Financial Report 2002

Adding value through growth and innovation

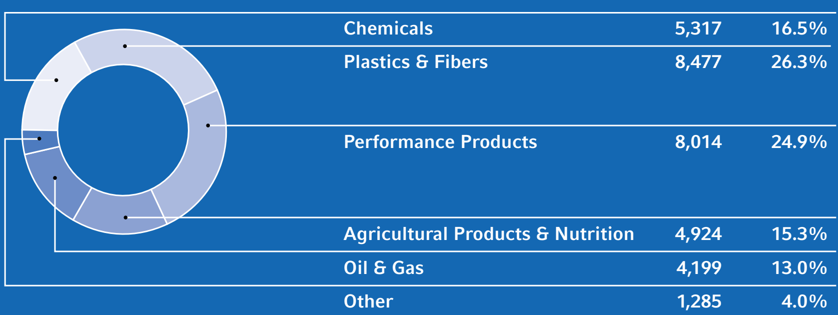
BASF

BASF Group

Overview of key financial data

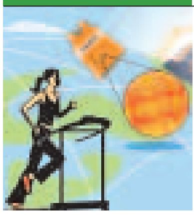
Million €	2002	2001	Change in %
Sales	32,216	32,500	(0.9)
Income from operations before special items	2,881	2,293	25.6
Income from operations (EBIT)	2,641	1,217	117.0
Special items	(240)	(1,076)	77.7
Extraordinary income	–	6,121	–
Income from operations before interest, taxes, depreciation and amortization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

Sales by segment
Million €



Sales by region (location of customer)
Million €

Chemicals – the heart of our Verbund

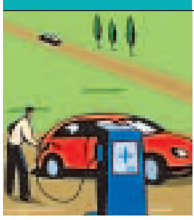


The production of organic and inorganic basic chemicals and intermediates relies in particular on the synergy potential of our Verbund. Our goal is to achieve cost leadership. Integrated production sites, new processes and the advantages of modern large-scale plants are our keys to success. We are optimizing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

Plastics & Fibers – cost leadership and innovative specialties

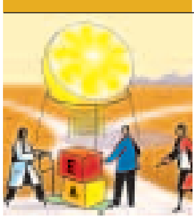
BASF is a leading supplier of plastics and fibers. We strive to achieve global cost leadership with our standard plastics. With our specialty plastics, we focus on the huge range of uses for these materials of the future. Together with customers, we develop new applications and open up new markets. We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

Performance Products – intensive cooperation with customers



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

Agricultural Products & Nutrition – we are strengthening our competitiveness



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

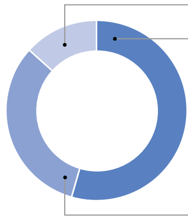
Oil & Gas – expertise and regional focus

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

Segments

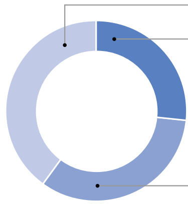
Key data			Million €
	2002	2001	Change in %
Sales	5,317	4,494	18.3
Income from operations before special items	676	425	59.1
Income from operations	635	362	75.4

Sales by division Million €



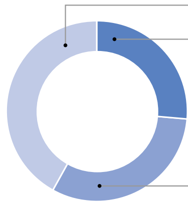
Inorganics	695	13.1%
Petrochemicals	2,902	54.6%
Intermediates	1,720	32.3%

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



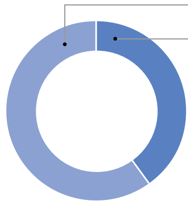
Styrenics	3,387	39.9%
Performance Polymers	2,270	26.8%
Polyurethanes	2,820	33.3%

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



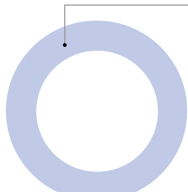
Performance Chemicals	3,343	41.7%
Coatings	2,137	26.7%
Functional Polymers	2,534	31.6%

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



Agricultural Products	2,954	60.0%
Fine Chemicals	1,970	40.0%

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



Oil & Gas	4,199	100.0%

The Oil & Gas segment is not subdivided into divisions.

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

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

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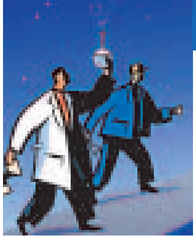


Milestones 2002

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

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

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

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

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

We are expanding highly profitable businesses.

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

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

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

April

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

May

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

June

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

We are enhancing our long-term competitiveness.

We create value for our customers and for BASF.

We invest in growth markets.

We rely on the diverse skills of our employees.

October

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

November

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

December

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

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

Letter from the Chairman of the Board of Executive Directors

Dear shareholders and friends of BASF,

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

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

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

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

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

In Asia we are pursuing a long-term strategy: We started investing in the region some time ago and stood by our commitment, even during the Asian economic crisis in the second half of the 1990s. We are now increasingly participating in the dynamic growth in this region: We are expanding our first Asian Verbund site in Kuantan, Malaysia. In Singapore, our ELLBA Eastern joint venture with Shell has started producing propylene oxide and styrene. At the same time, we are taking further steps in Asia to capitalize even more on the region's potential: The construction of our Verbund site in Nanjing, China, is proceeding apace and the first plants will start operations in 2005. In 2002, we received approval from the Chinese authorities for the construction of integrated production plants for polytetrahydrofuran (PolyTHF®) and tetrahydrofuran (THF) in Caojing, China.

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

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

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

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

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

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

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

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

Yours sincerely,

Jürgen Strube

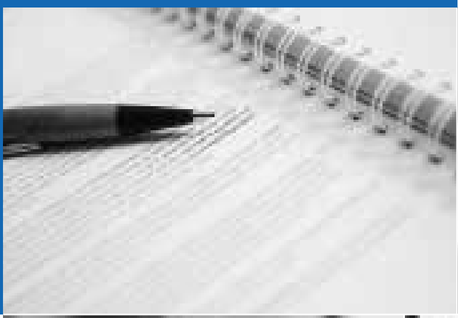
Dr. Jürgen F. Strube
Chairman of the Board of Executive Directors

Our goal

To add value through growth and innovation

Dr. Jürgen F. Strube, 63,
Chairman since 1990.
Lawyer, with BASF for 34 years.
Legal, Taxes & Insurance; Planning & Controlling; Executive Management and Development; Corporate Communications. Board membership will expire following the Annual Meeting on May 6, 2003.

Max Dietrich Kley, 63,
Vice Chairman. Lawyer, with BASF for 34 years. Responsible for Finance; Oil & Gas; Global Purchasing; Investor Relations; Corporate Audit. Board membership will expire following the Annual Meeting on May 6, 2003.








Dr. Andreas Kreimeyer, 47,
biologist, with BASF for 17 years.
Functional Polymers; Performance Chemicals; Asia.

Klaus Peter Löbbe, 56,
economist, with BASF for 37 years.
Coatings; North America (NAFTA).

Dr. Stefan Marcinowski, 50,
chemist, with BASF for 24 years.
Research Executive Director.
Inorganics; Petrochemicals; Intermediates; Research & Engineering Chemicals; Corporate Engineering; University Relations & Research Planning; BASF Future Business GmbH.

As of March 1, 2003

Dr. Kurt Bock, 44,
business economist, with BASF for 12 years. Logistics; Information Services; South America. Effective May 6, 2003, also Finance; Global Purchasing; Corporate Audit.

Dr. John Feldmann, 53,
chemist, with BASF for 15 years. Styrenics; Performance Polymers; Polyurethanes; Polymer Research. Effective May 6, 2003, also Oil & Gas.

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

Peter Oakley, 50,
economist, with BASF for 26 years. Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science GmbH.

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

"Adding value through growth and innovation" is the guiding principle behind everything we do. We regard this as the key to success in our business. We will achieve profitable growth by thinking and acting innovatively.

Growth and Innovation

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

Important elements of our strategy are:

Expanding highly profitable businesses

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

Enhancing our long-term competitiveness

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

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

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

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

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

Creating value for our customers and for BASF

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

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

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

Investing in growth markets

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

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

Relying on the diverse skills of our employees

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

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

Financial Targets and Management of the BASF Group

- Earning a premium above our cost of capital
- Striving for a target equity ratio of approximately 40%
- Maintaining a good credit rating

Cost of capital and management

We measure our performance and our corporate decision-making against the return required by our investors – our cost of capital. We strive to earn a premium above this cost of capital.

For 2003, the average return demanded on capital we invest is 11 % before taxes. This is equivalent to a minimum income from operations (EBIT) of €3.1 billion on operating assets of €28 billion.

EBIT serves as the internal target and management tool for the operating divisions (see page 83 for more information on BASF's organizational structure). In agreeing on a target value for EBIT, the Board of Executive Directors and the operating divisions consider strategic objectives, market position, Verbund issues, resource allocation and the resulting cost of capital. The operating divisions' target for EBIT is in turn allocated to the business units accordingly. In this way, we can account for differences in the earnings potential and the strategic developments in individual businesses.

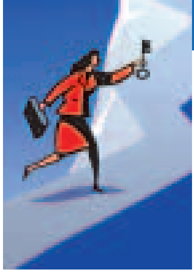
Earnings targets and individual objectives are defined between those responsible at various management levels using target agreements. The size of employees' bonuses depends on the extent to which they meet their goals.

Capital structure and credit ratings

We ensure a high level of financial flexibility through a conservative financing policy. In managing our capital structure, we attempt to achieve an optimal debt-to-equity ratio. We aim to achieve an equity ratio of approximately 40 %.

BASF's stable cash flows and solid balance sheet structure provide our creditors with a high degree of security.

The rating agencies Moody's and Standard & Poor's categorize our credit quality as follows. BASF enjoys the best short-term ratings from both agencies. Our long-term debt ratings are also very good (Aa3, AA-) and reflect the company's strength. We want to maintain our good credit ratings.



BASF Shares

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

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

Better than the market in both the short and long term

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

A shareholder who invested €1,000 in BASF shares at the end of 1992 and reinvested the dividends (excluding tax credits) in additional BASF shares would have increased the value of the holding to €4,559 after 10 years, at the end of 2002. This 356 percent increase in value is equivalent to an average annual return of 16.4 percent. The corresponding returns for the DAX 30 (6.5 percent) and the EURO STOXX 50 (11.2 percent) are therefore significantly lower than for an investment in BASF shares.

BASF shares included in the STOXX 50 index

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

Key BASF share data

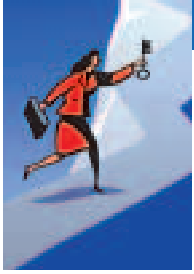
Key BASF share data	1998	1999	2000	2001	2002
Year-end share price (€)	32.49	51.90	48.17	41.75	36.08
High (€)	47.50	52.20	50.68	50.45	49.80
Low (€)	29.81	30.19	39.40	31.00	32.90
Daily trade in shares[1] (million €)	54.08	67.07	84.71	108.54	129.67
Daily trade in BASF shares[1] (million shares)	1.46	1.68	1.88	2.48	3.09
Price/earnings ratio as of December 31	11.90	25.95	23.85	4.30	13.88
Price/cash flow ratio as of December 31	5.40	9.85	9.87	10.84	9.04
Number of shares as of December 31 (million shares)	623.79	620.99	607.40	583.40	570.32
Market capitalization as of December 31 (billion €)	20.27	32.23	29.26	24.36	20.58
Weighted number of shares (million shares)	622	618	613	603	579
Per share information in €:					
Earnings per share[2]	2.73	2.00	2.02	9.72	2.60
Earnings per share in accordance with U.S. GAAP[2]	2.84	2.14	2.37	9.45	2.96
Cash provided by operating activities[2]	6.02	5.27	4.88	3.85	3.99
Stockholders' equity as of December 31	20.71	22.26	23.55	30.05	29.01
Dividend (€)	1.12	1.13	2.00[3]	1.30	1.40
Dividend yield[4] (%)	3.45	2.18	4.15	3.11	3.88
Key data for the BASF ADR[5]					
Year-end share price ($)	-	-	44.44	37.91	38.22
High ($)	-	-	44.44	46.73	46.85
Low ($)	-	-	34.00	28.80	32.40
Daily trade in shares[1] (million $)	-	-	2.37	2.36	3.08
Daily trade in BASF shares[1] (thousand shares)	-	-	62.10	59.98	78.73

[1]Average, Xetra trading, in million €
[2]These data were based on the weighted number of shares
[3]Thereof special dividend of €0.70
[4]Based on year-end share price
[5]American Depositary Receipt; New York Stock Exchange

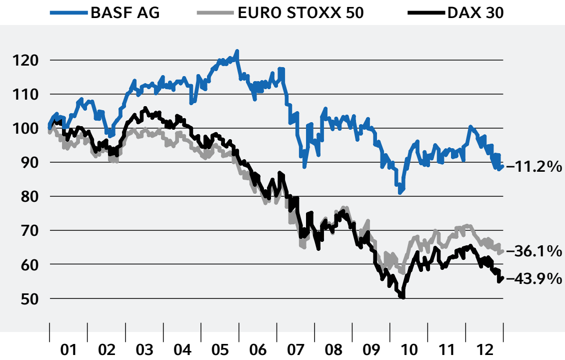
Further information

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

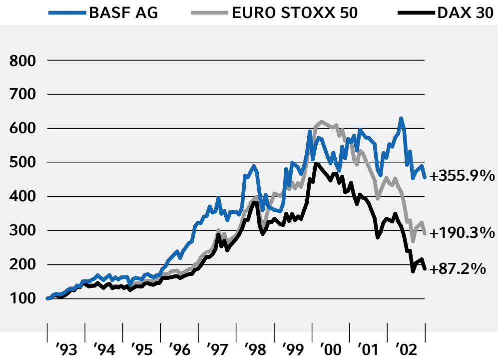
Ticker symbols	
German stock exchanges	BAS
London Stock Exchange	BFA
New York Stock Exchange	BF
Bloomberg (Xetra trade)	BAS GY
Reuters (Xetra trade)	BASF.DE



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



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



Dividend rises to €1.40

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

Share buy-back program continued

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

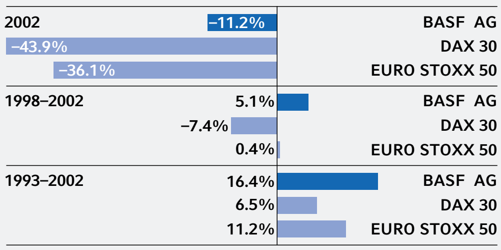
Widely dispersed shareholdings

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

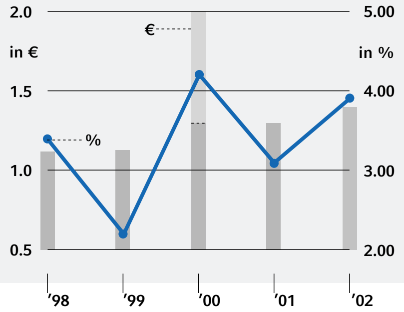
Promoting employee ownership

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

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



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



Investor relations: Closer dialogue with the capital markets

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

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

INVESTOR RELATIONS ON THE INTERNET
You can find BASF’s Investor Relations homepage on the Internet at www.basf.de/share. If you are interested in receiving further information on BASF by e-mail, you can also subscribe to our newsletter here.

Management's Analysis

Economic Environment in 2002

- Global economy only manages slight growth
- Chemical business strong in the first half of the year
- Weak improvement in production in key customer industries
- Strong increase in prices for oil and chemical raw materials

1. Global Economic Trends in Review

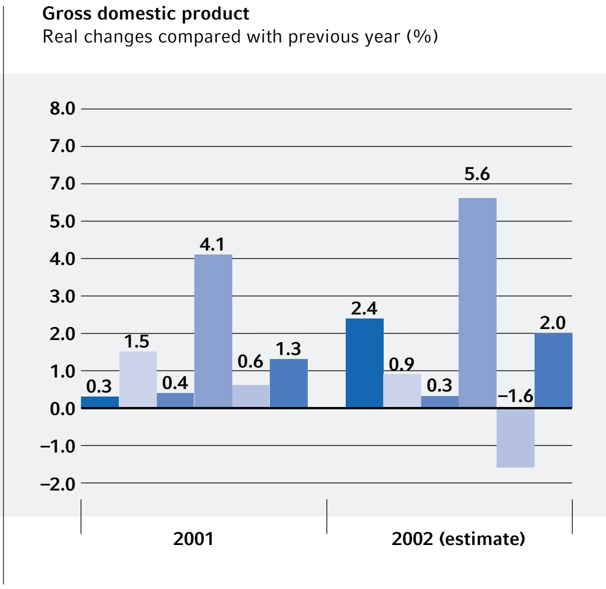
The global economy grew only slightly in 2002. After renewed activity in the first half of the year, the recovery stalled in the fall. The economic climate in the United States and Western Europe worsened noticeably. South America fell into recession as a result of the economic and financial crisis in Argentina and Brazil. A tentative recovery began in Japan. In the rest of Asia, previously strong growth weakened.

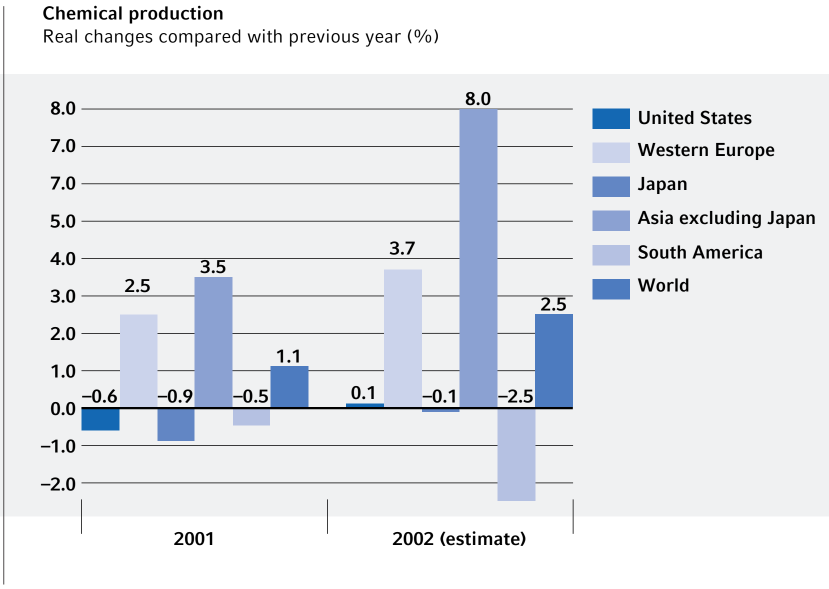
After a strong recovery in the first half of 2002, the economy in the **United States** again lost momentum. Massive stock market declines, a corporate governance crisis and the threat of military conflict with Iraq caused anxiety among investors and consumers. Continued expansionary monetary and fiscal policy measures were not able to fully offset the restraining influences. Average real gross domestic product (GDP) rose 2.4 %.

In **Western Europe,** the economy showed modest growth at the start of the year. The stimulus from exports in the first half of the year faded as the year progressed. The depressed consumer climate, weak rises in real income and an unfavorable unemployment situation all dampened consumer spending. Moreover, declining capacity utilization and unfavorable sales forecasts caused capital expenditures to remain low. Average real GDP rose only 0.9 % for the year, compared with 1.5 % in 2001.

In **Germany,** there was a tentative recovery in the spring, but it failed to generate a lasting upturn. The only stimulus came from foreign trade. Domestic economic weakness persisted as construction activity continued to shrink, investment demand declined and consumption remained weak. Thus, the economy grew only 0.2 % on average for the year.

Japan began to recover in the first half of the year as a result of strong export growth and a slight rise in consumer spending. However, capital expenditures continued to decline because of the depressed profit situation. The slowdown in the global economy and unresolved structural problems impeded full-scale economic recovery. Average real GDP increased approximately 0.3 %.





Supported by strong exports and dynamic domestic demand, the majority of **Asian countries** experienced a strong upturn in the first half of the year. Economic growth once again slowed in the second half because of weaker economic activity in industrialized countries.

In **South America,** the recession resulting from the economic crisis in Argentina and Brazil continued. However, as the year ended, the economic situation had stabilized from such measures as substantial IMF loans to Brazil and Uruguay.

2. Trends in the Chemical Industry

Global chemical production was stronger than expected in the first half of 2002. This was primarily due to rising demand as our customers increasingly replenished inventories. Additional positive influences were optimistic business forecasts by chemical customers and earlier than scheduled purchases in the face of rising crude oil prices. Because of the muted economic climate in the second half of the year, however, the chemical industry lost much of its momentum in the course of the year in Western Europe, the United States and Asia.

In the **United States,** production rose until the fall but stagnated toward the end of 2002. Supported by petrochemicals and consumer products, average annual growth was 0.1 %.

In **Western Europe,** production rose briskly until summer. Due to the subdued global economic climate, growth leveled off considerably in the second half of the year. The European chemical industry posted growth of 3.7 % for the year, compared with 2.5 % in 2001.

Annual average chemical production in **Japan** declined by 0.1% in 2002, compared with a contraction of 0.9 % in 2001.

In the **Asian countries** (excluding Japan), production rose markedly in the first quarter. Then, as general economic activity slowed in the fall, chemical production weakened in this region as well. At 8.0 %, the average annual growth was nevertheless high.

In **South America,** chemical production declined 2.5 % compared with the previous year as a result of the worsening economic climate.

Oil and chemical raw material prices rose significantly during the year. In January 2002, crude oil cost $19 per barrel. In the second half of the year especially, the threat of a war with Iraq caused oil prices to rise, reaching $29 per barrel at year-end. The average world oil price for the year was $25.50 per barrel. However, due to intense competition, selling prices for chemical products rose only slightly.

3. Production Trends in Key Customer Industries

Global economic development in key chemical customer industries was generally subdued.

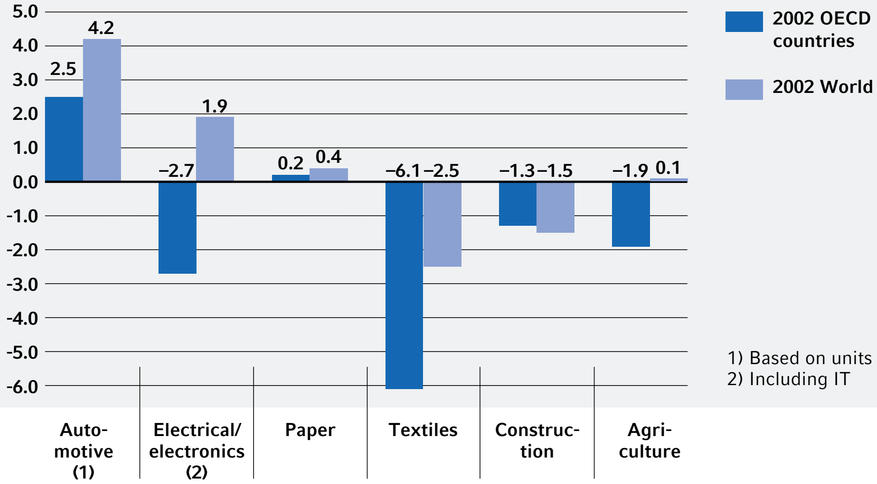
After a period of weakness in the previous year, primarily in the U.S. market, the **automotive industry** was back on the growth track in 2002. Worldwide automobile production rose by 4.2 %. In the NAFTA region, automobile production climbed by more than 5 % to 16.3 million units, in particular due to strong purchasing incentives in the United States. By contrast, production in Western Europe totaled 16.8 million units, or 0.7 % less than in the previous year.

In the **electrical and electronics industry,** and in the IT sector in particular, production began to recover from its severe decline in 2001, but did not come close to the levels of previous years. Growth was restrained by low levels of capital expenditure in industrialized countries and – especially in the IT sector – by excess capacity created during the boom years in the United States and Japan. Worldwide growth was 1.9 %.

In the **paper industry,** global production stabilized after a substantial decline in the previous year. Annual average growth was 0.4 %. In the United States, paper production declined 1 % because of weak domestic demand and import pressures. By contrast, there was a rise of 1.2 % in production in Western Europe. The main stimulus came from exports, which benefited from an exchange rate-based competitive advantage among Western European producers.

In the **textile industry,** structural changes continued during the year under review. Textile production continued to fall in industrialized countries, while increasing in the developing countries of Asia. In Western Europe, this trend was compounded due to weak demand for clothing and domestic textiles. The downward trend noted in the United States since 1995 slowed. As domestic demand fell and import pressures from Asian competitors continued, average U.S. textile production declined further by 4.2 % in 2002.

Growth in important customer industries
Change in 2002 (%)



1) Based on units
2) Including IT

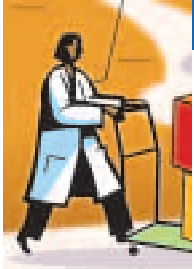
Production growth in the **construction industry** remained depressed. In Western Europe, construction activity continued to stagnate, primarily due to the cyclical downturn in housing starts. Construction activity in the United States fell by 2.4 %.

The **agriculture industry** remained under pressure in 2002. Worldwide agricultural production declined. Lower production in North America as a result of adverse weather conditions could not be offset by slight increases in other regions. Prices for agricultural products rose slightly.

BASF's sales according to industries

Percentage of sales in 2002*			
> 15%	Agriculture		
10–15%	Automotive Chemical (not for consumer goods) Energy		
5–10%	Construction		
< 5 %	Printing Electrical/electronics Health Cosmetics	Leather Furniture Paper Carpets	Textiles Packaging Detergents and cleaning agents
Other industries: approximately 12% in total			

*Estimates



BASF Group Business Review and Analysis

- Income from operations more than doubled
- Substantially lower special items compared with the previous year
- Higher sales volumes and capacity utilization
- Improved cost structure due to measures introduced in the previous year

1. Results of Operations in the BASF Group

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

Sales

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

The following factors contributed to the change in sales:

Million €	2002	As % of sales
Volumes	2,547	7.8
Prices	(1,680)	(5.2)
Currencies	(941)	(2.9)
Acquisitions and additions to the scope of consolidation	205	0.6
Divestitures and deconsolidations	(415)	(1.2)
	(284)	**(0.9)**

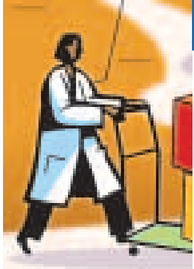
Sales and earnings

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

Sales and earnings by quarter

2002 Million €	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2002
Sales	8,239	8,379	7,581	8,017	32,216
Income from operations before special items	818	822	591	650	2,881
Income from operations (EBIT)	814	817	467	543	2,641
Financial result	24	8	(12)	(20)	0
Extraordinary income	–	–	–	–	–
Income before taxes and minority interests	838	825	455	523	2,641
Net income	556	502	247	199	1,504
Earnings per share (€)	0.95	0.86	0.43	0.35	2.60

2001 Million €	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	2001
Sales	9,289	8,329	7,199	7,683	32,500
Income from operations before special items	962	751	328	252	2,293
Income from operations (EBIT)	789	304	314	(190)	1,217
Financial result	(158)	(103)	(110)	(237)	(608)
Extraordinary income	6,010	–	111	–	6,121
Income before taxes and minority interests	6,641	201	315	(427)	6,730
Net income	6,193	11	123	(469)	5,858
Earnings per share (€)	10.19	0.02	0.20	(0.80)	9.72



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

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

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

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

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

Gross profit

After deducting production costs from sales, we achieved gross profit of €10,400 million in 2002. The increase of €88 million, or 0.9 %, caused the gross margin to rise to 32.3 % compared with 31.7 % in 2001. This was due to the positive development of production costs, which declined more sharply than sales (1.7 % compared with 0.9 %). The decline in production costs was due in particular to the higher utilization rate of production facilities and cost reductions as a result of restructuring measures.

Income from operations

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

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

Special items

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

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

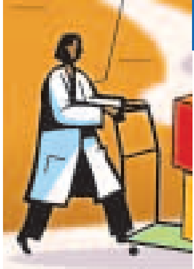
The financial result included special income of €301 million related in particular to the sale of marketable securities and of a lease financing company.

The high special charges of €1,076 million in the previous year's income from operations were caused by our comprehensive restructuring program, which resulted in charges of €747 million. Moreover, a provision of €200 million had to be made in 2002 for the fines imposed by the E.U. Commission for antitrust violations in the vitamins business.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Year	
Millionen €	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Special items										
In income from operations	(4)	(173)	(5)	(447)	(124)	(14)	(107)	(442)	(240)	(1,076)
In financial result	114	–	–	–	130	(5)	57	(68)	301	(73)
	110	**(173)**	**(5)**	**(447)**	**6**	**(19)**	**(50)**	**(510)**	**61**	**(1,149)**

Income from ordinary activities/income before taxes

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



Extraordinary income

There was no extraordinary income in 2002. The high extraordinary income in the previous year of €6,121 million, or €5,976 million net of taxes, resulted from the sale of our pharmaceuticals business to Abbott Laboratories Inc., Abbott Park, Illinois.

Net income/earnings per share

Income before taxes and minority interests was €2,641 million and the tax expense was €1,042 million, or 39.5 %. After deducting these taxes and minority interests of €95 million, net income in 2002 was €1,504 million. In comparison with the previous year, in which there was a loss of €118 million excluding extraordinary income, net income rose by €1,622 million.

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

Returns

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

Proposed appropriation of profit

BASF Aktiengesellschaft* achieved net income of €1,045 million. After transferring €247 million to other retained earnings, profit retained was €798 million. The Board of Executive Directors and the Supervisory Board are proposing to the Annual Meeting on May 6, 2003 a dividend payment of €1.40 per qualifying share. If shareholders approve this proposal, the dividend payable on qualifying shares as of December 31, 2002 will be €798 million. If the number of qualifying shares and the dividend payable decline by the date of the Annual Meeting due to share buy-backs, it is further proposed that the remaining profit retained be carried forward.

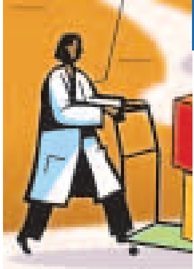
* The auditors have approved the Consolidated Financial Statements of BASF Aktiengesellschaft free of qualification. The Consolidated Financial Statements are published in the Federal Gazette and filed in the Commercial Register of Ludwigshafen (Rhine) HRB 3000. A reprint may be obtained by contacting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

2. Balance Sheet Structure

- Total assets 4.9 % lower
- Inventories reduced by 4.2 %
- Equity ratio 48.3 % after share buy-back

Assets	2002 Million €	2002 %	2001 %
Intangible assets	3,464	9.9	10.7
Tangible assets	13,745	39.2	38.5
Financial assets	3,249	9.2	9.1
Fixed assets	**20,458**	**58.3**	**58.3**
Inventories	4,798	13.7	13.6
Accounts receivable, trade	5,316	15.2	15.9
Miscellaneous receivables	2,947	8.4	6.5
Deferred taxes	1,204	3.4	3.7
Liquid funds	363	1.0	2.0
Current assets	**14,628**	**41.7**	**41.7**
Total assets	**35,086**	**100.0**	**100.0**

Stockholders' equity and liabilities	2002 Million €	2002 %	2001 %
Paid-in capital	4,408	12.6	12.0
Retained earnings	12,468	35.5	33.1
Currency translation adjustments	(330)	(0.9)	1.4
Minority interests	396	1.1	1.0
Stockholders' equity	**16,942**	**48.3**	**47.5**
Pension provisions	3,910	11.1	10.7
Long-term provisions	2,323	6.6	7.8
Long-term financial indebtedness	1,796	5.1	5.2
Other long-term liabilities	1,182	3.4	3.3
Total long-term liabilities	**9,211**	**26.2**	**27.0**
Short-term financial indebtedness	1,814	5.2	2.5
Accounts payable, trade	2,330	6.6	6.7
Other short-term liabilities and provisions	4,789	13.7	16.3
Total short-term liabilities	**8,933**	**25.5**	**25.5**
Stockholders' equity and liabilities	**18,144**	**51.7**	**52.5**
Total stockholders' equity and liabilities	**35,086**	**100.0**	**100.0**



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

Fixed assets decreased by €1.0 billion, or 4.8 %, to €20.5 billion. Their share of total assets remained unchanged at 58.3 %.

Fixed assets are comprised of:
- Intangible assets 16.9 %
- Tangible assets 67.2 %
- Financial assets 15.9 %

Tangible assets were divided among the regions as follows:

	Gross %		Net %	
Million €	**2002**	**2001**	**2002**	**2001**
Europe	62.8	62.7	51.9	46.7
Thereof Germany	46.7	46.5	34.8	32.6
North America (NAFTA)	25.0	25.0	25.3	31.6
South America	3.4	3.4	2.9	3.6
Asia, Pacific Area, Africa	8.8	8.8	19.9	18.1

The most significant **capital expenditures** are discussed under "Liquidity and Capital Resources" on page 52 ff. **Inventories** were reduced by €209 million to €4,798 million. Their share of total assets was 13.7 % compared with 13.6 % in 2001.

The inventories were located in the following regions:

	2002 %	**2001 %**
Europe	52.0	49.0
Thereof Germany	33.5	32.3
North America (NAFTA)	32.1	34.5
South America	4.3	5.8
Asia, Pacific Area, Africa	11.6	10.7

Trade **accounts receivable** decreased by 9.5 %. As a percentage of total assets, trade accounts receivable declined to 15.2 % from 15.9 % in 2001.

The regional breakdown of trade accounts receivable was as follows:

	2002 %	2001 %
Europe	58.4	56.4
Thereof Germany	35.2	30.6
North America (NAFTA)	18.5	15.3
South America	8.5	15.4
Asia, Pacific Area, Africa	14.6	12.9

Current assets as a percentage of total assets remained unchanged at 41.7 %.

The BASF Group's **net debt** was €1,155 million higher than in 2001:

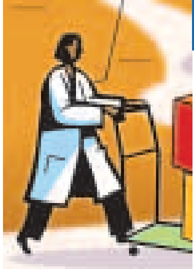
Million €	2002	2001
Liquid funds	363	743
Financial indebtedness	3,610	2,835
Net debt	3,247	2,092

See Note 25 to the Consolidated Financial Statements for information regarding the types, terms, average interest rate and currencies of the financial indebtedness and lines of credit.

Stockholders' equity declined by €580 million due to a reduction in currency translation adjustments and the buy-back and cancellation of shares. The equity ratio rose to 48.3 % (2001: 47.5 %) as a result of a decline in total assets. In the medium term, we aim to achieve an equity ratio of approximately 40 %.

Long-term liabilities declined by €744 million to €9,211 million. Long-term liabilities as a share of stockholders' equity and liabilities declined to 26.2 % from 27.0 % in 2001. Approximately 68 % of long-term liabilities are in provisions, primarily pension provisions. Long-term financial indebtedness was €1,796 million, compared with €1,926 million in 2001.

Short-term liabilities declined by 4.9 % to €8,933 million, in particular due to the realization of short-term provisions. Other short-term liabilities and provisions declined by €1,233 million. Short-term financial indebtedness increased by €905 million to €1,814 million due to the issuance of commercial paper and due to short-term bank loans.



Asset and liquidity ratios

Horizontal balance sheet ratios:			2002	2001
Fixed asset coverage (%)	=	$\frac{\text{Stockholders' equity*}}{\text{Fixed assets}}$	79	78
Asset coverage I (%)	=	$\frac{\text{Stockholders' equity* + long-term liabilities}}{\text{Fixed assets}}$	124	124
Asset coverage II (%)	=	$\frac{\text{Stockholders' equity* + long-term liabilities}}{\text{Fixed assets + inventories}}$	100	101

* Less proposed dividend

Liquidity ratios:			2002	2001
Liquidity I (%)	=	$\frac{\text{Short-term receivables + liquid funds}}{\text{Short-term liabilities + proposed dividend}}$	86	92
Liquidity II (%)	=	$\frac{\text{Current assets}}{\text{Short-term liabilities + proposed dividend}}$	135	141
Static debt level (%)	=	$\frac{\text{Total liabilities}}{\text{Stockholders' equity}}$	117	120
Dynamic debt level (years)	=	$\frac{\text{Total liabilities – (short-term liabilities + liquid funds)}}{\text{Cash provided by operating activities}}$	5.1	5.0

3. Results of Operations by Segment

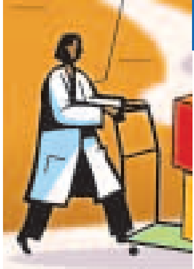
Segment overview

	Sales		Income from operations (EBIT)		Income from operations before special items	
Million €	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Chemicals	5,317	4,494	635	362	676	425
Plastics & Fibers	8,477	8,185	582	(2)	593	180
Performance Products	8,014	8,154	646	99	653	397
Agricultural Products & Nutrition	4,924	5,826	55	(162)	217	274
Thereof Agricultural Products	2,954	3,478	61	18	99	200
Fine Chemicals	1,970	1,984	(6)	(210)	118	73
Pharmaceuticals	–	364	–	30	–	1
Oil & Gas	4,199	4,516	1,210	1,308	1,210	1,308
Other*	1,285	1,325	(487)	(388)	(468)	(291)
Thereof costs of exploratory and biotechnological research	–	–	(197)	(202)	(197)	(202)
	32,216	**32,500**	**2,641**	**1,217**	**2,881**	**2,293**

	Income from operations before interest, taxes, depreciation and amortization (EBITDA)		Capital expenditures**		Assets	
Million €	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Chemicals	1,142	819	495	929	4,997	4,847
Plastics & Fibers	1,114	677	636	891	6,174	6,344
Performance Products	1,134	760	288	418	5,218	6,048
Agricultural Products & Nutrition	593	553	245	349	6,484	7,865
Thereof Agricultural Products	456	514	88	130	5,092	6,377
Fine Chemicals	137	(19)	157	199	1,392	1,488
Pharmaceuticals	–	58	–	20	–	–
Oil & Gas	1,504	1,610	920	229	3,648	3,149
Other*	(382)	(277)	471	497	8,565	8,622
	5,105	**4,142**	**3,055**	**3,313**	**35,086**	**36,875**

* "Other" includes sales and earnings of other businesses including the Fertilizers business as well as expenditures, earnings and assets not allocated to the segments. Also includes gains/losses (€(143) million, previous year €(35) million) from foreign currency financial indebtedness that is not allocated to the segments as well as currency positions that are macro-hedged. These losses have offsetting unrealized gains from currency hedges.

** Capital expenditures in tangible assets (thereof €377 million from acquisitions in 2002) and intangible assets (thereof €296 million from acquisitions in 2002)



Sales	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Chemicals	1,203	1,122	1,398	1,163	1,352	1,114	1,364	1,095
Plastics & Fibers	1,975	2,154	2,243	2,159	2,159	1,944	2,100	1,928
Performance Products	1,983	2,087	2,077	2,112	2,027	1,993	1,927	1,962
Agricultural Products & Nutrition	1,542	2,088	1,495	1,523	902	1,059	985	1,156
Thereof Agricultural Products	1,038	1,232	1,003	1,038	411	530	502	678
Fine Chemicals	504	492	492	485	491	529	483	478
Pharmaceuticals	–	364	–	–	–	–	–	–
Oil & Gas	1,226	1,443	879	981	809	921	1,285	1,171
Other	310	395	287	391	332	168	356	371
	8,239	**9,289**	**8,379**	**8,329**	7,581	**7,199**	8,017	**7,683**

Income from operations (EBIT)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Chemicals	109	101	161	104	177	119	188	38
Plastics & Fibers	95	75	211	62	182	14	94	(153)
Performance Products	119	107	210	(54)	204	87	113	(41)
Agricultural Products & Nutrition	231	224	127	151	(254)	(121)	(49)	(416)
Thereof Agricultural Products	213	209	108	126	(188)	(148)	(72)	(169)
Fine Chemicals	18	(15)	19	25	(66)	27	23	(247)
Pharmaceuticals	–	30	–	–	–	–	–	–
Oil & Gas	284	376	292	378	298	331	336	223
Other	(24)	(94)	(184)	(337)	(140)	(116)	(139)	159
	814	**789**	**817**	**304**	467	**314**	**543**	**(190)**

Income from operations before special items	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
Million €	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Chemicals	111	109	161	121	195	119	209	76
Plastics & Fibers	98	93	211	70	182	15	102	2
Performance Products	115	125	210	127	204	97	124	48
Agricultural Products & Nutrition	234	299	130	165	(152)	(114)	5	(76)
Thereof Agricultural Products	213	285	108	133	(187)	(144)	(35)	(74)
Fine Chemicals	21	13	22	32	35	30	40	(2)
Pharmaceuticals	–	1	–	–	–	–	–	–
Oil & Gas	284	376	292	378	298	331	336	233
Other	(24)	(40)	(182)	(110)	(136)	(120)	(126)	(21)
	818	**962**	**822**	**751**	591	**328**	**650**	**252**

In the following descriptions of results of operations in the segments, we make forecasts for sales and earnings in 2003. These forecasts are based on the assumption that global economic development is not negatively impacted as a result of the Iraq conflict. See page 102 ff. for further explanations of this scenario as well as an alternative scenario based on a significant negative economic impact resulting from a possible escalation of the Iraq conflict.

Chemicals

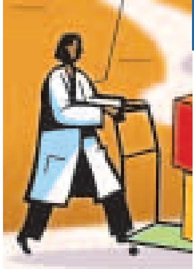
- Sales and income well above previous year's levels
- Additional capacity leads to higher sales volumes
- Improved earnings in all divisions, especially in Petrochemicals
- Previous year's restructuring and cost-reduction measures proving successful

The Chemicals segment comprises the Inorganics, Petrochemicals and Intermediates divisions.

Segment data

Million €	2002	2001	% Change from previous year
Sales to third parties	5,317	4,494	18.3
Intersegmental transfers	2,598	2,452	6.0
Sales incl. intersegmental transfers	7,915	6,946	14.0
Income from operations (EBIT)	635	362	75.4
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,142	819	39.4
Special items	(41)	(63)	34.9
Operating margin (%)	11.9	8.1	–
Assets	4,997	4,847	3.1
Return on operational assets (%)*	12.9	8.0	–
Research and development expenses	98	109	(10.1)
Capital expenditures in tangible and intangible assets	495	929	(46.7)

* Based on average of assets



In the Chemicals segment, sales to third parties increased in 2002 to €5,317 million from €4,494 million in 2001. Sales in the Intermediates division were slightly above the previous year's level, while sales in the Inorganics division were slightly lower. In the Petrochemicals division, sales increased substantially. This was due primarily to the startup of new production capacities, in particular the new steam cracker in Port Arthur, Texas. Higher sales volumes contributed 25.7% to the increase in sales. Price and currency fluctuations had a negative effect of 9.6%. Intersegmental transfers increased 6.0% from €2,452 million in 2001 to €2,598 million in 2002.

Income from operations rose in 2002 by 75.4% to €635 million, compared with €362 million in 2001. The increase in earnings resulted primarily from higher sales volumes and a corresponding improvement in capacity utilization at our production facilities, significantly lower startup costs for new plants and the restructuring and cost-cutting measures introduced in 2001, which are now beginning to take effect. All divisions reported higher earnings compared with 2001, with Petrochemicals posting the largest increase. Special items in the Petrochemicals division related to the closure of two ethylene oxide plants and one glycol plant at the site in Geismar, Louisiana.

Through the increase in inventories and receivables, assets increased 3.1% from €4,847 million in 2001 to €4,997 million in 2002. We further optimized our production activities in Europe and North America by closing unprofitable plants and investing in profitable, new production facilities. In the growing Asian market, we will achieve another milestone in the development and expansion of local production facilities with the forthcoming completion of the butanediol plant at our Verbund site in Kuantan, Malaysia.

Assuming that the economy starts to recover in 2003, we expect new production capacities to contribute to higher sales in 2003. A further improvement in earnings depends largely on developments in raw material markets.

Inorganics

In the Inorganics division, sales to third parties in 2002 declined 2.7% to €695 million from €714 million in 2001. Despite a difficult business environment, we increased sales volumes 6%. In most product lines our selling prices declined, on average by 9%. Sales of catalysts, glues, impregnating resins and basic inorganic chemicals were below the previous year's levels, but sales of inorganic specialties and electronic grade chemicals were higher due to higher sales volumes.

Income from operations improved compared with the previous year.

In 2002, we again achieved high capacity utilization rates in our plants for large-volume inorganic products, which form an important foundation for most of BASF's value-adding chains. Through such economies of scale, we were able to supply the Ludwigshafen and Antwerp Verbund sites cost-effectively. To consolidate and extend our cost leadership in the Inorganics division, we began in 2002 to refit a world-scale chlorine plant to use a state-of-the-art membrane process.

In addition to large-volume inorganic products, our product range includes innovative specialties such as heterogeneous catalysts, electronic grade chemicals and powder injection molding technology. We will continue to expand these profitable business areas in the future.

For 2003 we expect sales to increase moderately. The cost of modernization measures will, however, have a negative impact on earnings.

Petrochemicals

In the Petrochemicals division, sales to third parties in 2002 increased to €2,902 million and were 39.6 % higher than in 2001. We were able to increase sales in all product lines. Sales volumes were stable throughout the year and therefore capacity utilization at our plants was generally high. In addition, we were able to increase sales volumes due to the startup of the steam cracker in Port Arthur, Texas, in December 2001 and the expansion of the cracker in Antwerp, Belgium. Higher volumes led to a 49 % increase in sales, whereas price and currency fluctuations reduced sales by 11 %.

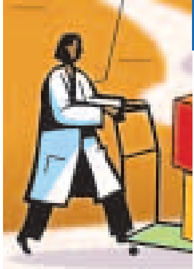
Income from operations rose significantly. This was due to higher volumes in all product lines and regions. In addition, earnings were no longer burdened by high startup costs for the steam cracker in Port Arthur, Texas, and the new plants in Kuantan, Malaysia. Special items were also lower. Special charges of €25 million in 2002 related in particular to the closure of two ethylene oxide plants and one ethylene glycol plant at the site in Geismar, Louisiana.

We substantially expanded business volumes in cracker products. Rising crude oil prices and naphtha costs could be passed on to the market only in the first half of the year.

Sales and earnings in plasticizers and solvents exceeded the previous year’s levels. However, the markets for both product lines continue to suffer from excess capacity and, as a result, from strong price and margin pressures. We will address these challenges with significant cost reductions through further rationalization and closure of production plants. In June, we started production of our new product Hexamoll® DINCH, a plasticizer for use in applications with stringent requirements such as foodwrap, medical devices and toys. This new product was favorably received by our customers.

Business in the alkylene oxides and glycols product line picked up considerably in Europe due to the expansion of ethylene oxide capacity in Antwerp, Belgium. Earnings improved as a result of high capacity utilization. In the United States, we closed underperforming production plants in Geismar, Louisiana, and are exiting gradually from the ethylene glycol business.

In 2002, capital expenditures were significantly lower compared with the high levels in recent years associated with major projects in Kuantan, Malaysia; Port Arthur, Texas; and Tarragona, Spain. Important ongoing projects are the metathesis and butadiene extraction plant in Port Arthur, Texas, which is scheduled to start operations in late 2003 or early 2004, as well as investments at our new Verbund site in Nanjing, China, which we are developing together with our partner SINOPEC.



Our capital expenditures and restructuring in recent years have helped create the necessary conditions for a sustained increase in our earning power. As a result, we expect a moderate increase in sales and earnings in 2003 despite high volatility on the raw materials markets.

Intermediates

Business with intermediates recovered in 2002, in particular in Europe and Asia, after a modest second half of 2001. Sales to third parties in 2002 increased by €19 million to €1,720 million. Increased volumes contributed 6 % to the increase in sales. Price and currency fluctuations accounted for an 8 % reduction in sales. Translated to euros, the weak U.S. dollar more than offset price increases.

Income from operations improved compared with 2001. This improvement could be traced in part to higher sales volumes for our products as well as to the normalization of natural gas prices in North America, which were high at the beginning of 2001. The availability of many of our products was restricted due to production problems at some of our competitors and plant shutdowns in Ludwigshafen, Germany, and Feluy, Belgium, related to maintenance or expansion measures.

Capital expenditures were lower than in the previous year. Numerous projects were completed in 2002. In particular, we started operations at new plants for PolyTHF® (polytetrahydrofuran), specialty amines and glyoxal in Ludwigshafen. In Freeport, Texas, we expanded our Neol® (neopentylglycol) capacity with a new plant.

Given our higher production capacities, and assuming that raw material costs rise only slightly, we expect sales in 2003 to grow above the market average and a slight improvement in income from operations.

Plastics & Fibers

- Higher sales in all divisions
- Good capacity utilization and measures to improve efficiency lead to substantially higher earnings
- New plants optimize cost structure
- Polyurethanes business performs well
- Improved contribution to earnings from Performance Polymers and Styrenics

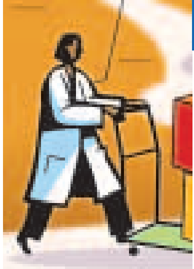
The Plastics & Fibers segment comprises the Styrenics, Performance Polymers and Polyurethanes divisions.

Segment data

Million €	2002	2001	% Change from previous year
Sales to third parties	8,477	8,185	3.6
Intersegmental transfers	436	406	7.4
Sales incl. intersegmental transfers	8,913	8,591	3.7
Income from operations (EBIT)	582	(2)	.
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,114	677	64.5
Special items	(11)	(182)	94.0
Operating margin (%)	6.9	**	–
Assets	6.174	6,344	(2.7)
Return on operational assets (%) *	9.3	**	–
Research expenses	138	146	(5.5)
Capital expenditures in tangible and intangible assets	636	891	(28.6)

* Based on average of assets
** Negative

Sales to third parties in 2002 increased 3.6 % to €8,477 million from €8,185 million in 2001. Stronger customer demand led to significantly higher sales volumes, which accounted for an 11.6 % increase in sales. Declining prices and negative currency effects reduced sales by 8 %. Sales increased in all three divisions, in particular for polyurethane products and styrenics.



Income from operations rose to €582 million, compared with a loss of €2 million in 2001. All three divisions contributed significantly to the increase in earnings, which was due in particular to much stronger demand and correspondingly good capacity utilization, the closure of underperforming plants started in 2001, and a reduction in fixed costs. Earnings also improved due to a significantly lower level of special items. Capital expenditures were lower than in 2001.

Assuming the economy begins to recover in 2003, we expect sales at approximately the same level as in 2002 and a slight increase in earnings in 2003.

At the beginning of 2003 agreements were signed with Honeywell International Inc., Morris Township, New Jersey, to acquire their engineering plastics business and sell our nylon fibers business to Honeywell. Through these portfolio swaps, we are further strengthening our position as a leading international supplier of engineering plastics. The two transactions are likely to be neutral with regard to sales and earnings in 2003.

Styrenics

In the Styrenics division, sales to third parties rose 3.7 % in 2002 to €3,387 million compared with €3,267 million in the previous year. Sales increased due to significantly higher demand compared with 2001 in the face of negative price/currency effects.

Income from operations increased considerably in 2002. This was due primarily to higher capacity utilization. The second and third quarters in 2002 were affected by rising raw material costs as well as a worldwide shortage of styrene. The higher raw material costs could not be passed on in full to the market. Asia was the largest growth market for styrene. Overall, we significantly improved income from operations compared with 2001 in all major regions.

A Styrodur® plant was closed in Antwerp, Belgium. Production was transferred to a new plant that can be operated with lower production and logistic costs started operations in Tarragona, Spain. The replacement plants for ethyl benzene/styrene at the Ludwigshafen site started operations at the end of 2002 and will ensure more efficient supplies of styrene.

In a difficult business environment we expect to maintain sales and income from operations in 2003 at the previous year's level despite rising raw material costs.

Performance Polymers

In the Performance Polymers division, sales to third parties in 2002 rose by 1.3 % to €2,270 million from €2,241 million in 2001. Sales volumes increased by 9 %, in particular due to increasing demand for nylon 6 precursors as well as the continuing expansion of our worldwide engineering plastics business. Prices remained under pressure, largely due to the strength of the euro, which was unfavorable for our export business.

As a result of the restructuring measures we introduced in 2001 and continued in 2002, we have significantly reduced fixed costs, especially in the NAFTA region. The scheduled shutdown of Ultraform® production in the United States and the sale of our business with the melamine fiber Basofil® will support this trend and allow for a further improvement in earnings. High capacity utilization at our production plants also contributed to the improvement in income from operations.

In 2003, we expect increases in both sales and income from operations, provided that the economy begins to recover this year. At the beginning of 2003 agreements were signed with Honeywell International Inc., Morris Township, New Jersey, to acquire their engineering plastics business and sell our nylon fibers business to Honeywell.

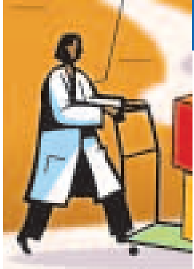
Polyurethanes

In the Polyurethanes division, sales to third parties in 2002 increased by 5.3 % to €2,820 million from €2,677 million in 2001. Volume growth compared with 2001 contributed 12 % to the increase in sales. Demand for polyurethanes rose, in particular in Asia and the United States. Price and currency fluctuations accounted for a 7 % reduction in sales.

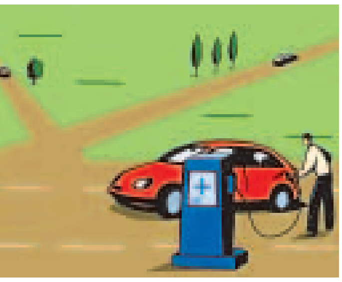
Income from operations increased compared with 2001 despite high raw material costs and persistently unsatisfactory margins. Productivity increases and cost-cutting measures contributed to earnings in addition to the development in sales volumes. We were able to improve our cost structure through the new TDI (toluene diisocyanate) plant in Geismar, Louisiana, which started operations in May 2002 and replaced an old plant. We will be able to reduce costs further in 2003, the first full year of plant operation.

In addition to the TDI plant in the United States, the largest capital expenditures in the Polyurethanes division were the expansion of our MDI (diphenylmethane diisocyanate) plant in Antwerp, Belgium, which came on stream in late 2002, and the construction of an SM/PO (styrene monomer/propylene oxide) plant in Singapore, by the ELLBA Eastern (Pte.) Ltd. joint venture with Shell. This plant started operations in the second half of 2002 and is intended to significantly improve supplies of propylene oxide in Asia.

For 2003, we expect the polyurethanes market to grow by about 5 % in a difficult economic environment, and we intend to maintain our share of this growing market. One element will be the startup of our TDI plant in Yeosu, South Korea, in the third quarter of 2003. This plant has a maximum annual capacity of 140,000 metric tons. In the short term it will optimize our supply situation in Asia and in the medium term it will provide the means for growing with the market. We expect to improve earnings in 2003 as a result of this growth and by continuing to optimize our cost structures.



Performance Products



- Sales slightly below previous year's level
- Significant improvement in earnings in all divisions
- Restructuring measures pay off
- Focus on profitable products and system solutions

The Performance Products segment consists of the operating divisions Performance Chemicals, Coatings and Functional Polymers.

Segment data

Million €	2002	2001	% Change from previous year
Sales to third parties	8,014	8,154	(1.7)
Intersegmental transfers	326	322	1.2
Sales incl. intersegmental transfers	8,340	8,476	(1.6)
Income from operations (EBIT)	646	99	.
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,134	760	49.2
Special items	(7)	(298)	97.7
Operating margin (%)	8.1	1.2	–
Assets	5,218	6,048	(13.7)
Return on operational assets (%) *	11.5	1.6	–
Research expenses	222	197	12.7
Capital expenditures in tangible and intangible assets	288	418	(31.1)

* Based on average of assets

Sales to third parties in the Performance Products segment declined 1.7 % in 2002 to €8,014 million, compared with €8,154 million in 2001. Higher sales volumes led to a 6.1 % increase in sales, in particular in the Performance Chemicals and Functional Polymers divisions. Ongoing price pressure and negative currency effects in all divisions reduced sales by 7.8 %.

Income from operations rose from €99 million in 2001 to €646 million in 2002. This was due to significantly lower special items, an improved cost structure due to the restructuring measures introduced in 2001, and portfolio optimization with a focus on more profitable products.

In 2002, assets in the segment declined to €5,218 million from €6,048 million in 2001. Depreciation was in excess of capital expenditures. Inventories and receivables were reduced.

Assuming that the economy starts to recover in 2003 and that our cost structures improve further as a result of the measures introduced in 2001, we expect sales in 2003 to be at approximately the same level as in 2002 and earnings to improve slightly.

Performance Chemicals

Despite the difficult global economic climate, sales to third parties of €3,343 million were just below the previous year's level of €3,345 million. Growth was strongest in Asia. In South America, sales declined due to the currency crises in Brazil and Argentina, as well as to the difficult economic environment. A 7 % increase in sales volumes was offset by negative price and currency effects, in particular the strengthening of the euro against the U.S. dollar.

All business units contributed to a significant increase in income from operations. In performance chemicals for coatings, plastics and specialties, we maintained business at a satisfactory level despite intense competition. Our printing plates business grew against the market trend. We have widened our product range for the automotive and oil industry and increased production through cost-effective capacity expansions. Our plants for products for the detergents and cleaning agents industry are operating at a high level of capacity utilization. Despite significant expansion in Asia, sales of textile and leather chemicals declined slightly overall.

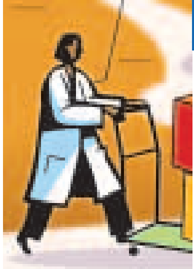
We reduced working capital through our efforts to lower inventory levels and a decline in receivables.

In view of economic trends and the strengthening of the euro, we expect moderate sales growth in the entire division in 2003. We aim to achieve a slight increase in income from operations.

Coatings

In the Coatings division, sales to third parties in 2002 declined 6.6 % to €2,137 million compared with €2,287 million in 2001. Sales volumes were below the previous year's level, mainly because our decorative paint customers in South America reduced their inventories during the first half of the year as planned. Overall, we were able to increase prices slightly. The decline in sales is due primarily to currency effects, in particular the devaluation of the Brazilian real as well as the weakening of the U.S. dollar and the Japanese yen against the euro.

Trends in our business units were as follows: Automotive (OEM) coatings performed well at a high level despite a decline in automobile production. This success can be ascribed to tried and tested service concepts through which we expand cooperation with our customers and optimize the total costs of the coating process. Further, our success is based on the market launch of innovative and eco-efficient products, such as our new cathodic dip coating Cathoguard® 500. Automotive refinish coatings are a strong pillar of our coatings business. Here, we have stabilized our good position with our new Glasurit® and R-M® global brands. Our newly launched Salcomix® mixing system rounds out our portfolio. In industrial coatings, restructuring and innovation were the top priorities. This applies to production, marketing and sales as well as customer and portfolio management. Our efforts have improved our cost structures. In South America, we have solidified the leading position of our Suvinil® brand in the market for decorative paints.



Compared with the previous year, we were able to improve income from operations substantially in all business units through measures to improve efficiency, cost reductions and restructuring. An important contribution came from a reduction in fixed costs compared with 2001, in particular in our industrial coatings business in Europe. Devaluation losses in Argentina burdened earnings.

For 2003, we are again expecting sales to rise, assuming that the automotive industry in Europe recovers and that a slump does not occur in U.S. automobile production. We will persist in addressing the continuing difficult economic environment by introducing further innovative technologies and by further expanding our successful system supplier business. We therefore expect a further increase in earnings in 2003.

Functional Polymers

In the Functional Polymers division, sales to third parties in 2002 increased by 0.5 % to €2,534 million from €2,522 million in 2001. Higher sales volumes contributed to an 11 % increase in sales. Price and currency effects accounted for a 10 % reduction in sales. We were able to substantially increase sales volumes in all product groups, in particular in acrylic monomers, paper coating binders and dispersions for the construction industry. In Asia, the increase in sales volumes was much greater than in the other regions.

We were able to improve income from operations considerably compared with the previous year, despite continued strong competitive pressure due to global excess capacity. The restructuring measures we completed had a particularly positive effect on earnings.

In Nanjing, China, we laid the foundation stone for BASF's second Verbund site in the Asian growth region. We expect to start producing acrylic acid and acrylic esters at this site in 2005. In Hamina, Finland, we started operations at a new plant for paper coating binders, which will allow us to supply the important Scandinavian market from production in the region. We also successfully brought our new superabsorbents plant in Antwerp, Belgium, on stream.

We anticipate that in 2003 overall demand will continue to recover, and therefore expect a slight increase in sales and a further improvement in earnings.

Agricultural Products & Nutrition

- Sales decline 16%
- Income from operations improves due to lower special items
- Integration synergies of more than €250 million achieved in the crop protection business
- Special charges from pre-1999 antitrust violations in the vitamins business

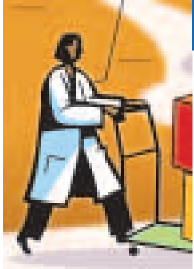
The Agricultural Products & Nutrition segment comprises the Agricultural Products and Fine Chemicals divisions. The pharmaceuticals business, which was sold at the end of February 2001, is included in the previous year's segment data through that date.

Segment data

Million €	2002	2001	% Change from previous year
Sales to third parties	4,924	5,826	(15.5)
Intersegmental transfers	44	62	(29.0)
Sales incl. intersegmental transfers	4,968	5,888	(15.6)
Income from operations (EBIT)	55	(162)	.
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	593	553	7.2
Special items	(162)	(436)	62.8
Operating margin (%)	1.1	**	–
Assets	6,484	7,865	(17.6)
Return on operational assets (%)*	0.8	**	–
Research expenses	367	497***	(26.2)
Capital expenditures in tangible and intangible assets	245	349	(29.8)

* Based on average of assets
** Negative
*** Thereof €74 million for the pharmaceuticals business sold in 2001

In the Agricultural Products & Nutrition segment, sales to third parties in 2002 were €4,924 million, compared with €5,462 million in 2001 after excluding the pharmaceuticals business, which we sold in that year. On a comparable basis, sales declined 9.8%. Price and currency effects reduced sales by 4.8%, in particular as a result of the weakening of the U.S. dollar against the euro and the devaluation of the Brazilian real. The decrease in segment sales is primarily due to a decline in business with agricultural chemicals in a very difficult market environment, in particular in North and South America. Sales in the Fine Chemicals division in 2002 declined 0.7% to €1,970 million.



At €55 million, income from operations was substantially higher in 2002 due to a lower level of special charges. We achieved integration synergies of €250 million from the integration of the crop protection business acquired from American Home Products Corp. (AHP) in 2000, for example by closing the Princeton research center in New Jersey. These synergies partially offset the decline in earnings caused by lower sales.

Special items of €162 million burdened segment earnings. These included a provision of €100 million for possible payments related to compensation claims in the vitamins business. The Agricultural Products division incurred special charges for restructuring measures and for the closure of research facilities in Ebina, Japan, and Greenville, Mississipi; formulation sites in Chungli, Taiwan, and Barranquilla, Columbia; as well as a formulation plant in Hannibal, Missouri. Special charges were also related to the closure of production at the site in Paulínia, Brazil.

The segment's assets declined €1,381 million to €6,484 million. Reductions in inventories and receivables from third parties accounted for €763 million of this decline, which was favored to some extent by currency translation effects. Capital expenditures were lower than depreciation. In addition, currency translation effects – in particular as a result of the weaker U.S. dollar – led to a decline in fixed assets. Capital expenditures were primarily related to our research facilities in the Agricultural Products division, and, in the Fine Chemicals division, the expansion of plants for vitamin E and precursors in Ludwigshafen, and the construction of a new vitamin B_2 plant in Gunsan, South Korea.

In both divisions, we expect sales and earnings to improve in 2003 in a market environment that continues to be difficult. In the Agricultural Products division, an agreement was reached on October 28, 2002 to acquire the insecticide fipronil and a series of fungicides from Bayer CropScience AG. The acquisition is subject to approval by the relevant antitrust authorities.

Agricultural Products

Division data

Million €	2002	2001	% Change from previous year
Sales to third parties	2,954	3,478	(15.1)
Intersegmental transfers	21	30	(30.0)
Sales incl. intersegmental transfers	2,975	3,508	(15.2)
Income from operations (EBIT)	61	18	238.9
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	456	514	(11.3)
Special items	(38)	(182)	79.1
Operating margin (%)	2.1	0.5	–
Assets	5,092	6,377	(20.2)
Return on operational assets (%) *	1.1	0.3	–
Research expenses	285	345	(17.4)
Capital expenditures in tangible and intangible assets	88	130	(32.3)

* Based on average of assets

Sales in the Agricultural Products division in 2002 were €2,954 million, compared with €3,478 million in 2001 (volumes down 12%, prices/currency down 3%). Sales volumes declined in particular in North and South America. The negative price and currency effects were due primarily to the weakening of the U.S. dollar against the euro and the devaluation of the Brazilian real.

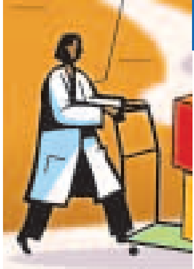
Sales development differed considerably from region to region. In North America, sales declined 25 % to €945 million due to lower sales volumes and negative currency effects. In South America, we reduced our credit risk by maintaining our restrictive sales policy in Argentina and by repurchasing inventory from the market in Brazil. Sales in South America declined 38 % to €335 million as a result of these measures and negative currency effects. Sales in Europe rose by 4.3 % to €1,320 million, while in Asia they declined 13 % to €354 million.

In 2002, we achieved income from operations of €61 million, compared with €18 million in 2001 thereby improving income from operations by €43 million. Special items reduced earnings by €38 million. Our earnings situation is unsatisfactory and a series of measures have been introduced to improve it significantly.

In 2002, capital employed was reduced to a total of €5,092 million from €6,377 million in 2001. This was due in particular to a reduction of inventories and receivables as well as a decline in non-current assets by scheduled amortization and depreciation, which exceeded capital expenditures.

Expenses for research and development declined 17.4 % to €285 million following the closure of the research center in Princeton, New Jersey; as a percentage of sales, these expenses declined from 9.9 % to 9.6 %.

Following the integration of the crop protection business acquired from American Home Products Corp. (AHP) in 2000, we realized integration synergies of more than €250 million for the first time in 2002. In 2003, we will introduce measures to further reduce costs by approximately €100 million. In a persistently difficult market environment, we expect sales and earnings to rise in 2003. This expectation is based on the successful launch of new products and a stabilization of the economic situation in South America.



Fine Chemicals

Division data

Million €	2002	2001	% Change from previous year
Sales to third parties	1,970	1,984	(0.7)
Intersegmental transfers	36	29	24.1
Sales incl. intersegmental transfers	2,006	2,013	(0.3)
Income from operations (EBIT)	(6)	(210)	97.1
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	137	(19)	.
Special items	(124)	(283)	56.2
Operating margin (%)	**	**	–
Assets	1,392	1,488	(6.5)
Return on operational assets (%)*	**	**	–
Research expenses	82	78	5.1
Capital expenditures in tangible and intangible assets	157	199	(21.1)

* Based on average of assets
** Negative

In the Fine Chemicals division, sales to third parties in 2002 declined 0.7 % to €1,970 million (volumes up 7 %, prices/currency down 8 %). The animal nutrition business posted higher sales of fat-soluble vitamins as well as enzymes. In human nutrition, sales of carotenoids and caffeine were higher. In both animal and human nutrition, sales of water-soluble vitamins declined. In our business with the pharmaceutical industry, the new area of contract manufacturing showed particularly strong growth. Sales in the cosmetic ingredients product line were affected by slower growth in the cosmetics industry.

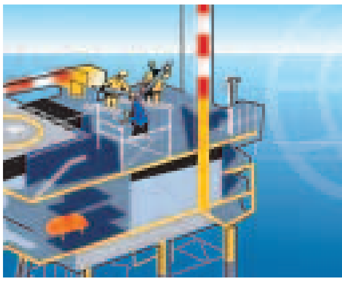
In 2002, income from operations was €(6) million compared with €(210) million in 2001. This was due in particular to a lower level of special charges, which declined from €283 million in 2001 to €124 million in 2002. In both years, these special charges were primarily related to antitrust violations in the vitamins business prior to 1999. Higher volumes as well as cost savings due to restructuring measures in North American manufacturing and in the premix business contributed positively to our earnings in 2002.

In 2002, assets in the Fine Chemicals division were reduced by 6.5 % to €1,392 million from €1,488 million in 2001. This was due to scheduled depreciation of intangible assets as well as reductions in inventory and receivables. Tangible assets were slightly higher than in 2001. Additions to fixed assets included capacity expansion for vitamin E, carotenoids and Lysmeral®, as well as new plants for vitamin B_2 and citral.

For 2003, we expect an increase in sales and earnings.

Oil & Gas

- Sales down compared with 2001 due to a weak dollar and lower prices for natural gas
- Earnings remain at a very high level
- Natural gas trading increasingly important
- Production of oil and gas maintained at previous year's level despite renewed reduction of OPEC production quotas
- Acquisition of Clyde Netherlands B.V. strengthens exploration and production



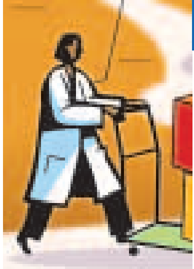
Segment data

Million €	2002	2001	% Change from previous year
Sales to third parties	4,199	4,516	(7.0)
Intersegmental transfers	363	413	(12.1)
Sales incl. intersegmental transfers	4,562	4,929	(7.4)
Income from operations (EBIT)	1,210	1,308	(7.5)
Income from operations before interest, taxes, depreciation and amortization (EBITDA)	1,504	1,610	(6.6)
Special items	0	0	0.0
Operating margin (%)	28.8	29.0	–
Assets	3,648	3,149	15.8
Return on operational assets (%)*	35.6	39.1	–
Research expenses	113	95	18.9
Capital expenditures in tangible and intangible assets	920	229	301.7

* Based on average of assets

In the Oil & Gas segment, sales to third parties in 2002 declined 7 % to €4,199 million from €4,516 million in 2001 (volumes up 5.6 %, prices/currency down 13.1 %. A further increase in sales volumes did not result in higher sales, because the effects were offset by the weakening of the U.S. dollar against the euro and lower average prices for natural gas in 2002.

Sales to third parties in our natural gas trading business declined 3.5 % in 2002 to €2,173 million, compared with €2,251 million in 2001. The decline in natural gas prices was a major contributing factor. Natural gas prices are strongly correlated with crude oil prices only with a time lag. In 2002, this led to a lower price level than in 2001. We were able to increase natural gas sales volumes 11 % to 239 billion kilowatt-hours despite stagnating overall demand in Germany as a result of mild weather.



In our exploration and production activities, sales declined by 10.6 % to €2,016 million compared with €2,254 million in 2001. At $25 per barrel, the average price of U.K. Brent quality crude oil in 2002 barely changed in comparison with the previous year. As a result of the substantial weakening of the U.S. dollar against the euro in the second half of 2002, sales on a euro basis, however, declined 3.0 %. Our production of 93 million barrels of crude oil and natural gas oil equivalent achieved the previous year's level despite further limitations on our oil production in North Africa because of OPEC resolutions. This amount includes initial quantities from the Clyde Netherlands B.V. acquisition since the beginning of November 2002. Through this acquisition, we have more than doubled both our production and our reserves in the Netherlands and the Dutch North Sea, and gained a very attractive exploration portfolio.

Compared with 2001, intersegmental transfers declined from €413 million to €363 million in 2002, primarily as a result of lower natural gas prices.

Income from operations decreased €98 million to €1,210 million in 2002, nearly reaching the previous year's high level. Natural gas trading increased its contribution to earnings. Despite difficult economic conditions, Argentina was again the source of a significant contribution to total earnings.

Income from operations is shown before income taxes on oil-producing operations in North Africa and the Middle East. These taxes are recorded as income tax expenses (see Note 10 to the Consolidated Financial Statements).

Assets in the Oil & Gas segment increased 15.8 % to €3,648 million in 2002 from €3,149 million in 2001, primarily due to the acquisition of Clyde Netherlands B.V. Additions to tangible assets mainly involved development projects for exploration and production activities in North Africa, Argentina and Germany. Exploration activities were conducted intensively and with very positive results. In 2002, we discovered five new gas fields in the Netherlands, Argentina and Romania and one new oil field in Libya. We have achieved internationally competitive finding and development costs by using the most advanced technologies and focusing on particularly promising regions.

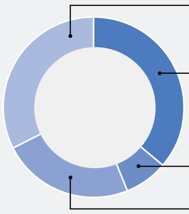
In 2002, crude oil prices were affected by a series of speculative influences. We expect average crude oil prices to decline in 2003. By expanding our business activities, we expect to be able to offset to some extent the resulting negative influences on sales and earnings.

4. Regional Report

- Income from operations in Europe above the previous year's level
- Positive earnings in the NAFTA region after high losses in the previous year
- Business in South American affected by economic crises
- Strong upward trend in Asia

Regions (location of company)	Sales			Income from operations (EBIT)			Income from operations before special items		
Million €	**2002**	**2001**	**Change %**	**2002**	**2001**	**Change %**	**2002**	**2001**	**Change %**
Europe	18,987	19,399	(2.1)	2,357	1,926	22.4	2,536	2,535	0.0
Thereof Germany	13,315	13,417	(0.8)	1,690	1,347	25.5	1,871	1,725	8.5
North America (NAFTA)	7,932	7,772	2.1	23	(678)	.	74	(247)	.
South America	1,347	1,842	(26.9)	58	(3)	.	64	11	481.8
Asia, Pacific Area, Africa	3,950	3,487	13.3	203	(28)	.	207	(6)	.
	32,216	**32,500**	**(0.9)**	**2.641**	**1,217**	**117.3**	**2,881**	**2,293**	**25.6**

Sales by region (location of customer)
Million €



		Percent	Change in %
Europe	17,697	54.9	(1.6)
Thereof Germany	6,944	21.6	(3.7)
North America (NAFTA)	7,808	24.2	2.0
South America	1,660	5.2	(24.1)
Asia, Pacific Area, Africa	5,051	15.7	8.1
Total	32,216		

Europe

In 2002, sales in Europe totaled €17,697 million. This was €287 million or 1.6 % less than in 2001. Excluding sales of pharmaceuticals, which were still included in the first two months of 2001, sales declined €144 million or 0.8 %. Sales in both the Chemicals and the Plastics & Fibers segments were below the previous year's level. Sales in the Performance Products segment remained at the previous year's level, despite weak demand in consumer goods and – the construction industry. Sales of textile and leather chemicals declined, reflecting the difficult situation in these industries. Sales in the Agricultural Products & Nutrition segment increased in 2002 after excluding sales of pharmaceuticals, which were included in the first two months of 2001. Sales grew as a result of our strong market presence and new product launches in the Agricultural Products division. All product lines in the Fine Chemicals division contributed to that division's higher sales. In the Oil & Gas segment, the previous year's sales levels were not quite reached due to lower natural gas prices and a weaker U.S. dollar.

At €2,357 million, income from operations was €431 million or 22.4 % higher than in 2001. This was mainly due to lower special charges and a better cost structure as a result of the changes introduced in 2001.

North America (NAFTA)

Sales in the NAFTA region rose in 2002 by 2 % to €7,808 million. This was due in particular to higher sales in the Petrochemicals division following the startup of the new steam cracker in Port Arthur, Texas. In the Plastics & Fibers segment, sales were 1.9 % lower than in 2001. Sales in the Performance Products segment declined 2.9 %. Sales in the Agricultural Products & Nutrition segment were lower. In particular, sales in the Agricultural Products division were lower than in the previous year, mainly because of more intense competition, unfavorable weather conditions and deliberate inventory reductions in the distribution channels.

Income from operations in 2002 was again positive at €23 million following high losses in 2001. The improvement of €701 million contributed substantially to higher Group earnings. Lower special charges and reduced startup costs for new plants were key factors in the increase in earnings. Cost reductions achieved through measures introduced in the previous year also had a positive impact, as did the improved business climate in most divisions. Nevertheless, prices in important markets remain under pressure as a result of excess capacity.

South America

Sales fell 24.1 % to €1,660 million, due mainly to the 30% decline in the value of the Brazilian real and the 70% decline in the value of the Argentine peso against the euro. In view of the tense economic situation in Argentina and Brazil, we continued to apply cautious business policies, such as secured payment before delivery and shorter payment terms, especially in the Agricultural Products division.

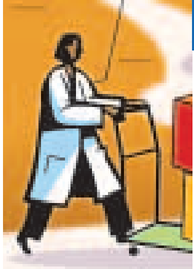
Following a loss of €3 million 2001, income from operations was positive last year as a result of the stable contribution from the Oil & Gas segment and lower charges compared with 2001 related to the devaluation of the Argentine peso after it was unpegged from the dollar. In Brazil, we closed the São Caetano site and stopped production in Paulínia. In Venezuela, the Turmero site was closed and in Columbia, the Barranquilla site was sold.

Asia, Pacific Area, Africa

Sales in the Asia, Pacific Area and Africa region rose by 8.1 % to €5,051 million. The Chemicals and Plastics & Fibers segments in particular achieved higher sales. A major contribution to this result was the ELLBA Eastern (Pte.) Ltd. joint venture with Shell, which started production of propylene oxide and styrene monomers in the second half of the year.

Income from operations was €203 million in 2002 after a loss of €28 million in the previous year. This was due to lower special charges and to increased earnings in the Plastics & Fibers and Chemicals segments. A positive trend was also seen in the Performance Products segment, partly because of the first full year of operation at the site in Kuantan, Malaysia. Business also developed more favorably in the textiles and leather chemicals businesses, as well as in pigment production.

The most important capital expenditures in the regions are described on page 52 ff. under "Liquidity and Capital Resources."



5. Liquidity and Capital Resources

- Cash provided by operating activities at last year's level
- Capital expenditures reduced as planned
- 13.1 million shares bought back

Statements of Cash Flows

Million €	2002	2001
Net income*	1,504	(118)
Depreciation of fixed assets	2,502	2,933
Changes in net current assets	(1,033)	(682)
Miscellaneous items	(660)	186
Cash provided by operating activities	**2,313**	**2,319**
Additions to tangible and intangible fixed assets	(2,410)	(2,811)
Acquisitions/divestitures, net	(262)	7,043
Financial investments and other items	508	(112)
Cash provided by (used in) investing activities	**(2,164)**	**4,120**
Proceeds from capital increases	(462)	(1,124)
Changes in financial indebtedness	1,040	(4,293)
Dividends	(843)	(1,266)
Cash provided by (used in) financing activities	**(265)**	**(6,683)**
Net changes in cash and cash equivalents	(116)	(244)
Initial cash and cash equivalents and other changes	347	604
Cash and cash equivalents	**231**	**360**
Marketable securities	132	383
Liquid funds	**363**	**743**

* Excluding extraordinary income

Cash provided by operating activities

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

Cash provided by (used in) investment activities

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

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

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

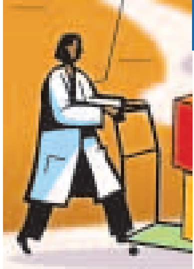
On a regional basis, capital expenditures on tangible and intangible fixed assets were as follows:

	2002 in %	2001 in %
Europe	65	47
North America (NAFTA)	12	23
South America	3	4
Asia, Pacific Area, Africa	20	26

In the **Chemicals segment,** capital expenditures and acquisitions declined 46.7 % to €495 million in 2002 compared with €929 million in 2001. Major projects included:

Europe

- Modernization of the chloralkali electrolysis plant in Ludwigshafen, Germany, involving conversion to a membrane process.
- Startup of expanded glyoxal capacity in Ludwigshafen, Germany.
- Startup of expanded capacity for PolyTHF® (polytetrahydrofuran) in Ludwigshafen, Germany.



North and South America

- Construction of a C_4-complex downstream of the new steam cracker in Port Arthur, Texas.
- Startup of the new neopentylglycol plant in Freeport, Texas.

Asia

- A plant for producing butanediol at the new Verbund site in Kuantan, Malaysia.

In the **Plastics & Fibers segment,** capital expenditures and acquisitions in 2002 totaled €636 million. This corresponds to a decline of 28.6 % compared with the previous year. The largest projects were as follows:

Europe

- Startup of the replacement plants for ethyl benzene/styrene in Ludwigshafen, Germany.
- Completion of a capacity expansion for Ultrason® production in Ludwigshafen, Germany.
- Startup of expanded Cellasto® production in Lemförde, Germany.
- Startup of expanded MDI (diphenylmethane diisocyanate) production capacity in Antwerp, Belgium.
- Plant for Basotect® in Schwarzheide, Germany.

North and South America

- A Styrolux® plant in Altamira, Mexico.
- Startup of the replacement plant for TDI (toluene diisocyanate) in Geismar, Louisiana.

Asia

- A TDI (toluene diisocyanate) plant in Yeosu, South Korea.
- Startup of the new plant for propylene oxide and styrene monomer in Singapore at the ELLBA Eastern (Pte.) Ltd. joint venture with Shell.

In the **Performance Products segment,** capital expenditures and acquisitions in 2002 declined by 31.1 % to €288 million. In 2001 they stood at €418 million. Major investment projects initiated or completed were as follows:

Europe

- Startup of the new plant for the manufacture of superabsorbents in Antwerp, Belgium.
- Startup of the new plant for paper coating binders in Hamina, Finland.
- A plant for methanesulfonic acid in Ludwigshafen, Germany.
- Capacity expansion for triphenylphosphine in Ludwigshafen, Germany.

In the **Agricultural Products & Nutrition segment,** capital expenditure and acquisitions in 2002 totaled €245 million. This was €104 million less than in the previous year.

The Agricultural Products division invested a total of €88 million in 2002. Investment was related to optimization projects at various sites. The previously announced acquisition of a package of crop protection products from Bayer CropScience AG is expected to be completed in spring 2003.

The Fine Chemicals division spent €157 million on capital expenditures and acquisitions in 2002. The division's capital expenditures in 2001 totaled €199 million, which included the acquisition of Takeda's vitamins business. The most important investments in 2002 included expansion of the plant for vitamin E and precursors in Ludwigshafen, Germany, and construction of a new vitamin B_2 plant in Gunsan, South Korea.

In the **Oil & Gas segment,** we invested €920 million compared with €229 million in the previous year. The majority of this was in exploration and production. In addition, Wintershall Nederland B.V. acquired Clyde Netherlands B.V. , which has substantial oil and gas activities in the Dutch North Sea and further operations on the Dutch mainland, from ConocoPhillips, Houston, Texas.

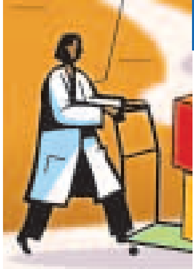
Cash provided by (used in) financing activities

In 2002, cash used in financing activities was €265 million. We bought back 13.1 million shares for €500 million at an average price of €38.20 per share (see page 16).

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

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

	2002 in %	2001 in %
Euros	52.9	48.9
U.S. dollars	35.6	28.3
Renminbi	1.4	5.5
Other currencies	10.1	17.3



Liquid funds

Cash and cash equivalents decreased by €129 million in 2002. Marketable securities declined to €132 million due to the sales made in the past year. Total liquid funds at the end of 2002 amounted to €363 million. Liquid funds as a percentage of total assets was 1.0 % and was considerably lower than 2.0 % in 2001.

Commitments for investments

In 2003, BASF is planning total capital expenditures of €2 billion. Major projects by segment include:

Chemicals

- Construction of a steam cracker at the new Verbund site now being built in Nanjing, China.
- Plants for oxo-C_4, ethylene oxide, glycol, methylamine, DMF, formic acid and propionic acid at the Verbund site in Nanjing, China.
- A THF and PolyTHF® (tetra-, polytetrahydrofuran) plant in Caojing, China.

Plastics & Fibers

- Construction of production plants for TDI (toluene diisocyanate) and MDI (diphenylmethane diisocyanate) in Caojing, China.
- Expansion of production capacity for MDI (diphenylmethane diisocyanate) in Yeosu, South Korea.
- Acquisition of the engineering plastics business from Honeywell International Inc., Morris Township, New Jersey.

Performance Products

- Plants for acrylic acid and acrylates at the new Verbund site now being built in Nanjing, China.
- Expansion of capacity for crospovidone (Divergan® and Kollidon® brands) and construction of a new plant for Crosspure® F (recyclable filter aid for the beverage industry) in Ludwigshafen, Germany.

Agricultural Products & Nutrition

- A plant for citral and derivatives in Ludwigshafen, Germany.
- Expansion of carotenoid production capacity in Ludwigshafen, Germany.

Oil & Gas

- Increase of crude oil production in the Mittelplate field in north Germany.
- Optimization and expansion of hydrocarbon production in North Africa.
- Development of new natural gas reserves in the Dutch North Sea.

6. Portfolio Management

- Portfolio further optimized
- Crop protection business area extended
- Plastics business strengthened
- Divestiture of the fibers business initiated
- Feed additives product portfolio expanded

We selectively employ acquisitions, divestitures and strategic alliances to develop our portfolio in line with our strategy.

Between 1993 and 2002, we divested businesses corresponding to approximately one-third of our sales. In turn, we acquired new, future-oriented businesses with about the same amount of sales.

Acquisitions

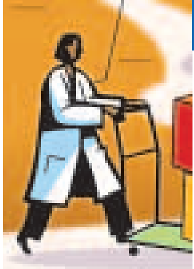
In our acquisitions we focus strategically on:

• the expansion of profitable, innovative and cyclically resilient businesses,
• the optimization of our value-adding chains; and
• the goal of being among the top three suppliers in important product groups.

Some current examples illustrate our acquisition strategy:

With the acquisition of a package of crop protection products from Bayer CropScience AG, we intend to further strengthen and ensure the long-term competitiveness of the crop protection business we expanded in 2000 with the purchase of the crop protection business of American Home Products Corp. (AHP). The agreement with Bayer was signed on October 28, 2002. The transaction is subject to approval by the antitrust authorities. The package includes the new chemistry insecticide fipronil as well as selected fungicides for seed treatment. The package generated sales of €500 million in 2001. This acquisition expands our insecticides portfolio and provides access to attractive specialty markets.

We are acquiring the worldwide engineering plastics business of Honeywell International Inc., Morris Township, New Jersey, which had sales of approximately €400 million in 2002, to further improve our position as a powerful international supplier of engineering plastics. We signed an agreement to this effect with Honeywell International Inc. on January 14, 2003. The transaction is pending antitrust approval.



BASF is already a market leader in the area of feed additives. One of our strategic goals is to further expand this business area and ensure its continued profitability through new products. Accordingly, on April 24, 2002, we acquired the Formi® (potassium diformate) business from Hydro Formates, a subsidiary of the Norwegian company Norsk Hydro. Formi® is the first approved alternative to feed antibiotics for use in pig breeding. This acquisition expands our existing product portfolio of vitamins, carotenoids, enzymes, organic acids and lysine. It also means a forward integration of our activities with formic acid, in which we are the world's market and technology leader.

Our Wintershall subsidiary pursues a clear growth strategy focusing on certain regions in its oil and gas exploration and production activities. With the acquisition of Clyde Netherlands B.V., which has substantial oil and gas production operations in the Dutch North Sea and other activities on the Dutch mainland, we have doubled our production and reserves in the Netherlands and thus further expanded our activities in the North Sea region. The acquisition was retroactive to July 1, 2002.

Our position in the automotive refinish coatings market in the Asia Pacific region has been strengthened by our full acquisition of Wattyl Australia Pty. Ltd., the third largest supplier of refinish coatings in Australia, effective June 28, 2002. BASF Coatings AG had owned a 51% stake in this company since July 1, 1999.

Divestitures

We sell businesses that are unlikely to show long-term profitability as part of our product portfolio.

We are therefore selling our nylon fibers business to Honeywell International Inc., Morris Township, New Jersey. We signed a corresponding agreement with Honeywell International Inc. on January 14, 2003. The transaction will probably be completed during the first half of 2003 and is subject to antitrust approval. In 2002, our nylon fibers business posted sales of €380 million.

In our business with standard plastics, we want to concentrate on operating cost-efficient world-scale plants for large-volume products. Accordingly, as of June 1, 2002, we sold our engineering plastics compounding plant in Melbourne, Australia, to our local distribution partner, which will manufacture local product specialties under license from BASF.

Strategic alliances

We also use strategic alliances and partnerships with strong global partners in production to profitably develop our core areas of operations and our value-adding chains. Together with these partners, we benefit from the cost efficiencies of these successful joint ventures in all regions.

A strategic partnership with Shell in the operation of SM/PO plants illustrates the backward integration of our polyurethane value-adding chain in PO (propylene oxide). In September 2002, we strengthened this alliance, which has been operating a production plant in Moerdijk, the Netherlands, since 1999, through a second SM/PO plant in Singapore.

By combining the research and development strengths of BASF and Dow Chemical Company, we hope to accelerate the launch of a new technology for producing propylene oxide (PO). This new direct process based on hydrogen peroxide is expected to be more cost-efficient and eliminates the complications of handling co-products.

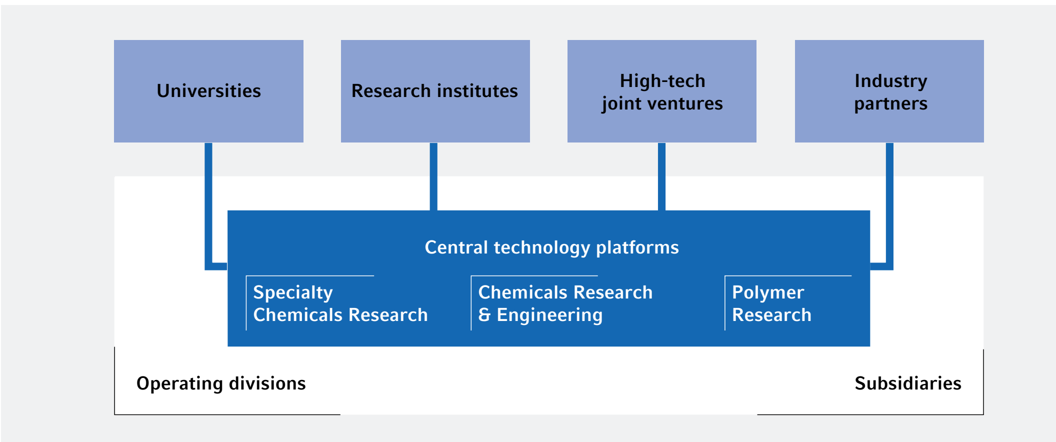
Research & Development

- Effective network of cooperation with science and industry
- R&D for crop protection products reorganized
- Developng new business areas through BASF Future Business GmbH

Innovation in BASF's Research Verbund

Our innovations improve products and services – not just those of BASF but also those of our customers. BASF's Research Verbund consists of three central technology platforms in Ludwigshafen, research and development units in Group companies, and R&D subsidiaries such as BASF Plant Science GmbH. Worldwide, over 8,000 employees work in research and development. An important element of our Research Verbund are the some 1,000 R&D cooperations we have entered into with universities, business start-ups and industrial partners – more than half of them outside Germany. We are expanding our Know-how Verbund together with partners from around the world. In 2002, R&D cooperations accounted for about 8 % of our R&D expenses (excluding Oil & Gas). The number of such R&D cooperations has more than doubled since 1996. As a result, BASF has one of the largest research networks for chemistry and process engineering.

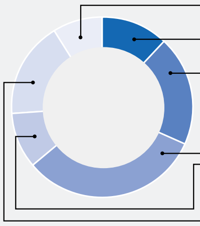
BASF's Research Verbund



R&D expenses at last year's level

In 2002, BASF spent €1,135 million worldwide on research and development, compared with €1,173 million – excluding Pharmaceuticals – in 2001. This corresponds to a slight decrease of 3.2 % in R&D expenses compared with 2001.

R&D expenses in 2002
By segment million €



Chemicals	98	8.6%
Plastics & Fibers	138	12.1%
Performance Products	222	19.6%
Agricultural Products & Nutrition	367	32.3%
Oil & Gas	113	10.0%
Other	197	17.4%
Total	1,135	

The chart above shows research expenses by segment. The segment "Other" consists mainly of costs for exploratory and biotechnology research. Germany was responsible for 89 % of research expenses. Approximately 58 % of research costs were for new or improved products and 42 % for processes or new methods (excluding Oil & Gas).

Cost leadership through efficient production processes

Through process innovations, we optimize our production processes with the goal of achieving cost leadership. For example, if we can gain cost advantages by changing raw materials, we develop new processes and adapt our production accordingly. We are putting even more emphasis on developing new synthesis routes based on alternative, less expensive raw materials, especially for basic products and intermediates. In addition, we intend to improve our material and energy yield. One example is the successful conversion of the butanendiol value-adding chain from the raw material acetylene to the less expensive substance butane. This has made it possible to reduce costs for manufacturing tetrahydrofuran (THF). This innovative process is an integral part of the new THF and PolyTHF® production plant in Caojing, China, which will provide us with cost leadership when it starts operations in 2004.

Profitable growth through superior products and system solutions

Our product innovations create the right conditions for profitable growth. One example is new active ingredients for crop protection. Following the successful launch of F 500® – a fungicide from the class of strobilurins – in the most important markets, we plan to introduce boscalid, another fungicide with significant sales potential, in 2003/2004. In the coming years, we want to prepare for market launch eight crop protection active ingredients with an annual sales potential of approximately €800 million. In addition, we currently have five crop protection products ready for launch from which we expect a peak sales potential of approximately €900 million. We are expanding the CLEARFIELD® Production System to additional markets, thus opening up further growth potential. With a view to future needs, we began in November 2002 to realign crop protection research and development activities and organization to focus more closely on attractive market objectives. Active ingredient research will be intensified in insecticides and fungicides, which are areas that have a substantial market potential for innovative products.

Through innovative system solutions that offer our customers added value, we want to further improve our value-adding chains and establish long-term customer relations. Accordingly, we will place increased emphasis on R&D cooperations with key international customers, especially in the Performance Products segment. This offers competitive advantages. For example, together with the leading detergent and cleanser companies, we are developing new, customized components to create household detergents that perform even better. Each partner brings its specific expertise to the cooperation, and both sides – BASF and its customers – benefit.

Developing chemistry's diverse potential

Our most important drivers of innovation are the current and future needs of our customers and consumers, our employees' ideas and scientific trends. In addition, we strive to make use of the opportunities offered by technological change.

Accordingly, biotechnology is a key focus of research at BASF. We use biotechnology to further develop our broad competence in chemistry and open up new areas of business for BASF. To do this, we are focusing our activities on biocatalysis and plant biotechnology

In biocatalysis we use microorganisms or enzymes isolated from microorganisms to manufacture chemical products. Projects currently underway are looking at new ways of manufacturing vitamins and amino acids. In addition, we hope to use biocatalysis to produce performance chemicals and polymers in the future.

Plant biotechnology has the potential to increase crop yields and supply high quality foods and versatile biotech products. In the past years we have therefore built a global research platform that brings together all of the elements essential for success in this area – BASF Plant Science GmbH. Research underway at BASF Plant Science GmbH aims to develop plants that are less sensitive to drought or that contain higher levels of vitamins or omega-3 fatty acids to prevent cardiovascular disease. In 2000, BASF decided to invest €700 million in research and development in plant biotechnology over a period of 10 years.

We want to develop new technologies and areas of business beyond our current fields of operations quickly and effectively so that we can continue to grow profitably in the future. That is the main purpose of BASF Future Business GmbH. It focuses on innovations and system solutions that are relevant to or based on chemistry and that promise above-average rates of growth over the medium and long term. One example is innovative materials for the next generation of displays, such as those used in notebooks or mobile phones. BASF Future Business GmbH has entered into a strategic partnership for developing such materials with Taiwanese display maker teco Optronics Corp. The combination of manufacturing know-how at teco Optronics Corp. and BASF's extensive dye research experience will aim to ensure the market success of the new display technology. Other areas of interest to BASF Future Business GmbH are energy management and nanotechnology.

Procurement, Production and Distribution

- Our strength: worldwide and regional coordination of procurement
- Strategic supplier partnerships further expanded
- Total of €105 million spent on sales promotions and product advertising in 2002
- Present at more than 100 trade fairs and exhibitions

1. Procurement

Procurement Verbund further expanded

Raw materials, technical goods, services for plant construction and maintenance – some 500,000 different items worth about €13 billion were procured for BASF worldwide in the past year. Our goal is to achieve lasting competitive advantages for BASF through our purchasing strength. To this end, we have intensified our worldwide Procurement Verbund. Global and regional procurement teams pool our needs, so we can have more impact on the market, obtain price advantages and better ensure our supplies.

Another important element in our strategy is developing strategic supplier partnerships. These enable us to improve our logistics and enter into effective research and development cooperations.

In tandem with our suppliers, the global and regional procurement teams are optimizing our whole supply chain, achieving additional synergies and savings, and making a contribution to BASF's success.

Raw materials purchasing

The most important materials used in production at our Verbund sites are petrochemical feedstocks, such as naphtha and LPG (liquefied petroleum gas). They serve as feedstocks for the steam crackers we operate in Ludwigshafen, Germany; Antwerp, Belgium; and Port Arthur, Texas. We also purchase a large number of other raw materials as diverse as ammonia, precious metals and sugar.

One of our goals is to achieve closer networking of purchasing and research operations within BASF. Even in the early phases of product development, we can provide research and production with procurement alternatives, since this is where a large part of future production costs is determined.

Technical goods and services procurement

Our global and regional procurement teams coordinate purchases of technical goods and services. We work in close coordination with colleagues in technology and maintenance areas to accelerate the more efficient grouping of needs and further standardize goods and services where appropriate. Besides creating purchasing advantages, this also brings lasting savings in maintenance and service expenses for entire product lifecycles.

E-commerce

We also utilize e-commerce to make procurement processes as efficient as possible. In 2002, BASF significantly increased its number of e-commerce transactions. Our uniform, integrated Internet platform WorldAccount is a strategic pillar for customer-oriented e-commerce. WorldAccount offers our customers detailed product information and convenient ordering twenty-four hours a day, seven days a week. The electronic marketplaces in which we participate – cc-chemplorer for technical goods and Elemica for chemicals – have been largely integrated into our internal EDP systems. This is having a positive impact on process times and quality. We are using strategic partnership with a variety of electronic marketplaces.

The Elemica marketplace focuses on system-integrated data exchange with Elemica acting as an electronic node. Merchandise management systems at customers and suppliers are linked to ensure that the necessary data are transmitted quickly and securely when processing orders worldwide. To date, Elemica is used by 41 companies as a sales and purchasing platform for chemical products. Further cooperations exist for plastics on the sales side and for technical goods and services on the purchasing side. We want to further develop such cooperations.

We use cc-chemplorer for procuring technical goods and services. With more than 1.6 million products, some 200 suppliers and more than 400,000 completed transactions, cc-chemplorer is one of the busiest marketplaces in the world. A Europe-wide expansion of the trading platform beyond German-speaking countries is planned.

2. Products and Production Sites

We have assigned our activities to the individual operating divisions so that we can optimally use BASF's value-adding chains. Accordingly, our products are assigned to our divisions as follows:

Chemicals

Inorganics

Basic chemicals such as ammonia, sulfuric acid, chlorine and methanol; inorganic specialties such as electronic grade chemicals and hydroxylamine free base; powder injection molding products; catalysts; glues and resins and corresponding precursors such as formaldehyde and melamine.

Petrochemicals

Petrochemical feedstocks such as ethylene, propylene, acetylene and benzene; technical gases such as hydrogen, oxygen and carbon monoxide; standard and specialty plasticizers and plasticizer raw materials; solvents such as butanol, acetates and specialty solvents; alkylene oxides such as ethylene and propylene oxide; glycols.

Intermediates

Amines, diols and polyalcohols; carboxylic acids; phosgene derivatives; glutaraldehyde; glyoxal and derivatives; vinyl ether; chiral intermediates (ChiPros®).

Plastics & Fibers

Styrenics

Styrene and styrene-based polymers such as polystyrene and Styrolux®; styrene copolymers such as ABS (Terluran®) and ASA (Luran®); expandable polystyrene (Styropor®); specialty foams such as Styrodur®, Neopolen®, Basotect® and Neopor®; the biodegradable material Ecoflex®.

Performance Polymers

Fiber intermediates such as caprolactam, adipic acid and hexamethylendiamine; spinning polymers and fibers based on nylon; nylon 6 and nylon 6,6 materials (Ultramid®), polybutylene terephthalate (Ultradur®), polyoxymethylene (Ultraform®) and high-temperature thermoplastics (Ultrason®).

Polyurethanes

Basic polyurethane products: polyols, isocyanates; polyurethane systems and polyurethane specialty elastomers.

Performance

Performance Chemicals

Raw materials for detergents and cleansers; textile and leather chemicals; pigments and special pigment preparations; printing inks and printing plates for the graphics industry; fuel and lubricant additives; raw materials for coatings.

Coatings

Automotive OEM and refinish coatings; industrial coatings; decorative paints (South America).

Functional Polymers

Acrylic acid and acrylates; acrylate and styrene/butadiene dispersions; raw materials for paints and glues; chemicals for paper production and finishing; superabsorbents.

Agricultural Products & Nutrition

Agricultural Products

Primarily crop protection products to protect crops from weeds (herbicides), plant diseases caused by fungi (fungicides) and insect pests (insecticides); growth regulators.

Fine Chemicals

Vitamins, carotenoids, pharmaceutical active ingredients, polymers and other fine chemicals for the pharmaceuticals, food and cosmetic industries; flavors and fragrances; UV absorbers (Uvinul®), amino acids, enzymes, organic acids.

Oil & Gas

Wintershall AG and its affiliates conduct the operations of our Oil & Gas business, which include:

- exploration and production of crude oil and natural gas,
- crude oil and natural gas trading, and
- the leasing of natural gas transportation and transport capacities.

Sites

BASF owns and operates numerous production and manufacturing sites throughout the world. BASF's principle offices are located in Ludwigshafen, Germany. In addition, BASF operates regional units and functional divisions, distribution centers and research and development facilities worldwide. The site overview below provides a list of BASF's significant production sites. This list makes no claim to completeness.

Verbund site	Production plants
Ludwigshafen, Germany	250
Antwerp, Belgium	54
Geismar, Louisiana	10
Freeport, Texas	21
Kuantan, Malaysia	12

We are currently building a further Verbund site in Nanjing, China, with our joint venture partner SINOPEC.

Site overview Region/country	Site	Operating division
EUROPE		
Germany	Ludwigshafen[1]	Petrochemicals
		Inorganics
		Intermediates
		Styrenics
		Performance Polymers
		Performance Chemicals
		Functional Polymers
		Fine Chemicals
		Agricultural Products
	Besigheim	Performance Chemicals
	Cologne	Performance Chemicals
	Lemförde	Polyurethanes
	Minden	Fine Chemicals
	Münster-Hiltrup	Coatings
	Schwarzheide	Petrochemicals
		Intermediates
		Styrenics
		Performance Chemicals
		Performance Polymers
		Polyurethanes
		Coatings
		Agricultural Products
	Sinzheim	Performance Chemicals
	Stuttgart-Feuerbach	Performance Chemicals
	Willstätt	Performance Chemicals
	Würzburg	Coatings
Belgium	Antwerp[1]	Petrochemicals
		Inorganics
		Intermediates
		Performance Chemicals
		Styrenics
		Polyurethanes
		Performance Polymers
		Functional Polymers
	Feluy	Intermediates
		Petrochemicals
Denmark	Ballerup	Fine Chemicals
	Grenaa	Fine Chemicals

Site overview Region/country	Site	Operating division
Finland	Hamina	Functional Polymers
France	Clermont de l'Oise	Coatings
		Performance Chemicals
	Genay	Agricultural Products
	Gravelines	Agricultural Products
	Mitry-Mory	Polyurethanes
United Kingdom	Alfreton	Polyurethanes
	Ashbourne	Fine Chemicals
	Cramlington	Fine Chemicals
		Performance Chemicals
	Seal Sands	Performance Polymers
	Slinfold	Performance Chemicals
Italy	Bibbiano	Styrenics
	Burago	Coatings
	Caronno Pertusella	Performance Chemicals
	Cinisello Balsamo	Performance Chemicals
	Villanova d'Asti	Polyurethanes
	Zingonia	Polyurethane
The Netherlands	Moerdijk	Polyurethanes
Spain	Guadalajara	Coatings
	Hospitalet	Performance Chemicals
	Rubí	Polyurethanes
	Tarragona	Petrochemicals
		Styrenics
		Performance Chemicals
		Functional Polymers
		Fine Chemicals
		Agricultural Products
Turkey	Gebze	Functional Polymers
		Performance Chemicals

Site overview Region/country	Site	Operating division
NORTH AMERICA		
Canada	Arnprior, Ontario	Performance Polymers
	Windsor, Ontario	Coatings
		Styrenics
Mexico	Altamira	Functional Polymers
	Lerma	Polyurethanes
		Performance Chemicals
	Tultitlán	Coatings
United States	Aberdeen, Mississippi	Functional Polymers
	Anderson, South Carolina	Performance Polymers
	Beaumont, Texas	Agricultural Products
	Chattanooga, Tennessee	Functional Polymers
	Clemson, South Carolina	Performance Polymers
		Polyurethanes
	Freeport, Texas[1]	Petrochemicals
		Intermediates
		Performance Polymers
		Functional Polymers
	Geismar, Louisiana[1]	Petrochemicals
		Intermediates
		Polyurethanes
		Performance Chemicals
		Fine Chemicals
	Hannibal, Missouri	Agricultural Products
	Huntington, West Virginia	Performance Chemicals
	Joliet, Illinois	Styrenics
	Monaca, Pennsylvania	Functional Polymers
	Morganton, North Carolina	Coatings
	Port Arthur, Texas	Petrochemicals
	Portsmouth, Virginia	Functional Polymers
	South Brunswick, New Jersey	Styrenics
	Sparks, Georgia	Agricultural Products
	Whitestone, South Carolina	Performance Chemicals
		Fine Chemicals
	Wyandotte, Michigan	Styrenics
		Polyurethanes
		Performance Polymers

Site overview Region/country	Site	Operating division
SOUTH AMERICA		
Argentina	General Lagos Rosario	Styrenics
		Performance Chemicals
		Functional Polymers
	Tortuguitas	Coatings
		Fine Chemicals
Brazil	Camaçari	Intermediates
		Petrochemicals
	Guaratinguetá	Styrenics
		Performance Chemicals
		Functional Polymers
		Agricultural Products
		Fine Chemicals
	Resende	Agricultural Products
	São Bernardo do Campo	Coatings
	São José dos Campos	Styrenics
Chile	Concon	Inorganics
		Styrenics
		Functional Polymers
	Santiago	Styrenics
ASIA PACIFIC		
China	Caojing[2]	Intermediates
	Nanjing[1,2]	Styrenics
		Petrochemicals
		Intermediates
		Functional Polymers
	Shanghai	Performance Chemicals
		Performance Polymers
		Functional Polymers
	Shenyang	Fine Chemicals
India	Daheij	Styrenics
	Mangalore	Performance Chemicals
		Functional Polymers
	Thane	Styrenics
		Performance Chemicals
		Agricultural Products

Site overview

Region/country	Site	Operating division
Indonesia	Jakarta – Cengkareng	Functional Polymers
		Performance Chemicals
		Fine Chemicals
Japan	Ako	Coatings
	Shinshiro	Polyurethanes
	Totsuka	Coatings
	Yokkaichi	Intermediates
		Polyurethanes
		Performance Chemicals
		Functional Polymers
		Fine Chemicals
Malaysia	Kuantan[1,2]	Functional Polymers
		Petrochemicals
		Intermediates
	Pasir Gudang	Styrenics
		Performance Polymers
		Functional Polymers
	Shah Alam	Polyurethanes
		Performance Chemicals
South Korea	Gunsan	Fine Chemicals
	Ulsan	Intermediates
		Styrenics
		Polyurethanes
	Yeosu	Intermediates
		Polyurethane

[1] Verbund site
[2] Under construction

3. Marketing and Sales

In 2001, we further developed our organization. Marketing and sales activities are now directly assigned to the business units. This makes our regional marketing efforts even more responsive to local business requirements.

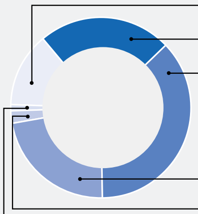
Last year we continued organizational adjustments and set up eight trading centers for Europe. These sell specialty chemicals to customers who buy smaller quantities and require less advice. The centers also receive logistical and technical assistance and marketing support from the traditional marketing and sales structure.

BASF was the first company in the world to introduce Europe-wide 0800 numbers for its European customers. By the end of 2003, all customers in Europe should have a toll-free service number for their personal contacts at BASF. The service is independent of which European country the customer calls from. Special software recognizes and forwards the caller automatically to the correct customer adviser in one of the five European BASF Customer Centers.

We organize our marketing and sales activities according to the various products in our segments:

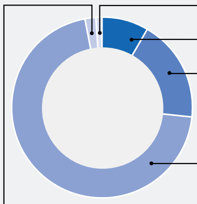
- The business units within the **Chemicals segment** generally sell products that are transported directly to customers in large quantities without intermediaries. This makes the segment's marketing expenses low in comparison with those of other segments.
- The products of the **Plastics & Fibers segment** include not only commodities but also specialty goods and products tailored to specific customers. Commodities are usually distributed in large quantities and are associated with low marketing expenses. For specialty and customized products, marketing costs are higher. This is justified because the products, which tend to be offered in smaller quantities, can be sold at higher margins.
- The **Performance Products segment** is characterized on the one hand by a large number of customized products and on the other by delivery quantities that are highly variable. What matters to customers are a product's technical features and its performance. This increases both the costs for customer service by our sales staff at the customer's site, as well as marketing expenses. We maintain technical application facilities close to our customers in the most important regions.

General selling expenses
Million €



Chemicals	634	13.3%
Plastics & Fibers	1,147	24.1%
Performance Products	1,760	36.9%
Agricultural Products & Nutrition	1,065	22.4%
Oil & Gas	116	2.4%
Other	42	0.9%
Total	4,764	

Sales promotion and product advertising costs
Million €



Chemicals	1	0.9%
Plastics & Fibers	9	8.6%
Performance Products	19	18.1%
Agricultural Products & Nutrition	74	70.5%
Oil & Gas	2	1.9%
Total	105	

- The **Agricultural Products division** offers a broad spectrum of products in which innovation, product quality and service are the determining factors. Our sales team supports farmers with commercial and technical advice in selecting and applying crop protection products. Sales activities are multilevel and serve both wholesalers and retailers.
- In the **Fine Chemicals division**, our specialty products are distributed to our markets though a global marketing and sales system. Operational responsibility lies with the individual regions. This assures customer orientation and competency in our target markets of animal and human nutrition, cosmetics and pharmaceuticals.
- In the **Oil & Gas segment,** natural gas is sold primarily to German wholesalers through our subsidiaries WINGAS GmbH and Wintershall Erdgas Handelshaus GmbH. We also offer customers transport and storage services. The oil extracted is transported via a system of pipelines and delivery is normally taken by our customers at the port of loading. Because of the type of customers and product characteristics, marketing expenses are low.

Trade fairs and exhibitions are an important means of generating interest in BASF and ensuring customer loyalty. In 2002, we took part in more than 100 fairs and exhibitions worldwide.

Compared with 2001, selling expenses, which include distribution, shipping, marketing and advertising costs, declined €380 million to €4,764 million in 2002, representing a decrease of 7.4 %. Of this amount, about €105 million was spent on sales promotions and product advertising, compared with €142 million in 2001. The above charts show selling expenses and the cost of sales promotion and product advertising for each segment. Corporate advertising costs were €16.5 million in 2002, compared with €22 million in 2001.

Employees

- Attracting, fostering and retaining the best talent
- Offering international perspectives and diverse challenges
- Investing in training and continuing education
- Achieving structural change in a socially responsible way
- Stock program for employees expanded

The BASF Group is successful in the long run if it has qualified and motivated employees. As the world's leading chemical company, we recruit talented employees worldwide. To attract, foster and retain the best talent, we create a working environment in which our employees can perform at their best to make our company successful.

Number of employees

The following table details BASF's workforce on a regional basis:

Employees by region (% of Group total)	2002	% in 2002	% in 2001
Europe	62,103	69.5	68.4
Thereof Germany	50,320	56.3	55.0
Thereof BASF Aktiengesellschaft	38,361	42.9	42.5
North America (NAFTA)	13,331	14.9	15.7
South America	5,097	5.7	6.2
Asia, Pacific Area, Africa	8,858	9.9	9.7
	89,389		

Since the end of 2001, implementation of our restructuring measures has reduced the number of BASF Group employees – including those with limited-term contracts – by 3,156, or 3.4 %, to 89,389 at the end of 2002. Due to changes in the scope of consolidation as well as acquisitions and divestitures, the BASF Group's workforce rose by 110 through year-end 2002. The BASF Group employed 2,976 young people in apprenticeship programs last year.

Our management team has members of some 30 different nationalities. In the future, we want this team to reflect even more strongly the international nature of BASF's business.

Trends in personnel costs

Personnel costs declined by €53 million to €5,975 million in the past year. Costs can be broken down as follows:

Personnel costs Million €	2002	Change from in %
Wages and salaries	4,751	(2.2)
Social security contributions and expenses for pensions and assistance	1,224	4.6
Thereof for pension benefits	424	14.0
	5,975	**(0.9)**

We promote the continuing education of our employees. In Germany alone, we invested €105.5 million in continuing education and training in 2002. This corresponds to a decrease of 2.8 % compared with 2001. Of this amount, €30.5 million was spent on continuing education programs and €75.0 million on vocational training. We use innovative training concepts and modern technologies such as e-learning. Last year, we also started a Distance MBA Sponsorship program in Japan. Participating employees earn their MBA degree while working for BASF.

Sharing in the company's success

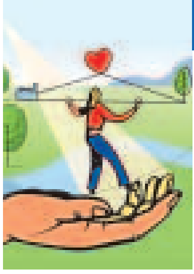
Since 1999, BASF has been promoting employee investment in the company with the "plus" program. In 2002, some 42 % of employees of BASF Aktiengesellschaft and BASF companies in Germany took advantage of the opportunity to invest part of their annual bonus in BASF shares. Last year, employees bought a total of 535,500 shares under this program. If the employees keep their shares for 10 years, the company will award up to five additional free shares for every 10 shares held. A number of BASF companies in other countries offered their employees shares in 2002.

In 2002, the "plus" program was expanded for employees of BASF Aktiengesellschaft and most participating Group companies: For the first 10 shares acquired each year, employees will receive up to 10 additional free shares from the company. Moreover, all permanent employees at BASF Aktiengesellschaft and some Group companies received a one-time gift of five shares (lock-up period: 10 years). Eligible employees therefore received 60,898 free shares worth €2.78 million in 2002. As a result, 83 % of the company's employees are now BASF shareholders. Employees at

BASF Aktiengesellschaft and some Group employees also participate in the company's success through the company's voluntary bonus program. The bonus is determined by the Board of Executive Directors or by corporate management. At BASF Aktiengesellschaft, the bonus is based on the return on assets of the BASF Group.

Since April 1999, senior executives of the BASF Group have been able to participate in a stock option program which links their compensation to the long-term performance of our shares. In 2002, 75 % of some 1,000 senior executives worldwide took part and invested up to 30 % of their variable compensation in BASF shares. For each share purchased, BASF grants stock option rights whose value is paid out in cash settlement if ambitious targets are achieved for the price of BASF shares.

We seek to make working hours more flexible and to adopt modern job structures. In addition, we promote our employees' ideas, offer an attractive company pension and cooperate with various groups representing employees. These and other topics are summarized in our Social Responsibility Report 2001. You can find this report on the Internet at www.basf.com, or order a copy at www.basf.de/mediaorders or by sending us the postcard at the end of this report.



Sustainable Development

- Sustainable development integrated even more firmly into the company
- BASF shares included in the Dow Jones Sustainability Index for the second year in succession
- Social Responsibility Report verified for the first time by auditors
- €15.7 million donated worldwide in 2002

1. Sustainable Development as a Management Responsibility

BASF aims to increase and sustain its value through growth and innovation. We want to consistently achieve high profits by maintaining and expanding conditions for growth. We believe that the most successful way of doing this is by balancing economic, environmental and social challenges.

BASF is one of the first companies in the world to make sustainability a firm part of its strategy. In 2002, BASF shares were included in the Dow Jones Sustainability Index for the second year in succession. As a result, we belong to the 10 % of chemical companies worldwide who are members of both the Dow Jones Global Index and the Dow Jones Sustainability Index. This rating pays tribute to the fact that BASF has anchored the principle of sustainability within the company and implements it using tools such as its eco-efficiency analysis.

In 2000, BASF established a Sustainability Council which is headed by a member of the Board of Executive Directors. The key task of this body is to anchor the principle of sustainability even more firmly in the company and develop strategies for its implementation.

To implement sustainability strategies, the Sustainability Council has an international steering committee at its disposal. This steering committee consists of 10 senior executives from various regions and disciplines and reflects the diversity of the BASF Group and the importance of the topic. This committee plans and oversees strategy implementation.

The steering committee is supported in its work by a number of task-specific, interdisciplinary project teams. At present, the project teams are working on questions such as how sustainability criteria can be taken into account when deciding on capital expenditures. Another project is investigating how we can incorporate social factors in our eco-efficiency analysis. Furthermore, the project teams are also looking at how we can put our environmental expertise to even better use in the markets in which we operate.

We are convinced that our sustainability management strategy helps us seize opportunities and reduce risks in our day-to-day business. The chemical industry can play a major role in implementing the principle of sustainability worldwide. We want to seize this opportunity.

We give a detailed account of our activities in all areas of sustainability in our Annual Report; Environment, Safety Health Report; and Social Responsibility Report. Last year, we commissioned independent auditors to verify our Social Responsibility Report. In this way, we want to increase the transparency and credibility of our reports.

You can find these reports on the Internet at www.basf.com, or order copies at www.basf.de/mediaorders or by sending us the postcard at the end of this report.

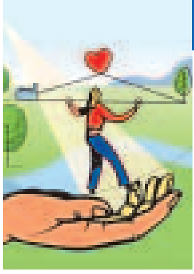
2. Environmental Dimension

With its products and services, BASF helps continuously reduce the impact of products on mankind and the environment during production, storage, transportation, sale, use and disposal.

As a multinational company, we are subject to numerous national and local environmental laws and regulations that are becoming increasingly strict. These laws and regulations govern, among other things, how materials are handled, manufactured and disposed of; the amount and form in which pollutants may be discharged into the environment; and the conditions under which plants may be built and operated. Other regulations deal with the preservation of natural resources. In Germany alone, some 3,000 laws regarding the environment, safety and health affect BASF's operations.

BASF's operating costs for environmental protection totaled €697 million in 2002. These costs are recurring costs, for example for wastewater treatment plants and residue incinerators, or one-time costs associated with sites or measures that are incurred in the avoidance, reduction or elimination of deleterious effects on the environment. They include different levies such as effluent levies and water levies. In addition, they include costs for disposal services by third parties, monitoring, analysis and surveillance carried out by mobile and stationary measuring, as well as research and development costs for reducing the incidence of residues. BASF also spent €186 million in 2002 on capital expenditures for new and improved pollution control units and equipment.

BASF also remediates the impact of prior disposal or release of chemicals or petroleum substances or waste that occurred in its spheres of responsibility, both at its own sites and at third-party sites to which BASF sent waste for disposal. Worldwide, BASF had established provisions of €264 million for anticipated investigation and clean-up costs at such sites as of December 31, 2002, and €309 million as of December 31, 2001.



BASF establishes provisions for expected environmental remediation liabilities to remedy established soil contamination and to comply with legal and regulatory obligations and requirements. These provisions also include expenses needed to ensure that production plants are state-of-the-art in order to avoid adverse effects on the environment. With regard to sites that are still in operation, where it is not possible to carry out thorough investigations into possible soil contamination, it is as yet not possible to determine accurately the ultimate potential liability for such investigations and cleanup. Taking into account BASF's experience to date regarding environmental matters, BASF believes that capital expenditures and remedial actions that may possibly become necessary to comply with existing laws and conditions governing environmental protection will not have a material effect on BASF's consolidated financial condition or results of operations.

In addition to environmental protection, the environmental dimension of sustainable development also involves product stewardship, occupational safety and occupational health, and distribution safety. We have compiled further information on these topics in our report Environment, Safety, Health 2000. You can find this report on the Internet at www.basf.com, or order a copy at www.basf.de/mediaorders or by sending us the postcard at the end of this report.

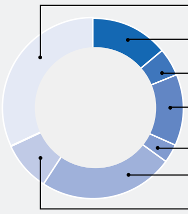
3. Social Dimension

The social dimension of our business is just as important as economic and environmental sustainability. Making a responsible contribution to society is one of our corporate values. In Vision 2010, we have established binding Values and Principles for all employees within the BASF Group.

People are the focus of our activities: employees and shareholders, business partners and neighbors, as well as persons in positions of responsibility in politics and administration. We consider our employees to be a key to our success. You can find details related to market-oriented and performance-related pay, social benefits, the number of employees, personnel costs and training in the section "Employees" (page 75 ff.).

We want to be accepted as a good corporate citizen and as a reliable partner in the communities in which our sites are located. In 2002, we provided €15.7 million to support our communities. About 60 % of this amount consisted of donations, the remainder was used for sponsoring and our own community projects. We encourage projects that have a direct link with the company and our skills. We therefore support ideas that awaken children's interest in science, for example, or provide funds for specific research goals. Another criterion may be the direct vicinity to one of our production sites. A decision is made by BASF's Board of Executive Directors only if a global organization is involved or if the project is of global significance, otherwise responsibility lies with our local managers.

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



	Million €	Percent
Charities	5.0	31.8
Schools and training	2.2	14.0
Science	0.8	5.1
Employment promotion	2.0	12.7
Sports	0.5	3.2
Culture	3.8	24.2
Other	1.4	9.0

A further focus lies on supporting projects that are accomplished through the direct action of our employees. This may involve taking up the spontaneous willingness of our employees to help, providing an organizational framework and supplementing the amount donated from company funds. This was the case following the flood catastrophe in Germany last summer: Our employees donated more than €700,000 – we doubled this amount and provided a further €1 million in immediate aid. As a result, more than €2.4 million was raised to help those affected.

In order to strengthen confidence in BASF and increase our acceptance in society, we define minimum standards for communication that are valid worldwide. They guarantee openness and transparency at all our production sites. At each site, we offer written information about the site that is available to all. In the event of a plant malfunction, we provide swift, honest and transparent information about possible hazards. And we allow site visits and actively seek a dialogue with community decision makers and public opinion makers.

In addition, we have established Community Advisory Panels (CAPs) at important sites to encourage close communications with neighbors. In these bodies, we meet regularly with representatives of various groups, for example schools, environmental associations, social institutions, trade and industry associations and municipal authorities.

BASF is a founding member of the Global Compact initiative established by U.N. Secretary-General Kofi Annan. Jointly, the members aim to overcome the challenges associated with globalization through transparency, dialogue and a code of conduct. The members – companies, U.N. organizations, non-governmental organizations, international economic organizations and unions – enter into partnerships and uphold nine principles in the fields of human rights, labor and the environmental standards on which the initiative is based.

Organization of the BASF Group

- 12 operating divisions manage business activities through 48 business units
- Risk management: internal monitoring, risk controlling, early warning system
- BASF backs Germany's Corporate Governance Code
- Our "Values and Principles" and a Compliance Code ensure a high standard of corporate governance

1. Corporate Legal Structure and Branch Office Report

BASF Aktiengesellschaft in Ludwigshafen, Germany, occupies the central position within the BASF Group as the largest operating business and in this function it performs as a holding company for participations belonging to the BASF Group.

The operations of the BASF Group are conducted by BASF Aktiengesellschaft and its legally independent subsidiaries, associated companies, affiliated companies and joint ventures, which are headquartered in almost every country that is important to the global chemical market. The majority of the companies cover activities from a number of operating divisions; other companies concentrate on specific areas, such as coatings or polyurethanes. Oil and gas operations are conducted by Wintershall AG and its affiliated companies.

The BASF Group Consolidated Financial Statements include BASF Aktiengesellschaft, 143 fully consolidated subsidiaries and 11 joint ventures conducted jointly with partners that are consolidated on a proportional basis. In addition, 5 major associated companies, in which we have a 20 to 50 % interest, as well as 21 affiliated companies are reported in the financial result using the equity method (see Note 1 to the Consolidated Financial Statements for further information on the scope of consolidation). In this way, we account for 98 % of BASF's sales and earnings.

In addition to the participations accounted for in the Consolidated Financial Statements, we have a stake in more than one hundred additional small companies that are not material to BASF's operations, either individually or in the aggregate. The List of Shares Held contains all of the companies in which BASF has a participation and is published on the Internet at www.basf.de/governance_e/reports; it can also be obtained as a separate report from BASF Aktiengesellschaft.

The most important wholly owned companies in the BASF Group include the following:

	Stockholders' equity Million €	Net income Million €	Employees
BASF Coatings AG, Münster-Hiltrup, Germany	239.6	**	2,467
BASF Schwarzheide GmbH, Schwarzheide, Germany	209.1	**	2,246
Elastogran GmbH*, Lemförde, Germany	104.3	**	1,351
Wintershall AG, Kassel, Germany	2,065.7	**	1,251
BASF Antwerpen N.V., Antwerp, Belgium	978.9	126.6	3,545
BASF Española S.A., Tarragona, Spain	218.8	14.7	958
BASF Corporation*, Mount Olive, New Jersey	2,273.3	(109.5)	12,847
BASF S.A., São Bernardo do Campo, Brazil	232.1	(88.2)	3,781
BASF Company Ltd., Seoul, South Korea	349.6	29.4	1,188

* Including consolidated participations
** Profit and loss transfer agreement

Shareholdings in BASF Aktiengesellschaft are widely dispersed. For more information on the shareholder structure, please see page 16, "BASF Shares."

Activities making up part of BASF Aktiengesellschaft and which are not located at the Ludwigshafen site include premises, e.g., sales offices. A branch office report is not required.

2. Organizational Structure of the BASF Group

Business operations are run by a total of 48 business units, primarily organized along business lines. As profit centers, they are responsible for all business operations – from production to marketing and sales – and their processes are customer-oriented. Ten of our business units have global responsibility, and 38 have a regional focus. In the regions, international business centers operate with a tailor-made service for the business units.

In Europe, the business units for each industry are based on uniform structures across national boundaries and centralized internal handling processes. We are utilizing European integration to organize our business along European rather than national lines.

The business units are managed by a total of 12 operating divisions that bear bottom line responsibility. EBIT serves as the target and management tool for the operating divisions. Each operating division reports its EBIT after cost of capital internally every month. For reporting purposes, the 12 operating divisions are combined in five segments – Chemicals, Plastics & Fibers, Performance Products, Agricultural Products & Nutrition, and Oil & Gas (see Note 5 to the Consolidated Financial Statements).

BASF's business strategy is planned jointly by the Board of Executive Directors and the operating divisions together with eight regional divisions. The regional divisions also provide competitive services and infrastructure and support synergies between the business units.

For reporting purposes, the eight regional divisions are combined in four regions – Europe; North America (NAFTA); South America; and Asia, Pacific Area, Africa (see Note 5 to the Consolidated Financial Statements).

Organizational unit	Responsibilities	Key functions
Operating division	Strategic management of business with overall responsibility	• Strategy • Technology management • Controlling • Product development • Global supply chain management
Business unit	Running business operations	• Marketing • Sales • Business analysis • Regional supply chain management • Production • Technical services
Regional division	Regional strategy, human resources, exploiting synergies and developing service/infrastructure platforms	• Regional positioning • Market segment coordination • Site strategy • Human resources platform, regional HR development • Functional coordination • Regional service platforms
Country/company management	Political/legal representation, human resources, running service/infrastructure platforms, exploiting synergies in marketing and sales	• Administration and local service platforms • Site management • HR development

In addition, three corporate divisions – Finance, Planning & Controlling, and Legal, Taxes & Insurance – as well as four corporate departments – Communications, Investor Relations, Executive Management & Development and Corporate Audit – support the Board of Executive Directors in the management of the BASF Group. The competence centers – Research; University Relations; Logistics; Information Services; Human Resources; Environment, Safety & Energy; Purchasing; Occupational Medicine & Health Protection; and Corporate Engineering – also assume Group-wide coordination activities.

3. Management and Supervisory Boards

Board of Executive Directors

Until December 31, 2002, there were eight members of the Board of Executive Directors of BASF Aktiengesellschaft. The Chairman of the Board of Executive Directors is Dr. Jürgen F. Strube; Max Dietrich Kley is the Vice Chairman. Both Strube and Kley will retire from the Board of Executive Directors following the Annual Meeting on May 6, 2003.

The Supervisory Board of BASF Aktiengesellschaft has appointed Dr. Jürgen Hambrecht to succeed Dr. Jürgen F. Strube as the Chairman of BASF. Eggert Voscherau will become the Vice Chairman. These appointments will take effect following the end of the Annual Meeting on May 6, 2003. With effect from January 1, 2003, the Supervisory Board also appointed the previous president of the Logistics & Information Services division, Dr. Kurt Bock, as a new member of the Board of Executive Directors. According to the allocation of responsibilities of the Board of Executive Directors effective as of the end of the Annual Meeting on May 6, 2003, he will succeed Max Dietrich Kley as BASF's Chief Financial Officer. In addition, the Supervisory Board appointed Dr. Andreas Kreimeyer, previously president of the Functional Polymers division, to the Board of Executive Directors effective January 1, 2003. Helmut Becks retired effective April 30, 2002. For details of the organizational changes related to the changes on the Board of Executive Directors, please see page 107 ff. "Forecast."

The following list names the members of the Board of Executive Directors, their responsibilities, the year in which they were first appointed to the Board, the year in which their term expires and their memberships on statutorily constituted supervisory boards and similar controlling bodies of German and non-German companies (as of December 31, 2002).

Dr. Jürgen F. Strube, Chairman

Responsibilities:	Legal, Taxes & Insurance; Planning & Controlling; Executive Management & Development; Corporate Communications
First appointed:	1985 (chairman since 1990)
Term expires:	2003
Memberships:	Supervisory board memberships (excluding internal memberships):
	Allianz Lebensversicherungs-AG (supervisory board member)
	Bayerische Motoren Werke Aktiengesellschaft (supervisory board member)
	Bertelsmann AG (supervisory board member)
	Commerzbank AG (supervisory board member)
	Hapag-Lloyd AG (supervisory board member)
	Hochtief AG (supervisory board member)
	Linde AG (supervisory board member)

MAX DIETRICH KLEY, Vice Chairman

Responsibilities: Finance; Oil & Gas; Global Purchasing; Eastern Europe, Africa, West Asia; Investor Relations; Corporate Audit

First appointed: 1990

Term expires: 2003

Memberships: Supervisory board memberships (excluding internal memberships):

- Bayerische Hypo- und Vereinsbank AG (supervisory board member)
- Gerling NCM Credit and Finance AG (supervisory board member)
- Infineon Technologies AG (supervisory board chairman)
- RWE Plus AG (supervisory board member)

Comparable German and non-German controlling bodies:

- Basell N.V. (supervisory board deputy chairman)
- Cazenove Group plc, United Kingdom (non-executive director)
- Landesbank Rheinland-Pfalz (administrative council member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

- BASF Coatings AG (supervisory board chairman)
- Wintershall AG (supervisory board chairman)

DR. JOHN FELDMANN

Responsibilities: Styrenics; Performance Polymers; Polyurethanes; Polymer Research

First appointed: 2000

Term expires: 2004

Memberships: Comparable German and non-German controlling bodies:

- Basell N.V. (supervisory board member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

- Wintershall AG (supervisory board member)

DR. JÜRGEN HAMBRECHT

Responsibilities: Petrochemicals; Inorganics; Intermediates; Research & Engineering Chemicals; Corporate Engineering; BASF Antwerpen N.V.

First appointed: 1997

Term expires: 2007

Memberships: Supervisory board memberships (excluding internal memberships):

- Bilfinger Berger AG (supervisory board member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:

- BASF Antwerpen N.V. (administrative council chairman)
- Wintershall AG (supervisory board member)

KLAUS PETER LÖBBE

Responsibilities: Coatings; North America (NAFTA)

First appointed: 2002

Term expires: 2006

Dr. Stefan Marcinowski

Responsibilities:	Research Executive Director; Functional Polymers; Performance Chemicals; University Relations & Research Planning; South America; BASF Future Business GmbH
First appointed:	1997
Term expires:	2007
Memberships:	Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act: BASF Coatings AG (supervisory board member)

Peter Oakley

Responsibilities:	Agricultural Products; Fine Chemicals; Specialty Chemicals Research; BASF Plant Science GmbH
First appointed:	1998
Term expires:	2008

Eggert Voscherau

Responsibilities:	Logistics & Information Services; Human Resources; Environment, Safety & Energy; Ludwigshafen site; BASF Schwarzheide GmbH; Occupational Medicine & Health Protection; Europe
First appointed:	1996
Term expires:	2006
Memberships:	Supervisory board memberships (excluding internal memberships): Dresdner Bank Lateinamerika AG (supervisory board member) HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (supervisory board member) Comparable German and non-German controlling bodies: Basell N.V. (supervisory board member) Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act: BASF Schwarzheide GmbH (supervisory board chairman)

Supervisory Board

With the exception of Arthur L. Kelly, all current shareholder representatives on the Supervisory Board were elected by shareholders at BASF Aktiengesellschaft's Annual Meeting on May 19, 1998. Kelly was appointed by the district court of Ludwigshafen, Germany, on December 7, 2000 as a replacement for Dr. Marcus Bierich, who had died. The employee representatives were also elected in 1998 in accordance with the German Codetermination Act. Effective May 1, 1999, Konrad Manteuffel replaced Gerhard Sebastian on the Supervisory Board following election by employees. As a deviation from this process, the following employee representatives were appointed by the district court of Ludwigshafen in the course of the electoral period: Robert Oswald, effective October 1, 2000, as a replacement for Günter Klein, and Eva Kraut, effective August 20, 2002, as a replacement for Ellen Schneider. The current term of all members of the Supervisory Board expires at the end of BASF Aktiengesellschaft's Annual Meeting on May 6, 2003.

The following table names the members of the Supervisory Board, their principle occupation and their memberships on statutorily constituted supervisory boards and similar controlling bodies of German and non-German companies (as of December 31, 2002).

Professor Dr. Ing. E.h., Dipl.-Ing. Berthold Leibinger, Ditzingen
Chairman
Managing Director of TRUMPF GmbH + Co. KG
Supervisory board memberships (excluding internal memberships):
- Deutsche Bank AG (supervisory board member)

Comparable German and non-German controlling bodies:
- HSBC Trinkaus & Burkhardt KGaA (administrative council member)

Volker Obenauer, Ludwigshafen
Deputy Chairman

Wolfgang Daniel, Limburgerhof
Deputy Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft

Etienne Graf Davignon, Brussels
Deputy Chairman of the Administrative Council of Société Générale de Belgique
Comparable German and non-German controlling bodies:
- ACCOR S.A. (administrative council deputy chairman)
- COMPAGNIE INTERNATIONALE DES WAGONS-LITS ET DU TOURISME S.A. (administrative council chairman)
- FORTIS AG (administrative council deputy chairman)
- SIBEKA S.A. (administrative council chairman)
- Suez S.A. (supervisory board member)
- TRACTEBEL S.A. (administrative council deputy chairman)
- UMICORE S.A. (administrative council deputy chairman)
- PECHINEY (administrative council member)
- CMB N.V. (administrative council chairman)

Professor Dr. rer. nat. François N. Diederich, Zurich
Professor at Zurich Technical University

Dr. jur. Tessen von Heydebreck, Frankfurt (Main)
Member of the Board of Executive Directors of Deutsche Bank AG
Supervisory board memberships (excluding internal memberships):
- BVV Versicherungsverein des Bankgewerbes a.G. (supervisory board member)
- Deutsche Euroshop AG (supervisory board member)
- Dürr AG (supervisory board member)
- Gruner + Jahr AG (supervisory board member)

Comparable German and non-German controlling bodies:
- EFG Eurobank S.A., Athen (supervisory board member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
- Deutsche Bank Privat- und Geschäftskunden AG (supervisory board member)
- Deutsche Bank 000, Moskau (supervisory board chairman)
- Deutsche Bank Polska S.A. (supervisory board chairman)
- Deutsche Bank Rt., Ungarn (supervisory board chairman)
- DWS Investment GmbH (supervisory board member)
- Deutsche Bank Luxembourg S.A. (supervisory board chairman)

Dr. rer. nat. Wolfgang Jentzsch, Mannheim

Arthur L. Kelly, Chicago
Arthur L. Kelly, Chicago
Chief Executive Officer of KEL Enterprises L.P.
Supervisory board memberships (excluding internal memberships):
- Bayerische Motoren Werke Aktiengesellschaft (supervisory board member)

Comparable German and non-German controlling bodies:
- Deere & Company (Mitglied des Board of Directors)
- HSBC Trinkaus & Burkhardt KGaA (administrative council member)
- Northern Trust Corporation (member of the board of directors)
- Snap-on Incorporated (member of the board of directors)

Rolf Kleffmann, Wehrbleck
Chairman of the works council of Wintershall AG's Barnstorf oil plant

Eva Kraut, Ludwigshafen
Chairwoman of the works council of BASF IT Services GmbH, Ludwigshafen site

Ulrich Küppers, Ludwigshafen
Manager of the Ludwigshafen branch of the Mining, Chemical and Energy Industries Union
("Industriegewerkschaft Bergbau, Chemie, Energie")
Supervisory board memberships:
- Verkehrsbetriebe Ludwigshafen GmbH (supervisory board member)

Konrad Manteuffel, Bensheim
Member of the works council of the Ludwigshafen site of BASF Aktiengesellschaft
Supervisory board memberships (excluding internal memberships):
- BASF Pensionskasse VVaG (supervisory board deputy chairman)

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

Robert Oswald, Altrip
Chairman of the works council of the Ludwigshafen site of BASF Aktiengesellschaft and chairman of the joint works council of the BASF Group

Dr. Ing. Hermann Scholl, Stuttgart
Managing Director of Robert Bosch GmbH
Supervisory board memberships (excluding internal memberships):
- Allianz AG (supervisory board member)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
- Robert Bosch Internationale Beteiligungen AG, Zurich (administrative council member)
- Robert Bosch Corp. Broadview, Illinois (member of the board of directors)

Dr. jur. Henning Schulte-Noelle, Munich
Chairman of the Board of Executive Directors of Allianz AG
Supervisory board memberships (excluding internal memberships):
- E.ON AG (supervisory board member)
- Linde AG (supervisory board deputy chairman)
- Siemens AG (supervisory board member)
- ThyssenKrupp AG (supervisory board member)

Comparable German and non-German controlling bodies:
- Assurances Générales de France (administrative council vice president)
- Riunione Adriatica di Sicurtà (administrative council vice president)

Internal memberships as defined in Section 100 (2) of the German Stock Corporation Act:
- Allianz Dresdner Asset Management GmbH (supervisory board chairman)
- Allianz Versicherungs-AG (supervisory board chairman)
- Allianz Lebensversicherungs-AG (supervisory board chairman)
- Dresdner Bank AG (supervisory board chairman)

Robert Studer, Zurich
Comparable German and non-German controlling bodies:
- Espirito Santo Financial Group S.A. (administrative council member)
- Renault S.A. (administrative council member)
- Schindler Holding AG (administrative council member)
- TotalFinaElf S.A. (administrative council member)

Jürgen Walter, Neustadt am Rübenberge
Member of the Central Board of Executive Directors of the Mining, Chemical and Energy Industries Union
("Industriegewerkschaft Bergbau, Chemie, Energie")
Supervisory board memberships:
- BASF Schwarzheide GmbH (supervisory board deputy chairman)
- Henkel KGaA (supervisory board member)
- Ruhrfestspiele GmbH (supervisory board member)
- RWE-Umwelt AG (supervisory board member)

Helmut Werner, Stuttgart
Managing Director of Helmut Werner GmbH
Supervisory board memberships (excluding internal memberships):
- Ernst & Young AG Wirtschaftsprüfungsgesellschaft (supervisory board deputy chairman)
- Gerling-Konzern Versicherungsbeteiligungs AG (supervisory board member)
- mg technologies ag (supervisory board chairman)

Comparable German and non-German controlling bodies:
- Aktiebolaget SKF, Gothenburg, Sweden (supervisory board member)
- Alcatel S.A., Paris (supervisory board member)

Gerhard Zibell, Gau-Odernheim
Regional manager of the of the Mining, Chemical and Energy Industries Union
("Industriegewerkschaft Bergbau, Chemie, Energie") Rheinland-Palatinate/Saarland region

Compensation of directors and officers

For the year ended December 31, 2002, the aggregate amount of compensation paid to the members of the Board of Executive Directors was €13.6 million. Of this amount, €4.4 million was accounted for by fixed annual payments and €9.2 million by variable performance related bonuses. The main criterion used to determine the size of performance related bonuses is the return on assets, which corresponds to income from ordinary operations plus interest expenses, as a percentage of average assets. Additionally, in 2002, the members of the Board of Executive Directors were granted 107,980 stock options under the BASF stock option program. In 2002, the issue of option rights resulted in additional personnel costs totaling €2.7 million. Of this amount, €0.3 million was related to option rights issued in 2002 and €2.4 million to option rights issued in 1999 through 2001. These option rights are accrued as personnel costs over the vesting period.

In 2002, the exercising of option rights granted in 1999 resulted in cash payments totaling €1.7 million to members of the Board of Executive Directors and €1.1 million to previous members or their surviving dependants. The cash payment does not influence personnel costs associated with the issuing of option rights. The compensation of the Supervisory Board is defined in the Articles of Association of BASF Aktiengesellschaft. Pursuant thereto, each member of the Supervisory

Board is reimbursed for the past year for out-of-pocket expenses and for value-added tax to be paid with regard to the Board membership. In addition, he or she receives a fixed annual payment of €25,000 and a variable performance-related bonus amounting to €3,500 for each €0.05 by which the dividend paid to shareholders in a given year exceeds €0.30. For the year ended December 31, 2002, this will be €77,000, on the basis of the proposed dividend of €1.40 that will be submitted to the Annual Meeting on May 6, 2003. The chairman of the Supervisory Board receives a payment of twice and the deputy chairman a payment of 1.5 times this amount. In addition, the company grants members of the Supervisory Board a fee of €500 for attending a meeting of the Supervisory Board or one of its committees. For the year ended December 31, 2002, the total compensation paid to members of the Supervisory Board amounted to €2.2 million.

Directors and officers liability insurance (D&O insurance)

BASF has taken out liability insurance that covers the activities of members of the Board of Executive Directors and the Supervisory Board (D&O insurance). The policy provides for a suitable level of deductibles.

Share ownership by members of the Board of Executive Directors and the Supervisory Board

No member of the Board of Executive Directors or the Supervisory Board owns shares in BASF Aktiengesellschaft and related options or other derivatives that account for 1% or more of the share capital. Furthermore, the entire holdings by members of the Board of Executive Directors and the Supervisory Board account for less than 1% of the shares issued by the company.

Since July 1, 2002, in accordance with Section 15a of the German Securities Trading Act, all members of the Board of Executive Directors and the Supervisory Board, as well as certain of their relatives, are required to disclose the purchase or sale of BASF shares and other related rights to the German Financial Supervisory Authority ("Bundesanstalt für Finanzleistungsaufsicht") and to the company if transactions within 30 days exceed the threshold of €25,000. The company publishes all reported transactions on the Internet at www.basf.de/ governance_e.

4. Risk Management System

Risk strategy

BASF is exposed to many risks that are inseparable from global business activities. We carefully consider opportunities and risks before making business decisions.

Risk management organization and processes

BASF's risk management consists of three interrelated processes that are continually updated to adapt to changing operating conditions:

• Internal monitoring system
• Centralized and decentralized risk controlling
• Early warning system

Internal monitoring system:

The Group's Corporate Audit department – which reports to the Board of Executive Directors – is active throughout BASF Aktiengesellschaft and the BASF Group. The Corporate Audit department checks:

• adherence to directives, guidelines, approval limits and fair trade regulations;
• asset security and the attainment of an appropriate rate of return on invested capital;
• organization and processes for their efficiency, effectiveness and propriety;
• the functionality and reliability of the risk management system; and
• the reliability of reporting under it.

Internal monitoring also takes place in special committees that meet regularly. At the highest management level, they analyze business transactions, expected outcomes and their associated risks, developing trends, and structural developments. For example, they establish hedging strategies for interest rate and currency risks. There are set approval and controlling procedures for certain levels of capital expenditure. Basic elements of internal monitoring involve general principles of risk avoidance such as separation of duties and the "four eyes principle" for important transactions, as well as guidelines such as those for rate hedging, investments or the use of derivative financial instruments.

Centralized risk controlling:

Centralized risk controlling is handled on an ongoing basis by the corporate divisions Planning & Controlling and Finance. The Board of Executive Directors receives summary reports on a continuous basis and information directly from risk management officers on an ad hoc basis as needed. The risk management officers prepare combined quarterly risk reports based on the updated risk evaluation and ongoing risk controlling.

Responsibilities of the corporate division Finance include to manage the structure of the stockholders' equity of BASF Group companies and to ensure adequate financing capacity in the Group. In addition, the division provides financial analyses to support the Board of Executive Directors and the operating divisions in decisions related to acquisitions and divestitures.

BASF Aktiengesellschaft uses financial derivatives to hedge against financial risks. Centralized execution and controlling, combined with up-to-date reporting, guarantees efficient risk management, particularly in this sensitive area.

The key responsibilities of the corporate division Planning & Controlling are to communicate about risk management and to ensure that continued development of risk management takes place in all operating units, corporate divisions and functional divisions worldwide. In addition, the division coordinates identification of all risks significant to BASF Group-wide and systematically evaluates them according to uniform standards. The results are aggregated in a risk portfolio, which is used to determine the overall risk situation of the BASF Group.

Decentralized risk controlling:

Twelve operating divisions bear the overall responsibility for business operations in the BASF Group. These units are most familiar with their local markets, with customer behavior and competitors, the best combination of marketing and sales channels and with national legal systems. It follows that risk management must be based in these decentralized units.

Decentralized risk controlling works together with the centralized units to control global risks that could have cumulative or interdivisional effects. Corporate Controlling determines the overall risk situation of the BASF Group based on local and decentralized risks, and submits a report to the Board of Executive Directors.

Early warning system:

Our early warning system is intended to ensure that risks and dangers – in particular those that could pose a threat to the company's existence – are identified in good time on a continuous basis, and that the responsible decision-makers are informed. This early warning system identifies risk areas that are typical for BASF. These are then monitored both continuously and on an ad hoc basis with the help of key data and indicators. With our early identification system BASIKS (BASF Information and Communication System) specialists identify and track all changes in industry and society relevant to their field that appear in the press and other media.

Risk analysis and evaluation

Risks are quantified and categorized according to the probability of their occurrence and the level of loss to be expected. The individual operating units measure the loss potential of the risks identified in terms of the effect on sales and income from operations of a given division. Risk management and reduction measures are identified and updated continuously.

5. 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 shareholders, 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. The Board of Executive Directors and the Supervisory Board have studied the Code and its implications for BASF, and in December 2002 voted to adopt its recommendations, which, with a few exceptions predominantly apply to the Supervisory Board. You can find the Compliance Statement and the German Corporate Governance Code on our website at www.basf.de/governance_e.

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

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

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

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

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

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

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

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

Members of the Board of Executive Directors and the Supervisory Board are listed together with remuneration details on pages 85–92 and page 142 f.

Shareholders' rights

At Annual Meetings, shareholders have rights of participation and supervision. Each BASF share represents one vote. Shareholders may exercise their voting rights at Annual Meetings either personally or through a representative of their choice. With effect from the Annual Meeting of May 6, 2003, shareholders may also exercise their voting rights through a company-appointed proxy authorized by shareholders to vote according to their instructions. There are neither voting caps to limit the number of votes a shareholder may cast nor special voting rights. BASF has fully implemented the principle of "one share one vote." All shareholders are entitled to participate in Annual Meetings, to speak and request information from the Board relating to items on the agenda to the extent necessary to make an informed judgment of the company's affairs.

Values and Principles of the BASF Group/Code of Conduct

In order to guarantee a high standard of corporate governance, we have published Vision 2010, Values and Principles of BASF Group, and the Code of Conduct/Compliance Program. These lay down our business principles and guidelines for the conduct for all activities within BASF Group. The Code of Conduct sets out the conduct we expect from BASF employees – based on the principle of integrity. The German Code of Conduct also serves as the basis for corresponding codes throughout the BASF Group. Key areas include observing all relevant legislation (in particular, antitrust and competition legislation, sanctions and export controls – including those on chemical weapons –, labor laws and legislation relating to plant safety). Other issues are bans on insider dealing and providing or receiving bribes from business partners or state officials, and the need to treat BASF's assets responsibly. Compliance is monitored on a regular basis by our Corporate Audit department. With the newly created position of Chief Compliance Officer, BASF is committed to keeping abreast of developments in the area of compliance.

Vision 2010, Values and Principles of the BASF Group, and the German Code of Conduct is available on the Internet at www.basf.de/en/corporate/overview/.

Compliance Statement

Compliance Statement 2002 of the Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft

1. Statement of Principles pursuant to § 161 AktG [Stock Corporation Act] in connection with § 15 EG AktG [Introductory Act to the Stock Corporation Act]
   We declare that the recommendations by the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette is being complied with by the measures outlined below.
2. Deviations

a) Audit Committee
   Pursuant to Section 5.3.2 of the Code, the Supervisory Board shall form an Audit Committee. The Supervisory Board of the Company has not established such a committee and has reserved the decision on its set-up. The Supervisory Board intends to again consider the matter in the year 2003 – also with a view to the organizational standards with which the Company is faced under the U.S. American Sarbanes-Oxley Act.

b) Compensation of Chair and Membership in Supervisory Board Committees
   As set forth in Section 5.4.5 of the Code, the compensation shall take into account the chair position and the membership in Supervisory Board committees. So far the Company has specifically reimbursed the membership in committees by granting an attendance fee for the committee meetings. A supplementary compensation for the chair is not provided for, since this function has to-date been exercised by the Chairman of the Supervisory Board. In the event the Supervisory Board decides to set up an Audit Committee, a separate remuneration rule will become necessary for the chair position and the membership in this Committee. Prerequisite is a corresponding modification of the Articles of Association.

c) Compliance Statement
Pursuant to Section 3.10 of the Code, the Board of Executive Directors and the Supervisory Board shall report each year in the Company's Annual Report on the Company's corporate governance. By the new § 161 AktG - for the year 2002 in connection with § 15 EG AktG – this reporting obligation is regulated with, in part, different content. The Board of Executive Directors and the Supervisory Board resolved to exclusively report as required by law.

3. We underline that this Statement does not have a broad, binding effect for the following business year and, in our opinion, must not have so. The Board of Executive Directors and the Supervisory Board are committed to the Company's benefits and the interests of its shareholders and its other stakeholders. Therewith, they align their activities. Insofar, solely the law provides a binding frame. Rules of conduct going beyond that and being generally accepted for the proper conduct of a company represent a valuable instrument of guidance and of assistance for management. This is true, in particular, for the recommendations of the Corporate Governance Code adopted this year. They represent for us a general basis for our entrepreneurial activity.
Nevertheless situations may arise in the course of business where these standards, in a specific event, prove to be too inflexible in time or bearing, or unnecessarily restrict established Company practices. Finally, there are standards incorporated in the Code which are of individual nature and are not subject of control by the Board of Executive Directors or the Supervisory Board. In such events, contrary to the above-made Statement of Principles, there may be deviations from the recommendations of the Code. Vice versa, we will check the above-mentioned deviations for their continuous adequacy and, if appropriate, revise them. We will each year report such deviations or revisions respectively in the annual Compliance Statement and – explain them when not being self-explanatory.

Ludwigshafen, December 3, 2002
The Board of Executive Directors of BASF Aktiengesellschaft

Ludwigshafen, December 19, 2002
The Supervisory Board of BASF Aktiengesellschaft

Future Development

1. Risk Management Report

Overall risk

At the present time and in the foreseeable future there are no individual risks that pose a threat to the company's existence. Nor do the aggregate risks threaten the ongoing existence of the BASF Group. Our auditors examine the functioning and effectiveness of our risk management system (see page 92 ff., "BASF Group Risk Management System"), as well as its development and integration into business processes. The system is also subject to examination by our independent auditors and in continuous internal audits.

Economic risk

A lack of impulses for growth in Europe and an uncertain economic environment in the United States could impair our business and have a negative impact on sales and earnings due to lower capacity utilization and pressure on selling prices. These developments would especially affect our business with basic inorganic chemicals, petrochemicals, intermediates and plastics. Regional diversification, in particular the expansion of our production base in Asia, offsets the risk to a certain extent.

In the short-term, the effects of economic developments are less severe with regard to our products for the agricultural, nutrition and cosmetics industries and in natural gas trading, but impair growth opportunities in the medium term.

Currency risk

A rise in the euro exchange rate makes our products more expensive when exported to customers outside Europe. This may cause a decline in sales volumes or price reductions resulting in lower margins. We address this risk by expanding local production at highly productive Verbund sites.

Industry and regulatory risks

The new direction of the E.U.'s chemicals policy, as outlined in a white paper, carries a risk in that it would place BASF at a considerable disadvantage compared with its non-European competitors. The planned E.U. directive on emission trading could pose another risk – particularly to our further growth opportunities in Europe. The directive provides for a 21 % CO_2 reduction in Germany and 7.5 % reduction in Belgium based on 1990 values.

Financial risks

Our business operations are exposed to foreign currency, interest rate and commodity price risks, which are hedged in accordance with a strategy that is determined centrally and uses derivative instruments such as forward exchange contracts, currency options, interest rate and currency swaps or combined instruments. Hedging is used only to offset already existing underlying transactions arising from the operating business, cash investments and financing. The leverage effect

that can be achieved with derivatives is deliberately not used. See Note 28 to the Consolidated Financial Statements for complete information regarding the face value and market values of financial instruments. Concentrating financial risks centrally enables risks to be spread across the various companies of the Group and also facilitates efficient supervision. In addition, the principle of separation of functions can be effectively implemented in a centralized manner. The risks arising from changes in exchange rates and interest rates and the derivative transactions entered into to hedge these risks are monitored constantly. Market movements in derivative instruments used as substitutes for original financial instruments are also subject to constant monitoring. Credit risks are present, in that the counterparty may not be able to perform its contract obligations. This risk of default is limited by engaging in such transactions only with top-rated financial institutions and by adhering to fixed limits.

Company pension schemes are partly financed through pension funds. Forecasts concerning asset performance are considered when determining the fund assets needed to finance pension schemes. Because a portion of these assets has been invested in shares, severe stock exchange losses could result in the accrued assets being insufficient to finance the pensions.

Supply risks

Availability of raw materials, energy, precursors and intermediates presents a not insignificant risk for BASF, which is intensified by substantial price fluctuations, especially for commodities. To reduce these price and supply risks, we use long-term supply contracts, as well as optimized procedures for the purchase of additional quantities of raw materials on the spot market. Purchase agreements for the most strategically important raw materials are negotiated and concluded centrally for the BASF Group. (For more information, see page 63 ff., "Procurement, Production and Distribution.") Individual business units constantly monitor the changes in their supply markets and take action to minimize their risks accordingly. If, despite these measures, our raw material costs rise, it is not always possible to pass on the higher costs in full in the form of higher prices for our products in the short term, and this can have a negative impact on earnings. As part of our research and development efforts, we are working on new technologies that will address risks relating to the availability and price of basic raw materials in a timely manner. For example, LPG (liquefied petroleum gas), an inevitable by-product of natural gas processing, could become an attractive raw material for a number of our product lines.

Market risks

Cyclical fluctuations in demand in key customer segments, such as the automotive, construction, electrical and electronics as well as the textile industries, intense competition in our sales markets and temporary surplus capacity due to new production plants going on stream all present operating risks in our Chemicals, Performance Products and Plastics & Fibers segments. We address these risks by constantly expanding our cyclically resilient businesses, such as agrochemicals, active ingredients for pharmaceuticals and nutritional products, and the trading and transmission of natural gas. In cyclical businesses, we seek to maintain cost leadership. We are among the world's leading suppliers in most of our businesses, and we are expanding our business activities above all in high-growth regions, both to take part in these market developments and to reduce the impact of cyclical developments in specific regions.

In response to product substitutions and the declining use of certain products in the Performance Products and Plastics & Fibers segments, we have developed and brought to market new products with improved or entirely new properties.

Sales volumes for our crop protection products are affected by the seasonal nature of the market – with sales being concentrated in the first half of the year – and by the weather. Demand for crop protection products is further influenced by the agricultural policies of governments and multinational organizations. The typically long periods allowed for payment in this industry can lead to losses from receivables during local or regional economic crises. Currency and economic crises such as those seen in Argentina and Brazil in 2002 may give us grounds to operate a more restrictive sales policy than usual in order to limit risks from uncollectible accounts. The increased marketing and sale of products in combination with genetically modified seeds could have an adverse effect on the development of our business. Furthermore, the effectiveness of products may decline for biological reasons. Prices for crop protection products may also become a more significant competitive factor in periods when prices for agricultural produce are declining. We are responding with innovative products and solutions that create value for our customers.

Risks arising from acquisitions and investment decisions

Decisions regarding acquisitions and investments in large-scale projects are challenging in terms of risks. The preparation, implementation and follow-up involved with such decisions are based on specified responsibility parameters and on approval procedures that bring together the technical knowledge of all relevant units in appropriate committees.

Exploration risk

In the Oil & Gas segment, future growth in exploration and production is largely based on the success of exploration activities. When searching for new reserves of crude oil and natural gas there are geological risks with regard to the presence, quantity and quality of hydrocarbons. We have learned to handle these risks diligently by spreading the risk through a balanced exploration portfolio.

Other risks

Research and development: Because of the high degree of complexity and uncertainty involved in chemical and biological research, there is a risk that projects might not be continued or that developed products will not receive approval for marketing.

Prospective candidates for technical and management positions: We are increasingly competing with other companies for highly qualified technical and management personnel. Our employees' performance is essential to the growth and development of the BASF Group. To maintain and increase their motivation, we promote entrepreneurship within the organization. To do this we offer them attractive assignments, a variety of international development perspectives, a broad spectrum of advanced training and continuing education opportunities, progressive benefits and performance-based compensation. Part of this compensation is a broad-based program that allows employees to share in the company's assets. We have also put in place a sophisticated stock option plan for senior executives in the BASF Group. Three-quarters of the 1,000 employees who are eligible already take part.

IT risks: To control potential risks in the IT area, we use the latest hardware and software. Group-wide, we have integrated, standardized IT infrastructures, backup systems, replicated databases, virus and access protection, encoding systems and a high degree of internal networking.

Corporate security: Assessing security risks on a global basis and determining their potential impact on BASF has become an extremely difficult undertaking since the terrorist attacks in the United States. Through its Group-wide network, BASF's Corporate Security works in close cooperation with local authorities, and constantly updates security measures and advice (travel restrictions, tighter access controls for production plants, updates of rescue and evacuation plans, emergency services, etc.) to protect the company and its employees.

Legal risks: For information regarding litigation risks, see Note 26 to the Consolidated Financial Statements.

2. Forecast

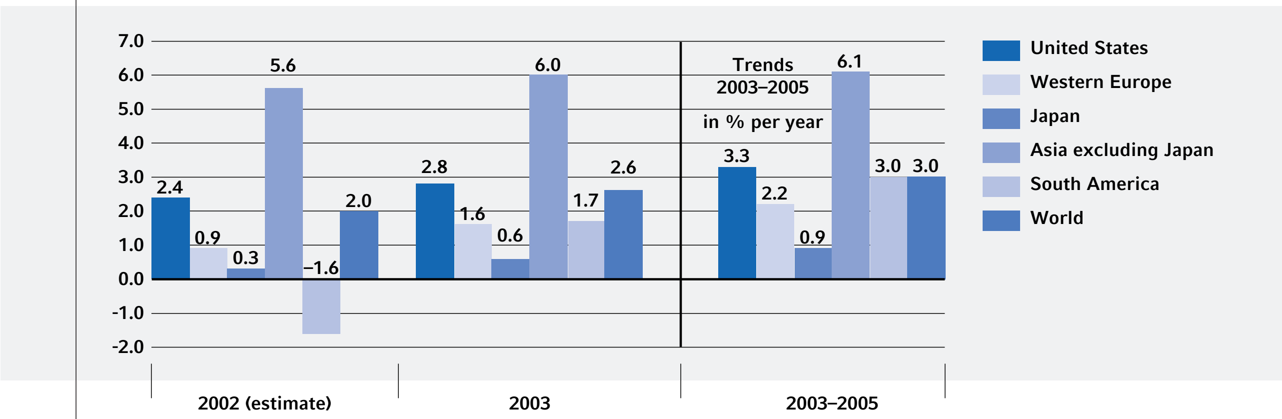
As part of its planning, BASF has developed two scenarios to address current geopolitical uncertainties.

1. In 2003, assuming the Iraq conflict does not lead to a military confrontation (base scenario), we expect:
   - an average oil price of $23.4 per barrel,
   - global economic growth of 2.6 %, and
   - a substantial increase in global chemical production of 3.1 %.
2. If a war with Iraq occurs, we are assuming that the conflict will be will be limited in terms of duration and the territory affected. However, uncertainty in energy markets and among consumers would mean stagnation in global growth for the first half of 2003.
   - Oil prices would briefly spike to about $35 per barrel.
   - At 1.6 %, global economic growth in 2003 would be nearly one percentage point weaker.
   - Global chemical production would grow only 1.8 %.

We have prepared our detailed business plan using the base scenario. Our forecasts are also based on the assumption that interest rates will be lowered in Europe and that stock prices will stabilize in the United States and Europe. Starting from the high price of $32 per barrel at the end of 2002, we expect oil prices to decline as 2003 progresses, again boosting purchasing power. Under these assumptions, we expect the global economy to turn the corner in the spring of 2003 and resume moderate growth. This recovery process should intensify in 2004.

A decisive factor in overcoming the global economic slowdown will be substantial improvement in the **United States** economy. If uncertainty surrounding the Iraq conflict subsides, consumption is expected to recover. Moreover, lower interest rates and declining oil prices will stimulate spending, as will expansionary fiscal policy. Real gross domestic product (GDP) is expected to rise by 2.8% in 2003 and continue to grow in 2004. We anticipate annual GDP growth of 3.3 % over the medium term.

Gross domestic product forecast (base scenario)
Real changes compared with previous year (%)



In **Western Europe,** economic activity is expected to pick up gradually during 2003. Exports should be stimulated by the growing recovery in the world economy, and consumer spending should gradually increase. Real gross domestic product will likely grow at an annual rate of 1.6 %. Under the influence of stronger economic activity and rising domestic demand, economic growth is expected to be stronger again in 2004. We estimate growth in the medium term at 2.2 % per year.

In **Japan,** the economy will likely remain sluggish in 2003. While export activity remains brisk, domestic demand is expected to generate very little stimulus. Due to measures required to restructure the corporate and banking sector and to consolidate public finances, economic growth will probably be modest in the next few years.

Economic activity in **Southeast Asia** is expected to pick up slightly in 2003. With exports remaining strong, domestic demand should also climb noticeably. We forecast GDP growth of 6 %. For 2004, we expect the upturn to strengthen, and growth rates to exceed 6 %.

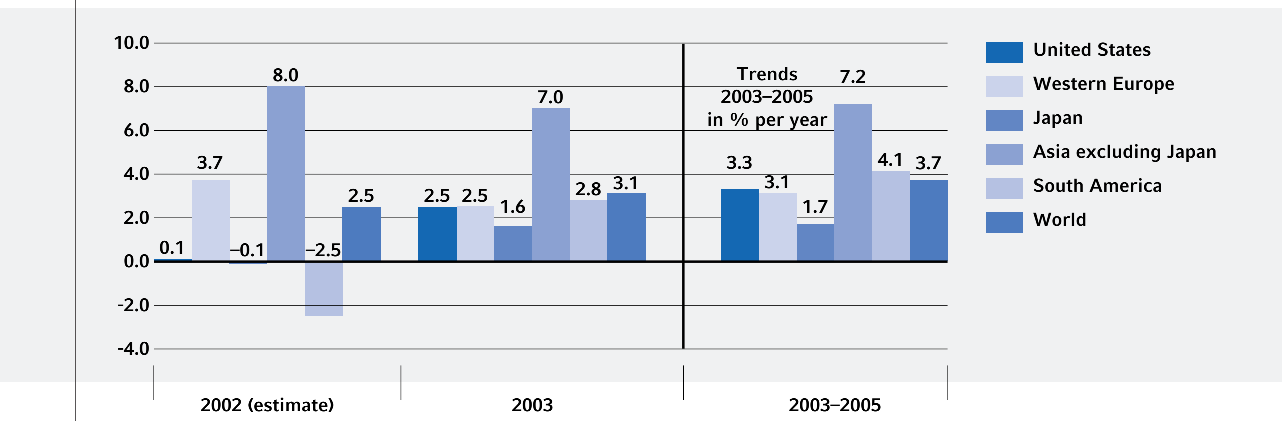
If the political situation stabilizes in **South America,** we see a possibility that foreign capital inflows will again be strong in 2003. With an improving economy in the industrialized countries and rising commodity prices, foreign trade should create a stimulus that will also affect domestic demand. We forecast South America's medium-term GDP growth at 3.0 % per year.

Trends in the chemical industry

We expect global chemical production to begin to grow in 2003 after a temporary weak phase lasting until the spring. Growth in chemical production will likely be stimulated by a growing U.S. economy.

We anticipate that in the **United States** chemical production will grow due to rising demand from industrial customers and increasing exports. We forecast a rise in production averaging 2.5 % in 2003. The upward trend will continue in 2004, but volume growth will level off in the years that follow. Chemical production is expected to increase by an average of 3.3 % per year until 2005.

Chemical production forecast (base scenario)
Real changes compared with previous year (%)



In **Western Europe,** it is anticipated that chemical production will remain slow until spring because of general economic weakness. As the year continues, chemical production in 2003 should again accelerate. Impetus will come first from exports, which will be stimulated by an expected upturn in the global economy. We expect growth in 2003 to average 2.5 %. In the medium term, we forecast average volume growth of 3.1 % per year.

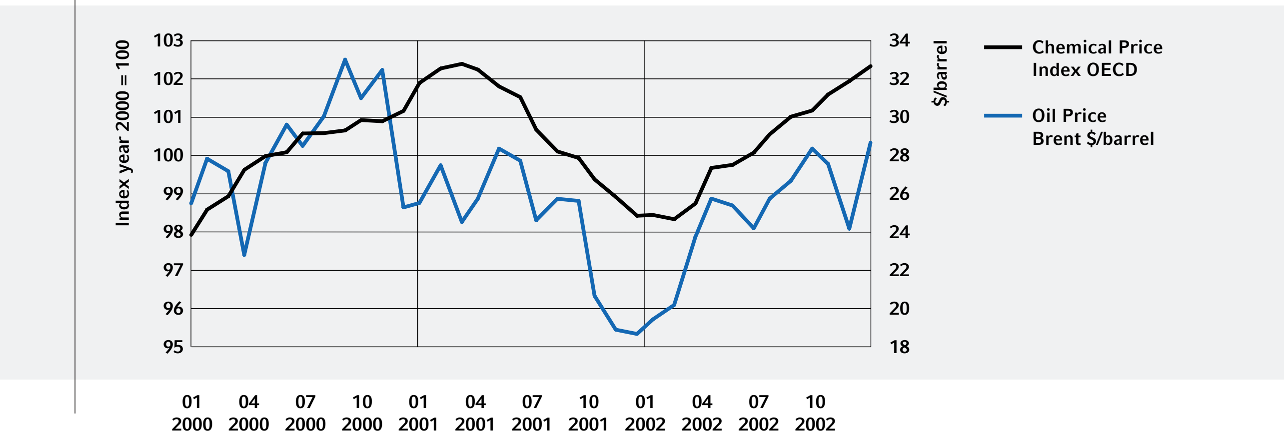
In **Japan,** chemical production remains on track for moderate growth in 2003 due to rising industrial demand and further growth in exports. Chemical production is expected to rise by 1.6 % in 2003, but we do not expect a significant increase in growth in subsequent years. Thus, over the medium term, Japanese chemical production is anticipated to grow at 1.7 % per year on average.

In 2003, we expect chemical production in most countries in **Southeast Asia** to be slightly depressed initially due to subdued export growth. In an improved global economic environment, production volumes should rise substantially in the second half of 2003 and increase by an average of 7 % for the year. In 2004, chemical production is expected to continue to recover. In the following years, however, we anticipate that the upturn will level off slightly. In the medium term, we expect average annual production growth of close to 7.2 %.

In **South America,** starting in the second half of 2003, chemical production is expected to begin to grow again, influenced by a more favorable global economy. However, at 2.8 %, growth will likely remain modest. We do not expect a recovery until 2004.

Global chemical production in 2003 is expected to increase substantially by 3.1 % and continue to rise slightly in the following year if demand rises in response to a recovery in the U.S. economy. In the medium term, we expect world chemical production (including pharmaceuticals) to rise at an average annual rate of 3.7 %.

Price trends for chemical products and crude oil prices



Sales forecast

Under the assumption of our base scenario, we anticipate sales in 2003 to be slightly higher than in 2002. Experience has shown that our business picks up quickly when there is an upturn in the economy. With the continuing recovery in 2004, we anticipate our sales will outpace growth in the market.

We have based our planning for 2003 on an average oil price of $23.4/barrel. Based on this assumption, sales in our Oil & Gas segment will decline slightly compared with 2002. In the Performance Products and Plastics & Fibers segment, we expect sales at approximately the same level as in 2002. Starting already in 2003, we anticipate a significant increase in sales in the Chemicals and Agricultural Products & Nutrition segments. In the Agricultural Products & Nutrition segment, this development will be positively influenced by the planned acquisition of insecticides from Bayer (fipronil), while in the Chemicals segment factors such as the startup of the propane dehydrogenation plant in Tarragona, Spain, and the butanediol plant in Kuantan, Malaysia, will contribute to an increase in sales.

Earnings forecast

The uncertainties with regard to economic development make it difficult to predict earnings. Under the assumption of our base scenario, we expect a further increase in income from operations in 2003. This expectation is based on the implementation of the restructuring measures introduced in 2001 as well as plant and site closures. See page 33 f. for further information on sales and earnings expectations in the segments and operating divisions.

Capital expenditures forecast

For 2003, we are planning capital expenditures at the level depreciation of €2.0 billion. On a regional basis, capital expenditures are expected to be allocated as follows: Europe 49 %; North America (NAFTA) 14 %; South America 3 % and; Asia, Pacific Area, Africa 34 %. See “Liquidity and Capital Resources,” on page 52 ff. for further details.

Employees

Committed and well-qualified employees are a key factor in our strategy of adding value through growth and innovation. To maintain our attractiveness as an employer, we offer interesting and challenging work, flexibility for entrepreneurial behavior, and a variety of opportunities for development and training, as well as market-oriented compensation and benefits systems.

In 2003, we will continue our international recruiting activities, which focus on top international universities with target groups relevant to BASF. We are strengthening and expanding the qualifications of our employees worldwide through systematic personnel development and ongoing investment in training and continuing education. These efforts include increasing the use of innovative tools such as e-learning, which gives our employees the opportunity for flexible, self-paced training. Another important element is the creation of a Marketing and Sales Academy to strengthen the customer and market-orientation of the new European marketing organization. We will further reinforce the dedication of our employees by expanding process and team-oriented working structures as well as performance and results-based compensation and benefits systems.

We will continue our personnel expense management efforts to assure our long-term competitiveness. Human resources management also enhances the efficiency of job performance by ensuring that business processes in Human Resources have the necessary IT support.

Research and development

Our research and development activities are aimed at constantly renewing BASF's products and processes based on our customers' current and future requirements. We use new technologies such as biotechnology to further develop our broad competence in chemistry and to open up new business areas for BASF.

To continue profitable growth, we want to use BASF Future Business GmbH to be even more swift and effective in opening up new business areas and new technologies beyond our existing fields of operation. Keys to the success of these efforts will be innovations and system solutions that are relevant to or based on chemistry and are capable of producing above-average growth rates in the medium and long term.

Procurement

In the future, purchasing will be increasingly required to coordinate more closely with internal customers to develop raw materials purchasing scenarios. Purchasing is also responsible for hedging its raw materials purchase prices through the use of forward purchases or derivatives, so as to reduce possible negative effects on BASF's business results. Such activities can limit the effects of price volatility for petrochemicals, which has dramatically increased in recent years.

E-commerce

Through the use of tailor-made technical solutions and innovative business models, we aim to expand our existing customer relationships and win new customers. We also strive to optimize procurement processes for BASF and its customers and reduce transaction costs. To meet these goals, BASF will make available as much capacity and functionality in the future as is reasonable and profitable for the company and its partners.

As part of the BASF Group's global business strategies, our e-commerce strategy rests on three pillars: portals and extranets, system-to-system solutions and electronic marketplaces. In particular, we plan to increase our use of WorldAccount, a worldwide uniform and integrated customer-oriented e-commerce platform. Through WorldAccount we are pursuing the goal of enabling customers to make quick, transparent and cost-efficient purchasing decisions around the clock by providing detailed product information and simplifying ordering procedures.

Environmental issues

In recent years, the activities of all chemical companies have been subject to increasingly strict and complex laws and regulations covering occupational safety and health, product registration and environmental protection. It is therefore possible that BASF might be forced to install additional controls for certain emission sources or modify its production processes because of future changes in these laws. This includes the possibility that inspections for possible soil or groundwater contamination and remediation of any contamination may be necessary at sites where this had not been previously required.

Changes to the Board of Executive Directors

Dr. Jürgen F. Strube und Max Dietrich Kley will retire from the Board of Executive Directors following the Annual Meeting on May 6, 2003. Effective February 1, 2003, Dr. Jürgen Hambrecht will transfer to Ressort I and, as Chairman of the Board of Executive Directors, will assume responsibility for the Ressort following the 2003 Annual Meeting. This Ressort comprises the corporate divisions Legal, Taxes & Insurance and Planning & Controlling and the corporate departments Communications, Investor Relations, and Executive Management and Development. Effective January 1, 2003, Dr. Kurt Bock, previously head of the Logistics & Information Services competence center, was appointed to the Board of Executive Directors. Following the 2003 Annual Meeting, he will assume responsibility of Ressort III, which comprises Finance and Corporate Audit as well as the Logistics, Information Services and Global Purchasing competence centers, and South America .

Effective January 1, 2003, the Supervisory Board of BASF Aktiengesellschaft appointed Dr. Andreas Kreimeyer to the Board of Executive Directors of BASF Aktiengesellschaft. On February 1, 2003, he assumed responsibility of Ressort VIII, which comprises the Performance Chemicals and Functional Polymers operating divisions as well as Asia. Also as of February 1, 2003, Dr. Stefan Marcinowski assumed responsibility for Ressort VI, which comprises the Inorganics, Petrochemicals and Intermediates divisions as well as the Corporate Engineering and Chemicals Research & Engineering competence centers. He remains Research Executive Director and is responsible for University Relations & Research Planning as well as for BASF Future Business GmbH.

Additional organizational changes will take place following the Annual Meeting on May 6, 2003: Eggert Voscherau will become Vice Chairman of the Board of Executive Directors. He will continue to head Ressort II, which includes the competence centers Human Resources and Environment, Safety & Energy as well as Occupational Medicine & Health Protection, the Ludwigshafen site and Europe. In addition, Ressort II is responsible for the Antwerp and Schwarzheide sites. Dr. John Feldmann remains in charge of Ressort IV. He is responsible for the Styrenics, Performance Polymers and Polyurethanes divisions, Polymer Research as well as Oil & Gas.

Organizational changes

As of January 1, 2003 the Logistics & Information Services competence center was split into separate competence centers for Logistics and Information Services.

As part of the continuing development of the BASF organization, the Eastern Europe, Africa, West Asia regional division was dissolved effective January 1, 2003. The marketing and sales units for this region were integrated into the Europe II regional division. The agricultural products and fine chemicals businesses in this region are now the direct responsibility of the corresponding business units.

Ludwigshafen site

In Ludwigshafen, BASF Aktiengesellschaft's largest site, we started implementing the "Site Future Here and Now!" site concept in the fall of 2002. The goal is to ensure the sustained global competitiveness of the site. By consistently applying market principles to internal procedures and improving planning processes at the site we will enhance the attractiveness of Ludwigshafen for future capital expenditures. The projects are based on an analysis of the performance and cost flows for production, infrastructure and services that task forces had conducted as part of the site concept since the summer of 2001.

3. Supplementary Report

On January 14, 2003, we agreed to sell our worldwide nylon fibers to Honeywell International Inc., Morris Township, New Jersey, and acquire their worldwide engineering plastics business. The transaction is subject to regulatory approval and is expected to close in the first half of 2003. For further details, please see the explanations in the Plastics & Fibers segment results of operations in the Management's Analysis.

On January 17, 2003, the U.S. Court of Appeals for the District of Columbia Circuit reversed a ruling by the District Court. The Court of Appeals held that U.S. antitrust laws permit federal subject matter jurisdiction over claims by foreign purchasers of vitamins based on purchases outside the United States. The defendants, including BASF Aktiengesellschaft, intend to file a petition for rehearing and, if necessary, file a petition seeking review of the decision by the U.S. Supreme Court. See Note 26 to the Consolidated Financial Statements for further information.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Consolidated Financial Statements

Statement by the Board of Executive Directors

The Board of Executive Directors of BASF Aktiengesellschaft is responsible for preparing the Consolidated Financial Statements and Management's Analysis of BASF Group. The Consolidated Financial Statements were prepared in accordance with the principles of generally accepted accounting as outlined in the provisions of the German Commercial Code ("Handelsgesetzbuch") and the Stock Corporations Act. We have implemented U.S. generally accepted accounting principles (U.S. GAAP) as far as possible within the scope offered by the accounting and valuation options available under German commercial law; this was done on the basis of accounting standards established by the German Accounting Standards Board. A reconciliation of net income and stockholders' equity is provided to show adjustments required by U.S. GAAP but not permitted under German commercial law. We have established effective internal reporting and accounting statements to ensure that the Consolidated Financial Statements and Management's Analysis adhere to applicable accounting rules and company reporting systems. The Corporate Auditing department works to ensure that our businesses worldwide comply with BASF's effective and reliable uniform accounting and reporting. Our risk management system complies with the requirements of the German Act on Verification and Transparency in the Corporate Sector (Section (91) 2, Stock Corporations Act). The system identifies substantial risks in a timely manner so that the Board of Executive Directors can take any appropriate action required. Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft has examined BASF's Consolidated Financial Statements and Management's Analysis and approved them free of qualification. The Consolidated Financial Statements and Management's Analysis and the auditors' report were discussed in detail in the presence of the auditors at a Supervisory Board meeting. For the results of the Supervisory Board's examination, please refer to the Report of the Supervisory Board.

Dr. Jürgen F. Strube
Chairman of the Board of
Executive Directors

Max Dietrich Kley
Vice Chairman of the
Board of Executive Directors

Report of Independent Auditors

We have audited the accompanying consolidated balance sheets of BASF Aktiengesellschaft and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Germany and in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the financial position of BASF Aktiengesellschaft and its subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in Germany.

As discussed in Note 2 to the Consolidated Financial Statements, the Company changed its method of accounting for tax loss carryforwards in 2001.

Application of accounting principles generally accepted in the United States of America would have affected stockholders' equity as of December 31, 2002 and 2001 and net income for each of the three years in the period ended December 31, 2002 to the extent summarized in Note 4 to the Consolidated Financial Statements.

Frankfurt am Main, February 28, 2003

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Kompenhans	**Dr. Beine**
Wirtschaftsprüfer	Wirtschaftsprüfer

BASF Group Consolidated Financial Statements and Notes

Consolidated Statements of Income
Year ended December 31

Million €	Explanations in Note	2002	2001
Sales		32,519.0	32,768.0
– Natural gas taxes		303.5	268.4
Sales, net of natural gas taxes	(5)	**32,215.5**	**32,499.6**
Cost of sales		21,815.5	22,187.8
Gross profit on sales		**10,400.0**	**10,311.8**
Selling expenses		4,763.9	5,143.6
General and administrative expenses		700.4	659.3
Research and development expenses		1,135.3	1,247.1
Other operating income	(6)	716.0	881.5
Other operating expenses	(7)	1,875.7	2,926.4
Income from operations		**2,640.7**	**1,216.9**
Expense/income from financial assets		123.8	(209.3)
Write-downs of, and losses from, retirement of financial assets as well as securities held as current assets		31.2	22.7
Interest result		(92.4)	(376.2)
Financial result	(8)	**0.2**	**(608.2)**
Income from ordinary activities		**2,640.9**	**608.7**
Extraordinary income	(9)	–	6,120.8
Income before taxes and minority interests		**2,640.9**	**6,729.5**
Effect of the change in accounting principles for deferred taxes	(2)	–	50.6
Income taxes	(10)	1,042.2	954.5
Income before minority interests		**1,598.7**	**5,825.6**
Minority interests	(11)	94.3	(32.6)
Net income		**1,504.4**	**5,858.2**
Earnings per share (€)		**2.60**	**9.72**

Consolidated Balance Sheets at December 31

Assets Million €	Explanations in Note	2002	2001
Intangible assets	(13)	3,464.6	3,942.7
Property, plant and equipment	(14)	13,744.7	14,189.8
Financial assets	(15)	3,248.9	3,360.7
Fixed assets		**20,458.2**	**21,493.2**
Inventories	(16)	4,798.4	5,006.8
Accounts receivable, trade		5,316.0	5,875.5
Receivables from affiliated companies		544.4	631.9
Miscellaneous receivables and other assets		1,786.9	1,531.7
Receivables and other assets	(17)	**7,647.3**	**8,039.1**
Marketable securities	(18)	131.8	382.9
Cash and cash equivalents		230.6	359.9
Liquid funds		**362.4**	**742.8**
Current assets		**12,808.1**	**13,788.7**
Deferred taxes	(10)	**1,204.2**	**1,372.5**
Prepaid expenses	(19)	**615.3**	**220.6**
Total assets		**35,085.8**	**36,875.0**

Stockholders' equity and liabilities Million €	Explanations in Note	2002	2001
Subscribed capital	(20)	1,460.0	1,493.5
Capital surplus	(20)	2,947.4	2,913.9
Retained earnings	(21)	12,468.2	12,222.4
Currency translation adjustment		(329.7)	532.3
Minority interests	(22)	396.3	359.7
Stockholders' equity		**16,942.2**	**17,521.8**
Provisions for pensions and similar obligations	(23)	3,910.0	3,952.7
Provisions for taxes		976.0	618.7
Other provisions	(24)	4,111.3	5,569.6
Provisions		**8,997.3**	**10,141.0**
Bonds and other liabilities to capital market	(25)	2,181.7	1,592.5
Liabilities to credit institutions	(25)	1,428.7	1,242.5
Accounts payable, trade		2,344.0	2,467.0
Liabilities to affiliated companies		547.8	572.6
Miscellaneous liabilities	(25)	2,274.3	2,986.2
Liabilities		**8,776.5**	**8,860.8**
Deferred income		**369.8**	**351.4**
Total stockholders' equity and liabilities		**35,085.8**	**36,875.0**

Consolidated Statements of Changes in Stockholders' Equity Year Ended December 31

Million €	Number of subscribed shares outstanding	Subscribed capital	Capital surplus	Retained earnings	Currency translation adjustment	Minority interests	Total stockholders' equity
January 1, 2002	**583,401,370**	**1,493.5**	**2,913.9**	**12,222.4**	**532.3**	**359.7**	**17,521.8**
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(13,085,000)	(33.5)	33.5	(499.8)			(499.8)
Issuance of new stock as conditional capital through the exercise of conversion rights of former Wintershall stockholders	40						
Dividends paid				(758.4)		(85.0)*	(843.4)
Net income				1,504.4		94.3	1,598.7
(Decrease)/increase of foreign currency translation adjustments					(862.0)	(10.6)	(872.6)
Capital injection by minority interests						38.3	38.3
Changes in scope of consolidation and other changes				(0.4)		(0.4)	(0.8)
December 31, 2002	**570,316,410**	**1,460.0**	**2,947.4**	**12,468.2**	**(329.7)**	**396.3**	**16,942.2**
January 1, 2001	**607,399,370**	**1,554.9**	**2,745.7**	**8,851.1**	**661.8**	**481.3**	**14,294.8**
Issuance of new shares from conditional capital through the exercise of warrants attached to the 1986/2001 3% U.S. Dollar Option Bond of BASF Finance Europe N.V.	6,777,000	17.4	89.4				106.8
Share buy-back and cancellation of own shares including own shares intended to be cancelled	(30,775,000)	(78.8)	78.8	(1,299.5)			(1,299.5)
Dividends paid				(1,214.1)		(52.2)*	(1,266.3)
Net income				5,858.2		(32.6)	5,825.6
(Decrease)/increase of foreign currency translation adjustments					(129.5)		(129.5)
Capital injection by minority interests						68.8	68.8
Changes in scope of consolidation and other changes				26.7		(105.6)	(78.9)
December 31, 2001	**583,401,370**	**1,493.5**	**2,913.9**	**12,222.4**	**532.3**	**359.7**	**17,521.8**

* Profit and loss transfers to minority interests

Consolidated Statements of Cash Flows* Year Ended December 31

Million €		2002	2001
Net income (excluding extraordinary income)		1,504.4	(117.6)
Depreciation and amortization of fixed assets		2,501.6	2,933.1
Changes in pension provisions, prepaid pension assets and other non-cash items		(334.0)	260.1
(Gains) losses from disposal of fixed assets		(326.2)	(74.0)
Changes in inventories		(207.4)	100.3
Changes in receivables		(10.8)	(216.8)
Changes in other operating liabilities and provisions		(814.6)	(566.4)
Cash provided by operating activities	(12)	**2,313.0**	**2,318.7**
Additions to tangible and intangible fixed assets		(2,410.4)	(2,810.6)
Additions to financial assets and securities		(391.5)	(740.5)
Payments related to acquisitions		(267.2)	(461.3)
Proceeds from divestitures		5.4	7,503.4
Proceeds from the disposal of fixed assets and securities		899.8	628.6
Cash provided by (used in) investing activities		**(2,163.9)**	**4,119.6**
Proceeds from capital increases		38.3	175.5
Share repurchase		(499.8)	(1,299.4)
Proceeds from the addition of financial indebtedness		3,127.8	1,779.5
Repayment of financial indebtedness		(2,088.0)	(6,071.9)
Dividends paid			
To shareholders of BASF Aktiengesellschaft		(758.4)	(1,214.1)
To minority shareholders		(85.0)	(52.2)
Cash provided by (used in) financing activities		**(265.1)**	**(6,682.6)**
Net change in cash and cash equivalents		**(116.0)**	**(244.3)**
Effects on cash and cash equivalents			
From foreign exchange rates		(13.6)	3.7
From changes in scope of consolidation		0.3	95.0
Cash and cash equivalents as of beginning of year		**359.9**	**505.5**
Cash and cash equivalents as of end of year		**230.6**	**359.9**
Marketable securities		131.8	382.9
Liquid funds as shown on the balance sheet		**362.4**	**742.8**

* The statements of cash flows are discussed in detail in Management's Analysis "Liquidity and Capital Resources" on page 52 ff.

For other information regarding Consolidated Statements of Cash Flows see explanations in Note 12.

1. Summary of accounting policies

(a) Basis of presentation

The Consolidated Financial Statements of BASF Aktiengesellschaft (“BASF” or “BASF Aktiengesellschaft”) are based on the accounting and valuation principles of the German Commercial Code (“Handelsgesetzbuch”) and the German Stock Corporation Act (“Aktiengesetz”) as well as the accounting standards of the German Accounting Standards Committee (“Deutscher Standardisierungsrat”). The accounting principles conform to generally accepted accounting principles in the United States (U.S. GAAP) to the extent permissible under the German Commercial Code. The reconciliation of remaining significant deviations to U.S. GAAP is described in Note 4 to these Consolidated Financial Statements.

(b) Scope of consolidation

The Consolidated Financial Statements include BASF Aktiengesellschaft, the parent company, and all material subsidiaries in which BASF Aktiengesellschaft directly or indirectly exercises a majority of the voting rights (collectively, the “Company”). Furthermore, material 50 % joint ventures are included on a proportional consolidation basis, with the exception of the joint venture Basell Group, which is accounted for using the equity method. The Basell Group largely operates independently and is not included in the planning and approval processes of the BASF Group.

	2002	2001
Consolidated companies as of January 1	154	170
Thereof proportional consolidation	11	6
First-time consolidations	7	27
Thereof proportional consolidation	–	5
Deconsolidations	6	43
Thereof proportional consolidation	–	–
Consolidated as of December 31	155	154
Thereof proportional consolidation	11	11

Subsidiaries and joint ventures whose impact on the net worth, financial position and results of the Company is individually and in the aggregate immaterial, are excluded from the scope of consolidation.

Generally, affiliated companies not consolidated due to immateriality, non-proportionally consolidated joint ventures and associated companies are accounted for using the equity method. Associated companies represent those entities where the Company has a participation of at least 20 % and exercises a significant influence over the operating and financial policies.

	2002	2001
Affiliated companies	21	24
Joint ventures	1	1
Other associated companies	4	3
	26	28

Major changes to the scope of consolidation, other than those relating to corporate structure, are as follows:
2002:
First-time consolidations comprise:
- Frank Wright Ltd., Ashbourne, United Kingdom, which operates production plants for animal feed precursors, due to increased significance.

- Clyde Netherlands B.V. and Clyde Petroleum Exploratie B.V. of the Hague, the Netherlands, which were acquired in 2002 and are included in the Oil & Gas segment.
- Another four companies in Germany, the Netherlands and Mexico, previously not consolidated because of minor significance.

Deconsolidations comprise:
- Six companies due to merger with other affiliates, liquidation or due to declining significance.

2001:
First-time consolidations comprise:
- BASF SONATRACH PropanChem S.A., Tarragona, Spain, which constructs plants for propylene production that are expected to start production in the first quarter of 2003.
- ELLBA Eastern (Pte.) Ltd., Singapore, our joint venture with Shell, has constructed plants for styrene and propylene oxide. Production started in the second half of 2002.
- BASF-YPC Company Ltd., Nanjing, China, our joint venture with SINOPEC to set up a petrochemical Verbund site in Nanjing, China.
- BASF NOF Coatings Company Ltd., Tokyo, Japan, our joint venture with NOF, Tokyo, Japan, for the production and marketing of coatings, especially for the Japanese market.
- BASF Styrenics Private Ltd., Mumbai, India, a producer of polystyrene, which was acquired at the end of 2000.
- Another 22 subsidiaries, previously not consolidated, because of increased significance. They are located in Turkey, Japan, China, Russia, Poland, Norway, Finland and other countries.

Deconsolidations comprise:
- 32 companies in the course of the sale of the pharmaceuticals and generics business;
- 11 companies due to merger with other affiliates, liquidation or declining significance.

Changes in the scope of consolidation, acquisitions and divestitures had the following effects on the changes in the Consolidated Financial Statements:

	2002		2001	
	Million €	**%**	**Million €**	**%**
Sales	(210)	(0.6)	(2,649)	(7.4)
Thereof:				
Acquisitions	118	0.4	1,486	4.1
Divestitures	(404)	(1.2)	(4,452)	(12.4)
Changes in scope of consolidation	76	0.2	317	0.9
Fixed assets	705.3	3.3	(522.6)	(2.4)
Thereof property, plant and equipment	414.5	2.9	155.4	1.1
Inventories and receivables	49.2	0.3	(1,105.4)	(6.9)
Liquid funds	24.1	3.2	(261.0)	(30.0)
Assets	**778.6**	**2.1**	**(1,889.0)**	**(4.9)**
Stockholders' equity	(19.5)	(0.1)	5,690.6	39.8
Financial liabilities	285.7	10.1	(5,654.2)	(71.6)
Other liabilities	512.4	3.1	(1,925.4)	(11.8)
Stockholders' equity and liabilities	**778.6**	**2.1**	**(1,889.0)**	**(4.9)**

Announced acquisitions and divestitures

In October 2002, BASF Aktiengesellschaft and Bayer CropScience AG agreed on the acquisition of a portfolio of crop protection products and the related production facilities in Elbeuf, France, for a consideration of approximately €1.2 billion. The portfolio generated net sales of approximately €500 million in 2001. The transaction is subject to approval of the involved antitrust authorities.

In January 2003, BASF and Honeywell International Inc., Morris Township, New Jersey, signed definitive agreements for two transactions. BASF will acquire Honeywell's engineering plastics business, which generated net sales of approximately €400 million in 2002. BASF will divest to Honeywell its nylon fibers business with net sales of approximately €380 million in 2002. This asset swap involves a cash payment of $170 million by BASF and of $80 million by Honeywell within one year of the transaction's close. Both transactions are subject to regulatory approval.

Proportional consolidation

Condensed financial information relating to the Company's pro rata interest in joint ventures accounted for using the proportional consolidation method is as follows:

Statement of income information

Million €	2002	2001
Sales	1,719.5	1,809.4
Gross profit	169.0	165.4
Income from operations	92.3	82.9
Income before taxes and minority interests	108.6	101.7
Net income	87.6	81.5

Balance sheet information

Million €	2002	2001
Fixed assets	950.5	851.0
Thereof property, plant and equipment	857.5	755.3
Inventories and receivables	451.6	614.2
Liquid funds	26.4	64.8
Total assets	**1,428.5**	**1,530.0**
Stockholders' equity	508.6	459.4
Provisions	139.1	179.4
Financial liabilities	59.8	59.1
Other liabilities	721.0	832.1
Total liabilities and stockholders' equity	**1,428.5**	**1,530.0**

Cash flow information

Million €	2002	2001
Cash provided by operating activities	125.6	180.9
Cash provided by (used in) investing activities	(155.0)	(382.5)
Cash provided by (used in) financing activities	2.8	168.0
Net change in cash and cash equivalents	(26.6)	(33.6)

Summarized financial information for significant associated companies accounted for using the equity method

Condensed financial information of the significant companies accounted for using the equity method, Basell Group (BASF's share: 50 %), DyStar Group (BASF's share: 30 %), Svalöf Weibull Group (BASF's share: 40 %) and, from 2002 onward, the Solvin Group (BASF's share: 25 %) is as follows:

Statement of income information

Million €	2002	2001
Sales	7,944.9	7,708.0
Gross profit	1,283.8	688.7
Income from operations	197.7	(222.7)
Income before taxes and minority interests	96.8	(315.9)
Net income	67.6	(218.1)
BASF's share of net income	19.8	(108.2)

Balance sheet information

Million €	2002	2001
Fixed assets	5,812.3	5,900.1
Thereof property, plant and equipment	3,843.5	3,789.7
Inventories and receivables	2,506.3	2,380.3
Liquid funds	251.2	226.9
Total assets	**8,569.8**	**8,507.3**
Stockholders' equity	3,933.8	3,800.6
Provisions	956.6	865.4
Financial liabilities	2,088.2	2,265.5
Other liabilities	1,591.2	1,575.8
Total liabilities and stockholders' equity	**8,569.8**	**8,507.3**
BASF's investment	1,816.7	1,799.6

List of Shares Held: A list of companies included in the Consolidated Financial Statements as well as a list of all companies in which BASF has a participation, has been deposited in the Commercial Register HRB 3000 in Ludwigshafen (Rhein), Germany, as required by the German Commercial Code, Section 313(2). The List of Shares Held can be obtained as a separate report from BASF Aktiengesellschaft.

(c) Summary of significant accounting policies

Balance sheet date: The Consolidated Financial Statements are generally prepared using the individual financial statements of the companies forming part of the group (hereinafter referred to as “consolidated companies”). Such financial statements are generally prepared as of the balance sheet date of the Consolidated Financial Statements. In certain cases, interim financial statements or adjusted statements as of the balance sheet date of the Consolidated Financial Statements are prepared and used.

Uniform valuation: Assets and liabilities of consolidated companies are accounted for and valued uniformly in accordance with the principles described herein. Where the accounting and valuation methods applied in the financial statements of the consolidated companies differ from these principles, appropriate adjustments are made to the relevant items. For companies accounted for under the equity method, significant deviations in the valuation methods are adjusted.

Eliminations: Transactions between consolidated companies are eliminated in full, and those for joint ventures on a pro rata basis. Inter-company profits resulting from sales between consolidated companies are eliminated unless they originate from the construction of plants under customary market conditions and are of minor significance. With regard to the companies accounted for under the equity method, inter-company profits resulting from sales on customary market conditions are not eliminated because the amounts are insignificant or because determining them would involve a disproportionate amount of effort.

Capital consolidation: Capital consolidation is based on a method equivalent to the purchase method required under U.S. GAAP. At the time of acquisition, the acquisition cost of participations is offset against the proportionate share of equity acquired. Differences arising are allocated to the assets or liabilities of the acquired company up to their fair values or capitalized as intangible fixed assets, if they can be reliably identified and measured. Differences not allocated to individual assets are capitalized as goodwill and amortized within the expected useful life, within a period of five to 20 years.

Revenue recognition: Revenues from product sales and the performance of services are recognized upon shipment to customers or performance of services if ownership and risks are transferred to the buyer. Provisions for discounts, sales returns, rebates to customers, estimated future warranty obligations and other claims are provided for in the same period the related sales are recorded.

Intangible assets: Intangible assets are valued at acquisition cost less scheduled straight-line amortization. The weighted average amortization period for the intangible assets is 12 years for 2002 and 11 years for 2001 based on the following expected useful lives:

	Years
Goodwill	5–20
Product rights and licenses	3–10
Marketing, supply and similar rights	4–20
Know-how and patents	3–15
Concessions, exploration rights and similar rights	3–25
Software	1–5
Other rights and values	5–30

The Company evaluates goodwill and other intangible assets whenever significant events or changes in circumstances occur which might impair recovery of recorded asset costs.

Property, plant and equipment: Property, plant and equipment are stated at acquisition or production cost less scheduled depreciation over their estimated useful lives. Low-value assets are fully depreciated in the year of acquisition and are shown as retirements. Movable depreciable fixed assets that are functionally integrated are treated as a single asset item.

The cost of self-constructed plants includes direct costs and an appropriate proportion of the overhead cost of units involved in the construction. Financing costs for the period of construction, costs for voluntary social benefits and pension funds are not capitalized.

Fixed assets, including long-distance natural gas pipelines, are depreciated using the straight-line method. Movable fixed assets put into operation before 2001 are mostly depreciated by the declining balance method, with a change to straight-line depreciation when this results in higher depreciation amounts (see Note 2).

The weighted average periods of depreciation are as follows for 2002 and 2001:

	2002	2001
Buildings and structural installations	22 years	23 years
Industrial plant and machinery	11 years	10 years
Long-distance natural gas pipelines	25 years	25 years
Working and office equipment and other facilities	7 years	10 years

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of an impairment loss for long-lived assets that the Company expects to hold and use is based on the fair value of the asset, which is usually based on the discounted expected future cash flows from the use of the asset and its eventual disposition.

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method, costs of successful and uncompleted oil and gas drilling operations are capitalized as tangible assets. Successful drillings are depreciated under the unit-of-production basis. Successful drillings of German operations that were completed before the end of 2000 are depreciated under the declining balance method over the estimated useful lives of eight years (for drilling in old fields) and 15 years. Geophysical expenditures, including exploratory and dry-hole costs, are charged against income.

Financial assets: Shares in more significant non-consolidated affiliated or associated companies are accounted for using the equity method. Other shares, participations and securities held as fixed assets are shown at acquisition cost or, where an other-than-temporary impairment of value occurs, at the appropriate lower values. Investments in affiliated and associated companies accounted for using the equity method are carried at cost of acquisition, plus the Company's equity in undistributed earnings. Goodwill associated with such investments is amortized over a period of between four and 10 years.

Interest-bearing loans are stated at cost; non-interest-bearing loans or loans at below market interest rates are stated at their present value. Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due. In such circumstances, the Company recognizes an impairment loss based on the estimated fair value of the loan.

Inventories: Inventories are carried at acquisition costs or production costs. They are valued at market values if lower than cost. These lower values are the replacement costs for raw materials and factory supplies and merchandise and, in the case of work in process and finished products, the expected sales proceeds less costs to be incurred prior to sale or lower reproduction cost.

Production costs include, in addition to direct costs, an appropriate allocation of overhead cost of production using normal utilization rates of the production plants. Financing costs, costs for voluntary social benefits and pension funds are not included in production costs.

Construction-in-progress relates mainly to chemical plants under construction for third parties. Profits are recognized at finalization and billing of a project or part of a project. Expected losses are recognized by write-downs to the lower attributable values.

Receivables and other assets: Receivables are generally carried at their nominal value. Notes receivable and loans generating no or a low-interest income are discounted to their present values. Lower attributable values due to risks of collectibility and transferability are covered by appropriate valuation allowances.

Securities: Securities are valued at cost. They are valued at quoted or market values if lower than cost.

Deferred tax assets: Deferred tax assets are recorded for taxable temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated companies and the carrying amounts for tax purposes. Beginning in 2001, deferred taxes have been recorded for tax loss carryforwards. For companies located in Germany a 38 % tax rate is applied; for other companies the tax rates applicable in the individual countries are used. Appropriate valuation allowances are made if expected future earnings of a company make it seem more likely than not that the tax benefits will not be realized.

Provisions: Provisions for pensions are based on actuarial computations made predominantly according to the projected unit credit method. Similar obligations, especially those arising from commitments made by North American Group companies to pay the healthcare costs and life insurance premiums of retired staff and their dependents, are included in pension provisions.

Tax provisions are recognized for German trade income tax and German corporation tax and similar income taxes in the amount necessary to meet the expected payment obligations, less any prepayments that have been made.

Provisions for deferred taxes are recognized for a net liability from taxable temporary differences between the valuation of assets and liabilities in the financial statements of the consolidated companies and the carrying amounts for tax purposes, using the tax rates applicable in the individual countries.

Other provisions are recorded for the expected amounts of contingent liabilities and probable losses from pending transactions. Maintenance provisions are established to cover omitted maintenance procedures as of the end of the year, expected to be incurred within the first three months of the following year. The amount provided is based on reasonable commercial judgment.

Environmental expenditures that relate to an existing condition caused by past operations and prescribed by current legal requirements that do not have future economic benefit are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected. Provisions for required recultivation associated with oil and gas operations, especially the filling of wells and clearance of oilfields, or the operation of landfill sites are built up in installments over their expected service lives.

In addition, provisions are accrued in installments for regular shutdowns within prescribed intervals of certain large-scale plants as required by technical surveillance authorities. Provisions are accrued in the amount of the expected costs of the measures without costs for shutdown and lost earnings until the next scheduled shutdown.

Provisions for restructuring measures are recorded when a commitment from management exists and a detailed plan has been established. Such provisions include severance payments and other personnel-related costs, as well as specific site restructuring costs such as the costs for demolition and closure.

Provisions for long-service and anniversary bonuses are actuarially calculated, predominantly using an interest rate of 5.5 %. For partial retirement programs, the present value of promised top-up payments are set aside in full and the wage and salary payments due during the passive phase of agreements are accrued through installments, discounted at an interest rate of 5.5 %. Provisions are recorded for the expected costs of partial retirement programs that are anticipated to be contracted during the term of the collective bargaining agreements, taking into consideration the ceilings provided in the collective agreements.

The accrual of provisions for the BASF stock option program (BOP) and BASF's incentive share program "plus" is described in detail in Note 27.

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

Derivative financial instruments: Derivative financial instruments are treated as pending transactions and are not recorded as assets or liabilities. Underlying transactions and hedging measures are combined and valued together, when applicable. Profits from hedging transactions which cannot be allocated to a particular underlying transaction are recorded in income upon maturity. Unrealized losses from hedging transactions, which cannot be allocated to a particular underlying transaction are recognized in earnings and included in provisions.

The use of derivative financial instruments to hedge against foreign currency, interest rate and price risks is described in detail in Note 28.

Translation of foreign currency financial statements: The translation of foreign currency financial statements conforms with Statement of Financial Accounting Standard (SFAS) 52. The local currency is the functional currency of BASF subsidiaries and joint ventures in North America, Japan, South Korea, China, Brazil and Singapore. Translation therefore takes place using the balancesheet method: Balance sheet items are translated to euros at year-end rates except equity accounts at historical rates. Expenses and income are translated at monthly average rates and accumulated for the year. The effects of rate changes are shown as "currency translation adjustment" as a separate component of equity and are treated as income or expense only when a company is disposed of.

The euro is the functional currency for the remaining companies outside the eurozone. Remeasurement therefore takes place using the temporal method: Fixed assets except loans, and paid-in capital are translated at historical rates. The other assets, liabilities and provisions are translated using the year-end rates, and expenses and income are converted at quarterly average rates accumulated to year-end figures, except for those items derived from balance sheet items converted at historical rates, which are also translated at historical rates. Foreign exchange gains or losses resulting from the remeasurement process are included in other operating expenses or income.

Earnings per share: The calculation of earnings per share is based on the average number of common shares outstanding during the applicable period and the net income of the period.

Use of estimates in financial statement preparation: The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the preparation of these Consolidated Financial Statements, estimates and assumptions have been made by management concerning the selection of useful lives of property, plant and equipment and intangible assets, the measurement of provisions, the carrying value of investments, and other similar evaluations of assets and obligations. Given the uncertainty regarding the determination of these factors, actual results could differ from these estimates. The use of estimates is especially important in the following cases:

Goodwill must be assigned to reporting units and reviewed annually with regard to its value from 2002 onward in accordance with U.S. GAAP. If a permanent value impairment has occurred, i.e., the value of the reporting units exceeds the expected value of discounted future cash flows, goodwill has to be written down to this lower value. Long-term earnings forecasts for the reporting units taking into account macroeconomic and business developments are to be carried out to review the value of goodwill (see also Note 4 g).

Deferred tax assets are also recorded for tax loss carryforwards. Whether these can be realized depends on future earnings of the corresponding group company. If it appears doubtful that tax loss carryforwards can be realized, valuation allowances are established as required for the related deferred tax assets (see also Note 10).

Pension provisions are affected by assumptions about the future development of wages, salaries and pensions as well as by discount rates and assumptions about the performance of pension fund plan assets. The underfunding or overfunding, in excess of specific limits, that occurs if these assumptions do not materialize must be amortized in subsequent years and will therefore affect net periodic pension cost (see also Note 23).

Other provisions cover risks from litigation and legal proceedings. To estimate the level of provisions, an assessment of the facts of the case and the claims made in each case, outcomes of similar cases and independent legal opinions are used in addition to assumptions about the likelihood of occurrence and the range of potential claims. Actual charges may differ from these assumptions (see also Note 26).

2. Change in accounting principles

The accounting and valuation principles remained unchanged in 2002, with the following exception. Beginning in the year 2002, new lease agreements are accounted for uniformly in accordance with SFAS 13 and SFAS 98 and International Financial Reporting Standards (IFRS) 17, respectively. The leased assets are carried by the economic owner, who takes all related risks and benefits. The effect of this change on total assets, net income and equity was insignificant.

The accounting and valuation principles were changed in 2001 as follows:

Additions of movable assets to property, plant and equipment are depreciated using the straight-line method, which is considered to better reflect the development of values of the Company's plants. Movable assets of property, plant and equipment already in use before the end of 2000 continue to be depreciated by the declining balance method with a change to straight-line depreciation when this results in higher depreciation amounts. Successful drillings in the oil and gas operations added in 2001 are depreciated under the unit-of-production method. Successful drillings of German operations that began production prior to 2001 continue to be depreciated under the declining balance method.

In 2001, the effect of the change in depreciation methods was to reduce depreciation expense by €171.9 million and to increase net income by €110.2 million, or €0.18 per share.

Beginning in 2001, deferred tax assets for tax loss carryforwards are recorded if the expected future earnings of a company make it seem more likely than not that the tax benefit will be realized. This accounting treatment, mandatory under U.S. GAAP, is allowed in Germany based on the recently issued Standard No. 10 of the German Accounting Standards Board. Deferred tax assets for tax loss carryforwards arising in 2001 reduced income tax expenses and correspondingly increased net income by €219.7 million, or €0.37 per share.

Deferred tax assets recorded retroactively for tax loss carryforwards prior to 2001 resulted in an increase in net income of €50.6 million, or €0.08 per share, which is disclosed separately in the Consolidated Statements of Income as "Effect of the change in accounting principles for deferred taxes."

The changes in accounting principles in 2001 increased earnings per share in 2001 by €0.63.

3. Discontinued operations

On March 2, 2001, BASF's pharmaceuticals business was sold on the basis of an agreement dated December 14, 2000 to Abbott Laboratories Inc., Abbott Park, Illinois. In 2001, net sales and income of the pharmaceuticals business are included and shown separately in the financial statements of the BASF Group as well as in the data for the Agricultural Products & Nutrition segment for the period ended March 1, 2001.

The pharmaceuticals business is considered a discontinued operation under U.S. GAAP and would therefore not be included in the results from continuing operations for 2001. The effect on the Consolidated Financial Statements would be as follows:

Income statement

Million €	2001
Sales	364
Income from operations	30
Income before taxes	31
Net income/income from discontinued operations	19

Net income from discontinued operations has been determined using a 40 % income tax rate.

The gain on the disposal of the pharmaceuticals business was separately disclosed as extraordinary income in 2001 (Note 9).

4. Reconciliation to U.S. GAAP

The Consolidated Financial Statements comply with U.S. GAAP as far as permissible under German GAAP. The remaining differences between German and U.S. GAAP relate to valuation methods that are required under U.S. GAAP but which are not permissible under German GAAP.

The following is a summary of the significant adjustments to net income and stockholders' equity that would be required if U.S. GAAP had been fully applied rather than German GAAP.

Reconciliation of net income to U.S. GAAP

Million €	Note	2002	2001
Net income as reported in the Consolidated Financial Statements of income under German GAAP		1,504.4	5,858.2
Adjustments required to conform with U.S. GAAP			
Capitalization of interest	**(a)**	(6.4)	50.7
Capitalization of software developed for internal use	**(b)**	30.5	64.1
Valuation of pension funds	**(c)**	71.2	81.7
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates	**(d)**	(143.9)	(74.3)
Valuation of securities at market values	**(e)**	.	(4.5)
Valuation adjustments relating to companies accounted for under the equity method	**(f)**	12.9	(30.3)
Reversal of goodwill amortization and write-offs due to permanent impairment	**(g)**	211.0	–
Other adjustments	**(h)**	(0.5)	(6.8)
Deferred taxes and recognition of tax credit for dividend payments	**(i)**	48.1	(252.0)
Minority interests	**(j)**	(10.4)	5.6
Net income in accordance with U.S. GAAP		**1,716.9**	**5,692.4**

Earnings per share

The calculation of earnings per common share is based on the weighted-average number of common shares outstanding during the applicable period. The calculation of diluted earnings per common share reflects the effect of all dilutive potential common shares that were outstanding during the respective period. The BASF employee participation program "plus" has been included in the computation of diluted earnings per share. Due to a resolution by the Board of Executive Directors in 2002, the gain from the exercise of options from the BASF stock option program (BOP) for senior executives is to be paid in cash and will therefore not have a dilutive effect.

The earnings per share from continuing operations based on income from ordinary activities after taxes were not impacted by any dilutive effect in 2002 and 2001, because dilution would have led to higher positive earnings per share in 2002 and lower negative earnings per share in 2001.

Earnings per share

	2002	2001
Net income in accordance with U.S. GAAP (million €)	**1,716.9**	**5,692.4**
Thereof income (loss) from continuing operations	1,716.9	(238.2)
Thereof income from discontinued operations including gain from disposal	–	5,892.6
Thereof cumulative effect of implementing SFAS 133 as of January 1, 2001	–	38.0
Number of shares (thousands)		
Weighted average shares outstanding – undiluted	579,118	602,586
Dilutive effects	–	–
Weighted average shares outstanding – diluted	579,118	602,586
Basic earnings per share in accordance with U.S. GAAP (€)	**2.96**	**9.45**
Income (loss) from continuing operations	2.96	(0.39)
Income from discontinued operations including gain from disposal	–	9.78
Cumulative effect of implementing SFAS 133 as of January 1, 2001	–	0.06
Diluted earnings per share in accordance with U.S. GAAP	2.96	9.45

Reconciliation of stockholders' equity to U.S. GAAP

Million €	Note	2002	2001
Stockholders' equity as reported in the Consolidated Balance Sheets under German GAAP		16,942.2	17,521.8
Minority interests		(396.3)	(359.7)
Stockholders' equity excluding minority interests		16,545.9	17,162.1
Adjustments required to conform with U.S. GAAP			
Capitalization of interest	(a)	542.8	566.5
Capitalization of software developed for internal use	(b)	192.8	165.2
Valuation of pension funds	(c)	914.0	860.9
Accounting for derivatives at fair value and valuation of long-term foreign currency items at year end rates	(d)	(115.1)	37.6
Valuation of securities at market values	(e)	100.6	363.3
Valuation adjustments relating to companies accounted for under the equity method	(f)	138.3	126.0
Reversal of goodwill amortization and write-offs due to permanent impairment	(g)	207.4	–
Other adjustments	(h)	107.9	116.5
Deferred taxes and recognition of tax credit for dividend payments	(i)	(688.8)	(841.3)
Minority interests	(j)	(26.0)	(18.6)
Stockholders' equity in accordance with U.S. GAAP		**17,919.8**	**18,538.2**

(a) Capitalization of interest: For U.S. GAAP purposes, the Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. The capitalization of interest relating to capital projects is not permissible under German GAAP. In calculating capitalized interest, the Company has made assumptions with respect to the capitalization rate and the average amount of accumulated expenditures. The Company's subsidiaries generally use the entity-specific weighted-average borrowing rate as the capitalization rate.

(b) Capitalization of software developed for internal use: Certain costs incurred for computer software developed or obtained for the Company's internal use are to be capitalized beginning in 1999 and amortized over the expected useful life of the software. Such costs have been expensed in these financial statements because the capitalization of self-developed intangible assets is not permissible under German GAAP.

(c) Valuation of pension funds: Pension benefits under Company pension schemes are partly funded in a legally independent fund "BASF Pensionskasse VVaG" ("BASF Pensionskasse"). Pension liabilities and plan assets of BASF Pensionskasse are not included in BASF Group's balance sheet. However, contributions to the BASF Pensionskasse are included in expenses for pensions and assistance.

BASF guarantees the commitments of the BASF Pensionskasse. For U.S. GAAP purposes, BASF Pensionskasse would be classified as a defined benefit plan and therefore included in the calculation of net periodic pension cost as well as the projected benefit obligation and plan assets. The valuation of the pension obligations under the projected unit credit method and of the fund assets of BASF Pensionskasse at market values would result in a prepaid pension asset according to U.S. GAAP that is not recorded in the Consolidated Financial Statements under German GAAP.

Net periodic pension cost according to U.S. GAAP would be lower than showing the Company's contribution to the BASF Pensionskasse as expense.

Information about the funded status of the BASF Pensionskasse is provided in the following table:

Million €	2002	2001
Plan assets as of December 31	3,527.9	3,886.4
Projected benefit obligation as of December 31	3,413.1	3,294.3
Funded status	114.8	592.1
Unrecognized actuarial losses (gains)	593.3	59.8
Prepaid pension asset	708.1	651.9

The valuation of certain pension plans of foreign subsidiaries, according to SFAS 87 also resulted in prepaid pension assets (Note 23), included in the reconciliation to U.S. GAAP. After consideration of unrecognized actuarial gains and losses, €205.9 million in 2002 and €209.0 million in 2001 were included in the reconciliation to U.S. GAAP.

(d) Accounting for derivatives at fair value and valuation of long-term foreign currency items: Beginning in 2001, derivative contracts are to be accounted for at fair values as required by SFAS 133 and 138. Where hedge accounting is not applicable, changes in the fair values of derivative contracts are to be included in net income, together with foreign exchange gains and losses of the underlying transactions.

Under German GAAP, long-term receivables and liabilities denominated in a foreign currency are converted into euros at the exchange rates of the date when the transactions took place or the lower exchange rates at the end of the year for receivables and the higher exchange rates for liabilities. U.S. GAAP requires conversion at the exchange rate at the end of the year.

Under German GAAP, unrealized gains on swaps and other forward contracts are deferred until settlement or termination while unrealized expected losses from firm commitments are recognized as of each period end. Under U.S. GAAP, these contracts are marked to market.

Furthermore, hedge accounting by a combined valuation of underlying transaction and derivatives is allowed by SFAS 133 to a lower extent than applied in these financial statements.

(e) Valuation of securities: Under U.S. GAAP, available-for-sale securities are recorded at market values on the balance sheet date. If the effect comes from unrealized profits or non-permanent impairments the change in valuation is immediately recognized in a separate component of stockholders' equity. Realized profits and losses are credited or charged to income, as are other than temporary impairments of value. The major part of securities and other investments are considered to be available-for-sale. Under German GAAP, such securities and other investments are valued at the lower of acquisition cost or market value at the balance sheet date.

(f) Valuation adjustments relating to companies accounted for under the equity method: For purposes of the reconciliation to U.S. GAAP, the earnings of companies accounted for using the equity method have been determined using valuation principles prescribed by U.S. GAAP.

(g) Reversal of goodwill amortization and write-offs due to permanent impairment: Goodwill is amortized over its useful life in accordance with German GAAP. The new U.S. GAAP standard SFAS 142 "Goodwill and other Intangible Assets," which was enacted in June 2001 and has to be applied for the first time in 2002 only requires write-offs in case of expected permanent impairment of value. The goodwill amortizations included in these financial statements have to be reversed and added back to net income. Write-offs due to impairment were not necessary.

In 2001 the retroactive application of SFAS 142 would have resulted in an increase of earnings in accordance with U.S. GAAP of €243.3 million after deduction of €75.0 million income taxes. Earnings per share would have increased by €0.40 in 2001.

(h) Other adjustments: This item primarily includes the reversal of maintenance provisions and reclassification of provisions for stock compensation. German GAAP requires companies to accrue provisions as of the end of the year for the expected costs of omitted maintenance procedures expected to take place in the first three months of the following year. Such costs would be expensed as incurred under U.S. GAAP. The amounts included in the reconciliation of net income related to maintenance provisions were €6.4 million in 2002 and €(5.6) million in 2001; the amounts in the reconciliation of stockholders' equity were €33.7 million in 2002 and €27.3 million in 2001.

Due to a resolution by the Board of Executive Directors in 2002, stock options are to be settled in cash. Under U.S. GAAP, such obligations are to be accounted for as stock appreciation rights based on the intrinsic value of the options on the balance sheet date. Under U.S. GAAP, options granted in prior years, for which cash settlement was not foreseen, are to be accounted for in accordance with SFAS 123 as equity instruments with the market value on the date of issuance.

In the present Financial Statements, all obligations resulting from stock options are accounted for using the market value on the balance sheet date and accrued as a provision over the vesting period of the options. The different accounting methods led to a reduction in net income in accordance with U.S. GAAP of €10.7 million in 2002 and €8.3 million in 2001.

In the present Financial Statements, obligations resulting from stock options are shown as provisions. In accordance with U.S. GAAP, options for which cash settlement was not originally foreseen are still recorded as additions to stockholders' equity.

Overall, the issuance of option rights resulted in an increase in stockholders' equity of €11.2 million in 2002 and €30.2 million in 2001.

(i) Deferred taxes: The adjustments required to conform with U.S. GAAP would result in taxable temporary differences between the valuation of assets and liabilities in the Consolidated Financial Statements and the carrying amount for tax purposes. Resulting adjustments for deferred taxes primarily relate to the following:

		Stockholders' equity		Net income	
Million €	**Note**	**2002**	**2001**	**2002**	**2001**
Capitalization of interest	(a)	(196.6)	(209.3)	7.3	(17.4)
Capitalization of software developed for internal use	(b)	(73.0)	(62.3)	(10.4)	(23.1)
Valuation of pension funds	(c)	(333.0)	(316.4)	(22.2)	(30.2)
Accounting for derivatives at fair values and valuation of long-term foreign currency items at year end rates	(d)	30.1	(24.3)	35.3	28.1
Valuation of securities at market values	(e)	.	(134.0)	62.2	0.7
Valuation adjustments relating to companies accounted for under the equity method	(f)	–	(45.7)	45.7	(0.5)
Reversal of goodwill amortization and write-offs due to permanent impairment	(g)	(59.7)	–	(60.7)	–
Other adjustments	(h)	67.6	77.1	(11.3)	(83.2)
Recognition of tax credit for dividend payments	(i)	(124.2)	(126.4)	2.2	(126.4)
		(688.8)	**(841.3)**	**48.1**	**(252.0)**

Other adjustments include in 2001 expenses from the elimination of deferred taxes on tax loss carryforwards, which are recorded in the financial statement since 2001.

The change of the deferred taxes for foreign currency translation adjustments is recognized in other comprehensive income.

In accordance with German GAAP, the tax credit related to the distribution of retained earnings previously taxed at higher rates is accounted for as a reduction of income tax expense in the financial year for which the distribution has been proposed. Since 2001, the revised corporation tax system in Germany recognizes such credits as a reduction of income taxes payable in the year the dividend is paid.

According to U.S. GAAP, such tax credits are to be recognized as a reduction of income tax expenses in the period in which the tax credits will be recognized for tax purposes. In 2001, this led to a deferral of the recognition of the reduction of taxes of €126.4 million to the dividend payment in 2002. In 2002, the impact on net income of €2.2 million includes the realization of the tax credits for 2001 and the deferral of the reduction of taxes for the proposed dividend for the year 2002 to 2003.

(j) Minority interests: The share of minority shareholders in the aforementioned reconciliation items to U.S. GAAP of net income and stockholders' equity are reported separately.

Consolidation of majority-owned subsidiaries: U.S. GAAP requires the consolidation of all controlled subsidiaries. Under German GAAP, the Company does not consolidate certain subsidiaries if their individual or combined effect on financial position, results of operations and cash flows is not material. The effect of non-consolidated subsidiaries for 2002 and 2001, on total assets, total liabilities, stockholders' equity, net sales and net income was less than 2 %.

Additionally, under German GAAP, the Company accounts on a prospective basis for previous unconsolidated subsidiaries that are added to the scope of consolidation. U.S. GAAP requires consolidation for all periods that a subsidiary is controlled. The effects of unconsolidated companies on net sales, net income, assets and liabilities would have been immaterial.

New U.S. GAAP accounting standards not yet adopted

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets and has to be adopted in the fiscal year 2003 for the first time. The expected obligations and costs associated with the demolition of plants and removal of potential damage to the environment have to be accrued as of the start of production as additional cost for the related plants and are depreciated over the useful life. This also includes the change of these potential liabilities due to adjustments to the conditions as of the balance sheet date.

In June 2002, the FASB issued SFAS 146 "Accounting for Costs Associated with Exit and Disposal Activities," which has to be adopted for the first time in the fiscal year 2003. The expected costs associated with the exit or disposal of business activities can only be accrued when a liability against a third party exists. This includes severance payments for employees, the cancellation of contracts, the shut-down of production facilities and the relocation of employees.

BASF is verifying the effects of the adoption of SFAS 143 and SFAS 146 on the net sales, net income, assets and liabilities of the BASF Group.

Reporting of comprehensive income

Comprehensive income in accordance with SFAS 130 includes the impact of expenses and earnings that are not included in net income under U.S. GAAP.

Million €	2002	2001
Net income in accordance with U.S. GAAP	1,716.9	5,692.4
Change in foreign currency translation adjustments		
Gross	(908.6)	(116.0)
Deferred taxes	24.3	0.7
Changes in unrealized holding gains on securities		
Gross	(262.8)	113.5
Deferred taxes	71.8	(38.2)
Changes in unrealized losses from cash flow hedges		
Gross	(4.6)	–
Deferred taxes	1.6	–
Additional minimum liability for pensions		
Gross	(17.8)	.
Deferred taxes	5.4	.
Other comprehensive income (loss)	**(1,090.7)**	**(40.0)**
Comprehensive income	**626.2**	**5,652.4**

Million €	2002	2001
Stockholders' equity in accordance with U.S. GAAP before accumulated other comprehensive income	18,226.7	17,754.4
Translation adjustments		
Gross	(348.4)	560.2
Deferred taxes	14.0	(10.3)
Unrealized holding gains on securities		
Gross	105.8	368.6
Deferred taxes	(62.9)	(134.7)
Unrealized losses from cash flow hedges		
Gross	(4.6)	–
Deferred taxes	1.6	–
Additional minimum liability for pensions		
Gross	(17.8)	.
Deferred taxes	5.4	.
Accumulated other comprehensive income	**(306.9)**	**783.8**
Total stockholders' equity in accordance with U.S. GAAP including comprehensive income	**17,919.8**	**18,538.2**

5. Reporting by segment and region

The Company is a worldwide manufacturer and supplier of more than 8,000 products. The Company offers a wide range of products, including chemicals, plastics, dyes and pigment, dispersions, automotive and industrial coatings, agricultural products, fine chemicals, crude oil and natural gas.

The Company conducts its worldwide operations through 12 operating divisions, which have been aggregated into five business segments based on the nature of the products and production processes, the type of customers, the channels of distribution and the nature of the regulatory environment.

The business segment Chemicals contains the operating divisions Inorganics, Petrochemicals and Intermediates.

The business segment Plastics & Fibers includes the operating divisions Styrenics, Performance Polymers and Polyurethanes.

The business segment Performance Products contains the operating divisions Performance Chemicals, Coatings and Functional Polymers.

The business segment Agricultural Products & Nutrition includes two reportable segments, Agricultural Products and Fine Chemicals. Figures for the divested pharmaceuticals business are included in the segment's figures through February 2001.

The Oil & Gas segment consists of the operating division Oil & Gas, which conducts oil and gas exploration and production and trades in natural gas.

Business activities not allocated to any operating division are shown as "Other" and comprise the sale of feedstock, remaining Fertilizers activities, engineering and other services as well as rental income. The income from operations recorded as "Other" includes costs of exploratory research of €197 million in 2002 (2001: €202 million). "Other" also includes gains and losses from foreign currency transactions of €(143) million in 2002 and €(35) million in 2001, which are related to financial indebtedness and macrohedges, and are not allocatable to the segments.

Transfers between the reportable segments are generally valued at market-based prices.

The allocation of assets and depreciation to the segments is based on economic ownership. Assets used by more than one segment are allocated based on the percentage of usage.

Segments

2002 Million €	Chemicals	Plastics & Fibers	Performance Products	Agricultural Products & Nutrition			Oil & Gas	Other	BASF Group
				Agricultural Products	Fine Chemicals	Total			
Net sales	5,317	8,477	8,014	2,954	1,970	4,924	4,199	1,285	32,216
Change (%)	18.3	3.6	(1.7)	(15.1)	(0.7)	(15.5)	(7.0)	(3.0)	(0.9)
Intersegmental transfers	2,598	436	326	21	36	44	363	564	4,331
Sales including transfers	7,915	8,913	8,340	2,975	2,006	4,968	4,562	1,849	36,547
Income from operations	635	582	646	61	(6)	55	1,210	(487)	2,641
Change (%)	75.4	.	.	238.9	97.1	.	(7.5)	(25.5)	117.0
Assets	4,997	6,174	5,218	5,092	1,392	6,484	3,648	8,565	35,086
Return on operational assets (%)	12.9	9.3	11.5	1.1	.	0.8	35.6	.	8.9
Research and development expenses	98	138	222	285	82	367	113	197	1,135
Additions to tangible and intangible fixed assets	495	636	288	88	157	245	920	471	3,055
Depreciation of tangible and intangible fixed assets	507	532	488	395	143	538	294	105	2,464

2001 Million €	Chemicals	Plastics & Fibers	Performance Products	Agricultural Products & Nutrition				Oil & Gas	Other	BASF Group
				Agricultural Products	Fine Chemicals	Pharmaceuticals*	Total			
Net sales	4,494	8,185	8,154	3,478	1,984	364	5,826	4,516	1,325	32,500
Change (%)	(0.2)	(25.8)	(3.1)	43.2	14.1	(85.6)	(13.0)	14.1	(1.4)	(9.6)
Intersegmental transfers	2,452	406	322	30	29	5	62	413	477	4,132
Sales including transfers	6,946	8,591	8,476	3,508	2,013	369	5,888	4,929	1,802	36,632
Income frome operations	362	(2)	99	18	(210)	30	(162)	1,308	(388)	1,217
Change (%)	(43.4)	.	(83.1)	.	.	(87.7)	21.0	(0.2)	(138.0)	(60.4)
Assets	4,847	6,344	6,048	6,377	1.488	–	7,865	3,149	8,622	36,875
Return on operational assets (%)	8.0	.	1.6	0.3	.	.	.	39.1	.	3.9
Research and development expenses	109	146	197	345	78	74	497	95	203	1,247
Additions to tangible and intangible fixed assets	929	891	418	130	199	20	349	229	497	3,313
Depreciation of tangible and intangible fixed assets	457	679	661	496	191	28	715	302	111	2,925

* Until the end of February 2001

Regions

2002 Million €	Europe	Thereof Germany	North America (NAFTA)	South America	Asia, Pacific Area, Africa	BASF Group
Location of customers						
Sales	17,697	6,944	7,808	1,660	5,051	32,216
Change (%)	(1.6)	(3.7)	2.0	(24.1)	8.1	(0.9)
Share (%)	54.9	21.6	24.2	5.2	15.7	100.0
Location of companies						
Sales	18,987	13,315	7,932	1,347	3,950	32,216
Sales including transfers	21,471	15,588	8,465	1,449	4,241	35,626
Income from operations	2,357	1,690	23	58	203	2,641
Assets	19,665	13,438	9,299	1,316	4,806	35,086
Additions to tangible and intangible fixed assets	1,997	1,008	373	88	597	3,055
Depreciation of tangible and intangible fixed assets	1,317	855	812	80	255	2,464

2001 Million €	Europe	Thereof Germany	North America (NAFTA)	South America	Asia, Pacific Area, Africa	BASF Group
Location of customers						
Sales	17,984	7,212	7,654	2.188	4,674	32,500
Change (%)	(10.5)	(8.7)	(9.1)	(12.5)	(5.1)	(9.6)
Share (%)	55.3	22.2	23.6	6.7	14.4	100.0
Location of companies						
Sales	19,399	13,417	7,772	1,842	3,487	32,500
Sales including transfers	21,652	15,512	8,440	1,927	3,770	35,789
Income from operations	1,926	1,347	(678)	(3)	(28)	1,217
Assets	19,296	13,318	10,616	2,201	4,762	36,875
Additions to tangible and intangible fixed assets	1,539	933	759	144	871	3,313
Depreciation of tangible and intangible fixed assets	1,445	935	1,149	85	246	2,925

6. Other operating income

Million €	2002	2001
Release and adjustment of provisions	107.2	164.4
Income from miscellaneous revenue-generating activities	114.5	115.9
Gains from foreign currency transactions	41.8	173.7
Gains from foreign currency conversion	152.6	78.9
Gains from disposal of assets	22.6	91.7
Other	277.3	256.9
	716.0	**881.5**

Release and adjustments of provisions relate principally to environmental protection and remediation provisions, sales and purchase provisions, shutdown and restructuring provisions, litigation and claims provisions, maintenance provision, provisions for risks from tax audit and various other items in the normal course of business.

Provision releases and adjustments arise because present circumstances indicate that they are no longer probable and estimable or that the probable amount has been reduced.

Income from miscellaneous revenue-generating activities primarily represents revenues from energy sales, sales of raw materials, as well as income from rentals and logistics services.

Gains from foreign currency transactions include realized gains from foreign currency derivatives and the conversion of short-term receivables and liabilities in foreign currency at year-end rates when these rates are higher in case of receivables or lower in case of liabilities compared to the rate at first measurement.

Gains from foreign currency conversion include gains from currency exposures of financial statements in foreign currency, which are converted into euros under the temporal method. They are related to a higher net asset exposure or lower net liability exposure after conversion into euros than at the previous balance sheet date.

Gains from the disposal of assets in 2002 are related to the ordinary course of business. Gains in 2001 were especially related to the sale of the generics business of the Pharmaceuticals operating division to Novartis.

Other includes income from management and marketing services, miscellaneous sales and various other sundry items.

7. Other operating expenses

Million €	2002	2001
Integration measures, reorganization and shutdowns	276.6	1006.6
Environmental protection and safety measures, costs of demolition of fixed assets and costs related to the preparation of capital expenditure projects	269.1	260.8
Costs from miscellaneous revenue-generating activities	112.1	122.5
Losses from foreign currency transactions	258.7	282.2
Losses from foreign currency conversion	68.2	33.0
Goodwill amortization	211.8	252.0
Losses from disposal of assets	25.7	30.8
Other	653.5	938.5
	1,875.7	**2,926.4**

Integration measures, reorganization and shutdowns in 2002 are mainly related to the closure of ethylene oxide and glycol plants in the NAFTA region, measures to improve efficiency associated with the Site Concept at the Ludwigshafen production site and several measures in the Agricultural Products & Nutrition segment.

In 2001, charges arose primarily for the shutdown of sites and plants in North America (NAFTA), South America, the United Kingdom, the Netherlands, Germany, Australia and other countries. Additionally, restructuring measures were necessary at European Group companies due to reorganization of marketing and sales structures. The charges amounted to €747.4 million in total.

Environmental protection measures of €10.3 million in 2002 and €20.7 million in 2001 were accrued. Further expenses are related to the cost of demolition of fixed assets as well as the preparation of capital expenditure projects if these costs did not fulfill the requirements for capitalization.

Costs from miscellaneous revenue-generating activities represents costs related to other miscellaneous revenue-generating activities as shown in Note 6.

Other includes in 2002 provisions of €100 million for damage claims associated with antitrust violations in the vitamins business. Further charges relate in particular to amortization of intangible assets as well as various other items.

In 2001, additional provisions of €200 million were accrued for the fine imposed by the E.U. Commission related to the antitrust proceedings against several vitamins producers. Further charges related to provisions for expected losses on accounts receivables in Argentina, waiving the peg of the Argentine peso to the U.S. dollar, as well as scrapping of inventories.

8. Financial result

Million €	2002	2001
Income from participating interests and similar income	131.8	49.3
Thereof from affiliated companies	18.1	14.3
Income from profit transfer agreements	10.3	4.2
Losses from loss transfer agreements	8.1	11.0
Income (losses) from companies accounted for under the equity method	(10.2)	(251.8)
Net income from financial assets	**123.8**	**(209.3)**
Write-down of, and losses from, retirement of financial assets as well as securities held as current assets	**31.2**	**22.7**
Income from other securities and financial assets	17.2	13.7
Thereof from affiliated companies	3.7	1.3
Other interest, income from sale of marketable securities and similar income	274.0	157.0
Thereof from affiliated companies	11.2	18.7
Interest and similar expenses	383.6	546.9
Thereof to affiliated companies	21.0	12.8
Interest result	**(92.4)**	**(376.2)**
Financial result	**0.2**	**(608.2)**

In 2002, income from participating interests and similar income includes special income of €85.5 million from the sale of BASF Waren- und Anlagenvertriebs- und -leasing Gesellschaft mbH.

Amortization of goodwill of companies accounted for under the equity method totaling €87.7 million in 2002 (2001: €67.6 million) as well as income from the release of negative goodwill of €2.0 million in 2001 are included in income (losses) from companies accounted for under the equity method.

The income (losses) from companies accounted for under the equity method includes in 2001 charges at Basell Group for closures of its sites in Wilton, United Kingdom, and Tarragona, Spain, as well as restructuring charges for sites in the United States.

Other interest, income from the sale of marketable securities and similar income includes gains from the sale of securities and swaps of €243 million in 2002. Charges from the valuation of DAX-Libor Swaps at lower market values of €48 million have been netted with interest income. As of the balance sheet date, the present value of the future interest payments based on Libor is higher than the market value of the DAX call option rights.

9. Extraordinary income

Million €	2001
Extraordinary revenues	8,793.9
Extraordinary expenses	2,673.1
Extraordinary income	**6,120.8**

Extraordinary revenues were generated in 2001 from the sale of the pharmaceuticals business including compensation for the surrendered liquid funds net of assumed financial debt as well as the payment for excess net assets compared to reference net assets at the date of the contract.

Extraordinary expenses in 2001 included the book values of the pharmaceuticals business and the liquid funds. Further included are provisions for warranties or risks retained in connection with the sale of the pharmaceuticals business.

10. Income taxes

Million €	2002	2001
German corporation tax	389.8	449.1
German trade income tax	65.9	104.9
Foreign income tax	261.5	242.7
Income taxes on oil-producing operations non-compensable with German corporation tax	427.1	487.1
Refunds/loss carry back	(53.8)	(32.7)
Current taxes	**1,090.5**	**1,251.1**
Deferred taxes	(48.3)	(296.6)
Income taxes	**1,042.2**	**954.5**
Other taxes	168.4	174.6
Tax expense	**1,210.6**	**1,129.1**
Thereof income taxes on extraordinary income	–	145.0

Other taxes includes real estate taxes and other comparable taxes; they are shown under the appropriate expense items of the statement of income.

The regional breakdown of income from ordinary activities was as follows:

Million €	2002	2001
Germany	1,858.2	970.1
Foreign	782.7	(361.4)
	2,640.9	**608.7**

From the beginning of 2001, a federal German corporation tax of 25 % plus a 5.5 % solidarity surcharge is levied on corporate income. This tax charge is final; the imputation system has been terminated.

In addition to corporation tax, earnings generated in Germany are subject to a trade income tax that varies depending on the municipality where the industrial activities take place. After accounting for trade income tax, which is a deductible operating expense, BASF has a weighted average tax rate of 15.3 %. Because German trade income tax is deductible, it also reduces the assessment basis for corporation tax.

Income from foreign sources is taxed at the income tax rates applicable in the respective countries of domicile.

For German companies, deferred taxes are calculated using a tax rate of 38 %. For foreign companies, deferred taxes are calculated using the tax rates applicable in the individual foreign countries. Such rates averaged 30 % in 2002 and 34 % in 2001.

Income from foreign sources which is distributed in the form of a dividend to the parent company is generally exempt from additional German corporation taxes through double taxation treaties. Income taxes on oil-producing operations in certain regions, which can amount to up to 85 %, may be compensated up to the level of the German corporation tax on this foreign taxable income. The non-compensable amount is shown separately in the reconciliation from the statutory tax rate in Germany to the effective tax rate.

Reconciliation from the statutory tax rate in Germany to the effective tax rate

	2002		2001	
	Million €	%	**Million €**	%
German corporation tax (excluding extraordinary income in 2001)	660.2	25.0	152.2	25.0
Solidarity surcharge	20.5	0.8	26.2	4.3
Credit for dividend distribution	(124.2)	(4.7)	(126.4)	(20.7)
German trade income tax net of corporation tax	49.5	1.9	78.7	13.0
Foreign tax-rate differential	37.1	1.4	34.3	5.6
Non-taxable income	(190.8)	(7.2)	(72.9)	(12.0)
Non-deductible expenses, including amortization of goodwill	130.6	4.9	242.0	39.8
(Loss)/income from companies accounted for under the equity method	2.6	0.1	63.0	10.3
Refund of taxes for previous years	(53.8)	(2.0)	(32.7)	(5.4)
Income taxes on oil-producing operations non-compensable with German corporation tax	427.2	16.2	487.2	80.0
Other	83.3	3.1	(42.0)	(6.9)
Income taxes/effective tax rate	**1,042.2**	**39.5**	**809.6**	**133.0**
Cumulative effect of capitalization of deferred tax assets for tax loss carryforwards of prior years	–	–	(50.6)	(8.3)
Income taxes, including the cumulative effect of the change in accounting for deferred taxes on tax loss carryforwards	1,042.2	39.5	759.0	124.7

Deferred taxes are recorded in conformity with U.S. GAAP. Beginning in 2001, deferred tax assets on tax loss carryforwards including those for prior years are recorded. If expected future earnings of a company make it more likely than not that the future tax benefits will not be realized, adequate valuation allowances are established.

Deferred tax assets

Million €	2002	2001
Intangible assets	(29.1)	(27.3)
Property, plant and equipment	(311.3)	(225.5)
Financial assets	(20.1)	1.6
Inventories and accounts receivable	52.7	158.2
Provisions for pensions and similar obligations	78.7	295.5
Other provisions and liabilities	581.4	503.7
Tax loss carryforwards	647.1	422.6
Securities and others	204.8	243.7
Total	**1,204.2**	**1,372.5**
Thereof short-term	493.2	571.2

Valuation allowances/adjustments were made to deferred taxes in the amount of €138.5 million in 2002 and €83.4 million in 2001. Of the total amount, €97.8 million in 2002 and €76.3 million in 2001 were due to tax loss carryforwards.

Deferred tax liabilities

Million €	2002	2001
Property, plant and equipment	323.7	218.8
Intangible assets	73.7	34.0
Other	40.0	23.6
Total	**437.4**	**276.4**
Thereof short-term	29.4	31.0

Deferred tax liabilities are included in “Provisions for taxes” in the Consolidated Balance Sheets.

The regional distribution of tax loss carryforwards is as follows:

Million €	2002	2001
German subsidiaries	5.5	8.2
Foreign subsidiaries	2,085.4	1,271.0
	2,090.9	**1,279.2**

German tax losses may currently be carried forward indefinitely.

Foreign loss carryforwards exist primarily within the NAFTA region. They can be carried forward until 2022.

11. Minority interests

Million €	2002	2001
Minority interests in profits	125.0	91.7
Minority interests in losses	30.7	124.3
	94.3	**(32.6)**

Minority interests in profits in 2002 and 2001 relate primarily to the Group companies engaged in trading of natural gas.

Minority interests in losses in 2002 are mainly related to BASF SONATRACH PropanChem S.A., Tarragona, Spain. Minority interests in losses in 2001 relate mainly to BASF FINA Petrochemicals Ltd., Port Arthur, Texas; BASF PETRONAS Chemicals Sdn. Bhd., Petaling Jaya, Malaysia; and Yanzi-BASF Styrenics Company Ltd., Nanjing, China.

See Note 22 for a detailed analysis of consolidated subsidiaries with minority shareholdings.

12. Other information

Additional information on statements of cash flows

Cash generated from operating activities was derived after interest payments of €281.8 million in 2002 and €428.9 million in 2001. Income taxes paid totaled €411.3 million in 2002 and €528.2 million in 2001.

Personnel costs

Million €	2002	2001
Wages and salaries	4,751.3	4,857.8
Social security contributions and expenses for pensions and assistance	1,223.6	1,170.2
Thereof for pensions	424.2	372.2
	5,974.9	**6,028.0**

German Group companies incurred costs for employee representatives to comply with statutory regulations of €11.3 million in 2002 (2001: €9.9 million).

Average number of employees

	Fully consolidated companies		Proportionally consolidated companies	
	2002	2001	2002	2001
Europe	62,461	64,068	254	258
Thereof Germany	50,504	51,368	16	20
North America (NAFTA)	13,661	15,007	724	684
South America	5,391	6,088	–	–
Asia, Pacific Area, Africa	8,389	8,660	1,016	900
BASF Group	**89,902**	**93,823**	**1,994**	**1,842**
Thereof with trainee contracts	2,752	2,868	6	7
Thereof with limited-term contracts	1,838	2,320	164	85

The above number of employees of proportionally consolidated companies are given in full; if they are taken into account at 50 %, the average number of personnel for the Company was 90,899 in 2002 and 94,744 in 2001.

Compensation for the Board of Executive Directors and Supervisory Board of BASF Aktiengesellschaft

Million €	2002	2001
Supervisory Board emoluments	2.2	2.0
Board of Executive Directors emoluments	13.6	9.3
Pension for former members of the Board of Executive Directors and their surviving dependents	5.0	4.8
Pension provisions for former member of the Board of Executive Directors and their surviving dependents	55.7	57.3
Loans to the Board of Executive Directors and the Supervisory Board	–	–
Contingent liabilities for the benefit of the Board of Executive Directors and the Supervisory Board	–	–

In 2002, the aggregate amount for compensation paid to the members of the Board of Executive Directors was €13.6 million. Of this amount, €4.4 million was accounted for by fixed annual payment and €9.2 million by variable performance-related bonuses. The main criterion used to determine the size of performance-related bonuses is the return on assets, which corresponds to income from ordinary activities plus interest expenses as a percentage of average assets.

In 2002, the members of the Board of Executive Directors were also granted 107,980 options under the BASF stock option program. Together with the options granted in previous years and options already exercised, current and former members of the Board of Executive Directors hold 434,798 options. In 2002, the issue of options resulted in additional personnel costs totaling €2.7 million. Of this amount, €0.3 million was related to options issued in 2002 and €2.4 million to options issued in 1999 through 2001. These options are accrued as personnel costs over the vesting period.

In 2002, the exercising of options granted in 1999 resulted in cash payments totaling €1.7 million to members of the Board of Executive Directors and €1.1 million to previous members or their surviving dependants. The cash payment does not influence personnel costs associated with the issuing of options. See Note 27 for further details.

The Board of Executive Directors and the Supervisory Board of BASF Aktiengesellschaft issued a compliance statement with regard to the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporations Act. For further information see page 95.

The members of the Board of Executive Directors and the Supervisory Board as well as their memberships on other supervisory boards are shown on pages 85 to 91.

Information about affiliated companies

German affiliated companies in the legal form of public limited company or private limited company make use of the possibility of exemption according to Section 264 (3) and Section 264b of the German Commercial Code. These companies are listed in the List of Shares Held.

13. Intangible assets

Developments in 2002 Million €	Concessions, trademarks, and similar rights and values*	Goodwill	Advance payments	Total
Acquisition costs				
Balance as of January 1, 2002	2,403.3	3,269.0	8.1	5,680.4
Change in scope of consolidation	–	0.3	–	0.3
Additions	288.3	83.8	5.5	377.6
Disposals	91.2	8.4	–	99.6
Transfers**	(141.6)	(395.0)	0.2	(536.4)
Balance as of December 31, 2002	2,458.8	2,949.7	13.8	5,422.3
Amortization				
Balance as of January 1, 2002	971.7	764.8	1.2	1,737.7
Change in scope of consolidation	–	0.2	–	0.2
Additions	240.6	211.8	.	452.4
Disposals	87.0	4.8	–	91.8
Transfers**	(45.4)	(95.4)	–	(140.8)
Balance as of December 31, 2002	1,079.9	876.6	1.2	1,957.7
Net book value as of December 31, 2002	**1,378.9**	**2,073.1**	**12.6**	**3,464.6**

* Including licenses in such rights and values

** Transfers including foreign currency translation adjustments in those cases where conversion took place at balance sheet rates

Additions in 2002 primarily include concessions for oil and gas production in the Dutch North Sea from the acquisition of Clyde Netherlands B.V. and Clyde Petroleum Exploratie B.V., the Hague, the Netherlands.

Developments in 2001 Million €	Concessions, trademarks, and similar rights and values*	Goodwill	Advance payments	Total
Acquisition costs				
Balance as of January 1, 2001	3,247.5	3,419.1	27.8	6,694.4
Change in scope of consolidation	33.2	45.6	.	78.8
Additions	216.6	53.0	6.1	275.7
Disposals	1,184.8	326.8	4.3	1,515.9
Transfers**	90.8	78.1	(21.5)	147.4
Balance as of December 31, 2001	2,403.3	3,269.0	8.1	5,680.4
Amortization				
Balance as of January 1, 2001	1,364.4	790.5	1.3	2,156.2
Change in scope of consolidation	1.9	4.3	–	6.2
Additions	365.0	252.0	.	617.0
Disposals	793.9	295.0	–	1,088.9
Transfers**	34.3	13.0	(0.1)	47.2
Balance as of December 31, 2001	971.7	764.8	1.2	1,737.7
Net book value as of December 31, 2001	**1,431.6**	**2,504.2**	**6.9**	**3,942.7**

* Including licenses in such rights and values

** Transfers including foreign currency translation adjustments in those cases where the conversion took place at balance sheet rates

Additions in 2001 include the purchase of the vitamins business of Takeda Chemical Industries Ltd., Japan.

Disposals and transfers in 2001 are mainly due to the sale of the pharmaceuticals business.

Write-downs in 2001 were mainly made for expected permanent value impairments of €86.3 million of production technology and supply rights related to a superabsorbents plant in Birkenhead, United Kingdom. This plant was heavily damaged in an explosion and the replacement plant built at the Antwerp site is based on a different technology.

14. Property, plant and equipment

Developments in 2002 Million €	Land, land rights and buildings incl. buildings on land owned by others	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2002	6,706.0	28,568.1	2,922.5	2,881.4	41,078.0
Change in scope of consolidation	21.4	13.8	2.6	–	37.8
Additions	96.5	780.3	144.8	1,655.4	2,677.0
Disposals	109.9	500.3	244.3	27.9	882.4
Transfers*	(225.7)	369.8	(45.6)	(2,409.4)	(2,310.9)
Balance as of December 31, 2002	6,488.3	29,231.7	2,780.0	2,099.5	40,599.5
Depreciation					
Balance as of January 1, 2002	3,848.9	20,692.7	2,343.2	3.4	26,888.2
Change in scope of consolidation	0.6	8.1	1.7	–	10.4
Additions	210.1	1,587.2	211.2	3.4	2,011.9
Disposals	75.7	477.4	229.1	0.2	782.4
Transfers*	(169.7)	(1,027.9)	(75.7)	–	(1,273.3)
Balance as of December 31, 2002	3,814.2	20,782.7	2,251.3	6.6	26,854.8
Net book value as of December 31, 2002	**2,674.1**	**8,449.0**	**528.7**	**2,092.9**	**13,744.7**

* Transfers including foreign currency translation adjustments in those cases where the conversion took place at balance sheet rates

Impairment losses in 2002 in the amount of €51.4 million were due to dry holes at Wintershall AG.

Developments in 2001 Million €	Land, land rights and buildings incl. buildings on land owned by others	Machinery and technical equipment	Miscellaneous equipment and fixtures	Advance payments and construction in progress	Total
Acquisition costs					
Balance as of January 1, 2001	6,736.9	26,688.0	3,441.8	2,728.8	39,595.5
Change in scope of consolidation	215.1	132.3	29.6	176.8	553.8
Additions	158.8	781.5	130.6	1,966.2	3,037.1
Disposals	591.7	837.5	687.6	157.9	2,274.7
Transfers*	186.9	1,803.8	8.1	(1,832.5)	166.3
Balance as of December 31, 2001	6,706.0	28,568.1	2,922.5	2,881.4	41,078.0
Depreciation					
Balance as of January 1, 2001	3,828.9	19,435.4	2,687.9	2.7	25,954.9
Change in scope of consolidation	90.7	73.3	19.4	–	183.4
Additions	241.8	1,792.6	247.0	26.1	2,307.5
Disposals	318.1	666.7	546.5	25.3	1,556.6
Transfers*	5.6	58.1	(64.6)	(0.1)	(1.0)
Balance as of December 31, 2001	3,848.9	20,692.7	2,343.2	3.4	26,888.2
Net book value as of December 31, 2001	**2,857.1**	**7,875.4**	**579.3**	**2,878.0**	**14,189.8**

* Transfers including foreign currency translation adjustments in those cases where the conversion took place at balance sheet rates

Impairment losses in 2001 of €179.3 million relate to a superabsorbents plant in Birkenhead, United Kingdom, which was heavily damaged in an explosion as well as to a site in Arnhem, the Netherlands, and various sites in North America whose closure has been decided as a consequence of their unsatisfactory earnings potentials.

15. Financial assets

Developments in 2002 Participations and securities held as fixed assets Million €	Shares in affiliated companies	Shares in associated companies	Shares in participating interests	Securities held as fixed assets	Participations and securities held as fixed assets (subtotal)
Acquisition costs					
Balance as of January 1, 2002	605.1	1,870.7	232.7	27.2	2,735.7
Change in scope of consolidation	12.2	–	–	–	12.2
Additions	80.0	23.4	39.0	1.3	143.7
Disposals	29.3	1.8	1.7	0.4	33.2
Transfers, including exchange rate changes	16.0	(43.5)	9.2	(15.0)	(33.3)
Balance as of December 31, 2002	684.0	1,848.8	279.2	13.1	2,825.1
Accumulated depreciation					
Balance as of January 1, 2002	31.8	1.0	1.4	1.7	35.9
Change in scope of consolidation	6.8	–	–	–	6.8
Additions	8.0	.	0.1	0.5	8.6
Disposals	.	–	1.4	–	1.4
Transfers	1.3	.	–	(0.5)	0.8
Balance as of December 31, 2002	47.9	1.0	0.1	1.7	50.7
Net book value as of December 31, 2002	**636.1**	**1,847.8**	**279.1**	**11.4**	**2,774.4**

Developments 2002 Loans and other investments Million €	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Loans and other investments (subtotal)	Total financial assets
Acquisition costs					
Balance as of January 1, 2002	119.7	359.1	186.4	665.2	3,400.9
Change in scope of consolidation	–	–	–	–	12.2
Additions	17.4	37.0	36.2	90.6	234.3
Disposals	8.3	71.4	16.1	95.8	129.0
Transfers, including exchange rate changes	(3.2)	(23.0)	(127.3)	(153.5)	(186.8)
Balance as of December 31, 2002	125.6	301.7	79.2	506.5	3,331.6
Accumulated depreciation					
Balance as of January 1, 2002	0.2	0.8	3.3	4.3	40.2
Change in scope of consolidation	–	–	–	–	6.8
Additions	14.0	13.9	0.8	28.7	37.3
Disposals	–	–	1.1	1.1	2.5
Transfers	.	–	0.1	0.1	0.9
Balance as of December 31, 2002	14.2	14.7	3.1	32.0	82.7
Net book value as of December 31, 2002	**111.4**	**287.0**	**76.1**	**474.5**	**3,248.9**

In 2002, additions to “Shares in affiliated companies” primarily include the acquisition of Aethylen Rohrleitungsgesellschaft mbH & Co. KG, Marl, Germany. Retirements were related to the merger of the non-consolidated BASF Polyurethanes Elastomers Ltd., and BASF Japan Ltd., Tokyo, Japan.

Developments in 2001 Participations and securities held as fixed assets Million €	Shares in affiliated companies	Shares in associated companies	Shares in participating interests	Securities held as fixed assets	Participations and securities held as fixed assets (subtotal)
Acquisition costs					
Balance as of January 1, 2001	678.4	2,127.4	220.7	39.3	3,065.8
Change in scope of consolidation	(326.0)	(51.8)	–	.	(377.8)
Additions	345.1	77.7	9.6	2.6	435.0
Disposals	85.8	40.1	1.8	21.3	149.0
Transfers, including exchange rate changes	(6.6)	(242.5)	4.2	6.6	(238.3)
Balance as of December 31, 2001	605.1	1,870.7	232.7	27.2	2,735.7
Accumulated depreciation					
Balance as of January 1, 2001	20.7	1.0	1.4	1.7	24.8
Change in scope of consolidation	(0.9)	–	–	.	(0.9)
Additions	19.7	–	.	0.2	19.9
Disposals	3.1	–	.	0.1	3.2
Transfers	(4.6)	.	–	(0.1)	(4.7)
Balance as of December 31, 2001	31.8	1.0	1.4	1.7	35.9
Net book value as of December 31, 2001	**573.3**	**1,869.7**	**231.3**	**25.5**	**2,699.8**

Developments 2001 Loans and other investments Million €	Loans to affiliated companies	Loans to associated companies and participating interests	Other loans and investments	Loans and other investments (subtotal)	Total financial assets
Acquisition costs					
Balance as of January 1, 2001	25.1	349.8	178.3	553.2	3,619.0
Change in scope of consolidation	(13.6)	(60.0)	0.8	(72.8)	(450.6)
Additions	100.8	173.5	30.4	304.7	739.7
Disposals	5.3	102.0	27.9	135.2	284.2
Transfers, including exchange rate changes	12.7	(2.2)	4.8	15.3	(223.0)
Balance as of December 31, 2001	119.7	359.1	186.4	665.2	3,400.9
Accumulated depreciation					
Balance as of January 1, 2001	0.2	–	4.3	4.5	29.3
Change in scope of consolidation	–	–	–	.	(0.9)
Additions	.	–	0.7	0.7	20.6
Disposals	.	–	1.7	1.7	4.9
Transfers	–	0.8	.	0.8	(3.9)
Balance as of December 31, 2001	0.2	0.8	3.3	4.3	40.2
Net book value as of December 31, 2001	**119.5**	**358.3**	**183.1**	**660.9**	**3,360.7**

In 2001, additions to “Shares in affiliated companies” resulted from a capital increase of €200 million at BASF Future Business GmbH to develop new business areas. Changes in the scope of consolidation resulted from the inclusion of the joint ventures BASF NOF Coatings Company Ltd., Tokyo, Japan; BASF SONATRACH PropanChem S.A., Tarragona, Spain; ELLBA Eastern (Pte.) Ltd., Singapore; and BASF-YPC Company, Nanjing, China.

Other financial assets

The book and market values of available-for-sale “Securities held as fixed assets” and “Shares in participating interests” is summarized below:

Million €	2002 Book values	Market values	Unrealized gains	2001 Book values	Market values	Unrealized gains
Fixed-term interest bearing securities	1.2	1.2	–	1.5	1.5	–
Mutual funds	6.9	6.3	(0.6)	6.2	6.2	–
Other shareholdings and securities	282.4	372.3	89.9	249.1	366.1	117.0
	290.5	**379.8**	**89.3**	**256.8**	**373.8**	**117.0**

The disposal of available-for-sale securities generated neither proceeds nor gains in 2002 and 2001.

16. Inventories

Million €	2002	2001
Raw materials and factory supplies	992.5	1,176.1
Work-in-process, finished goods and merchandise	3,706.0	3,759.9
Construction in progress	87.6	56.2
Advance payments	12.3	14.6
	4,798.4	**5,006.8**

“Work-in-process” and “Finished goods and merchandise” are combined into one item due to the production conditions in the chemical industry.

The acquisition or production costs of raw materials, work-in-process, finished goods and merchandise are mainly determined by the last-in-first-out (LIFO) method. Factory supplies are carried predominantly at average cost. Inventories of €3,036.9 million or 63 % of total inventories in 2002 and €3,130.2 million or 63 % of total inventories in 2001 are valued according to the LIFO method. The difference between the carrying value determined according to the LIFO method and higher average cost or lower market values was €65 million in 2002 and €72 million in 2001.

17. Receivables and other assets

Million €	2002		2001	
		Thereof non-current		Thereof non-current
Accounts receivable, trade	5,316.0	18.2	5,875.5	16.7
Receivables from affiliated companies	544.4	–	631.9	0.6
Receivables from associated companies and other participating interests	277.1	–	248.4	–
Other assets	1,509.8	275.5	1,283.3	183.4
Miscellaneous receivables and other assets	1,786.9	275.5	1,531.7	183.4
	7,647.3	**293.7**	**8,039.1**	**200.7**

Composition of other assets

Million €	2002	2001
Tax refund claims	463.4	457.5
Loans and interest receivables	281.3	203.3
Deferrals from financial derivatives	313.7	–
Receivables from the sale of non-trade assets	59.0	17.9
Employee receivables	31.6	43.1
Rents and deposits	39.2	48.6
Insurance claims	12.8	25.2
Other	308.8	487.7
	1,509.8	**1,283.3**

Prepaid expenses accounted for €131.3 million in 2002 and €131.1 million in 2001.

Valuation allowances for doubtful accounts

Million €	Balance as of January 1, 2002	Affecting income		Not affecting income		Balance as of December 31, 2002
		Additions	Releases	Additions	Releases	
Accounts receivable, trade	491.9	173.7	152.1	22.4	146.6	389.3
Miscellaneous receivables	67.4	13.1	2.0	8.8	20.1	67.2
	559.3	**186.8**	**154.1**	**31.2**	**166.7**	**456.5**

Million €	Balance as of January 1, 2001	Affecting income		Not affecting income		Balance as of December 31, 2001
		Additions	Releases	Additions	Releases	
Accounts receivable, trade	404.1	228.7	108.4	78.1	110.6	491.9
Miscellaneous receivables	81.6	9.7	20.7	2.5	5.7	67.4
	485.7	**238.4**	**129.1**	**80.6**	**116.3**	**559.3**

Additions and releases not affecting income relate primarily to changes in scope of consolidation, to translation adjustments and write-offs of receivables previously written down.

18. Marketable securities

Million €	2002 Book values	Market values	Unrealized gains	2001 Book values	Market values	Unrealized gains
Fixed-term interest bearing securities	12.8	13.2	0.4	12.7	12.7	–
Shares	117.6	135.6	18.0	369.6	615.9	246.3
Mutual funds	0.4	0.4	–	–	–	–
Other securities	1.0	1.0	–	0.6	0.6	–
	131.8	**150.2**	**18.4**	**382.9**	**629.2**	**246.3**

The disposal of available-for-sale securities in 2002 generated a tax-free gain of €243 million. There was no disposal of available-for-sale securities in 2001.

Maturities of fixed-term securities

Million €	2002 Book values	Market values	2001 Book values	Market values
Less than 1 year	7.6	7.7	5.1	5.1
Between 1 and 5 years	5.2	5.5	7.6	7.6
	12.8	**13.2**	**12.7**	**12.7**

19. Prepaid expenses

Million €	2002		2001	
		Thereof non-current		Thereof non-current
Discounts	4.4	2.7	6.2	4.4
Prepaid pension assets	479.5	456.4	38.6	29.9
Miscellaneous	131.4	15.3	175.8	23.9
	615.3	**474.4**	**220.6**	**58.2**

The discount from the issuance of the 5.75 % Euro Bond 2000/2005 of BASF Aktiengesellschaft is capitalized and amortized as interest expense over the term of the underlying obligations. The discount related to the 3 % U.S. Dollar Option Bond 1986/2001 of BASF Finance Europe N.V. was fully amortized in 2001.

Prepaid pension assets resulted primarily from contributions to pension funds in North America (NAFTA), which were made to compensate for the losses of pension funds in stocks and accordingly to cover the additional minimum liability, which has to be calculated under the rules of SFAS 87.

The pension plan assets as assessed in accordance with German GAAP fully cover the minimum pension liability in accordance with German GAAP. The contributions to the pension fund are therefore expenses for future periods and are accounted for as prepaid expenses.

Other prepaid expenses are related to prepayments of operating costs of €36.7 million in 2002 and €84.8 million in 2001 as well as prepaid insurance premiums of €10.4 million in 2002 and €8.9 million in 2001.

20. Capital and reserves

	Conditional capital		Authorized capital	
Million €	**2002**	**2001**	**2002**	**2001**
January 1	432.4	158.3	500.0	500.0
Cancellation of conditional capital in order to exercise option rights for option bonds to be issued until April 1, 2001		(102.4)		
Authorization through the Annual Meeting on April 26, 2001, for the issuance of new shares to fulfill the exercising of subscription rights related to option bonds, which may be issued until April 1, 2006		384.0		
Authorization through the Annual Meeting on April 26, 2001, for the issuance of new shares to fulfill option rights under the BASF stock option program BOP 2001/2005		38.4		
Limitation of the issuance of new shares to be issued under the BASF stock option program BOP 1999/2000 to the 3,923,344 subscription rights issued until April 25, 2001, according to the resolution at the Annual Meeting on April 26, 2001		(28.4)		
Reduction resulting from excercise or expiration of option rights	(3.2)			
Issuance of new shares from the conditional capital through the exercise of warrants attached to the 1986/2001 3% U.S. Dollar Option Bond of BASF Finance Europe N.V.		(17.4)		
Cancellation of warrants from the Option Bond 1986/2001		(0.1)		
Issuance of new stock as conditional capital through the exercise of conversion rights of former Wintershall stockholders below €0.1 million	.	–		
December 31	**429.2**	432.4	**500.0**	500.0

Subscribed capital

Million €	Outstanding shares	Subscribed capital	Capital reserves
Outstanding shares as of December 31, 2002	571,650,910	1,463.4	2,944.0
Repurchased shares intended to be cancelled	1,334,500	(3.4)	3.4
Outstanding shares as disclosed in the financial statements	570,316,410	1,460.0	2,947.4

A total of 13,085,000 shares were repurchased in 2002, of which 11,750,500 shares were cancelled in 2002. The Board of Executive Directors decided in 2002 to cancel the remaining 1,334,500 shares, which was not formally completed as of December 31, 2002. The subscribed capital is shown net of these shares.

Share repurchase

The Board of Executive Directors received approval at the Annual Meeting on April 30, 2002, to repurchase BASF's shares to a maximum amount of 10 % of subscribed capital until October 1, 2003. The shares shall be purchased on the stock exchange or through a public purchase offer addressed to all shareholders. If BASF shares are purchased on a stock exchange, the price paid for the shares may not be higher than the highest market price on the buying day and it may not be lower than 25 % of that market price. In the case of a public purchase offer, the price offered by BASF may be a maximum of 25 % higher than the highest market price on the third trading day prior to the publishing of the public purchase offer. This authorization supersedes the validity of the prior authorizations to repurchase BASF shares.

The Board of Executive Directors is authorized to cancel repurchased shares without further shareholder approval. A sale of repurchased BASF shares requires the respective authorization through the Annual Meeting unless the shares are utilized to serve options from the BASF stock option program BOP 1999/2000 and BOP 2001/2005, or with the anthorization of the Supervisory Board, to acquire companies, parts of companies or holdings in companies in return for the transfer of shares. Furthermore, repurchased shares may be sold to participants in the stock option program 2001/2005, to fulfill the participants' investment requirements in BASF shares according to the clauses of the stock option program in order to meet conditions for the granting of options.

Based on the respective authorizations, a total of 13,085,000 shares, or 2.2 % of the issued shares have been acquired in 2002. The average purchase price was €38.20 per share. Of these shares a total of 11,750,500 shares were cancelled by December 31, 2002. The remaining 1,334,500 shares of BASF Aktiengesellschaft were acquired for the purpose of cancellation. Therefore, the subscribed capital is shown net of these shares at December 31, 2002. During 2001, BASF purchased and cancelled a total of 30,775,000 shares, or 5.0 % of issued shares, at an average price of €42.22 per share.

Conditional capital

The Annual Meeting on April 26, 2001, authorized the Board of Executive Directors to make an additional conditional increase in the subscribed capital of up to €384.0 million to fulfill the exercising of warrants related to option bonds which may be issued until April 1, 2006. Additional conditional capital of €38.4 million is reserved to fulfill stock options granted under the BASF stock option program (BOP) 2001/2005 to the members of the Board of Executive Directors and other senior executives of BASF and its subsidiaries; up to €6.8 million conditional capital is reserved to fulfill stock options from the stock option program 1999/2000. An amount of less than €0.1 million is reserved to meet compensation claims of former shareholders of Wintershall.

Authorized capital

At the Annual Meeting of April 29, 1999, shareholders authorized the Board of Executive Directors, with the approval of the Supervisory Board, to increase subscribed capital by issuing new shares in an amount of up to €500.0 million against cash or contribution in kind through May 1, 2004. The Board of Executive Directors is empowered to decide on the exclusion of shareholders' subscription rights for these new shares.

Capital surplus

Capital surplus includes premiums from the issuance of shares, the fair value of warrants attached to option bonds and negative goodwill from the capital consolidation resulting from acquisitions of subsidiaries in exchange for issuance of BASF shares at par value.

21. Retained earnings

Million €	2002	2001
Legal reserves	224.6	206.6
Other retained earnings and profit retained	12,243.6	12,015.8
	12,468.2	**12,222.4**

The changes in scope of consolidation reduced the legal reserves by less than €0.1 million in 2002 and by €49.9 million in 2001. Transfers from "Other retained earnings and profit retained" increased legal reserves by €18.0 million in 2002 and by €16.3 million in 2001.

22. Minority interests

Company	Partner	Equity stake %	2002 Million €	Equity stake %	2001 Million €
WINGAS GmbH, Kassel, Germany	Gazprom, Moscow, Russia	35.0	83.1	35.0	84.9
Yangzi-BASF Styrenics Co. Ltd., Nanjing, China	Yangzi Petrochem. Corp. Ltd., Nanjing, China	40.0	56.1	40.0	61.4
BASF India Ltd., Mumbai, India	Publicly traded shares	47.3	19.9	50.0	20.1
BASF PETRONAS Chemicals Sdn. Bhd., Petaling Jaya, Malaysia	PETRONAS (Petroliam Nasional Bhd.), Kuala Lumpur, Malaysia	40.0	136.5	40.0	126.5
BASF SONATRACH PropanChem S.A., Tarragona, Spain	Sonatrach, Algiers, Algeria	49.0	31.6	49.0	39.3
BASF FINA Petrochemicals Ltd., Port Arthur, Texas	TotalFinaElf S.A., Paris, France	40.0	56.0	40.0	17.2
Others			13.1		10.3
			396.3		**359.7**

23. Provisions for pensions and similar obligations

In addition to governmental pension schemes, most employees are entitled to Company pension benefits from defined contribution and defined benefit plans. Benefits generally depend on years of service, contribution or compensation and consider the legal, fiscal and economic conditions of the countries where companies are located. For BASF Aktiengesellschaft and other German subsidiaries a basic level of benefits is provided by the legally independent funded plan, BASF Pensionskasse VVaG, which is financed by contributions of employees and the Company, and the returns on its assets.

For German Group subsidiaries, additional Company pension commitments are financed primarily by pension provisions. In the case of non-German subsidiaries, pension entitlements are covered in some cases by pension provisions, but mainly by external insurance companies or pension funds.

The valuation according to the “projected unit credit method” as defined by SFAS 87 is based on the following average rates:

	Germany		Foreign	
	2002	2001	2002	2001
Interest rate	5.75 %	6.00 %	6.58 %	7.09 %
Projected increase of wages and salaries	2.50 %	2.75 %	3.82 %	3.87 %
Projected pension increase	1.50 %	1.75 %	0.36 %	0.41 %
Expected return on plan assets	6.50 %	6.50 %	8.47 %	8.92 %

Development of the projected benefit obligation

Million €	2002	2001
Projected benefit obligation as of January 1	5,979.9	6,285.8
Service cost	144.8	133.3
Interest cost	376.3	379.3
Benefits paid	(394.2)	(435.7)
Participants’ contributions	2.2	3.2
Change in actuarial assumptions	146.8	(66.8)
Settlements and other changes	71.9	(419.0)
Exchange rate changes	(367.8)	99.8
Projected benefit obligation as of December 31	**5,959.9**	**5,979.9**

Development of the plan assets

Million €	2002	2001
Plan assets as of January 1	2,443.2	2,731.0
Actual return on plan assets	(244.2)	(177.5)
Employer contributions	487.8	23.2
Participants’ contributions	2.2	3.2
Benefits paid	(170.8)	(199.4)
Exchange rate changes	(305.5)	95.9
Other changes	(2.0)	(33.2)
Plan assets as of December 31	2,210.7	2,443.2
Non-capitalized pre-financing of foreign pension plans	(196.1)	(213.6)
Plan assets as of December 31 excluding pre-financing	**2,014.6**	**2,229.6**

The valuation of the pension fund assets of foreign pension funds under SFAS 87 showed the pre-financing shown above.

Development of funded status and provisions for pensions

Million €	2002	2001
Projected benefit obligation as of December 31	5,959.9	5,979.9
Less pension fund assets as of December 31, excluding non-capitalized pre-financing	2,014.6	2,229.6
Funded status	3,945.3	3,750.3
Unrecognized amounts	(874.8)	(180.7)
Prepaid pension cost	479.5	30.4
Provisions for pensions	3,550.0	3,600.0
Provisions for similar obligations	360.0	352.7
Provisions for pensions and similar obligations	**3,910.0**	**3,952.7**

Unrecognized amounts refer in particular to actuarial gains or losses as well as expenses due to prior service cost that is amortized over the average remaining period of service of the pension recipients in the current Financial Statements. Deviations between the expected return on plan assets and the effective change in value are generally distributed over a period of 5 years.

Similar obligations refer to commitments by BASF's North American Group companies to provide for the costs of medical and life insurance benefits for employees and eligible dependents after retirement. They are based upon an actuarial valuation, considering the future cost trend and a discount rate of 6.875 %.

Composition of the net periodic pension cost

Million €	2002	2001
Service cost	144.8	133.3
Interest cost	376.3	379.3
Expected return on plan assets	(223.2)	(233.5)
Amortization of prior service cost	17.5	10.0
Amortization of unrecognized amounts	10.1	(0.1)
Settlement gains	(24.5)	(32.1)
Expenses for defined benefit plans	**301.0**	**256.9**
Expenses for defined contribution plans	89.7	81.9
Expenses for similar obligations	33.5	33.4
Net periodic pension cost	**424.2**	**372.2**

24. Other provisions

Million €	2002	Thereof current	2001	Thereof current
Oil and gas production	478.8	–	368.3	–
Environmental protection and remediation costs	264.0	30.2	309.1	44.3
Personnel costs	1,284.2	818.9	1,247.0	836.2
Sales and purchase risks	651.3	647.8	841.1	833.9
Integration, shutdown and restructuring costs	245.3	210.3	421.4	359.4
Legal, damage claims, guarantees and related commitments	679.4	115.2	1,873.0	426.2
Maintenance and repair costs	148.8	93.4	91.0	26.8
Outstanding billings from suppliers	76.4	76.4	87.1	87.1
Other	283.1	204.3	331.6	242.5
	4,111.3	**2,196.5**	**5,569.6**	**2,856.4**

Oil and gas production: Accrued costs for filling of wells and the removal of production equipment after the end of production are accumulated by installments during the expected production period.

Environmental protection and remediation costs: Expected costs for rehabilitating contaminated sites, water protection, recultivating landfills, removal of environmental contamination at existing production or warehouse equipment and other measures.

Personnel costs: The personnel cost provision includes obligations to grant long-time service bonuses and anniversary payments, remaining vacation pay, variable compensation including related social security contributions and other accruals as well as provisions for early retirement and short-working programs for employees nearing retirement. German BASF companies have various programs that entitle employees who are at least 55 years old to reduce their working hours to 50 % for up to six years. Under such arrangements, employees generally work full time during the first half of the transition period and leave the Company at the start of the second period. Employees receive a minimum 85 % of their net salary throughout the transition period.

Sales and purchase risks: The sales and purchase risks provision includes warranties, product liability, customer rebates, payment discounts and other price reductions, sales commissions and provisions for expected losses on committed purchases or similar obligations.

Integration, shutdown and restructuring costs: Such provisions include severance payments to employees as well as specific site shutdown or restructuring costs, including the costs for demolition and similar measures.

The movement in shutdown and restructuring provisions is as follows:

2002 Million €	Amount accrued as of January 1, 2002	Amount paid in 2002	Other changes 2002	Amount accrued as of December 31, 2002
Severance	237.3	105.4	28.5	160.4
Plant closure and demolition	121.0	58.6	15.2	77.6
Other	63.1	24.0	(31.8)	7.3
	421.4	**188.0**	**11.9**	**245.3**

2001 Million €	Amount accrued as of January 1, 2001	Amount paid in 2001	Other changes 2001	Amount accrued as of December 31, 2001
Severance	193.3	49.6	93.6	237.3
Plant closure and demolition	61.3	50.4	110.1	121.0
Other	30.4	9.6	42.3	63.1
	285.0	**109.6**	**246.0**	**421.4**

Additions in 2002 consisted primarily of personnel measures at the Ludwigshafen site, as well as restructuring measures in the Agricultural Products division.

Amounts paid in 2002 are related to the realization of restructuring measures initiated in 2001.

In 2001, provisions for severance payments had to be set up for the planned shutdown of numerous plants and production sites located predominantly in North America (NAFTA), South America, the United Kingdom, the Netherlands and Italy. Further charges arose from the restructuring of the Company's sales and marketing organization.

Legal, damage claims, guarantees and related commitments: Provisions are recorded for the expected cost of outstanding litigation and claims of third parties, including regulatory authorities, other guarantees and for antitrust proceedings. The significant proceedings are described in Note 26.

Payments were made in 2002 for compensation claims of vitamin customers in the U.S. after finalization of a settlement and for a fine of €296.2 million imposed by the E.U. Commission for violations of antitrust laws in the vitamin business, which occurred some years ago. An additional €100 million was added to the provision for the settlement of vitamin litigation due to the ongoing settlement of indirect vitamin customers' claims in the U.S. and the unsettled litigation in some other countries.

Additions in 2001 relate to guarantees granted and risks retained in connection with the sale of the pharmaceuticals business. An additional €200 million resulted from the fine imposed by the E.U. Commission for violations of antitrust laws relating to the sale of vitamin products. The provisions set up hitherto were insufficient due to the unexpectedly high fine. In addition, claims for damages by customers for vitamins from a class action lawsuit settled in 2000 that were previously reported as liabilities have been switched to provisions because numerous large customers have elected to opt out of the settlement.

Maintenance and repair costs: Provisions for maintenance and repair costs cover anticipated charges due to unperformed maintenance measures as well as for legally mandated inspection of large-scale plants within prescribed intervals.

25. Liabilities

Financial liabilities

Million €	2002	2001
5.75 % €-Bond 2000/2005 of BASF Aktiengesellschaft	1,250.0	1,250.0
Other bonds	349.7	311.9
Commercial paper	582.0	30.6
Bonds and other liabilities to the capital market	2,181.7	1,592.5
Liabilities to credit institutions	1,428.7	1,242.5
Financial liabilities	**3,610.4**	**2,835.0**

Financial liabilities are denominated predominantly in the following currencies and have the following average interest rates for short-term liabilities:

Million €	2002	2001	2002	2001
U.S. dollars	1,285.5	803.1	7.1%	5.9%
Euros	1,909.9	1,385.5	3.7%	4.3%
Chinese renminbi	52.0	156.8	4.6%	5.2%
Other	363.0	489.6	5.8%	9.4%
	3,610.4	**2,835.0**	Ø 5.1%	Ø 7.3%

Financial liabilities have the following maturities as of December 31, 2002:

	Million €
2003	1,813.8
2004	80.4
2005	1,284.7
2006	37.5
2007	15.8
2008 and thereafter	378.2
	3,610.4

The 5.75 % €-Bond 2000/2005 of BASF Aktiengesellschaft was issued in July 2000 in the amount of €1,250 million.

Other bonds consist primarily of industrial revenue and pollution control bonds that are used to finance investments in the United States. The weighted average interest rate of these bonds in 2002 was 2.1 % and in 2001 was 2.3 %.

Commercial paper comprises BASF Aktiengesellschaft's commercial paper programs as well as corresponding borrowings in India.

Liabilities to credit institutions

Liabilities to credit institutions relate to a large number of different credit institutions in various countries. Liabilities to credit institutions denominated in Chinese renminbi result from the local financing of capital expenditures in China.

The Company had committed and unused credit lines of €2,380 million with variable interest rates at the end of 2002 and of €2,800 million at the end of 2001. In addition, the Company had €323 million uncommitted credit lines free of charges at the end of 2002 and €410 million at the end of 2001.

Miscellaneous liabilities

Million €	2002	Thereof current	2001	Thereof current
Advances received on account of orders	30.8	30.8	105.9	103.9
Liabilities on bills	31.7	31.7	24.3	24.3
Liabilities to companies in which participations are held	181.8	165.9	297.3	293.6
Tax liabilities	287.3	287.3	281.5	281.2
Liabilities relating to social security	134.7	134.6	152.4	152.4
Liabilities of joint ventures to partners	415.8	4.0	466.4	16.1
Other miscellaneous liabilities	1,192.2	760.0	1,658.4	1,141.7
Total	**2,274.3**	**1,414.3**	**2,986.2**	**2,013.2**
Deferred income	369.8	113.8	351.4	165.9
Total miscellaneous liabilities and deferred income	**2,644.1**	**1,528.1**	**3,337.6**	**2,179.1**

Liabilities to companies in which participations are held include the non-consolidated share of consolidated liabilities to joint ventures accounted for using the proportional consolidation method of €129.4 million as of December 31, 2002 and €254.4 million as of December 31, 2001. Further liabilities relating to associated companies accounted for under the equity or cost method were €52.4 million as of December 31, 2002 and €42.9 million as of December 31, 2001.

Maturities of liabilities

Million €	2002		2001	
	Current	Over 5 years	Current	Over 5 years
Bonds and other liabilities to the capital market	582.0	325.8	15.5	310.5
Liabilities to credit institutions	1,231.7	52.4	893.9	77.4
Accounts payable, trade	2,330.2	–	2,451.7	11.3
Liabilities to affiliated companies	496.8	–	510.0	–
Advances received on account of orders	30.8	–	103.9	–
Liabilities on bills	31.7	–	24.3	–
Liabilities to companies in which participations are held	165.9	–	293.6	–
Other miscellaneous liabilities	1,185.9	573.1	1,591.4	496.4
	6,055.0	**951.3**	**5.884.3**	**895.6**

Secured liabilities

Million €	2002	2001
Liabilities to credit institutions	21.6	9.4
Miscellaneous liabilities	2.5	1.0
	24.1	**10.4**

The above liabilities are collateralized by mortgages or securities. In addition, BASF Aktiengesellschaft has given covenants in favor of BASF Pensionskasse VVaG with regard to adhering to certain balance sheet ratios and to forgo encumbering property as security for creditors.

Contingent liabilities

Million €	2002	2001
Bills of exchange	27.0	60.4
Thereof to affiliated companies	0.2	0.6
Guarantees	122.2	282.6
Warranties	58.8	48.4
Granting collateral on behalf of third-party liabilities	11.0	15.6
	219.0	**407.0**

Other financial obligations

Million €	2002	2001
Remaining cost of construction in progress	2,987.0	2,982.4
Thereof purchase commitment	644.3	466.4
Commitments from long-term rental and leasing contracts	862.6	926.1
Capital contribution and loan commitments	170.3	2.5
Repurchase commitments	–	193.2
	4,019.9	**4,104.2**

BASF has in 2002 payment commitments to BASF Chemicals Company Ltd., which is not yet included in the scope of consolidation. The company is constructing a plant for the production of TDI/MDI in Shanghai, China.

Repurchase commitments in 2002 were related to accounts receivables.

Obligations from long-term rental and lease contracts are due as follows:

	Million €
2003	185.2
2004	140.4
2005	101.8
2006	74.7
2007	60.4
2008 and thereafter	300.1
	862.6

Purchase commitments for raw materials and natural gas from long-term contracts

The Company has entered into long-term purchase contracts for natural gas for its natural gas trading business, the vast majority of which are coupled with long-term supply contracts to customers. In addition, the Company purchases raw materials globally, both on the basis of long-term contracts and in spot markets. In general, such commitments are at prices that are regularly adjusted to market conditions. The fixed and determinable portions of long-term purchase contracts with a remaining term of more than one year as of December 31, 2002, are as follows:

	Million €
2003	5,986
2004	2,724
2005	2,184
2006	2,005
2007	1,970
2008 and thereafter	10,887
	25,756

26. Litigation and claims

In the context of its ordinary business operations, BASF is a defendant in class action lawsuits brought before United States courts and individual actions before labor courts and civil courts or comparable institutions in Germany and abroad. Significant proceedings are discussed below.

Antitrust claims relating to vitamins

In 1999 and in 2000, BASF Aktiengesellschaft as well as BASF Australia Ltd. entered into agreements with the United States Department of Justice, the Canadian Competition Bureau and the Australian Department of Justice by which BASF Aktiengesellschaft and BASF Australia Ltd. agreed to plead guilty to certain violations of antitrust laws relating to the sale of vitamin products in the respective countries. On November 21, 2001, the European Commission imposed a fine of €296.2 million against BASF Aktiengesellschaft. BASF has appealed against this decision. Proceedings are still running in Brazil, South Korea, New Zealand, and Australia.

All lawsuits in the United States in connection with said antitrust law violations filed by direct customers that purchased vitamins in the United States have been settled.

Class action lawsuits on behalf of indirect vitamin purchasers were levied in 28 U.S. states. In October 2000, 24 of these were settled, with terms calling for the vitamin manufacturers to pay in total $396 million. BASF Aktiengesellschaft's share of this is up to $97 million. All settlements have been granted preliminary approval, and partially fulfilled. Suits from some third party plaintiffs who did not wish to participate in this settlement remain open. Further claims for damages have been filed in Canada, Germany, and in Australia.

The Company has established provisions for the costs that it can currently anticipate. The Company cannot rule out additional charges but does not believe that they will have a substantial impact on the profitability of the Company.

BASF Aktiengesellschaft has been named as a defendant in Empagran S.A., et al., versus F. Hoffman-LaRoche Ltd, et al., a federal class action filed in the U.S. District Court for the District of Columbia purportedly on behalf of all persons who purchased vitamins from the defendants outside the United States between January 1, 1988 and February 1999. The Empagran complaint alleges that the plaintiffs were overcharged on their vitamins purchases as the result of a worldwide conspiracy among the defendants to fix vitamin prices. In a decision dated June 7, 2001, the District Court for the District of Columbia dismissed the Empagran complaint for lack of subject matter jurisdiction. On January 17, 2003, the United States Court of Appeals for the District of Columbia Circuit reversed the District Court's ruling. The Court of Appeals held that the United States antitrust laws permit federal subject matter jurisdiction over claims by foreign purchasers based on purchases outside the United States. The defendants named in Empagran, including BASF Aktiengesellschaft, have filed a petition for rehearing, challenging the Court of Appeals' decision and, if necessary, intend to file a petition seeking review of the decision by the United States Supreme Court. Should the decision be upheld against expectations, the foreign customers be certified as a "class" by the U.S. courts and the damage claim be successful, this could cause considerable financial charges for the BASF Group.

Synthroid®-related claims

This proceeding concerned class action lawsuits against Knoll Pharmaceutical Company (KPC) of BASF's Pharmaceutical business, divested in 2001. The lawsuits challenged Knoll's delaying the publication of a study comparing Synthroid® to certain branded and generic products.

For various reasons, including the unclear position of third-party payors, final approval of a proposed settlement of 1997 was not granted. KPC subsequently negotiated a new proposed settlement with consumers and third-party payors providing for a payment of $25.5 million in addition to the $98 million paid into escrow in late 1997 (plus the accrued interest thereon). The United States District Court of Chicago granted final approval of the new proposed settlement on August 4, 2000. A number of appeals have been filed. On August 31, 2001, the United States Court of Appeals granted final confirmation of the settlement. However, payment cannot be made until a final judgment has been reached with regard to ongoing appeals against the settlement.

Meridia® class actions against BASF Corporation and BASF Aktiengesellschaft

Various class actions in the United States were brought against KPC and BASF Corporation (and, in two cases, BASF Aktiengesellschaft) as well as Abbott Inc. and Glaxo Wellcome for an unknown amount of damages as well as for the reimbursement of costs for preventive medical check-ups. The claims are based on the possible hazardousness, alleged insufficient trials, and failures during the admission procedure of Meridia® (U.S. trade name of the anti-obesity drug sibutramine). The legal proceedings are still at a very early stage. The two actions against BASF Aktiengesellschaft have been dropped or dismissed.

BASF Corporation processed and still processes the drug for KPC by way of toll manufacture. In addition, BASF Corporation has no relationship with the product. The fact that BASF Corporation owned shares in KPC is not a sufficient basis for claims for damages. Overall, the material risk can be considered as low.

Additional proceedings

In 2001, class action lawsuits against BASF Aktiengesellschaft and some of its affiliates were filed at U.S. courts. It was alleged that sales of automotive refinish coatings had violated antitrust laws. BASF considers these allegations to be unfounded and will consequently file for dismissal of the lawsuits.

27. BASF stock option program and BASF "plus" incentive share program

BASF stock option program (BOP)

In 2002, BASF continued the BASF stock option program (BOP) for senior executives of the company worldwide. This program has existed since 1999. Approximately 1,000 senior executives, including the Board of Executive Directors, are currently entitled to participate in this program.

To participate in the stock option program, each participant must hold as a personal investment BASF shares in the amount of 10 % to 30 % of his or her individual variable compensation. The number of shares is determined by the amount of variable compensation designated by the participant and the weighted average market price quotation for BASF shares on the first business day after the Annual Meeting, which was €46.70 on May 2, 2002 (basic price).

For each BASF share of the individual investment, a participant receives four options. Each option consists of two parts, right A and right B, which may be exercised if defined thresholds have been met: The threshold of right A is met if the price of the BASF share has increased by more than 30 % in comparison to the basic price (absolute threshold). The value of right A will be the difference between the market price of BASF shares at the exercise date and the basic price; it is limited to 100 % of the basic price. Right B may be exercised if the cumulative percentage performance of BASF shares exceeds the percentage performance of the Dow Jones Global Chemicals Total Return Index (DJ Chemicals). The value of right B will be the basic price at the exercise date of the option multiplied by twice the percentage outperformance of BASF shares compared to the DJ Chemicals index.

The options were granted on July 1, 2002 and can be exercised between July 1, 2004 and June 30, 2010. During the exercise period it is not possible to exercise options during certain periods (closed periods). Each option right may only be exercised if the performance targets are achieved and may only be exercised once, meaning that if only one performance target is met and that option is exercised, the other option right expires. The maximum gain for a participant from the BOP program is limited to 10 times the original individual investment and will be principally settled in cash.

The stock option programs BOP 1999 to BOP 2001 were structured in a similar way to the BOP 2002 program. To participate in the BOP program, each participant must hold BASF shares in the amount of 10 % to 30 % of his or her individual variable compensation (BOP 2001) or must make an individual investment in BASF shares in the amount of 10 % to 30 % of his or her individual variable compensation that is used to purchase BASF shares at the market price on the first business day after the Annual Meeting (BOP 1999 and 2000). The options may be exercised following a vesting period of two years (BOP 2001) or three years (BOP 1999 and 2000).

The amount of BASF shares held or acquired is determined by the market price of the first business day after the Annual Meeting (basic price):

- BOP 2001 €47.87
- BOP 2000 €47.80
- BOP 1999 €41.60

The benchmark index used to determine the value of right B for BOP 1999 and 2000 is the Dow Jones EURO STOXX^{SM} Total Return Index (EURO STOXX^{SM}). For BOP 2001 it was replaced by the DJ Chemicals Index, which is an even more meaningful benchmark as a worldwide index for the chemical sector.

Details on the fair value and the number of options issued are described below.

Fair value and parameters used as of December 31, 2002*	BASF stock option program	
	2002	2001
Fair value	€11.68	€12.85
Dividend yield of BASF shares	3.62%	3.62%
Risk free interest rate	4.06%	3.89%
Volatility of BASF shares	28.10%	29.34%
Volatility of index	17.09%	18.15%
Correlation BASF quotation : Index	74.89%	74.68%

* It is assumed that the exercise of options depends on the potential gains

Options outstanding	2002	2001
As of January 1	3,092,732	2,057,003
Number of options granted	837,280	1,133,204
Number of options lapsed*	67,700	97,475
Weighted average basic price	€45.86	€44.22
Number of options exercised	609,868	–
As of December 31	3,252,444	3,092,732
Weighted average basic price	€46.67	€45.64
Weighted average remaining maturity (years)	5.33	5.14

* Options rights lapse if option holders no longer work for BASF or have sold part of their BOP shares

In accordance with a resolution by the Board of Executive Directors in 2002, options will be settled in cash instead of by delivering shares. Options outstanding as of December 1, 2002 are valued with the fair value as of the balance sheet date. This amount is accrued as a provision over the respective vesting period. An amount of €16.7 million was charged to income.

The compensation cost of €30.2 million in 2001 was determined by valuing the number of outstanding options with the fair value of the options at the grant date. This total compensation cost was charged to income over the vesting period.

BASF "plus" incentive share program

In 1999, BASF started an incentive share program called "plus" for all eligible employees except the senior executives entitled to participate in the BOP program. Currently, employees of German and of various European and Mexican subsidiaries are entitled to participate in the program.

Each participant must make an individual investment in BASF shares from his or her variable compensation. For each 10 BASF shares purchased in the program, a participant receives one BASF share at no cost after one, three, five, seven and 10 years of holding the BASF shares. The right to receive free BASF shares expires if a participant sells the individual investment in BASF shares, if the participant stops working for the Company or one year after retirement.

In 2002, most companies improved the employee share purchase program. The first block of 10 shares purchased in any year now attracts one free incentive share in each of the following 10 years.

Details on the incentive share program are described below.

Number of shares held under the program	2002	2001
As of January 1	1,130,680	745,840
Number of shares added to the individual investment	535,500	434,800
Number of subscription rights lapsed	41,720	49,960
As of December 31	1,624,460	1,130,680

The Company accrues a provision for the value of the free shares over the period until the shares are to be issued based on the year-end price of BASF shares.

Compensation cost of €5.7 million was recorded in 2002 and €4.4 million in 2001 for this program.

In addition, all employees with permanent contracts were offered five free BASF shares that must be held for 10 years. In 2002, 174,130 BASF shares were provided free of charge. The resulting expenses of €8.0 million were already accrued as a provision in 2001.

28. Financial instruments and derivative instruments

Derivative instruments

The Company is exposed to foreign currency, interest rate and commodity risks during the normal course of business. In cases where the Company intends to hedge against these risks, derivatives are used, including forward exchange contracts, currency options, interest rate/currency swaps or combined instruments, or commodity derivatives. In addition, derivative instruments are used to replace transactions in original financial instruments, such as shares or fixed-interest securities. Derivative instruments are only used if they have a corresponding underlying position or planned transaction arising from the operating business, cash investments and financing. The leverage effect that can be achieved with derivatives is deliberately not used. The derivative instruments held by the Company are not held for the purpose of trading.

Where derivatives have a positive market value, the Company is exposed to credit risks in the event of non-performance of their counterparts. The credit risk is minimized by exclusively trading contracts with major creditworthy financial institutions.

To ensure efficient risk management, market risks are centralized at BASF Aktiengesellschaft, except when certain subsidiaries have been authorized to close derivative contracts under the principles mentioned above. The Company has developed and implemented internal guidelines based on the principles of separation of functions for completion and execution of derivative instruments.

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

Foreign exchange and interest rate risk management

Foreign currency derivatives are primarily aimed at hedging the exchange rate risk against the U.S. dollar, the Canadian dollar, the Australian dollar, the British pound, the South African rand, the Brazilian real, the Japanese yen, the Mexican peso and the Singapore dollar.

Interest derivatives or combined interest/currency derivatives were primarily concluded to hedge loans granted to Group companies.

Fair value of financial instruments

The fair value of a financial instrument is the price at which the instrument could be exchanged between willing parties. Fair value amounts are estimated based on available market information and appropriate valuation techniques. These estimates do not necessarily reflect the amount that could be realized or would be paid in the current market.

Book and estimated fair values of financial instruments, for which it is practicable to estimate the fair value, were as follows:

	December 31, 2002		December 31, 2001	
Million €	**Book values**	**Fair values**	**Book values**	**Fair values**
Assets				
Financial assets (details, see Note 15)	3,248.9	3,338.2	3,360.7	3,477.7
Accounts receivable, trade and other assets	7,647.3	7,633.6	8,039.1	8,057.7
Marketable securities (details, see Note 18)	131.8	150.2	382.9	629.2
Cash and cash equivalents	230.6	230.6	359.9	359.9
Liabilities				
Financial liabilities	3,610.4	3,716.7	2,835.0	2,876.7
Accounts payable, trade and other liabilities	5,166.1	5,175.4	6,025.8	6,038.9

For trade accounts receivable, liquid funds and other assets, trade accounts payable and other liabilities, the book value approximates the fair value. For non-current amounts, the difference between book value and fair value represents primarily unrecognized losses from foreign currency balances.

The fair value of financial assets and marketable securities represents market values from securities exchanges at the balance sheet date. The market value of financial liabilities represents a valuation of bonds at inter-bank rates.

Breakdown of derivative financial instruments

	Nominal amounts December 31		Fair values December 31	
Million €	**2002**	**2001**	**2002**	**2001**
Forward exchange contracts	5,926.7	5,051.6	179.9	(125.5)
Currency options	–	153.4	–	1.5
Foreign currency derivatives	**5,926.7**	**5,205.0**	**179.9**	**(124.0)**
Interest rate swaps	90.3	15.1	(8.9)	(0.4)
Interest rate/cross currency swaps	3,058.2	3,081.1	(116.1)	(590.9)
Interest rate derivatives	**3,148.5**	**3,096.2**	**(125.0)**	**(591.3)**
Commodity derivatives and other derivatives	820.4	33.4	(25.4)	4.8

The nominal values are the totals of the purchases and sales of the particular derivatives on a gross basis. The fair market values correspond to the difference between the cost and resale value, which is determined from market quotations or by the use of option pricing models or, in the case of unlisted contracts, the termination amount in the event of premature cancellation. Offsetting changes in the valuation of the underlying transactions are not taken into account.

Provisions for probable losses from fluctuations of foreign exchange rates, interest rates or prices amounted to €2.7 million in 2002 and €11.1 million in 2001. All changes of the fair value of financial instruments and derivative contracts had been recognized as required by U.S. GAAP and the impact on net income and stockholders' equity in accordance to U.S. GAAP is disclosed in Note 4.

Commodity derivatives are used to hedge raw material prices, e.g., for naphtha.

Dear shareholders,

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

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

Meetings

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

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

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

Corporate governance and compliance statement

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

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

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

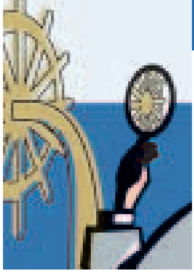
Committees

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

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

Financial Statements of the BASF Group and BASF Aktiengesellschaft

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



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

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

We have approved the auditors' reports. The results of our own examination fully concur with those of the audit. The Supervisory Board sees no ground for objections.

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

Composition of the Supervisory Board and Board of Executive Directors

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

In its meeting on July 18, 2002, the Supervisory Board appointed Dr. Jürgen Hambrecht as the new Chairman of the Board of Executive Directors and Eggert Voscherau as the new Vice Chairman. These appointments will take effect following the end of the Annual Meeting on May 6, 2003. At the same meeting, the Supervisory Board appointed Dr. Kurt Bock to the Board of Executive Directors effective January 1, 2003. Dr. Andreas Kreimeyer was appointed to the Board of Executive Directors effective January 1, 2003 in the meeting of the Supervisory Board on December 19, 2002. Until December 31, 2002, Dr. Bock was responsible for Logistics & Information Services and Dr. Kreimeyer was responsible for the Functional Polymers division.

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

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

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

Ludwigshafen, March 11, 2003

The Supervisory Board

Professor Dr. Berthold Leibinger
Chairman of the Supervisory Board

Glossary: Selected terms

Agricultural Products ▸ The Agricultural Products division develops, produces and markets products to protect crops from weeds, fungal attack and insect pests.

Brent ▸ A type of crude oil from the North Sea that is used as an international benchmark for crude oil prices.

Coatings ▸ Automotive OEM and refinish coatings, industrial coatings and decorative paints.

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

EBIT ▸ Earnings before interest and taxes.

EBITDA ▸ Earnings before interest, taxes, depreciation and amortization.

economies of scale ▸ Cost advantages derived from modern world-scale plants (see also: world-scale plants).

Fine Chemicals ▸ In the Fine Chemicals division we develop, produce and market high-value products for human and animal nutrition and for the cosmetics and pharmaceutical industries. Our primary products are vitamins, pharmaceutical active ingredients, polymers for pharmaceuticals and cosmetics, carotenoids, flavors and fragrances, UV filters, the amino acid lysine, as well as enzymes for animal nutrition.

Functional Polymers ▸ The Functional Polymers division is the global market leader in acrylic acid and superabsorbents and is a leading supplier of functional polymers for the adhesives, construction, carpeting and paper industries. The division operates production facilities in all important regions of the world, consistently capitalizing on the BASF Verbund and expanding its global presence.

Inorganics ▸ Raw materials such as ammonia, sulfuric acid and nitric acid and the electrolysis products chlorine and sodium hydroxide. The operating division also produces innovative specialties such as electronic grade chemicals, heterogeneous catalysts, impregnating resins and powder injection molding technologies

Intermediates ▸ The Intermediates division produces and sells amines, diols and polyalcohols, as well as carboxylic acids and specialties such as phosgene derivatives, glyoxal and derivatives, and chiral intermediates for a variety of chemical syntheses; 20 % of the division's volumes are for captive use within BASF.

liquefied petroleum gas (LPG) ▸ Liquefied natural gases, e.g., propane, butane and propane-butane blends, are used in the heating market, as an alternative feedstock for cracker operations and for other chemical processes.

NAFTA region ▸ Free trade zone between the United States, Canada and Mexico; established in the North American Free Trade Agreement. This economic region is one of BASF's four business regions.

naphtha ▸ Liquid petroleum that is obtained as a by-product of oil refining. Heavy naphtha is the starting point for gasoline production. Light naphtha is the most important feedstock for steam crackers.

oil equivalent ▸ International standard for comparing the thermal energy of different fuels.

offshore expertise ▸ Expertise in developing offshore oil and gas fields and operating offshore production platforms.

Performance Chemicals ▸ The Performance Chemicals division includes the business areas Coatings, Plastics & Specialties; Printing Industry; Automotive & Oil Industry, Detergents & Formulators; Textiles; and Leather. In all six business areas, we supply high-performance specialties worldwide that add value for our customers directly without further chemical processing.

Performance Polymers ▸ The Performance Polymers division produces engineering plastics for use in the automotive and electronics industries, for example, as well as fiber intermediates.

Petrochemicals ▸ The Petrochemicals division operates world-scale facilities to supply the Verbund sites with petrochemical feedstocks such as ethylene and propylene, as well as with technical gases such as hydrogen and oxygen. In later processing stages, products in the BASF plasticizers and solvents value-adding chains are produced, as are alkylene oxides and glycols. Typical examples are butanol, phthalic anhydride and ethylene oxide, which are processed primarily within the BASF Verbund.

Pharma Solutions ▸ A product area that comprises active ingredients, excipients and, increasingly, contract manufacturing for the pharmaceutical industry.

Polyurethanes ▸ The Polyurethanes division is one of the world's leading producers of polyurethanes. Our product range includes the entire spectrum of basic polyurethane products, tailor-made polyurethane systems and polyurethane specialties. Polyurethanes are used, for example, as rigid or flexible foams for domestic appliances and mattresses, and as specialty plastics for the automobile and footwear industries.

return on capital employed ▸ This describes the returns we make on the average assets employed during the year:

$$\frac{\text{Income from ordinary activities + interest expenses}}{\text{Average assets*}} \times 100 \qquad \frac{\text{*(Balance sheet total start of year + year end)}}{2}$$

return on operational assets ▸ The return on operational assets describes the returns made by an individual segment on its allocated assets:

$$\frac{\text{Income from opertions of a segment}}{\text{Average operation assets*}} \times 100 \qquad \frac{\text{*(Start of year total + End of year total)}}{2}$$

return on sales ▸ The return on sales describes the returns we make from our operations as a percentage of sales:

$$\frac{\text{Income from operations}}{\text{Sales}} \times 100$$

special items ▸ One-off charges or one-off income that have a significant effect on the earnings of a segment or the entire BASF Group. Special items include payments arising from restructuring measures or severance payments.

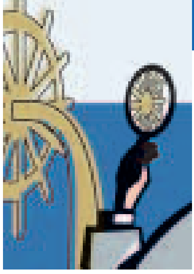
steam cracker ▸ A large plant in which steam is used to "crack" naphtha (petroleum). The resulting petrochemicals – above all, ethylene and propylene – are the starting materials used to manufacture most of BASF's products.

Styrenics ▸ This operating division produces and distributes styrene and styrenics worldwide. The production of the primary product styrene is primarily for captive use (backward integration). Styrenics are used in many fields, including the construction, packaging, automotive, electric and leisure industries.

Verbund ▸ The Verbund is one of BASF's greatest strengths: At our major sites, we link our production plants in a sophisticated system along our value-adding chains: Even by-products or waste from one plant can often be used as raw materials in a neighboring plant. We thus save energy and raw materials, reduce logistics costs and use infrastructure facilities jointly.

value-adding chain ▸ Successive steps in a production process, from the raw materials through various intermediate steps to the finished product.

world-scale plants ▸ Large production plants in which products can be manufactured on a world scale. The more a plant produces, the lower the fixed costs per metric ton of product (see also: economies of scale). BASF is therefore committed to cost-effective large-scale plants of this kind in all major economic regions.



Ten-Year summary

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

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

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

Sales and earnings Million €	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Sales	20,742	22,330	23,637	24,939	28,520	27,643	29,473	35,946	32,500	32,216
Income from operations (EBIT)	528	1,099	2,057	2,195	2,731	2,624	2,009	3,070	1,217	2,641
Income from ordinary activities	541	1,079	2,111	2,257	2,726	2,771	2,606	2,827	609	2,641
Extraordinary income	–	–	–	–	–	–	–	–	6,121	–
Income before taxes and minority interests	541	1,079	2,111	2,257	2,726	2,771	2,606	2,827	6,730	2,641
Income before minority interests	389	598	1,239	1,452	1,639	1,664	1,245	1,282	5,826	1,599
Net income	439	656	1,263	1,427	1,654	1,699	1,237	1,240	5,858	1,504
Capital expenditures and depreciation										
Additions to fixed assets	2,261	1,674	2,742	3,510	2,964	4,131	3,800	8,637	4,053	3,289
Thereof tangible assets	2,116	1,384	1,546	1,861	2,229	2,899	2,764	3,631	3,037	2,677
Depreciation of fixed assets	1,709	2,239	1,885	1,874	2,048	2,280	2,681	2,921	2,945	2,501
Thereof tangible assets	1,623	2,059	1,707	1,606	1,732	1,843	2,018	2,245	2,307	2,012
Number of employees										
At year-end	112,020	106,266	106,565	105,589	104,979	105,945	104,628	103,273	92,545	89,389
Annual average	117,368	107,716	107,320	108,266	105,885	106,928	107,163	105,784	94,744	90,899
Personnel costs	5,507	5,313	5,531	5,637	5,790	6,010	6,180	6,596	6,028	5,975
Key data										
Earnings per share (€)	0.76	1.10	2.07	2.32	2.67	2.73	2.00	2.02	9.72[1]	2.60
Earnings per share in accordance with U.S. GAAP (€)						2.84	2.14	2.37	9.45	2.96
Cash provided by operating activities	2,370	2,845	3,256	3,476	3,291	3,744	3,255	2,992	2,319	2,313
Return on sales[2]	2.5	4.9	8.7	8.8	9.6	9.5	6.8	8.5	3.7	8.2
Return on assets[3]	3.9	6.5	11.2	11.4	12.6	11.9	10.2	9.9	3.1	8.4
Return on equity after taxes (%)	5.2	7.6	14.3	14.8	14.6	13.2	9.1	9.0	36.6[1]	9.3
Appropriation of profit										
Net income of BASF AG	342	465	692	870	943	1,074	1,007	1,265	5,904	1,045
Transfer to retained earnings	102	153	256	332	307	381	304	50	5,153	247
Dividend	239	312	437	537	636	693	695	1,214	758	798[4]
Dividend per share (€)	0.41	0.51	0.72	0.87	1.02	1.12	1.13	1.30	1.30	1.40
								+0.70[5]		
Number of shares as of Dec. 31, 2002 (in thousands)	584,502	609,766	609,766	618,052	622,063	623,794	620,985	607,399	583,401	570,316

[1] Including extraordinary income
[2] Income from operations as a percentage of sales
[3] Income from ordinary activities plus interest expenses as a percentage of average assets
[4] With regard to the number of qualifiying shares as of December 31, 2002
[5] Special dividend of stockholders' equity charged with 45% corporation tax

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Key data BASF Group 2002

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

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

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

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

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BASF Group key data

2002

Forward-looking statements

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

Yes,

please send me further information.

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Financial Report 2002

Important dates

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

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