



Shaping the Future

Corporate Report 2004



The Chemical Company

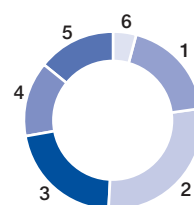


Key data BASF Group

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

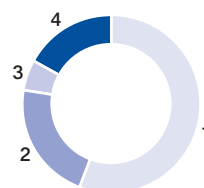
Sales by segment

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



Sales by region (location of customer)

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





About this Report

The present Corporate Report provides information on all three dimensions of sustainable development. You can find additional information and data on the Internet at www.reports.basf.de. Our reporting is based on the international recommendations of the Global Reporting Initiative (GRI) and we are actively involved in the discussions to develop this initiative (see also pages 74 and 75). Data and calculations are also based on international standards.

The information on earnings and financial data in this report are based on the Consolidated Financial Statements of the BASF Group and the Management's Analysis published in BASF's Financial Report. The Consolidated Financial Statements were prepared using the accounting principles of the German Commercial Code (HGB) and the German Stock Corporation Act. Due to the conversion to International Financial Reporting Standards (IFRS) mandated by the European Union for the 2005 reporting year, the IFRS are followed in the 2004 reporting year to the greatest extent allowable under the German Commercial Code. Reconciliation of income and equity of the remaining significant deviations to U.S. GAAP is described in the Consolidated Financial Statements.

Our environmental and safety data are based on the recommendations of the European Chemical Industry Council (CEFIC). In the area of emissions and energy, we cover approximately 98 percent of all emissions from our production sites worldwide. Emissions from joint ventures are reported according to the stake held by BASF. Data on occupational accidents are collected worldwide for both production sites and non-production sites. The number of accidents at sites operated by joint ventures are recorded and reported in full.

Unless otherwise stated, further data on social responsibility relate to all consolidated Group companies included in the Financial Report. As of December 31, 2004, the data cover 99.9 percent of BASF Group employees. Joint ventures are accounted for on a proportional basis.

The report provides an appropriate and balanced picture of the BASF Group's material sustainability aspects. We developed the key contents of this report based on our dialogue with stakeholders and in the light of internal processes. The report was written by the unit Communications BASF Group in consultation with BASF's Sustainability Center and further specialist units. All information is derived from a survey conducted in the regions and in the relevant corporate units as well as from official BASF documents. The contents of the report have been reviewed by the responsible specialists and approved by the Board of Executive Directors of BASF Aktiengesellschaft. As in 2003, parts of this report and our reporting processes were subject to scrutiny by an independent third part. Their assurance statement is reproduced on page 73.

BASF's Segments

Chemicals – The heart of our Verbund

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

Million €	2004	2003	Change in %
Sales	7,020	5,752	22.0
Income from operations before special items	1,334	500	166.8
Income from operations	1,241	393	215.8
Sales by division			2004 in %
Inorganics	844	738	12.0
Petrochemicals	4,189	3,264	59.7
Intermediates	1,987	1,750	28.3

Plastics – Focusing on strengths

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

Million €	2004	2003	Change in %
Sales	10,532	8,787	19.9
Income from operations before special items	727	363	100.3
Income from operations	669	296	126.0
Sales by division			2004 in %
Styrenics	4,450	3,626	42.2
Performance Polymers	2,587	2,239	24.6
Polyurethanes	3,495	2,922	33.2

Performance Products – Close cooperation with customers

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

Million €	2004	2003	Change in %
Sales	8,005	7,633	4.9
Income from operations before special items	790	568	39.1
Income from operations	1,068	478	123.4
Sales by division			2004 in %
Performance Chemicals	3,228	3,147	40.3
Coatings	2,022	2,015	25.3
Functional Polymers	2,755	2,471	34.4

Agricultural Products & Nutrition – Increased customer focus – higher competitiveness

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

Million €	2004	2003	Change in %
Sales	5,147	5,021	2.5
Income from operations before special items	645	427	51.1
Income from operations	540	359	50.4
Sales by division			2004 in %
Agricultural Products	3,354	3,176	65.2
Fine Chemicals	1,793	1,845	34.8

Oil & Gas – Expertise and regional focus

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

Million €	2004	2003	Change in %
Sales	5,263	4,791	9.9
Income from operations before special items	1,647	1,365	20.7
Income from operations	1,637	1,365	19.9



Who we are

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

What we aim to achieve

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

How we shape the future

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

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Milestones



January

BASF acquires the plasticizers business of Sunoco, United States, increasing its range of products used to give flexibility to plastics.

To streamline its crop protection activities, BASF sells its business with phenoxy herbicides to Nufarm, Australia.

February

Together with Toray Industries, Japan, BASF establishes a 50-50 joint venture for the production of polybutylene terephthalate (PBT). The joint venture will build a world-scale plant in Kuantan, Malaysia, to supply the Asian growth market. This engineering plastic is primarily used in the automotive, electric and electronics industries.

March

BASF acquires Foam Enterprises, United States, strengthening its polyurethane systems for rigid foam applications. Applications for such systems include roof and wall insulation, walk-in coolers, spas and boat floatation.

In Sighisoara, Romania, BASF subsidiary Wintershall starts producing natural gas together with Romgaz. The production alliance aims to extract 300,000 cubic meters of natural gas per day.

BASF signals its path to the future with a new corporate design.

April

Procter & Gamble launches BASF's Basotect® foam on the European market under the trademark Mr. Clean Magic Eraser™ and honors BASF with an award for outstanding cooperation and innovation.

May

A representative survey conducted by the Allensbach opinion research institute shows that BASF is considered the most environmentally friendly company in Germany's DAX 30 share index.

June

The Chinese Research Academy of Environmental Sciences and BASF announce that they will establish an engine test laboratory in Beijing. The goal is to improve the quality of Chinese gasoline and reduce exhaust emissions.

July

BASF and Shell announce that they will review strategic options regarding their Basell joint venture. The two companies each hold a 50 percent interest in Basell, which is a global leader in polyolefins. A decision is to be reached by mid-2005.

August

BASF starts operations at its new world-scale plant for citral in Ludwigshafen. This fine chemical intermediate is the starting material for the production of vitamins A and E, carotenoids and a range of aroma chemicals.

Together with Dow Chemical, BASF plans to build a joint world-scale plant to produce propylene oxide (PO) from propylene and hydrogen peroxide (HP) at its Verbund site in Antwerp, Belgium. The two companies jointly developed the new technology.

BASF, Bayer and Hoechst sell their holding in DyStar – the Frankfurt-based manufacturer of textile dyes – to financial investor Platinum Equity, United States.

BASF expands its activities in the area of polyurethane systems and invests in new plants in Pudong near Shanghai, China.

September

BASF announces the sale of its printing systems business to the European private equity company CVC Capital Partners.

BASF shares are included in the Dow Jones Sustainability Index World (DJSI World) for the fourth year in succession.

October

The Board of Executive Directors decides to repurchase shares for an additional €500 million. In the course of 2004, BASF buys back 16.2 million shares for a total of €726 million, or an average price of €44.79 per share.

November

Interim results of the Site Project Ludwigshafen: The measures implemented to date have permanently reduced costs by more than €350 million. The targeted savings of €450 million per year are to be achieved by project completion in mid-2005.

BASF takes part in a European Union-sponsored research project set up to investigate ways of removing and storing CO₂ from combustion gases.

December

BASF announces that it will expand the capacity of its world-scale plant for MDI (diphenylmethane diisocyanate) in Antwerp, Belgium, by 25 percent to 450,000 metric tons per year.

Mechanical completion of the new Verbund site in Nanjing, China, is achieved and the methyl acrylate plant starts operations.

Letter from the Chairman of the Board of Executive Directors

Dear readers,

We want to successfully shape the future – for our company, our customers, our employees and coming generations. This report is designed to show you how BASF combines economic success, environmental protection and social responsibility, and to give you an insight into the world's leading chemical company.

In 2004, the BASF team has been very successful in setting its course for the future. We are proud of what we have achieved, and I would like to take this opportunity to thank employees worldwide for their outstanding efforts – our success would not have been possible without them.

Strategy for sustainable success

Four strategic guidelines define the path we are taking so that we will still be “The Chemical Company” in the future:

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

Our strategy BASF 2015 ensures that our business activities take account of the economic, environmental and social challenges of the future. Our goal is to achieve long-term growth and create value for us, our customers, shareholders and society.

Measurable sustainable success

Thanks to growth in the global economy, 2004 was a very successful business year for BASF: We earned a premium of €1,825 million on our cost of capital, thus thoroughly satisfying our first strategic goal. Last year, we introduced EBIT after cost of capital as our key management and performance indicator throughout the company. All our employees are aware of the individual contributions they can make to create value at BASF. Our value is also defined by our portfolio, which we further optimized in 2004.

Together with our customers, we seize opportunities resulting from change. Our products and system solutions create competitive advantages and thus additional value and growth. In 2004, we received numerous customer awards for our ideas and actions.

We are further broadening the BASF team: Among our senior executives, we want to increase the proportion of non-Germans (currently 30 percent) and women (currently 5.4 percent), so that we reflect the diversity of our customers and markets, and can optimally address their very different needs and expectations.

In the past year, we came a step closer to our ambitious goals for safety, health and environmental protection. For instance, while increasing production by 13 percent, we reduced greenhouse gas emissions per metric ton of sales product by 1 percent compared with our baseline year 2002. We also cut emissions of heavy metals to water by 23 percent, lost time accidents by 40 percent, and transportation accidents by 11 percent. I am confident that efficient processes and far-reaching expertise will enable us to reach our very ambitious goals – to the ultimate benefit of both the environment and BASF.



Business success is our responsibility

I believe that performing successfully as a business – as we again did in 2004 – is our prime responsibility. After all, progress and success need a solid economic basis. Such success benefits our customers, partners and society, since it results in competitive products, jobs, business opportunities for customers and suppliers, and investment in the technologies of the future and in environmental protection. Immense research efforts are needed to solve the major challenges of the future, which include nutrition, energy, raw materials and climate change. Investment in such research is no guarantee of future profits, but our future depends on it, and these expenses are largely borne by research-intensive companies – companies like BASF.

Partnerships for sustainability

By networking with a variety of partners, we are opening up new ways of contributing to sustainable development worldwide. At the global level, we are a founding member of the United Nations' Global Compact, and we remain committed to this initiative. We recently trained UN employees in the use of our eco-efficiency analysis to aid the development of production processes that are both economical and environmentally friendly in the African textile and leather industry. In Brazil, we laid the cornerstone for the first eco-efficiency center in Latin America together with our public partners. In Germany, we launched the "Youth Thinks Future" initiative together with other companies. This initiative is intended to encourage young people to face the future with curiosity and greater personal commitment.

Crucially, however, our success depends on a political framework that ensures our competitiveness. We therefore actively engage in the social dialogue worldwide to achieve this.

Shaping the future

This Corporate Report focuses on three issues that are of particular importance to the future: We describe the approaches we are taking to achieve sustainable success together with our customers; we report on what we are doing to find answers to the urgent question of global energy management; and we explain how we are using the opportunities presented by the global division of labor, for example through our investments in Asia. We aim to use the potential offered by this growth region and its rapidly expanding demand for chemical products to ensure our success. For me, these three issues are challenges that we are tackling confidently and in good time. By actively shaping the future in this way, we are helping to ensure our success and that of our customers and employees.

On April 6, 2005, BASF will celebrate its 140th anniversary. We are proud to be able to look back on 140 years in which we have successfully shaped the future. We want that to remain the case, and will continue to seize the opportunities offered us and act as a reliable partner to our customers and society. We are on the right track to remaining the world's leading chemical company in 2015 and beyond. We hope that you will accompany us on this journey.

*Yours sincerely,
Jürgen Hambrecht*

Dr. Jürgen Hambrecht
Chairman of the Board of
Executive Directors

Shaping the Future Sustainably

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



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



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



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

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

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



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

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

As of March 1, 2005

Strategies for Value-adding Growth

Chemistry offers enormous opportunities. It is the key to a future that we actively shape. We help our customers to be more successful with a variety of products, applications and intelligent system solutions. Our business activities are governed by innovation and sustainability – to ensure that we will still be the world's leading chemical company in 2015 and beyond.

We are concentrating on and expanding our strengths in our chemical businesses, in agricultural products and nutrition, and in oil and gas. In doing so, we aim to make our portfolio more resilient toward cyclicalities and oil price fluctuations.

In addition, we are consistently utilizing technological change to create advantages for BASF. We are using the opportunities afforded by biotechnology, nanomaterials, material sciences and energy-management technologies to offer our customers new or improved properties. In doing so, we open up attractive business opportunities for them and us.

In the area of biotechnology, BASF is, for example, conducting research into plants as "green factories" that can produce specific products. Furthermore, we employ biocatalysis – a technology that utilizes microorganisms or isolated enzymes to produce products from renewable raw materials.

We are also using nanomaterials to tap into new potential. By adding tailor-made nanomaterials to PBT (polybutylene terephthalate) we have significantly improved the flow properties of the plastic during processing. As a result, Ultradur® High Speed reduces the time needed to manufacture components by up to 30 percent for our customers in the automotive and electronics industries. At the same time, they also save energy because they can use lower processing temperatures and pressures.

Four guidelines for our future

Four strategic guidelines describe BASF's path to the future:

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

Earn a premium on our cost of capital

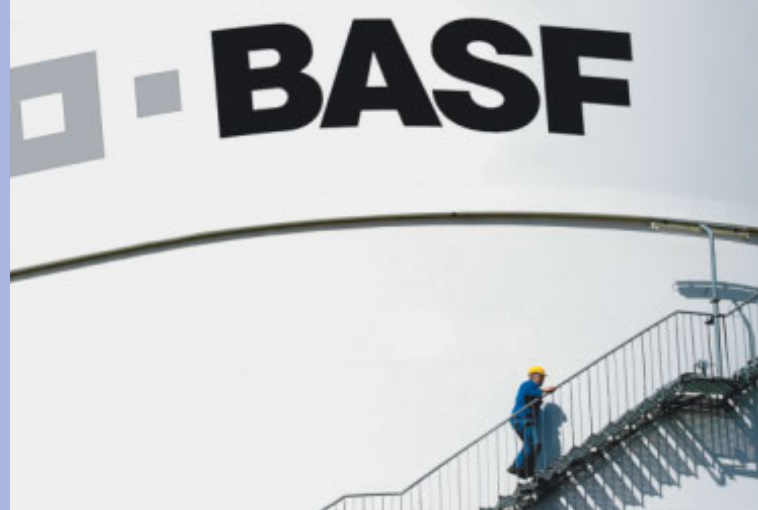
We earn a premium on our cost of capital to increase the value of BASF. To achieve this goal, we have been expanding on our value-based management strategy since 2003.

EBIT (earnings before interest and taxes) after cost of capital is now the key performance and management indicator for our operating divisions and business units. We measure every business decision and our performance on the basis of how it influences earnings after cost of capital in the short and long term. As a result, all of our employees help us to improve cost structures, use our capital more economically and grow profitably.

We achieve profitable growth through long-term value-adding investments, but above all through innovations. These include successful new products as well as more competitive production processes. They are generated by an efficient innovation process in an environment that supports creativity and entrepreneurship. To obtain the best results from our funds, BASF is concentrating its resources even more closely on those business areas that show the greatest potential for success.

Help our customers to be more successful

We are there wherever our customers are. We invested in good time in growth markets, and are now active in all important markets worldwide. In order to grow profitably, we aim to focus even more closely on our customers' needs in the future, and develop and apply the best business models for our customers and for us.



Our goal is to increase the benefit of our products and system solutions throughout the value-adding chain. We are therefore looking harder at what our customers, markets and consumers want. In a close dialogue, we also aim to identify requirements that offer us and our customers potential for growth as well as unique selling propositions. The systematic dialogue with our customers plays an important role in this effort: In joint teams, we will look at how we can use our entire knowledge more efficiently to create intelligent solutions that will support our customers' success. To do this, we want to develop innovative business models that are oriented to the needs of our customers and their markets.

Through our Marketing & Sales Academy, we are working to increase the enthusiasm and expertise of its employees worldwide, and thus sharpen customer focus. By supporting this process with networks to enhance knowledge transfer we will also become more attractive for the best management trainees.

Form the best team in industry

Our highly qualified, motivated and committed team of employees are crucial for BASF's success in the global market. Attracting and developing the best talent therefore has a high priority at our company.

We aim to enhance our employees' opportunities for self-learning and learning on the job. In doing so, we utilize novel integrated training concepts as well as new personnel development and qualification systems. To be an attractive employer, we have long used performance-related pay to encourage entrepreneurial thinking and acting. In the future, we will increasingly link pay at all levels to individual performance and the success of the company.

We are taking steps to broaden the international nature of our management team and also develop more women for management positions. By becoming more diverse, we will increase mutual understanding and our ability to tackle problems faster and more creatively. In the area of executive and professional development, we are also paying greater attention to specific leadership skills in addition to technical ability. The Leadership Compass we published in 2004 clearly states what our senior executives undertake to achieve: clarity and a sense of reality, performance and speed, enthusiasm and inspiration, as well as strategic and operational leadership.

Ensure sustainable development

For BASF, sustainable development means combining long-term economic success with environmental protection and social responsibility. This is how we understand our contribution to ensure a better future for us and coming generations. The strategies needed to achieve this are developed and monitored by BASF's Sustainability Council and implemented with the support of regional networks in Asia, the Americas and Europe.

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

The most important sustainability tools for our customers are our eco-efficiency analysis and our Expert Services Sustainability. The eco-efficiency analysis helps customers to decide which products and processes are best suited to their specific application from both economic and environmental viewpoints. Our Expert Services Sustainability combine our know-how in the fields of Responsible Care and sustainability to provide applications for our customers. Together with marketing and sales, we can thus offer services as well as products. As a result, sustainability pays off in the form of a better market position for our customers and BASF.

Corporate Governance

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

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

Because BASF's shares are listed on the New York Stock Exchange (NYSE), BASF is also subject to U.S. capital market legislation, including the Sarbanes-Oxley Act (SOX) of 2002. SOX contains a number of new corporate governance regulations. To ensure that they are observed, the Supervisory Board has, for example,

established an Audit Committee and introduced a new approval procedure for procuring non-audit services from auditors. We are currently establishing a system to document the information and control systems for financial reporting within the BASF Group that will be subject to attestation by our auditors in accordance with Section 404 of SOX for the first time in our 2005 Consolidated Financial Statements. Thanks to this system, we will be better able to evaluate and confirm the completeness and accuracy of our reporting and the effectiveness of the internal control system. In general, the new U.S. regulations considerably increase documentation and review requirements as well as the associated expenses.

The members of the Board of Executive Directors and the Supervisory Board are listed together with remuneration details on pages 61 to 66 of our Financial Report.

Our Values, Our Goals

Sustainable business success needs both strategic goals and clear principles for achieving them. This is why we have a sound system of Values for all our activities by which we can be measured.

Six Values, which are explained by Principles, describe our philosophy and the way in which we want to achieve our goals:

- Sustainable profitable performance
- Innovation for the success of our customers
- Safety, health and environmental protection
- Personal and professional competence
- Mutual respect and open dialogue
- Integrity

Since 2000, this system of Values has been laid down in written Values and Principles that can be found on the Internet at www.basf.de/values. Last year, we included a commitment to globally recognized labor and social standards as well as the repudiation of child and forced labor in our Principles. We will begin systematically monitoring compliance in 2005. This is also becoming an increasingly important aspect for our customers in their business relations.

Living our Values worldwide

Our Values are conveyed within the company through the exemplary role of managers and employees and on the basis of respect for all cultures. The target agreement process is a key management tool for establishing the principles for our activities in the BASF Group in a binding manner. Behavior in accordance with the Values and Principles is a permanent assessment criterion in the personal target agreements of BASF Group executives. We have now translated the Values and Principles into 14 languages to help explain our value system to all employees as well as customers and suppliers.

Management systems and expertise promote implementation

In addition to the personal commitment of all our employees, we rely on management systems to implement our Values. Our Sustainability Council headed by Eggert Voscherau, Vice Chairman of BASF's Board of Executive Directors, ensures that the entire BASF Group is aligned with the principles of sustainable development. In 2004, we began setting up regional networks in Asia, the Americas and Europe to support the implementation of strategies drawn up by the Council and strengthen the implementation of our sustainability organization in the various regions. You can find out more about our management structures for sustainability at www.basf.de/sd-management_e.

Specialist units support the implementation of our Values: Our safety, health and environmental protection activities, for example, are organized within a worldwide network managed by the Environment, Safety & Energy competence center. You can find out more at www.basf.de/competence-center-rc.

Integrity protects us against risks

Our Value “integrity” is reflected in BASF’s Compliance Program. Employees who act with integrity are essential for BASF’s success: Violating laws and antitrust regulations damages the reputation of a company and the confidence of its partners. This is why we view integrity not just as a standard for our activities, but also as an important aspect of risk management. We introduced Codes of Conduct based on our Values and Principles throughout the BASF Group in 2000. These take into account legislation at the national level as well as the functions and cultural environment of each Group company. With the exception of a few gaps that we are working to close at joint ventures and new Group companies, Codes of Conduct now apply to all our employees.

The Codes of Conduct lie at the heart of BASF’s comprehensive Compliance Program. The aim of the Compliance Program is to integrate the Codes in the everyday activities and awareness of all employees by providing a combination of information and training. In January 2003, BASF became one of the first German companies to appoint a Chief Compliance Officer, who is responsible for managing and developing the program Group-wide. The Compliance Program includes systematic introduction and training sessions for employees according to their particular duties. All employees can also seek advice, for example from their managers, from the Human Resources or Legal departments. Confidential telephone hotlines are also available. Backup communication on the subject of compliance and regular monitoring by the Corporate Audit department provide the program with further support.

Enhancing knowledge through training

For BASF, regular training is the most important way of firmly establishing the concept of compliance within the company. In 2004, more than 7,300 employees attended antitrust training events and around 850 received training on export controls. We made the interactive training program e-clip (Electronic Competition Law Instruction Program) an integral part of antitrust training at the end of 2004. Initially introduced for BASF Aktiengesellschaft, e-clip will eventually be used throughout the rest of the BASF Group, with the exception of North America and Brazil where comparable programs are already in place.

Dedicated to fighting corruption


We campaign for high standards and business policies that do not tolerate corruption either within the company or in society. We therefore support the Global Compact’s recently introduced tenth principle that targets corruption. BASF is a founding member of the UN’s Global Compact initiative. We pursue the same goals through our membership of Transparency International, a Berlin-based nongovernmental organization that has set global standards in the fight against corruption. BASF also supports this fight at the local level, for example in Pakistan, where BASF Pakistan Ltd. has signed a “memorandum of understanding” with Transparency International’s national chapter. In India, BASF is also working to combat corruption with the People Against Corruption initiative it founded in 2002.


Earnings

Premium on cost of capital	Goal 2004	Status at year-end 2004
Earn an EBIT of at least 10% on the operating assets of the operating divisions	At least €2.7 billion	We earned a premium of €1,825 million on our cost of capital of €2.7 billion.

Environment, Safety and Product Stewardship


Reduce emissions from chemical operations (baseline 2002)	Goals 2012	Status at year-end 2004
Emission of greenhouse gases per metric ton of sales product	-10%	-1% 
Emission of air pollutants	-40%	-37% 
Emissions to water: Organic substances	-60%	-5% 
Nitrogen	-60%	-16% 
Heavy metals	-30%	-23% 

Occupational safety (baseline 2002)	Goal 2012	Status at year-end 2004
Reduce lost time accidents	-80%	-40% 

Distribution safety (baseline 2003)	Goal 2012	Status at year-end 2004
Reduce transportation accidents	-70%	-11% 

Product stewardship	Goal 2008	Status at year-end 2004
Complete data sets for all chemical substances that BASF handles in volumes exceeding one metric ton per year.		We have completed more than 96% of data sets in Germany.

Social Responsibility

Senior executives (baseline 2003)	Goal 2005	Status at year-end 2004
Increase the proportion of non-German senior executives from 30% to 35%	+5%	Remained 30% 
Significantly increase the proportion of female senior executives from a current level of 5.2%		Increased to 5.4%

Delegations	Goal 2004	Status at year-end 2004
Further develop globally valid Transfer Policy: Same rules apply to all employees, irrespective of the country they come from or the country to which they are assigned.	Transfer Policy	We introduced and implemented a global regulation for uniform transfer policies worldwide.

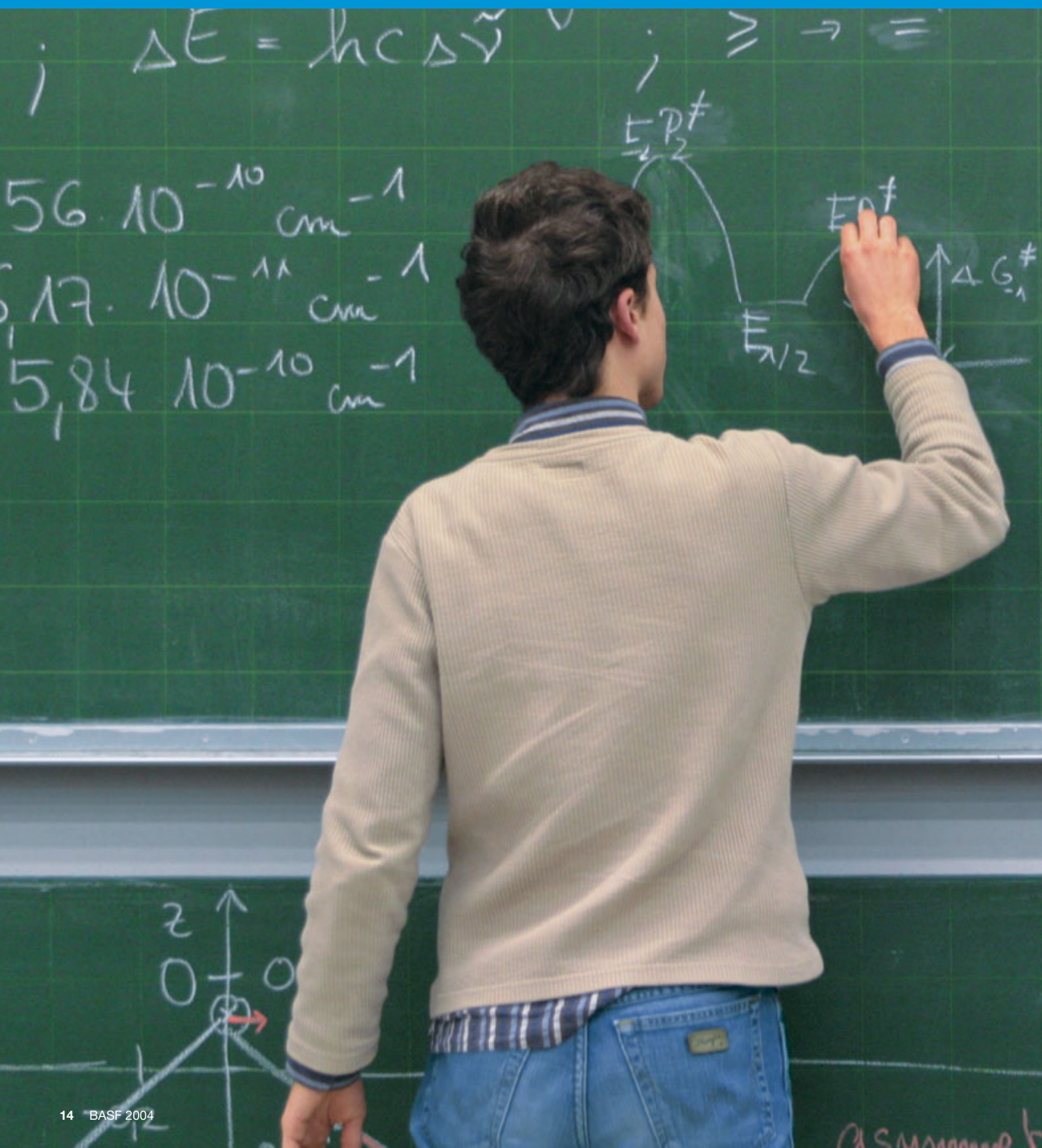
Personnel systems and remuneration	Goal 2004	Status at year-end 2004
Further harmonize systems for assessing functions, performance reviews and remuneration in the regions	Harmonize personnel systems	We have further harmonized our remuneration and evaluation systems, placing greater emphasis on performance. In addition, a new job evaluation system (STRATA) was established at numerous Group companies.

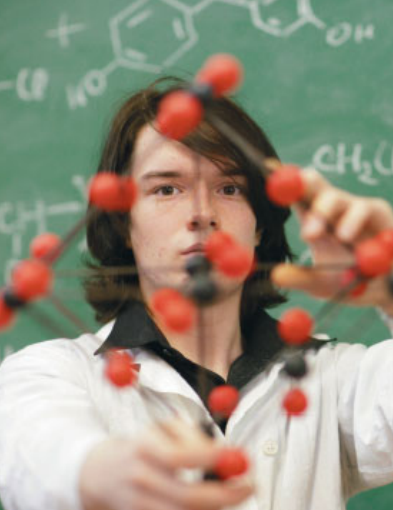
Social performance assessment	Goal 2004	Status at year-end 2004
Ensure that internationally recognized labor and social standards are transparent and reviewable at all sites	Monitoring system	As an initial monitoring step, an annual survey will be performed at our sites as the basis for evaluating local conditions.

New goals

Form the best team in industry	Goal 2005
Develop and introduce new global personnel tools to support our strategic guideline	Implement internationally uniform content for performance evaluation and selected training measures for executives.

Shaping the Future through Chemistry





Alexey Zeifmann | Russia



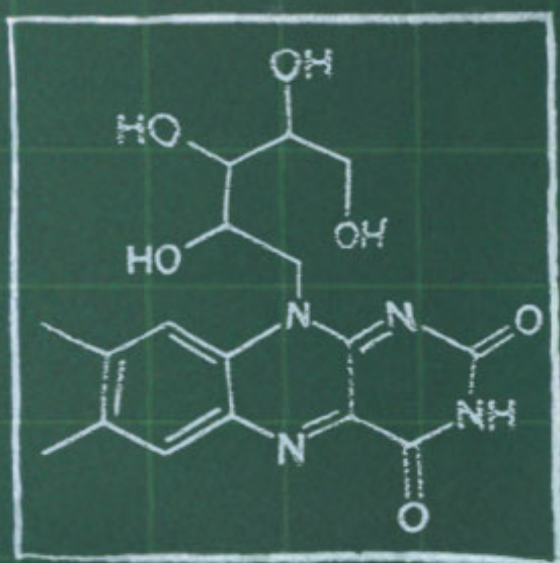
Michael Hell | Germany



Eric Brown | United States



Lui Lianghui | China



The Olympiad Champions

The future of chemistry depends on innovation, technology and people – people who will use their talents to make the world a better place. With that in mind, BASF decided to seek out four of the most promising young chemists in the world. Based in Russia, Germany, the United States and China, all four were finalists at the 2004 International Chemistry Olympiad held in Kiel, Germany, an event that was also sponsored by the German Chemical Industry Association (VCI). In our opinion, the development of these four young people is as fascinating as their vision of chemistry in the 21st century. We will be following their careers with interest.



“When I started chemistry a whole new world opened up. It’s like someone opened a window on the world to me through chemistry.”

MICHAEL HELL

Michael Hell

At first, Michael Hell’s dormitory bedroom looks much like any other 19-year-old student’s: A few clothes lie scattered on a chair, a computer and books dominate his desk, the viscous contents of a lava lamp floats next to them, and a few boxes of his favorite snack, Lebkuchen chocolate cake (“imported” from his home in Nuremburg), sit stacked in his cupboard.

Only when you scan the walls do you notice a difference – where the posters of Pamela Anderson or Britney Spears would normally be, Michael has a large reproduction of the periodic table and a complex chart of biochemical pathways.

As a gold medal winner and the best German performer at the 2004 International Chemistry Olympiad, Michael is arguably his country’s most promising young chemist. Yet it is in keeping with this shy, composed young man that he has not even told his classmates or professors about his achievements. Instead, Michael seems content to pursue his love of chemistry for its own sake. “My passion for chemistry comes from my old school teacher, Dr. Hitschel. He lived for chemistry and for his pupils,” explains Michael.

An institution at Michael’s school in the small community of Altdorf near Nuremberg, Dr. Hitschel recognized a spark in Michael. “When I started chemistry a whole new world opened up. It’s like someone opened a window on the world to me through chemistry,” says Michael.

Thanks to the tuition, Michael made it to the Olympiad finals. But both he and his teacher were amazed when Michael won a gold medal. “My mentor told me that I wasn’t so good in the practical part,” says Michael. His mother’s reaction, on the other hand, was far more, well, motherly. “When I called her, she said, ‘I always knew you would get a gold medal’,” he remembers. A gold medal is considered a passport to the best universities in the world and for Michael MIT and Harvard beckoned. But instead he chose to stay in Germany and won a place at Munich’s prestigious Technical University.

“Chemistry is going to help me see the world and learn a lot of new ideas,” he says. “If you look at our quality of life,” he adds, “it would be very low without polymers and drugs – all these are made thanks to chemistry. Chemistry has improved our life. I hope it will continue to do so.”

Yet for all the improvements that chemistry has manifested, the chemical industry has also earned itself a reputation over the years for creating problems, especially through pollution. Michael is well aware of this but he also believes that, in Germany at least, there is a new commitment to environmentally-responsible chemistry and that his chosen science can be at the forefront of global sustainable development. “I’m a fanatic about harnessing a new, cleaner resource from renewable



"I am going to make some meaningful scientific contribution. I just don't know what that is right now."

ALEXEY ZEIFMAN

energy, and chemistry can make a great contribution to this goal through hydrogen," he says. Hydrogen fuel cells are viewed as the world's best hope to reduce its dependence on fossil fuels.

For Michael Hell, the promise of hydrogen is just a launching pad for ideas that could revolutionize our future. He dreams of building solar panels from sand using electricity and he envisions a time when we can build a machine that replicates photosynthesis.

Michael knows he needs to understand more than just science. "In a chemical company it's not just about research, it's also about economics," he says. So what's he up to in his spare time? Reading economics books, of course. "I asked my classmates who are studying economics to recommend some good textbooks for me to read. They think I'm crazy," he says. Crazy? If so, it's the sort of craziness that could carry chemistry a long way. ■



Alexey Zeifman

The chemistry laboratory at Vologda's Multifunctional Lyceum where Alexey Zeifman spends a good deal of his time seems a throwback to another age. Faded yellow linoleum covers the floor. The old wooden benches stacked with heating beakers and measuring tubes are the antithesis of a sleek modern high-tech lab.

Yet despite its antiquarian feel, this lab is already making a big contribution to the future of chemistry: After all, its star pupil is one of the best young chemists not just in Russia but the whole world. Being the outright winner of 2004 International Chemistry Olympiad it is easy to forget that Alexey is only 16 years old and still in high school. "It's awful," he says rolling his eyes.

Yet Alexey, as his chemistry teacher Alexandr Zosimovich Lisitsin explains, isn't like every other 16 year old. "Alexey has some unique qualities – he deals with information very quickly and in high quality," says Zosimovich. "He has already covered most of the courses he will study at college for the first three years. In the near future, it will be time for him to choose a specialty in some field of chemistry," says Zosimovich.

A handsome young man, Alexey hides his delicately featured and lightly freckled face behind a sweep of long brown hair. When he speaks he tends to turn away and divert his eyes.





His English – learned at school in Vologda – is near perfect despite his thick Northern Russian accent. And his fashion sense – he sports a long black leather coat and fashionable zip-up sweater – is more cool teenager than science geek.

Amazingly, it was just two years ago that Alexey realized he had a talent for chemistry. “I knew that I could solve chemical problems rather easily – often the problems would take my fellow students two hours and I could do them in 15 minutes,” he explains. At home, Alexey practiced experiments – nearly half of them devoted to explosives, he adds with a gleam in his eye. “Of course it was foolish, I understand now. It was lucky that my parents didn’t find out.”

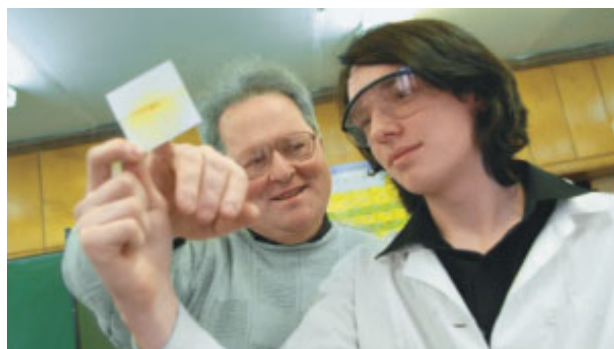
Before winning in Kiel, Alexey also won medals at two Mendeleyev Olympiads, named after the Russian inventor of the Periodic Table, in which students from all over the former Soviet Union take part. But was he surprised to win the whole thing? “Fifty-fifty maybe,” he says. “I realized that I was a strong candidate but not necessarily among the best,” he adds with what might just be a touch of calculated modesty.

Alexey wants to specialize in organic chemistry, and with the help of his teacher, Zosimovich, he is already mapping out a path that will prepare him to become one of chemistry’s future leaders. Together they are developing a small commercial synthesis business. Alexey checks the websites of Moscow-based pharmaceutical companies to find out what chemical substances they need to make their products. Alexey is

focusing on producing one substance, 2-aminomethylbenzimidazole, that he can then market to the companies. Ultimately he hopes to produce some 20 substances. “I think it will be valuable experience,” he says, though he is quick to add that this venture is not a career, just a stepping stone to developing a serious research project.

At his family’s home, over a traditional meal of meats, salads and vodka toasts, Alexey’s mother is quick to pull out the collection of medals her son has accumulated with his chemistry prowess. Alexey, like all independent-minded teenagers, looks in vain for a place to hide amid all this maternal energy. This fall, Alexey will finally get to spread his wings when he leaves for a place at Moscow State University. He could have gone to study anywhere in the world but he hopes that he’ll be able to keep realizing his dreams in Russia. “It is important to keep talent here; good research will help Russia show its strengths to the rest of the world,” he says.

Alexey looks to the future and sees chemistry continuing to shape the world’s most important scientific breakthroughs, especially in the field of new miracle drugs. So far, Alexey doesn’t really know how he fits into that future, but as is his nature, he is thinking big. “I am going to make some meaningful scientific contribution,” he says, “I just don’t know what that is right now.” With Alexey Zeifman, it’s surely not a case of if, but when. ■





"I firmly believe that our advancement as a species is determined by our advancement in technology, and chemistry is going to play a big part in that."

ERIC BROWN

Eric Brown

Some students struggle to get the grades they need to make it to the top. Nineteen-year-old Eric Brown, you get the feeling, has yet to shift out of second gear. He's already been to two chemistry Olympiads, winning a silver medal at the most recent. And he's won a place at the prestigious Massachusetts Institute of Technology – MIT to you and me.

Meeting up on a damp, chilly New England morning, Eric explains that he doesn't know much about Cambridge, the town across the Charles River from Boston where MIT is based, as he doesn't get off Campus that often. Instead he offers a tour of MIT. Eric is tall and wiry with broad shoulders. He has wavy light brown hair, the wispy facial growth of a serious scientist-in-training and glasses that sit a little crooked across the bridge of his nose. Dressed in a shirt and light jacket he seems no match for the elements and indeed, after a quick look at the Green Tower – home of MIT's earth science department – he suggests we duck indoors. "I'm from Tennessee," he explains, "we only get maybe two or three days like this a year."

In the mid-20th century, MIT professors and researchers made major strides in organic chemistry and a lot of the breakthroughs in modern chemistry were made here. Not that you'd necessarily know where to find these landmarks – most of the buildings have no names, just numbers.

"Everything at MIT has a number," he says. "Ask any senior their schedule and they'll give you a set of numbers."

A combination of typical laid-back American college kid and head-in-the-clouds academic, Eric gives a first impression of someone unconcerned where life is leading him. After all, here's a young man who forgot to attend the first regional Olympiad he was entered into – he slept through it. He did so well in his school chemistry exam that year however that, before the next Olympiad, his old teacher gave him some advice. "He told me to make sure I woke up," says Eric with a smile.

Spend a bit of time with Eric Brown, however, and you realize that his idea of laid-back is most people's idea of commitment. "I never cared about the grade, as long as I get an A," he says, before adding, "What I mean is that I don't care about the extra distinctions and stuff like that." In fact, Eric is really an old-school academic purist, a rarity nowadays in the career-obsessed University system. "MIT is good because I'm around people who enjoy science, who have a passion for science rather than just looking for a way to get ahead in life," he says.

Both Eric's parents are nuclear engineers. Eric attended the McCallie private school in Chattanooga and, as well as excelling academically, he was also on the swim team.



Next semester, Eric hopes to land a place on one of MIT's top organic ("orgo" as he calls it) chemistry research projects and aims to pursue a Ph.D., "probably in pharmaceutical research."

Though he was good at other subjects, Eric could tell chemistry was for him. "I like the start-to-finish process of reactions – understanding what is going on at a molecular level. I particularly like the idea of figuring out how a certain reaction works then you can backtrack and figure out how other reactions work based on the same principle and you can apply that synthetically," he says. In this way, he envisions using enzymatic mechanisms to design new drugs which could be the key to curing cancer. "Anytime you talk about the mechanisms of the human body you are talking chemistry," he explains. And this next generation of chemists, he believes, will be the ones to finally unlock the secrets of the human body.

Eric's future may lie in designing new molecules but he is also inspired by material science breakthroughs. "Our advancement as a species is determined by our advancement in technology, and chemistry is going to play a big part in that," he says. Eric Brown could well be leading the charge. ■



"I think doing breakthrough chemistry research is one way to contribute to China. The stronger that China becomes then the more my generation will want to stay here and make a good future."

LIU LIANGHUI

Liu Lianghui

The first thing you notice about Beijing is that this is a city in a hurry. Flashy new skyscrapers and apartment blocks are shooting up at every turn, legions of sleek black VW and Audi sedans battle it out on the city's rapidly expanding yet chronically clogged road network and a new cadre of equally sleek, black designer-suited professionals chatter 24/7 into their state-of-the-art mobile phones.

Liu Lianghui doesn't realize it himself yet, but this gifted young student is destined to be a leader in this influential new China guard. Indeed, to look at Lianghui right now – a softly-spoken 18-year-old with simply-cut short black hair, large black-rimmed glasses and a slightly stooped demeanor – you could be forgiven for overlooking the young man's potential. But, make no mistake, Lianghui is in a hurry – driven by the same urge to succeed that seems to have infected all of China's bright new generation.

"I push myself to study hard," he says over cold drinks at the American-styled cafeteria at Beijing University, where Lianghui is on a scholarship to study. The freshman's path to one of China's most prestigious academic schools was smoothed by his gold medal at the 2004 Olympiad. China takes the Olympiad very seriously: Its four student team was selected from a national squad of the 24 best young chemistry students in the land. To prepare for the competition, the four spent 20 days prior to the event doing experiments, mock papers, English tests and even a physical fitness examination. "I got a low score in English, but my chemistry was good," says Lianghui. Good indeed – he ranked third overall in the world.

Part of Lianghui's application can be attributed to a study culture that seems to infuse generations of Chinese academics. But Lianghui is driven by something more, a dedication to repaying the sacrifice the rest of his family has made to help him succeed. One of four children, Lianghui, like his elder brother and sister, was dispatched to boarding school at age 12 while his father and mother, poor farmers from a village in Hunan province, moved to the city of Guangzhou hundreds of kilometers away in search of work in the construction industry. Lianghui's father still works the building sites in order to support his family. "My parents worked so hard to send us all to school," says Lianghui. "The school fees were our family's biggest expense."

Today, that must seem like a worthwhile sacrifice. Lianghui is the first in his village to attend Beijing University and he can afford to pay his own way thanks to his scholarships and his success. "My family are very proud of me," he says. As he talks, Lianghui's dark eyes



get cloudy and his trademark smile fades. "My elder brother and sister were very clever but they didn't have the money for them to go to University. I love my family and I want to pay them back," he says.

Lianghui may have an advanced work ethic, but just like most teenagers, he also finds time to hone his videogame skills and to read science fiction. "When I was a child, I would see satellites launched on TV and that was very soul-stirring for me," he says. "The future of humans should be that you can travel anywhere you want," he says. "Material sciences is the key to outer space."

Yet even while he's reaching for the stars, Lianghui has his feet planted firmly on the ground. He hopes his future research work can help China combat its environmental and social welfare problems and he is committed to helping his country succeed. "I think doing breakthrough chemistry research is one way to contribute to China. The stronger that China becomes then the more my generation will want to stay here and make a good future," he says.

And what might that future be? "One day I hope to start my own company to produce products that I develop myself. I want to help my parents and I hope this company would be helpful to my hometown. It's my dream," he says. A chemistry entrepreneur with a social conscience. It's a model all 21st century societies will surely come to appreciate. ■



Economic Results and Perspectives



On a Common Course for Success

Our goal is to achieve long-term success together with our customers. As a reliable partner to our customers, we seek competition and see it as an opportunity to constantly improve our products and services.



Creating Business Success for BASF and Its Customers

Throughout BASF, numerous employees are thinking innovatively and acting entrepreneurially with respect to markets, customers and consumers. Common to all their efforts is that they find out exactly what it is that our customers need by looking at their entire value chains. This approach is extremely important because as well as supplying products, we can provide expertise and services that add value for our customers and enhance their competitiveness.

We sell more than just chemical products

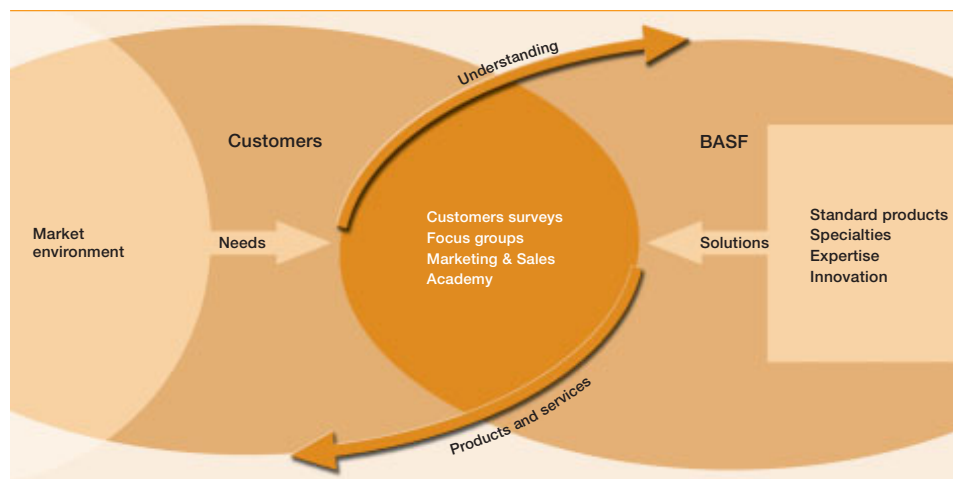
The solutions we develop are diverse because they reflect the different requirements of our customers, their markets and, of course, the breadth of our portfolio. Many of our customers don't just want to buy chemical products – they want comprehensive solutions for specific applications.

In a demanding area like the automotive industry, a system partnership is an optimal solution. It means having a local presence and assuming responsibility for the coating process. One example is our partnership with Volkswagen (VW) at their site in Puebla, Mexico. A BASF team provides local support for process and materials management, for the paint shop, and for warehouse logistics – tasks that involve much more than just supplying paints. The billing system also shows where the focus of the business model lies: VW pays for the number of painted car bodies that meet the paint finish specifications, rather than for the amount of paint supplied.

As a result, the supplier and the customer have a common goal: to save material and costs by means of intelligent coating processes that are constantly being improved. And there's also a benefit for the environment because less paint is used, thus reducing coating waste and residues. As a result, customers can combine economic advantages with environmental protection and the responsible use of resources.

Fast and efficient thanks to e-commerce

Other customers, other priorities: Together with our customers we are using e-commerce to redefine closeness to the customer in certain market segments in our plastics business. This approach combines consistent, simple ordering with the possibility of obtaining valuable information online via our PlasticsPortal – whenever required in the customer's individual work process. Our latest development goes even further. Customers also benefit from the advantages of electronic ordering when they place an order by fax: Faxes are automatically recorded and processed electronically. Rapid order processing, fewer errors and full integration in our PlasticsPortal provide advantages for both customers and BASF. Special programs also help customers make the right choice before they order, when selecting suitable products and during processing. Datasheets, certificates of analysis and a variety of up-to-date information round out the range of online services. In 2004, BASF sold plastics for more than €2 billion via e-commerce (2003: more than €1 billion).



The Mr. Clean Magic Eraser™
was voted one of the best
product innovations of 2003.



Being innovative together

Because markets and customer requirements continuously evolve, it is therefore all the more important to discover new applications for our products in cooperation with our customers. One successful example is Basotect®. This BASF foam is primarily used for sound-proofing, but Basotect® can also wipe away stubborn dirt from hard surfaces – with only a little water and no need for cleaning products. This innovative application as a cleaning product has now been successfully introduced into new markets by the consumer goods company Procter & Gamble in cooperation with BASF under the trade name Mr. Clean Magic Eraser™. The U.S. magazine Business Week Online voted Mr. Clean Magic Eraser one of the top product innovations of 2003, and it is now a permanent feature in many American households. Since April 2004, the Magic Eraser is also available in Europe. Procter & Gamble honored BASF with an award for outstanding cooperation and innovation.

Better performance through dialogue

How do we find out what our customers really need? The best way is through close cooperation and dialogue. The basis for this are the customer surveys that our business units carry out on a regular basis. The results show us how we can use our products even better to create added value for our customers and differentiate ourselves from the competition. We want to intensify the systematic dialogue with our customers: We invite key customers to discuss with us the current and future challenges in their businesses. This gives us a better understanding of the contribution we can make in the value-adding chains of our customers and provides impulses for market-driven innovations.

Committed and talented employees give life to our company. In dealing with customers, the marketing and sales teams therefore play an important role. We want to foster their enthusiasm and competence in our Marketing & Sales Academy. Training programs will help them to understand our customers and markets even better and enable them to put together combinations of products and services from BASF that provide the maximum benefit and the greatest competitive advantage.

Market focus starts with research

The question of what the market needs also shapes how we conduct our research and development. For profitable innovation-driven growth, we need a large pool of outstanding ideas and an efficient innovation process. In this process, BASF differentiates between five stages. In stage one, we identify promising ideas for new products, processes or system solutions, before proceeding to a business evaluation in stage two. In the third stage, we use a project portfolio to prioritize projects that should be taken through to the laboratory phase in stage four. In the fifth and final stage, project management then focuses on speed and cost efficiency.

How does a company like BASF generate the innovative research ideas it needs? To explore customer requirements and technological opportunities, we rely on the Know-how Verbund that extends throughout the company. The Know-how Verbund is based on three central technology platforms at BASF's headquarters in Ludwigshafen: Polymer Research, Specialty Chemicals Research, and Chemicals Research & Engineering. Some 5,000 researchers and technicians work here, while a further 2,000 employees are based in global development units at BASF subsidiaries or at regional R&D centers. In addition, approximately 1,200 cooperations with leading universities, research institutes, startup companies and industry partners worldwide provide impulses for our research activities.

Many innovations are also inspired by the fact that society increasingly needs solutions that are environmentally friendly as well as economic. We believe it is important to integrate these issues into the early stages of product and process development in order to be equipped for today's and tomorrow's markets. This belief is reflected in our broad-based involvement in innovative energy management, for example fuel cell technology (see also page 48). We are working to develop novel catalysts as well as effective storage systems that are needed, for example, to provide mobile electronic devices with a hydrogen power supply.

New technologies provide a competitive advantage

We use new technologies to provide our customers with products that have new or improved properties – for example nanomaterials for a new generation of binders. These novel dispersions for the paint industry contain nanocomposite particles – polymer particles that contain inorganic silica particles measuring 10 to 20 nanometers. As a result, the dispersion's properties are significantly improved: Exterior paints are more dirt-repellant and longer lasting. This provides a competitive advantage for our customers as well as benefit for consumers because the painted surfaces stay clean longer.

BASF spent €1,173 million on research and development in 2004 (2003: €1,105 million). Of this amount, 80 percent is the operational responsibility of the business units. The remaining 20 percent is primarily used for exploratory research. This strong link with our operational business ensures that our research and development efforts remain closely aligned with market needs.

Creating a climate for innovations

We believe that a creative team, an inspiring environment and effective processes are the main requirements for successful innovation. But the political environment also determines whether innovations are successful and thus has an impact on long-term growth. Biotechnology offers enormous potential for innovation.

Biotechnological processes have the potential to be a resource-saving, cost-effective alternative to conventional chemical syntheses – the production of vitamins using microorganisms is a good example. Plant biotechnology can also provide sustainable solutions: We can obtain high-quality starch for technical applications from genetically modified potatoes. Crops that thrive in arid regions are another contribution to sustainability. We can implement these ideas only if the technology is accepted by society. We are therefore working to create a climate of greater acceptance for future technologies, especially in Europe.

Sustainability means business

Sustainable enterprise is a basic requirement for long-term success – this applies both to us and to our customers, who must also ensure a balance between economy, the environment and social issues. As the world's leading chemical company, we help our customers to achieve this – after all, innovations from the chemical industry act as an engine for innovation in many industries. Examples are two sustainability tools from BASF: the eco-efficiency analysis and our Expert Services Sustainability (ESS). The eco-efficiency analysis helps our customers to determine the most suitable products and processes for their applications, both in commercial and environmental terms. Our Expert Services Sustainability combine our know-how in the fields of Responsible Care® and sustainability to provide applications for our customers. This enables us to offer not only our products, but also tailor-made solutions in the areas of environmental protection, occupational safety and health protection. One example involves our helping a customer to control odor emissions from a plant and thus ensure good relations with the local community. BASF experts have also helped customers with local practical support and advice in managing acute wastewater problems. Such services enable us, and our customers, to increase our competitiveness.

BASF Shares



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

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

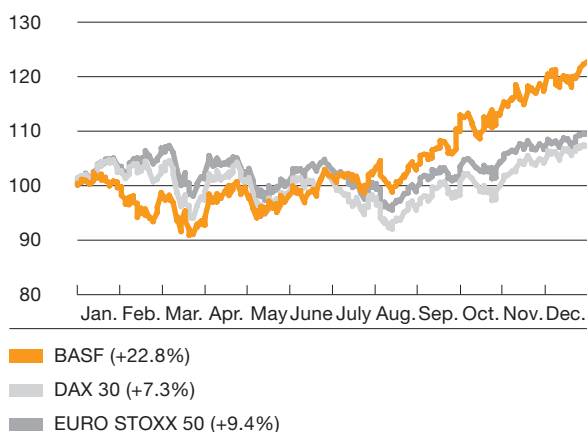
Dividend of €1.70 and further share buybacks to increase shareholder value

The Board of Executive Directors is proposing to increase the dividend from €1.40 to €1.70 per share.

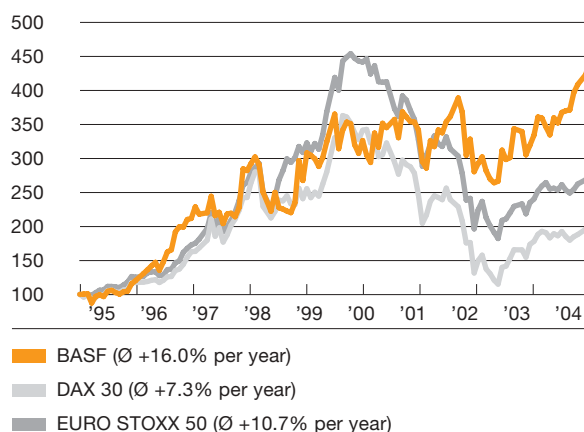
As a result, the total amount payable will be €919 million. Taking into account the per share dividend and the year-end price, BASF shares provided a dividend yield of 3.21 percent in 2004. Since 1994, we thus increased our dividend in eight out of 10 years; in two years it remained unchanged. This shows our interest in providing our shareholders with an attractive dividend yield. We aim to increase our dividend further in the future.

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

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



Change in value of an investment in BASF shares in 1995–2004 (with dividends reinvested, indexed)



BASF shares included in important indices

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

Weighting of BASF shares in important indices as of December 31, 2004

	%
DAX 30	6.3
DJ STOXX 50	1.2
DJ EURO STOXX 50	1.9
DJ Chemicals	6.6
MSCI World Index	0.2
S&P Global 100	0.5

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

Broad base of international shareholders

Our last shareholder survey carried out at the beginning of 2004 indicated the strong interest of international investors in BASF shares. Non-German investors hold 52 percent of BASF's share capital. U.K. and U.S. inves-




tors are particularly well represented, accounting for 15 percent and 14 percent of the share capital, respectively. Institutional investors – for example banks and investment companies – hold 72 percent of the share capital; 28 percent is held by private investors. Many of our employees and executives own BASF shares, and we offer share purchase programs in many countries to encourage them to become shareholders and thus co-owners of BASF. BASF Aktiengesellschaft's entire share capital is listed on the stock market.

Investor Relations: Close dialogue with the capital markets

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



Investment in BASF shares – average annual performance

2004		22.8%
		7.3%
		9.4%
2000 – 2004		3.9%
		-9.4%
		-8.0%
1995 – 2004		16.0%
		7.3%
		10.7%

 BASF
 DAX 30
 EURO STOXX 50

Dividend

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

 Dividend
 Special dividend

Finance and Value-based Management

Sales and income from operations rose significantly in a positive global economic environment, driven by economic growth in the United States and Asia. We increased production and sales volumes substantially and raised sales prices. In addition, our restructuring measures had a positive effect, enabling us to reduce our fixed costs considerably. Net income therefore more than doubled.

Sales

Due to higher prices and volumes, sales in 2004 rose €4,176 million compared with the previous year to €37,537 million. Higher sales volumes were achieved mainly in the Chemicals and Plastics segments. Moreover, we were able to pass on higher raw materials costs to the market in the course of the year for many products in our portfolio. Despite the weakness of the U.S. dollar and currencies in South America and Asia that are tied to the dollar, we increased sales in euros in all regions. In local currency terms, our sales increased by 24.5 percent in North America (NAFTA) and by 28.0 percent in Asia.

Income from operations

At €4,856 million, income from operations in 2004 was €2,198 million higher than in the previous year, and as a ratio of sales was 12.9 percent compared with 8.0 percent in 2003. This increase was primarily due to higher capacity utilization of our plants as well as fixed cost

reductions associated with restructuring measures. The Chemicals, Plastics and Performance Products segments more than doubled their earnings.

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

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

Income before taxes and minority interests

Compared with 2003, income before taxes and minority interests rose by €1,851 million in 2004 to €4,019 million. This increase was due to the substantial improvement in income from operations. In 2004, the return on assets as a percentage of income before taxes plus interest expenses increased to 12.9 percent, compared with 7.4 percent in the previous year.

Net income/earnings per share

Income before taxes and minority interests was €4,019 million compared with €2,168 million in 2003. After deducting taxes and minority interests of €131 million, net income was €1,883 million in 2004. In comparison with 2003, net income more than doubled, increasing by €973 million.

Sales and earnings			
Million €	2004	2003	Change in %
Sales	37,537	33,361	12.5
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	7,326	5,110	43.4
Income from operations (EBIT) before special items	4,893	2,993	63.5
Income from operations (EBIT)	4,856	2,658	82.7
Income from operations (EBIT) as a percentage of sales	12.9	8.0	61.3
Financial result	(837)	(490)	(70.8)
Income before taxes and minority interests	4,019	2,168	85.4
Net income	1,883	910	106.9
Net income as a percentage of sales	5.0	2.7	85.2
Earnings per share (€)	3.43	1.62	111.7
Net income in accordance with U.S. GAAP	1,863	1,320	41.1
Earnings per share in accordance with U.S. GAAP (€)	3.39	2.35	44.3

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

Proposed appropriation of profit

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

Balance sheet structure

Total assets increased slightly by €314 million. The reduction in fixed assets almost completely offset higher cash and cash equivalents and increased net working capital requirements due to higher sales. Fixed assets declined, primarily due to lower financial assets and capital expenditures below the level of depreciation and amortization.

Inventories increased by €475 million to €4,626 million as a result of the expansion of business and higher raw materials prices. Trade accounts receivable rose by 11.2 percent. The ratio of total current assets to total assets was 47.8 percent.

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

Long-term liabilities declined by €1,180 million to €9,105 million. Long-term financial indebtedness declined to €1,851 million. This was primarily due to the reclassification of BASF Aktiengesellschaft's 5.75% Euro

Bond, which matures in 2005, as short-term financial indebtedness. As a result, short-term liabilities rose by 21.6 percent to €9,046 million.

Statements of cash flow











In 2004, cash provided by operating activities was again high at €4,511 million. Despite the considerable expansion in business, it was possible to maintain net working capital at a low level.

Statements of cash flows

Million €	2004	2003
Cash provided by operating activities	4,511	4,878
Cash used in investing activities	(1,110)	(3,260)
Cash used in financing activities	(1,836)	(1,359)

Cash used in investing activities amounted to €(1,110) million compared with €(3,260) million in 2003. The significant decline was due primarily to cash inflows from portfolio measures, whereas in the previous year there was a cash outflow for the acquisition of the fipronil business. We spent €1,934 million on additions to tangible and intangible assets. We again reduced spending compared with the previous year, bringing it significantly below the level of depreciation and amortization. Expenditures for acquisitions totaled €104 million, and proceeds from divestitures amounted to €674 million.

Capital expenditures by region

Million €			
Europe	2004		1,138
	2003		2,255
Thereof Germany	2004		780
	2003		961
North America (NAFTA)	2004		258
	2003		429
South America	2004		81
	2003		65
Asia, Pacific Area, Africa	2004		563
	2003		667



Cash used in financing activities was €1,836 million in 2004. We spent a total of €726 million to buy back 16.2 million shares at an average price of €44.79 per share. We paid out €852 million in dividends and profit transfers in 2004. Of this amount, €774 million or €1.40 per share was for dividend payments to shareholders of BASF Aktiengesellschaft for fiscal year 2003. €78 million in profits was paid or transferred to shareholders of fully or proportionately consolidated companies.

Value-based management at BASF

Our goal is to further increase our corporate value. A key element of our BASF 2015 strategy is therefore to earn a premium on our cost of capital. In order to meet this goal, we have been extending our value-based management concept throughout the BASF Group since the end of 2003.

EBIT after cost of capital

In 2004, we introduced EBIT after cost of capital as the key performance and management indicator for our operating divisions and business units. This allows us to measure business decisions and performance strictly on the basis of cost of capital.

The BASF Group must achieve an EBIT of 10 percent on its operating assets to satisfy the returns expected by providers of equity and debt, and to cover tax expenses. Based on planned operating assets of €28 billion in 2005, this corresponds to a minimum EBIT of €2.8 billion for the BASF Group.

Implementing value-based management

We also use EBIT after cost of capital as the basis for performance-related compensation. The Board of Executive Directors uses this key performance indicator in its annual planning to set targets for the whole BASF Group, and hence for individual operating divisions and business units. At subsequent levels in the organization, the key performance indicator is broken down into financial and operational value drivers. As a result, value drivers can be agreed as business targets at all levels.

Target achievement plays an important role in setting the level of variable compensation.

Training measures are provided globally to ensure that the value-based management concept is implemented throughout the company. These measures aim to provide all employees with the necessary value-based management skills and increase their understanding of business contexts. Key elements include an interactive training program, a business simulation game specially adapted for BASF, and a tailor-made range of seminars on value-based management. In addition, systematic analyses of value drivers show the cause-and-effect relations between operational and financial value drivers and the key performance indicator EBIT after cost of capital and make them easier to understand.

All employees can thus identify their personal contribution to added value and act accordingly. This promotes entrepreneurial thinking and decision-making at all levels throughout BASF.

More information on value-based management at BASF is available on page 18 of our Financial Report.

In 2004, we earned a premium of €1,825 million on our cost of capital.

EBIT after cost of capital is calculated by subtracting income taxes for oil production that are noncompensable with German taxes (€668 million) and the cost of capital (€2,662 million) from the BASF Group's EBIT (€4,856 million). Finally, the EBIT for activities not assigned to the segments (€299 million) is added, since this is already provided for in the cost of capital percentage. Based on average operating assets of €26.6 billion for the segments in 2004, we achieved an EBIT after cost of capital of €1,825 million and thus created corresponding value for our shareholders.

Chemicals

Products from our Chemicals segment are the basis of our Verbund: The product portfolio ranges from cracker products such as ethylene and propylene via inorganic chemicals through to intermediates for the production of plastics, pharmaceuticals, crop protection products or coatings. In 2004, we increased sales and earnings significantly compared with the previous year due to higher sales volumes and price increases. We had to cope with the effect of considerably higher raw materials costs. Our measures to reduce fixed costs, in particular at production plants in Ludwigshafen, were successful and strengthened earnings.

With our products we are active in all important markets worldwide. We want to expand this global position further, and in doing so we are focusing on Asia in particular. Through our early investments in Asia, we took active steps to benefit from the rapid growth of this market. In 2005, for example, we will start production at our new Verbund site in Nanjing, China. This year, we will also start operations at the world's largest integrated production site for tetrahydrofuran (THF) and polytetrahydrofuran (PolyTHF®) in Caojing, China, from which we will supply our customers in the textile and plastics industries.

We also want to grow further by constantly optimizing our portfolio. In North America, for example, we acquired the plasticizers operations of Sunoco, United States, in 2004 and successfully integrated them into our business. Another major step in strengthening our global position in 2004 was the startup of the world's largest C₄ complex together with our partners Shell and

Total Petrochemicals in Port Arthur, Texas. The complex is closely linked with our steam cracker and supplies important basic chemicals such as butadiene.

Intelligent solutions for our customers

In order to be successful in the long term, we need to know exactly what our customers need. We must understand their products and processes and find the best solutions for their problems. A good example of how we succeed in this comes from the wood products industry. In 2004, we developed a new impregnating resin that reduces the electrostatic charging of laminate flooring. The advantage is palpable: The coating prevents those unpleasant little electric shocks you can get when you touch a door handle or other things that conduct electricity. A patent has been applied for, and the product is being launched on the market.

To provide our customers in the life science industry with an even greater range of optically active intermediates, we entered into a strategic partnership with Solvias, Switzerland, in 2004. This gives us access to one of the world's largest ligand libraries and complements our own strong technology base. Ligands are key building blocks in the catalyst systems needed to produce our chiral intermediates (ChiPros®). This gives us access to chemical technologies for chiral intermediates in addition to our own biotechnological methods. As a result, we will be able to process customer requests optimally and reduce the time to market for new products.

Success through sustainability

Innovative products and processes also give us economic and environmental advantages. In addition to the new BASIL™ process, we have also developed an

Sales by division

Million €				
2004	12.0%	59.7%	28.3%	7,020
2003	12.8%	56.8%	30.4%	5,752
<div style="display: flex; justify-content: space-between; width: 100%;"> Inorganics Petrochemicals Intermediates </div>				

Income from operations

Million €	
2004	1,241
2003	393



innovative process for the production of butyl acetate. This substance is used as a solvent in the paper and coatings industries as well as in the manufacture of pharmaceutical products. The new process utilizes a special ion-exchange resin as a catalyst instead of sulfuric acid. This reduces the level of organic substances in the wastewater by more than 80 percent.

BASF has many years of experience in developing and marketing products and processes for gas scrubbing. In 2004, we began contributing this experience to support a project sponsored by the European Union in which a group of companies, universities, public authorities and research institutes are studying how carbon dioxide can be removed from combustion gases and stored. At the same time, this project gives BASF the opportunity to tap into a promising new market.

As one of the leading producers of urea in Europe, we are helping to reduce emissions from trucks with the AdBlue™ system. We developed this system in cooperation with European truck manufacturers to ensure that the emission limits that will apply in Europe from 2006 are met. AdBlue™, a high quality solution of urea, is mixed with the stream of exhaust gas containing nitrogen oxides. A selective catalytic reduction (SCR) catalyst breaks down the mixture into nitrogen and steam. The SCR technology has an additional advantage: Vehicles fitted with SCR consume 2 to 5 percent less fuel – an ideal combination of economy and ecology.

Further information and data at
www.reports.basf.de/chemicals

BASIL™: Higher yield thanks to new acid scavengers

Removing acids from reaction mixtures is now fast and simple thanks to BASF's BASIL™ (Biphasic Acid Scavenging Utilizing Ionic Liquids) process. Using this unique process, the scavenging of an acid with a base results in a liquid salt instead of solid crystals that can cause problems in large-scale production. The formation of an "ionic liquid" means that time-consuming and expensive filtration is no longer necessary. Ionic liquids can be separated from the desired products like oil from water, and can also be recycled. In addition, the base acts as a catalyst, thus speeding up the reaction considerably. As a result, it is possible to use a narrow, continuously operated mini-reactor instead of a stirring vessel on the cubic meter scale. The mini-reactor is only thumb-sized but is nevertheless able to produce hundreds of tons of product each year. We also make the advantages of ionic liquids available to our customers – we recently started marketing our portfolio of ionic liquids together with our know-how in applying these materials under the name BASIONICS™.

Capital expenditures

Million €		
2004		555
2003		527

Research and development expenses

Million €		
2004		104
2003		108

Plastics

Plastics are the materials of the 21st century. New applications are constantly being found for them, for example in automobiles, where they make an important contribution to performance, safety and comfort. In our Plastics segment, we increased sales significantly thanks to higher volumes and price increases. Earnings doubled due to higher volumes as well as measures to reduce fixed costs. Despite repeated price increases, it was not possible to compensate fully for the massive rise in the prices of key raw materials. This put our margins under pressure. Our goal for the coming years remains unchanged: We want to continue to grow profitably in a difficult market and thus further strengthen our position as the world's leading supplier of plastics.

To achieve this, we have clearly defined our business models and aligned our activities accordingly. At the same time, we have invested in new plants and successfully developed our global structures.

In the Plastics segment, we utilize different business models for our two major product classes: standard polymers and specialties. The main factors for success for high-volume commodity polymers are quality, logistics and the price/performance ratio. In the field of innovative specialties we focus on the individual needs of our customers and combine high-value products and services to provide system solutions that give us and our customers a competitive advantage.

New business models for the market

The plastic ABS (acrylonitrile-butadiene-styrene), which is used to make housings and toys, has increasingly moved from being a specialty to a standard plastic in the past few years. We have therefore adapted our business model accordingly. Our customers no longer need a choice of some 1,500 ABS products. Therefore we have reduced our portfolio to less than 10 different ABS grades worldwide, which we produce in three world-scale plants in Europe, Asia and North America. To complement this move, we introduced Colorflexx® – a highly efficient system that allows customers to self-color ABS plastics – together with four partners in 2003. This saves costs, reduces delivery times and allows our customers around the world to produce their products much faster and more flexibly.

We are constantly opening up new applications for our specialties, for example in automotive engineering. Plastics already account for about 13 percent of the total weight of a medium-sized car, and this figure is expected to rise to 18 percent by 2007. Plastics not only improve the performance, safety and comfort of cars, they can also make them more fuel efficient. One example is our concept for thermal engine encapsulation (TEE). By enclosing the engine in polyurethane foam insulation elements, it is possible to slow down heat loss once the engine has been switched off. The engine stays warm during trips around town and on multiple short journeys, making fewer cold starts necessary. As a result, fuel consumption can be cut by up to 9 percent. Tests are now being carried out with a well-known auto manufacturer to study the feasibility of TEE for a diesel engine. The construction of a prototype is planned as a next step.

Sales by division

Million €				
2004	42.2%	24.6%	33.2%	10,532
2003	41.3%	25.5%	33.2%	8,787
<div> Styrenics Performance Polymers Polyurethanes </div>				

Income from operations

Million €	
2004	669
2003	296



We are further developing sales channels to our customers. For example, we posted e-commerce sales of more than €2 billion via our PlasticsPortal in 2004 (2003: over €1 billion).

Reliable partner for new markets

BASF is improving its processes and cost structures in Europe, and we are consolidating our business in North America. In the rapidly growing Asian markets, we want to expand our position further. In order to leverage strengths and rapidly utilize new capacities, we are increasingly building new plants for precursors together with partners. For example, with the Japanese company Toray Industries we are building a plant for PBT (polybutylene terephthalate) base resin in Kuantan, Malaysia. PBT is primarily used in the automotive, electrical and electronics industries. In a partnership with Dow, United States, we are planning to construct a world-scale plant for propylene oxide, an intermediate used in the production of polyurethanes. The plant, which is to be built at our Verbund site in Antwerp, Belgium, is scheduled to start operations in 2008.

Further information and data at
www.reports.basf.de/plastics

Polyurethanes for the Chinese growth market

Offering customers a single source of locally produced basic products and specialties – this is a goal that we will soon also achieve for polyurethanes in China. These plastics are used in a variety of products – for example sport shoes, refrigerators and automobiles. In China, such products are in increasing demand and are increasingly being produced in the country. Together with the U.S. company Huntsman and Chinese partners, we are currently investing \$1 billion in the construction of an integrated production site in Caojing near Shanghai. Two key polyurethane basic products – MDI (diphenylmethane diisocyanate) and TDI (toluene diisocyanate) – will be produced here from 2006 onward. For processing, sales and innovation, we are building a new center for polyurethane specialties in the Pudong district of Shanghai. The project is scheduled for completion in 2007 and will comprise a system house, a technical research and development center, and a production plant for thermoplastic polyurethanes – allowing us to work significantly closer with our Chinese customers.

Capital expenditures

Million €		
2004	<div></div>	454
2003	<div></div>	539

Research and development expenses

Million €		
2004	<div></div>	138
2003	<div></div>	142

Performance Products

Improving our customers' products – that is one of our goals. And our performance products do just this in numerous everyday products such as paper, leather, textiles and detergents. Thanks to strong customer demand in 2004, we significantly increased sales and earnings in this segment. Higher capacity utilization and a rigorous reduction of fixed costs also contributed to earnings growth. As a result, we were able to almost fully offset the effects of dramatically higher raw materials costs.

We want to be the preferred partner for our customers when it comes to innovative solutions in performance chemistry. To achieve this, we consider our customers' processes and needs in detail so that we can provide tailor-made, environmentally friendly products and services. With our systems we help to create new growth opportunities for our customers. This also means supplying consistent quality worldwide and jointly developing new markets.

Providing innovation and service

In paper production, there is a trend toward using as much used paper as possible as a raw material. But how can high-quality new paper be produced completely from used paper when 30 percent has been the maximum possible share to date? We solved this problem for our customer LEIPA – a paper manufacturer in Schwedt, Germany – together with the machine supplier Voith Paper. Especially for LEIPA's new paper machine, we developed a system of chemicals that covers the

entire paper production and finishing process. Pre-trials at our pilot coater in Ludwigshafen and the close co-operation between the partners were additional factors that enabled LEIPA to plan, construct and successfully start up its machine in September 2004.

For us, being innovative means being the first on the market with a new product, for example with a textile processing product such as Cyclanon® XC-W. In May 2004, BASF became the first company to offer a post-clearing agent that can be used for all reactive dyes. This product removes the dye that is not completely absorbed by the fabric, thus improving colorfastness. At the same time, our new product reduces the number of rinsing baths during the dyeing process, thus saving time, energy and water. Our customers are able to increase their capacity and resolve production bottlenecks. The advantages are also visible to end-users: Dye particles stay where they are supposed to, and no longer end up staining other garments in the washing machine.

We are there wherever our customers are

Working hand-in-hand with customers is particularly important to meet the stringent demands of the automotive industry. We have developed a new system technology for automotive coating lines. Here, a water-based coating system also assumes the function of the primer layer and thus reduces the number of coating steps. This shortens process times and saves costs and material. Simultaneously, the entire process has a better energy and environmental balance. One particular advantage of the new system is that it can be integrated in our customers' existing coating lines. The fact that we are on the right track with our innovative coatings

Sales by division

Million €				
2004	40.3%	25.3%	34.4%	8,005
2003	41.2%	26.4%	32.4%	7,633
	Performance Chemicals	Coatings	Performance Polymers	

Income from operations

Million €	
2004	1,068
2003	478



systems was again confirmed in 2004 when we won the Volkswagen Group Award for suppliers and system partners of VW Mexico.

In order to supply our global customers locally, we expanded our production of coatings in China, India and Mexico and increased the capacity of our dispersions plant in Indonesia in 2004. Our new distribution center in Münster, Germany, also helps us to further increase our delivery capability.

Achieving profitable growth

Achieving profitable growth means that we focus our portfolio on those areas that strengthen our Verbund structures. This is why we sold our printing systems business to the European private equity company CVC Capital Partners. In the Coatings division, we continued to concentrate on our strengths: We exchanged our window and exterior door coatings business for the agricultural and construction machinery paints business of Akzo, the Netherlands.

Further information and data at
www.reports.basf.de/performance_products

Partnerships for sustainable development

China's rapid economic growth is associated with many challenges: Level of emissions, for instance, increase with the rising number of vehicles. We expect automobile production in China to grow by an average of 8 percent per year up to 2015. As a global company with a strong focus on China, we use our products and our knowledge to assist the sustainable development of the Chinese economy. On the one hand, we supply innovative fuel additives under the Keropur® brand that ensure better fuel consumption and lower emissions. On the other hand, we use our knowledge to establish environmentally friendly technologies. For example, in June 2004, BASF and the Chinese Research Academy of Environmental Sciences (CRAES) signed a strategic alliance in the fuels sector. The goal of the cooperation is to improve the quality of Chinese gasoline significantly and to adapt it to the requirements of the latest engine technology. Among other things, our agreement provides for the joint creation of an engine test laboratory in Beijing that will employ internationally standardized test procedures.

Capital expenditures

Million €		
2004		286
2003		236

Research and development expenses

Million €		
2004		221
2003		240

Agricultural Products & Nutrition

In our Agricultural Products division we exceeded our expectations for sales and earnings. Innovative products, a firm focus on attractive markets and strict cost management brought us a long way forward. In our Fine Chemicals division, sales and earnings declined, in particular as a result of negative currency effects. Strong sales volumes for aroma chemicals and Pharma Solutions and successful cost reduction programs largely offset the negative impact the persistent decline in prices, in particular for a number of vitamins.

Agricultural Products: Promoting innovation

The demand for high-quality, healthy nutrition is growing constantly. As a result, farmers have to optimize their yields to meet this need, and our modern crop protection products can help them: Fungicides and insecticides reduce crop losses, and herbicides protect crops from competition from weeds and grasses. Our researchers are currently working to develop six new crop production active ingredients, on a new herbicide tolerance project and on numerous products to protect seeds with active ingredients that have already been launched. These product innovations will be ready for market in the coming years and have a peak sales potential of €700 million. A further seven crop protection active ingredients with a peak sales potential of €1 billion are currently being introduced to the market. Of these, F 500® and boscalid in particular developed better than expected and in 2004 helped us achieve approximately 60 percent of the peak sales potential planned with the active ingredients in market launch. To ensure that our customers can rely on innovations from BASF, we have aligned our research organization with tomorrow's market requirements and are taking steps to shorten development times even further.

Our fungicides F 500® and boscalid have been received very positively by the market and contributed to the significant increase in earnings. In 2005, our aim is to achieve sales of more than €400 million with F 500® and products in which this active ingredient is used as a component. We are working hard to further optimize our product portfolio. Surveys in which we regularly achieve top rankings in our core markets show to what extent our customers appreciate our products and services. In 2003 and 2004, we won the "Prêmio A Granja" award for being the best agrochemical company in Brazil, and this is only one example of many.

Plant biotechnology: Seizing opportunities

Plant biotechnology is opening up new routes to more productive plants for current and future generations. We can use this technology to develop plants with specific characteristics that would be almost impossible to achieve using traditional breeding techniques.

We are working in the following areas:

- More resistant crop varieties that better withstand drought
- Plants with higher contents of vitamins or unsaturated fatty acids
- Plants that act as "green factories" and produce substances that could otherwise only be made using complex chemical processes

In potatoes, for example, we have succeeded in increasing the proportion of one type of starch called amylopectin from 75 percent to almost 100 percent. Pure amylopectin is better suited for use in the paper, textile and adhesive industries than the starch mixture from potatoes used to date. A further advantage is that this allows the increased use of a renewable raw material. We expect to introduce the new potato to the market in 2006.

Sales by division

Million €			
2004	65.2%	34.8%	5,147
2003	63.3%	36.7%	5,021
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	<div> <div style="width: 50%;"></div> <div style="width: 50%;"></div> </div>		

Agricultural Products
 Fine Chemicals

Income from operations

Million €	
2004	540
2003	359



Fine Chemicals: Close cooperation with customers

They put the power in multivitamin drinks, keep hair-styles looking good, and ensure that sunscreen provides the necessary protection from UV radiation: Fine chemicals from BASF are responsible for the functionality of many everyday products. Our products include vitamins and carotenoids, substances for the pharmaceutical and cosmetic industries, and additives for animal nutrition.

The No. 1 rule in these consumer-oriented markets is to provide customers with products of a consistently high quality. For instance, we have developed new carotenoid formulations for drinks that no longer contain gelatin or other animal by-products and are thus free of allergens. These carotenoids are used to color drinks and provide a source of provitamin A. We also rely on specific cooperations with customers to bring product innovations to market quickly, for example in the cosmetic industry.

We are also increasingly focusing on our customers' wishes with regard to our solutions for the pharmaceutical industry. Our new tablet coating Kollicoat® IR White is a ready-to-use, pre-colored coating system that cuts out a process step for our customers. In addition, we are expanding our activities in the area of contract manufacturing. In 2005, we will start operations at a new production and packaging plant for pharmaceutical active ingredients and excipients in Minden, Germany.

By focusing on innovative solutions and close customer cooperations, we are facing up to the challenging competitive environment. We are optimizing our profitability through active portfolio management, and we aim to reduce our production costs further by making targeted investments in our value-adding chains.

Further information and data at
www.reports.basf.de/agro
www.reports.basf.de/nutrition
www.basf.de/biotechnology

Capital expenditures

Million €

2004	232
2003	1,273

Citral: A key building block for fine chemicals

Perfume has a gentle floral fragrance, the house smells wonderful after cleaning, and the laundry smells fresh. Few people realize that a real all-rounder is responsible for the scent of lemons, violets or roses: citral. Not only do we sell this aroma chemical to the perfume industry, we also use it as a raw material for 10 further fragrances and flavors, vitamins A and E, and carotenoids. In 2004, we started operations at a new world-scale plant in Ludwigshafen that has an annual capacity of 40,000 metric tons per year. We have structured the entire value-adding chain in accordance with this new capacity in recent years. The advantage of the new process is that it is simpler and more cost effective. Furthermore, the citral plant is completely backward integrated: It utilizes the advantages of our Verbund as far back as the basic chemicals produced by the steam cracker. The citral plant is an important building block for our future, and will help strengthen our leading position in fine chemicals in the long term.

Research and development expenses

Million €

2004	365
2003	309

Oil & Gas

For our Oil & Gas segment 2004 was again a record year. The strong level of 2003 was again exceeded. With an increase of 6.1 percent, volumes in our natural gas trading business grew significantly faster than the market. We are investing in accordance with our concept "Gas for Europe," thus making an important contribution to supply security in Germany and Europe. Our two business sectors exploration and production and natural gas trading are interlinked: We find and produce new gas in and around Europe and supply it to our European customers.

Our oil and gas business is conducted through Wintershall. This wholly owned BASF subsidiary has more than 70 years' experience in the exploration and production of oil and gas. The company is the largest German producer of crude oil and natural gas. Our recipe for success is to focus our activities on the regions Europe, North Africa, South America, Russia and the Caspian Sea area, where we have a high level of regional and technological expertise.

Exploration and production:

Pioneering cooperation in Russia

The exploration and production business sector again made the largest contribution to the segment's earnings. We ensure our long-term growth goals by constantly investing in increasing production and securing our reserve basis. In 2004, we produced a total of 14.3 million metric tons of oil equivalent, or 4.2 percent more than in 2003. This was due primarily to the increase in natural gas production in the Netherlands and in Argentina. To expand our asset portfolio, we acquired nine

new exploration blocks in the southern North Sea and purchased a share in a further exploration license off the coast of Denmark in direct proximity to our existing operations.

Since 1990, we have marketed natural gas together with the Russian company Gazprom — the world's largest producer of natural gas. We have now extended this successful cooperation to the production of natural gas. Through the Achimgaz joint venture founded in 2003, we plan to develop part of the Urengoy field in western Siberia. With a total investment of \$700 million, the joint venture expects to produce approximately 200 billion cubic meters of natural gas and 40 million metric tons of condensate in the coming 40 years. This is an important contribution toward ensuring secure supplies of natural gas to Germany and Europe in accordance with our "Gas for Europe" strategy. Initial production wells are scheduled for 2005, and the overall development of the field is expected to begin in 2008.

Natural gas trading: On course for growth in Europe

In 2004, we significantly increased the total sales volumes in our natural gas trading business to 304.1 billion kilowatt hours, or 6.1 percent more than in 2003. This business sector posted an EBIT of €342 million but was impacted by narrower margins. Natural gas trading has grown to become an important earnings contributor for the segment and offers considerable potential for further growth. Together with Gazprom, we established joint ventures for trading natural gas in Germany and Europe at the beginning of the 1990s.

Sales by division

Million €		
2004		5,263
2003		4,791

Income from operations

Million €		
2004		1,637
2003		1,365



Today, we have a modern infrastructure in Germany:

- A pipeline spanning 2,000 kilometers that links the huge gas reserves in Siberia with the growing sales markets in Western Europe
- Western Europe's largest underground natural gas storage facility in Rehden, Germany

WINGAS, a joint venture between Wintershall and the Russian company Gazprom, is capitalizing on the liberalization of the European natural gas market: The German marketing strategy has been adapted to the various regions and successfully applied to Belgium, France, Austria and the United Kingdom – in the latter country via our joint venture HydroWingas. The extension of the STEGAL pipeline will enable more natural gas to be transported from Russia to Western Europe via Germany in the future. The pipeline connects the Czech and Slovak network for Russian natural gas with WINGAS' network. Russian natural gas will become increasingly important for Central and Western Europe in view of the decline in volumes produced in the North Sea and the constant increase in demand. We have therefore extended our natural gas supply contracts with Gazprom in good time – a further step in our "Gas for Europe" strategy. The extended contracts alone will enable an additional 20 billion cubic meters of natural gas to be transported to Western Europe each year. Over the entire term, the total amount will be in excess of 500 billion cubic meters. This volume would be sufficient to supply German households with the environmentally friendly fuel for approximately 15 years.

Further information and data at
www.reports.basf.de/oil+gas

Producing oil sustainably in Libya

In the North Africa core region, Libya is the most important country for BASF with regard to the exploration and production of crude oil. In October 2004, we started operations at a further production facility in Jakhira, southeast of Tripoli. Since 1958, we have invested more than \$1.2 billion in Libya in more than 120 wells. We are also a technology leader. For example, we are one of the few companies in Libya that does not flare the gas associated with crude oil production, thus making a significant contribution to reducing CO₂ emissions (see also page 46). Furthermore, we no longer allow production and process water to seep away. Instead, we process it and return it to the outer areas of the oil reservoir via a special well. We are also aware of our social responsibility and have initiated an integration and training program aimed at considerably increasing the proportion of local skilled workers. The percentage of Libyan workers ranges from 40 percent for skilled and specialized workers to almost 100 percent for technical and commercial employees. Wintershall employs almost 350 people in Libya, 240 of whom are Libyan.

Capital expenditures

Million €		
2004	<div style="width: 85%;"></div>	374
2003	<div style="width: 80%;"></div>	323

Research and development expenses

Million €		
2004	<div style="width: 90%;"></div>	198
2003	<div style="width: 65%;"></div>	123

Environmental Protection and Safety



Responsibility for the Future

Our goal is to make a positive contribution to a future worth living. For us, acting responsibly means improving safety, health and environmental protection and fostering awareness for these issues among our employees, customers and suppliers. In this way, we contribute to BASF's sustainable success.



Perspectives for Environmental Protection and Safety

Combining sustainable economic success with environmental protection is an important strategic task for BASF. Achievements in this area make us, our customers and our partners more successful in the long term. They supplement the quality of our products, creating added value and strengthening trust in our company. We live this principle by setting ourselves ambitious goals for environmental protection, product stewardship, occupational safety and distribution safety that we want to achieve by 2012.

Our activities in the fields of environmental protection, safety and health are managed by a global expert network – our Responsible Care® competence center. This work and our environmental and safety goals are aligned with the principles of Responsible Care, a voluntary global initiative of the chemical industry to which BASF has been committed since 1992.

The global cooperation between our Responsible Care experts combines two important success factors: it allows freedom for regional diversity and makes it possible to implement global standards. At the regional level our experts ensure that appropriate account is taken of specific local needs. At the same time, our experts work together on long-term global standards. We have already developed such standards with regard to both the planning and construction of new plants and the transportation and storage of chemicals (see also www.basf.de/competence-center-rc).

Expert Services Sustainability

In accordance with our corporate strategy, we use our extensive know-how in Responsible Care and sustainable development to make our customers more successful. That means that we respond to their specific needs with services and expertise in these areas (see also page 9).

Standardized audits ensure transparency

We perform regular audits at all our sites. They are an important tool in our efforts to make our sites and plants even safer, and they allow us to learn from one another. Experts for safety, the environment and occupational medicine regularly monitor all our sites and plants on behalf of the Board of Executive Directors. Using clearly defined criteria they track how our standards are implemented locally. Environmental and safety audits and occupational medicine and health protection audits are conducted separately. The results are then combined to give a comprehensive profile for every site. Possible measures range from immediate improvements through to long-term projects that are subject to follow-up audits. During the 2004 reporting period, 88 environmental and safety audits were carried out at 56 BASF sites. We also conducted 38 occupational medicine and health protection audits at 38 sites.

Externally certified sites

Our internal auditing system meets the standards and criteria of today's generally accepted external auditing procedures. This was also confirmed in a review of our methodology by Deloitte & Touche in 2002. Nevertheless, we also carry out external certification at the request of our customers. A list of sites certified according to ISO 14001 or EMAS is available at www.reports.basf.de/certified.

We evaluate and support partner companies

At our sites, numerous external companies contribute to our performance. For example, much repair, installation and transport work at BASF is carried out by contract companies. Our global guidelines on safety, health and environmental management make no difference between contract workers and BASF employees when it comes to checking compliance with all regulations, carrying out training and assessing its success. This is why all BASF companies and joint ventures in which we hold a majority share are committed to assessing and promoting the work of partner companies. It is an integral part of our philosophy that we provide all our partners with information or advice to promote safety, health and environmental protection.

The participation of as broad a spectrum of society as possible in political debate is essential to democracy. Industry – and hence BASF – is part of society and must therefore face up to its responsibility of helping to shape the future. Government policy, legislation and regulations have a strong influence on the development opportunities of the chemical industry worldwide. This is why we address social and political issues openly and talk to political decision makers. We try to find viable solutions in an active and constructive dialogue with all relevant political levels. We are currently particularly interested in the following topics:

■ European chemicals policy (REACH)

The goal of the future European chemicals legislation is to increase the protection of people and the environment while simultaneously improving the competitiveness of the chemical industry. We wholeheartedly support this goal. However, the draft legislation presented by the European Commission does not meet this claim. We are therefore working together with the Commission and industry associations to come up with alternative proposals that meet the high safety goals, that are practicable for the authorities and companies, and that will strengthen Europe's competitiveness as a location for industry. You can read more detailed information on our position at www.basf.de/chemicals_policy.

■ Integrated Product Policy (IPP)

With its Integrated Product Policy, the European Commission aims to improve the environmental impact of a broad range of products throughout their lifecycles. In 2003, the European Parliament confirmed the goals of the green paper on IPP. We fundamentally support these goals, but we do not believe that they can be achieved through regulatory intervention in market mechanisms. The future belongs to products that combine environmental and economic advantages. We have developed an eco-efficiency analysis that systematically identifies which products are most suitable with regard to these two aspects. More information is available at www.basf.de/eco-efficiency.

■ Plant biotechnology

Plant biotechnology is one of the most promising technologies of the 21st century. It has rapidly developed from a scientific method to a globally important economic issue. Today we can specifically develop plants with the desired characteristics. To meet the demand for sufficient high-quality food, we use plant biotechnology in areas where it can help safeguard and increase crop yields. The responsible use of

plant biotechnology is a key prerequisite for our work. In accordance with our principles of sustainable development, a modern technology must be safe as well as economic. We are actively involved in the public debate and believe in the importance of information and transparency. As a member of EuropaBio, we are committed to their ethical principles. Further information is available at www.basf.de/biotechnology/ethics.

■ Renewable raw materials

The responsible use of resources is a prerequisite for sustainable enterprise, and an important contribution is made by using renewable raw materials in place of crude oil, gas and coal as sources of energy and fuel. These measures can be supplemented by utilizing biomass to produce chemical products. BASF already employs renewable raw materials wherever this is technically and economically realistic. We thus help use resources responsibly and sustainably. New impulses to encourage the use of renewable raw materials are desirable, but they must not result in an additional burden being placed on proven economic processes. Plant biotechnology can play an important part in promoting the use of renewable materials. It can help determine whether a crop is technically and economically suitable for use in chemical production.

Actively Shaping the Future of the Energy Supply

Rising living standards in many parts of the world offer greater scope for equal opportunities. But at the same time, they mean rising energy consumption and CO₂ emissions, while fossil fuel reserves are limited. As the world's leading chemical company in an energy-intensive industry, we recognize the challenges this presents in ensuring a sustainable future. We are actively addressing these challenges: We use energy efficiently and develop innovative technologies and products to reduce CO₂ emissions and conserve resources. We welcome renewable energy concepts as a means of guaranteeing long-term energy supplies.

We regard it as our duty to treat fossil fuel resources as responsibly as possible. This starts with the exploration for and production of crude oil and natural gas by our subsidiary Wintershall. One example is a plant we operate in Jakhira, Libya. Instead of flaring the gas obtained as a by-product from the production of oil, we process it and then transport it by pipeline to Tripoli where it is used in power plants to generate electricity. The environmental benefits are huge: In 2004 alone, our gas utilization plant reduced oil production-related CO₂ emissions in Libya by around 3 million metric tons compared with 1999.

Gas turbine plants for efficient energy generation

In order to supply our production sites with energy, we are increasingly using combined heat and power (CHP) plants to generate both heat and electricity. Such cogeneration plants are a particularly effective means of supplying energy and, with a fuel efficiency of close to 90 percent, it is the front-runner among energy conversion methods suitable for use on an industrial scale. BASF currently operates 11 of these plants worldwide, including the three gas turbines that recently started operating in Nanjing, China. In addition to our own plants, partner companies operate a further eight gas turbine plants with steam cogeneration at BASF sites, and these plants serve primarily to supply BASF. A further third-party operated plant is currently under construction in Antwerp, and we are building two gas turbine plants at the Ludwigshafen site.

We started constructing these plants in Ludwigshafen in fall 2003. The turbines will generate 3.5 times more electricity per metric ton of steam than a conventional cogeneration power plant. This will conserve resources and at the same time lower CO₂ emissions by more than 500,000 metric tons annually from 2006 onward. The construction of this power plant also ensures the competitiveness of energy-intensive production at the Ludwigshafen site. Once we have completed these projects in Nanjing, Ludwigshafen and Antwerp, we will be operating modern CHP plants wherever possible, either alone or with our partners. These plants play an important role in achieving our goal of reducing specific CO₂ emissions per metric ton of sales product by 10 percent by 2012 (baseline year: 2002).



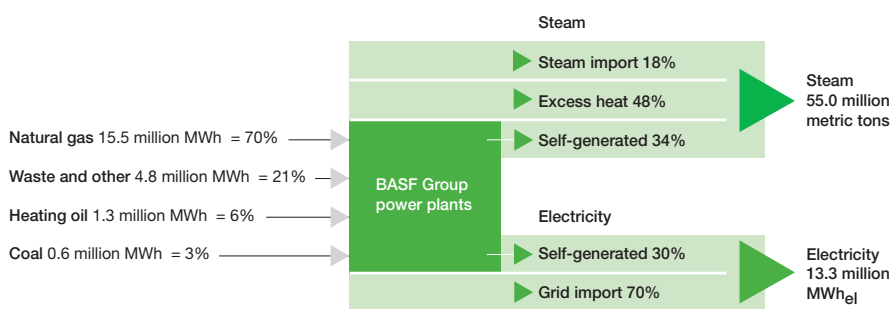
Saving energy in our Verbund network

At our major production sites worldwide, we use a Verbund approach that links production and energy requirements in an intelligent manner. Our aim is to use primary energy sources – both as raw materials and for producing electricity and steam – as efficiently as possible and thus minimize consumption. In 2004, waste heat from production processes was used to generate 48 percent of BASF's global steam requirements of 55.0 million metric tons. A total of 22.2 million megawatt hours of fossil fuels and waste fuels was required to generate electricity and steam. This is equivalent to approximately 1.9 million metric tons of crude oil. Without our Energy Verbund, however, the total energy needed to generate electricity and steam for the BASF Group would have been around 92 percent higher at approximately 3.7 million metric tons of oil equivalent.

Improving processes and products

In production processes, further improvements to catalysts have resulted in significant energy savings. One example is the production of acrylic acid, a precursor for superabsorbents that are used, for instance, in diapers. Continual improvements to the catalyst system have made it possible to increase acrylic acid yields significantly. Since BASF has a total annual capacity of approximately 800,000 metric tons of acrylic acid, these improvements mean that emissions of carbon dioxide have been cut by about 230,000 metric tons. This is equivalent to the annual electricity needs of about 140,000 domestic households, in other words the size of a city.

Energy balance, BASF Group 2004



In 2004, 22.2 million MWh of fossil fuels and waste fuels was used in central power plants to generate steam and electricity in the BASF Group.

As a result, 4.0 million MWh_{el} of electrical power was generated, primarily by means of cogeneration technology. This corresponded to 30 percent of the BASF Group's total electricity needs of 13.3 million MWh_{el} in 2004. The remaining electricity was purchased from public grids.

In 2004, a total of 55.0 million metric tons of process steam was provided by steam networks within the BASF Group. Worldwide, 48 percent of this amount was generated using excess heat from chemical reactions and by thermal recycling of waste.

BASF's scientists are also using their expertise in the area of catalysts to refine fuel cells – the power and energy sources for the homes of the future. Stationary fuel cells can transform natural gas into heat and power in an efficient and environmentally friendly manner, but the natural gas must first be desulfurized. BASF researchers have succeeded in solving this problem by using newly developed adsorbers. They also improved the catalysts for the preliminary steps in the fuel cell in which hydrogen is efficiently produced from natural gas. As a result, the catalysts are more cost-efficient and more reliable over longer periods.

With Micronal®, new BASF products offer an alternative to energy-intensive air conditioners: latent heat stores, also known as phase change materials (PCMs). These microscopic wax particles are incorporated into building materials such as plasters, panels, fillers or wood-based materials in order to absorb heat. If it gets hot outside, the wax melts and absorbs heat, which means it stays cooler longer indoors. The principle also works the other way around: The particles solidify and release heat when it's cold. The thermal capacity of two centimeters of this plaster is equivalent to a 20-centimeter-thick hollow brick wall. At current electricity prices, the investment pays for itself within less than five years for a one-family prefabricated house with a living area of around 150 square meters and wall and ceilings made of particle board and PCMs.

Renewable energy concepts

We welcome the implementation of suitable regenerative energy solutions. For us, such solutions are an important contribution to a long-term energy supply that is not based exclusively on fossil fuels. On the other hand, our sites require a reliable energy supply at a reasonable price if they are to be globally competitive. Most wind turbines and photovoltaic heating systems are not economic and, in Germany at least, require massive subsidy via electricity prices because they are not cost-effective. Research into economic concepts for renewable energy therefore needs to be intensified.

We are reviewing suitable applications such as a project group in India, a country where there is abundant solar energy. The first step is a solar installation to preheat water for production processes that recently began operating at our site in Thane. The installation can heat 20,000 liters of water a day, saving around 44 metric tons of heating oil annually.

We are also looking at the possibilities of geothermal energy. Depleted oil wells could, for example, be used to provide local heating or to drive geothermal power plants. We are currently performing feasibility studies together with our subsidiary Wintershall, which has the necessary expertise in this area.

Shaping the future of energy together

As an innovative and responsible chemical company, we want to make a constructive contribution to the issues of the future. We therefore actively seek contact with partners in the political world who shape the political framework for our innovative strength and hence our competitiveness. Despite energy-conserving measures, we will remain part of an energy-intensive industry in the future too. This is why we want to ensure a sustainable energy policy that does not lose sight of the vital needs of its business locations in view of global competition. We want to reconcile economic, environmental and social goals – for the benefit of companies, employees, customers and the environment.

Further information at:
www.basf.de/energymanagement

Efficient Processes for Companies and the Environment

“Efficiency” is our motto for combining corporate success and environmental protection. The reason for this is quite obvious: If we achieve higher product yields with our plants we contribute to the success of the company. At the same time, we protect the environment because we use fewer resources and reduce both emissions and waste.

On the following pages, we describe projects that we carried out or started with the aim of bringing us closer to achieving our long-term goals. We will not be able to report identical developments every year. The coming years will show in what steps we will achieve our goals by 2012 with regard to new acquisitions and the start of operations at our sites in Asia.

2012 goal: Reduction of emissions to air
Reduction of greenhouse gases per
metric ton of sales product: –10%

BASF is committed to the goals of the 1997 Kyoto Protocol of reducing relevant greenhouse gas emissions. We want to become even better and have set ourselves the long-term goal of reducing our specific greenhouse gas emissions per metric ton of sales products by 10 percent compared with 2002 by 2012. At the same time, we want to expand our global production capacity. To achieve our goal, we are carrying out long-term projects that will reduce emissions further in the next few years.

We reduced greenhouse gas emissions per metric ton of sales product by 1.4 percent in 2004 compared with 2002 despite increasing global production by 13 percent. Each of the various gases has a different impact on the greenhouse effect, and so emissions are calculated in terms of CO₂ to allow a comparison.

Emissions of greenhouse gases from BASF's global chemical operations totaled 27.6 million metric tons (2003: 23.8 million metric tons). The rise in CO₂ emissions compared with 2003 is largely due to increased production and the additional inclusion of CO₂ emissions from chemical processes.

Emissions of greenhouse gases

Thousand metric tons of CO₂ equivalent/year

	GWP factor*	2002	2003	2004
CO ₂	1	18,236	18,960	20,729
N ₂ O	310	6,407	4,788	6,696
CH ₄	21	10	10	13
HFC**	140–11,700	61	36	138
PFC**	6,500–9,200	0	0	0
SF ₆	23,900	0	0.6	0.6
Total		24,714	23,795	27,577

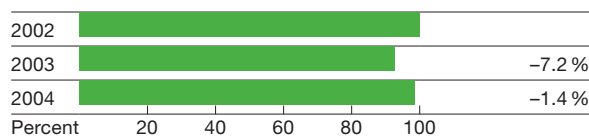
* GWP factor: global warming potential of the individual gases compared with CO₂

** Calculated using the GWP factors of the individual components (IPCC 1995)

Reduction of greenhouse gas emissions

per metric ton of sales product

(reduction compared with baseline 2002: –1.4%)



Since 1997, we have reduced nitrous oxide emissions from the production of adipic acid and nitric acid at various sites using a catalyst that we specially developed. The increase in nitrous oxide emissions compared with 2003 was due to a 20 percent increase in capacity utilization of the plants and the restricted availability of the catalyst due to extensive and complex maintenance measures. In 2005, we will investigate how we can reduce these emissions.

Energy-efficient processes and state-of-the-art technologies are key elements of environmental protection and resource conservation (see also page 46). We are therefore constructing a second combined heat and power (CHP) plant in Ludwigshafen, which we started in fall 2003. Together with partners, we put a CHP plant into operation at our site in Tarragona in 2002. By using an energy-efficient cogeneration process, it has reduced CO₂ emissions at the site by 30,000 metric tons.

Emissions to air from oil and gas production

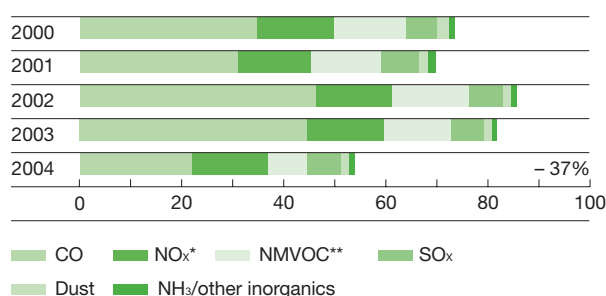
Emissions from oil and gas exploration are not included in our targets because the development of new oil and gas fields makes them hard to predict. In 2004, emissions of greenhouse gases from oil and gas production totaled 1.9 million metric tons (2003: 2.1 million metric tons). They are reported in terms of CO₂ equivalent. Emissions of air pollutants amounted to 10,700 metric tons (2003: 13,700 metric tons). As a result, oil and gas production is responsible for 16.5 percent of the BASF Group's emissions.

2012 goal: Reduction of emissions of air pollutants: -40%

By 2012, we want to reduce the volume of air pollutants from our chemical plants by 40 percent compared with 2002. Air pollutants include inorganic gases such as carbon monoxide, sulfur dioxide, nitrogen oxides, ammonia and other inorganic compounds, dust, heavy metals and volatile organic compounds (NMVOC). In 2004, emissions of air pollutants from BASF's chemical operations totaled 54,000 metric tons (2003: 81,800 metric tons). Emissions of heavy metals totaled 6 metric tons (2003: 5 metric tons), while ozone-depleting substances as defined by the Montreal Protocol amounted to 164 metric tons (2003: 180 metric tons). In 2004, we were also able to register successes in this area: We reduced emissions of air pollutants by 37 percent compared with 2002. This positive development was primarily due to optimization of flue gas treatment at a number of plants at sites in Europe.

Emissions to air

Air pollutants, thousand metric tons per year
(reduction compared with baseline 2002: -37%)



* NO_x = Sum of NO₂ and NO, calculated as NO₂

** NMVOC = Non-methane volatile organic compounds

To meet our long-term goals in this field, we are currently working on a number of projects. For example, we are installing a thermoreactor in the phthalic anhydride plant in Ludwigshafen that is scheduled to start operations by 2007. This will reduce annual emissions of carbon monoxide (CO) by approximately 10,000 metric tons.

2012 goals: Reduction of emissions to water
Nitrogen: -60%
Organic substances: -60%
Heavy metals: -30%

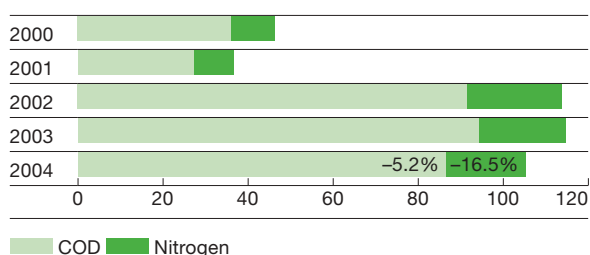
By 2012, we want to reduce emissions of both organic substances and nitrogen to water by 60 percent and heavy metal emissions by 30 percent compared with 2002. Here, too, we have made progress toward achieving our goals.

In 2004, BASF discharged a total of 170 million cubic meters of wastewater. Emissions of organic substances to the environment – calculated as chemical oxygen demand (COD) – amounted to 86,700 metric tons (2003: 94,200 metric tons). Emissions of nitrogen to the environment (N total) and phosphorus were 18,600 metric tons (2003: 20,400 metric tons) and 480 metric tons (2003: 490 metric tons), respectively. Forty-seven metric tons of heavy metals (2003: 55 metric tons) were emitted in wastewater.



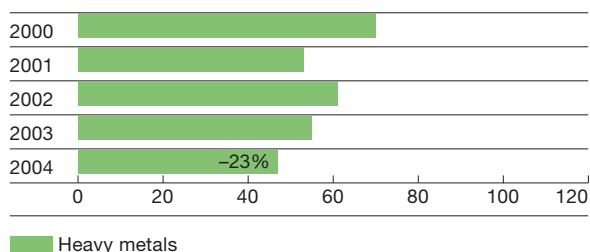
Emissions to water

Thousand metric tons per year (reduction compared with baseline 2002: -5.2% COD and -16.5% nitrogen)



In 2002, we included our site in Gunsan, South Korea, in our reporting for the first time. This explains the increase in emissions from 2002 onward.

Thousand metric tons per year
(reduction compared with baseline 2002: -23%)



Eight million cubic meters of wastewater with a COD content of 16,100 metric tons was piped to external wastewater treatment facilities.

We reduced emissions of organic substances (COD) by 5.2 percent. Initial successes were achieved at our site in Gunsan, South Korea, thanks to modifications to a fermentation process. A further project in 2004 led to a significant reduction: In Ludwigshafen, a production plant for Trilon® BS – an organic complexing agent used for a variety of applications in the agricultural and cosmetic sectors – exceeded a voluntary agreement with the Federal German Environmental Agency and cut the EDTA content of its wastewater by a further 50 percent. EDTA (ethylenediaminetetraacetic acid) is a nontoxic substance that is poorly biodegradable and can therefore accumulate in wastewater. UV radiation and a catalyst are now used to break down the substance into smaller molecules that can easily be degraded in the wastewater treatment plant.

Reducing global emissions together

In July 2003, BASF joined the World Bank's Community Development Carbon Fund (CDCF) with a commitment of \$2.5 million. Using funds provided by governments and companies, the CDCF will finance activities to reduce greenhouse gas emissions in poorer developing countries. Here, too, we are able to report positive progress. One of the first projects began in 2004 in La Esperanza, Honduras: A run-of-river power plant is being established to provide a reliable supply of electricity to some 40,000 people in the town and surrounding communities. This will reduce CO₂ emissions by 720,000 metric tons of CO₂ equivalent in 21 years because fossil fuels will be replaced or avoided. The project will also provide a boost for the local economy since small companies can now operate electrical devices that could not be used previously because of the irregular power supply. In addition, the hydro power plant in La Esperanza will provide regular jobs for about 20 to 30 people. The CDCF projects are recognized as "clean development mechanisms" (CDMs) under the provisions of the Kyoto Protocol. Participation in these projects allows companies to fulfill some of their CO₂ reduction requirements via projects in developing countries. In return, participants in the fund receive certified greenhouse gas emissions rights that will be accepted in 2005 as part of the E.U. emissions trading system.

Our efforts to reduce emissions also received acknowledgment from outside the company in 2004. BASF was included in the Climate Leadership Index of the Carbon Disclosure Projects. This initiative, which currently involves 95 institutional investors, surveys all companies in the FT500 index with regard to how they handle the opportunities and risks arising from climate change. The FT500 is an index compiled by the Financial Times that contains the world's top 500 companies. The Climate Leadership Index identifies the top 50 companies in terms of transparency and the quality of their responses on the strategic and financial impact of climate change on their businesses. Further information is available at www.cdproject.net/about.asp.

Nitrogen emissions declined by 16.5 percent compared with 2002. The recycling of wastewater from a nitric acid plant in Freeport, Texas, and the excellent results following the conversion of the wastewater treatment plant in Ludwigshafen to a nitrification process contributed to this reduction. This process has been used at our Ludwigshafen wastewater treatment plant since September 2001, and is also making a significant contribution to reducing nitrogen emissions. Since introducing the process, we have more than halved our annual nitrogen emissions to the Rhine River. In 2004, nitrogen emissions amounted to 856 metric tons of ammonia nitrogen, whereas in 2001 they were as high as 3,500 metric tons. In 2004, we publicly demonstrated our commitment to further reduce nitrogen emissions by extending our voluntary agreement dating from 1995. We are also constantly improving the effectiveness of our wastewater treatment plants at other sites. In 2005, for example, we will invest €1.9 million at our site in Guaratinguetá, Brazil, to reduce the COD content of wastewater by 100 metric tons per year.

Our expertise in removing nitrogen also benefits third parties: We donated a patent to the Water Environment Research Foundation in the United States that enables nitrification and denitrification to be carried out cost-effectively in a single tank. This is new technology that may be beneficial to municipalities and small and medium-sized businesses.

Compared with 2002, we reduced heavy metal emissions by 23 percent. This was achieved through a variety of measures to optimize wastewater treatment plants in Ludwigshafen, Schwarzheide, Antwerp and Shanghai.

BASF's water requirements worldwide totaled 1,985 million cubic meters (2003: 1,880 million cubic meters). Information on individual substances emitted to air or water can be found at www.reports.basf.de/emissions_lists.

Waste management

Worldwide, BASF produced approximately 1.5 million metric tons of waste in 2004 (2003: 1.5 million metric tons). Oil and gas exploration accounted for 20,600 metric tons. Building rubble now accounts for the large majority of waste at BASF; the remainder consists of production waste, industrial waste resembling household waste, and sewage sludge. Around 36 percent of our waste was recycled or subjected to thermal recovery. The remainder was disposed of by incineration (72 percent), landfilling (16 percent), or underground storage (12 percent). In line with the customary international categories, 270,000 metric tons of the waste we disposed of was classified as "hazardous" and 690,000 metric tons as "non-hazardous." We are working to further reduce the amount of waste we produce and improve recycling. One example is the new approach to dealing with oxo oils that are created in the production of oxo products at our site in Kuantan, Malaysia. Because we have increased production, the amounts of oxo oils are now too large to be dealt with internally. On the one hand, we came up with the idea of selling the oils to a third party that uses them to generate steam. This not only provides BASF with a financial benefit, but there is also an environmental benefit because burning these residues reduces the consumption of heating oil. On the other hand, we have found higher-value applications for oxo oils, for example in the mining industry and as a raw material for car mats.

Environmental protection costs

The costs of operating environmental protection facilities throughout the BASF Group amounted to €624 million in 2004 (2003: €667 million). In the same period, we also invested €115 million in new and improved environmental protection plants and facilities (2003: €159 million). These capital expenditures cover both end-of-pipe measures and production-integrated environmental protection measures.

Further data at
www.reports.basf.de/environment2004

More Knowledge for Us and Our Partners

The safe handling of our products is important to us. This is why we provide customers, end-users and the public with detailed information about our products and are working to improve our database.

2008 goal: By 2008, we want to extend our substance data. We will then have basic data on all substances that we handle worldwide in volumes of more than 1 metric ton per year.

In Germany, data are available for more than 96 percent of these substances. We are now working to complete the data for the remaining substances. This will involve products in Asia and the United States, as well as substances resulting from portfolio changes and acquisitions. We identify the relevant substances on an ongoing basis and analyze where there are any gaps in our information. The results of the ensuing research, studies and assessments are made available to customers, the authorities and BASF employees in the form of updated safety data sheets. For internal communication purposes, we have developed a product safety information system that can be accessed online worldwide. In addition, we introduced a global product safety guideline last year that regulates tasks and cooperation between the units responsible for product safety in the entire company.

Information for customers at all times

We provide our customers with safety data sheets so they can familiarize themselves with our products and their properties and in this way learn how to avoid risks. Our safety data sheets are now available in 20 languages, and further language versions are planned. In an emergency, our customers and partners can obtain information on our products around the clock using the hotline system we have established worldwide.

Environmental and toxicological testing

Before new chemical substances come on the market, we subject them to comprehensive environmental and toxicological testing and apply to the appropriate authorities for registration. When necessary to comply with legal and regulatory requirements, we use animals to test chemical substances. Such studies serve to reduce possible risks to humans and the environment. BASF is committed to the ethical principles of animal protection. This is why we avoid animal studies and use alternative methods wherever possible and permitted by law. Since 1987, the number of mammals used each year in animal studies at BASF has fallen by 65 percent, and the number of fish used has fallen by about 80 percent. In order to intensify the development and establishment of alternative test methods, we set up a special laboratory in 2004. The lab has since successfully established two alternative methods in which the hormonal effect of substances can be tested using yeasts instead of animals, and has thus helped to further reduce the number of test animals. We are also involved in drawing up international guidelines for alternative testing methods and in validating them.

Along with information, all BASF companies offer training tailored to individual customer needs. In Taiwan, for example, BASF conducted a workshop on isocyanates for its customers in the polyurethane foam industry last year. The workshop focused above all on environmental protection, occupational safety and accident management. In the United States, we have developed a special training program for professional pest control specialists who use our product Termidor®. The program provides information on the mechanism of action, the correct use and safe handling of the product. Among these users, Termidor® is the preferred product for protecting buildings from termite damage.

Taking Responsibility

We have committed ourselves to promoting and maintaining safe and healthy working conditions. At the same time, safety is important for ensuring smooth production. And it forms the basis for the trust the public and our employees place in our company.

2012 goal: We want to reduce our lost time accident rate by 80 percent worldwide by 2012 compared with 2002.

In 2004, the BASF Group's lost time accident rate was 2.0 accidents per one million working hours (2003: 2.4), a 40 percent decline in the number of accidents compared with 2002. Unfortunately, two BASF employees and one employee from a partner company died in work-related accidents in 2004.

Global safety program

In order to achieve our goal, we pay particular attention to three points: objective risk assessment of work processes, enhancing safety awareness among our employees, and ensuring that our managers act as role models. We employ local programs and measures developed and implemented according to the particular needs of individual sites.

For example, in 2004, BASF began submitting all production processes in Shinshiro, Japan, to a systematic risk assessment. And our Chinese joint venture in Jilin, BASF JCIC Neopentylglycol Ltd., has been organizing monthly training sessions and reviews since 2004 to promote a working atmosphere in which each

employee takes responsibility for safety. The aim is for all employees to structure their workplace conscientiously and safely.

The effectiveness of such local action is shown by the initial results of the regulation we introduced in 2003 that made it mandatory for cyclists to wear helmets at our Ludwigshafen site. The number of accidents in which cyclists sustained head injuries dropped from 10 to four in 2004. Accident severity also decreased: Thanks to the helmets, any accidents that did occur were only minor.

Safety for partner companies

We want all contract companies employed at our sites to work as safely as we do. To date, we have trained around 96,000 contract workers employed in the construction of our site in Nanjing, China.

We are making compliance with our safety and environmental regulations part of our contracts with service companies. Last year, for instance, BASF PETRONAS Chemicals introduced such a clause into all new contracts, and existing contracts are currently being reviewed with regard to these standards.

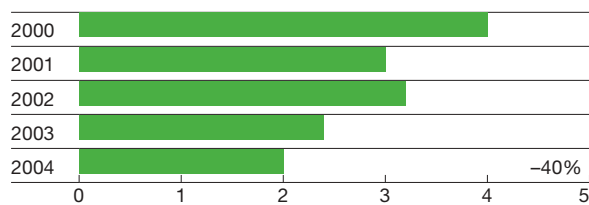
Since 2003, we have been carrying out regular checks at our Ludwigshafen site to ensure that employees of contract companies are familiar with safe working practices. This has been successful: Whereas only 72 percent of those polled passed the safety test at the outset, the figure had risen to 87 percent only a year later.

To help us measure our progress more successfully, we are working on a way to compile reliable global accident data for contract workers. We plan to publish these figures for the first time in our Corporate Report 2005.

Lost time accidents (> 1 day)

Per million hours worked

(reduction compared with baseline 2002: -40%)



You can find out more about how we enforce our standards in our supply chain at www.reports.basf.de/supplychain.

Transporting Products Safely



What customers expect from our logistics operations is clear: They want the products they have ordered to be delivered punctually and in the correct amount and quality. Products therefore have to be transported, handled and stored safely. By ensuring this, we fulfill our obligation to society when bringing products to our customers.

2012 goal: We aim to reduce the rate of transportation accidents worldwide per 10,000 shipments by 70 percent by 2012 compared with 2003.

In 2004, there were 0.5 transportation accidents per 10,000 consignments (2003: 0.56) – a decline of 11 percent compared with 2003. This figure is based on the accidents reported to us by our logistics partners. To achieve our goal, we depend on reliable logistics partners, global standards and an effective organization.

Our foundation: Uniform standards worldwide

Our globally binding standards for the transportation and storage of chemical products are listed in the BASF Transportation and Distribution Guide. In 2004, we expanded the handbook in the wake of more stringent international safety requirements. All sites and all partner companies must now submit their own safety plan for the transportation and storage of hazardous goods and provide appropriate training for their employees. Our global network of safety distribution officers plays a key role in this area. We have introduced this function throughout the BASF Group even though it is not mandatory outside Europe. Safety distribution officers ensure that national and international regulations are observed for all shipments.

Responding swiftly to accidents

If an accident occurs while chemicals are being transported, a swift and appropriate response is essential. This is why we belong to networks that supply information and help in emergencies. These include the German Transport and Accident and Emergency Response System (TUIS) and the International Chemical and Environmental (ICE) initiative. In addition, we have established a global network of emergency contact numbers and control centers that we plan to expand. These systems exist primarily in Europe as well as in North and South America, and are optimized through regular training exercises. We are establishing a similar network in Asia.

Safety checks and training

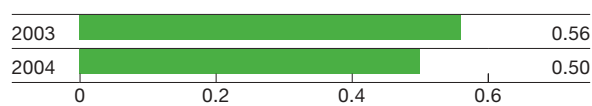
Our comprehensive safety tool is the Safety and Quality Assessment System (SQAS), a standardized assessment system for carriers jointly developed by members of the European Chemical Industry Council (CEFIC). We use SQAS reports to identify staff training levels, response times during emergencies, equipment carried by vehicles and whether carriers have security plans in place. In 2004, we also introduced the European Cleaning Certificate, which shows whether road tankers have been cleaned according to uniformly high standards. Only after we are sure that logistics companies have satisfied all our requirements do we entrust them with our products. We also use systems similar to SQAS for shipments with other carriers.

In emerging economies, supporting partner companies that work for us is particularly important, as they often lack the necessary expertise. In 2004, we systematically selected and trained local partner companies for transporting goods on the Yangtze River in the region of our new site in Nanjing, China, which will begin operating in 2005.

Transportation accidents

Per 10,000 shipments

(reduction compared with baseline 2003: -11%)



Social Responsibility



Success through Diversity

Qualified employees from around the world and from a variety of cultures are crucial to our success. We offer them the right combination of equal opportunities and varied responsibilities so that they enjoy working for our company worldwide and fully deploy their strengths.



Using the Challenges of Globalization

Globalization offers huge potential for the positive development of freedom and equality throughout the world, but the globalization process is heterogeneous. Some countries are integrating into the global economy more quickly than others and they can often benefit from faster growth. This applies to a large part of eastern Asia, a region in which BASF aims to achieve strong growth through its investments.

What is the impact of our foreign investment?

To ensure that our investments help to produce long-term, sustainable success for BASF, it is our policy to review not just the economic but also the ecological and social consequences of our investment decisions at the earliest possible stage. That was why we hosted a conference under the title "Global responsibility of companies: foreign direct investment as a motor for sustainable development?" in 2004. The event was held in Berlin in collaboration with the Brazilian Embassy in Germany, the Organization for Economic Cooperation and Development (OECD), and the Evangelische Akademie Loccum. Lectures, panel discussions and individual

case studies were presented in an exploration of the relationships between globalization and sustainability against the background of BASF's experience in this field. An important element was a pilot project sponsored by BASF in 2002. It was commissioned from the independent Getulio Vargas Foundation, Rio de Janeiro, and aimed to evaluate the impact of foreign direct investment using the example of BASF's site in Guaratinguetá, Brazil.

Local impact was analyzed and evaluated in terms of five categories: economy, infrastructure, health, the environment and education. The study concluded that BASF was a key contributor to local development and that it continued to stand for economic strength and continuity in the region. Our experience with this pilot project may help other companies that are interested in exploring this issue. For more information on foreign direct investment, go to www.basf.de/fdi_e.

Our social responsibility principles

BASF's social responsibility principles are based on the basic rights set forth in the United Nations' Universal Declaration of Human Rights, the International Labor Organization's core labor standards, OECD Guidelines for Multinational Enterprises, and the principles of the Global Compact. In keeping with the company's role as a good corporate citizen, BASF strives to contribute to the protection and wider recognition of human rights in its spheres of influence. As a Global Compact member, BASF supports its suppliers and business partners in acting according to the following principles:

- We provide our employees with compensation and benefits based on local market conditions and on individual as well as company performance. Thereby, our working conditions are in compliance with internationally recognized fundamental labor standards.
- We do not tolerate within the BASF Group discrimination based on nationality, gender, religion or any other personal characteristics.
- BASF strives to maintain relationships with elected employee representatives in good faith and mutual respect based on internationally recognized fundamental labor standards and oriented toward the customs of the respective countries.
- We condemn all kinds of child labor as well as forced labor or compulsory labor.



We have also started using our eco-efficiency analysis as a decision-making tool to evaluate investment projects in terms of their sustainability. Further information is available at www.basf.de/eco-efficiency.

Our standards apply worldwide

We operate wherever our customers are. This means that we work in countries with very different economic, environmental, political, social and cultural conditions. It is our responsibility to define minimum standards for our global activities and to ensure that they are observed. This is an important element in achieving corporate success because a presence in different markets and global networks makes our actions transparent and comparable.

In 2004, we also integrated internationally recognized labor and social standards and our opposition to child labor and forced labor into our corporate Principles. In 2005, we will start a systematic review of compliance with these Principles. We also support stable labor relations, reliable monitoring and management systems, and global social goals to ensure fair and, hence, sustainable utilization of the opportunities that globalization presents. This is why the same Values and Principles apply to all BASF employees and are based on a uniform leadership culture.

Founding member of Global Compact

Creating shared values and promoting their implementation is the core idea of the UN's Global Compact initiative, of which BASF is a founding member. The ways in which we help to promote the 10 principles are described in this report and are in our current progress report at www.basf.de/global_compact_e.

The main topic in 2004 was the introduction of the 10th principle committing the signatory companies to help combat corruption (see also page 12).

Combining social responsibility with economic success – a BASF tradition

A sustainable employee policy needs to extend beyond wages and salaries. This is something that BASF realized right from the start. The economic boom during the company's first years in business made it difficult to attract sufficient skilled, hard-working employees. As far back as 1872, the company built its first housing estate as an incentive to retain employees. Additional social welfare benefits were introduced to enhance their identification with the company. These included voluntary health insurance in 1870 and a pension fund in 1888. Furthermore, the nurturing of good relations with the citizens of the town and region was recognized as a key prerequisite for long-term success from the outset. BASF took care of victims of a disastrous local flood in 1882, helped to fund a hospital, set up municipal baths, and founded schools. The scope of BASF's social responsibility has widened with the increasingly global nature of the company's business: As a recent example, the company provided immediate aid of €1 million for the victims of the tsunami in southeast Asia and donated four water purification units for use in the affected countries. In addition, BASF matched donations made by its employees, bringing contributions to a total of €3.8 million. Direct and efficient distribution of the funds will be ensured via BASF companies in the regions and the various aid organizations.

Value Added 2004

The value added statement enables us to show the social components of sustainable enterprise in a more transparent manner. It shows the social added value that the company creates through its activities. Value added is calculated as the company's business performance minus advance payments such as cost of materials and depreciation and amortization. The resulting amount is distributed to BASF's stakeholders including employees, shareholders and the state.

In 2004, BASF's value added amounted to €10,367 million and increased by 19.9 percent compared with 2003. This change is mainly due to the fact that the company's business performance grew faster than the increase in the cost of material.

The majority of value added was distributed to our employees in the form of wages, salaries, social benefits, pensions and so on.

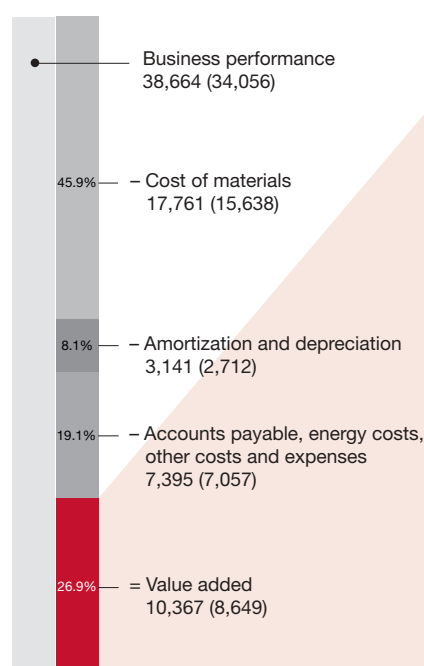
As a result of our strong business performance and the increase in net income in 2004, we are proposing to increase our dividend to €1.70 per share. The total amount payable to shareholders will therefore be €919 million.

Another large share of value added went to the state in the form of taxes. Unlike donations and sponsoring, it is the governments of the countries in which we operate and not the company that decides how this money is spent. The item "Company" refers to retained earnings.

In 2004, BASF spent a total of €37.8 million on donations, sponsoring and funding for our own projects. This amount is contained in "other expenses." Further details on donations and sponsoring can be found on pages 67 to 70. Further information on the taxes paid by BASF can be found at www.reports.basf.de/taxes.

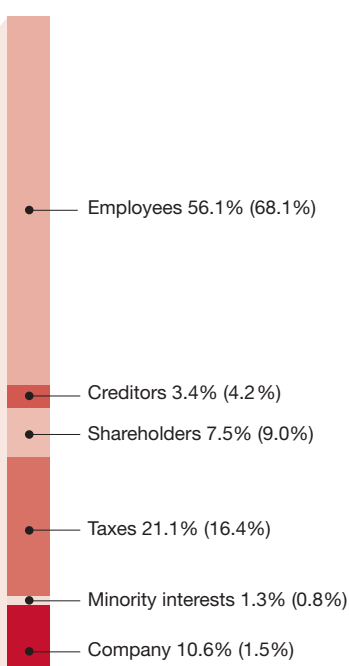
Creation of value added

(Million €, previous year's figures in brackets)



Use of value added

(Percent previous year's figures in brackets)



Assuming Responsibility for Employees Worldwide

As a company that operates in all major regions and countries of the world, we assume responsibility as an employer on an international and local scale. Our global management of social issues encompasses both Group-wide human resources standards and specific solutions for sites and regions.

The increasing globalization of our business brings with it a special challenge: We must ensure that our employees can depend on globally valid principles in their particular country, for example with regard to issues such as international employee transfers and social benefits. At the same time, our employees expect their local human resources unit to know and take account of their needs. As a result, training and career development plans are devised on a country-specific basis. We are also working on making human resources policies more transparent across national borders. In 2004, an important step in this direction was the development of a uniform job evaluation (STRATA) system.

Supporting international standards

We support the implementation of universal human rights standards and welcome the work of employee representatives at various levels.

To further enhance cooperation with European employee representatives, BASF established a European works council – Euro Dialog – as far back as 1995. The council convenes on an annual basis, and meetings to discuss issues of international importance are a well-established part of the council's work. BASF employee representatives also meet in Asia. In 2004, they were involved in constructive debate with the company management on wider-ranging issues in their capacity as regional dialogue partners.

The Sustainability Pact for the Chemical Industry was set up by companies, trade unions and associations in Ludwigshafen in 2003 together with representatives from politics and science. It provides a good example of social partnership in Germany. Its goal is to achieve a sustainable industrial policy, foster innovation and stimulate employment. To further these aims, those involved have pledged to assume responsibility in their particular sphere of influence and to exert political and public pressure with regard to other issues.

Forming the Best Team in Industry

Combining innovation and diversity puts us ahead in the worldwide race for talent. It means that we can create the conditions that make us attractive to versatile employees with a range of strengths and talents. We want to offer these employees the right mixture of reliability and freedom so that they enjoy doing their best for BASF and deploy their strengths effectively. We want them to discover and help shape a team culture in which we achieve our strategic goals: earning a premium on our cost of capital, helping our customers to be more successful and ensuring the sustainable development of BASF.

At the end of 2004, BASF had 81,955 employees and 2,610 trainees worldwide. As in the previous year, global measures to increase productivity and enhance our competitiveness were the main reason for the decline in our workforce by 5,204 in 2004. The sale of our printing systems business led to a workforce reduction of approximately 2,000 positions worldwide: almost 1,900 throughout Europe and, in Germany, around 750 employees of BASF Drucksysteme GmbH, Stuttgart. In 2004, work commissioned from third parties also ensured jobs for approximately 16,400 employees at partner companies that provide services and technical duties at our sites.

In order to make the necessary structural changes in a socially responsible manner, we introduced partial and early retirement programs in Germany. Other measures include voluntary redundancy and part-time working arrangements. In 2004, we again trained more young people in Germany than we needed for our own requirements, thus providing them with a career perspective. We also support training measures in the vicinity of our sites, for example through the Training Verbund for the Rhine-Neckar region (see also page 69). In addition, the company's management and employee representatives drew up and signed an agreement that provides clear perspectives for the Ludwigshafen site. Under the terms of the "Stability through Change" agreement, the number of employees of BASF Aktiengesellschaft will be approximately 32,000 by the end of 2007. Although this agreement remains in force until 2010, the target headcount may be adjusted depending on natural fluctuation. Enforced redundancies will be avoided.

In 2004, Group-wide expenditure on salaries, wages, social security contributions and expenses for pensions and assistance amounted to €5,819 million, or 1.2 percent less than in the previous year. BASF's economic importance for its employees extends far beyond financial expenditure. Forward-looking models to safeguard jobs and a focused approach to recruiting, integrating and developing employees in all regions help form a sustainable team.



Employees by region		%	%
	2004	2004	2003
Europe	57,278	69.9	69.5
Thereof Germany	46,666	56.9	56.2
Thereof BASF Aktiengesellschaft	35,303	43.1	42.5
North America	10,578	12.9	14.3
South America	4,769	5.8	5.7
Asia, Pacific Area, Africa	9,330	11.4	10.5
	81,955	100.0	100.0

Personnel costs	Million €	Change in %
Wages and salaries	4,579	-1.6
Social security contributions and expenses for pensions and assistance	1,240	0.2
Thereof for pension benefits	431	-0.4
	5,819	-1.2

Diversity as a competitive advantage and boost for innovation

We encounter diversity in every single aspect of our global activities and it is something that offers us many opportunities. For example, it helps us to be open to cultural and demographic change inside the company – and to the needs and wishes of our customers. Diversity also encourages creativity. We believe that different cultural backgrounds, individual points of view, experience, ways of thinking and approaches help us to address scientific and social issues more creatively, more openly and faster. We foster conditions for innovation at BASF by networking our resources and possibilities even more effectively and more systematically. In 2003, we reported that we planned to increase the proportion of non-German senior executives to 35 percent by 2005 and to significantly increase the number of female senior executives. We are continuing to work to achieve this goal: The proportion of non-German senior executives remained at 30 percent in 2004 (2003: 30 percent), that of female senior executives increased to 5.4 percent (2003: 5.2 percent) and is significantly higher in our pool of executive candidates.

Qualification is the top priority

Our global goals to implement diversity and further increase the proportion of non-German senior executives are based on a common criterion – skills. At BASF, senior executive positions are filled and will continue to be filled according to skills and not quotas. This means that the candidates with the best chances are those who are best suited to a given job vacancy, regardless of nationality, religion or sex. However, because more and more highly qualified women are choosing scientific and technical professions, many more women will assume senior management positions in the future.

A common system of values applies to our team of executives around the world: our Values and Principles and BASF's Leadership Compass (see also pages 11-12 and 9).

Regional diversity

Regional project teams have played a key role in encouraging diversity. They have developed activities and measures that are integrated into management and individual development processes. The teams derive their proposals from our recruitment principles and the integration of non-German employees. This concept is now being systematically implemented in Ludwigshafen and at all our other sites. Workshops with employees from all regions have provided us with valuable information on how to improve our integration measures. The systematic introduction of English as the Group-wide language of business is another example.

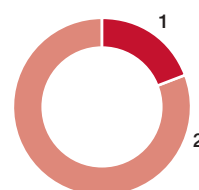
The four largest companies in the BASF Group operate special programs to recruit and promote women to management positions. Together, these companies account for more than 60 percent of BASF Group employees. Intercultural training is helping to foster internationalization at many sites. More than 77 percent of BASF Group companies offer such programs, for example intercultural training to integrate employees from other countries (2003: 50 percent).

Workforce profile 2004

(Previous year's figures in brackets)

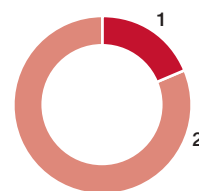
All employees

1	Women	19.4%	(19.2%)
2	Men	80.6%	(80.8%)



Management and professionals

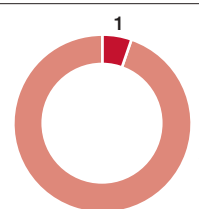
1	Women	18.8%	(17.9%)
2	Men	81.2%	(82.1%)



Senior Executives*

1	Women	5.4%	(5.2%)
2	Men	94.6%	(94.8%)

* Senior executives are defined as all managerial staff appointed by the Board of Executive Directors.





Reconciling family and career

Helping employees to reconcile career and family commitments is an important goal of a sustainable human resources policy and various BASF projects work to support this. From 2005 onward, BASF will collaborate with external providers in Ludwigshafen to gradually offer day nursery places for children aged between six months and three years. The prime aim is to make it easier for mothers to reenter working life. BASF's subsidiary Wintershall also provides a childcare program, which received an award from the nonprofit Hertie Foundation in 2003. In 2004, more than 13,000 employees took advantage of the offer of childcare facilities or a contribution toward the cost of external facilities.

In Germany, many employees also take up the offer to continue to work on a part-time basis during the period of parental leave, which can last up to three years. At our Ludwigshafen site alone, for example, more than 25 percent of the 555 employees on parental leave worked part time at BASF Aktiengesellschaft in 2004.

More flexible lifetime working hours

In Ludwigshafen, 4,500 exempt employees have been able to arrange their lifetime working hours more flexibly since January 2004 by accumulating fixed or variable salary components in a special account and in this way reducing their lifetime working hours. The assets accumulate in a special account and are invested in interest-bearing capital market products. They can be used at a later date to enable earlier retirement.

This individual flexibility has a social context. Germany's partial retirement law will expire by 2009 and the statutory retirement age is expected to be raised gradually to 67. We want to actively take account of these changes with our future-oriented model.

Diversity is our strength

Functional polymers – without these invisible helpers in everyday life, diapers wouldn't keep babies' skin dry, hairstyles wouldn't keep their shape, paper would tear more easily, and the colors would run in your washing machine. Sophisticated product innovations from Dr. Thomas Weber and his team are essential for market success. So it's not surprising that he places special emphasis on diversity when choosing his team. Out of 32 lab managers in the solution polymerization research unit in Ludwigshafen, 10 are women and eight are non-Germans. The team members have come to the conclusion that diversity is exciting and fosters strength and communication. The various languages are also an asset in such a case. "When we have technical discussions, we tend to focus more on essentials and we're therefore more precise. As a result, we enjoy talking more to one another," says Weber. "And that's the right way to turn a new research project into a profitable product."

Rewarding performance

Recognizing and rewarding performance strengthens entrepreneurial thinking and acting. At various Group companies, compensation systems related to individual and company performance have been a successful model for many years. At BASF Aktiengesellschaft in Ludwigshafen, an obligatory performance review and a new compensation system was introduced for the approximately 28,000 nonexempt employees in 2004. The new system is based on company performance and also places greater emphasis on employees' personal performance.

Benefits encourage employee performance

Percentage of Group companies offering these benefits	2004	2003
Accident/disability allowance	100%	99%
Company pension scheme	94%	93%
Medical services through internal facilities	93%	93%
Health insurance	91%	85%
Annual bonus	81%	75%
Accommodation (company apartment/allowance)	46%	48%
Rehabilitation programs for addiction or illness	41%	40%
Flexible working hours (voluntary conversion to part-time status, jobsharing)	63%	50%

The performance review provides the basis for regular and frank communication between employees and their supervisors, and can be used to discuss responsibilities, mutual expectations and the employee's future development. During the review, the supervisor also discusses his assessment of the employee's performance. This forms the basis of the personal bonus payment, which will be paid to all nonexempt employees in Ludwigshafen from May 2005 onward. The size of the bonus depends on the BASF Group's return on assets and the individual employee's performance in the previous year. The personal bonus payment introduces greater flexibility to additional pay benefits and makes it easier to award them on the basis of employees' performance over the past year.

Overall, 80.6 percent of Group companies (2003: 75 percent) offer their employees voluntary annual bonuses fixed by the Board of Executive Directors of BASF Aktiengesellschaft or company management of BASF Group companies. In 2004, more than 75,000 employees worldwide (2003: 65,000) received a voluntary bonus.

Training and education guarantee opportunities

We believe it is important to help employees keep abreast of changes in their field of work and to acquire new skills. In order to enable employees to take part in flexible training at their workplace or in their free time, we want to support independent and practice-oriented learning even more intensively in the future. Innovative training concepts and modern technologies such as e-learning are suitable ways of achieving this goal.

In Japan, for example, BASF introduced a training year in 2003 that gives employees the time they need for a compact training course. In Ludwigshafen, BASF is also supporting the trend toward life-long learning by transforming its works library into a modern learning center. By the end of 2005, the center's specialists will be able to provide employees with further training using state-of-the-art learning tools. BASF is investing around €2 million to equip the new center.

In 2004, we spent €128.8 million worldwide on education and training (2003: €135.7 million). At BASF Aktiengesellschaft in Ludwigshafen we considerably increased efficiency by consolidating training centers and streamlining training processes. We invested around €5 million alone in the Training Verbund for the Rhine-Neckar region (see page 69). Overall in 2004, more than 65,500 employees took part in at least one training measure and received 3.9 days of training on average (2003: 3.4).

Further information and data at
www.basf.de/employees and
www.reports.basf.de/soc_resp2004

Growing Together as Good Neighbors

We can only be successful if we enjoy the trust and support of our neighbors. That is why we work at all our sites to be recognized as a reliable partner and an attractive employer that takes its social responsibility seriously. In this way, we add to each region's competitiveness as well as our own.

The BASF Group spent a total of €37.8 million on the specific sponsorship of humanitarian, cultural and social issues in 2004 (2003: €13.1 million). Spending for training beyond our own requirements in Germany was increased significantly and is reported for the first time in this context. Of the total amount, 22 percent was in the form of donations and 78 percent was for sponsorship activities and for our own projects.

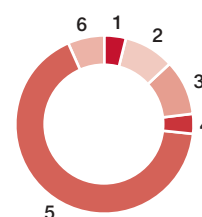
The allocation of funds within the BASF Group is defined according to a donation and sponsoring policy that places the main emphasis on the needs of each region. At some sites, basic financial support is needed to lay the foundation for sustainable development. At others, we enter into joint initiatives with local communities. This is a key to the sustainable success of our projects: Because local bodies are involved, we can build trust quickly and find partners who are motivated to implement our common goals. They assume the responsibility that is necessary for long-term success and this results in an independent approach. We are particularly committed to encouraging the development of young people. We also have a long tradition of supporting environmental protection projects where we can deploy our competence as the world's leading chemical company.

It is BASF policy not to support political parties. An exception to this rule is the Political Action Committees (PACs) for BASF employees in the United States, which received donations amounting to \$69,700 in 2004. In the United States, donations are legitimate only if they come from employees (i.e., not from companies as such) provided they are U.S. citizens. The donations are collected and forwarded via the companies' PACs.

BASF Group donations, sponsoring and own projects in 2004

€37.8 million (2003: €13.1 million)

	Million €	
1	Science	1.5 3.9%
2	Charities	3.5 9.2%
3	Culture	3.9 10.2%
4	Sport	1.3 3.6%
5	Schools and training, employment promotion	25.2 66.7%
6	Other	2.4 6.4%
	Total	37.8 100.0%



Creating opportunities through education

Access to education is essential if we want to achieve socially equitable and ecologically sustainable progress. It is also an important prerequisite for developing curiosity, imagination and creativity, and therefore for producing sustainable innovations in the chemical industry. This is the main principle that underlies BASF's commitment to education. Another principle is also important: What we invest today in education and knowledge pays off in the long run in terms of regional competitiveness. In turn, this benefits us as a potential employer and helps our customers. BASF therefore sponsors activities that facilitate access to education and knowledge in the communities where its sites are located.

The projects include a large number of scientific scholarships and networks such as the Sino-German Research and Development Fund. In cooperation with this organization, we have supported more than 44 scientific projects and allocated 1,100 scholarships in China over the past seven years.

New educational projects include a four-year scholarship to Shenyang Agricultural University in China sponsored by the Fine Chemicals division, as well as 15 science scholarships in Australia for students from socially disadvantaged backgrounds. In this latter instance, BASF cooperates with an independent organization called The Smith Family, which runs a variety of education programs. In the emerging markets, meeting basic needs often has priority. BASF's subsidiaries in Indonesia, Thailand, Malaysia and the Philippines therefore donated equipment such as stationery, school uniforms and computers to local schools in 2004. In China, BASF made a donation to help refurbish several village schools in the province of Liaoning.

Networking for a better future

The We Help the Region Win campaign places a stronger focus on partnership and strengthens BASF's commitment to the Rhine-Neckar region of Germany. In 2005, the company will increase spending for young people and education and for humanitarian, social and cultural activities from €8 million to €22 million. One example is the Youth Thinks Future initiative, which was launched in the Rhine-Neckar region of Germany in 2004 and subsequently extended nationwide. The project's goal is for industry and schools to cooperate in a regional network that will help young people to better understand the importance of innovation, research, strategic planning and profitability. At the same time, students are encouraged to shape the future with curiosity, responsibility and personal commitment. Young people aged between 15 and 17 years are challenged to develop ideas for the world and society of tomorrow – interdisciplinary subjects that are given little attention in school curricula. BASF in Ludwigshafen initiated the pilot phase and acted as a sponsor for five schools until summer 2005.

Employees at many sites conduct voluntary work at schools, contributing their experience and benefiting in terms of their own personal development. In Cheadle, United Kingdom, for example, the Schools Project Team comprising 15 employees conducted 22 activities at local schools in 2004 alone.

Supporting long-term development goals

To achieve permanent structural change in an economic region, we believe it is essential to identify social issues of long-term importance and then tackle them in accordance with the country's tradition and development goals. The BASF Group in India provides a good example. Here, we have defined three key issues as a basis for our successful social activities: We link better educational opportunities with positive action for women and we have teamed up with important groups and government representatives in anticorruption drives and patent protection campaigns. In so doing, we have adopted some of the Indian government's declared goals. Our work in the Sadbhavana (compassion) project is a good example of how our goal of promoting education takes on a distinct local shape. Six young women from the Ladakh region were awarded scholarships to study at the University of Bangalore. Furthermore, we provided support to allow 82 girls from the neighborhood of our site in Mangalore to attend school. By increasing women's access to education in this manner, we are building upon the traditional Indian family structure, by which women pass on their knowledge to their children. If women receive an education, they will also pass on a desire for knowledge and become actively involved in helping their children to develop their potential.



Another example of how we strengthen local structures comes from Brazil. In Guaratinguetá, BASF started to provide training to employees of key social welfare institutions. The goal is to teach management techniques and at the same time build up a network of experts that puts the employees in touch with partners for their respective tasks. In addition to BASF, the project is taking place with the involvement of 40 local institutions such as the city hall and various social organizations. Many municipal groups benefit and achieve empowerment through collective action.

Encouraging access to the working world

In highly industrialized countries, professional success usually depends on having valid qualifications. Out of a sense of social responsibility, BASF in Germany has for many years taken on a far higher number of trainees than it actually needs. In addition, BASF is also actively involved in numerous joint projects with partners from industry, trade unions and the world of politics. Most recently in 2003, BASF Aktiengesellschaft initiated the Training Verbund for the Rhine-Neckar region. Through this alliance, we create additional necessary trainee positions in the region in collaboration with partner companies. As from fall 2004, approximately 400 trainees have had access to BASF's state-of-the-art training facilities while receiving their practical training in the partner company. This gives them excellent chances of gaining the necessary qualifications and of being hired by a partner company once they complete their training.

A funding program called Career Launchpad pursues a similar objective. The program helps young people with poor school grades who are unable to find a trainee position after completing their basic school education. Since its inception in 1993, the program has provided around 740 young people with a one-year internship as preparation for a subsequent traineeship.

Awakening an interest in science

As the world's leading chemical company, we are keen to awaken an interest in science and thus help to open up new horizons. One example of how we succeed in this is BASF's Kids' Lab, which has been in operation for a number of years. Last year alone, the lab gave almost 21,900 children around the world access to exciting chemical experiments that show chemistry at work in everyday life (see table below). Education and science is a prime example of an area where a number of different partners can come together to achieve better results. Accordingly, we cooperate with other educational facilities in boosting young people's interest in science. In 2004, for instance, BASF Corporation teamed up with the National Plastics Center & Museum in Leominster, Massachusetts, to roll out the "PlastiVan," a traveling lab equipped to teach students about plastics. BASF recently also joined forces with the Leonardo da Vinci Museum of Science and Technology in Milan, Italy, to equip a lab for hands-on experiments.

Kids' Lab in the regions in 2004

Number of children participating	
Ludwigshafen	5,841
Singapore	1,600
China	
Nanjing	4,603
Shanghai	3,372
Malaysia	1,000
Japan	
Yokkaichi	40
Tokyo	300
India	4,700
Thailand	100
Australia	300
Total	21,856



Local environmental protection and biodiversity

We support local community environmental and wildlife welfare projects at many of our sites. In the United Kingdom, for instance, BASF has been involved since 2003 in the Voluntary Initiative, a five-year program involving the farming community and the government. The goal is to use research, training, communication and stewardship to minimize the impact of crop protection products, protect water quality and promote biodiversity.

Renaturation initiatives are a key focus of our commitment. BASF supported the Royal Reforestation Campaign in Thailand last year, donating seedlings for an estimated surface area equivalent to 16,000 square kilometers. In the Philippines, BASF was involved in tree planting activities to rehabilitate the section of the San Cristobal River adjacent to its property. Employees at the site in Whitehouse, Ohio, collaborated with the Wildlife Habitat Council to form an environmental team with the aim of protecting and restoring natural habitats. Last year they planted around 500 indigenous wildflowers and grasses in nearby Oak Openings, a popular destination for hikers. One of the largest and oldest projects of this kind is in Guaratinguetá, Brazil. Here, we have spent 20 years rehabilitating a river landscape consisting of more than 128 hectares adjacent to the production complex. Approximately 180,000 seedlings from a variety of tree species were planted during this period, involving an annual investment of approximately \$35,000 in the past 10 years.

We also support educational projects such as the jungle treks for schoolchildren that were organized by BASF PETRONAS Chemicals in Kuantan in collaboration with the Malaysian Nature Society to mark Earth Day 2004. In Bothkamp-Siek, northern Germany, BASF initiated a nature trail in collaboration with the local government. Signs and local guides explain how the agricultural landscape acts as a natural habitat, a recreational space and a source of food.

Espaço ECO

The beginning has been made: On September 24, 2004, the foundation stone was laid for the Espaço ECO foundation in São Bernardo do Campo, Brazil. This is the first eco-efficiency center in Latin America. In collaboration with the German Society for Technological Cooperation and the United Nations Industrial Development Organization, BASF will provide companies from all over South America with expertise and technology in the areas of eco-efficiency, environmental training and reforestation. Approximately €1 million is being invested in the project by 2009. The foundation includes a biosphere reserve measuring some 290,000 square meters that is officially accredited under the UNESCO's Man and the Biosphere Program. You can find out more about BASF's eco-efficiency analysis at www.basf.de/eco-efficiency.

Coping with crises together

Our top priority is to prevent accidents and emergencies at our production sites. At the same time, we want to be as well prepared as possible for any incidents and we are therefore expanding our Emergency Response Management System. It covers our subsidiaries and joint ventures around the world and also extends to suppliers, customers, neighboring companies, as well as the cities and towns in the communities in which we operate. Take fire protection, for example: At our site in Shanghai, China, we developed and implemented a concept for fire protection at the Shanghai Chemical Industry Park in 2004. It involves state-of-the-art equipment and expert fire fighter training. Before this, we had rolled out a similar concept at our new integrated production site in Nanjing, China. We like to share our knowledge. The safety team at our site in Altamira, Mexico, for instance, has been involved in training the local fire department for several years.

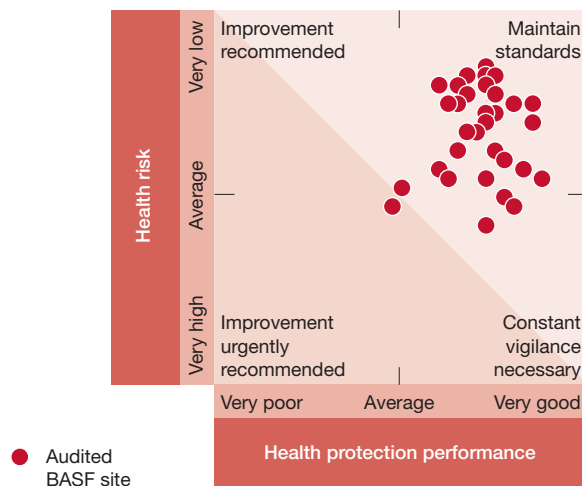
Further information at
www.basf.de/community

Protecting and Promoting Health

We promote the health, well-being and performance of all our employees because they are responsible for the success of our company. Our health protection experts also help ensure that our products do not pose a health risk for employees, neighbors, customers and consumers.

Our occupational medicine and health protection program describes exactly what is required of BASF's medical services for its employees. Implementation of the program is ensured by a worldwide network of specialists. We aim to apply the same prevention and health promotion standards worldwide. We check our performance on a regular basis using occupational health audits (see diagram and page 44).

Occupational health audits 2004



Advisory services for employees, the community and customers

Our knowledge in occupational medicine and health protection is available to all employees, local residents and customers. The service includes 15 competence centers spanning all areas of occupational medicine and a hotline that is staffed around the clock to provide information on urgent BASF-related medical issues.



Living and working in a smoke-free environment

Each year, the harmful effects of smoking cost the lives of 5 million people worldwide – and the social and economic consequences are almost impossible to estimate. To improve the situation for smokers and protect non-smokers better, BASF initiated an antismoking campaign in Ludwigshafen in 2003. More than 700 smokers participated, each forming a team with nonsmoking helpers. Prizes were awarded to those teams that successfully quit smoking. BASF designed the campaign with help from the FORTISNOVA company health insurance fund and the German Cancer Research Center in Heidelberg. The results of the final evaluation became available in mid-June 2004 and showed that 30 percent of the participants surveyed have kicked the habit – they are still not smoking one year after the end of the campaign. In Ludwigshafen, nonsmokers will be even better protected in 2005, following the extension of the ban on smoking at the site. Employees may now only smoke in specially designated rooms or areas.

In the communities in which our sites are located, we also often seek to improve healthcare in cooperation with external partners. In the long term, such help also benefits our company – a stable community that has good medical knowledge and care strengthens our sites and fosters good relations with our neighbors. For example, we regularly combat the mosquitoes that transmit dengue fever using our product Abate® in the vicinity of our sites Cengkareng, Cibitung and Kunigan in Indonesia. At the Kuantan site in Malaysia, BASF PETRONAS Chemicals particularly supported the health of the indigenous population in 2004 by arranging dental care and treatment for parasitic infections.

Further information at
www.basf.de/occupational_health

Developing Stakeholder Relations

A basic principle at BASF is that we deal with our numerous stakeholder groups openly and in good faith. We believe that this contributes to our long-term success.

Our business brings us into contact with many different groups such as customers, suppliers, employees, investors, government and community representatives, the media, opinion leaders and members of nongovernmental organizations. We think that the more we actively integrate these groups in dialogue, projects and partnerships, the greater the confidence they place in our business activities.

Finding out which topics are important to which interest groups is the task of Issue Management at BASF. Our specialist units also conduct regular surveys to evaluate relations with our stakeholders. Last year, for example, 42.6 percent of BASF Group companies carried out employee surveys on a variety of topics. The results are used to develop our company further. Our business units perform regular customer surveys to determine what they expect and what demands they will place on us in the future. The results show us where we can do better and differentiate ourselves from our competitors.

The general responsibility for contacts with stakeholders lies with the corporate communications department and related units such as the Sustainability Center or our liaison offices in Washington, Brussels and Berlin.

In dialogue with our communities

Regular and close dialogue is the aim of our community advisory panels (CAPs). These consist of company representatives and local citizens who discuss issues such as emissions, plant safety or procedures in the event of a plant malfunction. In 2004, there were 61 CAPs at BASF sites (2003: 57); another 13 (2003: 15) are currently being planned. To distinguish CAPs from other forms of contact and interaction with our neighbors, BASF drew up standards for CAPs in 2002: For example, membership should reflect the diversity of the community and meetings should be regular.

Long-term projects and partnerships

We strengthen relations with our stakeholders and engage in a constructive dialogue with them through projects and long-term partnerships. Examples include our active participation in the Global Compact and in the debate on foreign direct investment (see page 59 for details of both), as well as our involvement in the World Bank's climate fund (see page 51). Further examples are provided at www.basf.de/sustainability/regions.

We are active in numerous organizations and associations such as the World Business Council for Sustainable Development (WBCSD), CSR Europe and Transparency International (see also page 12). We are also partner, for example, to the British organization Forum for the Future, another nongovernmental organization that acts as a consultancy for stakeholder dialogue. In 2004, our Fine Chemicals Division held a workshop together with Forum for the Future to identify its key stakeholder groups and plan further cooperation with them. One result of the workshop was to strengthen links to nongovernmental organizations with a special focus on issues related to the environment and organic food.

Events provide a common podium

Events such as the symposium for sustainable development that we hosted in China in 2004 provide us with an opportunity to interact with our stakeholders directly. In Asia, we are additionally establishing a new network for sustainability and founded the China Business Council for Sustainable Development (CBCSD) in Beijing in 2004 together with 11 other companies.

Independent Assurance Statement

Independent Assurance Statement to BASF Group Management

Introduction We have reviewed environmental and social aspects of the BASF Corporate Report 2004 (the "Report"), and of the underlying management systems. These subject matters are the responsibility of the BASF Group Management, with whom the objective and terms of the engagement were agreed. We are responsible for expressing our conclusions based on the engagement.

We have based our approach on emerging best practice for independent assurance on sustainability reporting, including ISAE 3000 ("Assurance Engagements other than Audits or Reviews of Historical Financial Information"), issued by the International Auditing and Assurance Standards Board (IAASB).

Subject matter The management systems established at BASF Group level for managing sustainability, as described in the Report on page 11, in particular: i) implementation of the BASF Group Compliance Program on Integrity (page 12); and ii) the process applied at Group level to set goals in the areas Environment, Safety and Social Responsibility, and to assess and report the level of achievement vis-à-vis these goals (page 13).

The procedures and practice, as described in "About the Report," for the annual collection, compilation and validation of 2004 data from group companies and production sites on environment, safety and social responsibility; and whether such data are appropriately reflected in the Report sections Environment and Safety (pages 47 to 52 and 54 to 55) and Social Responsibility (pages 62 to 66).

The implementation of the above subject matters at Wintershall headquarters in Kassel (Germany) and Wintershall subsidiaries in Libya and in The Netherlands.

The methodology and process that BASF at Group level has put in place for the preparation of the Report, as described in "About the Report"; and whether the information presented in the Report meets its objectives to provide an appropriate and balanced picture of the BASF Group's material sustainability aspects.

Procedures Our objective was to achieve limited assurance. Based on an assessment of materiality and risk we have gathered and evaluated evidence supporting the conformity with criteria for the subject matters described. This work included analytical procedures and interviews with management representatives and employees at BASF Group headquarters in Ludwigshafen and at the three units mentioned, on a sample basis, as we deemed necessary in the circumstance, but no substantial testing. Therefore, the assurance that we obtained from our evidence gathering procedures is limited. We believe that our work provides an appropriate basis for our conclusion.

Conclusions In conclusion, in all material respect, nothing has come to our attention that causes us not to believe that: BASF Management has designed and applied appropriate management systems to manage material sustainability aspects, affecting BASF at Group level. The Group Compliance Program on Integrity has been implemented as asserted. The achievement of the goals on Environment, Safety and Social Responsibility is appropriately assessed and described in the Report. BASF at Group level has applied detailed and systematic procedures for the purpose of collecting, compiling and validating 2004 performance data on environmental protection and safety and on social responsibility from group companies and manufacturing sites, as specified, for inclusion and appropriate reflection in the Report.

Wintershall at headquarters in Kassel and at subsidiaries in the Netherlands and in Libya have implemented the Group requirements to appropriately manage their material sustainability aspects. Procedures and practice of preparing performance data on environmental protection, safety and social responsibility are consistent with Group instruction.

BASF at Group level has used detailed and systematic methodology and process for the preparation of the Report in order to achieve its reporting objective. The report provides an appropriate and balanced picture of the BASF Group's material sustainability aspects

Ludwigshafen, February 25, 2005

DELOITTE Environment & Sustainability Assurance



Preben J. Sørensen

Danish State Authorized Public Accountant

GRI Index

Since 2003, BASF has been participating in the feed-back meetings of the Global Reporting Initiative and has been working to further develop the guidelines together with experts from industry, nongovernmental organizations, analysts and financial auditors. We reported on the basis of the GRI for the first time in our Corporate Report 2003. The GRI guidelines aim to make international reporting comparable and provided us with valuable orientation when producing our Corporate Report 2003.

In its reporting, however, BASF does not completely adopt the structure proposed by the Global Reporting Initiative because it does not always show aspects relevant to sustainability and key issues at our company in a suitable manner. We consider it crucial to set our own priorities in corporate reporting and thus foster a constructive and critical dialogue with our partners and stakeholders.

This index shows you where you can find information on the core elements and indicators of the Global Reporting Initiative (GRI) in this report and in our Financial Report (FR). Our online reporting provides additional information on some indicators at www.reports.basf.de/gri-index.

An extended overview is available for the benefit of our Internet users. The online index contains all GRI reporting elements, all GRI core and additional indicators and shows where details are to be found in BASF's online reporting. We also give a brief explanation if no data are available for a given indicator.

Further information on GRI at
www.globalreporting.org.

GRI reference	Indicator	Page
General		
	Vision and strategy	
1.1	Sustainability vision and strategy	1, 8–9, 26
1.2	Chief executive statement	4–5, 13
	Profile	
2.1, 2.2–2.11, 2.13	Organizational profile	Cover, 1, 3, 4, 8, 24–26, 27–28, 29–31, 60, 72; FR: 13, 19–22, 34–50, 54–56, 79–128
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	Governance structures and management systems	
3.1, 3.2–3.8	Structure and governance	3, 10, 11–13, 26–28; FR: 63–66, 69–73
3.10–3.12	Stakeholder engagement	24–26, 59, 67–70, 72
3.13–3.20	Policies and management systems	3, 8–10, 11–13, 44–45, 51, 53–55, 59, 71; FR: 60
Economic performance indicators		
EC1, EC2	Customers	5, 29–31; FR: 20–21, 49–50, 56–57
EC5	Employees	62–66; FR: 58–59
EC6–EC7	Providers of capital	27–28; FR: 78–81
EC8, EC10	Public sector	29, 60, 67–70; FR: 23

GRI Reference	Indicator	Page
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EN5	Water	52
EN6–EN7	Biodiversity	70
Emissions, effluents and waste		
EN8–EN10	Greenhouse gases, ozone-depleting substances, air	49–50
EN11	Total amount of waste	52
EN12	Water	50–52
EN13	Significant spills	50–52
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EN14	Products and services	9, 24–26, 53
EN16	Compliance	11–12, FR: 95
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SO3	Political contributions	45, 67
SO6, SO7	Competition and pricing	12; FR: 129–130
Product responsibility		
PR1, PR6	Customer health and safety	26, 53

Glossary

biotechnology

This term covers all processes and products that use living organisms, for example bacteria and yeasts, or their cellular constituents. BASF is using plant biotechnology to develop plants that enable a healthier diet through improved constituents, as well as crops with better cultivation characteristics. In addition, BASF is concentrating on the biocatalytic production of vitamins, amino acids, enzymes and chiral intermediates.

C₄ complex

Part of the production complex in Port Arthur, Texas. Here, three successive chemical processes are used to obtain butadiene, alkylate gasoline and propylene from a C₄ stream (a mixture of various hydrocarbons each containing four carbon atoms) from the steam cracker.

CO₂ equivalent

A parameter to describe the effect of greenhouse gas emissions. Each of the various gases has a different impact. A factor known as the global warming potential (GWP) provides information on the effect of the individual gases compared with CO₂ (= reference value).

Community Development Carbon Fund (CDCF)

The CDCF is a pilot project by the World Bank to test the mechanisms of the Kyoto Protocol for global climate protection. Using capital provided by governments and companies, the CDCF is sponsoring projects to reduce greenhouse gas emissions in poorer developing countries.

corporate governance

Corporate governance refers to the entire system of managing and overseeing a company. This includes the organization of a company, its principles and guidelines as well as all internal and external regulatory and monitoring mechanisms.

EBIT

Earnings before interest and taxes.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

eco-efficiency analysis

This analysis allows both economic and environmental aspects to be considered when developing and optimizing products and processes. The aim is to offer the best possible cost-effective products with good environmental performance.

energy management

The development of new materials and technologies to convert and store energy. Energy management also refers to the responsible use of fossil fuels, for example through the development of energy-saving products and materials such as insulating materials. Energy management at BASF also involves the exploration for and production of crude oil and natural gas in selected regions by our subsidiary Wintershall AG.

Global Compact

Nongovernmental organizations, corporations, international business and labor organizations and representatives from science and politics are working together within the framework of the United Nations Global Compact Initiative. The goal is to develop the global economy sustainably with regard to human rights, labor standards and environmental protection. BASF is a founding member of the initiative, which was established in 2000.

Kyoto Protocol

The Kyoto Protocol was adopted in 1997 at the 3rd Conference of Parties to the United Nations Framework Convention on Climate Change. Under the terms of the Protocol, industrialized nations agreed to cut their joint emissions of the most important greenhouse gases to at least 5 percent below 1990 levels in the period 2008 to 2012.

materials science

This is an umbrella term for the development of new materials in which special attention is paid to the relation between the structure and properties of the material in a given application. Areas of use at BASF are research and development into plastics, coatings systems and foams such as highly transparent and tough types of polystyrene for food packaging.

nanotechnology

The term nanotechnology applies to materials, structures and technologies with one thing in common: the creation or presence of at least one spatial dimension smaller than a few hundred nanometers. This includes the production of nanoparticles and the creation of nanostructures, which in turn make it possible to produce products with new or improved properties. Examples include starting materials for textiles that absorb UV radiation, water-repellant surface coatings for the textile and automotive industries and coatings that are more scratch resistant.

oil equivalent

International standard for comparing the thermal energy of different fuels.

Responsible Care®

A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, health and safety. BASF committed itself to the concept of "responsible action" as early as 1992.

special items

One-time costs or one-time payments that significantly affect the earnings of a segment or the BASF Group. Special items include costs for restructuring measures and severance payments to employees who leave the company.

stakeholders

The designation for persons or groups that confront a company with specific expectations or interests. A company's stakeholders include employees, customers, local residents, shareholders, nongovernmental organizations and politicians.

steam cracker

A large plant in which steam is used to "crack" naphtha (petroleum). The resulting petrochemicals – above all, ethylene and propylene – are the starting materials used to manufacture most of BASF's products.

sustainable development

The objective of sustainable development is to meet the economic, environmental and social needs of society without harming the development opportunities of future generations. BASF is committed to this principle.

value added

The increase in value of the goods used in the production process. At BASF, value added is derived from the statement of income as the difference between business performance and advance payments (in particular payments to suppliers).

Verbund

The Verbund is one of BASF's greatest strengths: At our major sites, we link our production plants in a sophisticated system along our value-adding chains: We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly.

world-scale plants

Large production plants in which products can be manufactured on a world scale. The more a plant produces, the lower the fixed costs per metric ton of product (economies of scale). This is why BASF relies on such cost-efficient plants in all important economic regions.

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BASF on the Web

The Company www.basf.com

Corporate Governance www.basf.de/governance_e
Our Values, Our Goals www.basf.de/values
 www.basf.de/sd-management_e
 www.basf.de/competence-center-rc

Economic Results and Perspectives

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Globalization www.basf.de/fdi_e
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 www.basf.de/employees
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Andreas Pohlmann, Munich
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Key data BASF Group 2004

Sales (million €)	
BASF Group sales	37,537
Sales by segment	
Chemicals	7,020
Plastics	10,532
Performance Products	8,005
Agricultural Products & Nutrition	5,147
Oil & Gas	5,263
Other	1,570
Sales by region (location of customer)	
Europe	20,967
Thereof Germany	7,382
North America (NAFTA)	8,182
South America	2,064
Asia, Pacific Area, Africa	6,324

Earnings (million €)	
Income from operations (EBIT)	4,856
Income before taxes and minority interests	4,019
Net income	1,883
Net income in accordance with U.S. GAAP	1,863

Other key data	
Equity ratio (%)	46.5
Return on assets (%)	12.9
Research and development expenses (million €)	1,173
Additions to fixed assets (million €)	2,186
Number of employees (December 31, 2004)	81,955

Key BASF share data (€)	
Year-end price	53.00
High	53.00
Low	40.49
Per-share information:	
Dividend	1.70
Earnings per share	3.43

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Key data BASF Group 2004

Yes, please send me further information!

Forward-looking statements

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

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



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



This report went to press on February 28, 2005 and was published on March 9, 2005.

■ Important dates

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

Annual Meetings

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

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