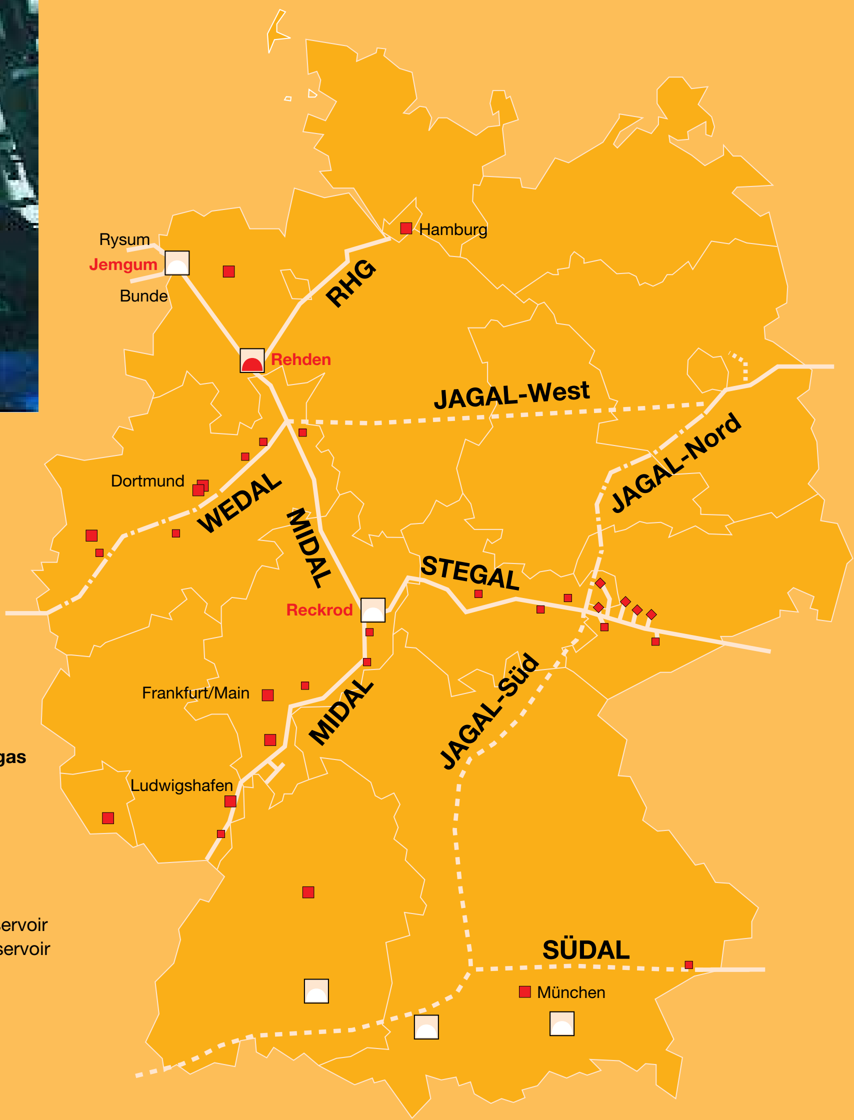
made of steel or aluminum, it is now the turn of polymers. They are easily moldable, corrosion-resistant and can take a knock. What is most important is that they are lighter than steel and help to save valuable energy. Depending on the component and its function, 1 pound of plastics can replace 3 to 6 pounds of steel.

We will further expand our **Oil & Gas** business. In addition to crude oil, another focal point is trading in natural gas, which we handle jointly with Gazprom, the world's biggest natural gas producer. We are expecting this business to make an increasing and cyclically resilient contribution to earnings.

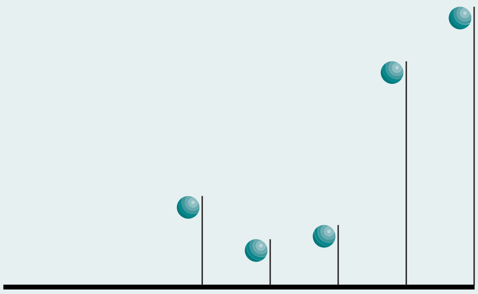


Sales	93	94	95	96	**97**
Billion DM	4.35	4.08	4.21	5.21	**6.26**

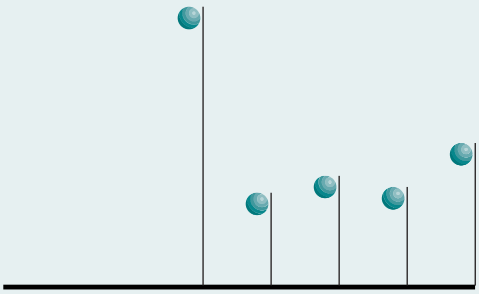
NETWORKED



Long-distance natural gas pipelines of WINGAS
WINGAS customers in Germany
Existing
In preparation
Further projects
Existing underground reservoir
Planned underground reservoir



Earnings	93	94	95	96	97
Million DM	297	155	201	744	926



Capital expend.	93	94	95	96	97
Million DM	1,193	398	470	422	609

In Oil & Gas, sales increased by 20.1 percent to DM 6.3 billion (excluding petroleum and natural gas taxes). Earnings improved to DM 926 million.

Oil and gas exploration and production again contributed the major share of earnings in 1997. Natural gas trading was boosted by new supply contracts in Germany. The rise in earnings from petroleum products was mainly due to improved margins between revenues and crude oil listings. Lower production costs resulting from the modernization of the Lingen refinery also helped to improve earnings.

We want to sustainably strengthen Oil & Gas and have therefore greatly increased funds for exploration and for the expansion of the natural gas pipeline system.

Oil production up Total production of oil and gas rose from 9.4 to 9.7 million metric tons of oil equivalent. Production is handled by our subsidiary Wintershall AG and by Deminex, in which Wintershall has an 18.5-percent holding.

Production of oil rose by 7 percent to 7.8 million metric tons, 1.6 million metric tons of this coming from the Deminex holding. Most of the oil was produced in North Africa and Germany. The largest German oilfield is the Mittelplate offshore field. Further optimization, with exploratory drillings from sites on land, promises an even higher yield.

The total natural gas volume of 2.4 billion cubic meters, Deminex's share being 0.4 billion cubic meters, was slightly less than in the previous year. In Germany, natural gas production fell by 10 percent to 1.2 billion cubic meters due to the weather.

In 1997, we raised the funds for prospecting for new oil and gas deposits from DM 115 million to DM 189 million.

Refinery business optimized

Petroleum product volumes were up by 5 percent to 4.3 million metric tons, meaning full utilization of our refinery capacities at Lingen. Sales rose by 19 percent to about DM 2.4 billion (excluding petroleum tax), thanks to higher volumes and improved prices. Measures to make production more cost-effective are at present being completed with the overhaul of the coker. We will then have adjusted the refinery to future market requirements, and, from mid-1998, will almost exclusively be producing higher-value products – diesel and carburetor fuels, light heating oil and aviation fuel.

Expansion of natural gas trading We concluded additional long-term natural gas contracts with regional suppliers, local authorities and industrial companies.

The volume of gas sold by our Wingas joint venture (65 percent Wintershall, 35 percent Gazprom) totaled about 73.5 billion kilowatt hours in 1997, an increase of about 21 percent.

We already have 12 percent of the German market under contract on a long-term basis. Our aim of achieving a market share of 15 percent is therefore well within reach. The further expansion of our long-distance pipeline system will enable us to increase natural gas volumes continuously.

The start to constructing the Yamal gas connection line (JAGAL) is an important step here. This pipeline, in which we are investing more than DM 1 billion in the new German states, will link our network to a new line piping natural gas from the Yamal peninsula in Siberia to western Europe.

So far, we have invested about DM 4 billion in our natural gas pipeline system. Some of these funds were allocated to our natural gas reservoir at Rehden, which is already the largest in Germany and can hold 2.56 billion cubic meters. After the final expansion stage in 1999, it will have a volume of 4.2 billion cubic meters.

Energy generation modernized

State-of-the-art power plant technology helps to economize on resources. We are therefore continuing to introduce gas-and-steam turbine technology. New power plants began operation at Ludwigshafen and Tarragona, and similar plants are planned for Freeport, Geismar and Altamira. These new power plants make a significant contribution to reducing CO_2 emissions.

sustainable

Environment, safety and energy: With our products and services, we follow the principle of Sustainable Development.

Responsible Care® We want to continuously improve our performance in environmental, safety and health protection matters by acting responsibly. We seek solutions proactively, whether or not we are required by law to do so. This is true of the entire BASF Group and applies not only to processes and products but also to services.

New environmental protection facilities We started up a new wastewater treatment plant at the Monaca, Pennsylvania, site. Plans to expand the treatment plant at Geismar, Louisiana, were completed. With our joint venture partners in China and Malaysia, we are planning wastewater treatment plants for the integrated sites being built there. The treatment plant at Altamira, Mexico, is being expanded.

Safety management and eco-audit At 29 BASF Group sites, 56 safety, health and environmental protection audits were carried out. The teams reviewed organizational structures and working procedures. Improvements to remedy weaknesses are worked out jointly with the personnel concerned. The results are reported to the BASF Board of Executive Directors direct. The Schwarzheide, Uetersen and Wesseling sites are registered under the European eco-audit and, like Shanghai Gao Qiao BASF Dispersions Co. Ltd., have been certified to ISO Standard 14001.

Approval procedures expedited Together with the government of Rhineland-Palatinate, we have drawn up a list of deregulation proposals. As soon as they have been implemented, approval procedures at the Ludwigshafen site will be shortened further.

Ludwigshafen site: Accidents at work At Ludwigshafen, the number of reportable accidents followed by 3 or more days off work rose slightly, to 4.9 accidents per million working hours. This figure is around three quarters below the average for the German chemical industry. Non-reportable accidents followed by 1 day off, however, fell by 14 percent.

Emissions Although utilization rates at our plants rose considerably in 1997, emissions increased only insignificantly. At the end of 1997, we introduced a new process for the production of adipic acid. It reduces emissions of nitrous oxide by more than 95 percent (see page 27).

Environment reports
Our 2 annual reports entitled "Responsible Care®" contain comprehensive environmental data on BASF Aktiengesellschaft's Ludwigshafen site and on the BASF Group. Both reports are available on request:
Tel.: +49-621-60-99940
Fax: +49-621-60-21498

The number of **employees** in the BASF Group, including those on limited-term contracts, has remained virtually stable since the end of 1996.

At 104,979, the total number of employees in the BASF Group at the end of 1997 was 610 fewer than one year earlier. 58 percent of these were employed in Germany, another 16 percent at sites in the rest of Europe, 15 percent in North America, 6 percent in South America and 5 percent in the Asia, Pacific Area, Africa Region.

Personnel costs Personnel costs rose by DM 299 million to DM 11,324 million. They break down as follows:

	Million DM	Change in %
Wages and salaries	9,167.0	+ 5.1
Social contributions and expenses for pension benefits and assistance	2,157.3	– 6.5
• thereof for pension benefits*	(521.6)	(– 31.8)
	11,324.3	+ 2.7

* See pages 46 and 51

As compensation for not being covered by the statutory savings enhancement plan, exempt employees of our German Group companies acquired BASF shares to a value of DM 0.8 million at par.

Training and career advancement Expenditures on vocational training amounted to DM 146 million in 1997. At year-end, the German Group companies employed 3,301 trainees, 7 percent more than in 1996. As in the previous year, we offered jobs to virtually all suitable candidates who had completed their training.

As an innovative company, we attach great importance to our employees' career advancement and training. In Germany, 56,824 employees, or 92 percent of the workforce, took part in training and career advancement programs, on which we invested DM 78 million.

BASF Aktiengesellschaft
Compared with 1996, the number of employees, including those on limited-term contracts, fell by 175 to 44,850. We recruited 766 people from outside the company, including 126 long-term unemployed. At the end of 1997, the number of young people undergoing training was 2,520.

In "Agreement 2000" for the Ludwigshafen site, management and the employees' representatives have agreed to set the number of people to be employed by the end of 2000 at 39,000 to 41,000 (excluding trainees). The reduction in the size of the workforce will for the most part be achieved by means of various socially compatible measures, for example, voluntary short-time working for those nearing retirement, for which 1,637 employees have already opted.

Flexible structures In 1997, we introduced a modern system of remuneration for exempt employees of BASF Aktiengesellschaft. The remuneration system was reorganized in some parts of the non-exempt sector. Both systems are geared to BASF's total return on assets before income taxes and interest expenses and the employee's individual performance. The intention here is to give greater recognition to performance and bring greater flexibility to our cost structures.

Training initiatives launched

Helmut Becks, a member of the Board of Executive Directors, talks to some of the 813 young people who began their training at the Ludwigshafen site last autumn. By increasing the number of trainees we are helping to ease the situation in today's difficult training market. BASF Aktiengesellschaft and Knoll AG will sponsor up to another 300 traineeships in the Palatinate each year from 1998 to 2003. About DM 18 million is to be spent primarily on training in future-oriented vocations. Wintershall AG is also backing 150 new traineeships in North Rhine-Westphalia and Thuringia for 5 years at a cost of DM 10,000 per place per year.

We invested DM 2.5 billion in **Research & Development.** This figure will increase to DM 2.7 billion in 1998. Our success is based on innovation, and research is the key to innovation. We are focusing on the company's core operations. Besides carrying out research for our operations, we spend 10 percent of our budget on devising new technologies and methods, thus boosting our innovation potential.

Contribution to production Verbund One of our trump cards in competition is a strong production Verbund. For example, we are supporting the C_3 product lines based on propylene with new and improved processes. We have developed a new catalyst system for acrylic acid production which operates at higher loads, making for greater cost effectiveness. This new technology is of great significance to us. The world market for acrylic monomers is worth more than DM 5 billion.

In the next Verbund stage, we use acrylates to produce polymer dispersions, which are essential as binders for paper, paints, adhesives and textiles. We have optimized this process as well and improved the space-time yield.

We have added a new polypropylene grade to our C_3 product portfolio: *Metocene* is formed by polymerization using metallocene catalysts. This transparent, tough material is marketed by our Targor joint venture. The outstanding properties of the new products are increasingly persuading our customers to use polypropylene instead of other materials.

The C_4 value-added chain has been strengthened with octene-N, an important precursor for plasticizer alcohols. A new catalytic process, significantly superior to the conventional one, increases plant capacity by 60 percent and, at the same time, reduces the quantity of by-products formed.

Efficient Verbund structures depend on constant process improvements. We have further optimized our C_6 derivatives which start from benzene and extend to a variety of polymers such as nylons and polyurethanes. A newly developed process for hexanediol increases productivity substantially and reduces the specific capital expenditures. Hexanediol is, for example, an important building block for polyurethanes, a product group whose global market volume is about DM 17 billion.

In the specialty amine sector, we have successfully developed a new, highly selective process for synthesizing cyclohexylamine from aniline. Cyclohexylamine is used, for example, as a precursor for the sweetener cyclamate or as a rubber chemical. A plant operating the new process went on stream at Geismar, Louisiana, in November.

Innovative solutions from the technology and know-how Verbund In our research operations, we make consistent use of the synergistic effects resulting from different technologies and methods.

→ Example 1
The electrochemical production of aromatic aldehydes is one of BASF's core technologies. Agrochemicals, fragrances and light stabilizers are produced in this way. A new system in the electrochemical process increases the yield. On the basis of this improved process, we are constructing a new anisaldehyde plant.

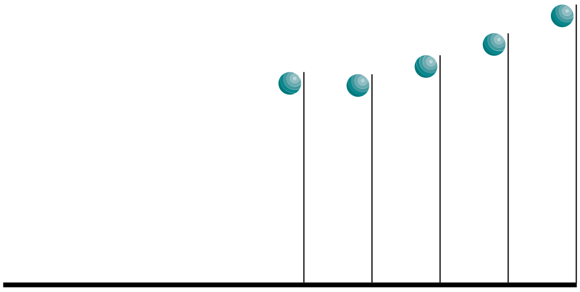
→ Example 2
Coatings and pigment specialists, physicists, chemists and engineers have developed optically variable pigments for unusual metallic-

focused

effect finishes. These innovative coatings vary greatly in color depending on the angle of view and incidence of light, rather like the play of colors on the surfaces of soap bubbles in sunlight. Production of the new special-effect pigments will start in 1998. The total market for such pigments is about DM 300 million.

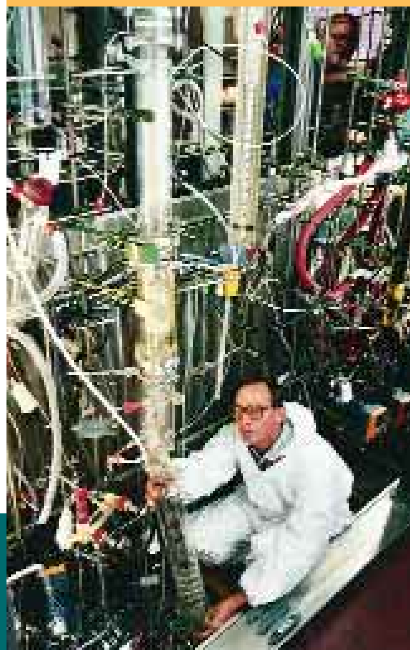
→ Example 3

In the quest for new active substances, molecular test systems for high throughput screening are a key to success in life science research. Working with university teams, our pharmaceutical and crop protection research scientists identify the molecular targets of active substances. At the same time, biophysicists are developing methods of observing the interaction between the active substances and their targets within the molecule. When this knowledge is pooled, molecular biologists can develop selective tests to search for new active substances for crop protection and pharmaceutical products. Chemical compounds are increasingly being provided by means of combinatorial chemistry and with the multidisciplinary use of technologies in the know-how Verbund. We are now investigating several thousand compounds every day, which means that we are 10 times faster than we were just 4 years ago.



R&D expense	93	94	95	96	**97**
Million DM	1,934	1,916	2,088	2,286	**2,549**

Worldwide, about 10,000 employees work in our R&D operations. Their task is to search for new and improved products. It is just as important to develop cost-efficient and ecocompatible processes and continuously optimize them.



Sustainable Development in the production Verbund

An important task of our research scientists is to develop new processes that strengthen the Verbund. What begins life as an idea in the laboratory (top photo) is gradually optimized in the miniplant (center photo) until it takes its final form in concrete and steel (bottom photo). A new process generally also means more economical use of resources and reduced environmental pollution. A contribution made by our research scientists to air pollution control is a new metal oxide catalyst for the decomposition of nitrous oxide. This gas is formed as a byproduct in the production of adipic acid, a precursor, in particular, of nylon-6,6. A plant directly integrated in the production process started up in October 1997. More than 95 percent of the nitrous oxide produced is broken down into the natural air components oxygen and nitrogen. We encourage active environmental protection in keeping with Sustainable Development.

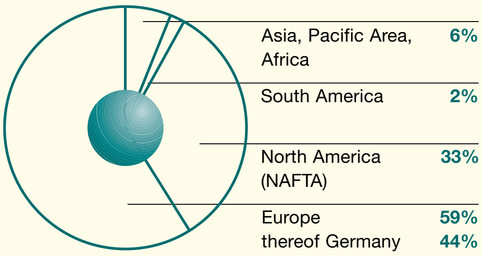
We are optimizing our portfolio with **capital expenditures, cooperations, acquisitions and divestitures.** We turn to our advantage the opportunities offered by a changing world economy.

Change as an opportunity

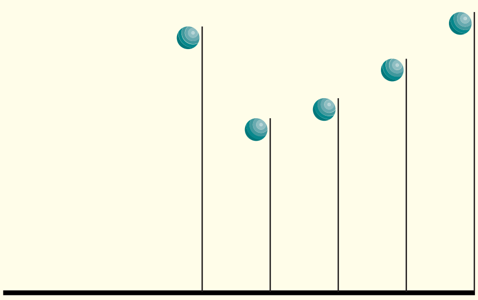
Capital expenditures Capital expenditures on tangible fixed assets were DM 4,359 million, or 19.8 percent more than in the previous year. DM 1,930 million was spent on plant and equipment in Germany, of which BASF Aktiengesellschaft accounted for DM 942 million.

We plan to increase capital expenditures to DM 4,700 million in 1998.

In **Health & Nutrition,** capital expenditures in 1997 totaled DM 635 million, which was 14.6 percent of total BASF Group capital expenditures.



Capital expenditures in 1997 by region



Capital expend.	93	94	95	96	**97**
Million DM	4,139	2,707	3,024	3,639	**4,359**

At Ludwigshafen, we expanded our plants for the production of vitamin B_2, carotenoids and the fragrance citral. We will continue the capacity expansion in the fine chemicals sector. Vitamin premix plants began operation in Spain, Brazil and the U.S.

Since early 1998, we have also been producing the fungicidal active ingredient kresoxim-methyl at a new plant in Tarragona, Spain. A plant for producing the corn herbicides acquired from Sandoz is under construction at Beaumont, Texas, and a plant for another class of herbicides is planned at Altamira, Mexico.

Production of pharmaceuticals is being expanded and modernized in Brazil, Japan and France. At the Wyandotte, Michigan, site, we are building a new plant for the active substance of the thyroid drug Synthroid®.

Capital expenditures in **Colorants & Finishing Products** amounted to DM 492 million, 11.3 percent of total resources.

Important capital expenditures were made on additional plants for the production of acrylic acid and acrylates which went on stream at Freeport, Texas.

Production of disperse dyes was expanded at Ludwigshafen. We will increase the capacity for isoindoline and Heliogen® Green pigments and build a new plant for Paliotol® Yellow. We are planning a new large-scale plant for polymer dispersions.

Polymer dispersion capacity was increased at Mangalore, India.

In **Chemicals,** we invested DM 736 million, a 16.9-percent share of total capital expenditures.

At Ludwigshafen, we brought new plants on stream for the production of catalysts, alkylaminopropylamines and neopentylglycol. We started to expand capacities for alkylalkanolamines, butyl- and methylamines, acid chlorides, oxo alcohols, propylene oxide and propylene glycol.

At Geismar, Louisiana, new butyrolactone, N-methylpyrrolidone and specialty amine plants began operation and a new acetylene plant is under construction.

At our Ulsan, Korea, site, we are building a plant in which butanediol and tetrahydrofuran are to be produced for further processing to polyTHF.

Capital expenditures in **Plastics & Fibers,** at DM 1,024 million, accounted for 23.5 percent of the total.

At Tarragona, Spain, the Targor joint venture began operating a plant for the production of polypropylene catalysts.

In March 1997, a new plant started up at Antwerp for the production of nylon-6; capacity was increased at Freeport, Texas.

A new polystyrene plant was completed at Altamira, Mexico; work began on the construction of an

ABS plant. At the Joliet, Illinois, site, we are increasing production capacities for high-impact polystyrene. At Nanjing, China, our joint venture with our Chinese partner YPC began producing ethylbenzene, styrene and polystyrene at the end of 1997. A new ABS plant went on stream at Ulsan, Korea, at the beginning of 1998.

We increased the capacity of our Styropor® plant at Thane, India, and began modernizing and expanding the plant in South Brunswick, New Jersey. We are constructing a plant in Brazil for the manufacture of the polypropylene foam Neopolen®.

The expansion of our MDI plant at Yeochun, Korea, was completed.

Capital expenditures in **Oil & Gas** were DM 609 million. This was 14.0 percent of total capital expenditures.

The coking plant at the Lingen oil refinery is being modernized and expanded.

Construction of natural gas pipelines continued. Work began on additional expansion stages of WEDAL (the west German connection line) and the Rehden natural gas reservoir. A start was made on the construction of the Yamal gas connection line (JAGAL), extending some 200 miles from Mallnow in Brandenburg to Rückersdorf in Thuringia.

Cooperations, acquisitions and divestitures

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

→ Joint ventures

The 50 : 50 joint venture BASELL was set up with Shell and will produce propylene oxide and styrene at Moerdijk, the Netherlands.

Elenac, the polyethylene joint venture with Shell (BASF: 50 percent), emerged from our former joint affiliate Rheinische Olefinwerke GmbH, Wesseling (ROW), on March 1, 1998. The company is headquartered at Kehl and Strasbourg.

Targor, our propylene joint venture with Hoechst (BASF: 50 percent), began operation at its Mainz headquarters on July 1, 1997.

With Petronas, we set up a joint venture (BASF: 60 percent) which will be building a Verbund site at Kuantan, Malaysia, with plants producing acrylic acid, acrylates, oxo alcohols, phthalic anhydride and plasticizers.

We plan to produce a vitamin C precursor together with Merck and Cerestar (33.3 percent each) from 1999.

We have agreed with FINA on a joint venture (BASF: 60 percent) to build and operate a steamcracker at Port Arthur, Texas, which is to provide the Freeport and Geismar Verbund sites with petrochemical feedstocks.

In a joint venture (BASF: 51 percent) with Sonatrach, Algeria, we intend to produce propylene by the dehydrogenation of propane at Tarragona, Spain.

In Shanghai, we established BASF Hua Yuan Nylon Co., Ltd. (BASF: 70 percent) for the production and marketing of carpet fibers.

→ Acquisitions

We acquired:

- premix plants for feeds in Poland and South Africa,
- the coatings manufacturer Salchi Spa, Italy,
- the printing ink businesses of Punch Printing Inks Ltd., Ireland, and Schou Trykfarver A/S, Denmark,
- the surfactant businesses of the U.S. companies Olin Corporation and PPG,
- part of the antifreeze business of Dow Benelux NV, Terneuzen, the Netherlands,
- the polystyrene operations jointly run by Monsanto and the Unigel Group in Brazil,
- the 50-percent holding of Hanwha Chemical Corp., Korea, in the joint venture Hanwha BASF Urethane Ltd. (now BASF Urethane Korea Ltd.).

→ Reorganizations

We transferred the business with building paints to the newly founded BASF deco GmbH. Our German printing system operations were transferred to BASF Drucksysteme GmbH.

→ Divestitures

We sold our businesses

- with electrical insulation systems to Schenectady International, U.S.,
- with container coatings to PPG, U.S., and
- of Resart GmbH and Critesa S.A., Spain, with PMMA plastics to the Barlo Group plc in Dublin, Ireland.

We reduced our holding in Kali und Salz Beteiligungs AG, Kassel, which we own through Guano-Werke GmbH, Krefeld, from more than 75 percent to less than 50 percent.

We have agreed to sell the trading company Chemag Aktiengesellschaft, Frankfurt, to Metallgesellschaft.

Finance: We achieved a cash flow of DM 7.3 billion. The return on assets before income taxes and interest expenses was 12.6 percent. The return on equity after taxes was 14.6 percent.

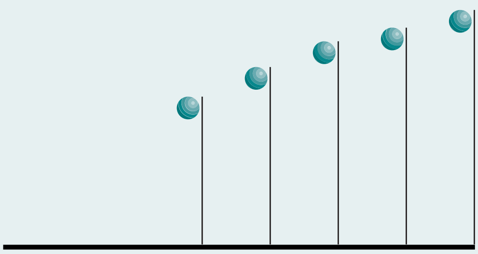
Financing The improvement in earnings is also reflected in the cash flow, which increased by DM 551 million or 8.1 percent to DM 7,349 million. Due to the vigorous growth in sales, the cash flow as a proportion of sales dropped to 13.2 percent compared with 13.9 percent in the previous year. The cash flow per DM 5 share improved to DM 11.85 (previous year: DM 11.07).

The financial requirement for fixed and current assets was DM 7,184 million; of this, a good three quarters related to increases in fixed assets. Capital expenditures on tangible fixed assets rose by 20 percent to DM 4,359 million. DM 307 million net was invested in financial assets, most of it being accounted for by the acquisition of polystyrene operations in Brazil and capital increases at non-consolidated Group companies.

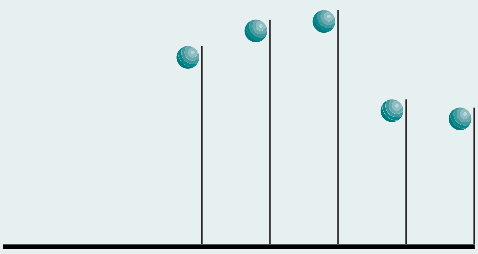
The good business resulted in additional funds of DM 1.6 billion being tied up in current assets. Receivables, especially, increased as a result of the strong sales in the 4th quarter. The average duration of receivables remained largely stable at 59 days.

Nearly 90 percent of the financial requirement for fixed and current assets, together with the dividend for 1996 of DM 1,051 million, was financed from the cash flow.

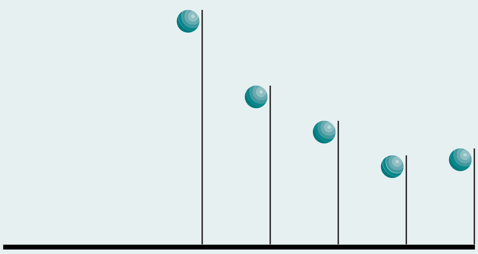
As a result of the exercising of subscription rights connected with the BASF Finance Europe N.V. 1986/2001 bonds with warrants, we received equity of DM 124 million. More business also resulted in an increase of accounts payable, which made a major contribution to financing the increased funds tied up in current assets. Financial indebtedness increased by DM 164 million only as a result of influences from currency translation and of the



Cash flow	93	94	95	96	**97**
Million DM	4,635	5,565	6,368	6,798	**7,349**



Cash and cash items	93	94	95	96	**97**
Million DM	5,239	5,949	6,193	3,827	**3,610**



Financial indebtedness	93	94	95	96	**97**
Million DM	5,364	3,632	2,833	2,038	**2,202**

Statement of source and application of funds	**1997**	1996
	Mill DM	Mill DM
Net income	**3,236**	2,790
Depreciation of fixed assets	**4,023**	3,709
Retirement of tangible and intangible assets	**194**	154
Changes in long-term provisions and miscellaneous items	**–104**	145
Cash flow	**7,349**	6,798
Dividend for the preceding year	**1,051**	854
Internal financing	**6,298**	5,944
Capital expenditures	**4,359**	3,639
Net additions to financial assets	**307**	2,014
Additions of intangible assets and other items	**919**	984
Fixed assets	**5,585**	6,637
Change in inventories	**29**	371
Change in receivables	**1,570**	599
Current assets	**1,599**	970
Application of funds	**7,184**	7,607
Balance of internal financing	**–886**	–1,663
Increase in paid-in capital	**124**	255
Change in financial indebtedness	**–42**	–890
Change in other liabilities	**932**	–176
Balance of external financing	**1,014**	–811
Change in scope of consolidation	**–345**	107
Change in cash items	**–217**	–2,367

expanded scope of consolidation. 68 percent of our financial indebtedness is in U.S. dollars, 9 percent in DM and 3 percent in yen. Cash and cash items decreased by DM 217 million. After deduction of financial indebtedness, net liquidity amounted to DM 1,408 million.

Assets and capital structure

Total assets increased by DM 4.3 billion to DM 48.0 billion. Capital expenditures, expansion in business, the full consolidation of the Targor joint venture and translation influences especially resulting from the rise in the U.S. dollar parity were substantial factors here. Fixed assets accounted for 51.8 percent (previous year: 51.9 percent), current assets (excluding cash and cash items) for 40.7 percent (previous year: 39.3 percent) and cash and cash items for 7.5 percent (previous year: 8.8 percent) of total assets.

Equity increased by DM 3.0 billion to DM 23.5 billion and equity as a proportion of total capital rose from 46.9 to 49.0 percent. The reasons for this were improved earnings, the issuing of shares resulting from the exercising of subscription rights and favorable currency influences of DM 0.6 billion.

Long-term provisions and liabilities accounted for 24.9 percent of total capital, and short-term borrowing for 26.1 percent.

Gratifying returns The return on assets before income taxes and interest expenses was 12.6 percent, as compared with 11.4 percent in the previous year. For the third consecutive year, it was thus significantly higher than 10 percent, our target minimum return averaged over an economic cycle.

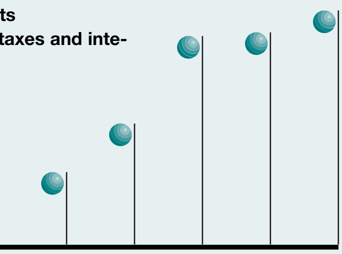
With a return on sales before income taxes and interest expenses of 10.4 percent, we exceeded the previous year's figure of 10.0 percent.

The return on equity after taxes of 14.6 percent was just below the previous year's 14.8 percent because of the increase in equity.

Structure of assets and liabilities in 1997	Mill DM	%
Assets		
Intangible assets	2,928	6.1
Tangible assets	17,750	37.0
Financial assets	4,170	8.7
Fixed assets	24,848	51.8
Inventories	7,581	15.8
Receivables	11,949	24.9
Cash and cash items	3,610	7.5
Current assets*	23,140	48.2
Assets	47,988	100.0
Equity and liabilities		
Paid-in capital	8,131	17.0
Revenue reserves	14,508	30.2
Translation adjustment	392	0.8
Minority interests	499	1.0
Equity	23,530	49.0
Long-term provisions and special reserves	9,435	19.7
Long-term liabilities	2,484	5.2
Short-term provisions and liabilities	12,539	26.1
Liabilities*	24,458	51.0
Equity and liabilities	47,988	100.0

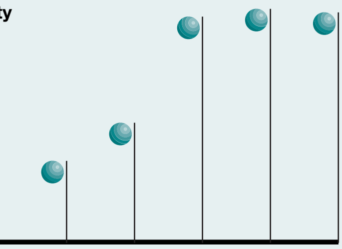
* Including prepaid expenses, deferred income and special reserves

Return on assets before income taxes and interest expenses



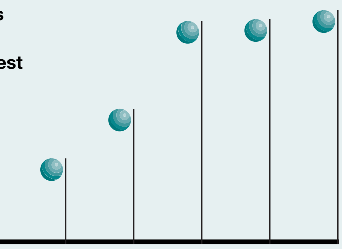
	93	94	95	96	97
Percent	3.9	6.5	11.2	11.4	12.6

Return on equity after taxes



	93	94	95	96	97
Percent	5.2	7.6	14.3	14.8	14.6

Return on sales before income taxes and interest expenses



	93	94	95	96	97
Percent	3.8	6.0	9.9	10.0	10.4

Outlook

Financial Report

Profitable growth is our aim in 1998 as well. With increasing sales we want, in particular, to further improve returns. We are assuming that there will be a slight cost relief from declining raw material prices.

We will be raising our capital expenditures. We are expanding capacities, enhancing the efficiency of our processes and improving our cost situation. In the current year, a total of DM 4.7 billion is earmarked for this.

We are aiming to strengthen the innovative power of our company in the long term. To this end, we are increasing R&D funding to about DM 2.7 billion in 1998, a figure that we plan to maintain in the coming years.

It is at present difficult to assess future developments in Asia. Despite the weakness caused by the financial crisis, we are in the current year anticipating economic growth of 4 percent in Asia – not including Japan. In 1998, our business in Asia is forecast to rise by 10 percent – a significantly higher figure. We still consider Asia to have great growth potential, and we want to take advantage of the opportunities now opening up.

The economic upswing in North America, which has been in progress for some years, will probably continue in the current year with only a slight loss of impetus – a sound basis for gratifying business again.

The economy in our home market of Europe is picking up. With export business remaining brisk, we expect demand in Germany to revive. The growth in chemical production will therefore again outpace that of the economy as a whole.

For these reasons, we are confident of achieving the targets we have set ourselves and of again increasing the good returns posted in the last 2 years.

Balance sheets of the BASF Group and BASF Aktiengesellschaft as of December 31, 1997 in million DM

Assets	Explanations in Note	BASF Group Dec. 31, 1997	BASF Group Dec. 31, 1996	BASF Aktiengesellschaft Dec. 31, 1997	BASF Aktiengesellschaft Dec. 31, 1996
Intangible assets	(7)	**2,928.1**	2,535.5	**595.0**	713.0
Tangible assets	(7)	**17,750.5**	16,071.0	**2,905.9**	3,020.3
Financial assets	(8)	**4,169.6**	4,094.4	**15,720.7**	14,874.9
Fixed assets	(3/4)	**24,848.2**	22,700.9	**19,221.6**	18,608.2
Goods on lease		**134.8**	151.3		
Inventories	(9)	**7,445.4**	7,018.2	**2,205.0**	2,415.0
Accounts receivable – trade		**8,408.4**	7,262.9	**2,060.6**	1,961.0
Receivables from affiliated companies		**967.9**	730.3	**4,218.5**	3,337.4
Miscellaneous receivables and other assets		**2,138.2**	1,607.7	**494.2**	351.4
Receivables and other assets	(10)	**11,514.5**	9,600.9	**6,773.3**	5,649.8
Securities		**1,961.7**	2,670.7	**1,744.3**	2,153.2
Checks, cash on hand, Bundesbank balances, bank balances		**1,648.3**	1,156.0	**849.2**	254.8
Current assets	(3)	**22,704.7**	20,597.1	**11,571.8**	10,472.8
Prepaid expenses	(11)	**434.7**	420.3	**19.4**	9.9
		47,987.6	43,718.3	**30,812.8**	29,090.9

Equity and liabilities	Explanations in Note	BASF Group Dec. 31, 1997	BASF Group Dec. 31, 1996	BASF Aktiengesellschaft Dec. 31, 1997	BASF Aktiengesellschaft Dec. 31, 1996
Subscribed capital	(12)	**3,110.3**	3,090.3	**3,110.3**	3,090.3
Capital surplus	(13)	**5,021.1**	4,917.6	**4,839.4**	4,736.0
Revenue reserves*	(14)	**14,508.1**	12,248.2	**6,039.4**	5,439.4
Profit retained	(14)			**1,244.2**	1,050.8
Translation adjustment	(6)	**391.7**	−252.5		
Minority interests	(28)	**498.5**	485.9		
Equity		**23,529.7**	20,489.5	**15,233.3**	14,316.5
Special reserves	(3)	**35.4**	61.9	**6.7**	26.7
Pension provisions and similar obligations	(15)	**6,420.7**	6,747.6	**4,602.5**	4,683.0
Provisions for taxes		**1,343.8**	1,278.0	**975.5**	989.5
Other provisions	(16)	**6,451.6**	6,470.6	**2,812.3**	2,633.4
Provisions	(3/16)	**14,216.1**	14,496.2	**8,390.3**	8,305.9
Bonds and other liabilities to the capital market		**1,258.3**	1,040.2		
Liabilities to credit institutions		**943.3**	998.0	**15.1**	62.6
Accounts payable – trade		**3,858.2**	3,183.8	**942.5**	849.1
Liabilities to affiliated companies		**233.0**	402.2	**5,221.9**	4,718.6
Miscellaneous liabilities		**3,643.5**	2,875.0	**768.6**	585.2
Liabilities	(17)	**9,936.3**	8,499.2	**6,948.1**	6,215.5
Deferred income		**270.1**	171.5	**234.4**	226.3
		47,987.6	43,718.3	**30,812.8**	29,090.9

* Including profit retained in the case of the BASF Group

Profit and loss accounts of the BASF Group and BASF Aktiengesellschaft
January 1 – December 31, 1997 in million DM

		BASF Group		BASF Aktiengesellschaft	
	Explanations in Note	**1997**	1996	**1997**	1996
Sales		**58,904.3**	52,201.9		
– Petroleum and natural gas taxes		**3,124.2**	3,425.9		
Sales (without petroleum and natural gas taxes)	(21)	**55,780.1**	48,776.0	**23,527.3**	20,607.2
Cost of sales		**35,520.5**	31,080.8	**15,681.1**	13,575.9
Gross profit on sales		**20,259.6**	17,695.2	**7,846.2**	7,031.3
Selling expense		**9,355.0**	8,455.0	**3,402.9**	3,073.7
General administration expense		**1,396.5**	1,198.0	**437.5**	432.9
Research and development expense		**2,548.9**	2,285.8	**1,530.8**	1,416.8
Other operating income	(22)	**2,139.5**	1,925.5	**660.7**	529.8
Other operating expense	(22)	**3,757.2**	3,388.8	**1,349.9**	922.7
Income from operations		**5,341.5**	4,293.1	**1,785.8**	1,715.0
Net income from financial assets	(23)	**–47.6**	107.7	**675.6**	460.9
Amortization of and losses from retirement of financial assets as well as securities held as current assets		**63.4**	169.6	**91.5**	222.3
Interest result	(24)	**100.6**	182.5	**211.9**	261.3
Financial result		**–10.4**	120.6	**796.0**	499.9
Profit before taxes*		**5,331.1**	4,413.7	**2,581.8**	2,214.9
Income taxes	(25)	**2,125.7**	1,575.0	**737.7**	514.2
Net income		**3,205.4**	2,838.7	**1,844.1**	1,700.7
Minority interests in profit/loss	(28)	**–30.3**	48.5		
Net income after minority interests		**3,235.7**	2,790.2		
Results per share (DM)		**5.22**	4.54		

* Results from ordinary operations

Development of fixed assets
as of December 31, 1997 in million DM

Gross book values						
BASF Group						
	Jan. 1, 1997	Change in scope of consolidation	Additions	Retire-ments	Reclassi-fications	Dec. 31, 1997
Concessions, industrial and similar rights and assets, as well as licenses for such rights and assets	2,884.6	68.6	218.8	150.7	236.0	3,257.3
Goodwill	725.5	20.1	384.7	182.0	52.2	1,000.5
Payments on account	92.3	–	52.2	0.1	14.4	158.8
Intangible assets	**3,702.4**	**88.7**	**655.7**	**332.8**	**302.6**	**4,416.6**
Land, land rights and buildings including buildings on land owned by others	10,691.8	45.2	127.1	145.9	504.9	11,223.1
Machinery and technical equipment	40,330.2	563.1	890.9	720.0	2,437.5	43,501.7
Miscellaneous equipment and fixtures	5,549.0	27.2	311.7	394.3	484.2	5,977.8
Payments on account and construction in progress	2,000.0	16.7	3,029.0	39.3	−2,292.8	2,713.6
Tangible assets	**58,571.0**	**652.2**	**4,358.7**	**1,299.5**	**1,133.8**	**63,416.2**
Shares in affiliated companies	2,152.4	−114.9	445.3	274.6	−333.2	1,875,0
Loans to affiliated companies	1,051.6	–	17.5	8.8	−11.1	1,049.2
Shares in associated companies	473.1	−87.6	30.8	2.7	241.0	654.6
Shares in participating interests	435.4	42.2	28.6	1.2	0.1	505.1
Loans to associated companies and participating interests	65.3	–	62.6	46.9	2.7	83.7
Securities held as fixed assets	57.9	0.1	37.4	42.2	−0.7	52.5
Other loans and other investments	191.4	−12.8	161.6	50.9	14.1	303.4
Financial assets	**4,427.1**	**−173.0**	**783.8**	**427.3**	**−87.1**	**4,523.5**
Fixed assets	**66,700.5**	**567.9**	**5,798.2**	**2,059.6**	**1,349.3**	**72,356.3**
BASF Aktiengesellschaft						
Industrial and similar rights and assets, as well as licenses for such rights and assets	833.1		45.7	77.1	0.9	802.6
Goodwill	17.1		–	–	–	17.1
Payments on account	0.9		1.4	–	−0.9	1.4
Intangible assets	**851.1**		**47.1**	**77.1**	**–**	**821.1**
Land, land rights and buildings including buildings on land owned by others	4,310.7		55.0	8.4	93.3	4,450.6
Machinery and technical equipment	14,986.6		300.1	367.2	283.5	15,203.0
Miscellaneous equipment and fixtures	2,586.8		144.3	196.6	69.1	2,603.6
Payments on account and construction in progress	550.1		442.7	17.7	−445.9	529.2
Tangible assets	**22,434.2**		**942.1**	**589.9**	**–**	**22,786.4**
Shares in affiliated companies	15,325.9		1,203.3	184.2	139.8	16,484.8
Loans to affiliated companies	735.9		429.3	632.9	–	532.3
Participating interests	434.8		20.8	6.5	−139.8	309.3
Loans to participating interests	22.6		9.5	20.0	–	12.1
Other loans and other investments	15.9		0.1	3.0	–	13.0
Financial assets	**16,535.1**		**1,663.0**	**846.6**	**–**	**17,351.5**
Fixed assets	**39,820.4**		**2,652.2**	**1,513.6**	**–**	**40,959.0**

Amortization							Net book values	
Jan. 1, 1997	Change in scope of consolidation	Additions	Retire-ments	Write-backs	Reclassi-fications	Dec. 31, 1997	Dec. 31, 1997	Dec. 31, 1996
831.3	40.7	437.6	125.2	0.2	31.4	1,215.6	2,041.7	2,053.3
334.1	8.4	142.4	180.3	–	–33.5	271.1	729.4	391.4
1.5	–	0.3	–	–	–	1.8	157.0	90.8
1,166.9	**49.1**	**580.3**	**305.5**	**0.2**	**–2.1**	**1,488.5**	**2,928.1**	**2,535.5**
6,597.9	–50.5	388.8	95.7	–	182.2	7,022.7	4,200.4	4,093.9
31,470.5	270.0	2,381.9	680.3	0.2	373.4	33,815.3	9,686.4	8,859.7
4,430.5	13.4	546.6	355.9	–	121.1	4,755.7	1,222.1	1,118.5
1.1	–0.2	69.6	0.6	–	2.1	72.0	2,641.6	1,998.9
42,500.0	**232.7**	**3,386.9**	**1,132.5**	**0.2**	**678.8**	**45,665.7**	**17,750.5**	**16,071.0**
129.1	–	1.2	11.6	–	0.5	119.2	1,755.8	2,023.3
–	–	–	–	–	–	–	1,049.2	1,051.6
55.9	–	–	–	–	–0.3	55.6	599.0	417.2
134.5	–	35.4	0.3	–	–	169.6	335.5	300.9
–	–	–	–	–	–	–	83.7	65.3
3.1	–	0.6	1.4	–	0.3	2.6	49.9	54.8
10.1	–0.4	0.8	2.9	0.1	–0.6	6.9	296.5	181.3
332.7	**–0.4**	**38.0**	**16.2**	**0.1**	**–0.1**	**353.9**	**4,169.6**	**4,094.4**
43,999.6	**281.4**	**4,005.2**	**1,454.2**	**0.5**	**676.6**	**47,508.1**	**24,848.2**	**22,700.9**
136.4		143.4	58.8	–	–	221.0	581.6	696.7
1.7		3.4	–	–	–	5.1	12.0	15.4
–		–	–	–	–	–	1.4	0.9
138.1		**146.8**	**58.8**	**–**	**–**	**226.1**	**595.0**	**713.0**
3,428.4		128.8	4.9	–	51.4	3,603.7	846.9	882.3
13,785.9		669.3	352.0	–	–50.0	14,053.2	1,149.8	1,200.7
2,199.6		201.0	175.6	–	–1.4	2,223.6	380.0	387.2
–		–	–	–	–	–	529.2	550.1
19,413.9		**999.1**	**532.5**	**–**	**–**	**19,880.5**	**2,905.9**	**3,020.3**
1,654.7		–	28.0	–	0.3	1,627.0	14,857.8	13,671.2
2.2		–	0.7	0.2	–	1.3	531.0	733.7
0.9		–	0.3	–	–0.3	0.3	309.0	433.9
–		–	–	–	–	–	12.1	22.6
2.4		0.1	0.1	0.2	–	2.2	10.8	13.5
1,660.2		**0.1**	**29.1**	**0.4**	**–**	**1,630.8**	**15,720.7**	**14,874.9**
21,212.2		**1,146.0**	**620.4**	**0.4**	**–**	**21,737.4**	**19,221.6**	**18,608.2**

Company name and headquarters Products and services	Number of employees		Capital expenditures Million DM		Sales Million DM		Profit before taxes Million DM	
	Dec. 31, 1997	Dec. 31, 1996	1997	1996	1997	1996	1997	1996
Europe								
BASF Antwerpen N.V., Antwerp, Belgium Fertilizers, plastics, intermediates for plastics and fibers, chemicals	3,506	3,577	223.8	399.7	4,563.5	3,645.0	624.0	289.8
BASF Coatings AG, Münster Coatings, paints	2,760	4,320	20.3	46.3	1,133.5	1,720.5	156.0	12.6
BASF Drucksysteme GmbH, Stuttgart Printing inks	739		5.6		397.9		49.8	
BASF Española S.A., Barcelona, Spain Chemicals, plastics, finishing products, sale of fertilizers and crop protection products	1,017	1,033	163.2	63.3	1,059.2	1,011.1	57.0	83.4
BASF France S.A., Levallois-Perret, France Sale of fertilizers and crop protection products, finishing products	486	523	1.6	2.4	1,508.6	1,422.2	30.2	25.7
BASF Italia Spa, Cesano Maderno, Italy Colorants and finishing products	626	653	16.6	23.8	598.2	570.3	25.9	20.2
BASF Peintures + Encres S.A., Clermont de l'Oise, France Coatings, paints, printing inks, pigments	921	1,283	12.0	11.3	448.7	507.8	33.2	1.8
BASF plc, Cheadle, Great Britain Chemicals, fiber intermediates	1,030	1,375	41.0	30.3	1,847.6	1,665.8	88.8	99.5
BASF Schwarzheide GmbH, Schwarzheide Polyurethane products and systems, foamed plastics, crop protection products, waterborne coatings	2,247	2,286	79.7	86.2	874.7	813.8	47.2 [1]	21.8 [1]
BASF Vernici e Inchiostri Spa, Cinisello Balsamo, Italy Coatings, paints, pigments	465	579	9.2	6.7	346.9	350.5	10.3	9.9
Comparex Informationssysteme GmbH, Mannheim [2a] Sale and renting of data processing and storage equipment, services	595	600	6.7	5.1	888.2	970.0	77.5	89.8
Compo GmbH, Münster Home and garden specialty products, fertilizers	267	270	1.5	0.9	352.9	330.3	24.6 [1]	24.0 [1]
Elastogran GmbH, Lemförde [3] Basic polyurethane products and systems, PUR special elastomers and technical parts	1,303	1,278	27.7	19.9	1,785.5	1,626.8	153.6	117.5
Knoll AG, Ludwigshafen Pharmaceuticals, pharmaceutical chemicals	3,162	3,615 [3]	60.5	79.8 [3]	1,183.0	1,154.8 [3]	53.9 [1]	−63.0 [1]
Rheinische Olefinwerke GmbH, Wesseling [2b] Polyolefins, styrene, butadiene, epoxy resins, thermoplastic rubber	2,428	2,439	315.9	150.7	2,469.4	1,973.4	245.3 [1]	102.4 [1]
Targor GmbH, Mainz [2c] Polypropylene	581		33.1		746.4		−59.9	
Wintershall AG, Celle/Kassel Crude oil, natural gas, petroleum products	1,693	1,698	609.0 [3]	422.0 [3]	6,759.8 [3]	5,558.5 [3]	1,014.2 [3]	804,1 [3]

Company name and headquarters Products and services	Number of employees		Capital expenditures Million DM		Sales Million DM		Profit before taxes Million DM	
	Dec. 31, 1997	Dec. 31, 1996	**1997**	1996	**1997**	1996	**1997**	1996
North America								
BASF Corporation, Mount Olive, New Jersey, USA[3] (from 1997, including the BASF de Mexico Group) Chemicals, crop protection products, plastics, fibers, colorants, finishing products, coatings, pharmaceuticals	**15,202**	13,540	**1,403.1**	985.7	**11,913.6**	9,541.8	**400.5**	889.6
Polioles S.A. de C.V., Mexico City., Mexico[2b] Polyurethane products, Styropor®, chemicals	**815**	762	**22.5**	11.9	**455.4**	395.9	**34.2**	31.3
South America								
BASF Argentina S.A., Buenos Aires, Argentina Styropor®, finishing products, crop protection products	**456**	429	**9.6**	2.7	**287.4**	233.4	**21.6**	7.7
BASF Química Colombiana S.A., Medellin, Colombia Chemicals, polyester resins, finishing products, crop protection products	**414**	469	**4.5**	9.9	**145.6**	130.2	**1.4**	–11.7
BASF S.A., São Bernardo do Campo, Brazil Chemicals, colorants, finishing products, coatings and paints, crop protection products	**4,342**	4,704	**63.0**	38.9	**1,901.0**	1,585.3	**8.0**	–91.2
Asia, Pacific Area								
BASF Australia Ltd., Melbourne, Australia Plastics, finishing products	**238**	265	**14.7**	18.9	**279.4**	264.6	**–14.6**	–10.6
BASF India Ltd., Bombay, India[2c] Styropor®, colorants, finishing products, crop protection products	**933**	937	**16.8**	18.1	**140.5**	110.7	**9.5**	6.3
BASF Japan Ltd., Tokyo, Japan Chemicals, finishing products, plastics	**364**	416	**5.0**	4.3	**814.0**	812.6	**37.6**	35.8
BASF (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia Styropor®, finishing products	**234**	224	**27.8**	15.8	**149.3**	118.8	**–12.1**	–8.1
BASF Urethane Korea Ltd., Seoul, Korea Basic polyurethane products and systems	**277**	278	**55.5**	19.8	**217.1**	179.0	**–46.7**	16.4
Hyosung-BASF Co., Ltd., Seoul, Korea[2b] Styropor®, polystyrene, styrene copolymers	**461**	479	**204.7**	25.8	**409.0**	379.5	**–17.6**	4.5
Knoll Pharmaceuticals Ltd., Bombay, India[2d] Pharmaceuticals, pharmaceutical chemicals	**924**	928	**1.5**	10.3	**123.7**	95.1	**32.8**	15.1
Mitsubishi Chemical BASF Company Ltd., Yokkaichi, Japan[2b] Styropor®, polymer dispersions, foam sheeting	**258**	273	**3.9**	11.7	**218.7**	215.4	**–5.4**	–0.9

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.

[1] Before profit/loss transferred
[2] Our holdings: 2a: 60%, 2b: 50%, 2c: 50% uniform control, 2d: 40% uniform control
[3] Consolidated values

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.

The notes to the financial statements of the BASF Group and of 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. The financial statements were prepared in accordance with the provisions of the German Commercial Code and the Stock Corporation Law.

1 Scope of consolidation, participating interests

Significant domestic and foreign subsidiaries are included in the Group financial statements in full, and 50-percent-owned joint ventures on a pro rata basis. Subsidiaries and joint ventures of minor importance are not consolidated.

With effect from July 1, 1997, BASF and Hoechst combined their European polypropylene business in the Targor joint venture. The companies of the Targor Group in which BASF Group companies hold participations on the balance sheet date are fully consolidated. The foundation agreement provides for uniform management by BASF AG.

The following companies were consolidated for the first time in 1997:

- BASF Singapore Pte. Ltd., Singapore
- BASF South Africa (Pty.) Ltd., Halfway House, South Africa
- Polioles S.A. de C.V., Mexico D.F.
- Wintershall Exploration (U.K.) Ltd., London, United Kingdom
- Wintershall (U.K.) Ltd., London, United Kingdom.

The following companies are no longer consolidated:

- Kali und Salz Beteiligungs AG, Kassel
- Resart GmbH, Mainz.

We reduced our shareholding in Kali und Salz Beteiligungs AG to below 50 percent, and the Kali und Salz Group is included under the equity method. Resart GmbH was sold to the Barlo Group, Dublin, Ireland, at the end of November 1997.

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

The Group financial statements include:

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

The changes to the scope of consolidation had the following effect on the Group balance sheet:

	Mill DM	%
Fixed assets	137.6	0.6
• thereof tangible assets	419.5	2.6
Current assets (without liquid assets)	258.8	1.5
Liquid assets	−257.9	−6.7
Assets	138.5	0.3
Equity	−70.7	−0.3
Provisions	−401.4	−2.8
Liabilities	610.6	7.2
Equity and liabilities	138.5	0.3

Sales revenues increased as a result of the changes to the scope of consolidation and as a result of acquisitions less divestitures by DM 51 million or 0.1 percent.

2 Principles of consolidation

Balance sheet date: 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 adjusted statements as of the balance sheet date of the Group financial statements are prepared.

Uniform valuation: 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. Where the accounting and valuation methods applied in the financial statements of the consolidated companies differ 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.

The financial statements of BASF Aktiengesellschaft are not adjusted for inclusion in the Group financial statements, except that proceeds from stock warrants issued prior to 1985 are also included in capital surplus.

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

Capital consolidation: Capital consolidation is based on the book value method at the time of acquisition. The acquisition cost of participations is eliminated against the proportionate share of equity acquired. Differences arising are allocated to the assets or liabilities of the acquired companies up to their fair values or capitalized as intangible fixed assets.

Differences not allocated to individual assets are capitalized as goodwill and are generally amortized within 5 years. Credit balances are amortized to income to compensate for expected special charges.

3 Accounting and valuation methods

Intangible assets

Intangible fixed assets are valued at acquisition cost less scheduled straight-line amortization. Special write-downs are made in cases of expected permanent impairment of value.
The average weighted amortization period is 8 years, based on the following expected useful lives:

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

Tangible assets

Tangible assets are stated at acquisition or production cost less scheduled depreciation over their customary useful lives. Special write-downs are also made in cases of expected permanent impairment of value. Low-value assets are fully depreciated in the year of acquisition and are shown as retirements. Movable depreciable fixed assets which are permanently integrated through their function and use are combined into a single asset item.
Costs for drilling operations that struck oil and gas are capitalized as tangible assets. They are depreciated primarily by the declining balance method based on the estimated useful lives of 8 (for drilling operations in old fields) or 15 years. However, in certain regions, depreciation is calculated on the basis of production.
Geophysical expenditures, including exploratory and dryhole costs, are charged against income.
The cost of self-constructed plants includes direct costs and an appropriate proportion of the production overhead, but excludes financing costs for the period of construction.
Movable fixed assets are mostly depreciated by the declining balance method, with a change to straight-line depreciation when this is higher.
Long-distance natural gas pipelines and immovable fixed assets are depreciated using the straight-line method.
The average weighted periods of depreciation are as follows:

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

Financial assets

Shares in affiliated and associated companies, the other holdings, and securities held as fixed assets are shown in accordance with the principle of individual valuation at acquisition cost or, in cases of expected permanent impairment of value, at the appropriate lower values.
The acquisition cost of the affiliated and associated companies accounted for by the equity method is increased or decreased yearly by the proportionate change in equity. In addition, goodwill is primarily amortized over a period of 5 years.
The capital consolidation of the companies accounted for by the equity method at the time of acquisition is based on the same principles as a full consolidation.
Loans are stated at acquisition cost or, in the case of non-interest-bearing loans or loans at below market interest rates, at their present value. Foreseeable risks are covered by unscheduled write-downs.

Goods on lease

Goods on lease consist of EDP equipment (central processing units and peripherals). They are shown at cost, reduced by valuation allowances in order to take into consideration lower attributable values on the return of the equipment.

Inventories

“Work in process” and “Finished goods and merchandise” are combined into one item for the BASF Aktiengesellschaft inventories due to the production conditions in the chemical industry.
Uncompleted contracts relate mainly to domestic and foreign plants under construction for third parties. Expected profits are not recognized until final settlement of accounts for the projects in question, while expected losses are recognized by write-downs to the lower attributable value.
Inventories are carried at acquisition or production cost or the lower quoted or market value, or at such lower values as appropriate. These lower values are the replacement costs for raw materials and plant supplies and merchandise and the associated production costs or the expected sales proceeds less costs to be incurred prior to sale and an average profit margin in the case of work in process and finished products. Production costs include, in addition to direct costs, an appropriate proportion of the production overhead using normal utilization rates of the production plants. Financing costs and costs for the company pension scheme and voluntary social benefits are not included.
The evaluation is mainly based on the LIFO method (last in, first out on an annual basis). Overall, 41 (BASF Aktiengesellschaft: 88) percent of inventories were valued by the LIFO method. The other inventories, particularly including plant supplies, are valued by the average cost method.

Receivables and other assets

In principle, receivables are carried at their nominal value, notes receivable and non-interest-bearing or low-interest-bearing loans being carried at their present value. Risks for collectibility and transferability, and general credit risks, are covered by appropriate write-downs and valuation allowances. Total valuation allowances of DM 789.5 million (1996: DM 662.2 million) in the case of the BASF Group and of DM 324.1 million (1996: DM 204.1 million) in the case of BASF Aktiengesellschaft have been deducted from total receivables.

Marketable securities

These are carried individually at cost or at lower quoted or market values or at such lower values as appropriate. The portfolio comprises:

	BASF Group	BASF AG
Fixed-interest securities	53.0%	56.0%
Variable-interest securities	15.0%	17.1%
Fund units	22.2%	15.9%
Shares	9.8%	11.0%

Special reserves with equity portion

German Group companies may form special reserves with equity portion for certain situations. The amount recorded includes, in particular, the deferral of gains from sales of assets according to § 6b of the Income Tax Law and reserves for capital investments in developing countries according to § 1 of the Developing Countries Tax Law. Appropriations to and write-backs of special reserves with equity portion are explained in Note 22.

Provisions

The principles for the determination of pension provisions and the composition of these obligations are explained jointly 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 each recognized in the amount necessary, in accordance with reasonable commercial expectations, to meet expected future payment obligations, losses or expenses. Furthermore, some Group companies record provisions in installments for regular shutdowns of certain large-scale plants.
Provisions for deferred taxes are recognized for temporary valuation differences between the commercial and tax balance sheets of the consolidated companies, insofar as there is a net liability for an individual company. The provision is calculated on the basis of the tax rates applicable in the individual countries. In the event of net debit balances, a deferred tax asset is not recorded.
Provisions for required recultivation associated with oil and gas exploration, especially the filling of wells and clearance of oilfields, or the operation of landfill sites are recorded over their expected service lives.
Provisions for long-service and anniversary bonuses in the German Group companies are calculated actuarially using the partial value method and an interest rate of 5.5 percent. Group companies outside Germany use comparable procedures as permitted under national regulations.

4 Influence of special tax valuation measures

The German Group companies apply certain balance-sheet and valuation principles permitted solely by tax regulations. Special depreciation allowed under the Development Areas Law and measures based on circumstances which must be eliminated in consolidation are not included in the Group financial statements. Other special depreciation and special reserves with equity portion are retained in the Group financial statements. No write-ups are taken if the lower value can be retained for tax purposes.

Mainly as a result of taking into account 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	3,235.7	1,844.1
Tax influence	–13.5	–18.3
Adjusted net income	3,222.2	1,825.8

The omitted write-ups were DM 0.4 million for the BASF Group and for BASF Aktiengesellschaft. The effect arising from earlier special depreciation - with the exception of gains netted against the value of land or buildings – will be subject to scheduled depreciation over the next few years. This will not significantly affect tax expense in any individual year.

5 Continuity in accounting and valuation methods

There has been no change in the accounting and valuation methods. We have changed the way in which tax allocations to affiliates and joint ventures are shown to present the operating result more clearly. These earnings are now included in the income from participations rather than as “Other operating income”. The previous year’s figures of BASF Aktiengesellschaft have been adjusted accordingly.

From 1997, personnel figures also include those on limited-term contracts. The previous year’s figures have been adjusted.

6 Currency translation

Translation of foreign currency items

The cost of assets acquired in foreign currencies and revenues from sales in foreign currencies are recorded at current rates on transaction dates. 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.

Translation of foreign currency financial statements

Currency translation is based on the internationally recognized principle of the functional currency.
The local currency is the functional currency of our subsidiaries and joint ventures in North America, Japan and Korea, because of the low influence of the German mark on the trading operations. The balance sheet items are converted to DM at year-end current rates, and expenses and income at quarterly average rates. The effects of rate changes are shown as “translation adjustment” in a separate component of equity. This is the difference between the companies’ equity calculated at historical rates and at year-end current rates. In the development of fixed assets, the changes caused by translation are shown as “reclassifications".
The translation of financial statements in the case of the other companies is carried out in accordance with the modified temporal method. The fixed assets, except loans, and paid-in equity are converted at rates on the date of acquisition (historical rates), and all other assets, liabilities and provisions at year-end current rates; earned equity is determined as a remaining balance.
Expenses and income are converted at quarterly or monthly average rates, except when they are shown in the balance-sheet items as converted at historical rates. The changes in assets caused by translation are reported under other operating expenses or income.

Notes to the balance sheet

The development of gross book values and amortization by individual categories of fixed assets and a summary of the major affiliates are shown in a schedule following the balance sheet and profit and loss account.

7 Intangible and tangible assets

The additions to intangible assets relate primarily to goodwill resulting from the acquisition of the surfactant business of the U.S. companies PPG and Olin Corporation, the takeovers of the 50-percent share of Hanwha Chemical Corporation, Korea, in the previous joint venture Hanwha BASF Urethane Ltd. (now BASF Urethane Korea Ltd.) and of the remaining shares in the capital of EBEWE Arzneimittel Ges. mbH and from the founding of the Targor joint venture, and to supply agreements.

Unscheduled write-downs of tangible assets to a lower assigned value were necessary particularly in the case of plants of the Coatings Division in Ludwigshafen in connection with restructuring measures. Overall, there were the following unscheduled write-downs.

Million DM	BASF Group	BASF AG
Permanent impairments in value	166.8	70.0
Depreciation permitted for tax purposes, mainly in accordance with § 6b of the Income Tax Law in excess of regular depreciation	31.9	26.4

8 Financial assets

The additions to “Shares in affiliated companies” relate primarily to the acquisition of the Brazilian polystyrene operations of Monsanto and the Brazilian Unigel Group, the planned founding of the Basell B.V. joint venture in the Netherlands, the establishing of a service company for the joint venture with Petronas in Malaysia and capital increases at affiliates in China and Korea.

At BASF Aktiengesellschaft, further additions arose as a result of capital increases at consolidated Group companies, in particular BASF Coordination Center S.A. and BASF Finanz GmbH, the contribution-in-kind of polypropylene operations to Targor GmbH and the acquisition of the remaining shares of BASF Urethane Korea Ltd.

Depreciation of DM 35.4 million was taken in respect of our holding in Ivax Corporation because of an expected permanent impairment in value resulting from the further fall in the share price.

9 Inventories

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Raw materials and plant supplies			387.1	387.6
Work in process, finished goods and merchandise	7,267.8	6,806.9	1,673.8	1,813.0
Uncompleted contracts	160.0	182.7	143.5	212.1
Payments on account	17.6	28.6	0.6	2.3
	7,445.4	7,018,2	2,205.0	2,415.0

For inventories valued on the LIFO basis, LIFO reserves are approximately DM 221 million for the BASF Group and approximately DM 28 million for raw materials and approximately DM 112 million for work in process, finished goods and merchandise for BASF Aktiengesellschaft.

10 Receivables and other assets

Miscellaneous receivables and other assets

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Receivables from companies in which participations are held	462.7	442.7	179.9	115.3
Other assets	1,675.5	1,165.0	314.3	236.1
	2,138.2	1,607.7	494.2	351.4

Other assets include DM 71.8 million for the BASF Group and DM 46.9 million for BASF Aktiengesellschaft of accrued items, mainly of accrued interest.

Receivables having a residual term in excess of one year

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Accounts receivable – trade	17.3	18.7	3.9	0.9
Receivables from affiliated companies	5.3	26.6	12.2	4.8
Receivables from companies in which participations are held	48.4	44.6	0.1	–
Other assets	224.6	189.0	13.1	19.7
Miscellaneous receivables and other assets	273.0	233.6	13.2	19.7
	295.6	278.9	29.3	25.4

11 Prepaid expenses

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Deferred tax assets	89.1	135.0	–	–
Debit discount	50.5	65.4	–	–
Miscellaneous	295.1	219.9	19.4	9.9
	434.7	420.3	19.4	9.9

Deferred tax assets are recorded for lower valuations in the commercial balance sheet as compared with the tax balance sheet, where the differences arise from consolidation entries. They relate especially to the elimination of intercompany profits in inventories. Deferred tax liabilities of DM 166.8 million were offset against the deferred tax assets.

Debit discount, arising primarily from the issue of low-interest bonds, is capitalized and written down as interest expense over the term of the underlying obligations.

The other prepaid expenses include DM 93.1 million (previous year DM 77.0 million) of advance payments to pension funds.

12 Subscribed capital

	Number of shares		Nominal value DM
	DM 5	DM 50	
January 1, 1997	20,000,000	59,805,233	3,090,261,650
Additions from conditional capital by exercising subscription rights connected with the 3% U.S. Dollar Bond 1986/2001 of BASF Finance Europe N.V.		401,031	20,051,550
Additions from conditional capital through exchange of Wintershall shares		4	200
December 31, 1997	20,000,000	60,206,268	3,110,313,400

Conditional capital

The conditional capital of BASF Aktiengesellschaft totals DM 279,533,250. Of this, DM 79,533,250 is reserved for settling subscription rights connected with the 1986/2001 bonds of BASF Finance Europe N.V. and for settling compensation claims by former Wintershall shareholders.
At the Annual Meeting of May 9, 1996, the Board of Executive Directors was authorized to issue bonds in the nominal sum of up to DM 600 million by April 1, 2001, together with subscription 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 1,590,390 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 right 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 right can be overruled if the issue price of the new shares is not substantially below the stock exchange price.

13 Capital surplus

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.

Million DM	BASF Group	BASF AG
January 1, 1997	4,917.6	4,736.0
Additions	103.5	103.4
December 31, 1997	5,021.1	4,839.4

14 Revenue reserve and profit retained

BASF Group

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

Revenue reserve	Million DM
January 1, 1997	306.0
Transfers from other revenue reserves and profit retained and from changes in the scope of consolidation	43.3
December 31, 1997	349.3

Other revenue reserves and profit retained	Million DM
January 1, 1997	11,942.2
Dividend of BASF Aktiengesellschaft (previous year)	−1,050.7
Transfers to legal reserves	−43.5
Net income after minority interests	3,235.7
Changes in the scope of consolidation and other changes	75.1
December 31, 1997	14,158.8

Other revenue reserves	Million DM
January 1, 1997	5,439.4
Appropriations from net income	600.0
December 31, 1997	6,039.4

Profit retained	Million DM
Net income (DM 1,844,151,199)	1,844.1
Profit carried forward from previous year (DM 98,182)	0.1
Appropriations to other revenue reserves (DM 600,000,000)	–600.0
December 31, 1997 (DM 1,244,249,381)	1,244.2

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 defined contribution or defined benefit pension plans. Benefits are generally determined by the length of employment, remuneration or contributions of the entitled employees, taking into account the provisions of labor and social laws in the various countries. For BASF Aktiengesellschaft and other German Group companies, basic benefits are provided by the legally independent BASF Pension Fund, which is financed by contributions from members and companies and is subject to the Law on the Supervision of Private Insurance Companies.

Additional company pension commitments are financed, in the case of German companies, by pension provisions. These are determined by actuarial principles by the modified entry age normal method using a discount rate of 6 percent. Adjustments under § 16 of the Employee Social Security Benefits Law are recognized in the amount of agreed commitments or accrued 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 external life insurance or externally financed pension funds. The situation regarding these entitlements is as follows:

Million DM	**1997**	1996
Cash value of future benefits	**3,264.2**	2,404.9
Fund assets at market values	**3,971.9**	2,694.5

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 503.9 million (1996: DM 522.5 million). They were reduced by DM 100.8 million in 1997 as a result of changes in the actuarial calculation and the post-retirement benefit commitments.

16 Other provisions

	BASF Group		**BASF AG**	
Million DM	**1997**	1996	**1997**	1996
Oil and gas production	**621.2**	743.0	**–**	–
Environmental protection measures	**655.0**	723.2	**333.0**	398.4
Personnel obligations	**1,815.3**	1,698.9	**1,097.5**	1,046.1
Sales and purchase risks	**983.4**	836.3	**269.9**	222.4
Shutdown and restructuring measures	**535.0**	594.7	**79.8**	115.2
Maintenance and repairs	**272.0**	257.0	**51.3**	67.6
Others	**1,569.7**	1,617.5	**980.8**	783.7
	6,451.6	6,470.6	**2,812.3**	2,633.4

17 Liabilities

Bonds and other liabilities to the capital market

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
3% U.S. Dollar Bonds with warrants of BASF Finance Europe N.V. of 1986, due 2001	**412.1**	357.4	**–**	–
7% U.S. Dollar Bonds of BASF Finance Europe N.V. of 1992, due 1999	**320.8**	290.6	**–**	–
3.7–6.8% Pollution Control and Industrial Development Bonds of BASF Corporation, due 1998–2032	**296.3**	171.2	**–**	–
Commercial Paper and other	**229.1**	221.0	**–**	–
	1,258.3	1,040.2	**–**	–

Other liabilities

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Advances received on account of orders	**231.7**	131.4	**94.5**	58.9
Liabilities on bills	**20.0**	19.1	**–**	–
Liabilities to companies in which participations are held	**328.0**	393.3	**88.2**	119.0
Miscellaneous liabilities	**3,063.8**	2,331.2	**585.9**	407.3
• thereof taxes	**(651.0)**	(465.5)	**(197.8)**	(109.8)
• thereof relating to social security	**(356.5)**	(287.3)	**(179.6)**	(115.6)
	3,643.5	2,875.0	**768.6**	585.2

Residual terms of liabilities

Million DM	BASF Group Up to 1 year	BASF Group More than 5 years	BASF AG Up to 1 year	BASF AG More than 5 years
Bonds and other liabilities to the capital market	190.9	285.1	–	–
Liabilities to credit institutions	519.0	97.4	–	3.0
Accounts payable – trade	3,832.5	–	934.4	–
Liabilities to affiliated companies	224.8	–	5,212.6	–
Advances received on account of orders	218.3	–	82.7	–
Liabilities on bills	20.0	–	–	–
Liabilities to companies in which participations are held	326.4	–	85.9	1.2
Other liabilities	2,120.6	849.4	579.1	5.0
	7,452.5	1,231.9	6,894.7	9.2

Secured liabilities

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Bonds	**–**	0.3	**–**	–
Liabilities to credit institutions	**81.4**	88.3	**–**	1.7
Miscellaneous liabilities	**262.9**	197.5	**177.6**	108.2
	344.3	286.1	**177.6**	109.9

Liabilities are collateralized by mortgages, land charges or securities.

18 Contingent liabilities

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Contingent liabilities from the issuance and endorsement of bills of exchange	**319.0**	333.0	**208.4**	214.8
• thereof to affiliated companies	**(13.7)**	(29.1)	**(13.7)**	(28.5)
Contingent liabilities from guarantees	**500.6**	302.8	**1,140.3**	988.1
Contingent liabilities from warranties	**44.6**	74.4	**432.8**	324.7
Contingent liabilities from the granting of securities for third party liabilities	**6.4**	5.7	**1.0**	1.0
	870.6	715.9	**1,782.5**	1,528.6

19 Other financial commitments

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Remaining cost of uncompleted investment projects	**5,069.1**	2,910.0	**1,745.0**	1,122.5
• thereof purchase commitment	**(1,662.2)**	(826.2)	**(289.2)**	(260.7)
Commitments from long-term rental and leasing contracts	**1,457.4**	1,055.4	**355.3**	373.7
• thereof payable during the following year	**(298.6)**	(233.7)	**(62.5)**	(49.1)
• thereof payable during the 2nd to 5th years	**(637.1)**	(446.7)	**(140.5)**	(146.7)
Miscellaneous liabilities	**4.2**	94.9	**2.5**	2.3
	6,530.7	4,060.3	**2,102.8**	1,498.5

Uncompleted investment projects will be completed and financed according to schedule. Other commitments of BASF Aktiengesellschaft include DM 2.9 million to affiliated companies.

20 Derivative financial instruments

Million DM	BASF Group Nominal value	BASF Group Market value	BASF AG Nominal value	BASF AG Market value
Foreign currency derivatives	7,168.0	−308.0	3,274.4	−11.2
Interest derivatives	888.4	21.5	800.0	21.8
Other derivatives	500.0	20.1	500.0	20.1
	8,556.4	−266.4	4,574.4	30.7

To reduce risks arising from changes in interest rates and foreign exchange rates, use is made of forward exchange and option transactions as well as interest or currency swaps or combined instruments. Their use is primarily for hedging the positions, cash investments or financing arising from the operating business. In addition, derivative financial instruments are also used to a small extent to replace transactions in original financial instruments, such as fixed-interest securities or shares. The use of derivative financial instruments is subject to strict internal controls in compliance with the principles of the separation of functions. To limit the risk of nonpayment, transactions are concluded only with leading banks.
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 pricing models or, in the case of unlisted contracts, the yield in the event of premature cancellation. Offsetting valuation developments from the underlying transactions are not taken into account. The negative market value of foreign currency derivatives relates primarily to the financing of our North American business with intercompany loans hedged by foreign currency swaps. Due to the rise in the U.S. dollar exchange rate, our net assets there increased by more than DM 400 million; the translation adjustment component of equity improved accordingly.

21 Sales

Breakdown by segment

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Health & Nutrition	**10,902.2**	9,115.0	**4,554.2**	4,058.4
Colorants & Finishing Products	**12,791.1**	11,284.6	**5,268.9**	4,670.8
Chemicals	**8,745.7**	7,300.3	**6,360.0**	5,521.2
Plastics & Fibers	**14,462.6**	12,079.8	**6,453.8**	5,679.0
Oil & Gas	**6,254.5**	5,207.5	**–**	–
Other	**2,624.0**	3,788.8	**890.4**	677.8
Sales of segments	**55,780.1**	48,776.0	**23,527.3**	20,607.2
Petroleum/natural gas taxes	**3,124.2**	3,425.9	**–**	–
Sales incl. petroleum/natural gas	**58,904.3**	52,201.9	**23,527.3**	20,607.2

“Other” includes the sales of the COMPAREX Informationssysteme Group and other typical company transactions.

Breakdown by region

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Europe	**34,112.0**	30,829.3	**17,371.3**	15,512.7
• thereof Germany	**(14,379.8)**	(12,971.0)	**(7,040.2)**	(6,303.6)
North America (NAFTA)	**11,668.2**	9,547.0	**1,594.2**	1,297.6
South America	**3,277.8**	2,691.4	**732.8**	538.7
Asia, Pacific Area, Africa	**6,722.1**	5,708.3	**3,829.0**	3,258.2
Sales in the regions	**55,780.1**	48,776.0	**23,527.3**	20,607.2
Petroleum/natural gas taxes	**3,124.2**	3,425.9	**–**	–
Sales incl. petroleum/natural gas taxes	**58,904.3**	52,201.9	**23,527.3**	20,607.2

22 Other operating expenses or income

Other operating income

Million DM	BASF Group 1997	BASF Group 1996
Adjustment or dissolution of provisions	**872.8**	907.7
Income from other non-typical transactions	**239.6**	218.1
Gains from foreign currency exchange and translation	**477.8**	413.7
Dissolution of special reserves	**36.8**	27.9
• thereof BASF AG	**(26.0)**	(15.4)
Other	**512.5**	358.1
	2,139.5	1,925.5

Other operating expenses

Million DM	BASF Group 1997	BASF Group 1996
Costs of restructuring, shutdowns, severance packages and other personnel obligations	**705.4**	828.1
Environmental protection and safety measures, costs of demolition, disposal and non-capitalizable project costs	**373.4**	330.6
Losses from foreign currency exchange and translation	**379.9**	322.8
Costs of the other non-typical transactions	**251.6**	216.7
Transfers to special reserves	**19.4**	11.9
• thereof BASF AG	**(6.0)**	(4.2)
Other	**2,027.5**	1,678.7
	3,757.2	3,388.8

The special charges resulting from restructuring measures and divestitures are explained in Management’s Analysis.

23 Net income from financial assets

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Income from participating interests and similar income	**63.6**	26.8	**379.3**	546.6
• thereof from affiliated companies	**(39.9)**	(16.4)	**(332.3)**	(516.0)
Income from profit transfers	**101.2**	122.4	**455.0**	67.4
Expenses from loss transfers	**110.2**	118.6	**158.7**	153.1
Results of affiliated and associated companies (equity method)	**–102.2**	77.1	**–**	–
	–47.6	107.7	**675.6**	460.9

BASF Group: The results of affiliated and associated companies recorded using the equity method also include amortization of goodwill and adjustments of negative differences. The results include income from the Kali und Salz Group, Kassel, in particular as a result of the amortization of a negative difference.

Losses were incurred by Shanghai BASF Colorants and Auxiliaries Co. Ltd., Shanghai, Yangzi-BASF Styrenics Co. Ltd., Nanjing, Hokuriku Seiyaku Co., LTD., Katsuyama City, mainly caused by scheduled amortization of goodwill, by the divestiture of Critesa S.A., Montcada i Reixac, and by Cia. Brasileira de Poliestireno S.A., São José dos Campos-São Paulo.

BASF Aktiengesellschaft: Income from participating interests relates primarily to dividends paid by COMPAREX Informationssysteme GmbH, Mannheim, with DM 29.1 million, including corporation tax credits, and BASF Japan Ltd., Tokyo, with DM 27.0 million, BASF Española S.A., Barcelona, with DM 20.0 million, and BASF France S.A., Levallois, with DM 16.0 million.

Income from profit transfers was derived primarily from Wintershall AG, Kassel, Rheinische Olefinwerke GmbH, Wesseling, and BASF Schwarzheide GmbH, Schwarzheide.

Expenses from loss transfers relate primarily to BASF Waren- und Anlagenvertriebs- und -leasing GmbH, Ludwigshafen, and Resart GmbH, Mainz, up to the time of their sale.

Income from financial assets also includes income of DM 196.1 million (1996: DM 72.3 million) from tax allocations to companies with which tax assumption agreements exist.

24 Interest result

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Income from other investments and financial assets	**100.1**	62.6	**51.0**	50.8
• thereof from affiliated companies	**(39.3)**	(33.3)	**(49.3)**	(48.8)
Other interest, income from sale of current asset securities and similar income	**455.6**	604.7	**360.1**	360.4
• thereof from affiliated companies	**(19.1)**	(11.5)	**(40.4)**	(41.0)
Interest and similar expenses	**455.1**	484.8	**199.2**	149.9
• thereof to affiliated companies	**(19.8)**	(25.0)	**(175.6)**	(83.1)
	100.6	182.5	**211.9**	261.3

The interest income also includes amounts from tax refunds.

25 Taxes

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Income taxes	**2,125.7**	1,575.0	**737.7**	514.2
• thereof non-creditable taxes on oil-producing operations	**(277.5)**	(284.8)	**(–)**	(–)
Other taxes	**302.9**	259.8	**71.7**	61.9
	2,428.6	1,834.8	**809.4**	576.1

Income taxes comprise corporation tax, trade income tax and similar income-related taxes, and also deferred taxes. These result from debit and credit differences from consolidation entries and credit valuation differences between the commercial balance sheet and the tax balance sheet of the consolidated companies.
The tax expense for 1997 includes – DM182.3 million for the BASF Group and – DM134.0 million for BASF Aktiengesellschaft attributable to earlier financial years. Other taxes are allocated to operational costs.

26 Cost of materials of BASF Aktiengesellschaft

Million DM	1997	1996
Cost of raw materials, plant supplies and purchased merchandise	**10,758.1**	9,018.5
Cost of purchased services	**2,313.3**	2,149.5
	13,071.4	11,168.0

27 Employees

Personnel cost

Million DM	BASF Group 1997	BASF Group 1996	BASF AG 1997	BASF AG 1996
Wages and salaries	**9,167.0**	8,718.4	**4,312.3**	4,090.0
Social security contributions and expenses for pensions and assistance	**2,157.3**	2,306.5	**1,046.7**	1,106.8
• thereof for pensions	**(521.6)**	(764.5)	**(293.3)**	(420.9)
	11,324.3	11,024.9	**5,359.0**	5,196.8

The expense for pensions is reduced by DM 175.1 million for the BASF Group and by DM 112.5 million for BASF Aktiengesellschaft from the retransfer of obligations for early retirees to the BASF Pension Fund.

Cost of employees' representatives

German Group companies incurred costs, in accordance with statutory regulations, of DM 22.1 million (1996: DM 22.5 million) for employees' representatives. BASF Aktiengesellschaft accounted for DM 14.8 million (1996: DM 13.5 million) of this amount.

Average number of employees

BASF Group	Fully consolidated companies 1997	Fully consolidated companies 1996	Pro rata consolidated companies 1997	Pro rata consolidated companies 1996
Europe	**77,414**	80,206	**2,700**	2,721
• thereof Germany	**(60,332)**	(62,815)	**(2,443)**	(2,456)
North America (NAFTA)	**15,232**	14,986	**799**	7
South America	**6,703**	6,979	**–**	–
Asia, Pacific Area, Africa	**4,417**	4,225	**739**	1,012
	103,766	106,396	**4,238**	3,740
thereof with trainee contracts	**2,913**	2,785	**144**	133
thereof with limited-term contracts	**2,871**	2,189	**20**	7

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 105,885 in 1997 and 108,266 in 1996.

BASF AG	1997	1996
Hourly workers	**18,849**	19,113
Salaried employees	**22,938**	22,791
Trainees	**2,185**	2,084
Employees on limited-term contracts	**961**	889
	44,933	44,877

28 Minority interests

Minority interests exist, in particular, in the cases of the following fully consolidated Group companies: Targor Group (50 percent), COMPAREX Informationssysteme Group (40 percent), Wingas GmbH (35 percent), BASF India Ltd. (50 percent) and Knoll Pharmaceuticals Ltd. (60 percent). Minority interests in profits relate primarily to COMPAREX and to the companies active in the natural gas business. Minority interests in losses arose in the case of Targor and Wingas.

	BASF Group	
Million DM	1997	1996
Minority interests in profits	**50.0**	150.2
Minority interests in losses	**80.3**	101.7
	–30.3	48.5

29 Remuneration of the Board of Executive Directors and the Supervisory Board

Total remuneration of the Supervisory Board amounts to DM 2.8 million, of the Board of Executive Directors to DM 21.6 million, including the remunerations granted by subsidiaries in the amount of DM 4.3 million. These sums include the accrued performance-related bonuses for 1997. Total remuneration of former members of the Board of Executive Directors and their survivors amounts to DM 7.9 million. Pension provisions for former members of the Board of Executive Directors amount to DM 66.3 million. No commitments were assumed in favor of the members of the Supervisory Board or the Board of Executive Directors.The members of the Supervisory Board and of the Board of Executive Directors are listed on pages 54/55.

Proposed distribution of retained profit

We propose to the Annual Meeting the distribution of a dividend of DM 2.00 per share at a nominal value of DM 5 from the profit retained of DM 1,244,249,381 of BASF Aktiengesellschaft. Eligible domestic shareholders also receive a tax credit of DM 0.86.

If the proposal is accepted, the dividend payable for the 1997 financial year on capital stock of DM 3,110,313,400 entitled to a dividend will be DM 1,244,125,360, leaving an undistributed amount of DM 124,021.
We propose this amount be carried forward.

Ludwigshafen, March 3, 1998

The Board of Executive Directors

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.

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Frankfurt, March 3, 1998

Prof. Dr. Emmerich	Kompenhans
Auditor	Auditor

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 3, 1998

Prof. Dr. Emmerich	Dr. Künnemann
Auditor	Auditor

Supervisory Board

Dr. rer. nat. Hans Albers
Bad Dürkheim, Chairman

Prof. Dr. rer. nat. Matthias Seefelder
Heidelberg, Honorary Chairman

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

Prof. 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

Etienne Graf Davignon
Brussels, President of Société Générale de Belgique

Prof. Dr. rer. nat. Manfred Eigen
Göttingen, Director at the Max Planck Institute of 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, Manager of the Ludwigshafen branch of Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)

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

Board of Executive Directors, Division Presidents and organization

(as of December 31, 1997)

Board of Executive Directors	Operating Divisions	
Ressort I **Dr. Jürgen Strube** Chairman		
Ressort II **Gerhard R. Wolf** from May 20, 1998: **Eggert Voscherau**	Fertilizers Crop Protection Pharmaceuticals	**Dieter Thomaschewski** **Peter Oakley** **Dr. Thorlef Spickschen**
Ressort III **Max Dietrich Kley**	Oil and Gas Raw Materials Purchasing	**Herbert Detharding** **Wolfgang Mörike**
Ressort IV **Dr. Volker Trautz**	Styrenic Polymers Engineering Plastics Polyurethanes/PVC	**Dr. Werner Prätorius** **Prof. Dr. Burghard Schmitt** **Jean-Pierre Dhanis**
Ressort V **Helmut Becks**		
Ressort VI **Dr. Hanns-Helge Stechl** Deputy Chairman	Industrial Chemicals Intermediates Fine Chemicals Basic Chemicals	**Dr. Christian Dudeck** **Dr. Dietrich Lach** **Dr. Dieter Suter** **Dr. Rolf Niess**
Ressort VII **Dr. Albrecht Eckell**	Coatings Dispersions Colorants Specialty Chemicals	**Klaus Peter Löbbe** **Dr. Josef F. Kohnle** **Dr. Walter Gramlich** **Dr. Siegfried Riedmüller**
Ressort VIII **Prof. Dr. Hans-Jürgen Quadbeck-Seeger** up to May 15, 1997 **Dr. Stefan Marcinowski**		
Ressort IX **Dr. Dieter J. Stein** up to May 15, 1997 **Eggert Voscherau** from May 20, 1998: **Peter Oakley**	Fiber Products	**Dr. Werner Burgert**
Ressort X **Dr. Jürgen Hambrecht**		

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

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
Philippsthal, Chairman of the Joint Works Council of Kali und Salz GmbH
Up to December 12, 1997

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

Klaus Südhofer
Recklinghausen, Deputy Chairman of Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)

Jürgen Walter
Neustadt am Rübenberge, Member of the Central Board of Executive Directors of Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industries Union)

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

Helmut Werner
Stuttgart

Regional Divisions		Corporate and Functional Divisions*	
		Legal, Taxes and Insurance	**Dr. Eckart Sünner**
		Planning and Controlling	**Dr. Elmar Frommer**
Central Europe	**Erich Binckli**	Logistics*	**Helmut Klamm**
East Europe, Africa, West Asia	**Winfried Werwie**	Finance	**Harald Grunert**
		Corporate Information Services	**Herbert O. Hetz**
		Corporate Engineering	**Dr. Jürgen Lenz**
		Human Resources*	**Dr. Hans-Hermann Dehmel**
		Environment, Safety and Energy*	**Dr. Hans Jörg Henne**
		BASF AG Works Engineering*	**Dr. Egon Buhr**
Northern Europe	**Barry John Stickings**	Antwerp Works*	**Dr. Antoon Dieusaert**
Southern Europe	**José-Maria Bach**		
		Ammonia Laboratory	**Dr. Dieter Degner**
		Colorants Laboratory	**Dr. Gerhard Paul**
		Engineering Research and Development	**Prof. Dr. Walter Frey**
		Main Laboratory	**Prof. Dr. Werner Küsters**
		Polymers Laboratory	**Prof. Dr. Hans-Uwe Schenck**
North America Chemicals	**Dr. Carl A. Jennings**	North America Finance*	**Klaus Messinger**
North America Coatings & Colorants	**Frank E. McKulka**		
North America Polymers	**William J. Lizzi**		
North America Consumer Products & Life Science	**Dr. Hans Kast**		
South America	**Wilfried Kahlmann**		
East Asia	**Dr. Jürgen Hambrecht** (also head of Ressort X)		
Japan	**Dr. Dietmar Nissen**		
South-East Asia/Australia	**Dr. John Feldmann**		

Million DM	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Balance sheet										
Intangible assets	993	818	734	650	683	638	512	1,730	2,536	2,928
Tangible assets	10,716	11,865	13,252	14,629	15,214	17,722	15,993	15,399	16,071	17,750
Financial assets	1,238	1,534	1,693	1,692	2,955	1,929	2,068	2,616	4,094	4,170
Fixed assets	12,947	14,217	15,679	16,971	18,852	20,289	18,573	19,745	22,701	24,848
Inventories and goods on lease	6,067	6,533	6,407	6,456	6,748	6,317	6,262	6,725	7,169	7,581
Accounts receivable – trade	5,920	5,805	5,793	5,655	5,446	5,748	6,483	6,564	7,263	8,408
Miscellaneous receivables	2,239	2,422	2,913	3,233	3,370	2,765	2,592	2,808	2,758	3,541
Receivables	8,159	8,227	8,706	8,888	8,816	8,513	9,075	9,372	10,021	11,949
Cash and cash items	5,557	6,150	5,963	5,157	4,557	5,239	5,949	6,193	3,827	3,610
Current assets*	19,783	20,910	21,076	20,501	20,121	20,069	21,286	22,290	21,017	23,140
Assets	32,730	35,127	36,755	37,472	38,973	40,358	39,859	42,035	43,718	47,988
Subscribed capital	2,849	2,850	2,850	2,850	2,852	2,923	3,049	3,049	3,090	3,110
Capital surplus	4,325	4,326	4,326	4,327	4,330	4,464	4,704	4,704	4,918	5,021
Paid-in capital	7,174	7,176	7,176	7,177	7,182	7,387	7,753	7,753	8,008	8,131
Revenue reserves and profit retained	5,330	6,661	7,054	7,372	7,315	7,629	8,441	10,317	12,248	14,508
Translation adjustment						−232	−453	−496	−253	392
Minority interests	129	120	118	86	86	160	179	353	486	499
Equity	12,633	13,957	14,348	14,635	14,583	14,944	15,920	17,927	20,489	23,530
Pension and other long-term provisions*	8,918	9,228	9,696	9,353	9,980	10,185	9,857	9,776	9,881	9,435
Tax and other short-term provisions	3,390	3,631	3,820	4,167	3,795	3,821	4,147	4,680	4,677	4,817
Provisions*	12,308	12,859	13,516	13,520	13,775	14,006	14,004	14,456	14,558	14,252
Financial indebtedness	2,475	3,185	3,370	3,926	4,962	5,364	3,632	2,833	2,038	2,202
Accounts payable – trade	2,905	3,096	3,385	3,224	2,892	2,802	2,995	2,771	3,184	3,858
Other liabilities	2,409	2,030	2,136	2,167	2,761	3,242	3,308	4,048	3,449	4,146
Liabilities	7,789	8,311	8,891	9,317	10,615	11,408	9,935	9,652	8,671	10,206
Liabilities*	20,097	21,170	22,407	22,837	24,390	25,414	23,939	24,108	23,229	24,458
Equity and liabilities	32,730	35,127	36,755	37,472	38,973	40,358	39,859	42,035	43,718	47,988

* Including prepaid expenses, deferred income and special reserves

Million DM	1988	1989	1990	1991	1992	1993	1994	1995	1996	**1997**
Sales and earnings										
Sales	42,323	46,163	45,043	44,556	41,933	40,568	43,674	46,229	48,776	**55,780**
Income from operations	3,710	4,329	2,755	2,180	1,311	1,032	2,149	4,023	4,293	**5,342**
Profit before taxes	3,726	4,384	2,747	2,110	1,239	1,058	2,111	4,128	4,414	**5,331**
Net income	1,432	2,030	1,111	1,056	613	761	1,170	2,423	2,839	**3,205**
Net income after taxes and minority interests	1,410	2,015	1,107	1,039	615	858	1,284	2,471	2,790	**3,236**
Capital expenditures and depreciation										
Additions to fixed assets	4,247	4,379	5,098	5,381	5,730	4,423	3,274	5,363	6,864	**5,798**
• thereof in tangible assets	3,495	3,956	4,458	4,800	4,151	4,139	2,707	3,024	3,639	**4,359**
Depreciation of fixed assets	3,133	3,043	3,293	3,463	3,541	3,342	4,380	3,687	3,666	**4,005**
• thereof on tangible assets	2,798	2,767	3,025	3,176	3,338	3,174	4,027	3,339	3,141	**3,387**
Number of employees										
• at year-end*	134,834	136,990	134,647	129,434	123,254	112,020	106,266	106,565	105,589	**104,979**
• year's average*	134,517	136,579	136,295	130,328	126,028	117,368	107,716	107,320	108,266	**105,885**
Personnel costs	10,120	11,049	11,262	11,260	11,171	10,770	10,391	10,818	11,025	**11,324**
Key data										
Net income per share (DM)**	25.1	35.4	19.4	18.2	10.8	14.9	21.5	40.5	4.54	**5.22**
Cash flow	5,504	5,520	5,024	4,765	4,451	4,635	5,565	6,368	6,798	**7,349**
Cash flow per share (DM)**	98	97	88	84	78	80	93	104	11.07	**11.85**
Return on sales before income taxes and interest expenses (%)	9.7	10.6	7.3	5.9	4.3	3.8	6.0	9.9	10.0	**10.4**
Return on assets before income taxes and interest expenses (%)	13.1	14.4	9.2	7.1	4.7	3.9	6.5	11.2	11.4	**12.6**
Return on equity after taxes (%)	11.6	15.3	7.8	7.3	4.2	5.2	7.6	14.3	14.8	**14.6**
Appropriation of net income										
Net income of BASF Aktiengesellschaft	1,184	1,398	1,041	884	770	668	910	1,354	1,701	**1,844**
Transferred to revenue reserve	500	600	300	200	200	200	300	500	650	**600**
Dividend	684	798	741	684	570	468	610	854	1,051	**1,244**
Dividend per share (DM)**	12	14***	13	12	10	8	10	14	1.70	**2.00**
Number of shares** (1000)	56,985	56,995	56,997	57,003	57,039	58,450	60,977	60,977	618,052	**622,063**

* From 1966, including employees on limited-term contracts
** From 1996, based on shares with a nominal value of DM 5
*** Including DM 1.00 anniversary bonus

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