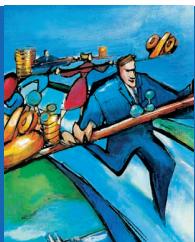


**Annual Report 2001**



Adding value through  
growth and innovation

**BASF**

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



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

This report went to press on February 27, 2002 and was published on March 14, 2002.

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

## BASF Group

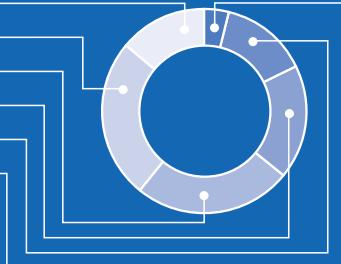
### Overview of key financial data

Million €	2001	2000	Change in %
Sales	32,500	35,946	-9.6
Income from operations before special items	2,293	3,400	-32.6
Income from operations (EBIT)	1,217	3,070	-60.4
Special items	(1,076)	(330)	
Extraordinary income	6,121	—	
EBITDA	4,142	5,986	-30.8
Income before taxes and minority interests	6,730	2,827	138.1
Net income	5,858	1,240	372.4
Earnings per share (€)	9.72	2.02	381.2
Earnings per share in accordance with U.S. GAAP (€)	9.45	2.37	298.7
Dividend per share (€)	1.30	1.30	
			+0.70*
Research and development expenses	1,247	1,526	-18.3
Number of employees (as of December 31, 2001)	92,545	103,273	-10.4

\* Special dividend of stockholders' equity charged with 45% corporation tax

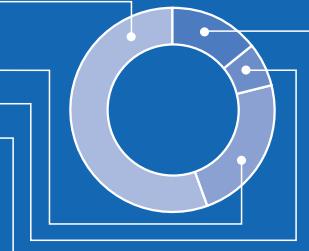
### Sales by segment Million €

Chemicals	4,494	13.8%
Plastics & Fibers	8,185	25.2%
Performance Products	8,154	24.1%
Agricultural Products & Nutrition	5,826	17.9%
Oil & Gas	4,516	13.9%
Other	1,325	4.1%



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

Europe	17,984	55.3%
thereof Germany	7,212	22.2%
North America (NAFTA)	7,654	23.6%
South America	2,188	6.7%
Asia, Pacific Area, Africa	4,674	14.4%





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

In the Chemicals segment, we primarily manufacture organic and inorganic basic chemicals and intermediates. In doing so, we make optimal use of 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 one of the leading manufacturers 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.



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

In the Performance Products segment, we produce and market high-value chemicals and specialties. 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 products and applications in close cooperation with our customers and on our ability to ensure just-in-time delivery through a network of regional sites.



### **Agricultural Products & Nutrition – active portfolio management strengthens our business**

We have created a high-yielding, cyclically resilient product portfolio in our Agricultural Products & Nutrition segment through active portfolio management. Our position is strengthened by 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**

BASF is active in the oil and gas business through its subsidiary Wintershall. 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 created as a result of liberalization of European gas markets. This segment also serves as a counterbalance to the effect of high raw material costs on our chemicals operations.

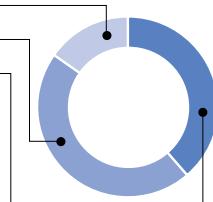
## Segments

**Key data**  
Million €

	2001	2000	Change in %
Sales	4,494	4,504	-0.2
Income from operations			
before special items	425	645	-34.1
Income from operations	362	640	-43.4

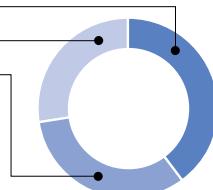
**Sales by division**  
Million €

Inorganics	677	15.1%
Petrochemicals	2,079	46.3%
Intermediates	1,738	38.6%



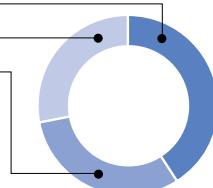
	2001	2000	Change in %
Sales	8,185	11,030	-25.8
Income from operations			
before special items	180	801	-77.5
Income from operations	(2)	902	-100.2

Styrenics	3,267	39.9%
Performance Polymers	2,241	27.4%
Polyurethanes	2,677	32.7%



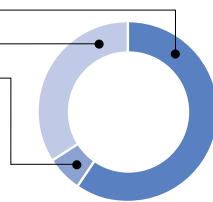
	2001	2000	Change in %
Sales	8,154	8,418	-3.1
Income from operations			
before special items	397	618	-35.8
Income from operations	99	586	-83.1

Performance Chemicals	3,345	41.0%
Coatings	2,287	28.1%
Functional Polymers	2,522	30.9%



	2001	2000	Change in %
Sales	5,826	6,693	-13.0
Income from operations			
before special items	274	248	10.5
Income from operations	(162)	(205)	

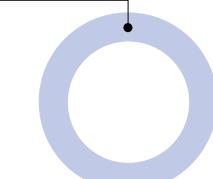
Agricultural Products	3,478	59.7%
Fine Chemicals	1,984	34.1%
Pharmaceuticals (until March 2001)	364	6.2%



	2001	2000	Change in %
Sales	4,516	3,957	14.1
Income from operations			
before special items	1,308	1,266	3.3
Income from operations	1,308	1,310	-0.2

Oil & Gas                          4,516 100.0%

The Oil & Gas segment is not subdivided into operating 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, coatings systems, dispersions, agricultural products, fine chemicals as well as crude oil and natural gas. Our distinctive approach to integration, known in German as "Verbund," is our strength. It enables us to achieve cost leadership and gives us a decisive competitive advantage in the long term. We act in accordance with the principles of Sustainable Development.**



## Milestones 2001

**January** BASF starts up a new plant for superabsorbents in Rayong, Thailand. The plant has an annual capacity of 20,000 metric tons and will be used to supply Asian markets from regional production.

► The Oil & Gas segment commences production in a new natural gas field in the Dutch North Sea, increasing its gas production in this region by 59 percent.

**February** BASF-YPG Co., a 50-50 joint venture between BASF and China Petroleum & Chemical Corp. (SINOPEC), awards a contract to the U.S. Shaw Group Inc. for the construction of a steam cracker with an annual capacity of 600,000 metric tons of ethylene at the future Verbund site in Nanjing, China.

**March** The sale of BASF's pharmaceuticals business to

Abbott Laboratories Inc., Illinois, is completed following approval by the regulatory authorities.

► BASF starts to extend production capacity for vitamin E in Ludwigshafen, Germany, to 20,000 metric tons per year – double the previous amount. This measure is part of a capital expenditures program with which BASF is strengthening its position as one of the world's largest manufacturers of vitamins.

**April** The new company BASF IT Services B.V. is launched. As IT service provider for BASF, the company operates Europe-wide and provides everything from EDP support to comprehensive system solutions – also for third parties. It is thus possible to provide services more efficiently.

► A new company – BASF Future Business GmbH – is

founded with the goal of developing new business areas in high-growth markets for BASF together with internal and external partners.

**May** BASF puts a new plant into operation in Shanghai, China. The plant, which has a capacity of 40,000 metric tons per year, uses a technology developed by BASF for the production of environmentally friendly polymer dispersions. Among other things, these dispersions are used to manufacture adhesives and in the textile and construction industries.

**June** In view of high raw material prices and a weak economy, BASF announces an extensive program of restructuring to improve its long-term competitiveness. Among other things, the program involves closing unprofitable plants and



**For BASF, 2001 was a difficult year. Nevertheless, we overcame many challenges:**

**Despite a weak global economy and high raw material costs, income from operations before special items was in the black in all segments. In 2001, we set the course for the future with an extensive restructuring program and portfolio measures such as the sale of our pharmaceuticals business. Over the course of the year, BASF's shares outperformed the EURO STOXX<sup>SM</sup> 50 and DAX 30 share indexes.**

sites, reducing capital expenditures and developing BASF's organization worldwide.

► BASF becomes one of the first companies in the world to establish a Sustainability Council. The task of this Council is to anchor the principle of Sustainable Development even more firmly in the company and develop strategies for its implementation.

► In Brazil, BASF positions itself in the oil and gas business for the first time. In the third round of public bidding it acquires and becomes the operator of three concessions to explore for oil and gas off the coast of Southern Brazil.

**July** BASF's new organization comes into effect. The company puts in place 38 regional and 10 global business units under the motto Fit for the Future. The aims of the new structure are to increase cus-

tomer focus, strengthen BASF's market presence and foster entrepreneurship within the company. The Fit for the Future program is expected to produce cost savings of around €400 million per year; about half this amount will stem from the closure of unprofitable sites and plants.

**August** BASF announces that it will build a new plant for the production of Basotect® foam at its site in Schwarzheide, Germany. The plant will have an annual capacity of 170,000 cubic meters and go into operation in February 2003.

**September** BASF and China Petroleum & Chemical Corp. (SINOPEC) celebrate ground breaking at their new Verbund site in Nanjing, China. BASF-YPC Co., a 50-50 joint venture between the two companies, will operate the site. BASF and

SINOPEC plan to invest a total of €3 billion. The plants are expected to begin commercial operations in 2005.

► A production plant for F 500™ – an innovative active ingredient for crop protection products – starts operations at BASF's site in Schwarzheide, Germany. With an investment volume of approximately €100 million, the plant is BASF's largest project in Schwarzheide to date. F 500 is expected to have a peak sales potential of more than €300 million per year.

**October** BASF PETRONAS Chemicals, a 60-40 joint venture between BASF and the Malaysian company PETRONAS, officially launches BASF's first Verbund site in Asia in Kuantan, Malaysia. Total capital expenditures for the projects currently planned are approximately €900 million. The an-

nual production capacity of all plants at the site will be in excess of one million metric tons.

► BASF is rated number one chemical company in the Dow Jones Sustainability World Index. The index was first introduced in 1999 in response to the increasing interest of investors in companies successfully managed in accordance with the principles of Sustainable Development.

**November** BASF presents Opera™ – the first fungicide containing the new crop protection agent F 500 – in Dresden, Germany.

**December** The world's largest liquids steam cracker starts commercial production in Port Arthur, Texas. The plant is a 60-40 joint venture between BASF and TotalFinaElf.



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

- We are extending high-yielding business areas.
- We are strengthening our long-term competitiveness.
- We generate value for our customers and for BASF.
- We invest in growing markets.
- We put great stock in the knowledge and skills of our employees.

**BASF is well-positioned for the next economic upturn.  
Our goal is to earn a premium above our cost of capital.**



## *Dear shareholders and friends of BASF,*

I am sure you feel the same way as I do: Memories of the past year are overshadowed by the horrific images of the terrorist attacks in New York. The events of September 11 have changed the world – politically, socially and economically – and their effects are far from over. As a result, 2001 does not fit into the usual pattern of annual reviews and it is even more difficult to make forecasts about future developments. One thing, however, is certain: 2001 was an exceptionally difficult year for the global economy, for the chemical industry and for BASF.

As you know, we set ourselves an ambitious goal in 1999: We aimed to increase income from operations before special items by an average of at least 10 percent in 2000 through 2002. In 2000, we clearly met this target and we also made a promising start to 2001; however, economic growth then slowed dramatically. In the second half of the year, the downturn became increasingly distinct and ultimately destroyed hopes for a rapid recovery in our business.

In the past year, we have not achieved our goal. Although sales from ongoing business – in other words adjusted to take account of businesses no longer in our portfolio – increased 3.2 percent to approximately €32 billion, income from operations before special items declined 32.6 percent to €2,293 million. Nevertheless, we accomplished a lot in a very difficult environment. BASF shares outperformed the DAX 30 and EURO STOXX<sup>SM</sup> 50 share indexes and our income from operations was clearly positive. We are therefore proposing to the Annual Meeting a dividend of €1.30 per share.

One reason why BASF did better than its competitors despite the downturn in the global economy is that about half of our sales stem from businesses that are cyclically resilient. We want to extend our strengths and ensure our long-term competitiveness. Please let me describe a few measures that explain how we plan to do this.

As early as last summer we started a far-reaching program of restructuring that also involves the closure of certain sites and plants. In many cases, we are transferring production capacities to our Verbund sites so that we can benefit from synergy effects. As you can see, BASF is adhering to its successful Verbund strategy and is using the current situation to strengthen its network of sites throughout the world to become even more productive.

Under the motto Fit for the Future we have increased BASF's flexibility and customer focus in recent months. In doing so, we want to foster a spirit of entrepreneurship among our employees by allowing them more room for creativity. In addition, the new organization will reduce our costs by about €400 million per year.

In the future, BASF will continue to seize the opportunities offered by the ongoing process of consolidation in the chemical industry. Thanks to our solid financial structure we are ideally positioned and will continue to develop our business areas through acquisitions, divestitures and partnerships. Our entry into the oil and gas business shows just how important this is. The strategic value of this move is now clear: In times of weak economic growth and high raw material costs, earnings from our Oil & Gas segment provide an important balance to our chemicals activities.

Active portfolio management is, however, only one of the ways in which we increase our cyclical resilience. Another approach we have is geographical diversification: We want a balanced share of growth in markets in Europe, North America and Asia. Our strong presence in our domestic market Europe and in the NAFTA region now forms a platform for long-term growth and increased value. In 2001, we passed three important milestones for our future business in Asia:

- We started operations at our first Verbund site in Asia in Kuantan, Malaysia.
- We broke the ground at another Asian Verbund site in Nanjing, China.
- We signed a contract for the construction of plants to manufacture the polyurethane precursors MDI and TDI at the Caojing site near Shanghai.

I anticipate that 2002 will be another difficult year for the chemical industry as a whole. BASF is prepared for this, and we are ready to benefit from the upturn when it comes.

In addition to economic challenges, we are faced with adverse political conditions. I find the European Union's strong tendency toward over-regulation in its current policies particularly counterproductive. Above all, this applies to the new chemicals legislation and plans for emission trading. Both of these moves create worrying uncertainty with regard to capital expenditures in the chemical industry, threaten the industry's capacity for innovation and endanger jobs. We will therefore continue to engage in emphatic dialogue with all those involved to seek solutions that are both practicable and viable.

You can see that BASF is confirmed as having a policy of responsible care from the fact that we lead the chemical industry in the Dow Jones Sustainability World Index. This index includes companies that successfully manage their businesses in accordance with the principles of Sustainable Development. I am proud of this ranking and see it as a confirmation that we have done our homework properly.

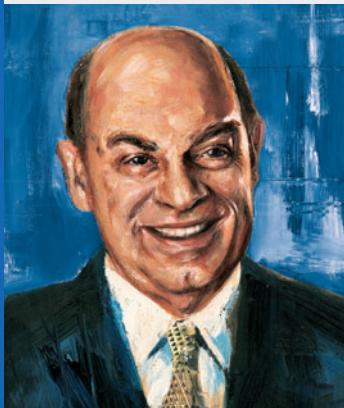
BASF has the innovative strength and the will to change that will enable it to meet future challenges. Our employees play a major role in this respect. They show their commitment in facing new situations and successfully use change to create opportunities for BASF. My fellow Executive Directors and I would like to express our sincere thanks and appreciation to them all. I would also like to thank our business partners for their valuable cooperation, which we plan to continue. And finally I would like to thank you, our shareholders, for placing your confidence in us. We, the company's management and employees, will continue to make every effort to ensure that BASF remains a valuable investment.

**DR. JÜRGEN F. STRUBE**

Chairman of the Board of Executive Directors

Our goal

# To add value through growth and innovation



**"We will overcome the current challenges through decisive and strategic action and by optimizing our structures."**

**DR. JÜRGEN F. STRUBE**, 62,  
Chairman since 1990.  
Lawyer, with BASF for 33 years.  
Responsible for Legal, Taxes & Insurance;  
Planning & Controlling; Executive Management and Development; Corporate Communications.



**"Our plastics are the materials of the 21st century. Together with our customers, we find economically attractive solutions in accordance with the principles of Sustainable Development."**

**DR. JOHN FELDMANN**, 52,  
chemist, with BASF for 14 years.  
Responsible for Styrenics;  
Performance Polymers;  
Polyurethanes; Polymer Research.



**"Customer orientation is our top priority – for both process and product innovations."**

**DR. STEFAN MARCINOWSKI**, 49,  
chemist, with BASF for 23 years.  
Research Executive Director and responsible for Functional Polymers; Performance Chemicals; South America; University Relations & Research Planning.



**"Our shareholders and our employees want to see good results – and so do we."**

**MAX DIETRICH KLEY, 62,**  
Deputy Chairman.  
Lawyer, with BASF for 33 years.  
Responsible for Finance; Oil & Gas;  
Raw Materials Purchasing; Eastern  
Europe, Africa, West Asia; Investor  
Relations; Corporate Audit.



**"We aim to become one of the leading chemical companies in the Asia Pacific region – the most dynamic growth economy in the world."**

**HELMUT BECKS, 57,**  
physicist, with BASF for 30 years.  
Responsible for Corporate Engineering;  
Asia.



**"The efficient linking of value-adding chains at our Verbund sites is one of the strengths that we are increasing."**

**DR. JÜRGEN HAMBRECHT, 55,**  
chemist, with BASF for 26 years.  
Responsible for Petrochemicals;  
Inorganics; Intermediates;  
Research & Engineering Chemicals;  
BASF Schwarzheide GmbH;  
BASF Antwerpen.



**"We will draw more heavily on the potential of the important chemical market in North America. In doing so, we will concentrate on profitable product lines with potential for extension."**

**KLAUS PETER LÖBBE, 55,**  
economist, with BASF for 36 years.  
Responsible for Coatings;  
North America (NAFTA).



**"With its promising pipeline of innovative active ingredients and global presence, BASF is on course for success in the agricultural products business."**

**PETER OAKLEY, 49,**  
economist, with BASF for 25 years.  
Responsible for Agricultural Products;  
Fine Chemicals; Specialty Chemicals  
Research; BASF Plant Science.



**"Using change as an opportunity means actively shaping our future in Europe to lastingly strengthen the Ludwigshafen site."**

**EGGERT VOSCHERAU, 58,**  
economist, with BASF for 33 years.  
Industrial Relations Director and responsible  
for Logistics & Information Services;  
Human Resources; Environment, Safety &  
Energy; BASF Aktiengesellschaft Works  
Engineering; Occupational Medicine &  
Health Protection; Europe.



## BASF shares

### BASF shares

# BASF outperforms DAX 30 and EURO STOXX<sup>SM</sup> 50

- ▶ **BASF shares outperform DAX 30 and EURO STOXX 50**
- ▶ **Dividend yield remains high at 3.1 percent**
- ▶ **€1.3 billion used to buy back shares**
- ▶ **BASF rated industry leader in the Dow Jones Sustainability World Index**
- ▶ **Further share programs for employees**

In a difficult stock market environment, BASF shares performed well in 2001. In the course of the year, BASF shares performed better than Germany's DAX 30 index and the Dow Jones EURO STOXX 50 share index. With a year-end price of €41.75, and allowing for the per share dividend payment of €2.00 for 2000, BASF shares lost 9.8 percent in value in 2001. By comparison, the DAX 30 index lost 19.8 percent and the EURO STOXX 50 index fell 19.1 percent.

### BASF shares: an international presence

BASF shares are traded on the major European stock exchanges in Frankfurt, London, Paris and Zurich. Since June 2000, BASF shares have also been traded on the New York Stock Exchange (NYSE) in the form of American Depository Receipts (ADRs). By listing our shares on the NYSE we have access to the world's largest capital market. As a result, we can broaden our investor base. As a blue chip chemical stock, BASF shares are included in important national and international stock market indices. Our shares are also included in Standard & Poor's Global 100 Index, which is comprised of 100 of the world's largest companies.

### Broad base of investors

BASF's entire share capital is listed on the stock market; approximately 90 percent is held in dispersed shareholdings. Our largest shareholder is the Allianz Group of insurance companies, headquartered in Munich, Germany. According to a 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 – whereas the remaining 28 percent are held by private investors. German shareholders hold 65 percent of BASF's share capital. BASF has more than half a million shareholders. This makes BASF one of the biggest publicly held companies with widely dispersed shareholdings.

	2001	2000
<b>Key BASF share data</b>		
Year-end share price (€)	41.75	48.17
High (€)	50.45	50.68
Low (€)	31.00	39.40
Price/profit ratio as of December 31	4.30	23.85
Price/cashflow ratio as of December 31	10.84	9.87
Number of shares as of December 31 (million shares)	583	607
Market capitalization as of December 31 (billion €)	24.36	29.26
Weighted number of shares (million shares)	603	613
Per share information in €:		
Earnings per share <sup>1</sup>	9.72	2.02
Earnings per share in accordance with U.S. GAAP <sup>1</sup>	9.45	2.37
Cash provided by operating activities <sup>1</sup>	3.85	4.88
Stockholders' equity as of December 31	30.05	23.55
Dividend	1.30	1.30 + 0.70 <sup>2</sup>
Dividend yield (%)	3.1	4.2
Securities code number	515 100	
Ticker symbol <sup>3</sup>	BAS	

<b>Key data for the BASF ADR<sup>4</sup></b>		
Year-end share price (\$)	37.91	44.44
High (\$)	46.73	44.44
Low (\$)	28.80	34.00
CUSIP	055262505	
Ticker symbol	BF	

<sup>1</sup> These data were calculated on the basis of the weighted number of shares.

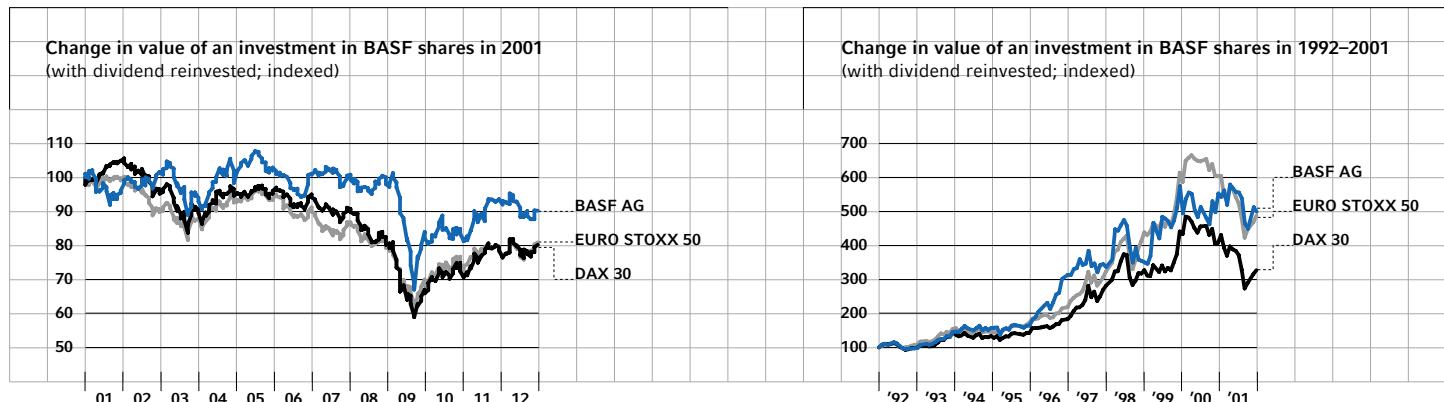
<sup>2</sup> Special dividend

<sup>3</sup> On German stock exchanges including XETRA

<sup>4</sup> American Depository Receipt; New York Stock Exchange



## BASF shares



### Industry leader in the Dow Jones Sustainability World Index

BASF is rated number one chemical company in the Dow Jones Sustainability World Index. This index consists of companies that conduct their business in accordance with the principles of Sustainable Development. The rating paid tribute to the fact that BASF has firmly anchored the idea of sustainability within the company and implements it using instruments such as its groundbreaking eco-efficiency analysis. You can find further information on Sustainable Development on page 48 ff.

### Dividend maintained at high level

On the basis of dividend yield, BASF shares occupy a leading position among DAX shares. In a difficult stock market environment, the dividend has a particularly high impact on share rating. The Board of Executive Directors is therefore proposing to the Annual Meeting to maintain the dividend for 2001 at €1.30 per share despite weaker business. A special dividend of €0.70 per share was paid in 2001, by which BASF paid in full stockholders' equity

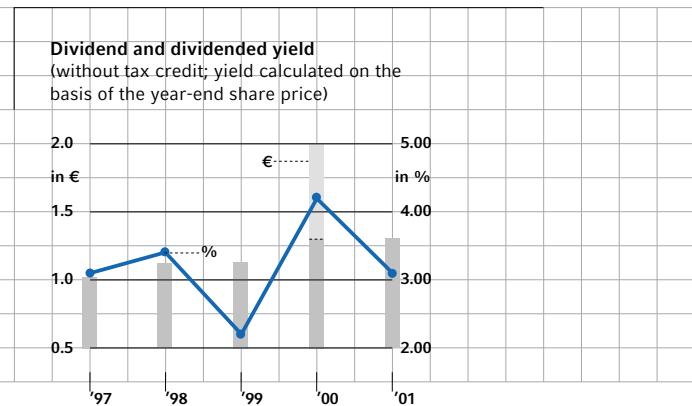
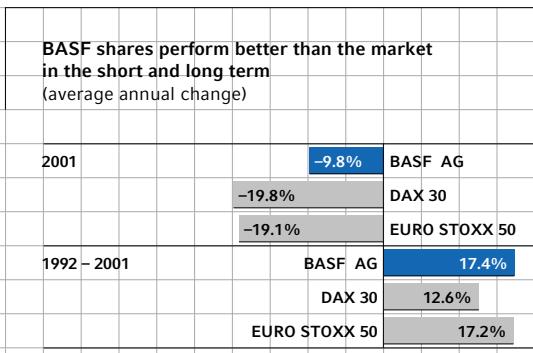
charged with 45 percent corporation tax to its shareholders. Based on the 2001 year-end share price of €41.75, BASF's dividend yield was 3.1 percent.

### Share buy-back programs continue

In 2001, BASF Aktiengesellschaft bought back shares for €1.3 billion. This share buy-back program was one of the largest ever in Germany. In the course of 2001, we bought back a total of 30,775,000 BASF shares at an average price of €42.22 per share. This corresponds to about 5 percent of BASF's share capital. The buy-back program is aimed at reducing our equity ratio, reducing our cost of capital and increasing earnings per share. BASF intends to buy back further shares in 2002. We will again propose to the Annual Meeting in April 2002 that shareholders authorize the Board of Executive Directors to buy back up to 10 percent of issued shares.

### Attractive share programs for employees

As a transnational company, BASF offers programs in many countries that encourage its employees to become shareholders and thus co-owners of BASF. Around 1,200 senior executives in the BASF Group are able to participate in a stock option program and invest part of their variable compensation in BASF shares. For each share purchased, BASF grants stock option rights that can be exercised if ambitious share price targets are achieved. In this way, we link



executives' salaries to the long-term performance of BASF shares. At BASF Aktiengesellschaft, the long-term "plus" program offers employees the attractive possibility of investing part of their annual bonus in BASF shares. BASF is continuously extending its share programs for employees (see also page 51).

#### Investor Relations

In difficult times on the stock market in particular, investors demand active communication from companies. BASF informs institutional investors about significant developments at the company in numerous individual and group discussions, at roadshows and investment conferences. In 2001, BASF also held its first two Investor Days to provide in-depth information on individual operating divisions.

We provide private investors with the same information that we offer to institutional investors: For example, we publish important presentations and speeches on the Internet. The analyst conferences we hold as part of our interim reporting are also transmitted live on the Web for investors. We want to increase BASF's transparency for investors by continuously improving our investor relations activities.

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





BASF's Strategy:

## Growth and innovation

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



## BASF's Strategy

**BASF's Strategy:**

# Growth and innovation

**Our goal is to increase and sustain its corporate value through growth and innovation. As the world's largest chemical company, we capitalize on the opportunities that are emerging from the restructuring process in the chemical industry. We base our activities on the principles of Sustainable Development and on our corporate guidelines – our Values and Principles.**

### **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, we operate a strategy of active portfolio management. This means that we discontinue business activities which are unlikely to show long-term profitability as part of the company's product portfolio and acquire innovative businesses with a high potential for growth. From 1992 to 2001, 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. 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**

Ensuring and extending our **cost leadership** are 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** acts as our greatest strength.

We derive **technology leadership** through process innovations from its global Research Verbund. We use the **technology platforms** in our research and development units to implement process and product innovations effectively.

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, extend it – either by building new plants at existing sites or by building new Verbund sites such as those in Nanjing, China, and Kuantan, Malaysia. In areas where customers place a high value on being served locally, we can gain a competitive advantage by operating regional sites for manufacturing customized products.

Our **competence in marketing and sales** and our access to **competitively priced raw materials, energy and precursors** are further important aspects of our strategy.

### **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.

We enter into **cooperative R&D 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.

### **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 market – 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 one of the most important chemical manufacturers 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.

We aim to become and remain one of the **top three suppliers** in all of the markets we serve. We already derive more than two-thirds of our sales from product groups in which we are one of the top three suppliers, and we aim to further increase this proportion.

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

**Committed and skilled employees** are a key to our success. We value the national and cultural diversity of our staff 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.

Last year, we established a new organization under the motto Fit for the Future. The new structure brings us closer to our customers, strengthens our market presence and fosters **a spirit of entrepreneurship within the company**.





## Chemicals

2001 saw the achievement of yet another milestone in the development of our network of Verbund sites: In Port Arthur, Texas, we started up the world's largest steam cracker. This plant supplies our sites in Geismar, Louisiana, and Freeport, Texas, with the important feedstocks ethylene and propylene. What makes the plant so special? The cracker is integrated in the adjacent refinery operated by our partner TotalFinaElf. The integration of raw materials, products and energy saves costs and ensures the cracker's competitiveness.



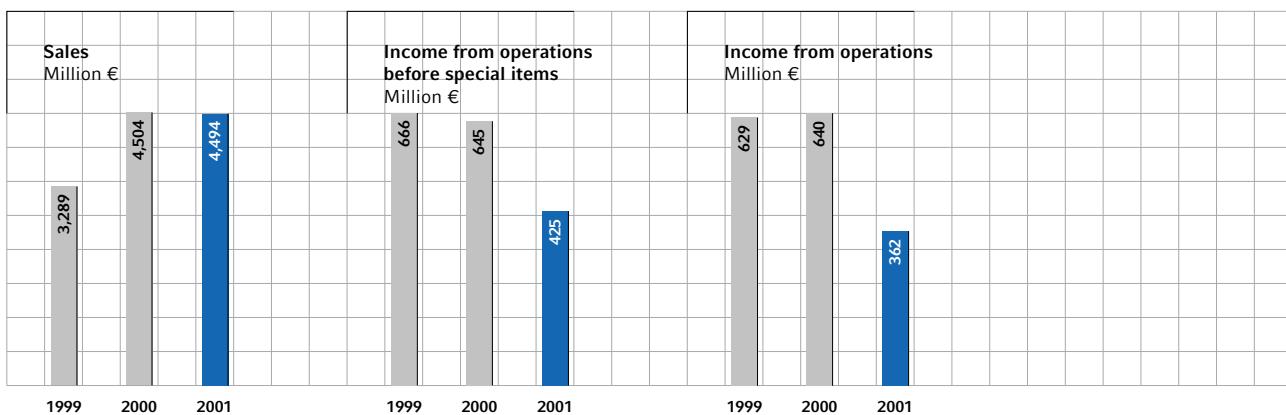
# Chemicals

- ▶ Sales reach previous year's level
- ▶ Earnings adversely affected by high raw material costs and downturn in the economy
- ▶ Positive trend in the Inorganics division
- ▶ Cracker in Port Arthur, Texas, and the integrated site in Kuantan, Malaysia, strengthen our Verbund
- ▶ New processes improve our cost position

Despite the severe economic downturn, sales in the Chemicals segment were maintained at the previous year's level. Earnings were adversely affected by high raw material costs in the first half of 2001 and the declining demand in our customer sectors as a result of the weak economy. Start-up costs for new production plants, particularly at the Verbund sites in Kuantan, Malaysia, and Port Arthur, Texas, also burdened earnings.

Chemists call them "the evergreens." Without them there would be no plastics, agricultural products, paints, electronic components, modern pharmaceuticals or cosmetics. We are talking about the 300 or so indispensable chemical building blocks that form the basis for all chemical production.

BASF manufactures around 200 of these evergreens. The Chemicals segment is the heart of our Verbund, i.e., the unique networking of the diverse product lines of BASF. The list starts with cracker products, such as ethylene and propylene, and basic inorganic chemicals, for example ammonia and nitric acid; these are used in our efficiently interlinked production plants to produce numerous increasingly com-



plex intermediates and end products. Plants, logistics and infrastructure are jointly exploited in the Verbund to create short transport routes, save raw materials and energy, and reduce costs and the impact on the environment.

At our Verbund sites we are able to operate world-scale plants particularly competitively: Thanks to the high level of captive use at such sites we can improve capacity utilization and achieve higher returns. In addition, we work constantly to improve our production methods and increase their efficiency. All this helps us to maintain or achieve cost leadership.

By establishing new Verbund sites in Asia, we can make the most of the opportunities offered by these strongly growing markets. In the NAFTA region we are selectively optimizing our Production Verbund with our steam cracker in Port Arthur, Texas, which started operations at the end of 2001.

### **Inorganics: Standard products and specialties for high-tech applications**

Have you heard of carbonyl iron powder? Whether as a copy-proof security feature in counterfeit-proof documents, in the manufacture of industrial diamonds or as a material for electronic components – by tailoring physical and electromagnetic properties to the varied needs of our customers, we turn carbonyl iron powder into an incredibly versatile substance used in many high-tech applications.

This product is just one example of our inorganic specialties for high-tech industries – another area in which we expect major growth potential.

Another of these products is hydroxylamine free base (HAFB), an essential substance used in microchip production. To help us keep pace with the rapid growth in this market, we last year increased the annual production of this chemical from 4,000 to 7,000

metric tons. We have centralized the marketing and sale of this and other electronic grade chemicals in the Inorganics division. This is an important step in becoming the preferred partner for high-purity products for the electronics industry.

But the Inorganics division's product range is far wider and includes important precursors for our production processes such as ammonia, sulfuric acid, nitric acid or chlorine. We primarily manufacture such standard products to meet our own needs. They form a part of numerous value-adding chains at BASF. Our strategic goal is to achieve, maintain and extend cost leadership – our highly efficient large-scale plants and the cost advantages of our Verbund make a large contribution toward achieving this objective.

Other key products in this division are glues and impregnating resins for the timber industry, which are used, for example, in laminated flooring.

Catalysts are among our strategically important products. These substances set chemical processes in motion, reduce the amount of energy required and increase yields. Since nine out of 10 BASF products come into contact with at least one catalyst during their production, the performance of our catalysts makes a crucial contribution to our high-yielding portfolio and ensures our competitiveness in the long term. Our researchers are working hard on developing new catalysts and constantly improving the existing ones.



## Chemicals

### Petrochemicals: New steam cracker strengthens the Verbund

Builders need wood, bricks and mortar for their buildings. Whether they are constructing a garage, a house, or a palace, the building materials remain the same. Similarly, chemists assemble a huge variety of end products from just a few basic chemical building blocks.

Building material producers are to builders what steam crackers in the Petrochemicals division are to BASF. These huge installations use steam to "crack" crude petroleum. The resulting petrochemicals – above all, ethylene and propylene – serve as the starting materials used in the manufacture of many of BASF's important products.

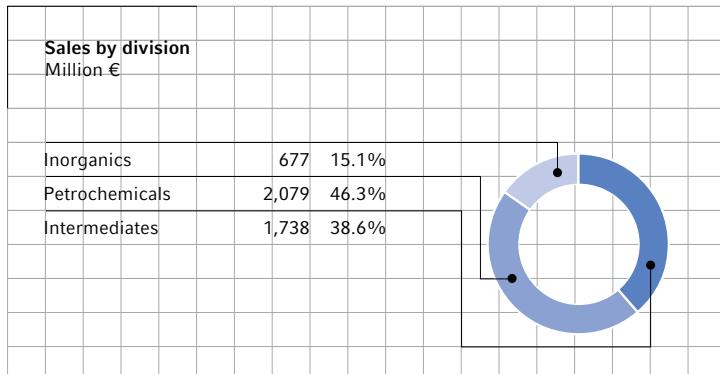
The Petrochemicals division is thus the heart of our Verbund. The key to success is safe and cost-effective production to supply internal customers.

So how do we achieve this? Because large plants generally operate more cost-effectively than small ones, we have concentrated on building world-scale plants that offer particularly cost-effective produc-

tion. An essential precondition is to achieve critical mass, i.e., large, integrated sites where cracker products, for example, can be further processed. In order to build the largest possible plants and operate them at maximum capacity utilization, we also enter into joint ventures. In this way, we can make use of ever advancing technical developments that permit ever larger plants. One example of how we put this principle into practice is our joint venture with TotalFinaElf in Port Arthur, Texas. Here, we last year started up the world's largest liquid's steam cracker with an annual capacity of 900,000 metric tons of ethylene and 550,000 metric tons of propylene. What makes the plant so special? The cracker is integrated in the adjacent refinery operated by our partner TotalFinaElf. Together with other Verbund advantages, this provides annual synergy effects totaling more than €50 million.

We are consistently expanding our Verbund in the Asian growth markets: Last year we broke the ground at a new Verbund site with a steam cracker in Nanjing, China, which we are building together with our partner SINOPEC.

As well as constructing new plants, we are constantly optimizing our existing ones, making them more efficient and cost effective. One example is the plasticizer phthalic anhydride (PA), the production of which involves a catalyst. By improving this catalyst we have been able to keep increasing our yield of PA. We have also improved our competitiveness by restructuring our production worldwide and closing unprofitable plants. BASF now accounts for 11 percent of PA capacities worldwide and is global market leader with the latest technology and the lowest costs.



## **Intermediates: Keeping ahead of the competition with innovative processes**

Numerous production steps are needed to turn chemical building blocks into finished products such as plastics, resins, textile fibers, detergents, pharmaceuticals and agricultural products: Intermediates such as diols, carboxylic acids and amines are used to produce increasingly complex products.

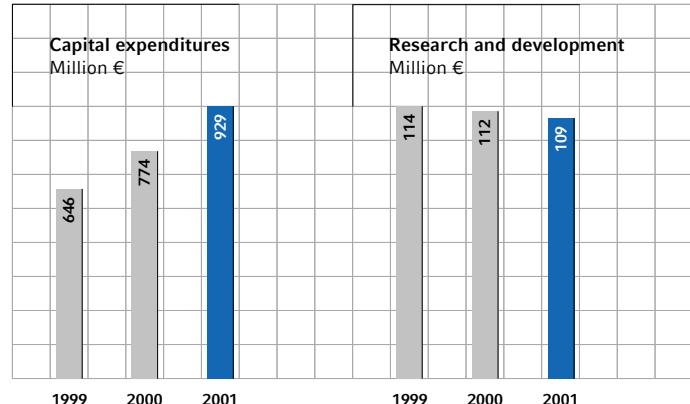
BASF manufactures around 550 of these intermediates, but only requires a third of the output for its own needs. We sell the lion's share to external customers, thereby creating the basis for their added value.

We strive to achieve cost leadership through new manufacturing processes. Last year, for example, we started up a new plant for the manufacture of trimethylolpropane (TMP<sup>hydro</sup>), a precursor used in the production of plastics and coatings. The process developed by BASF yields high purity TMP without – as is otherwise usually the case – the formation of salts as a waste product.

Thanks to our innovation and process expertise, we have extended our portfolio with a new class of products – chiral intermediates – which we market under the name ChiPros™. Many chemical substances, particularly biologically active ones for pharmaceuticals or agricultural products, occur in two forms that are mirror images of each other, as

the right hand is of the left. Traditional chemical syntheses yield both forms, of which only one often has the desired effect. Researchers at BASF have discovered how to produce only the desired active form in a particularly efficient and cost-effective way – our ChiPros™. These substances help reduce the quantities of active ingredient needed and conserve resources.

We are continually enhancing our market position through active portfolio management, for example through the acquisition of the operations of the Italian SISAS group at its site in Feluy, Belgium. As well as strengthening our position in the market for the established intermediate butanediol, we have also acquired capacities for manufacturing maleic anhydride (MA) that usefully complement our product range. MA is used predominantly in the manufacture of plastics. This makes it possible for us to offer our customers yet another attractive synthesis building block.







## Plastics

It's jet black with an unmistakable X shape: Even the design of Microsoft's new Xbox™ hints at the technical capabilities of this new video game system. Its housing is made from Terluran®, a plastic from BASF. Together with Microsoft, a team of BASF experts from Asia, Europe and the United States developed and tailored the housing. Such cooperative ventures in product development are one of our strengths: Global teams can advise international customers around the world, wherever our customers operate. And when it comes to manufacturing, we can supply them with the same plastics in constant quality from local production almost anywhere in the world. BASF is one of the few companies capable of offering such a complete service.



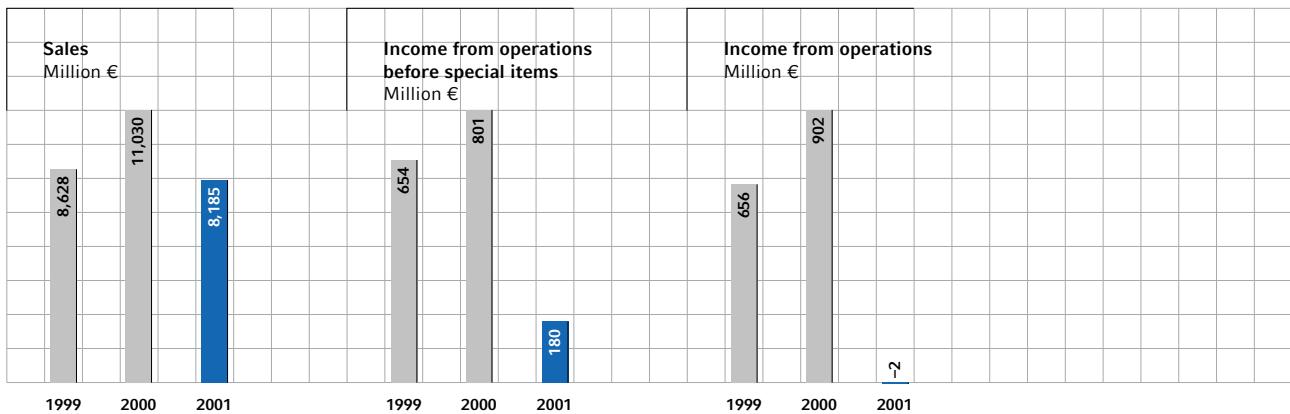
# Plastics & Fibers

- ▶ Weak demand from important customer sectors leads to a 26 percent decline in sales
- ▶ Earnings unsatisfactory
- ▶ Innovative specialty products like Ecoflex® open up new markets for BASF
- ▶ Restructuring program rigorously pursued
- ▶ For 2002 we anticipate sales of €500 million through e-commerce

Declining demand, low product prices, high raw material costs and special items arising from the start-up of new plants resulted in unsatisfactory earnings and, at the same time, much lower sales figures. Fibers and fiber intermediates, in particular, were negatively affected. In this difficult environment, our polyurethane business posted a satisfactory result. We are continuing our restructuring of the Plastics & Fibers segment.

Each year, 150 million metric tons of plastic are used across the globe. Fifty years ago the figure was just 3 million metric tons. Whether in cars, textiles or shoes, as packaging or insulation, in computers, television sets or children's toys: no other material can boast such a successful history. Plastics have many practical advantages over wood or metal and are generally much less expensive. In short: plastics are the materials of the 21st century.

BASF is one of the world's leading plastics manufacturers and has made its mark in this field with numerous groundbreaking innovations.



One of our greatest strengths lies in our ability to tailor the properties of our plastics to the needs of our customers. Particularly durable, particularly light, particularly flame-resistant – we can fulfill almost every wish. With Ecoflex®, our product range now includes a biodegradable plastic. We are continuing to develop such innovative specialties and thus achieve a leading position in the market.

In addition, we develop new applications together with our customers, thus opening up new markets. Examples include the hatchback of the A-class series, which we developed together with Mercedes and the Xbox from Microsoft mentioned above.

We are opening up new sales channels through e-commerce: Via [www.plasticsportal.de](http://www.plasticsportal.de) and Omnexus we offer customers the possibility of retrieving information or ordering products and services around the clock. In 2002, we expect global sales of around €500 million from these and other e-commerce solutions.

#### **Styrenics: Versatile, cost-effective, easy on the environment**

BASF's most doubtless famous product is a styrenic: Styropor®. BASF invented this expandable polystyrene (EPS) and we remain the world market leader to this day. Easy processing, low weight and an excellent price-performance ratio have made Styropor the most widely used foam insulating material in the construction industry. Over the years, the classic Styropor has been joined by other polystyrene-based foams from BASF such as Styrodur® and Neopor®; the latter possesses much better heat insulation properties than Styropor.

Our styrenics can be found in thousands of different finished products: in CD cases, packaging, computer housings, monitors and printers.

We are also building on the synergy effects offered by integrated sites and are extending our Verbund when it comes to polystyrene. Last year, for example, we acquired a styrene production plant in Korea which now supplies our Ulsan site with this precursor. In Ludwigshafen, Germany, we are replacing the existing plant with a modern facility for styrene/ethylbenzene. We have also extended our ethylbenzene plant in Antwerp, Belgium.

In Europe, we are continuing to restructure our commodities plants and expanding our production of specialties such as Styrolux® and Basotect®. As well as consolidating the strong market position we have built up in America in recent years, we also intend to achieve further growth by making the most of our positive start in Asia.

Another factor for success is our ability to innovate: For example, over half of current sales of our important product polystyrene are achieved through new applications and refinements developed during the last five years.

We are especially proud of Ecoflex. This plastic is completely biodegradable, making it ideal for garbage bags or disposable packaging. In soil or compost, Ecoflex is broken down within a few weeks, leaving no residues. BASF launched this plastic in 1998. Today, we are already the world market leader in synthetic biodegradable materials thanks to Ecoflex's outstanding properties.



We are constantly optimizing our portfolio and forming strategic alliances in order to drive the innovative process forward. For example, we are working with strong commercial partners to develop a paintless film molding system. This involves a refined technology that provides new impulses in the area of car body painting. During production of the components, plastic is injection-molded onto the back of the colored film – this produces significant savings for our customers and opens up new attractive markets for BASF.

#### Performance Polymers: When engineers dream ...

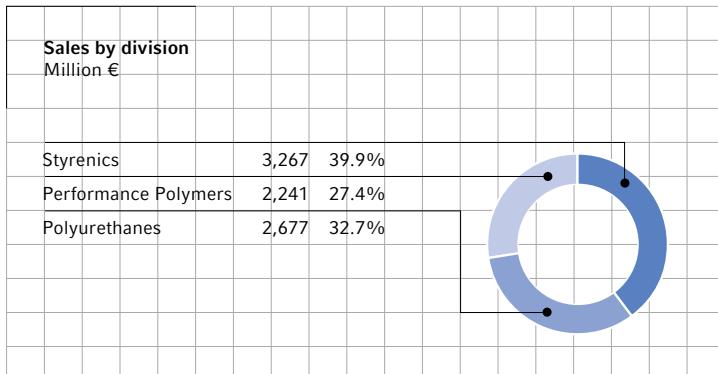
... they long for materials that are as strong and tough as possible. They should be flexible and elastic, as light as possible, keep their shape when exposed to extremes of temperature, show minimal wear under constant load, resist wind and weather and remain unaffected by oil, petroleum and acids. They should also be economical and easy to process into almost any desired component.

Our construction materials can make dreams like these come true. High-performance materials are increasingly replacing other materials manufactured by energy-intensive methods. Take the example of automobile production: Engine inlet manifolds used to be made of metal. Thirty years ago Porsche was the first automobile company to use a lighter, more cost-effective material for these engine parts: Ultramid®, a type of nylon from BASF. Today, annual worldwide production totals 18 million nylon inlet manifolds, and the trend is rising. BASF has steadily refined this material over the years. The latest generation, known as Ultramid High Performance®, is up to 30 percent stronger than the type of nylon previously used, allowing components to be made even lighter.

Another innovation is our new Ultradur® B 4400 for electrical and electronic equipment: It is extremely flame-resistant and does not require halogen or antimony-based flame protectants.

Alongside construction materials, fibers are a further product group in the Performance Polymers division. BASF's fiber products are processed primarily into textiles and carpets. We are opening up new perspectives with innovations such as the SAVANT™ carpet fiber, which is extremely stain-resistant and hard-wearing.

Our Performance Polymers are represented in all important markets. In our home market Europe, we are steadily pursuing our restructuring strategy and thereby ensuring the profitability of our business. In North America, we intend to strengthen our market position, reduce costs and increase efficiency. In Asia, we aim to consolidate and extend our already strong position.



## Polyurethanes: Convenience, safety and more

During sports or recreational activities, at home or in the car, in furniture, steering wheels or mattresses, in headrests, shock absorbers, refrigerators, cable sheathing, shoe soles or wheels for inline skates: Polyurethanes make our lives more convenient, safer and more comfortable. With their versatile properties, these plastics add an extra dimension to our quality of life.

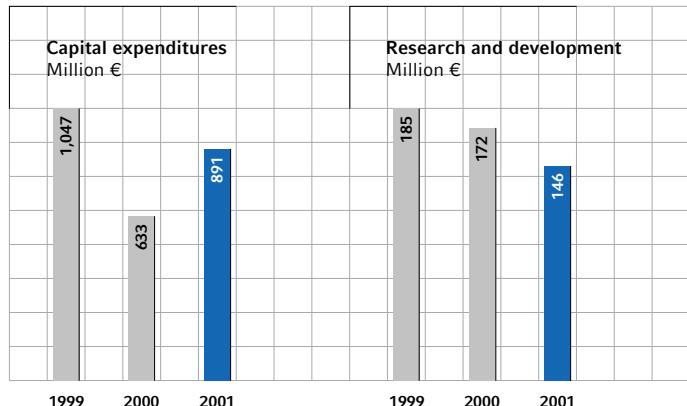
Polyurethane (PUR) essentially consists of two starting materials: isocyanate and polyol. These are supplemented with various additives such as catalysts, blowing agents and stabilizers. Depending on the formulation and mixing ratio, we can tailor the properties of the resulting polyurethane – hard or soft, foamed or compact – precisely to our customers' needs.

BASF is one of the largest manufacturers of polyurethanes in the world and offers its customers a comprehensive product range of basic polyurethane products and systems as well as special elastomers. Our polyurethane systems cover more than 3,500 formulations – most of which can be delivered in less than 48 hours.

The ability to rapidly develop solutions that meet our customers' requirements is one of our strengths. We achieve this through partnerships, extensive know-how and closeness to our customers.

This explains why we are expanding our business activities on a regional basis, focusing on the growth markets of Asia: Working with our partner Shell, we are constructing a backward-integrated SM/PO plant in Singapore to strengthen our position in the area of polyols. We are expanding our site in Yeosu, Korea, where we are creating efficient structures for other basic PUR products. In China, too, we are forming strategic alliances: In Caojing, we are planning to construct a site for the manufacture of precursors and basic products together with Chinese partners and the U.S. company Huntsman.

We are continually opening up new markets through innovative products and applications: One example is our new Cellasto system. Cellasto shock absorber springs give a car additional safety and comfort. We have now succeeded in introducing this principle as a vibration damping system in automobile body shops. It reduces vibrations between the bodywork and car floor.







## Performance Products

**Matching outfits:** Digital textile printing allows designers to design fabric on a computer exactly according to a customer's personal taste. The results are then simply printed on to the material using an ink-jet printer. This makes it possible for customers to have photos of their pets scanned electronically so that they can use the pattern to decorate their clothing. The process is a revolution in textile printing: Unusual clothes can be produced faster, more flexibly and more economically. This offers considerable advantages, particularly for small collections. BASF provides a key element of the ink-jet system with its specialty inks, which can be used to print a variety of textiles. The market for these inks is growing annually by almost 50 percent.



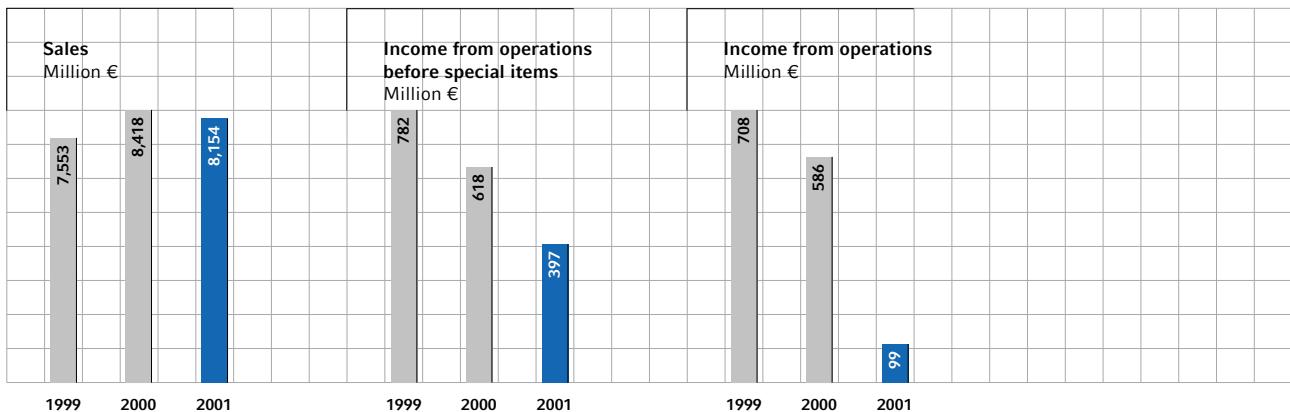
# Performance Products

- ▶ Level of sales not quite maintained
- ▶ Decline in earnings, in particular in North America and Europe
- ▶ Organization with stronger industry focus
- ▶ BASF is the world market leader in superabsorbents
- ▶ New products like Xfast™ and acResin® with a peak annual sales potential of several hundred million euros

Sales in the Performance Products segment remained just below last year's level despite the difficult business environment. The continuing poor economic situation in our important markets of North America and Europe and the associated weak demand resulted in a decline in income from operations before special items by 35.8 percent. Over the past year we have restructured the product portfolios in the segment's operating divisions and focused on the most important customer sectors.

Shirts, leather shoes or cars: Many useful and attractive everyday items would be almost unrecognizable without BASF's performance products. They determine the quality and properties of such items, and enhance their convenience and durability. Without our precursors, many detergents and cleansers would be lacking in cleaning power. And our pigments, colorants and coatings make life more colorful, attractive and, in many cases, safer, too.

We concentrate our activities on innovative areas and market segments with high added value. For example, we supply not only pigments and chemicals for the printing industry, but also integrated solu-



tions – ranging from pigments and inks to printing plates. We have therefore integrated all our activities for the printing industry in a single business unit.

Proximity to our customers and producing much of our output close to our markets means that we can ensure just-in-time delivery. We achieve this through a network of sites in the important growth regions. We also exploit modern production technologies to achieve and extend our cost leadership. In South America, for example, we commissioned the first production plant for butyl acrylate – an important starting material for dispersions – in 2001 to satisfy the growing demand in this region.

Our success is based on innovative developments that we pursue in close cooperation with our customers. We create value for our customers. BASF's products can help its customers to produce more quickly and more cost effectively. Our UV-crosslinkable acResin adhesive raw materials and our Xfast pigments are good examples of this strategy.

#### **Performance Chemicals: Creating added value for our customers**

They are the unseen helpers in the everyday world: Thanks to our performance chemicals, engines operate more economically, brakes function reliably in hot and cold conditions and car radiators neither freeze up nor rust through. Vehicles are easier to clean and their paint finish is durable. Clothes are easy to care for and comfortable to wear. We make magazines, cars and leather colorful and shoes waterproof.

Last year we restructured our business: The Performance Chemicals division resulted from the merger of the former Specialty Chemicals and Colorants divisions. The new structure creates synergy effects, reduces costs and makes us more competitive.

In all our business areas we do not just sell chemicals to our customers. Rather, we work closely with customers and support them with our know-how and application-related advice. Our objective is to offer our customers added value and to find solutions to their problems. One example in this respect is Xfast, our latest generation of pigments. Unlike traditional pigments, Xfast pigments no longer need laborious processing before they can be used. As a result, coloring water-based coatings is now almost as easy as making instant coffee. This saves our customers both time and money. We anticipate annual sales of up to €100 million.

For the leather industry, BASF has launched an innovative, environmentally sound tanning agent: Relugan® DLF. The advantage? Both the product and the resulting leather offer environmental advantages compared with many competitor products.

We are systematically expanding our business activities in growth areas and opening up new markets. Take an example from the printing industry: printing plates are increasingly engraved using computer-controlled lasers. Our newly developed digiflex® printing plates are ideal for this purpose. BASF is the only manufacturer in the world to produce both printing inks and printing plates for packaging. This enables us to optimally match the products to one another.

We are also expanding our activities in the area of detergents and cleaning agents. Our strength lies in surfactants that exert a strong washing action even at low temperatures, thereby helping to save energy. In 2002, we plan to start operations at a new production plant in Geismar, Louisiana. This will consolidate our position as a leading manufacturer of non-ionic surfactants.



## Performance Products

Since the Asia region is becoming increasingly important for our business, we plan to strengthen our position here, too. We have laid the foundations by setting up local production sites – for example, our subsidiary BASF Colorants and Chemicals Co. Ltd. in Shanghai, China – as well as service centers in the most important markets.

### **Coatings: BASF is well positioned internationally**

Be honest now: What would even the most beautiful car look like without the appropriate paint finish? Today's color options range from Volcano Red and Mangrove Green to Polar Silver, with additional highlights such as metallic, pearl or even flip-flop effects.

BASF is now one of the global market leaders in high-quality automotive OEM and refinish coatings and industrial coatings. In Brazil we are also the number one in decorative paints with our Suviniil® brand.

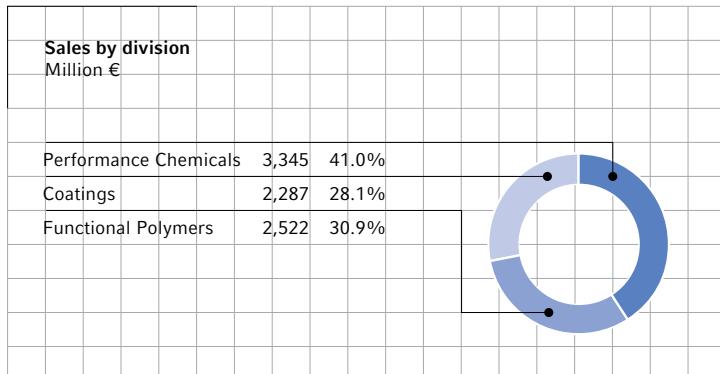
We develop, produce and market coating systems as well as the associated coating processes. We focus on the strengths of our core range and on customers and markets with a high potential for innovation. Eco-efficient powder, waterborne, high-solid and UV-cured coatings play a special role in this strategy.

In our research into innovative materials we are currently focusing on the development of UV-cured coatings: These coatings dry extremely quickly under ultraviolet light and crosslink to form a particularly scratch-resistant and durable finish. They are also much easier on the environment because they generally do not require the use of volatile solvents. Thanks to their many advantages, the market for UV-cured coatings is growing continuously. Over the past year we have therefore concentrated and substantially expanded our operations in this area at a single competence center for UV-cured coatings at our site in Münster, Germany.

We are working to strengthen our business through profitable organic growth and through targeted acquisitions and cooperative ventures. Our primary objective is to increase productivity. Among other things, we will upgrade our sites in Münster, Germany, and Guadalajara, Spain.

We have set up a joint venture with NOF Corp. of Japan, thereby combining the entire coatings businesses of both companies. As a result, BASF is the first major western manufacturer to produce and market coatings in Japan.

Our concept of system partnership, which we initiated four years ago with DaimlerChrysler in Rastatt, Germany, is increasingly meeting with a positive response from other automotive firms. Since then, we have taken on increasing levels of process responsibility at Volkswagen, Audi, Ford and Renault. Last year, in recognition of this commitment, we received the Corporate Supplier Award from Volkswagen and the Optima Award from Renault. Our services have likewise been recognized by a number of other important customers.



## Functional Polymers: Business expansion in Asia

Diapers, tile adhesives, labels and decorative paints all have something in common – they all contain polymers based on acrylic acid. Some of these polymers can absorb more than fifty times their own weight in liquid and are known as superabsorbents. Such substances therefore serve as an ideal component in diapers. In tile adhesives and on labels, functional polymers ensure optimal adhesion.

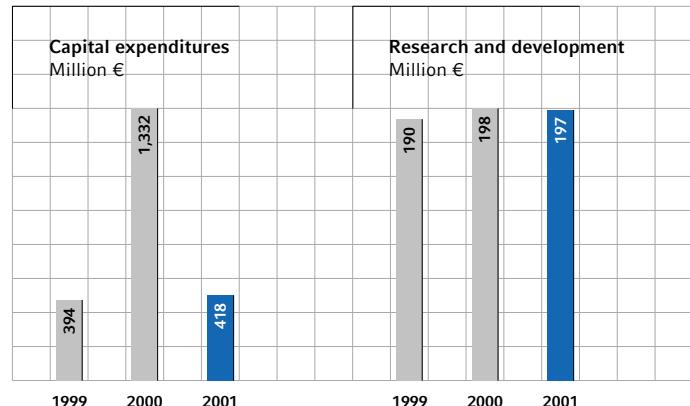
Polymers are produced by linking smaller chemical components – “monomers” like acrylic acid – to form long chains. By skillful selection of the monomer components and reaction conditions, we can obtain products with a wide variety of properties.

BASF is the world leader in the market for acrylic acid and superabsorbents and is one of the leading manufacturers of functional polymers for the adhesives, construction, carpet and paper industries. Our strategy for improving profitability involves global expansion of our business activities and consolidation of the acrylic acid value-adding chain on the basis of modern processes, low costs and innovation leadership. Building on our strong position in our home market Europe, we are now expanding our business in all regions, particularly in the growth region of Asia. After Kuantan, Malaysia, we last year broke the ground for our second Verbund site in this region in Nanjing, China. Among other products, acrylic acid and its derivatives will be manufactured

in Nanjing. In Guaratinguetá, Brazil, we put a butyl acrylate plant into operation, and thus took the first step toward supplying the important South American market with this important precursor for dispersions from a local production source.

In the superabsorbents market we are strengthening our position as the world leader with new plants in Rayong, Thailand, and Antwerp, Belgium.

We plan to ensure continued profitable growth through numerous innovations. Examples include our new binder concept Basonal® for customers in the paper industry and our innovative acResin products for the adhesives industry. Unlike traditional adhesive raw materials, our acResin products are free of solvents and do not require a drying step. Their adhesive strength can be adjusted using UV light. This means that the large drying units in our customers' production plants can be replaced by much shorter production lines with UV lamps.







## Agricultural Products & Nutrition

**Higher yields of better-quality crops:** This demand from our customers is met by our new fungicide, F 500™. The active ingredient is superior to existing products in terms of both efficacy and spectrum of action. F 500 reliably combats a variety of harmful fungi in important global crops such as cereals, vegetables, fruit and grapes. We expect that this crop protection agent will soon become a key product thanks to its broad spectrum. Brand names of products containing F 500 include Opera™, Cabrio™ and Comet™. We expect F 500 to provide peak sales of more than €300 million per year.

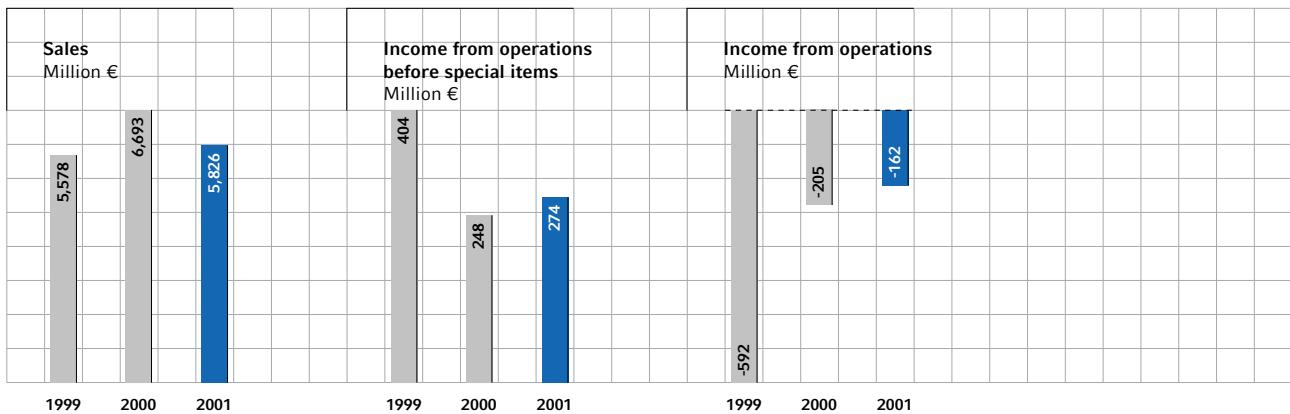


# Agricultural Products & Nutrition

- ▶ Sales up 31 percent (excluding Pharmaceuticals)
- ▶ Income before special items climbs more than 10 percent despite a difficult business climate
- ▶ Successful integration of AHP's crop protection business provides cost synergies of more than €125 million in the first year
- ▶ Stabilization and expansion in the Fine Chemicals division
- ▶ Special items relating to pre-1999 antitrust violations in the vitamins business

Our business with products for agricultural products and nutrition developed positively. The weak global economy, the financial crisis in South America and the uncertainty of many of customers as a result of the BSE crisis in Europe resulted in a difficult market environment. Nevertheless, we achieved stabilization in the Fine Chemicals division, and in the Agricultural Products division we remain well on course. Special items were incurred as a result of fines imposed by the European Commission relating to pre-1999 antitrust violations in the vitamins business. In recent years, BASF has significantly reinforced its measures to rule out future violations of antitrust laws.

With its agricultural products, active ingredients for pharmaceuticals, vitamins and amino acids, BASF plays a part in improving human health and nutrition. As shown by the positive development of our business in the past year despite a difficult market



environment, we have now achieved a high-yield, cyclically resilient product portfolio in our Agricultural Products & Nutrition segment through a strategy of active portfolio management.

For example, we sold our pharmaceuticals business to Abbott Laboratories Inc., Illinois, for \$6.9 billion in 2001 in order to concentrate on our strengths in fine chemicals and agricultural products. We have successfully managed the challenges arising from the integration of the crop protection business acquired from American Home Products Corp. (AHP). Already in the first year following the acquisition, we achieved cost savings of more than €125 million. With the acquisition of the vitamins business of Takeda Chemical Industries Ltd. we have increased our share of the world vitamin market to more than 25 percent.

Our continued business success with products for agriculture and nutrition depends on our ability to provide convincing, innovative products that benefit our customers and offer them added value. We build on our vast process expertise and on a well-filled research and development pipeline.

#### **Fine Chemicals: Among the top three in the market for all important products**

They protect the cells in our bodies and help us to grow, they control energy metabolism, make hair beautiful, and without them we become ill: We cannot live without vitamins. And because our bodies cannot synthesize these substances, we need a regular and sufficient supply through our diet. BASF is the second largest manufacturer of vitamins in the world.

As well as vitamins, the product portfolio in our Fine Chemicals division includes carotenoids, substances for the pharmaceuticals and cosmetics industries as well as animal feed additives. We are among the top-three suppliers in the market for our important products.

In 2001, we further strengthened our portfolio with the acquisition of the vitamins business of Takeda Chemical Industries Ltd., Japan. We have gained more than 25 percent of the world vitamins market and our vitamins portfolio is now complete – this successfully concludes the first phase of our vitamins strategy. In 2001, we started the second phase with a €600 million capital expenditures program: Among other things, we are building world-scale plants for vitamins E, B<sub>2</sub>, C and B<sub>6</sub> as well as calcium pantothenate. We aim to improve our position in the vitamins market by exploiting the cost advantages offered by such large plants, by increasing production efficiency – for example, by closing unprofitable plants and expanding competitive sites – and by utilizing innovative manufacturing processes.

We already started some projects in 2001: For example, we began to expand our capacities for vitamin E to 20,000 metric tons per year. In addition, we started constructing a plant in Gunsan, Korea, in which we plan to manufacture up to 3,000 metric tons of vitamin B<sub>2</sub> per year using an innovative biotech process.

Other successful businesses in 2001 included enzymes for animal nutrition, polymers for pharmaceuticals and cosmetics as well as caffeine, where we were able to further consolidate our leading market position. In the area of UV absorbers – used, for example, in sunscreens – we offer the complete range of UV-A and UV-B filters and lead the market.

Last year's BSE crisis in Europe resulted in a ban on bovine gelatin, an important material used in the production of our carotenoids. Thanks to our expertise and our ability to innovate, we were able to switch our production process to other materials in only a few weeks.

In the area of pharmaceutical active ingredients we have further extended our leading market position for the products ibuprofen and pseudoephedrine. We have sold our business with acetaminophen (paracetamol).



## Agricultural Products & Nutrition

We are entering the growth market of contract manufacturing – the exclusive production of intermediates and active ingredients for the pharmaceutical and crop protection industries. To this end, we are using our know-how in developing chemical and biotechnological processes and in manufacturing for the pharmaceutical industry. We enable our customers to extend the lifecycles of their products thanks to our expertise in the formulation of active ingredients.

In 2002 we expect a further improvement in our business.

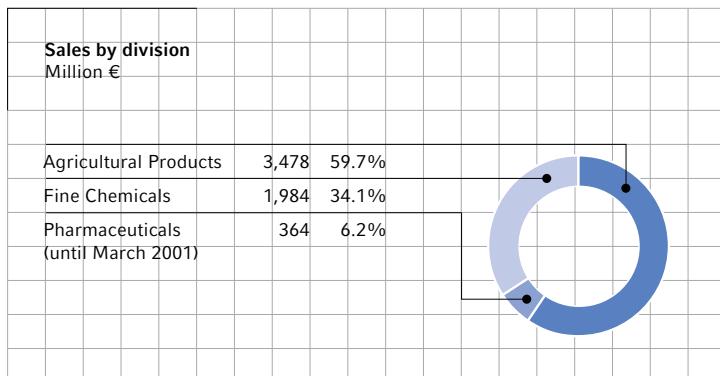
### Agricultural Products: More efficient and more powerful

There are now six billion people on this planet; by 2020, the world population will have climbed to over eight billion. To provide all of these people with sufficient food and a balanced diet will be one of the major challenges of the 21st century. In addition to improved cultivation methods and superior crop varieties, modern crop protection products will play a key role in overcoming this challenge: They combat fungal diseases, keep pests and weeds at bay and thus help increase crop yields.

We provide our customers in the agricultural industry with a broad range of powerful herbicides, fungicides and insecticides for all important crops.

The acquisition of the crop protection business of American Home Products in 2000 made BASF one of the world's largest manufacturers of crop protection products. We very quickly succeeded in presenting one face to our customers and thus achieved a good starting position in the first season in which we worked together as one team. In 2001, we successfully continued the integration of this business. We expect that from 2002 onward, we will achieve cost advantages of at least €250 million per year as a result of the acquisition. For example, we will concentrate our research and development activities at our sites in Ludwigshafen and Limburgerhof, Germany, and in Research Triangle Park, North Carolina. The closure of our research center in Princeton, New Jersey in 2002 will significantly reduce costs. We will exploit other means of increasing efficiency in our global production network and in our supply chain management. We are continuing to improve our product portfolio to ensure that we can offer our customers a high-quality range of both well-known and innovative products and solutions in the future. At the same time, we are streamlining our business operations.

BASF has one of the most promising product pipelines in the crop protection industry. And we now have much more power when it comes to launching our new products on the market. Between 2001 and 2006 we want to introduce 14 new active ingredients. In addition, we plan to extend our CLEARFIELD® Production System – which combines a certain class of BASF herbicides with specially developed seeds – to new crops. We estimate the peak sales potential from these projects to be approximately €2 billion per year.



In 2001, we launched two new active ingredients on to the market: fenoxanil for use in rice and dimethenamid-P, which is predominantly used in corn. Dimethenamid-P is the active form of a chiral compound (see page 21). The advantage for farmers and the environment is that only about half the usual amount of active ingredient needs to be applied.

We also expect major growth opportunities for our new fungicide F 500<sup>TM</sup>, which we anticipate to have to have a peak sales potential of more than €300 million per year (see page 35).

### **Plant biotechnology – an area with enormous potential**

Through BASF Plant Science, BASF has succeeded in quickly entering the field of plant biotechnology, one of the key technologies of the 21st century. BASF Plant Science manages an international research and technology network in Europe and North America. We gain access to cutting-edge technology through innovative forms of cooperation such as research agreements, joint ventures with leading scientists and by acquiring technologies and biotech companies. In 2001, we acquired the U.S. company ExSeed Genetics LLC and successfully integrated it in our research platform. The breeding cooperative BASF AgGenetics LLC that we founded in 2001 will provide us with access to corn – a key crop in North America – and complements the existing cooperation with our Swedish seed-breeding partner Svalöf Weibull.

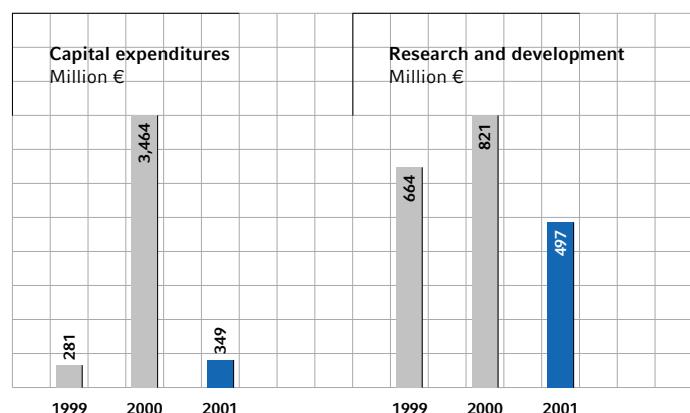
Our research concentrates on the areas of more efficient agriculture, healthier nutrition and plants as “green factories.” For example, we intend to develop plants with better resistance to cold or drought. Another focus of research are plants with a higher level of vitamins or with omega-3 fatty acids to prevent cardiovascular disease.

Over the next 10 years, BASF wants to invest €700 million in research and development in this area. Our goal is to become one of the world's leading companies in the field of plant biotechnology by 2010.

### **Antitrust fines relating to the vitamins business**

In November 2001, the European Commission imposed fines on eight vitamins manufacturers relating to violations of antitrust laws; BASF was fined €296 million. BASF has admitted responsibility for the antitrust violations and contributed to the clarification of the case by fully cooperating with the European Commission. In view of this, we consider the level of the fine to be inappropriately high. BASF has therefore lodged an appeal against the fine with the responsible European Court of First Instance in Luxembourg.

We regret these violations. It is one of BASF's Principles that it strictly observes the laws of the countries in which it operates; violations are not tolerated. In spring 1999, we introduced a new management team for our global vitamins business and started afresh. We have established strict countermeasures to rule out violation of antitrust laws in future. These measures include binding compliance programs that oblige employees to act comply with the law and anti-cartel audits by the Corporate Audit department (see page 57).







## **Oil & Gas**

Our oil and gas business helps provide shelter from a difficult global economic climate. When high crude oil prices put margins in the chemical industry under pressure – as was the case in 2001 – they increase earnings in BASF's Oil & Gas segment. This is one of BASF's strategic advantages. We intend to strengthen this position in the coming years: We want to increase oil and gas production considerably in the long term and further expand our gas trading activities.



# Oil & Gas

- ▶ Substantial increase in sales
- ▶ Earnings maintained at last year's high level
- ▶ Oil and gas production climbs 13 percent
- ▶ Earnings growth in natural gas trading
- ▶ Important milestones reached in developing new oil and gas deposits

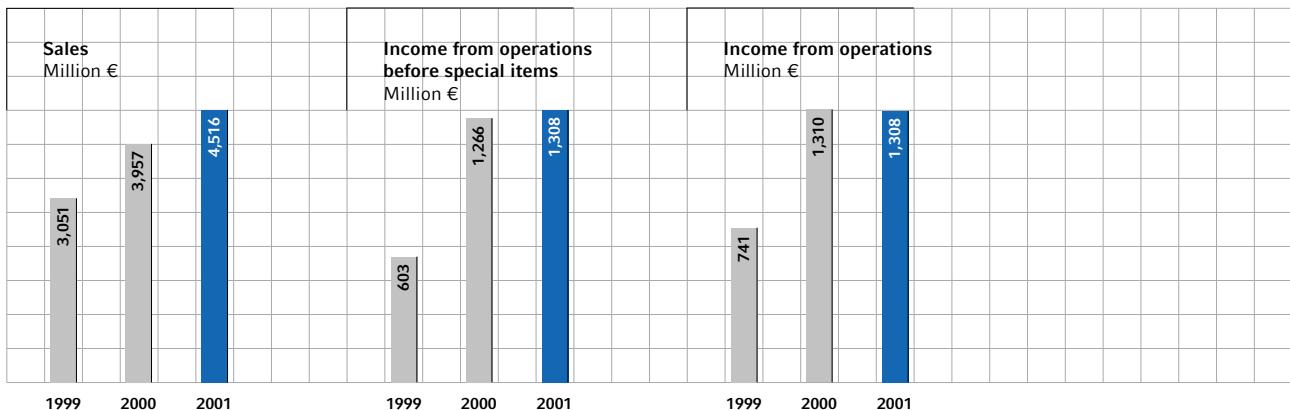
**With income from operations before special items of €1,308 million in 2001, the Oil & Gas segment reached the same high level as in 2000. This was primarily achieved through increased production. As a result, we were able to compensate to a large extent for the effect of oil prices which fell compared with 2000, but which were still high compared with the annual average in 1999.**

BASF's crude oil and natural gas business again proved its worth as stabilizing element for the company in a difficult economic climate. Our oil and gas business is conducted through Wintershall AG, a wholly owned subsidiary. Wintershall concentrates on the exploration and production of oil and gas and on natural gas trading.

We expect that crude oil prices will continue to decline. In 2002, we anticipate an average crude oil price of \$17 per barrel. This is due to a decrease in demand for crude oil as a result of the weak global economy and an increase in oil production in non-OPEC countries.

## Exploration and production of crude oil and natural gas: We continue to increase production

From the deserts of North Africa to the coast of Tierra del Fuego and the depths of the North Sea – the search for oil and gas takes us to the most diverse regions on earth. Our operations focus on Western Europe, North Africa and South America. We deliberately concentrate our exploration and production activities on areas rich in oil and gas. Here, we can achieve competitive advantages thanks to our many



years of experience and long-standing presence. Russia and the Caspian Sea are areas that we are currently focusing on.

In 2001, exploration and production activities made the greatest contribution to earnings in our Oil & Gas segment. Our total oil and gas production in 2001 amounted to 12.3 million metric tons of oil equivalent, 13 percent higher than in 2000. We plan a further significant increase in production in the long term.

We produce the majority of our crude oil in Germany and North Africa. We have a 50 percent participation in the Mittelplate field – the largest German offshore field. Here, crude oil has been produced since mid-2001 with an annual production capacity of 1.8 million metric tons.

In 2001, we significantly increased natural gas production by 28 percent to 5.0 billion cubic meters. One of the factors contributing to this increase was the start of production in the L8-P4 gas field in the Dutch North Sea.

We are concentrating on investing in exploration in order to ensure our plans for growth. By continuously developing new oil and gas fields, we want to maintain a 10-year supply of reserves. To this end, we have acquired concessions to explore for oil and gas off the coast of South America. Even today, our current portfolio of concessions has the potential to make a significant contribution toward our long-term production goals. However, because of the time needed for exploration projects we are anticipating only moderate production growth until 2004; stronger growth is expected from 2005 onward.

### **Natural gas trading: Using the opportunities of liberalization**

Energy is the lifeblood of national economies. Natural gas is an energy source that is becoming increasingly important: In 1965, natural gas met only about 1 percent of Germany's primary energy needs, whereas today the figure is more than 20 percent, and it is still rising.

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

We have now established ourselves as an important partner in supplying public utility companies, regional gas providers and large industrial corporations. In 2001, the sales volume of WINGAS climbed by 7 percent. Sales by WIEH and WIEE declined compared with 2000, primarily due to mild weather conditions.

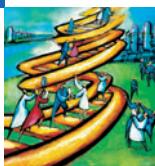
The continuing liberalization of the European natural gas market and the expansion of our pipeline network form the basis for our future growth. We will benefit from our excellent infrastructure – our up-to-date pipeline network currently spans 1,900 km – and our access to Western Europe's largest underground natural gas reservoir in Rehden, Germany.





## Research & Development

Microorganisms, whose metabolism has been optimized through evolution, can create highly complex chemical compounds and use resources extremely efficiently. We want to exploit these capabilities to produce chemicals on an industrial scale. The magic word is "biocatalysis." We can already manufacture L-lysine, an amino acid essential to humans and animals, using the bacterium *Corynebacterium glutamicum*. In collaboration with Integrated Genomics, Inc., Chicago, we elucidated the complete genome and metabolism of the bacterium. We have utilized this knowledge to significantly enhance the efficiency of our fermentation process. Through research and development we lay the foundation for profitable growth and sustained added value. With some 8,000 employees worldwide, our Research Verbund is BASF's engine of innovation.



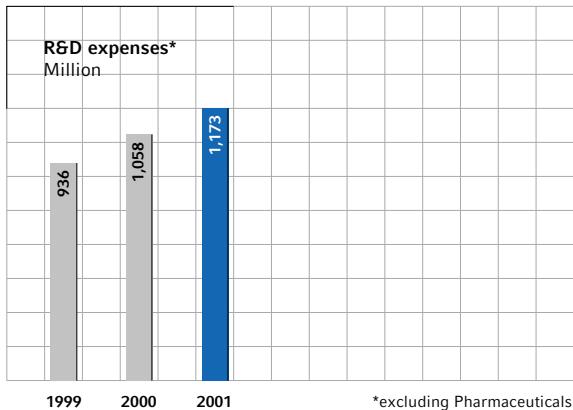
## Research & Development

# Research & Development

**Identifying the present and future needs of our customers and fulfilling them using the scientific expertise of our personnel – this is the basis for value-adding innovations at BASF.**

BASF does not have a single central research department. Our Research Verbund is made up of central technology platforms in Ludwigshafen, research and development units at Group companies, R&D subsidiaries such as BASF Plant Science, interests in start-up companies and approximately 800 cooperative agreements with leading universities, research institutes and industrial partners. As a result, BASF has at its disposal one of the largest research networks in the world – and one of the most successful: In the last six years we have obtained an average of 18 patents a week, making us the clear number one among chemical companies worldwide.

In 2001, our research and development expenses totaled €1,247 million (€1,173 million excluding Pharmaceuticals).



**New processes, new products, new markets ...**

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

We use process innovations to optimize our production processes, thereby increasing efficiency and reducing costs.

On the one hand, product innovations involve developing new chemical structures – for example new active ingredients for crop protection. On the other hand, we apply existing chemical knowledge in new applications to open up new market opportunities. To this end, we work in close partnership with our customers to identify current and future market needs. Our objective is to find novel solutions by drawing on the innovative potential of chemistry.

**Innovations from the chemical industry:  
The basis for sustainable development**

Chemical innovations are vital in implementing the principles of sustainability: It is only through highly developed technological solutions that we will be able to succeed in our challenging task of balancing the economic, environmental and social needs of society.

Take an example from house and home: The “three-liter house” provides an example of how the use of BASF’s products can save energy in the long term. This prototype is a refurbished apartment block in Ludwigshafen, Germany. A combination of numerous innovations reduces energy consumption by

85 percent and CO<sub>2</sub> emissions by 90 percent. Apartments require only three liters of heating oil per square meter of living space – compared with 20 to 30 liters before renovation. In addition to our innovative thermal insulating material, Neopor®, the building features what are known as phase change materials developed by BASF, which can simply be applied to walls in plaster. Such materials absorb heat as temperatures rise and then release the heat when temperatures fall. A plaster layer 2 centimeters thick containing 20 percent phase change materials has the same storage capacity as a 15 centimeter thick concrete wall. This provides greater living comfort and saves money and resources for heating and air-conditioning systems. We are currently working with the Fraunhofer Institute for Solar Energy Systems to perfect a number of possible applications.

Thanks to the development of new catalysts, we are making our manufacturing processes for chemicals ever more efficient. By increasing yields, the new catalysts reduce the amounts of raw materials needed. At the same time, they reduce the quantities of waste produced by allowing more selective processes. These new catalysts also facilitate sustainable product innovations. For example, we used a newly developed catalyst to develop an innovative generation of plasticizers with enhanced properties for PVC applications.

Several years ago we launched Ecoflex®, a completely biodegradable plastic. Our researchers are now working on the next generation of similar polymers: Using a customized catalyst system, we can already manufacture on a laboratory scale plastics in which carbon dioxide accounts for about 40 percent of the starting materials. Although development in this area still has a long way to go, the biodegradability of the new materials has already been confirmed.

### **Biotechnology meets chemistry – a formula for the successful future of BASF**

We use modern biotechnology to extend our considerable expertise in chemistry and open up new business areas for BASF. In biocatalysis and plant biotechnology in particular, we are able to exploit this know-how to maximum advantage.

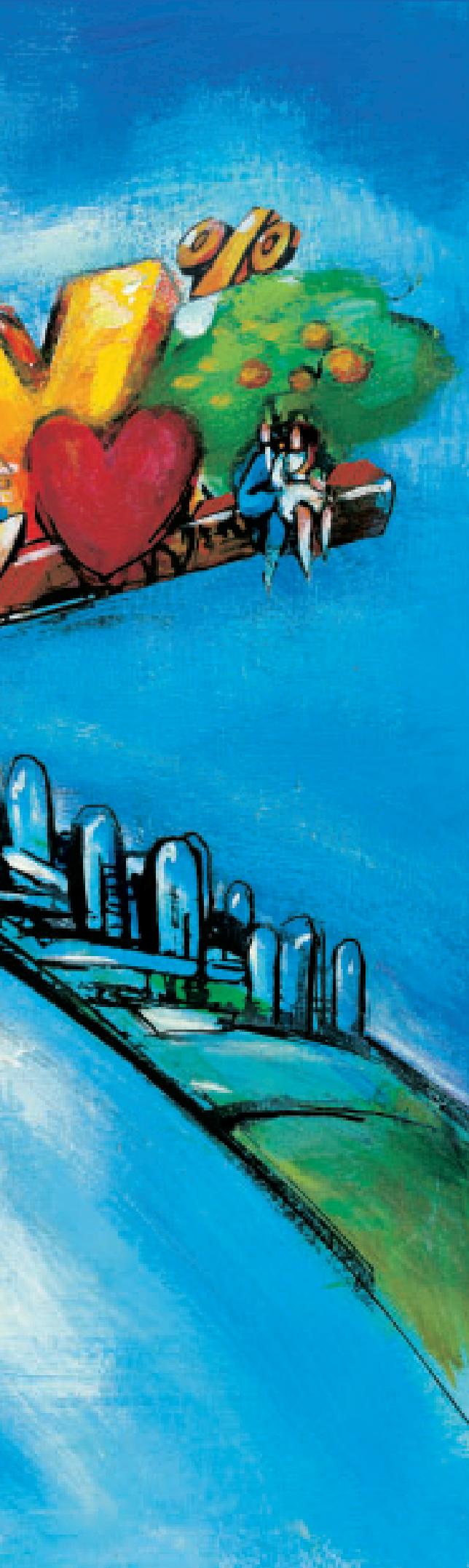
In the past, certain products could only be manufactured through expensive, multistage chemical syntheses. Now we can produce them in a single step through fermentation with the help of microorganisms – for example a vitamin-producing fungus. We already use this method to manufacture vitamin B<sub>2</sub>, a precursor of vitamin C and a feed additive – the amino acid lysine. The advantages: We can conserve resources, reduce costs and avoid unwanted by-products.

Using customized biocatalysts, we want to extend the use of biotechnological processes to intermediates and specialty chemicals, for example for precursors of paints and coatings. We have already filed patents for our initial findings.

### **New opportunities for profitable growth: BASF Future Business GmbH**

We established BASF Future Business GmbH in 2001, with a view to opening up new business areas even more rapidly and efficiently. The new company will focus on areas in which BASF has expertise but which are outside the scope of BASF's existing operations. These areas promise above-average growth and rely on innovative chemistry as a key factor for success. The main focus will be on innovative materials for new applications.





## Sustainable Development

As the number one chemical company in the Dow Jones Sustainability World Index, BASF is among a select group of international companies which have made the concept of sustainability a firm part of their corporate strategies. In 2001, BASF was included in all major sustainability indices: the Dow Jones Sustainability World Index, the Dow Jones STOXX Sustainability Index and the FTSE4Good Europe 50 Index. This success proves that we are serious about our commitment to Sustainable Development. At the heart of this concept lies the desire to achieve a balance between the economic, environmental and social needs of the modern world without prejudicing the development chances of future generations. The BASF Sustainability Council, established in 2001, has the task of integrating Sustainable Development even more firmly into our company.



# Sustainable Development: The social dimension

**Sustainability of the social dimension of our business is just as important as economic and environmental sustainability. Everything that we do at BASF impacts on society – regionally, nationally and globally. And the social framework has a significant impact on our success. Making a responsible contribution to society is one of our corporate core values. The foundation is laid down in our Vision 2010, Values and Principles of the BASF Group.**

We describe our commitment to social responsibility in other areas in our Social Responsibility Report where, alongside detailed information on our human resources policy, you will find the following topics:

- ▶ Corporate values and governance
- ▶ Our relationship with local communities and with other key social players
- ▶ Our commitment to respect and observe human rights
- ▶ Our market conduct towards customers, suppliers and competitors
- ▶ BASF's dialogue and communications activities

Our human resources policy underscores our belief in social responsibility as an integral part of corporate strategy and we live this belief by acting in accordance with the principles of Sustainable Development.

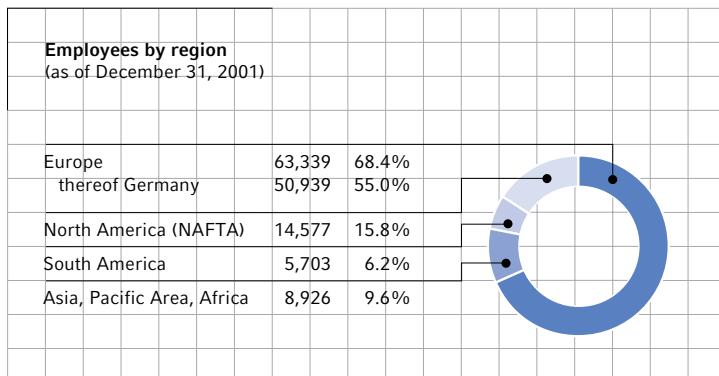
## Employees: 92,545 personalities give our company its character

“Our employees are the key to our success.” This core statement from the BASF Group’s Vision 2010 puts it in a nutshell: committed and skilled employees translate our strategy into success on global markets.

As the world’s largest chemical company, we want to recruit and retain the best talent available – this is our human resources objective. We motivate our employees with challenging and attractive assignments, international career opportunities, comprehensive support and training, performance and profit-related pay as well as exemplary social benefits.

## A global team for our customers

We are represented throughout the world – wherever our customers are – and this is confirmed by the regional breakdown of employees (see chart). At year-end 2001, BASF had a worldwide workforce of 92,545. In addition, some 18,000 employees of other companies work at our sites in the course of a year. The sale of our pharmaceuticals business is the main reason for the decline in staff numbers by approximately 10,728 compared with the previous year.



We expect and encourage mobility: it is critical in achieving BASF's worldwide corporate goals. We therefore support the exchange of staff among BASF Group companies.

### **International management**

Around 700 senior executives make a major contribution to the success of the BASF Group. BASF's team of executives consists of people from around 30 countries, and we want the make-up to become even more international in the future.

### **Promoting entrepreneurial behavior**

If employees are to behave entrepreneurially within their company, they need to be given the freedom to make decisions independently. This is why we encourage innovative forms of work and flexible working hours.

We are convinced that BASF employees who are also BASF shareholders behave more entrepreneurially. This is the reason behind our employee share programs. In 2001, around 15,000 employees took the opportunity of buying BASF shares via the "plus" share purchase scheme. This also promotes long-term wealth creation. In 2002, BASF Aktiengesellschaft will extend the program: The Start "plus" program will award all permanent employees at BASF Aktiengesellschaft five free shares. In this way, we are systematically implementing our goal of turning all our employees into shareholders.

### **Speeding up the pace of innovation**

Innovation guarantees our competitive advantage and we can only stay ahead if our employees are continuously abreast with the very latest in science and technology. To this end, we spent €107.6 million on training in Germany alone last year. We also foster creativity and innovative thinking with the BASF Innovation Award. Another successful way in which we manage good ideas is to reward suggestions that improve the efficiency of our processes,

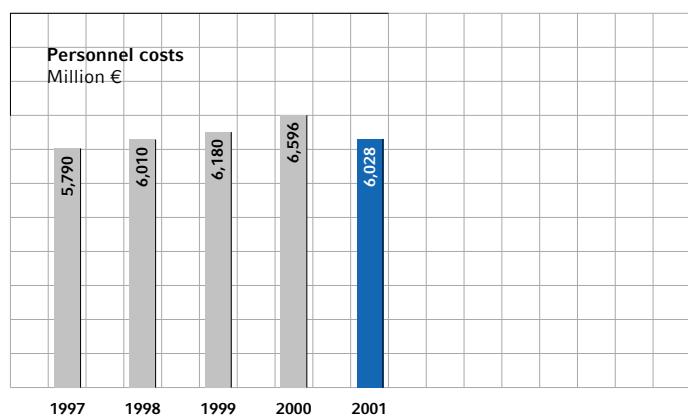
reduce the amount of materials used or improve safety. In 2001 alone, an average of about 0.7 suggestions for improvements were submitted per eligible employee.

### **Organizing structural change in a socially acceptable manner**

Innovation guarantees that jobs remain competitive in the long term. However, rising productivity also leads to job losses. Our goal is to carry out this change in a socially responsible manner. At our Ludwigshafen site, the Board signed a site agreement with employee representatives. Valid until the end of 2003, this agreement aims to reduce the workforce without the need for compulsory redundancies.

### **Social Responsibility Report**

You can find detailed information in our Social Responsibility Report, which is available on our website at [www.bASF.com](http://www.bASF.com). Alternatively, you can order the report at [www.bASF.de/mediaorders](http://www.bASF.de/mediaorders) or by sending us the postcard at the end of this report.





# Sustainable Development: The environmental dimension

**A sustainable improvement in the fields environment, safety and health – this is the aim of the chemical industry's Responsible Care global initiative, and we at BASF have adopted it throughout the Group.**

Integrating Responsible Care into our company begins with our Values. One of these states: "We act in a responsible manner and support the Responsible Care initiatives. Economic considerations do not take priority over safety and health issues and environmental protection."

But what does this actually mean for our work? Our Principles provide an answer:

- ▶ We encourage awareness of safety, health and environmental issues among our employees and strive for continuous improvement through agreed objectives.
- ▶ We manufacture products that are safe to produce, use, recycle and dispose of.
- ▶ We support our customers in using our products safely and in an environmentally sound manner.
- ▶ We minimize the impact on mankind and the environment during the production, storage, transportation, sale, use and disposal of our products.

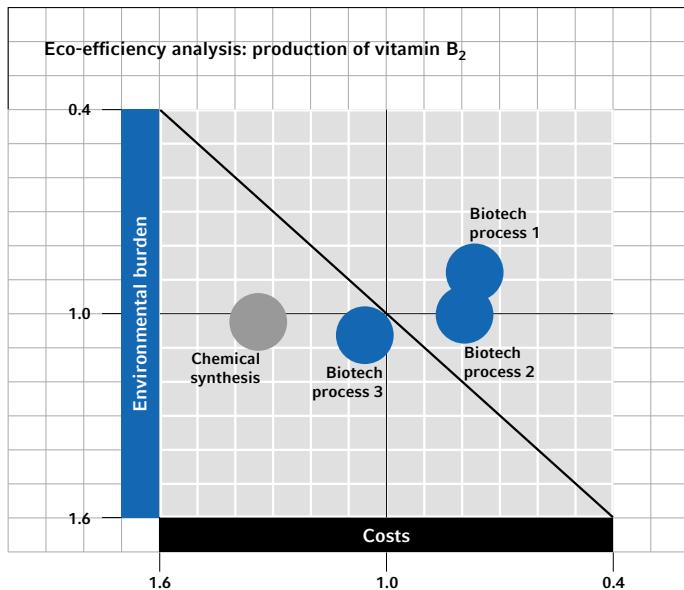
Our Competence Center Responsible Care is responsible for rigorously implementing our Values. Its global membership ensures that local conditions are taken into account appropriately and that our Group-wide Values for environmental protection, health and safety are implemented.

The Director of the Competence Center reports directly to the Board member in charge of Responsible Care, Eggert Voscherau, who is also chairman of BASF's Sustainability Council.

## High standards worldwide

We take great care that our strict in-house regulations are applied at all our sites without exception. Wherever BASF builds new plants, the company sets a good example and takes environmental, safety and health considerations into account at the planning stage. We will not tolerate cheap solutions for countries with different technical standards – not even for existing plants. After all, only modern plants in combination with safe working methods are economically efficient.

To achieve high plant standards, our experts carry out regular audits and inspections at all sites on behalf of the Board. In 2001 alone, 125 environment and safety audits were conducted at 63 Group sites. In addition, occupational health and health protection audits were carried out at 38 sites. In conjunction with local staff, suggestions for improvements were drawn up and then implemented. The audits are tools which allow us to monitor continuous improvement in performance in accordance with Responsible Care.



In this study, the traditional process for the production of vitamin B<sub>2</sub> – chemical synthesis – was compared with three biotechnological processes. The result: All the biotechnological processes have clear cost advantages over the chemical synthesis route. Process 1 is also much more environmentally friendly and is therefore the most eco-efficient of the four methods. We therefore selected this process for the new production plant we are currently constructing in Gunsan, Korea, which will have a capacity of 3,000 metric tons of vitamin B<sub>2</sub> per year.

### The eco-efficiency analysis: our innovative tool for better products

What should BASF's products of the future look like? This question underscores the close link between environmental safety and business success. In our search for the right answers, BASF pioneered the eco-efficiency analysis. This strategic tool allows us to consider both financial and environmental aspects in the product development and optimization process and then to choose the most eco-efficient solution. The analysis looks at the complete lifecycle of a product from raw material extraction to recycling or disposal. The cradle-to-grave comparison with other products and processes then enables BASF to develop the best possible products – with high environmental and cost efficiency.

This results in eco-efficient products and processes and thus gives us a competitive advantage. And because we present the analysis results in a transparent way for consumers, they too can adapt their behavior to practice sustainability on a day-to-day basis.

### Reporting

In our Environment, Safety, Health Report, we give a detailed account of the environmental aspects of our activities as part of our comprehensive sustainability reporting. You can order the report on the Internet at [www.bASF.de/mediaorders](http://www.bASF.de/mediaorders) or by sending us the postcard at the end of this report.





## Corporate Governance

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



# Corporate Governance

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

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

## A spirit of cooperation between Board of Executive Directors and Supervisory Board

In contrast to many other countries, German law provides for two separate bodies to jointly manage and supervise 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 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 taken by the Board of Executive Directors are always based on a simple majority. In the event of a tied vote, the Chairman of the Board of Executive Directors casts the deciding vote.

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, and

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 acquisition of holdings in other companies in excess of €100 million, and the commencement of new or the cessation of existing production and business activities.

The Supervisory Board of BASF Aktiengesellschaft monitors and advises the Board of Executive Directors on all management issues. One of its key duties is to appoint members of the Board of Executive Directors and to set Board members' remuneration. The Supervisory Board of BASF Aktiengesellschaft consists of 20 members, 10 of whom are elected by shareholders at the Annual Meeting and 10 of whom are elected by employees as required by the German Codetermination Act. 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 Prof. Dr. Berthold Leibinger (chairman), and Supervisory Board members Dr. Henning Schulte-Noelle, Volker Obenauer and Jürgen Walter.

## **Control rights of shareholders**

At Annual Meetings, shareholders have rights of participation and supervision. Each BASF share represents one vote. 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 ask questions of and request information from the Board regarding items on the agenda to the extent necessary to make an informed judgement of the company’s affairs.

## **How we handle risk**

First of all, we would like to emphasize that, overall, we see opportunities for the future of our business. But opportunities can also involve risks, and risks are an intrinsic part of our business activities. One of the key elements of corporate governance is: How do companies handle this type of risk? As an integral part of our overall corporate strategy, our risk strategy dictates that before making any business decisions we take a careful look at questions such as: What are the opportunities? What are the risks? And: Are they equally matched? Our yardstick is – always – the goal of long-term economic success in line with the principles of Sustainable Development.

BASF’s risk management policies are continuously adapted to changing conditions and are based on the following three pillars:

### **1. Internal monitoring system.**

Among other things, our Corporate Audit department is charged by the Board of Executive Directors with monitoring whether guidelines are being followed.

### **2. Risk control at a centralized and decentralized level.**

Our corporate Finance division, for example, manages the allocation of stockholders’ equity of BASF Group companies and is responsible for ensuring our creditworthiness Group-wide. Rating agencies classify BASF’s credit risk as very low and its credit quality correspondingly high: BASF enjoys Standard

& Poor’s and Moody’s best short-term ratings of A1+ and P-1, respectively. The long-term ratings of AA- and Aa3 reflect our financial strength.

### **3. Early warning system.**

BASF has established an early warning system that allows us to monitor BASF-specific risk areas at an early stage, using a series of risk indicators. This means that we can forecast risks well before they present any danger to the company.

More information on this topic can be found in our Financial Report in the chapter on risk management systems.

## **Setting ourselves strict standards: Code of Conduct and Compliance Program**

In order to guarantee a high standard of corporate governance, we have published Vision 2010, Values and Principles of the BASF Group, and the Code of Conduct/Compliance Program. These lay down our business principles and guidelines for the conduct for all activities within the BASF Group, and are binding for all employees of the BASF Group.

The Code of Conduct sets out the conduct we expect from BASF employees – based on the principle of integrity. We expect all our employees to respect the laws – and the accepted customs and traditions – of the countries in which we operate. Key areas include antitrust and competition legislation, sanctions and export controls – including chemical weapons – and laws banning bribery, insider dealing and money laundering. BASF tolerates no infringement of regulations nor will it protect those involved from the legal consequences of their actions. Compliance is monitored on a regular basis by our Corporate Audit department.

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

## Dear shareholders,

2001 confronted BASF with enormous challenges. The unimaginably shocking events of September 11 are not just a human and political tragedy, but have also negatively impacted the business environment in an unforeseen manner. BASF could not avoid the effects of this development, and the ambitious goals set in 2001 could not be achieved despite huge efforts.

These events have, however, also shown that the continued and far reaching reorganization of BASF in recent years has created conditions that enable the company to better weather the storms. BASF sees and utilizes the associated changes in the business environment as an opportunity to fashion the future of the company in accordance with its strategy of "Adding value through growth and innovation." The Supervisory Board will accompany this process attentively and actively.

For outsiders, the most visible development at BASF was the sale of its pharmaceuticals business to Abbott Laboratories. Equally important, however, were the successful integration of American Home Products' crop protection business acquired in 2000 and the reorganization of the BASF Group's operating structure with the creation of new business units as part of the Fit for the Future project.

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 Board of Executive Directors provided the Supervisory Board with detailed information at meetings as well as through written and verbal reports. Topics included the progress and profitability of the company and its major subsidiaries, the company's policies and corporate planning. This also included the planning of BASF's finances, capital expenditures and human resources. In addition to the Supervisory Board Meetings, the Chairman of the Board of Executive Directors regularly informed the Chairman of the Supervisory Board about current business developments and important events.

### **Meetings and committees**

The Supervisory Board met six times during 2001. 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 approval of the issue of new share certificates and dividend coupons.

In 2001, the Supervisory Board paid particular attention to the further development of the BASF Group's organization, which created the organizational preconditions for us to respond flexibly and in a customer-oriented manner to the shifting challenges in our business. Further key areas of the Supervisory Board's activities included BASF's Verbund strategy, the development and perspectives of the Agricultural Products and Coatings divisions and the Logistics & Information Services competence center, the focus of research and development following the divestiture of BASF's pharmaceuticals business and the company's development in the NAFTA region.

The Supervisory Board established two equal representation committees: The Committee for the Personal Affairs of the Board of Executive Directors and the Granting of Credits, which was created in accordance with Section 89 (4) of the German Stock Corporations 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 2001. The Mediation Committee did not have to be convened.

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

We have examined the Financial Statements of BASF Aktiengesellschaft for 2001, 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 Corporations 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' report were given to every member of the Supervisory Board. The auditors attended the accounts meeting of the Supervisory Board and reported on the main findings of their audit. The auditors also provided detailed explanations of their report on the day before the accounts meeting.

We have approved the auditors' report. The results of our own examination fully concur with those of the audit. The Supervisory Board sees no grounds for objection.

At today's meeting, we approved the Financial Statements of BASF Aktiengesellschaft drawn up by the Board of Executive Directors, making the Financial Statements final. We concur with the proposal of the Board of Executive Directors regarding the appropriation of profit.

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

Subject to its resolutions of March 6, 2001 and April 26, 2001, the Supervisory Board appointed Executive Director Eggert Voscherau as Industrial Relations Director of BASF Aktiengesellschaft with effect from May 1, 2001. In its meeting on December 14, 2001, the Supervisory Board appointed Klaus Peter Löbbecke as a member of the Board of Executive Directors with effect from January 1, 2002; Löbbecke was president of the Coatings division until December 31, 2001. The composition of the Supervisory Board remained unchanged in 2001.

Ludwigshafen, March 8, 2002

The Supervisory Board

**PROF. DR. BERTHOLD LEIBINGER**  
Chairman of the Supervisory Board

## **Professor Dr. Matthias Seefelder †**

BASF mourns the death of Professor Dr. rer. nat. Matthias Seefelder, former Chairman of the Board of Executive Directors, Chairman of the Supervisory Board and Honorary Chairman of the Supervisory Board. He died in Heidelberg on October 30, 2001 at the age of 81 following a prolonged illness.

Matthias Seefelder did much to actively shape BASF. As a creative research scientist, an energetic businessman and a wise intermediary and advisor he served the company for more than 50 years.

Matthias Seefelder was born in 1920 in Boos in the Memmingen district of Germany. After studying chemistry, he joined BASF in 1951. He was appointed to BASF's Board of Executive Directors in 1971 and elected its chairman three years later. After retiring from the Board of Executive Directors in 1983, Matthias Seefelder held the position of Chairman of the Supervisory Board until 1990.

Matthias Seefelder was a role model as an entrepreneur and as a human being. He valued a dynamic approach to tasks, clear judgement and fairness. His profound knowledge and his deep understanding of both the interaction between science and industry and the concerns of the workforce were held in high esteem at BASF.

Even following his retirement, Matthias Seefelder maintained close ties with BASF as Honorary Chairman of the Supervisory Board. We mourn the death of a major figure in German industry.





## Finance

In 2001, we increased sales from ongoing business by 3.2 percent to approximately €32 billion. Compared with 2000, income from operations before special items declined 32.6 percent to €2,293 million as a result of persistent weakness in the global economy. Earnings were burdened by special items for an extensive restructuring program through which we want to improve our competitiveness. This program involves optimizing marketing and sales, a new organizational structure and the closure of unprofitable plants and sites. The sale of our pharmaceuticals business yielded extraordinary income of more than €6 billion. We are using this income to reduce our financial indebtedness and to buy back shares. We have bought back shares for €1.3 billion to reduce our cost of capital and increases earnings per share. We are proposing to pay our shareholders a dividend of €1.30 per share.



# Finance

## Results of operations in the BASF Group

After a positive start in the first quarter, the business climate worsened steadily as the year progressed. This affected all regions to one degree or another. We therefore embarked on a comprehensive restructuring program to improve our competitive position. This program includes the closure of sites and production plants that no longer fit our strategic and business objectives. Special charges relating to the reorganization of our marketing and sales structures were incurred, which had a significantly negative effect on earnings. We therefore recorded a loss of €118 million for net income from current operations. Extraordinary income net of the related taxes was €5,976 million.

### Sales

In 2001, sales decreased €3,446 million, or 9.6 percent, to €32,500 million. In terms of ongoing business, i.e., excluding Pharmaceuticals, Polyolefins, Industrial Fibers and Textile Dyes, sales were €31,990 million, or 3.2 percent higher than in the previous year. Major contributors to this result were the Oil & Gas and Agricultural Products & Nutrition segments.

The following table sets forth the various factors affecting the change in sales:

Million €	2001	In % of sales
Volumes	(110)	-0.3
Prices	(492)	-1.4
Currency	(195)	-0.5
Acquisitions and additions to the scope of consolidation	1,810	5.0
Divestitures and deconsolidations	(4,459)	-12.4
	(3,446)	-9.6

### Sales and earnings

Million €, except per share data	2001	2000	Percent change from prev. year
Sales	32,500	35,946	-9.6
Gross profit	10,312	12,691	-18.7
Gross profit as a percentage of sales (%)	31.7	35.3	
Income from operations (EBIT)	1,217	3,070	-60.4
Income from operations as a percentage of sales (%)	3.7	8.5	
Special items	(1,076)	(330)	
Income from ordinary operations	609	2,827	-78.5
Extraordinary income	6,121	-	
Income before taxes and minority interests	6,730	2,827	138.1
Net income	5,858	1,240	372.4
thereof income from current operations	(118)	1,240	
thereof extraordinary income net of taxes	5,976	-	
Earnings per share	9.72	2.02	381.2
Net income in accordance with U.S. GAAP	5,692	1,454	291.5
Earnings per share in accordance with U.S. GAAP	9.45	2.37	298.7
Diluted earnings per share in accordance with U.S. GAAP	9.45	2.35	302.1

Continued weakness in the global economy had an increasingly depressive effect on the sales volumes of our products. The majority of our operating divisions were affected. Despite this general trend, the Inorganics division increased its sales, and crude oil and natural gas production levels were also higher than in the previous year.

For the most part, prices for our products declined in the face of falling demand. Price levels improved in the Inorganics and Intermediates divisions, and, to a lesser extent, in some business units in the Coatings division.

Portfolio changes led to a decline in sales of €2,966 million, or 8.3 percent.

These involved in particular:

- ▶ the divestiture of the pharmaceuticals and generics business, and
- ▶ the impact on sales due to transfer of the polyolefins and the textile dyes businesses to the joint ventures Basell and DyStar at the end of the third quarter of 2000.

Sales were positively influenced by the following:

- ▶ the acquisition of the vitamins business from Takeda Chemical Industries Ltd. at the beginning of 2001,
- ▶ the purchase of American Home Product's (AHP) crop protection business in the middle of last year, and
- ▶ the acquisition of the superabsorbents business of Chemdal International Corp. in June 2000.

Additions to the scope of consolidation contributed €317 million, or 0.9 percent, to sales. Our subsidiary in Turkey, in which all previous operations had been combined, is included in these numbers, as are companies in Japan, China, India, Hungary, Poland and Russia.

#### **Income from operations**

Due to weak demand and high special charges, income from operations fell sharply by €1,853 million, or 60.4 percent to €1,217 million. When not accounting for special items, income from operations decreased €1,107 million, or 32.6 percent, to €2,293 million, and represented 7.1 percent of sales, compared with 9.5 percent in the previous year.

#### **Special items**

In 2001, income from operations included €1,076 million in special charges, primarily for restructuring and streamlining measures taken in production, marketing and sales. Compared with the previous year's charges of €330 million, this represents an increase in special charges of €746 million.

In conjunction with the restructuring program, charges incurred for severance payments, losses on disposal and nonscheduled write-downs on plants to be closed, as well as the costs of restructuring plant operations, totaled €747 million.

Special charges were also incurred as a result of higher-than-expected fines imposed by the E.U. Commission for antitrust violations in our vitamins business. The provision set up for this penalty had to be increased by approximately €200 million. Additional charges of €20 million were incurred for further contributions to the federal foundation "Remembrance, Responsibility and the Future" to compensate those who suffered injustice as forced laborers under the National Socialist regime.

Of the total special charges included in income from operations, Europe accounted for €609 million; North America (NAFTA) for €431 million; South America for €14 million; and the Asia, Pacific Area, Africa region for €22 million.

Special charges of €73 million affected the financial result. These special charges resulted from restructuring measures taken in companies that are accounted for under the equity method in the Consolidated Financial Statements, for example the Basell joint venture.

#### **Extraordinary income**

The sale of our pharmaceuticals business to Abbott Laboratories Inc., Abbott Park, Illinois, resulted in extraordinary income of €6,121 million. Taxes charged on this income were €145 million. A large part of the gains realized came from participations which we were able to dispose of as tax-exempt divestitures.

As a result of the high extraordinary income, our income before taxes and minority interests was €6,730 million. This was €3,903 million, or 138.1 percent, higher than in the previous year.



## Statements of cash flow

Million €	2001	2000
Net income*	(118)	1,240
Depreciation of fixed assets	2,933	2,929
Changes in net current assets	(775)	(1,147)
Miscellaneous items	279	(30)
<b>Cash provided by operating activities</b>	<b>2,319</b>	<b>2,992</b>
Additions to tangible and intangible		
fixed assets	(2,811)	(2,906)
Acquisitions/divestitures, net	7,043	(5,812)
Financial investments and other items	(112)	(112)
<b>Cash provided by investing activities</b>	<b>4,120</b>	<b>(8,830)</b>
Proceeds from capital increases	(1,124)	(604)
Changes in financial indebtedness	(4,293)	6,660
Dividends	(1,266)	(748)
<b>Cash used in/from financing activities</b>	<b>(6,683)</b>	<b>5,308</b>
Net changes in cash and cash equivalents	(244)	(530)
Initial cash and cash equivalents		
and other changes	604	1,036
<b>Cash and cash equivalents</b>	<b>360</b>	<b>506</b>
Other changes in current assets	383	364
Liquid funds	743	870

Earnings per share were €9.72 in 2001, compared with €2.02 in 2000. Of this, €9.92 related to extraordinary income.

### Proposed appropriation of profit

BASF Aktiengesellschaft\*\* achieved net income of €5,904 million, of which €5,893 million related to extraordinary income from the sale of the pharmaceuticals business net of taxes on the sale. After accounting for profit carried forward, profit retained was €5,911 million.

The Board of Executive Directors and the Supervisory Board are proposing to the Annual Meeting on April 30, 2002 a dividend payment of €1.30 per qualifying share. If shareholders approve this proposal, the dividend payable on qualifying shares will be €758 million. We further propose that the remaining profit retained of €5,153 million be transferred in full to retained earnings.

### Cash provided by operating activities

Cash provided by operating activities totaled €2,319 million, which was 22 percent less than in 2000. The main reason for this decline was a sharp drop in net income – excluding extraordinary income, which is included in cash provided by investing activities. Less additional funds were required to finance current assets than in the previous year. This improved cash flow by €372 million.

### Investing activities

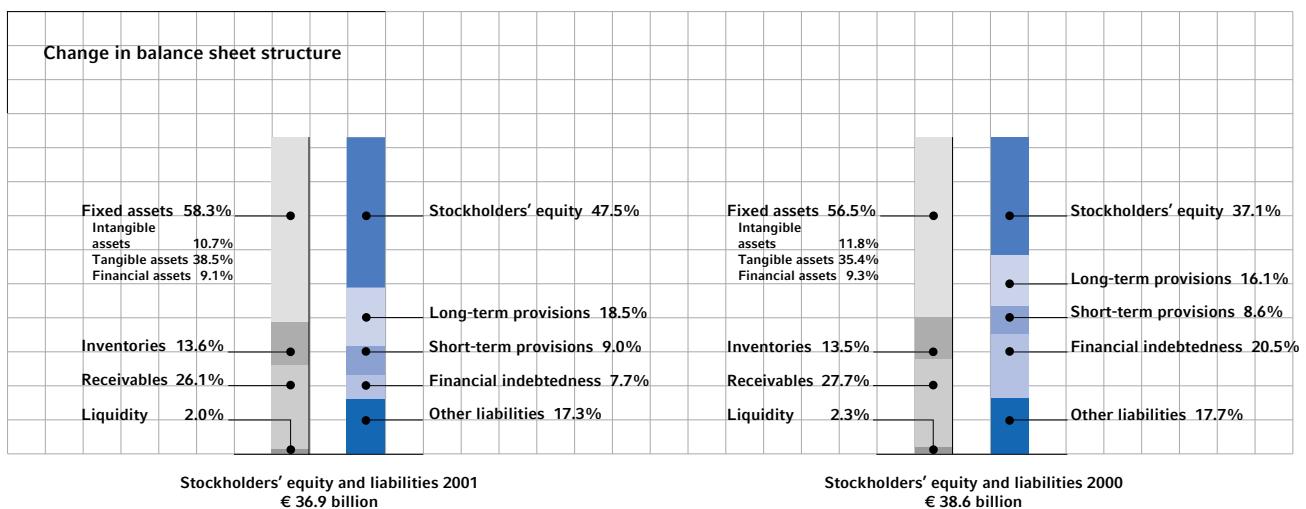
Proceeds from the sale of the pharmaceuticals business significantly exceeded cash used for capital expenditures and acquisitions, and resulted in positive cash flow from investing activities of €4,120 million.

Proceeds from divestitures totaled €7,503 million. These related to the sale of the pharmaceuticals and generics businesses.

Cash used for acquisitions amounted to €461 million. Major acquisitions included:

- ▶ the vitamins business of Takeda Chemical Industries Ltd.;
- ▶ the SISAS activities at the site in Feluy, Belgium;
- ▶ the acquisition of a styrene plant in Korea.

Capital expenditures on tangible and intangible fixed assets totaled €2,811 million in 2001, or €95 million less than in 2000. Capital expenditures on financial assets and securities amounted to €741 million, which was €99 million less than in 2000. Expenditures for additions to financial assets and securities were offset by a cash inflow of €629 million for proceeds from the sale of financial assets, proceeds from the disposal of fixed assets as well as the repayment of loans and financial receivables. This resulted in a net cash outflow of €112 million.



## Financing activities

BASF primarily used the cash provided by the sale of the pharmaceuticals business to reduce financial indebtedness. As of December 31, 2001, financial indebtedness totaled €2,835 million.

In 2001, dividend payments to the shareholders of BASF Aktiengesellschaft for fiscal year 2000 totaled €1,214 million, or €1.30 per qualifying share plus a special dividend of €0.70 to repay stockholders' equity charged with 45 percent corporation tax.

In 2001, BASF spent €1.3 billion to buy back 30.8 million shares, or 5 percent of share capital, at an average price of €42.22 per share (see also page 8).

## Balance sheet structure

BASF's total assets decreased 4.4 percent, or €1.7 billion, to €36.9 billion, primarily due to the sale of the pharmaceuticals business. The equity ratio increased to 47.5 percent (2000: 37.1 percent) as a result of the gain realized on the sale of the pharmaceuticals business and following the buy-back and cancellation of shares in the amount of €1.3 billion. We strive to maintain an equity ratio of approximately 40 percent.

Long-term liabilities rose from €896 million to €9,955 million. Long-term liabilities as a share of stockholders' equity and liabilities increased to 27 percent from 23.5 percent in 2000. Short-term liabilities declined to €9,398 million, in particular due to the repayment of commercial paper from the proceeds from the sale of our pharmaceuticals business. Short-term liabilities as a share of stockholders' equity and liabilities declined to 25.5 percent from 39.4 percent in 2000. Approximately 26 percent of short-term liabilities are trade accounts payable.

## Returns

Return on assets, based on income from ordinary operations plus interest expenses, decreased from 9.9 percent to 3.1 percent. Based on sales, income from operations was 3.7 percent, compared with 8.5 percent in 2000.

\* Excluding extraordinary income

\*\* 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.

## Glossary: Selected terms

### adding value

BASF wants to persistently increase its corporate value. To achieve this aim it is committed to growth and innovation, and acts accordingly.

### backward integration

This means that a company produces its own raw materials and precursors instead of purchasing them elsewhere. At BASF, backward integration stretches as far back as naphtha (petroleum) and natural gas, which we obtain primarily from our Oil & Gas segment. The start of our value-adding chains are cracker products like ethylene and propylene as well as basic organic chemicals such as ammonia and nitric acid; these substances are used to produce a variety of intermediates and final products.

### commodities

Standard products that are produced in very large amounts.

### 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.

### cost leadership

A strategy of becoming the lowest-cost producer in a given product group or industry.

### Dow Jones Sustainability World Index

A comparative assessment of companies as a basis for investment decisions made by Dow Jones on the basis of the following sustainability criteria: technology, corporate governance, shareholders' interests, industry leadership and social responsibility.

### EBIT

Earnings before interest and taxes.

### EBITDA

Earnings before interest, taxes, depreciation and amortization.

### eco-efficiency analysis

The eco-efficiency analysis looks at the entire life-cycle of a product, "from the cradle to the grave," starting from extraction of raw materials to recycling or disposal after use. Such an analysis allows us to consider both economic and ecological aspects when developing and optimizing products and processes, and helps us choose the most eco-efficient of the various alternatives available. The aim is to offer the best possible cost-effective products with good environmental performance.

### e-commerce

E-commerce or e-business is the name given to business transactions between companies (business-to-business) or between companies and their customers (business-to-customer) that are conducted in whole or in part over the Internet or similar open or closed computer networks.

### economies of scale

Cost advantages derived from modern world-scale plants (see also: world-scale plants).

### Fit for the Future

BASF is further developing its organization under the motto Fit for the Future. The aims of the new structure are to increase customer focus, strengthen BASF's market presence and foster entrepreneurship within the company.

### fungicide

A substance that kills fungi or inhibits their growth (for example in crops).

### herbicide

A substance used to destroy weeds.

### innovation leadership

A strategy of using the most innovative processes and providing the most innovative products in a given product group or market.

### insecticide

A substance used to destroy harmful insects.

### joint venture

Two or more businesses joining together under a contractual agreement to conduct a specific business enterprise in which all partners share profits and losses.

### naphtha

Clear, 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.

### ongoing business

An adjustment made following major portfolio changes to allow a better comparison between financial periods. The numbers of the previous periods are adjusted to reflect the company's new portfolio.

### portfolio management

BASF optimizes its portfolio through organic growth, acquisitions, divestitures and strategic alliances. We will continue to seize opportunities arising from further consolidation in the chemical industry, and we will play an active role in this reorganization.

### product portfolio

The range of business activities of a company.

### research pipeline

The research pipeline contains products that are to be launched on the market but which are still at the development stage.

### Research Verbund

The worldwide network of BASF's research units and competence centers.

### Responsible Care®

A worldwide initiative by the chemical industry to continuously improve its performance in the fields of environmental protection, safety and health. BASF committed itself to the concept of "responsible action" as early as 1992. "Economic considerations do not take priority over safety and health issues and environmental protection." BASF established this as one of the Values that form the basis for all decisions and actions in the BASF Group.

### special items

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

### steam cracker

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

### Sustainable Development

The objective of Sustainable Development is to meet the economic, ecological and social needs of society without harming the development opportunities of future generations. BASF is committed to this principle. In our publication Environment, Safety, Health, we give a detailed account of the ecological implications of our activities as part of our comprehensive sustainability reporting.

### technology leadership

A strategy by which a company uses the most modern and therefore most efficient technologies compared with its competitors.

### technology platform

We combine scientific and technical expertise in a given area in technology platforms that act as competence centers for the entire BASF Group. These platforms therefore play a central role in our global Know-how Verbund. Experience and the latest knowledge are thus available to all of BASF's divisions. BASF's most important technology platforms are Specialty Chemicals Research, Polymer Research as well as Research & Engineering Chemicals.

### transnational company

A company which is recognized as a leading local partner in the various markets in which it operates.

### value added

The increase in value of the goods used in the production process.

At BASF, value-added is derived from the statement of income as the difference between business performance and advance payments (in particular payments to suppliers).

### value-adding chain

A value-adding chain covers all strategically important activities associated with a product from raw material purchasing and production up to delivery to the customer.

### Verbund

The Verbund is one of BASF's greatest strengths, and it has become a guiding principle for the entire Group. At the heart of the Verbund is a dense network of interconnected production plants in which the by-product from one plant often serves as the basis for production in another plant. However, the BASF Verbund also stands for the worldwide exchange of knowledge across regional and organizational boundaries. Both the transfer of knowledge and the networking of production plants, energy and waste flows, logistics and infrastructure help us to manufacture innovative and high-quality products efficiently.

### world-scale plants

Large production plants in which products can be manufactured on a world scale. The more a plant produces, the lower the fixed costs per metric ton of product (see also: economies of scale). BASF is therefore committed to cost-effective large-scale plants of this kind in all major economic regions.

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## 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.

## Ten-Year Summary

Million €

BALANCE SHEET	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Intangible assets	349	326	262	884	1,297	1,497	1,965	2,147	4,538	3,943
Tangible assets	7,779	9,061	8,177	7,873	8,217	9,076	10,755	12,416	13,641	14,190
Financial assets	1,511	987	1,057	1,338	2,093	2,132	1,826	1,507	3,590	3,360
<b>Fixed assets</b>	<b>9,639</b>	<b>10,374</b>	<b>9,496</b>	<b>10,095</b>	<b>11,607</b>	<b>12,705</b>	<b>14,546</b>	<b>16,070</b>	<b>21,769</b>	<b>21,493</b>
Inventories	3,450	3,230	3,202	3,439	3,665	3,876	3,703	4,028	5,211	5,007
Accounts receivable, trade	2,785	2,939	3,315	3,356	3,714	4,299	4,017	4,967	6,068	5,875
Other receivables	1,723	1,375	1,259	1,375	1,341	1,765	1,856	2,211	3,369	2,384
<b>Receivables</b>	<b>4,508</b>	<b>4,314</b>	<b>4,574</b>	<b>4,731</b>	<b>5,055</b>	<b>6,064</b>	<b>5,873</b>	<b>7,178</b>	<b>9,437</b>	<b>8,259</b>
Deferred taxes	–	38	66	61	69	45	1,077	1,225	1,270	1,373
Liquid funds	2,330	2,679	3,042	3,166	1,957	1,846	1,503	1,508	870	743
<b>Current assets</b>	<b>10,288</b>	<b>10,261</b>	<b>10,884</b>	<b>11,397</b>	<b>10,746</b>	<b>11,831</b>	<b>12,156</b>	<b>13,939</b>	<b>16,788</b>	<b>15,382</b>
<b>Assets</b>	<b>19,927</b>	<b>20,635</b>	<b>20,380</b>	<b>21,492</b>	<b>22,353</b>	<b>24,536</b>	<b>26,702</b>	<b>30,009</b>	<b>38,557</b>	<b>36,875</b>

Subscribed capital	1,458	1,495	1,559	1,559	1,580	1,590	1,595	1,590	1,555	1,494
Capital surplus	2,214	2,282	2,405	2,405	2,515	2,567	2,590	2,675	2,746	2,914
Paid-in capital	3,672	3,777	3,964	3,964	4,095	4,157	4,185	4,265	4,301	4,408
Retained earnings	3,740	3,901	4,316	5,275	6,262	7,418	8,695	9,002	8,851	12,222
Currency translation adjustments		(119)	(232)	(254)	(129)	201	39	549	662	532
Minority interests	44	82	92	181	248	255	331	329	481	360
<b>Stockholders' equity</b>	<b>7,456</b>	<b>7,641</b>	<b>8,140</b>	<b>9,166</b>	<b>10,476</b>	<b>12,031</b>	<b>13,250</b>	<b>14,145</b>	<b>14,295</b>	<b>17,522</b>
Pensions and other										
long-term provisions	5,103	5,207	5,040	4,998	5,052	4,824	5,561	5,812	6,209	6,809
Tax and other										
short-term provisions	1,940	1,954	2,120	2,393	2,391	2,463	2,185	2,826	3,334	3,332
<b>Provisions</b>	<b>7,043</b>	<b>7,161</b>	<b>7,160</b>	<b>7,391</b>	<b>7,443</b>	<b>7,287</b>	<b>7,746</b>	<b>8,638</b>	<b>9,543</b>	<b>10,141</b>
Financial indebtedness	2,537	2,742	1,857	1,448	1,042	1,126	1,316	1,294	7,892	2,835
Accounts payable, trade	1,479	1,433	1,531	1,417	1,628	1,972	1,871	2,316	2,848	2,467
Other liabilities	1,412	1,658	1,692	2,070	1,764	2,120	2,519	3,616	3,979	3,910
<b>Liabilities</b>	<b>5,428</b>	<b>5,833</b>	<b>5,080</b>	<b>4,935</b>	<b>4,434</b>	<b>5,218</b>	<b>5,706</b>	<b>7,226</b>	<b>14,719</b>	<b>9,212</b>
<b>Total liabilities</b>	<b>12,471</b>	<b>12,994</b>	<b>12,240</b>	<b>12,326</b>	<b>11,877</b>	<b>12,505</b>	<b>13,452</b>	<b>15,864</b>	<b>24,262</b>	<b>19,353</b>
thereof long-term	6,581	6,424	6,235	6,614	6,223	6,094	6,898	7,529	9,059	9,955
<b>Stockholders' equity and liabilities</b>	<b>19,927</b>	<b>20,635</b>	<b>20,380</b>	<b>21,492</b>	<b>22,353</b>	<b>24,536</b>	<b>26,702</b>	<b>30,009</b>	<b>38,557</b>	<b>36,875</b>

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Sales and earnings</b>										
Sales	21,440	20,742	22,330	23,637	24,939	28,520	27,643	29,473	35,946	32,500
Income from operations (EBIT)	670	528	1,099	2,057	2,195	2,731	2,624	2,009	3,070	1,217
Income from ordinary operations	648	541	1,079	2,111	2,257	2,726	2,771	2,606	2,827	609
Extraordinary income	(15)	–	–	–	–	–	–	–	–	6,121
Income before taxes and minority interests	633	541	1,079	2,111	2,257	2,726	2,771	2,606	2,827	6,730
Income before minority interests	313	389	598	1,239	1,452	1,639	1,664	1,245	1,282	5,826
Net income	314	439	656	1,263	1,427	1,654	1,699	1,237	1,240	5,858

#### **Capital expenditures and depreciation**

Additions to fixed assets	2,930	2,261	1,674	2,742	3,510	2,964	4,131	3,800	8,637	4,053
thereof tangible assets	2,122	2,116	1,384	1,546	1,861	2,229	2,899	2,764	3,631	3,037
Depreciation of fixed assets	1,810	1,709	2,239	1,885	1,874	2,048	2,280	2,681	2,921	2,945
thereof tangible assets	1,707	1,623	2,059	1,707	1,606	1,732	1,843	2,018	2,245	2,307

#### **Number of employees**

At year-end	123,254	112,020	106,266	106,565	105,589	104,979	105,945	104,628	103,273	92,545
Annual average	126,028	117,368	107,716	107,320	108,266	105,885	106,928	107,163	105,784	94,744

<b>Personnel costs</b>	<b>5,712</b>	<b>5,507</b>	<b>5,313</b>	<b>5,531</b>	<b>5,637</b>	<b>5,790</b>	<b>6,010</b>	<b>6,180</b>	<b>6,596</b>	<b>6,028</b>
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#### **Key data**

Earnings per share (€)	0.55	0.76	1.10	2.07	2.32	2.67	2.73	2.00	2.02	9.72
Earnings per share in accordance with U.S. GAAP (€)							2.84	2.14	2.37	9.45
Cash provided by operating activities	2,276	2,370	2,845	3,256	3,476	3,291	3,744	3,255	2,992	2,319
Return on sales (income from operations as a percentage of sales)	3.1	2.5	4.9	8.7	8.8	9.6	9.5	6.8	8.5	3.7
Return on assets before income taxes and interest expenses (income from ordinary operations plus interest expenses as a per- centage of average assets)	4.8	3.9	6.5	11.2	11.4	12.6	11.9	10.2	9.9	3.1
Return on equity after taxes (%)	4.2	5.2	7.6	14.3	14.8	14.6	13.2	9.1	9.0	36.6 <sup>2</sup>

#### **Appropriation of profit**

Net income of BASF AG	394	342	465	692	870	943	1,074	1,007	1,265	5,904
Transfer to retained earnings	102	102	153	256	332	307	381	304	50	5,153
Dividend	291	239	312	437	537	636	693	695	1,214	758
Dividend per share (€)	0.51	0.41	0.51	0.72	0.87	1.02	1.12	1.13	1.30	1.30
									+0.70 <sup>1</sup>	
<b>Number of shares (in thousands)</b>	<b>570,390</b>	<b>584,502</b>	<b>609,766</b>	<b>609,766</b>	<b>618,052</b>	<b>622,063</b>	<b>623,794</b>	<b>620,985</b>	<b>607,399</b>	<b>583,401</b>

<sup>1</sup> Special dividend of stockholders' equity charged with 45% corporation tax

<sup>2</sup> Including extraordinary income

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## Key data BASF Group



# 2001

**BASF**

## Key data BASF Group 2001

<b>Sales (million €)</b>	
BASF Group sales	32,500
Sales by segment	
Chemicals	4,494
Plastics & Fibers	8,185
Performance Products	8,154
Agricultural Products & Nutrition	5,826
Oil & Gas	4,516
Other	1,325
Sales by region (location of customer)	
Europe	17,984
thereof Germany	7,212
North America (NAFTA)	7,654
South America	2,188
Asia, Pacific Area, Africa	4,674

<b>Earnings (million €)</b>	
Income from operations before special items	2,293
Income from operations (EBIT)	1,217
Income before taxes and minority interests	6,730
Net income	5,858
Net income in accordance with U.S. GAAP	5,692

<b>Other key data</b>	
Equity ratio (%)	47.5
Return on assets (income from ordinary operations plus interest expenses as a percentage of average assets)	3.1
R&D expenses (million €)	1,247
Capital expenditures (million €)	4,053
Number of employees (Dec. 31, 2001)	92,545

<b>Key BASF share data (€)</b>	
Year-end share price	41.75
High	50.45
Low	31.00
Per share information:	
Dividend	1.30
Earnings per share	9.72

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## Key data BASF Group 2001

<b>Sales (million €)</b>		<b>Other key data</b>
BASF Group sales	32,500	Equity ratio (%)
Sales by segment		47.5
Chemicals	4,494	Return on assets (income from ordinary
Plastics & Fibers	8,185	operations plus interest expenses
Performance Products	8,154	as a percentage of average assets)
Agricultural Products & Nutrition	5,826	3.1
Oil & Gas	4,516	R&D expenses (million €)
Other	1,325	1,247
Sales by region (location of customer)		Capital expenditures (million €)
Europe	17,984	4,053
thereof Germany	7,212	Number of employees (Dec. 31, 2001)
North America (NAFTA)	7,654	92,545
South America	2,188	
Asia, Pacific Area, Africa	4,674	
<b>Earnings (million €)</b>		
Income from operations before		<b>Key BASF share data (€)</b>
special items	2,293	Year-end share price
Income from operations (EBIT)	1,217	41.75
Income before taxes and		High
minority interests	6,730	50.45
Net income	5,858	Low
Net income in accordance with U.S. GAAP	5,692	31.00

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2001

**BASF**

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## Important dates

- **March 14, 2002**  
**Financial Results 2001**
- **April 30, 2002**  
**Annual Meeting, Mannheim**
- **Interim Report**  
**First Quarter 2002**
- **August 8, 2002**  
**Interim Report**
- **Second Quarter 2002**
- **November 14, 2002**  
**Interim Report**
- **Third Quarter 2002**
- **March 18, 2003**  
**Financial Results 2002**
- **May 6, 2003**  
**Annual Meeting, Mannheim**
- **Interim Report**
- **First Quarter 2003**

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